

Focus on combating competition through innovation

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 a 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 (~₹ 800+ crore) and healthy RoIC of 30%+

Q4FY23 Results: TTK's revenue, earnings for Q4FY23 were below our estimates both on revenue and profitability front.

- Revenue declined 13% YoY to ₹ 566 crore (I-direct estimate: ₹ 680 crore)
- Gross margins declined 207 bps YoY at 38.5% (I-direct estimate: 41%). The overall business climate was not conducive for sale of discretionary products and, hence, the company had to spend more on promotional activities to counter the competitive intensity that negatively impacted gross margins. EBITDA margins declined 226 bps YoY to 14.1% vs. I-direct estimate: 14.8%. Absolute EBITDA de-grew 25% YoY to ₹ 80 crore
- PAT de-grew 25% YoY to ₹ 59 crore (I-direct estimate: ₹ 74 crore)

What should investors do? Heightened competitive intensity, particularly at entry price point products, and higher discounting by peers is negatively impacting the revenue growth. The company is countering the same by launching innovative products and rebranding its Judge brand to compete at lower price points. We believe that TTK with its vast bouquet of products and pan India presence would be able to weather the temporary weakness in demand and recover lost market share in entry price point products over the medium to longer term.

- 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 ₹ 835 i.e. 32x FY25E 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 cities to capture long term growth opportunities. It has a healthy pipeline of ~58 SKUs to be launched in Q1FY24, which would aid growth, going forward
- We build in revenue CAGR of 10% over FY23-25E

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

- BUY with a target price of ₹ 1730



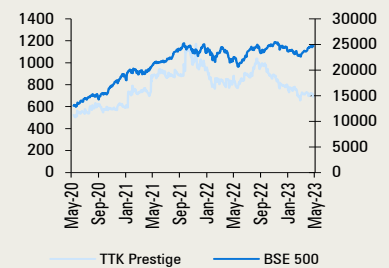
Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	9,570.3
Debt (FY23) (₹ Crore)	40.8
Cash (FY23) (₹ Crore)	595.6
EV (₹ Crore)	9,015.5
52 week H/L	1049 / 652
Equity Capital (₹ Crore)	13.9
Face Value	1.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	70.4	70.4	70.4	70.4	70.4
FII	9.3	8.9	8.8	8.8	8.6
DII	13.2	13.5	14.0	13.6	13.5
Others	7.1	7.2	6.9	7.2	7.5

Price Chart



Recent Event & Key risks

- Total nine new SKUs launched in Q4FY23
- **Key Risk:** (i) Delay in launch of new products (ii) Input cost inflation may subdue margins

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY19-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	2,106.9	2,073.0	2,186.9	2,722.5	2,777.1	7.1%	3,040.0	3,379.1	10.3%
EBITDA	292.0	263.5	327.3	425.9	358.5	5.3%	436.0	507.1	18.9%
PAT	192.4	184.5	242.9	305.4	255.0	7.3%	308.2	361.7	19.1%
EPS (₹)	13.9	13.3	17.5	22.0	18.4		22.2	26.1	
P/E (x)	49.8	51.9	39.4	31.3	37.9		31.0	26.5	
EV/Sales (x)	4.5	4.6	4.3	3.4	3.2		3.0	2.6	
EV/EBITDA (x)	32.7	36.2	28.9	21.6	25.1		20.6	17.5	
RoCE (%)	21.8	17.1	18.6	21.6	15.5		17.8	18.9	
RoE (%)	16.5	14.1	16.1	17.7	13.2		14.7	15.5	

Key points and conference call takeaways

- Revenue declined 13% YoY to ₹ 566 crore (I-direct estimate: ₹ 680 crore). On a three-year CAGR basis, revenue growth was at 14%. Among categories, on a three-year CAGR basis, cookware grew at the fastest rate by 15.3% (-13% YoY), followed by cooker, which grew 14.7% (-20% YoY) and appliances segment by 12% (-8% YoY). During the quarter, all channels were active but there was severe discounting for lower end products by certain channels and online players
- Domestic sales were down 11% YoY at ₹ 551 crore while exports de-grew 50% YoY to ₹ 14.7 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 nine new SKUs across categories during Q4FY23 (FY23: 77 SKUs)
- The company has not taken any price hikes during the quarter. Gross margins declined 207 bps YoY (down 184 bps QoQ) at 38.5% (I-direct estimate: 41%). The overall business climate was not conducive for sale of discretionary products. Hence, the company had to spend more on promotional activities to counter the competitive intensity, which negatively impacted gross margins. EBITDA margins declined 226 bps YoY to 14.1% (up 218 bps QoQ) vs. I-direct estimate: 14.8%. Absolute EBITDA de-grew 25% YoY to ₹ 80 crore (I-direct estimate: ₹ 101 crore). The management indicated commodity prices had softened but started moving up towards the end of the quarter and are still hovering well above pre-pandemic levels
- The company expects to maintain EBITDA margins in the range of 14-16% through improvement in efficiencies

We expect revenues to be aided in Q1FY24 driven by planned launch of 58 new product SKUs. Driven by new product launches, consistent efforts to enhance market penetration, we expect TTK to deliver 10% revenue CAGR in FY23-25E.

Q4FY23 conference call highlights:

- On the demand front, the management highlighted that inflation had impacted the purchasing power of the lower middle class and demand was subdued during the quarter. Overall demand was subdued owing to shifting of consumer wallet share from kitchen appliances to travel, leisure, etc. The company expects demand to improve from H2FY24
- The company has identified products in which it has low market share with high growth potential and plans to increase its presence in the same. Also, the it is planning to expand into geographies in which it has low market share
- The management indicated there are ~140000 kitchen appliances outlets in India and TTK has a brand presence in 65000-70000 outlets
- The company's gross margins were lower during the quarter owing to high competitive intensity and higher discounting by peers, which led it to spend more on marketing and providing schemes to the trade. Further, there was a negative impact of 115 bps during the quarter as the company has written off slow moving/obsolete inventory
- The company has not taken any price hike in FY23 till date and is not planning to take any price hike in the near future barring unforeseen circumstances

- On the competition front, the management indicated predatory discounting continued by online channels and smaller players and the company has decided to combat the excessive discounting by peers by launching new innovative products. Also, the company has decided to rebrand Judge' brand to Judge by Prestige to focus on entry level products and compete with regional and other smaller brands. The company is looking to enhance the presence of Judge by Prestige brand across domestic markets
- The company had recently acquired a stake in Ultra Fresh, which is mainly into manufacturing and selling modular kitchens business. During the quarter, the company further invested ₹ 10 crore in the company. It has become a subsidiary of TTK prestige. Ultrafresh achieved sales of ₹ 5.5 crore in Q4FY23 and ₹ 23 crore in FY23. Ultrafresh added 60 studios in FY23 (including eight in Q4FY23) totalling 142 active studios as of March 31, 2023. 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 its presence in south and western India
- TTK's international subsidiary Horwood achieved sales of £3.9 million during Q4FY23 (previous year £4.9 million) and £15.3 million in FY23 (previous year £18.8 million). Operating EBITDA for Q4FY23 was at £0.2 million (previous year £0.7 million) and for FY23 at £0.2 million (previous year £2.2 million). The management highlighted that Horwood since its acquisition by TTK Prestige has not seen a stable 12 month period owing to various political and other issues. Hence, the performance has been below par
- The online share remained flattish in Q4FY23. The company expects to maintain the share of online channel in the range of 14-18%
- Prestige Xclusive chain strength was at 681 stores in 368 towns contributing significantly to total sales
- The company has slated for launch around 58 new SKUs during Q1FY24. Also, TTK 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 when the demand situation normalises
- On the progress of its cleaning solution foray , the management indicated that it has tempered its expectations from the segment and would identify only core categories within the segment, which have substantial growth opportunity

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	566.0	680.4	647.6	-12.6	652.1	-13.2	Revenue growth impacted due to company not resorting to excessive discounts as done by its peers
Other Income	15.3	12.4	13.3	14.7	13.0	17.3	
Employee Expenses	51.5	51.7	48.6	5.8	50.9	1.2	
Raw Material Expenses	347.9	401.4	384.6	-9.5	388.9	-10.5	Gross margins declined 207 bps YoY (down 184 bps QoQ) at 38.5%
Other Expenses	86.9	126.5	108.5	-19.9	134.8	-35.5	
EBITDA	79.7	100.7	105.8	-24.7	77.6	2.7	
EBITDA Margin (%)	14.1	14.8	16.3	-226 bps	11.9	218 bps	
Depreciation	13.7	12.1	10.9	25.5	11.8	16.9	
Interest	1.5	1.8	0.8	87.8	1.7	-8.9	
Extraordinary (expense)/Income	0.0	0.0	0.0	NA	0.0	NA	
PBT	79.7	99.2	107.4	-25.8	77.2	3.3	
Tax Outgo	20.3	25.3	28.2	-28.0	19.7	3.3	
PAT	59.4	73.9	79.1	-25.0	57.5	3.3	

Key Metrics

Segment Revenue (₹)							
Cookers	175.3	231.9	218.8	(19.9)	202.8	-13.6	
Cookware	82.8	99.1	95.3	(13.1)	98.1	-15.6	
Appliances	282.4	321.7	306.3	(7.8)	324.7	-13.0	

Source: Company, ICICI Direct Research

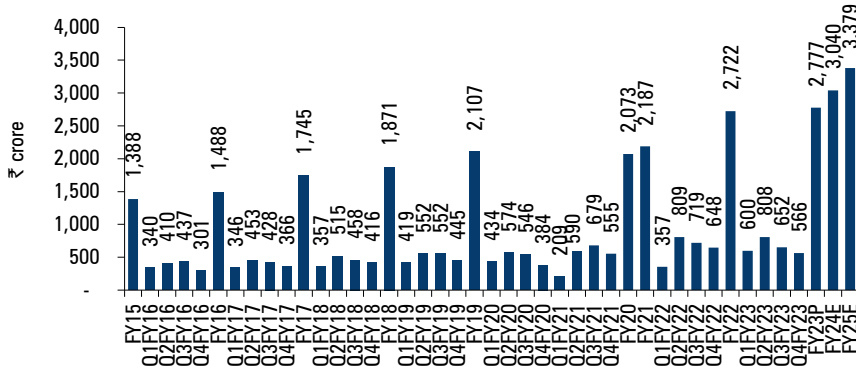
Exhibit 2: Change in estimates

(₹ Crore)	FY23P		FY24E		FY25E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,777.1	3,198.2	3,040.0	-4.9	3,576.9	3,379.1	-5.5
EBITDA	358.5	459.7	436.0	-5.2	538.0	507.1	-5.7
EBITDA Margin (%)	12.9	14.4	14.3	-3 bps	15.0	15.0	-3 bps
PAT	252.7	329.0	308.2	-6.3	388.2	361.7	-6.8
EPS (₹)	18.2	23.7	22.2	-6.2	28.0	26.1	-6.9

Source: Company, ICICI Direct Research

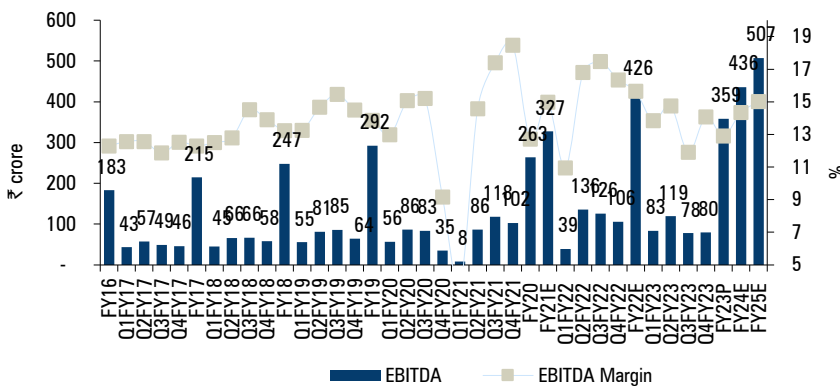
Financial story in charts....

Exhibit 3: Revenue trend



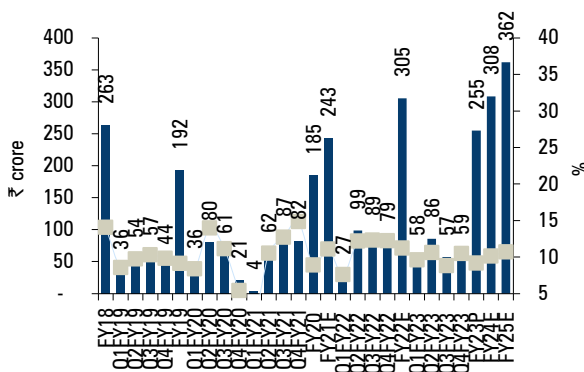
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



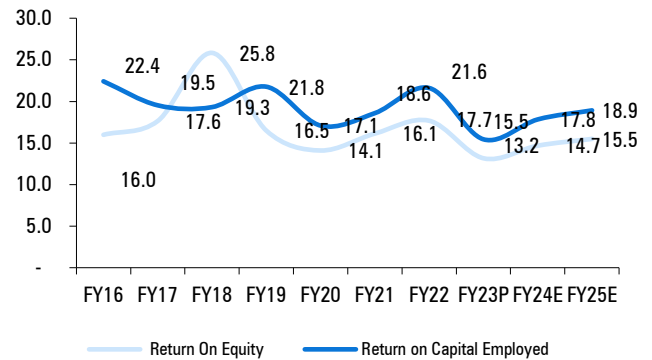
Source: Company, ICICI Direct Research

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)	(%)	(%)
FY21	2,186.9	5.5	17.5	-4.1	39.4	28.9	16.1	18.6
FY22	2,722.5	24.5	22.0	25.7	31.3	21.6	17.7	21.6
FY23P	2,777.1	2.0	18.4	-16.5	37.9	25.1	13.2	15.5
FY24E	3,040.0	9.5	22.2	20.9	31.0	20.6	14.7	17.8
FY25E	3,379.1	11.2	26.1	17.4	26.5	17.5	15.5	18.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Total operating Income	2,722.5	2,777.1	3,040.0	3,379.1
Growth (%)	24.5	2.0	9.5	11.2
Raw Material Expenses	1,594.9	1,660.7	1,771.0	1,966.3
Employee Expenses	218.7	236.4	237.1	256.8
Manufacturing & other exp	483.0	521.5	595.8	648.8
Total Operating Expenditure	2,296.6	2,418.6	2,604.0	2,871.9
EBITDA	425.9	358.5	436.0	507.1
Growth (%)	30.1	-15.8	21.6	16.3
Depreciation	44.2	53.0	54.4	57.9
Interest	6.2	8.0	6.0	6.2
Other Income	35.1	45.7	36.5	40.5
Exceptional Income/others	0.0	2.2	0.0	0.0
PBT	410.6	340.9	412.1	483.6
Growth (%)	27.2	-16.4	20.1	17.4
Total Tax	105.2	88.2	103.8	121.9
PAT	305.4	252.7	308.2	361.7
Growth (%)	25.7	-16.5	20.9	17.4
EPS (₹)	22.0	18.2	22.2	26.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
PAT	305.4	252.7	308.2	361.7
Add: Depreciation	44.2	53.0	54.4	57.9
(Inc)/dec in Current Assets	-187.0	3.7	-147.9	-131.5
Inc/(dec) in CL and Provisions	144.7	-75.6	46.3	36.9
Others	-	-	-	-
CF from operating activities	307.3	233.8	261.0	325.1
(Inc)/dec in Investments	64.8	106.5	-24.9	-27.4
(Inc)/dec in Fixed Assets	-60.4	-101.7	-60.0	-60.0
(Inc)/dec in CWIP	11.4	-3.2	0.0	0.0
Others	(7.8)	(38.3)	-	-
CF from investing activities	8.0	-36.6	-84.9	-87.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-0.6	0.9	-0.8	0.0
Others	-71.4	-7.2	-145.2	-126.6
CF from financing activities	-71.9	-6.3	-145.9	-126.6
Net Cash flow	243.4	190.9	30.2	111.1
Opening Cash	161.2	404.6	595.6	625.8
Closing Cash	404.6	595.6	625.8	736.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Liabilities				
Equity Capital	13.9	13.9	13.9	13.9
Reserve and Surplus	1,713.6	1,922.4	2,085.5	2,320.6
Total Shareholders funds	1,727.4	1,936.3	2,099.4	2,334.5
Total Debt	39.8	40.8	40.0	40.0
Deferred Tax Liability	37.2	30.3	30.3	30.3
Other LT Liabilities	52.5	96.1	96.1	96.1
Total Liabilities	1,857.0	2,103.4	2,265.7	2,500.9
Assets				
Gross Block (Including Goodwill)	776.4	878.1	938.1	998.1
Less: Accu Depreciation	230.6	283.6	338.0	395.9
Net Block	545.9	594.5	600.1	602.2
Capital WIP	6.6	9.8	9.8	9.8
Total Fixed Assets	552.5	604.4	609.9	612.1
Investments	355.6	249.1	274.0	301.4
Inventory	585.6	593.0	624.7	694.3
Debtors	329.7	333.1	416.4	462.9
Loans and Advances	127.9	104.1	136.8	152.1
Other Current Assets	9.9	19.4	19.5	19.6
Cash	404.6	595.6	625.8	736.9
Total Current Assets	1,457.8	1,645.0	1,823.1	2,065.7
Current Liabilities	548.1	471.5	517.7	554.5
Provisions	11.6	12.5	12.6	12.8
Total Current Liabilities	559.7	484.0	530.3	567.3
Net Current Assets	898.1	1,161.0	1,292.8	1,498.4
Others Assets	50.8	89.0	89.0	89.0
Application of Funds	1,857.0	2,103.4	2,265.7	2,500.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	22.0	18.2	22.2	26.1
Cash EPS	25.2	22.2	26.1	30.3
BV	124.5	139.6	151.4	168.3
DPS	5.5	6.0	7.8	9.1
Cash Per Share	29.2	42.9	45.1	53.1
Operating Ratios				
EBITDA Margin (%)	15.6	12.9	14.3	15.0
PBT Margin (%)	15.1	12.4	13.6	14.3
PAT Margin (%)	11.2	9.2	10.1	10.7
Inventory days	78.5	78.0	75.0	75.0
Debtor days	44.2	50.0	50.0	50.0
Creditor days	89.1	75.0	65.0	65.0
Return Ratios (%)				
RoE	17.7	13.2	14.7	15.5
RoCE	21.6	15.5	17.8	18.9
RoIC	37.9	27.0	30.8	33.6
Valuation Ratios (x)				
P/E	31.3	37.9	31.0	26.5
EV / EBITDA	21.6	25.1	20.6	17.5
EV / Net Sales	3.4	3.2	3.0	2.6
Market Cap / Sales	3.5	3.4	3.1	2.8
Price to Book Value	5.5	4.9	4.6	4.1
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	2.6	3.4	3.4	3.6
Quick Ratio	1.6	2.2	2.3	2.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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