

Muted volumes – cause for concern...

About the stock: Page Industries is the exclusive licensee of Jockey international brand and is the market leader in the premium innerwear and leisurewear category. The brand is distributed in 2,895+ cities & towns and available in 118838+ MBOs and 1191+ EBOs. It sold ~ 190 million pieces in FY22.

- Strong backward integration facilities having capacity of 260 million pieces
- Robust business model generating 66%+ RoCE, delivering consistent EBITDA margins of 20%+ and having debt free b/s

Q3FY23 Results: Page reported a subdued operational performance wherein revenues and profitability were below our estimates. Gross margin declined 86 bps YoY to 52.4% but EBITDA margin declined 532 bps YoY to 15.8% (significantly lower than normally guided band of 19-21%) owing to negative operating leverage.

- Revenue for Q3FY23 grew 3% YoY to ₹ 1223 crore. Growth was mainly realisation led, which increased 15% YoY to ₹ 232/piece. Volume de-grew 11% YoY to 52.8 million pieces due to subdued demand in athleisure
- Under-absorption of fixed overheads, accelerated spends towards marketing expenses impacted EBITDA margin. Hence, EBITDA declined 23% YoY to ₹ 193 crore. Ensuing PAT de-grew 29% YoY to ₹ 123.7 crore

What should investors do? Page's share price has grown at 12% CAGR in the past five years but the stock price has been under pressure over the last three months and declined more than 25%. Due to rich valuations (58x FY24E) and moderate growth outlook (owing to increased competitive intensity), we believe the stock price does not offer upside.

- We maintain **HOLD** recommendation on the stock

Target Price and Valuation: We value Page at ₹ 37550 i.e. 55x FY24E EPS.

Key triggers for future price performance:

- New initiatives (focus on kids wear segment, new launches in athleisure/women wear and thrust on increasing penetration in rural areas) to drive sales and earnings growth
- Significantly accelerated its distribution touchpoints (added 32548 outlets in FY22) to 118123+ MBOs and 1191+ EBO stores
- To further penetrate the untapped markets of tier III/IV cities, it has launched a bouquet of products catering to these markets. The company aims to reach sales of US\$1 billion by FY26 (CAGR: ~18%). We build in revenue, earning CAGR of 21%, 19%, respectively, in FY22-24E

Alternate Stock Idea: Apart from Page, we also like Aditya Birla Fashion & Retail.

- ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E
- BUY with a target price of ₹ 340/share



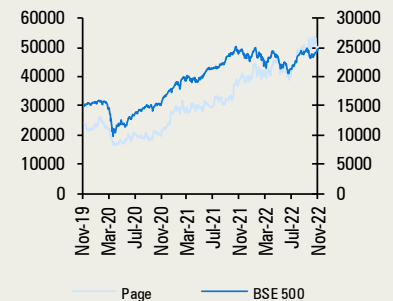
Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	43,500.1
Debt (FY22) (₹ Crore)	-
Cash (FY22) (₹ Crore)	283.5
EV (₹ Crore)	43,216.7
52 week H/L	54349 / 37170
Equity Capital (₹ Crore)	11.2
Face Value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	47.2	47.2	46.1	46.1	46.1
FII	25.1	25.2	25.2	25.3	24.7
DII	18.0	17.7	18.8	19.5	19.6
Others	9.8	9.9	9.9	9.1	9.6

Price Chart



Key risks

Key Risk: (i) Slow ramp up of store network (ii) Sharper revenue recovery can lead to higher revenue growth

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Key Financial Summary

Financials	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	2,945.4	2,833.0	3,886.5	12.7%	5,056.0	5,663.1	20.7%
EBITDA	532.6	526.6	785.5	14.0%	930.8	1,134.2	20.2%
PAT	343.2	340.6	536.5	15.0%	618.7	761.5	19.1%
P/E (x)	126.7	127.7	81.1		70.3	57.1	
EV/Sales (x)	14.7	15.2	11.1		8.6	7.6	
EV/EBITDA (x)	81.5	81.8	55.0		46.6	38.1	
RoCE (%)	55.7	52.4	66.1		60.4	59.6	
RoE (%)	41.9	38.5	49.3		45.3	44.5	

Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter grew 3% YoY to ₹ 1223.0 crore (I-direct estimate: ₹ 1282.6 crore, three-year CAGR: 15%). The growth was mainly realisation led, which increased by 15% YoY to ₹ 232/piece. Volume de-grew 11% YoY to 52.8 million pieces. The management indicated that the market was not as buoyant as expected, which negatively impacted the volume growth. Further, Page has rolled out Auto Replenishment System (ARS) across its distributors, which also resulted in lower sales. Men's segment grew in double digits while growth in Athleisure has moderated. The company continued to enhance its distribution touchpoints wherein it added 715 taking the total count to 118838 touchpoints (~2x vs. pre-Covid levels). Page also added 37 new exclusive outlets taking the total count to 1228+ EBOs (97 outlets added in 9MFY23)
- Owing to higher raw material cost (cotton yarn), gross margins declined 86 bps to 52.4% (I-direct estimate: 56%). Further, owing to negative operative leverage, employee expense to sales ratio increased 159 bps YoY to 17.6% and other expense to sales ratio increased 287 bps YoY to 19.1%, which led to EBITDA margin declining by 532 bps YoY to 15.8% (lowest margin in the last six quarters). Subsequently, EBITDA de-grew 23% YoY to ₹ 193 crore (I-direct estimate: ₹ 250 crore)
- The company continues to invest in building capacity and warehouses with a planned capex of ₹ 250-300 crore in FY23 as it believes that its products have huge growth potential. It wants to be ready to capture the long term opportunity. Accelerated distribution touchpoints with higher focus on tier III/IV regions and growth opportunity in segments such as athleisure and Jockey Kids & women would be key growth drivers, going forward. We reduce our estimates and bake in revenue and earnings CAGR of 21% and 19%, respectively, in FY22-24E

Q3FY23 Earnings conference call highlights:

- The company highlighted that it has rolled out the ARS system for its distributors and MBO channel to have a better understanding of the underlying demand. The rollout of ARS negatively impacted the revenue growth in Q3FY23. Though most of the ARS rollout is done, the management indicated that some portion was remaining. The same should be completed by the end of February 2023
- On the EBO addition front, the company added 97 EBOs in 9MFY23 (37 in Q3FY23) with total EBOs now at 1228 outlets present in 415 cities. Another channel that the company has been focusing on is large format stores. The company is now present with 24 LFS partners with a presence in 2967 stores
- The management highlighted that it was spending on capacity building and enhancing supply chain capabilities (investment in warehouse) as it believes that its products have huge growth potential. It wants to be ready to capture the long term opportunity
- The management has not yet decided about further price hike and would take a decision based on the input cost and competition in the market
- The company is currently carrying higher inventory (~3.5 months) vs. two months in the corresponding quarter. The management is aiming to bring down the inventory to ~ two and a half months, going ahead
- Premium products have not been witnessing slackness and have performed better than lower priced categories
- Advertisement expenses have been higher than usual. The company expects to maintain higher spend in advertising to enhance brand visibility.

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	1,223.3	1,282.6	1,189.8	2.8	1,255.0	-2.5	Revenue growth below estimates owing to muted demand and impact of ARS implementation
Other income	1.6	2.8	7.1	-77.0	2.7	39.7	
Employee Expense	214.8	234.7	190.0	13.1	230.1	-6.6	
Raw Material Expense	582.5	564.3	556.3	4.7	555.1	4.9	Owing to high cost of raw materials , gross margins declined by 86 bps YoY to 52.4%
SG&A Expenses	233.2	233.4	192.7	21.0	232.0	0.5	
EBITDA	192.8	250.1	250.7	-23.1	237.9	-19.0	
EBITDA Margin (%)	15.8	19.5	21.1	-532 bps	19.0	-320 bps	Owing to negative operating leverage and increased spend on advertisement , the EBITDA margins declined 532 bps YoY to 15.8%
Depreciation	20.0	19.2	16.7	19.6	18.8	6.1	
Interest	10.0	9.3	7.7	28.8	9.2	8.7	
PBT	164.5	224.4	233.5	-29.5	212.6	-22.6	
Tax Outgo	40.7	53.8	58.9	-30.8	50.4	-19.2	
PAT	123.7	170.5	174.6	-29.1	162.1	-23.7	

Source: Company, ICICI Direct Research

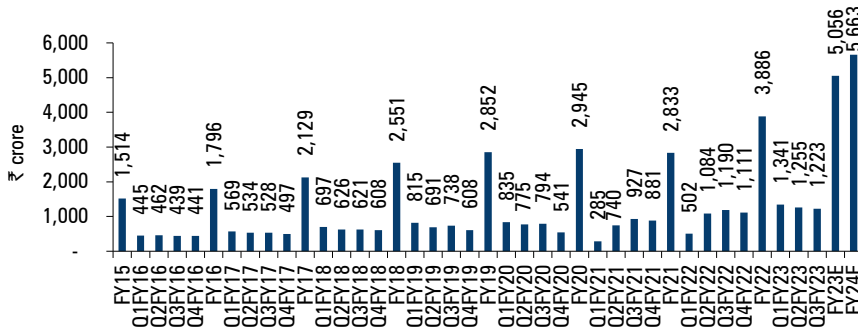
Exhibit 2: Change in estimates

(₹ Crore)	FY22	FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	3,886.5	5,185.7	5,056.0	-2.5	6,037.8	5,663.1	-6.2
EBITDA	785.5	1,064.2	930.8	-12.5	1,269.8	1,134.2	-10.7
EBITDA margin (%)	20.2	20.5	18.4	-211 bps	21.0	20.0	-100 bps
PAT	536.5	726.5	618.7	-14.8	874.9	761.5	-13.0
EPS (₹)	481.0	651.4	554.7	-14.8	784.4	682.7	-13.0

Source: Company, ICICI Direct Research

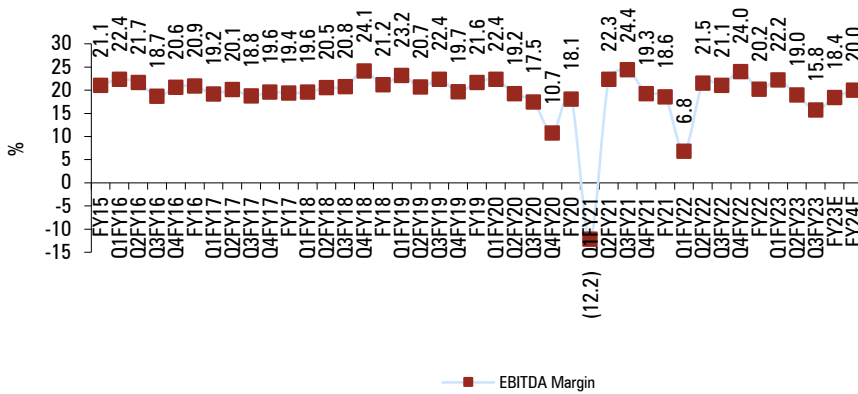
Financial story in charts

Exhibit 3: Revenue trend



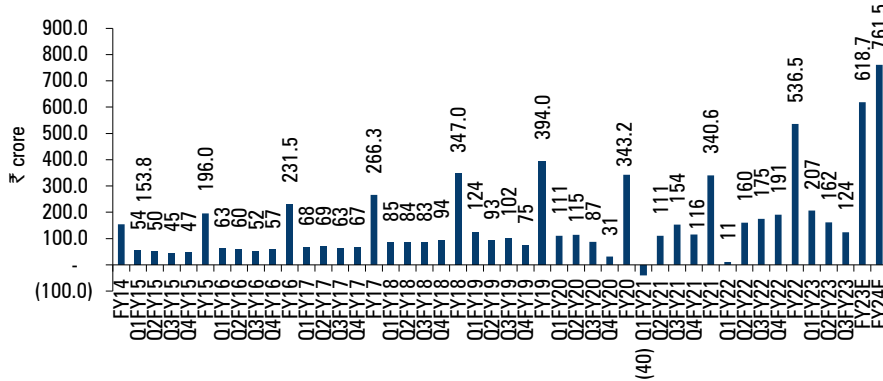
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	2945.4	3.3	307.7	-12.9	126.7	81.5	41.9	55.7
FY21	2833.0	-3.8	305.3	-0.8	127.7	81.8	38.5	52.4
FY22	3886.5	37.2	481.0	57.5	81.1	55.0	49.3	66.1
FY23E	5056.0	30.1	554.7	15.3	70.3	46.6	45.3	60.4
FY24E	5663.1	12.0	682.7	23.1	57.1	38.1	44.5	59.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total operating Income	2,833.0	3,886.5	5,056.0	5,663.1	
Growth (%)	(3.8)	37.2	30.1	12.0	
Raw Material Expenses	1,263.9	1,709.0	2,322.7	2,589.3	
Employee Expenses	563.8	720.1	874.7	962.7	
Other Expenses	478.7	671.9	927.8	976.9	
Total Operating Expenditure	2,306.4	3,101.0	4,125.2	4,528.9	
EBITDA	526.6	785.5	930.8	1,134.2	
Growth (%)	(1.1)	49.2	18.5	21.9	
Depreciation	62.9	65.5	78.3	88.9	
EBIT	463.7	720.0	852.5	1,045.4	
Growth (%)	(1.6)	55.3	18.4	22.6	
Interest	29.7	32.2	38.0	41.5	
Other Income	19.5	21.0	12.6	14.2	
PBT	453.4	708.8	827.2	1,018.0	
Growth (%)	(1.9)	56.3	16.7	23.1	
Total Tax	112.8	172.2	208.4	256.5	
PAT	340.6	536.5	618.7	761.5	
Growth (%)	(0.8)	57.5	15.3	23.1	
EPS (₹)	305.3	481.0	554.7	682.7	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after tax	340.6	536.5	618.7	761.5	
Add: Depreciation	62.9	65.5	78.3	88.9	
(Inc)/dec in Current Assets	106.4	(515.5)	(92.4)	(90.0)	
Inc/(dec) in CL and Provisions	161.2	219.2	(90.2)	34.5	
Others	-	-	-	-	
CF from operating activities	671.0	305.8	514.4	794.8	
(Inc)/dec in Investments	-	-	-	-	
(Inc)/dec in Fixed Assets	(20.0)	(58.7)	(350.0)	(120.0)	
(Inc)/dec in CWIP	0.9	(37.4)	10.3	5.0	
Others	-	18.7	-	-	
CF from investing activities	(19.1)	(77.4)	(339.7)	(115.0)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	(26.8)	(0.0)	45.0	-	
Others	(308.0)	(378.9)	(371.1)	(453.6)	
CF from financing activities	(334.8)	(378.9)	(326.1)	(453.6)	
Net Cash flow	317.1	(150.6)	(151.4)	226.2	
Opening Cash	116.9	434.0	283.5	132.0	
Closing Cash	434.0	283.5	132.0	358.2	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	11.2	11.2	11.2	11.2	
Reserve and Surplus	873.7	1,077.5	1,355.9	1,698.6	
Total Shareholders funds	884.9	1,088.6	1,367.0	1,709.7	
Total Debt	0.0	-	45.0	45.0	
Deferred Tax Liability	0.2	2.2	2.2	2.2	
Other long term liabilities	135.3	117.2	118.4	119.6	
Total Liabilities	1,020.4	1,208.0	1,532.6	1,876.5	
Assets					
Gross Block	435.5	491.4	841.4	961.4	
Less: Acc Depreciation	149.2	182.0	228.3	281.1	
Net Block	286.3	309.4	613.1	680.2	
Capital WIP	27.9	65.3	55.0	50.0	
Intangible Assets	2.3	2.0	2.0	2.0	
Total Fixed Assets	316.5	376.6	670.1	732.2	
Investments	-	-	-	-	
Inventory	554.9	974.9	1,108.2	1,179.2	
Debtors	137.1	165.1	138.5	155.2	
Loans and Advances	5.9	22.1	7.8	10.1	
Cash	434.0	283.5	132.0	358.2	
Total Current Assets	1,225.3	1,590.2	1,531.1	1,847.3	
Sundry Creditors	217.5	362.8	277.0	310.3	
Current Liabilities	442.2	510.3	511.3	512.3	
Provisions	20.0	25.8	20.4	20.6	
Total Current Liabilities	679.7	898.9	808.7	843.2	
Net Current Assets	545.6	691.3	722.4	1,004.2	
Other Non-current Assets	158.3	140.1	140.1	140.1	
Application of Funds	1,020.4	1,208.0	1,532.6	1,876.5	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	305.3	481.0	554.7	682.7
Cash EPS	361.7	539.7	624.9	762.4
BV	793.3	976.0	1,225.6	1,532.8
DPS	250.0	300.0	305.1	375.5
Cash Per Share	389.1	254.1	118.4	321.2
Operating Ratios				
EBITDA Margin (%)	18.6	20.2	18.4	20.0
PBT Margin (%)	16.0	18.2	16.4	18.0
PAT Margin (%)	12.0	13.8	12.2	13.4
Inventory days	71.5	91.6	80.0	76.0
Debtor days	17.7	15.5	10.0	10.0
Creditor days	28.0	34.1	20.0	20.0
Return Ratios (%)				
RoE	61.1	73.0	70.0	66.0
RoE	38.5	49.3	45.3	44.5
RoCE	52.4	66.1	60.4	59.6
Valuation Ratios (x)				
P/E	127.7	81.1	70.3	57.1
EV / EBITDA	81.8	55.0	46.6	38.1
EV / Net Sales	15.2	11.1	8.6	7.6
Market Cap / Sales	15.4	11.2	8.6	7.7
Price to Book Value	49.2	40.0	31.8	25.4
Solvency Ratios				
Debt/EBITDA	0.0	-	0.0	0.0
Debt / Equity	0.0	-	0.0	0.0
Current Ratio	1.8	1.8	1.9	2.2
Quick Ratio	1.0	0.7	0.5	0.8

Source: Company, ICICI Direct Research

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