

Page Industries Ltd

OUT PERFORMER

Sector: Apparels /Mid-Cap | Earnings Update – 1QFY21

9 September 2020

Background: Page Industries is the exclusive licensee of Jockey International Inc (USA) to manufacture and distribute Jockey brand in India, Sri Lanka, Nepal, Bangladesh and UAE till 2040. They broadly operate in premium men's innerwear; women's innerwear and leisure wear segments. Jockey enjoys high brand recall and they spend ~5% of their annual sales for brand building and promotional activity, which enables them to dominate most of the segments in which they operate. They are also exclusive licensee of Speedo swimwear brand in India. Page has network in ~250 cities and ~760 exclusive brand outlets in India. They compete with major brands like Crusoe, Hanes, Lovable and Enamor.

Sensex	38,193
Nifty	11,278
Price	₹ 18,140
Target Price (12 months)	₹ 20,763
Recommendation	OUT PERFORMER

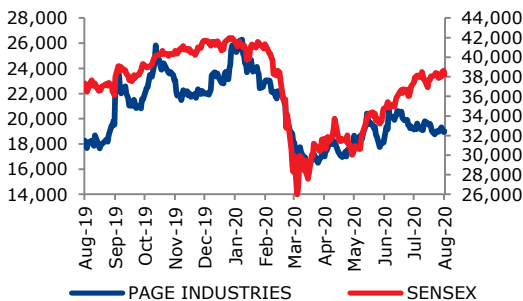
52 Week High/Low	₹ 26,891.0/16,186.7
Bloomberg / Reuters	PAG IN/ PAGE.BO
Equity (shares in mn)	11.1
Mkt. Cap in bn	₹ 206.3/ \$ 2.8
Avg. Daily Vol. ('000)	40.8
Avg. Daily Vol. (mn)	₹ 756.6 / \$ 10.3

Shareholding	Jun-19	Mar-20	Jun-20
Promoters (%)	48.3	48.3	48.3
FII (%)	34.3	29.2	25.5
DII (%)	5.4	10.3	14.1
Others (%)	11.9	12.2	12.1
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2020	2021E	2022E
Revenue	29.5	23.7	32.4
EBITDA	5.3	3.9	6.6
PAT	3.4	2.3	4.4
EPS	307.7	203.6	395.5
% growth	-12.9	-33.8	94.3
PE	59.0	89.1	45.9
P/ BV	24.7	21.7	17.5
EV/EBITDA	35.4	52.2	30.5
EV/Sales	6.4	8.5	6.2
Div Yield (%)	0.9	0.6	1.1
ROE (%)	41.9	24.3	38.2

Performance(%)	1M	3M	12M
PAGE INDUSTRIES	-0.8	1.8	4.1
SENSEX	2.1	24.0	2.4



Weak quarter; Lower operating leverage resulted in loss at PAT level despite cost rationalization & better realizations; With gradual easing of lockdown, management expects to achieve pre-covid volumes in the coming quarters

- In 1QFY21 revenue declined by 65.9% YoY to ₹2.8bn on account of sharp decline in volumes of ~69%, due to store closures and supply side challenges arising due to the nationwide lockdown. Page derives 60% of topline from metro cities which witnessed higher impact of covid relative to other parts of the country. The company expects the sales to return to pre-covid levels by 3QFY21.
- Moving to normalcy: The supply side constraints are largely reduced with ~95% EBOs now operational and 90% of labour returning to work (vs 65% in May). Capacity utilization presently stands at 85-90% which the company is making required efforts to reach full utilization levels.
- Despite the decline in revenue, realizations during 1QFY21 increased by 12% YoY owing to favorable product mix towards Athleisure. Meanwhile, E-commerce channel contribution to sales also increased to double digits (vs 3.5% in FY20). In addition, the decline in channel inventory indicates a strong pent up demand (secondary sales were higher than primary sales in 1QFY21). The increase in realization driven by favourable product mix should aid in revenue recovery going ahead.
- Gross margins declined by 696bps YoY to 48.1% owing to under absorption of fixed costs and factory overheads due to lower production in the quarter. Fixed overheads were higher owing to the full wage payments. With increase in sales gross margin is expected to recover in the coming quarters. The management plans to get EBITDA margins back to 20% range once the revenue recovers and implemented cost optimization measures payout.
- Cost rationalization was aggressive with 66% YoY decline in other opex to ₹488mn. Employee cost declined by 4.3% YoY to ₹1.2bn. On account of lower volumes the company reported a loss at EBITDA level of ₹347mn. Other income increased by 10% YoY to ₹61mn. However, a weak topline resulted in a loss at PAT level of ₹395mn.
- The company has postponed its capacity expansion plans to CY21. The management remains optimistic on long run capacity expansion plans i.e. doubling the existing capacity of 260 mn units over next 4-5 years.

Valuation: The increase demand for Athleisure coupled with existing cost rationalization efforts are expected to support margin recovery. The management remains optimistic on bringing business and margins to normal levels in 3QFY21. The company remains well positioned to benefit from anticipated recovery on the back of its strong balance sheet, brand and robust store network. At CMP, the stock is trading at 89x and 46x, FY21E and FY22E earnings respectively. We value the company at 52.5x FY22E to arrive at a target price of ₹20,763 (Earlier: ₹18,984) and upgrade the stock to OUT PERFORMER rating.

Risks: Decline in consumer discretionary spends; market share loss owing to competition; adverse raw materials price movement; covid related shutdowns in factories disrupting supply.

Results Summary 1QFY21

Y/E March (₹ mn)	1QFY21	1QFY20	YoY Growth	4QFY20	QoQ Growth
Revenue	2,848.0	8,349.6	-65.9%	5,412.6	-47.4%
EBITDA	-347.1	1,866.2	NA	581.3	NA
Depreciation	160.5	139.8	14.8%	163.0	-1.6%
Other Income	60.5	55.0	10.0%	99.1	-38.9%
PBT	-523.8	1,698.7	NA	431.9	NA
Tax	-128.2	592.0	NA	121.6	NA
PAT	-395.5	1,106.7	NA	310.2	NA
Adjusted PAT	-235.1	1,246.5	NA	473.3	NA
EBITDA Margin (%)	NA	22.4		10.7	
Tax Incidence (%)	24.5	34.8		28.2	
PAT Margin (%)	NA	13.3		5.7	

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RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Arjun Prasad Pasumarthi	Fundamental Analyst	+91-44 - 4004 7363	arjunpp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesh Katariya	Mumbai	+91-9860297739	bhaveshgk@chola.murugappa.com
Balaji H	Compliance Officer	044 - 30007226	balajih@chola.murugappa.com

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