



TM

09 November 2023

Page Industries

Demand and competition headwinds delay demand recovery; margin improvement provides some solace

RESULT UPDATE

Sector: Apparel **Rating:** HOLD
CMP: Rs 37,658 **Target Price:** Rs 38,700

Stock Info

Sensex/Nifty	64,832/ 19,395
Bloomberg	PAG IN
Equity shares (mn)	11.2
52-wk High/Low	Rs 50,450/34,970
Face value	Rs 10
M-Cap	Rs 420bn/US\$ 5.1bn
3-m Avg volume	US\$ 11mn

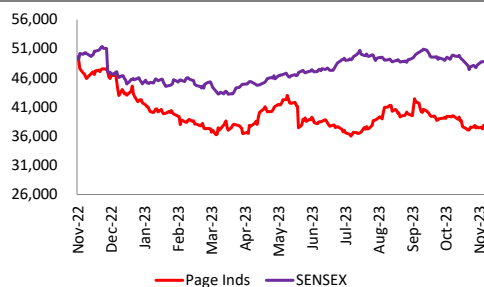
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	47,886	49,229	58,450
PAT	5,712	6,202	7,848
EPS (Rs)	512.2	556.1	703.6
PE (x)	73.5	67.7	53.5
EV/EBITDA (x)	49.0	44.4	35.7
P/BV (x)	30.6	28.3	25.8
EV/Sales	8.8	8.6	7.2
RoE (%)	46.4	43.5	50.5
RoCE (%)	59.0	52.5	61.8
NWC (days)	111	100	90
Net gearing (x)	0.2	0.2	0.1

Shareholding Pattern (%)

	Sept 23	Jun 23	Mar 23
Promoter	45.1	46.1	46.1
–Pledged	-	-	-
FII	22.0	22.0	22.4
DII	22.9	21.4	21.3
Others	10.0	10.5	10.2

Stock Performance (1-year)



Page Industries' (PAG) reported another soft performance with margin improvement offsetting muted demand citing continued sluggishness in demand with 8.4% YoY decline in revenue and 8.8% in volumes. However, margin saw a 139bps YoY improvement to 20.8% led by strong cost controls and stable RM costs while PAT declined 7.3% YoY.

Other key highlights were ecommerce sales growth of 33% YoY, no incremental ARS implementation impact, reduction in outsourced manufacturing, reduction in workforce delivering some cost savings and lower ad spends during the quarter. The unsustainable business practices in the industry including higher discounting, promotions and trade schemes have continued which has impacted growth for the company as they have maintained sales hygiene. Secondary sales were better than primary given the focus on improving distributor inventory health especially in the MBO channel, while company inventory levels are also getting normalized gradually. Women innerwear had a relatively better performance given the strong positioning on both product and pricing. We expect a gradual recovery in growth trajectory from 3Q onwards with margins sustaining in the 19-20% band. We also expect working capital to normalize gradually as the excess inventory levels get corrected while base demand and brand equity for PAG remain strong.

Despite near-term demand softness which is making the company run a tight ship on costs, it still intends to increase essential spends on marketing, distribution esp D2C and EBOs and product innovation, given still low penetration rates across segments and markets. Stable RM prices should also drive some volume and margin recovery as there is no imminent need of a price hike. Inventory health and ROIs of channel partners should improve significantly in FY25 helping control distributor attrition. The recent exit of a few key employees is another concern but the company should be able to manage the transitions. We continue to believe in the long-term growth potential of the business and do not think the structural moats have been impacted. Given the near-term growth and competition headwinds, we cut our FY24/FY25 estimates by 5-6% and now build in revenue/PAT CAGR of 10%/17% over FY23E-25E. We maintain our HOLD rating with a TP of Rs 38,700 (Rs 41,070 earlier) based on 55x FY25E earnings, a 10% discount to PAG's long-term valuation multiple.

Muted sales given headwinds like excess industry inventory and weak demand: 2Q sales declined 8.4% YoY & 9.3% QoQ, given the sharp dip in volumes to 51.8mn pieces (declined 8.8% YoY & 2.7% QoQ). Implementation of Auto Replenishment System (ARS) across the large distributor network is progressing well. Management focus for last few quarters has been on clearing inventory of distributors and increasing secondary sales. Company is rationalizing the MBO stores which were opened during the Covid period in tier 3 & tier 4 cities. PAG remains focused on expansion of its distribution network especially Tier 1 markets, EBOs and online with improved customer experience and strengthening the product portfolio to drive growth. We believe the company can return to double-digit growth in FY25 backed by better inventory health and a richer product portfolio. We estimate 10% CAGR in revenue over FY23-25E. Gradual change in sales mix favoring premium products across segments and sustained growth in women's wear and ecommerce sales remain key growth drivers.

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Controlled marketing/selling and employee expenses support margins: Gross margin contracted 133bps to 55.7% & showcased improvement of 274bps on sequential basis, while EBITDA margin expanded 139bps to 20.8% due to low employee cost; marketing spends and contract manufacturing expenses. We expect margins to remain around 19% in 2H given decline in RM has started benefitting. Ad spends should gradually move up towards normalized levels of 4%-5% of sales going forward. After falling to 18% in FY23, we expect margins to gradually recover to 19.3% in FY24E and 20.2% in FY25E.

Strong distribution push continues: PAG reduced 2,333 MBOs (now has 1,18,128 MBOs) and 40 EBOs (now has 1,372 EBOs) during the quarter. The pace of MBO addition came off post sharp expansion in the past couple of years with the management rationalizing the MBO stores in towns below 50,000 population. Similarly, given that EBOs are present in only 459 cities vs MBO presence in 2,402 cities/towns, the opportunity remains large, which should ensure a run-rate of 200-250 EBOs per annum. The company would focus on increasing its product range in the online space, existing MBOs and LFS doors. We have built in average annual capex of ~Rs 2.5bn, mainly on the upcoming Orissa plant. We estimate Rs 19bn OCF and Rs 14bn FCF over the next two years.

Outlook and valuation: The innerwear market continues to have robust long-term potential, with penetration of ~18% in men's wear, 5-6% in women's wear, 6-8% in athleisure and 2% in kidswear. Despite near-term headwinds which has reduced the pace of capacity expansion, PAG remains positive on the long-term outlook and continues to work on expanding capacity and expanding its product portfolio, while ramping up its distribution reach. We estimate 10%/17% revenue/EPS CAGR over FY23-25E, and maintain our HOLD rating on the stock, with a TP of Rs 38,700 based on 55x FY25E earnings. Despite strong growth prospects over the long-term and consistent execution from management, we believe earnings delivery will remain soft in the near-term, given soft demand and competition headwinds with the industry stuck with high inventory. We therefore suggest waiting for some tangible signs of an improvement in demand conditions before entering the stock. Unexpected issues arising from attrition in management and distribution, increasing competition from private labels and/or consumer downtrading due to inflation could pose downside risks to our estimates.

Exhibit 1: Quarterly performance

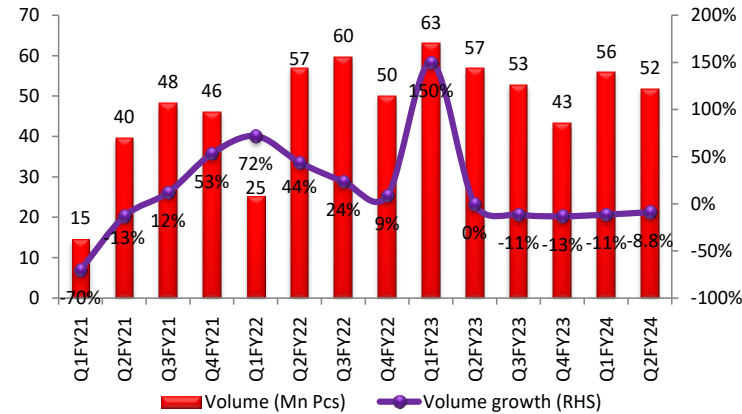
YE March (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Net Revenues	11,251	12,282	12,400	(8.4)	(9.3)
RM Costs	3,421	992	4,161	244.9	(17.8)
(% of sales)	30.4	8.1	33.6		
Purchase of traded goods	1,568	4,291	1,677	(63.5)	(6.5)
(% of sales)	13.9	34.9	13.5		
Employee cost	2,038	2,301	2,087	(11.4)	(2.4)
(% of sales)	18.1	18.7	16.8		
Others	1,889	2,320	2,056	(18.6)	(8.1)
(% of sales)	16.8	18.9	16.6		
EBITDA	2,335	2,379	2,419	(1.8)	(3.4)
EBITDA margin (%)	20.8	19.4	19.5	1.39	1.25
Other income	17	27	19	(37.6)	(11.9)
PBIDT	2,352	2,405	2,438	(2.2)	(3.5)
Depreciation	246	188	210	30.9	17.3
Interest	112	92	127	22.0	(12.2)
PBT	1,994	2,125	2,100	(6.2)	(5.1)
Tax	491	504	517	(2.6)	
ETR (%)	24.6	23.7	24.6		
Adjusted PAT	1,503	1,621	1,584	(7.3)	(5.1)
PATAMI margin	13.4	13.2	12.8		
Extraordinary income/ (exp.)	0	0	0		
Reported PAT	1,503	1,621	1,584	(7.3)	(5.1)
No. of shares (mn)	11.2	11.2	11.2		
Adj EPS (Rs)	134.7	145.4	142.0		

Source: Company, Systematix Institutional Research

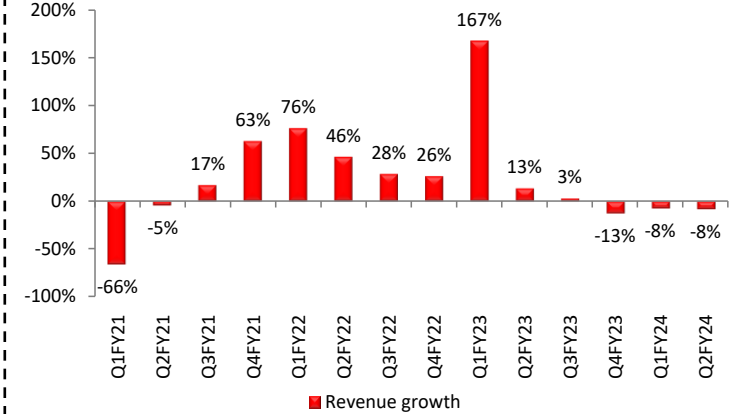
Exhibit 2: Change in Estimates (Rs mn)

	Old Estimates		Revised Estimates		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	51,617	61,288	49,229	58,450	-5%	-5%
EBITDA	9,848	12,249	9,503	11,799	-4%	-4%
EBITDA Margin	19.1%	20.0%	19.3%	20.2%		
Adj. PAT	6,556	8,329	6,202	7,848	-5%	-6%

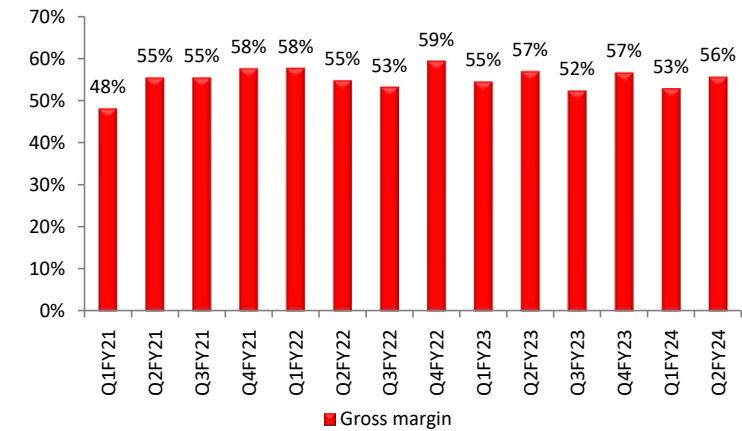
Source: Company, Systematix Institutional Research

Exhibit 3: Volumes declined 8.8% YoY & 7.2% QoQ

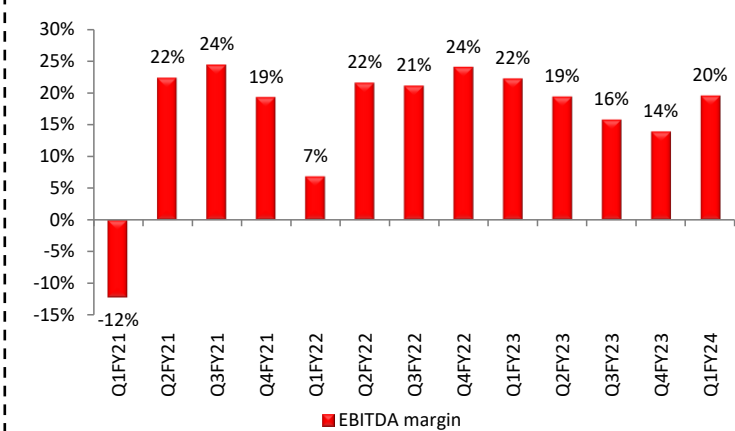
Source: Company, Systematix Institutional Research

Exhibit 4: Revenue declined 8.4% YoY on high base & festive shift

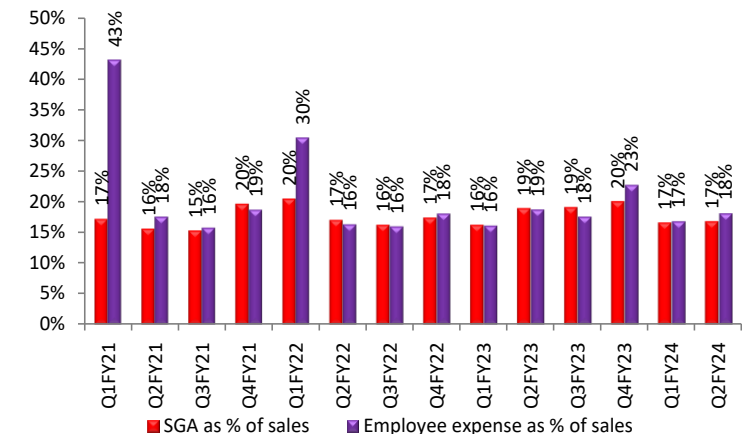
Source: Company, Systematix Institutional Research

Exhibit 5: GMs contracted 133bps YoY led by higher RM cost

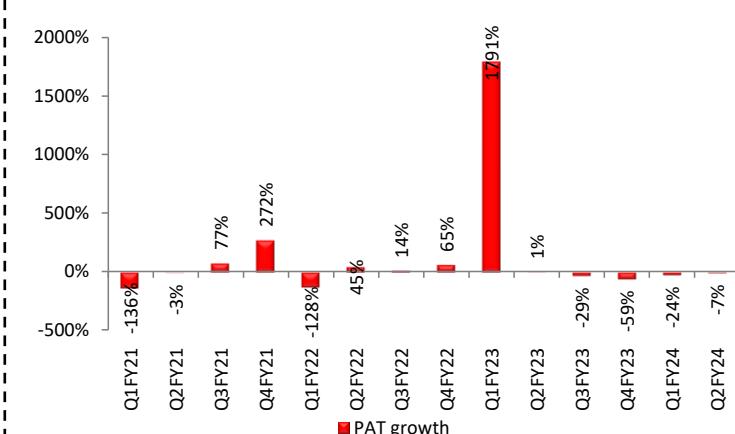
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margin expanded 139bps

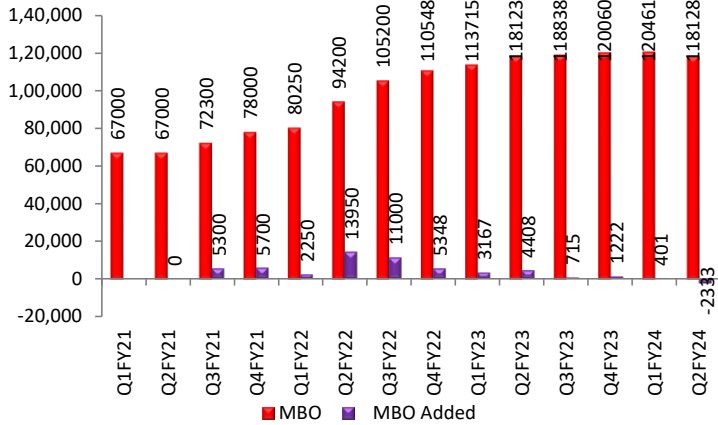
Source: Company, Systematix Institutional Research

Exhibit 7: SGA and employee expenses declined

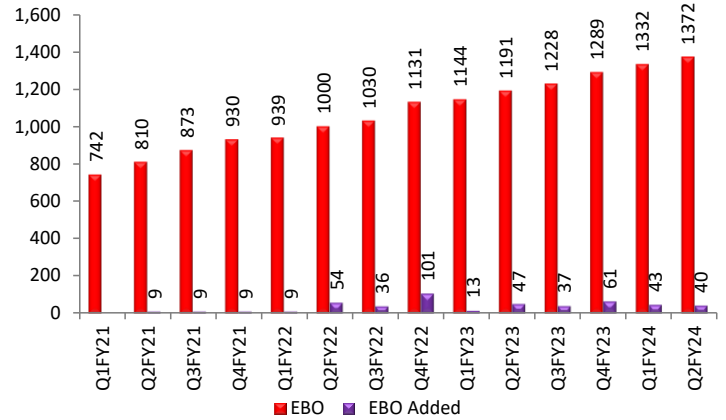
Source: Bloomberg, Systematix Institutional Research

Exhibit 8: Earnings declined 7.3% due to depreciation and Int cost

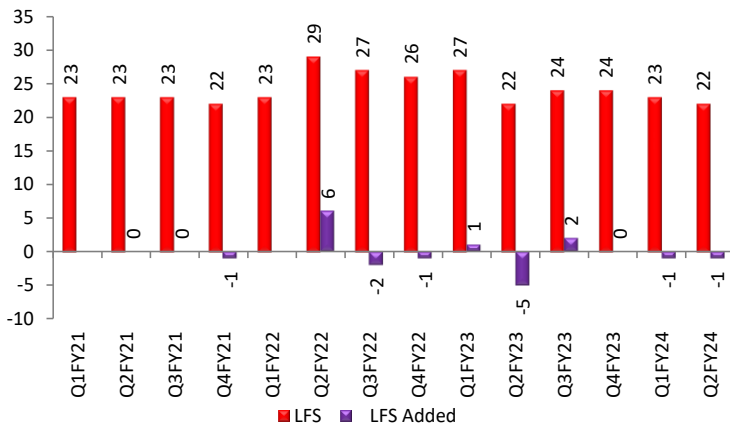
Source: Bloomberg, Systematix Institutional Research

Exhibit 9: Rationalizing started in the MBO channel

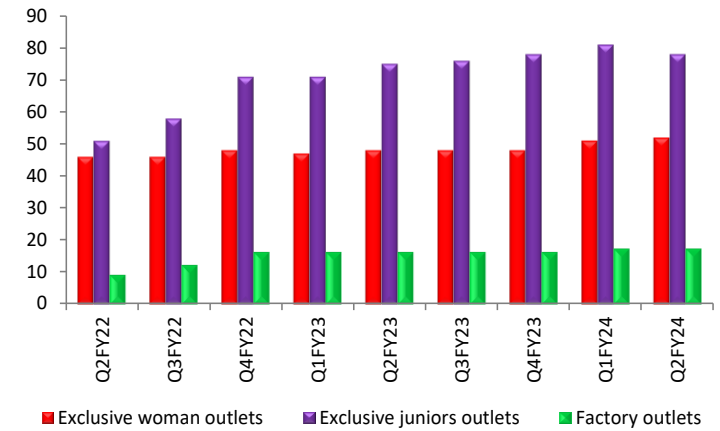
Source: Bloomberg, Systematix Institutional Research

Exhibit 10: EBO network scaled up, currently at 1,372

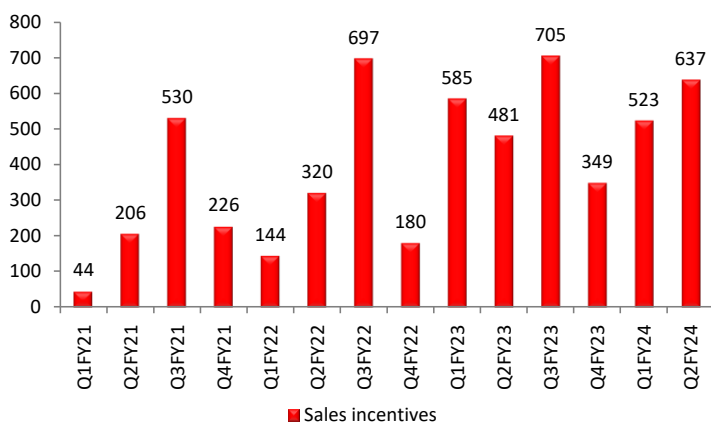
Source: Bloomberg, Systematix Institutional Research

Exhibit 11: LFS partner count remains at 22

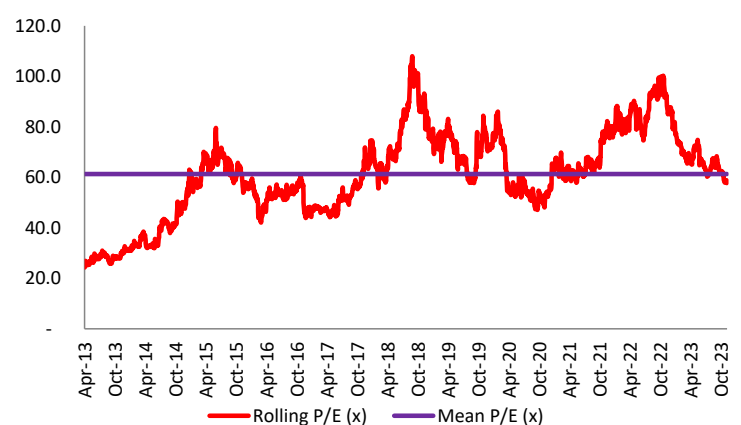
Source: Bloomberg, Systematix Institutional Research

Exhibit 12: Strong network expansion across the product portfolio

Source: Bloomberg, Systematix Institutional Research

Exhibit 13: Sales incentive at Rs 637mn

Source: Bloomberg, Systematix Institutional Research

Exhibit 14: Currently trades at 58.6x one-year forward P/E

Source: Bloomberg, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	28,330	38,865	47,886	49,229	58,450
Gross profit	15,690	21,775	26,207	27,913	33,083
GP margin (%)	55.4%	56.0%	54.7%	56.7%	56.6%
Operating profit	5,266	7,855	8,627	9,503	11,799
OP margin (%)	18.6%	20.2%	18.0%	19.3%	20.2%
Depreciation	629	655	781	909	1,087
EBIT	4,637	7,200	7,847	8,594	10,713
Interest expense	297	322	413	498	444
Other income	195	210	147	147	169
Profit before tax	4,534	7,088	7,581	8,243	10,438
Taxes	1,128	1,722	1,869	2,041	2,589
Tax rate (%)	24.9%	24.3%	24.6%	24.8%	24.8%
Adj. PAT	3,406	5,365	5,712	6,202	7,848
Exceptional loss	-	-	-	-	-
Net profit	3,406	5,365	5,712	6,202	7,848
EPS	305	481	512	556	704

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	112	112	112	112	112
Reserves	8,737	10,775	13,599	14,722	16,142
Debt	0	-	2,482	2,279	1,843
Deferred tax liab (net)	22	-	-	-	-
Other non current liabilities	982	820	1,282	1,349	1,420
Total liabilities	9,853	11,706	17,474	18,461	19,516
Fixed Asset	3,165	3,766	4,905	6,496	7,909
Investments	-	-	-	-	-
Other Non-current Assets	2,541	3,069	4,529	4,853	5,262
Inventories	5,549	9,749	15,953	14,162	15,213
Sundry debtors	1,371	1,651	1,461	2,023	2,402
Cash & equivalents	4,350	2,835	81	723	330
Loans and Advances	-	-	-	-	-
Sundry creditors	2,175	3,628	2,876	2,697	3,203
Other current liabilities	4,948	5,735	6,578	7,098	8,397
Total Assets	9,853	11,706	17,474	18,461	19,516

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBIT	4,832	7,410	7,994	8,741	10,882
Depreciation	629	655	781	909	1,087
Tax paid	(1,128)	(1,722)	(1,869)	(2,041)	(2,589)
Working capital Δ	2,627	(2,238)	(5,923)	1,570	374
Other operating items	-	-	-	-	-
Operating cashflow	6,960	4,104	983	9,180	9,753
Capital expenditure	(497)	(1,256)	(1,920)	(2,500)	(2,500)
Free cash flow	6,463	2,848	(937)	6,680	7,253
Equity raised	507	1,501	1,790	(0)	0
Investments	-	-	-	-	-
Debt financing/disposal	(268)	(0)	2,482	(203)	(436)
Interest Paid	(297)	(322)	(413)	(498)	(444)
Dividends paid	(3,263)	(4,829)	(4,679)	(5,080)	(6,428)
Other items	39	(713)	(998)	(257)	(338)
Net Δ in cash	3,181	(1,515)	(2,754)	642	(394)

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Revenue growth (%)	-3.8	37.2	23.2	2.8	18.7
Op profit growth (%)	-1.1	49.2	9.8	10.2	24.2
Net profit growth (%)	-0.8	57.5	6.5	8.6	26.5
OPM (%)	18.6	20.2	18.0	19.3	20.2
Net profit margin (%)	12.0	13.8	11.9	12.6	13.4
RoCE (%)	55.8	75.1	59.0	52.5	61.8
RoNW (%)	40.0	54.4	46.4	43.5	50.5
EPS (Rs)	305.3	481.0	512.2	556.1	703.6
DPS (Rs)	292.5	432.9	419.5	455.4	576.3
BVPS (Rs)	793.3	976.0	1229.2	1329.9	1457.2
Debtor days	18	16	11	15	15
Inventory days	71	92	122	105	95
Creditor days	28	34	22	20	20
P/E (x)	123.3	78.3	73.5	67.7	53.5
P/B (x)	47.5	38.6	30.6	28.3	25.8
EV/EBITDA (x)	78.9	53.1	49.0	44.4	35.7

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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