TTK Prestige (TTKPRE)

CMP: ₹ 902 | Target: ₹ 1120 (24%) | Target Period: 12 months | BUY

November 7, 2022

Revenue growth to pick up in H2FY23…

About the stock: TTK Prestige is India's leading player in kitchen solutions and has been successful in transforming itself from a company manufacturing pressure cookers to having an entire gamut of home and kitchen appliances.

- It continues to be market leader in the cooker segment and has material share in other appliance and cookware categories
- The company, over the years, has maintained its balance sheet strength with strong cash reserves (~₹ 400+ crore) and healthy RoIC of 35%+

Q2FY23 Results: TTK's revenue, earnings for Q2FY23 were below our estimates as the company reported a flattish revenue performance (on high base of Q2FY22).

- On a high base, revenues remained flattish at ₹ 808 crore. On a three year CAGR basis, revenue growth was at a steady 12%
- On account of judicious price hikes undertaken, gross margin was maintained at 39.7 (down 11 bps YoY; I-direct estimate: 42%). However, on account of higher than anticipated employee and other expenses, EBITDA margin moderated to 14.8% (down 200 bps YoY, up 100 bps QoQ)
- Flattish revenues and decline in EBITDA margin led to PAT de-growth of 13% YoY to ₹ 86 crore (three year CAGR: 2%; I-direct estimate :₹ 97 crore)

What should investors do? TTK's share price has grown by 1.6x in the past five years. We believe the recent stock price correction (~15% YTD) offers a good entry point as it is currently trading at reasonable valuations (38x, 32x EPS of FY23, FY24E, respectively).

- The company's ability to generate strong free cash flows and healthy ROIC, compel us to maintain **BUY** rating on the stock

Target Price and Valuation: We value TTK at ₹ 1120 i.e. 40x FY24E EPS

Key triggers for future price performance:

- In order to cater to strong domestic and export demand, TTK has added annual capacity of 4 mn pieces non-stick cookware in Gujarat factory
- TTK is further looking to enhance its distribution reach in tier-II/III cites to capture long term growth opportunities. It has a healthy pipeline of ~32 SKUs to be launched in Q3FY23, which would propel growth, going forward
- Targeting achieving ₹ 5000 crore by FY26 through organic and inorganic route (₹ 1000 crore). We build in revenue and earnings CAGR of 12% and 13%, respectively, in FY22-24E

Alternate Stock Idea: Apart from TTK, we also like Bata India.

- Bata India has a strong b/s, diversified branded product portfolio and pan-India network, which would enable sustained long term profitable growth
- BUY with target price of ₹ 2225

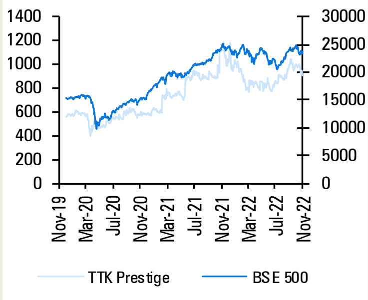
Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	12,510.7
Debt (FY22) (₹ Crore)	39.8
Cash (FY22) (₹ Crore)	404.6
EV (₹ Crore)	12,145.9
52 week H/L	1265 / 745
Equity Capital (₹ Crore)	13.9
Face Value	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	70.4	70.4	70.4	70.4	70.4
FII	9.9	9.6	9.3	8.9	8.8
DII	13.1	13.1	13.2	13.5	14.0
Others	6.5	6.9	7.1	7.2	6.9

Price Chart



Recent Event & Key risks

- Total 32 new SKUs launched in Q3FY23
- **Key Risk:** (i) Delay in launch of new products (ii) Input cost inflation can subdue margins

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,106.9	2,073.0	2,186.9	2,722.5	9.3%	3,048.7	3,415.6	12.0%
EBITDA	292.0	263.5	327.3	425.9	15.0%	446.4	536.7	12.3%
PAT	192.4	184.5	242.9	305.4	15.0%	323.2	388.5	12.8%
EPS (₹)	13.9	13.3	17.5	22.0		23.3	28.0	
P/E (x)	65.0	67.8	51.5	41.0		38.7	32.2	
EV/Sales (x)	5.9	6.0	5.7	4.5		4.0	3.5	
EV/EBITDA (x)	42.8	47.3	37.9	28.5		27.2	22.5	
RoCE (%)	21.8	17.1	18.6	21.6		20.1	21.7	
RoE (%)	16.5	14.1	16.1	17.7		16.7	17.7	

Source: Company, ICICI Direct Research

Key points and conference call takeaways

- TTK Prestige reported flattish revenue performance in Q2FY23. On a high base, revenue remained flattish YoY at ₹ 808 crore (I-direct estimate: ₹ 847 crore). On a three year CAGR basis, revenue growth was steady with 12%. Among categories, on a three year CAGR basis, cooker grew at the fastest rate by 13% (5% YoY), followed by cookware, which grew 12% (-6% YoY) and appliances segment by 11% (-1% YoY). During the quarter all distribution channels were active. Domestic sales were flat YoY at ₹ 791 crore while exports grew 27% YoY to ₹ 17 crore
- The management indicated that inflation pressure was felt the most on entry-level priced categories and lower on mid to premium ranged products. The company introduced 16 new SKUs across categories during Q2FY23 (H1FY23: 41 SKUs)
- On account of judicious price hikes undertaken, gross margins remained stable at 39.7% YoY (I-direct estimate: 42%). However, on account of higher than anticipated other expenses (up 9% YoY), EBITDA margins moderated by 200 bps YoY to 14.8% (up 90 bps QoQ) vs. I-direct estimate: 16.0%. Absolute EBITDA de-grew 12% YoY to ₹ 119 crore (I-direct estimate: ₹ 136 crore, three-year CAGR: 11%)
- The management indicated that commodity prices softened. However, the positive impact of the same would be visible from Q4FY23 as the company currently has high cost inventory, which can last till December 2022. The company expects to maintain EBITDA margins in the range of 14-16% through improvement in efficiencies
- We expect the growth trajectory to improve in H2FY23 on account of favourable base. Driven by new product launches and consistent efforts to enhance market penetration, we expect TTK to deliver 12% revenue CAGR in FY22-24E. We expect cookware and appliances segment to grow at a faster pace (16%, 14% CAGR, respectively)

Q2FY23 conference call highlights:

- On the demand front, the management highlighted that inflation had impacted the purchasing power of the lower middle class. Hence, entry level products were not performing well while the value added and premium segments were growing faster
- The gross margins of the company contracted during Q2FY23 owing to the company carrying high cost inventory of earlier quarters. The management indicated that it still has high cost inventory, which would last till December 2022. Though commodity prices softened, to some extent, the impact of the lower commodity prices will only be felt in Q4FY23
- The management indicated that there was raw material inflation to the tune of 18-20% over pre-Covid level and the company has taken matching price hikes to protect its margins. The company is not planning to take any price hike in the near future
- On the competition front, the management said there was predatory discounting in online channels by smaller players and the company has adopted a balanced approach related to discounting of its products. The company is not interested in entering a price war and is planning to focus on higher revenues by selling innovative products
- The company had recently acquired a stake in Ultra Fresh, which is mainly into manufacturing and selling modular kitchens business. Ultrafresh added 50 studios in H1FY23 (including 25 in Q2FY23) totalling 118 active studios as of September 30, 2022. Ultra Fresh achieved sales of ₹ 11 crore in H1FY23. The management indicated that it has aggressive scale up plans for Ultra fresh over the next two to three years and is looking to scale up revenues to ₹ 300-400 crore over the next two to three years. The average ticket size for Ultra Fresh is currently between ₹150000 and ₹ 200000. Ultra Fresh has a presence in east and north India. The company is planning to

scale up presence in South and western India. The management indicated that the Prestige Smart Kitchen stores and Ultra fresh studios could be utilised for cross selling the products

- On the capex front, the management highlighted that it is planning a capital expenditure of ₹ 50-75 crore in FY23. The company has spent ₹ 30 crore in H1FY23. The rest of the amount is expected to be spent in H2FY23. The capex would be deployed for expansion of retail store, expansion of manufacturing capacity of pressure cookers and cookware and automation of certain processes across the organisation
- TTK's international subsidiary Horwood achieved sales of £3.7 million during Q2FY23 (PY £5.0 million) and £6.9 million in the first half of FY23 (previous year £9.3 million). The management highlighted that recession and steep inflation due to the ongoing geopolitical crisis in UK and Europe coupled with UK's own political issues impacted the customer sentiments and, thus, impacted the sales of Horwood during Q2 and first half of FY23. Operating EBITDA for Q2FY23 was at £0.03 million (PY £0.71 million) and for first half year at £(0.3) million (previous year £1.0 million). The drop in EBITDA was caused by increase in key commodity prices, global supply chain issues and reduced operating leverage due to lower sales. TTK is planning to expand the customer base of Horwood and looking to enter into newer geographies like US and find new avenues of growth to shore up revenues
- The company expects to maintain the share of online channel in the range of 15-20%
- Prestige Xclusive chain strength was at 665 stores in 376 towns contributing significantly to total sales
- The company has slated for launch around 32 new SKUs during Q3FY23. Also, the company is planning to launch premium hobs, chimneys, etc. TTK intends to pursue an aggressive retail strategy and is expected to open large company owned stores in certain cities

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	807.9	846.6	808.6	-0.1	599.7	34.7	Domestic revenue was flat YoY, while exports grew 27% YoY
Other Income	7.9	7.0	8.0	-0.9	6.7	19.2	
Employee Expenses	52.6	55.0	49.0	7.3	50.1	4.9	
Raw Material Expenses	486.8	508.0	486.3	0.1	347.9	39.9	Gross margins remained flattish YoY owing to company taking judicious prices hiks to counter the cost inflation
Other Expenses	149.4	148.2	137.5	8.6	118.8	25.8	
EBITDA	119.2	135.5	135.8	-12.2	83.0	43.7	
EBITDA Margin (%)	14.8	16.0	16.8	-204 bps	13.8	92 bps	On a three year CAGR basis, EBITDA grew by 11%
Depreciation	11.4	11.2	10.3	11.1	10.8	5.3	
Interest	0.7	1.2	0.8	-20.2	1.1	-39.6	
Extraordinary (expense)/Income	0.0	0.0	0.0	NA	0.0	NA	
PBT	115.0	130.1	132.7	-13.3	77.7	48.1	
Tax Outgo	29.3	33.2	34.0	-13.8	20.0	46.4	
PAT	85.7	96.9	98.6	-13.1	57.6	48.7	
Key Metrics							
Segment Revenue (₹)							
Cookers	249.5	251.8	237.5	5.0	194.0	28.6	
Cookware	130.7	148.1	138.4	(5.6)	105.6	23.7	
Appliances	399.6	417.1	404.9	(1.3)	272.0	46.9	

Source: Company, ICICI Direct Research

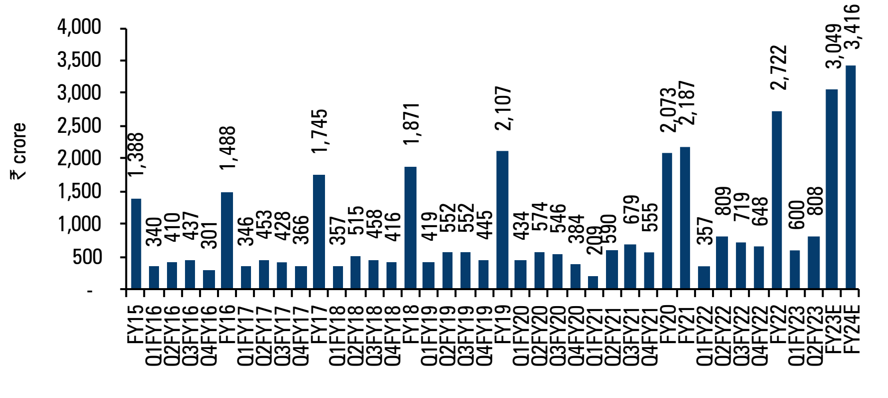
Exhibit 2: Change in estimates

	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,722.5	3,067.7	3,048.7	-0.6	3,428.4	3,415.6	-0.4
EBITDA	425.9	461.6	446.4	-3.3	538.8	536.7	-0.4
EBITDA Margin (%)	15.6	15.0	14.6	-40 bps	15.7	15.7	0 bps
PAT	305.4	334.7	323.2	-3.4	390.2	388.5	-0.4
EPS (₹)	22.0	24.1	23.3	-3.3	28.1	28.0	-0.3

Source: Company, ICICI Direct Research

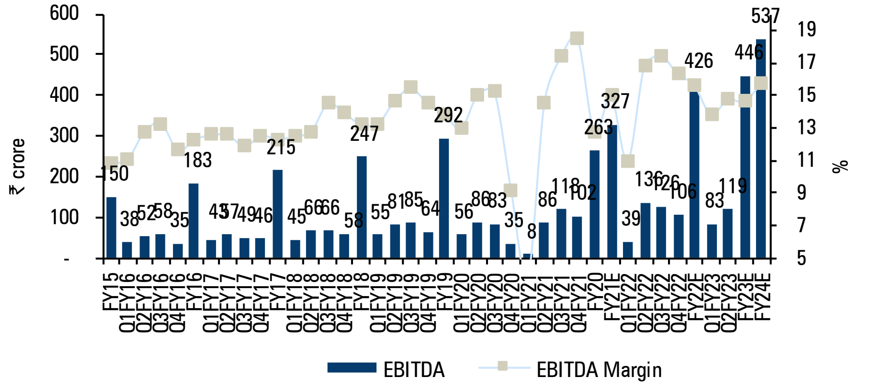
Financial story in charts….

Exhibit 3: Revenue trend



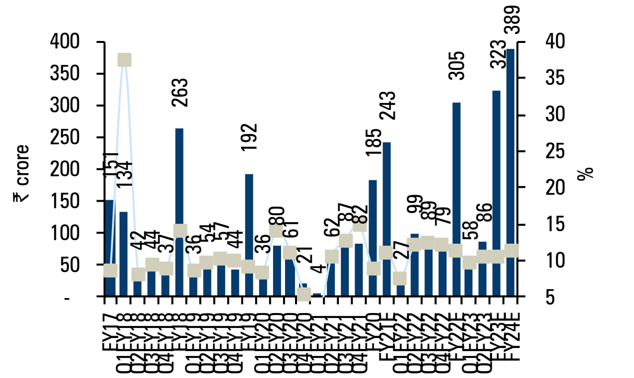
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



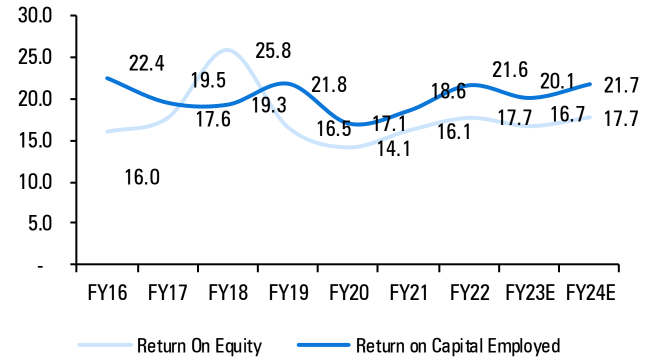
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	2,073.0	(1.6)	13.3	-4.1	67.8	47.3	14.1	17.1
FY21	2,186.9	5.5	17.5	31.6	51.5	37.9	16.1	18.6
FY22	2,722.5	24.5	22.0	25.7	41.0	28.5	17.7	21.6
FY23E	3,048.7	12.0	23.3	5.8	38.7	27.2	16.7	20.1
FY24E	3,415.6	12.0	28.0	20.2	32.2	22.5	17.7	21.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement (₹ crore)

(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	**2,186.9**	**2,722.5**	**3,048.7**	**3,415.6**
Growth (%)	5.5	24.5	12.0	12.0
Raw Material Expenses	1,268.9	1,594.9	1,818.7	1,987.4
Employee Expenses	191.2	218.7	237.8	276.7
Manufacturing & other exp	399.6	483.0	545.7	614.8
Total Operating Expenditure	1,859.7	2,296.6	2,602.2	2,878.8
EBITDA	**327.3**	**425.9**	**446.4**	**536.7**
Growth (%)	24.2	30.1	4.8	20.2
Depreciation	40.0	44.2	48.8	52.3
Interest	5.1	6.2	5.2	6.0
Other Income	28.7	35.1	39.6	41.0
Exceptional Income	11.9	0.0	0.0	0.0
PBT	322.9	410.6	432.1	519.4
Growth (%)	37.7	27.2	5.2	20.2
Total Tax	80.0	105.2	108.9	130.9
PAT	**242.9**	**305.4**	**323.2**	**388.5**
Growth (%)	31.6	25.7	5.8	20.2
EPS (₹)	**17.5**	**22.0**	**23.3**	**28.0**

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement (₹ crore)

(Year-end March)	FY21	FY22	FY23E	FY24E
PAT	242.9	305.4	323.2	388.5
Add: Depreciation	40.0	44.2	48.8	52.3
(Inc)/dec in Current Assets	-31.5	-184.8	-163.2	-117.2
Inc/(dec) in CL and Provisions	3.7	140.4	-14.0	-18.1
Others	-	-	-	-
CF from operating activities	**255.1**	**305.2**	**194.8**	**305.5**
(Inc)/dec in Investments	-89.4	64.8	-35.6	-39.1
(Inc)/dec in Fixed Assets	-28.3	-60.4	-65.0	-60.0
(Inc)/dec in CWIP	-12.3	11.4	0.0	0.0
Others	(11.8)	(7.8)	-	-
CF from investing activities	**-141.8**	**8.0**	**-100.6**	**-99.1**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	21.8	-0.6	0.2	0.0
Others	-31.4	-69.2	-113.1	-136.0
CF from financing activities	**-9.7**	**-69.8**	**-112.9**	**-136.0**
Net Cash flow	103.7	243.4	-18.7	70.4
Opening Cash	57.6	161.2	404.6	386.0
Closing Cash	**161.2**	**404.6**	**386.0**	**456.4**

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet (₹ crore)

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	13.9	13.9	13.9	13.9
Reserve and Surplus	1,491.2	1,715.7	1,925.8	2,178.3
Total Shareholders funds	1,505.1	1,729.6	1,939.7	2,192.2
Total Debt	40.4	39.8	40.0	40.0
Deferred Tax Liability	34.9	37.2	37.2	37.2
Other LT Liabilities	43.2	52.5	52.5	52.5
Total Liabilities	**1,623.4**	**1,859.1**	**2,069.4**	**2,321.9**
Assets				
Gross Block (Including Goodwill)	716.1	776.4	841.4	901.4
Less: Accu Depreciation	186.4	230.6	279.4	331.6
Net Block	529.7	545.9	562.1	569.8
Capital WIP	18.0	6.6	6.6	6.6
Total Fixed Assets	547.7	552.5	568.7	576.4
Investments	420.4	355.6	391.2	430.3
Inventory	447.9	585.6	651.5	701.8
Debtors	290.9	329.7	417.6	467.9
Loans and Advances	123.9	127.9	137.2	153.7
Other Current Assets	3.5	7.8	7.9	8.0
Cash	161.2	404.6	386.0	456.4
Total Current Assets	1,027.4	1,455.6	1,600.2	1,787.8
Current Liabilities	405.7	543.8	529.7	511.5
Provisions	9.3	11.6	11.7	11.8
Total Current Liabilities	415.0	555.4	541.4	523.3
Net Current Assets	612.4	900.2	1,058.7	1,264.5
Others Assets	42.9	50.8	50.8	50.8
Application of Funds	**1,623.4**	**1,859.1**	**2,069.4**	**2,321.9**

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios (₹ crore)

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	17.5	22.0	23.3	28.0
Cash EPS	20.4	25.2	26.8	31.8
BV	108.5	124.7	139.8	158.1
DPS	4.0	5.5	8.2	9.8
Cash Per Share	11.6	29.2	27.8	32.9
Operating Ratios				
EBITDA Margin (%)	15.0	15.6	14.6	15.7
PBT Margin (%)	14.8	15.1	14.2	15.2
PAT Margin (%)	11.1	11.2	10.6	11.4
Inventory days	74.8	78.5	78.0	75.0
Debtor days	48.5	44.2	50.0	50.0
Creditor days	64.9	89.1	75.0	65.0
Return Ratios (%)				
RoE	16.1	17.7	16.7	17.7
RoCE	18.6	21.6	20.1	21.7
RoIC	29.8	37.8	33.1	36.0
Valuation Ratios (x)				
P/E	51.5	41.0	38.7	32.2
EV / EBITDA	37.9	28.5	27.2	22.5
EV / Net Sales	5.7	4.5	4.0	3.5
Market Cap / Sales	5.7	4.6	4.1	3.7
Price to Book Value	8.3	7.2	6.4	5.7
Solvency Ratios (x)				
Debt/EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.5	2.6	3.0	3.4
Quick Ratio	1.4	1.6	1.8	2.1

Source: Company, ICICI Direct Research

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