Page Industries Ltd

UNDER PERFORMER

Sector: Apparels /Mid-Cap | Earnings Update – 4QFY20

29 June 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	35,171
Nifty	10,383
Price	₹ 20,548
Target Price (12 months)	₹ 18,984
Recommendation	UNDER PERFORMER

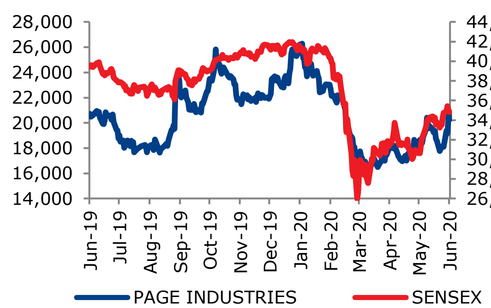
52 Week High/Low	₹ 26,891.0/16,186.7
Bloomberg / Reuters	PAG IN/ PAGE.BO
Equity (shares in mn)	11.1
Mkt. Cap in bn	₹ 229.2/ $ 3.0
Avg. Daily Vol. ('000)	40.6
Avg. Daily Vol. (mn)	₹ 836.1 /$ 11.6

Shareholding	Mar-19	Dec-19	Mar-20
Promoters (%)	48.3	48.3	48.3
FII (%)	36.4	31.5	29.2
DII (%)	3.2	8.5	10.3
Others (%)	12.1	11.7	12.2
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2020	2021E	2022E
Revenue	29.5	28.3	31.2
EBITDA	5.3	4.6	6.3
Adj PAT	3.4	3.1	4.3
Adj EPS	307.7	275.0	385.0
% growth	-12.9	-10.6	40.0
PE	66.8	74.7	53.4
P/ BV	28.0	23.5	19.3
EV/EBITDA	35.4	49.4	36.1
EV/Sales	6.4	8.1	7.3
Div Yield (%)	0.8	0.7	0.9
ROE (%)	41.9	31.5	36.1

Performance(%)	1M	3M	12M
PAGE INDUSTRIES	12.0	21.9	-2.1
SENSEX	13.6	22.1	-11.7



Weak quarter; lower order execution coupled with stores closures due to lockdown impacted volumes; Negative operating leverage drag margins

- In 4QFY20 revenue declined by 11% YoY to ₹5.4bn on account of sharp decline in volumes, due to non-fulfillment of orders and store closures due to nationwide lockdown.
- The management attributes ~₹1.5bn worth of revenue loss to lockdown. However it expects ~900mn orders billed and not shipped in the quarter to show up in the next quarter. The management did not provide any guidance for FY21E sales. however remain optimistic of demand situation, with 83% stores reopened post lockdown witnessing strong sales traction
- Realizations during the quarter declined due to lower volumes however, the higher margin 'Athlesiure' sales increased 7percentage points. Going forward the management expects the product mix to incline towards Athleisure thereby driving realization growth.
- Gross margins declined by 476bps YoY to 58.8% owing to under absorption of fixed costs due to lower production. EBITDA margins declined 895bps YoY to 10.7% primarily on account of loss of sales in the month of March. The management expects margins to recover back to 18% in the near term once economic activity resumes to normality. At the portfolio level the management aims for a 21% EBITDA margin driven by Athleiusre.
- EBITDA at ₹581mn was down 51% YoY. Other operating expenses declined by 11% YoY on account of fall in revenue. Employee cost increased by 8% YoY to ₹1.3bn. Other income increased by 13.8% YoY to ₹99mn.
- PAT de-grew 58.6% YoY to ₹310mn on the back of weak operational performance. PAT margin contracted 660bps YoY to 5.7%. For FY21 the company will focus on cost minimization, improving cash flow and profitability.
- Moving to normalcy: Production capacity is working at 85% to cater to the market demand while supply chain is nearing normal with 680 stores opened (out of ~760 stores). The management remains optimistic on long run capacity expansion plans i.e. doubling the existing capacity of 250 mn units over next 4-5 years.

Valuation: Demand recovery remains gloomy despite lockdown being lifted in most parts of the economy. The management remains optimistic on bringing margins to normal levels in FY21. However, due to the pandemic uncertainty over footfalls in stores and continued disruptions in supply chain is expected to impact volume growth during the year. At CMP, the stock is trading at 68x and 62x to FY21E and FY22E earnings respectively. We value the company at 49xFY22E to arrive at a target price of ₹18,984 and downgrade the stock to an UNDER PERFORMER rating.

Risks: uptick in consumer discretionary spends; market share gains; raw materials price movement.

Results Summary 4QFY20

Y/E March (₹ mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	5,412.6	6,078.6	-11.0%	7,938.0	-31.8%
EBITDA	581.3	1,196.8	-51.4%	1,387.8	-100.0%
Depreciation	163.0	80.1	103.6%	164.0	-0.6%
Other Income	99.1	87.1	13.8%	34.8	-99.6%
PBT	431.9	1,162.8	-62.9%	1,169.0	-63.1%
Tax	121.6	413.0	-70.6%	298.8	-100.2%
PAT	310.2	749.8	-58.6%	870.2	-64.3%
Adjusted PAT	473.3	829.9	-43.0%	1,034.2	-100.0%
EBITDA Margin (%)	10.7	19.7		17.5	
Tax Incidence (%)	28.2	35.5		25.6	
PAT Margin (%)	5.7	12.3		11.0	

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