

CMP: ₹ 37400

Target: ₹ 36000 (-4%)

Target Period: 12 months

HOLD

May 26, 2023

Challenging market to subdue volume growth...

About the stock: Page Industries is the exclusive licensee of Jockey international brand and is the market leader in premium innerwear and leisurewear category. The brand is distributed in 2,850+ cities & towns and available in 120060+ MBOs and 1289+ EBOs. Sold ~ 215 million pieces in FY23.

- Strong backward integration facilities having capacity of 260 million pieces
- Steady business model generating 50%+ RoCE and having debt free b/s

Q4FY23 Results: Dismal operational performance; reported one of the weakest margins during the quarter

- Volume de-growth was significantly below our/consensus estimate. Declined by 15% YoY to 42 million pieces (16 quarter low). Revenue declined 13% YoY to ₹ 969.1 crore
- Under absorption of fixed overheads, accelerated spends towards marketing expenses impacted profitability. EBITDA margins declined sharply by 1018 bps YoY to 13.9%
- PAT de-grew 59% YoY to ₹ 78.4 crore (I-direct estimate: ₹ 144.2 crore)

What should investors do? The stock price has been under pressure over the last six months and declined more than 20%. Due to rich valuations (58x FY25E) and moderate growth outlook (owing to increased competitive intensity), we believe the stock price does not offer upside.

- Hence, we maintain **HOLD** recommendation on the stock

Target Price and Valuation: We value Page at ₹ 36000 i.e. 55x FY25E EPS (earlier target price: ₹ 37550).

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 (~2x of pre-Covid levels) to 120000+ MBOs and 1289+ 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 FY26-27. We build in revenue, earning CAGR of 10%, 13%, respectively, in FY23-24E

Alternate Stock Idea: Apart from Page, we also like Trent Ltd

- BUY with target price of ₹ 1730/share



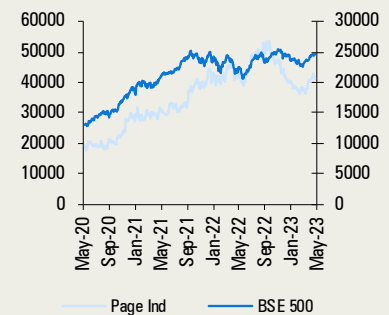
Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	41,827.0
Debt (FY23) (₹ Crore)	248.2
Cash (FY23) (₹ Crore)	8.1
EV (₹ Crore)	42,067.1
52 week H/L	54349 / 34952
Equity Capital (₹ Crore)	11.2

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	47.2	46.1	46.1	46.1	46.1
FII	25.2	25.2	25.3	24.7	22.4
DII	17.7	18.8	19.5	19.6	21.9
Others	9.9	9.9	9.1	9.6	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	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	2,945.4	2,833.0	3,886.5	4,788.6	17.6%	5,123.8	5,755.1	9.6%
EBITDA	532.6	526.6	785.5	862.7	17.4%	917.8	1,095.1	12.7%
PAT	343.2	340.6	536.5	571.3	18.5%	599.7	726.0	12.7%
P/E (x)	121.9	122.8	78.0	73.2		69.7	57.6	
EV/Sales (x)	14.2	14.6	10.7	8.8		8.1	7.2	
EV/EBITDA (x)	78.4	78.6	52.9	48.8		45.4	37.8	
RoCE (%)	55.7	52.4	66.1	48.5		49.3	49.5	
RoE (%)	41.9	38.5	49.3	41.7		36.5	36.9	

Key takeaways of recent quarter & conference call highlights

- Volumes declined 15% YoY to 42 million pieces, which is a 16-quarter low (if excluded for Covid years). Revenue declined 13% YoY to ₹ 969.1 crore (I-direct estimate: ₹ 1181.1 crore). A challenging market environment and transition to pull-based auto replenishment system severely impacted volumes. The management indicated the demand continues to remain challenging in the discretionary space with no material green shoots visible in Q1FY24E. Furthermore, the impact of ARS implementation is likely to prevail in the upcoming quarters and sales are expected to remain subdued in H1FY24E. Inventory levels at the retail level continue to be under control (~50 days), whereas at the distributor level it has corrected by ~25 days to 40-50 days. Intensified competition and declining demand in the athleisure segment (best performing category during Covid times) is a cause for concern. For FY23, the company recorded volume growth of 13% to 215.6 million pieces (six-year CAGR: 6%). Going forward, we build in volume CAGR of 4% in FY23-25E
- Owing to higher cost of raw materials (cotton yarn), gross margins declined 280 bps YoY to 56.6% (I-direct estimate: 56.0%). Further, owing to negative operative leverage, employee expense to sales ratio increased 468 bps YoY to 22.7% and other expense to sales ratio increased 270 bps YoY to 20.0%. Subsequently, EBITDA margins contracted sharply by 1018 bps YoY to 13.9% (I-direct estimate: 18%). Absolute EBITDA declined 50% YoY to ₹ 134.3 crore (I-direct estimate: ₹ 218.5 crore). The margins in the past two quarters have been lower than the normal range of 21-22% owing to lower absorption of fixed cost and increased advertisement spend. In anticipation of a prolonged slowdown in demand and intensified competition, we expect margins to remain subdued in the near term. Hence, factoring in the Q4FY23 performance, we prune our earnings estimates by 21% in FY24E. We expect a recovery to be gradual by FY25E. We bake in earnings CAGR of 13% in FY23-25E with EBITDA margin in the range of 18-19%
- The company has generated negative operating cashflow in FY23 (only for the second time in 15 years) mainly owing to higher capital being tied up in inventory. Inventory days rose sharply from 92 days to 122 days in FY23. Furthermore, owing to higher capex requirements (₹ 165 crore vs. ₹ 98 crore in FY22), the company reported negative FCF of ₹ 175 crore. With a gradual release of working capital, we expect the company to generate cumulative operating cashflow of ~ ₹ 1600 crore in FY24-25E, keeping the company net debt free

Page Industries - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	46.0	44.9	38.2
Social	29.9	32.7	32.7
Governance	78.6	91.1	91.1
Overall ESG Score	51.5	56.3	54.0

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	969.1	1,181.1	1,111.1	-12.8	1,223.3	-20.8	Revenue declined significantly owing to muted demand and impact of ARS implementation. Volumes declined 15% YoY
Other income	7.1	1.7	4.9	44.4	1.6	39.7	
Employee Expense	220.3	218.5	200.6	9.9	214.8	2.6	
Raw Material Expense	420.3	519.7	450.8	-6.8	582.5	-27.8	Owing to high cost of raw materials , gross margins declined by 280 bps YoY to 56.6%
SG&A Expenses	194.2	224.4	192.7	0.8	233.2	-16.7	
EBITDA	134.3	218.5	267.1	-49.7	192.8	-30.3	
EBITDA Margin (%)	13.9	18.5	24.0	-1018 bps	15.8	-190 bps	Owing to negative operating leverage and increased spend on advertisement , the EBITDA margins declined sharply by 1018 bps YoY
Depreciation	21.3	20.4	16.4	30.2	20.0	6.6	
Interest	13.6	10.2	9.7	41.0	10.0	36.8	
PBT	106.5	189.7	246.0	-56.7	164.5	-35.2	
Tax Outgo	28.2	45.5	55.5	-49.2	40.7	-30.8	
PAT	78.4	144.2	190.6	-58.9	123.7	-36.7	Weak operational performance led to PAT de-growth of 59% YoY

Source: Company, ICICI Direct Research

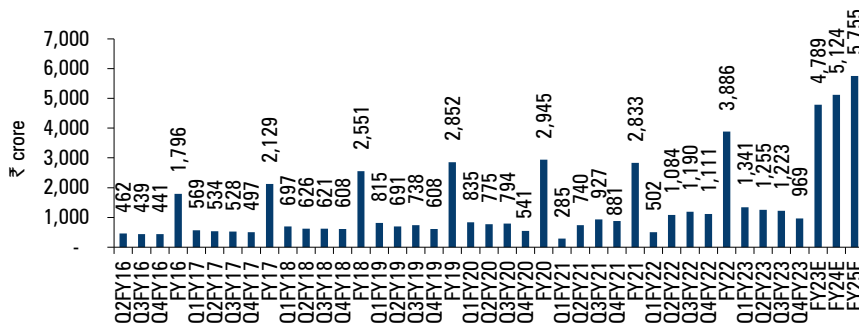
Exhibit 2: Change in estimates

	FY23E	FY24E			FY25E
(₹ Crore)	Actual	Old	New	% Change	Introduced
Revenue	4,788.6	5,663.1	5,123.8	-9.5	5,755.1
EBITDA	862.7	1,134.2	917.8	-19.1	1,095.1
EBITDA margin (%)	18.0	20.0	17.9	-211 bps	19.0
PAT	571.3	761.5	599.7	-21.2	726.0
EPS (₹)	512.2	682.7	537.6	-21.2	650.9

Source: Company, ICICI Direct Research

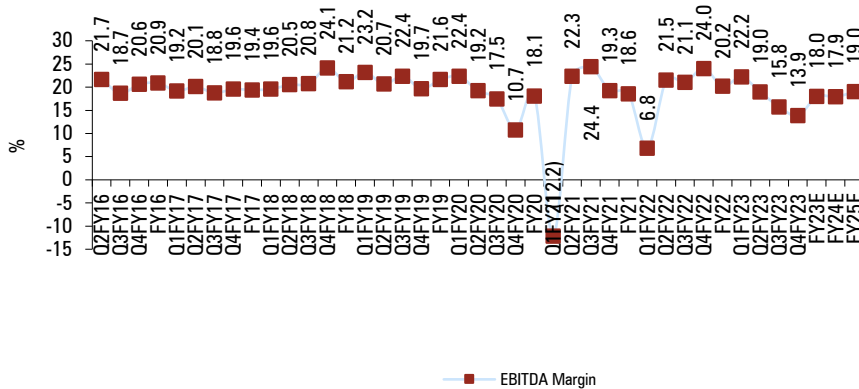
Financial story in charts

Exhibit 3: Revenue trend



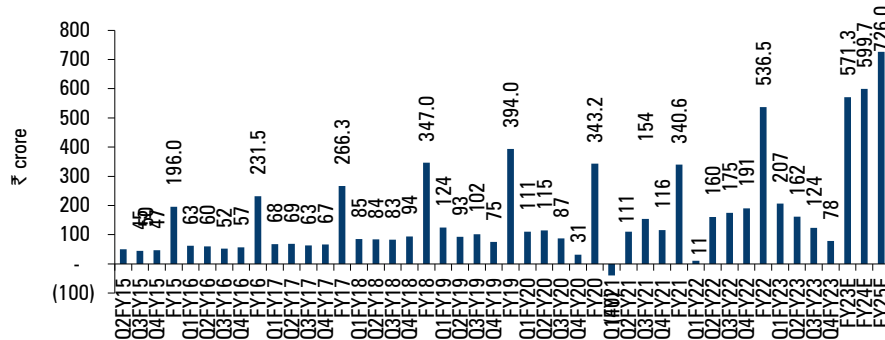
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	2945.4	3.3	307.7	-12.9	121.9	78.4	41.9	55.7
FY21	2833.0	-3.8	305.3	-0.8	122.8	78.6	38.5	52.4
FY22	3886.5	37.2	481.0	57.5	78.0	52.9	49.3	66.1
FY23E	4788.6	23.2	512.2	6.5	73.2	48.8	41.7	48.5
FY24E	5123.8	7.0	537.6	5.0	69.7	45.4	36.5	49.3
FY25E	5755.1	12.3	650.9	21.1	57.6	37.8	36.9	49.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	3,886.5	4,788.6	5,123.8	5,755.1
Growth (%)	37.2	23.2	7.0	12.3
Raw Material Expenses	1,709.0	2,168.0	2,259.0	2,576.7
Employee Expenses	720.1	881.2	973.5	1,047.4
Other Expenses	671.9	876.7	973.5	1,035.9
Total Operating Expenditure	3,101.0	3,925.9	4,206.0	4,660.0
EBITDA	785.5	862.7	917.8	1,095.1
Growth (%)	49.2	9.8	6.4	19.3
Depreciation	65.5	78.1	87.4	98.0
EBIT	720.0	784.7	830.4	997.0
Growth (%)	55.3	9.0	5.8	20.1
Interest	32.2	41.3	41.5	43.5
Other Income	21.0	14.7	12.8	14.4
PBT	708.8	758.1	801.7	967.9
Growth (%)	56.3	7.0	5.8	20.7
Total Tax	172.2	186.9	202.0	242.0
PAT	536.5	571.3	599.7	726.0
Growth (%)	57.5	6.5	5.0	21.1
EPS (₹)	481.0	512.2	537.6	650.9

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after tax	536.5	571.3	599.7	726.0
Add: Depreciation	65.5	78.1	87.4	98.0
(Inc)/dec in Current Assets	(515.5)	(670.2)	179.9	(36.7)
Inc/(dec) in CL and Provisions	219.2	7.9	(17.5)	35.8
Others	-	-	-	-
CF from operating activities	305.8	(12.9)	849.5	823.1
(Inc)/dec in Investments	-	-	-	-
(Inc)/dec in Fixed Assets	(58.7)	(75.0)	(120.0)	(120.0)
(Inc)/dec in CWIP	(37.4)	(85.2)	20.5	-
Others	18.7	(77.2)	-	-
CF from investing activities	(77.4)	(237.4)	(99.6)	(120.0)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(0.0)	248.2	(203.2)	-
Others	(378.9)	(273.3)	(364.2)	(437.6)
CF from financing activities	(378.9)	(25.1)	(567.4)	(437.6)
Net Cash flow	(150.6)	(275.3)	182.6	265.5
Opening Cash	434.0	283.5	8.1	190.7
Closing Cash	283.5	8.1	190.7	456.2

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	11.2	11.2	11.2	11.2
Reserve and Surplus	1,077.5	1,359.9	1,629.7	1,956.4
Total Shareholders funds	1,088.6	1,371.0	1,640.9	1,967.6
Total Debt	-	248.2	45.0	45.0
Deferred Tax Liability	2.2	2.2	2.2	2.2
Other long term liabilities	117.2	164.6	166.2	167.9
Total Liabilities	1,208.0	1,786.0	1,854.3	2,182.6
Assets				
Gross Block	491.4	565.7	685.7	805.7
Less: Acc Depreciation	182.0	228.3	279.7	337.7
Net Block	309.4	337.5	406.0	468.0
Capital WIP	65.3	150.5	130.0	130.0
Intangible Assets	2.0	2.6	2.6	2.6
Total Fixed Assets	376.6	490.5	538.6	600.6
Investments				
Inventory	974.9	1,595.3	1,403.8	1,419.1
Debtors	165.1	146.1	168.5	189.2
Loans and Advances	22.1	20.4	9.6	10.2
Cash	283.5	8.1	190.7	456.2
Total Current Assets	1,590.2	1,985.0	1,987.7	2,289.8
Sundry Creditors	362.8	287.6	280.8	315.3
Current Liabilities	510.3	587.0	588.0	589.0
Provisions	25.8	32.2	20.6	20.8
Total Current Liabilities	898.9	906.8	889.3	925.1
Net Current Assets	691.3	1,078.2	1,098.4	1,364.7
Other Non-current Assets	140.1	217.3	217.3	217.3
Application of Funds	1,208.0	1,786.0	1,854.3	2,182.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	481.0	512.2	537.6	650.9
Cash EPS	539.7	582.2	616.0	738.7
BV	976.0	1,229.2	1,471.1	1,764.0
DPS	300.0	260.0	295.7	358.0
Cash Per Share	254.1	7.3	171.0	409.0
Operating Ratios				
EBITDA Margin (%)	20.2	18.0	17.9	19.0
PBT Margin (%)	18.2	15.8	15.6	16.8
PAT Margin (%)	13.8	11.9	11.7	12.6
Inventory days	91.6	121.6	100.0	90.0
Debtor days	15.5	11.1	12.0	12.0
Creditor days	34.1	21.9	20.0	20.0
Return Ratios (%)	73.0	110.8	92.0	82.0
RoE	49.3	41.7	36.5	36.9
RoCE	66.1	48.5	49.3	49.5
Valuation Ratios (x)				
P/E	78.0	73.2	69.7	57.6
EV / EBITDA	52.9	48.8	45.4	37.8
EV / Net Sales	10.7	8.8	8.1	7.2
Market Cap / Sales	10.8	8.7	8.2	7.3
Price to Book Value	38.4	30.5	25.5	21.3
Solvency Ratios				
Debt/EBITDA	-	0.3	0.0	0.0
Debt / Equity	-	0.2	0.0	0.0
Current Ratio	1.8	2.2	2.2	2.5
Quick Ratio	0.7	0.4	0.7	0.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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