12 August 2021

1QFY22 Results Update | Sector: Consumer

Page Industries

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USDb)	362 / 4.9
52-Week Range (INR)	33980 / 17700
1, 6, 12 Rel. Per (%)	-7/-1/28
12M Avg Val (INR M)	1242

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	28.3	32.8	38.1
Sales Gr. (%)	-3.8	15.7	16.2
EBITDA	5.3	6.8	8.4
EBITDA Margin (%)	18.6	20.6	22.0
Adj. PAT	3.4	4.4	5.5
Adj. EPS (INR)	305.3	396.7	497.6
EPS Gr. (%)	-0.8	29.9	25.4
BV/Sh.INR	793.3	865.2	930.6
Ratios			
RoE (%)	38.5	45.8	53.5
RoCE (%)	36.1	44.2	50.6
Payout (%)	81.9	81.9	86.9
Valuations			
P/E (x)	106.3	81.8	65.2
P/BV (x)	40.9	37.5	34.9
EV/EBITDA (x)	68.2	53.4	43.2
Div. Yield (%)	0.8	1.0	1.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	47.9	48.3	48.3
DII	18.6	16.2	14.1
FII	23.6	25.9	25.5
Others	9.8	9.6	12.1

FII Includes depository receipts

CMP: INR32,454 TP: INR30,100 (-7%) Neutral

In-line results; recovery likely to be gradual

- Page Industries (PAG)'s results were broadly in line with expectations on the sales front. Although sales were up sharply YoY, they were still 40% below 1QFY20 numbers. June and July saw gradual recovery to normalcy, unlike other discretionary peers in which pent-up demand has led to faster recovery.
- The management remains confident of healthy topline growth once the impact of the lockdown abates and ongoing restrictions on stores / mall openings and timings are lifted.
- PAG's distribution expansion, rural initiatives, and efforts to build on the good start in the Kids' Innerwear business offer the promise of better topline growth vis-à-vis the tepid growth seen over the past three years. However, growth needs to be driven by the core (Men's/Women's Innerwear). Sustained topline growth in the Men's Innerwear segment (~45% of sales), which has been struggling in recent years, holds the key. We maintain our **Neutral** rating.

In-line sales; better-than-expected margins

- **PAG posted 76.1% YoY sales growth in 1QFY22 to INR5b** (in-line). EBITDA stood at INR342m (est. INR291m), against loss of INR347m in 1QFY21. PBT stood at INR145m (est. INR104m), against loss of INR524m in 1QFY21. Adj. PAT stood at INR109m (est. INR77m), against loss of INR396m in 1QFY21.
- Overall volumes grew 70% YoY in 1QFY22 on a soft base.
- The gross margin expanded 960bp YoY / 10bp QoQ to 57.7%.
- As a percentage of sales, lower employee expenses (down 1270bp YoY to 30.4%) were partially offset by higher other expenses (up 330bp YoY to 20.5%). This led **to EBITDA margin expansion of 1900bp YoY, but 1250bp QoQ decline to 6.8%** (est. 6%).
- PAG declared its first interim dividend of INR50 per equity share for FY22.
- Cash and cash equivalents stood at INR3.3b, up 89% YoY.
- Despite half the quarter being under lockdown for most cities and states, PAG successfully added 1,465 multi-brand outlets (MBOs) and 9 exclusive brand outlets (EBOs) during the quarter.
- The following retail stores of channel partners were active as of end-Jun'21: a) 61% of 80,250+ MBOs, b) all 939 EBOs, and c) all 2,380+ large-format stores (LFS).

Highlights from management interaction

- Volumes were 12m units in April, 5m units in May, and 9m units in June. Hence, volumes were not back at April levels. July was also disrupted in some markets, and although volumes were better v/s June levels, they were still not back at pre-COVID levels.
- EBITDA margins in July were ~19%, lower than our expectations.
- Yarn costs increased ~3% in 1QFY22, but are now moderating. Average price hikes were ~4% in 1QFY22.

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Valuation and view

- While sales for 1QFY22 were in line with our expectations, they were 40% lower v/s 1QFY20 levels. Slower-than-expected recovery and lower-than-estimated margins in July have led to a 5.4% reduction in our FY22 EPS forecasts, even as our FY23 EPS has been cut by just 1.9%.
- The recent distribution expansion, rural growth initiatives, and balance sheet improvements are impressive. RoCEs are in the 35–45% range, despite three years of flat EPS, albeit FY21 was substantially affected by the lockdown.
- The Athleisure segment is poised to do well for the second consecutive year, with consumers likely to stay at home for a decent part of FY22. Women's Innerwear sales have also apparently gained some traction. Kids' Innerwear has gotten off to a good start. However, momentum needs to pick up in Men's Innerwear and the Women's Innerwear business needs to sustain, especially as factors favoring rapid growth in the Athleisure segment would not be present beyond FY22. Valuations at 65.2x FY23E EPS are expensive. We maintain our **Neutral** rating, with TP of INR30,100/share (55x Sep'23E EPS).

Quarterly Performance (INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**2,848**	**7,403**	**9,271**	**8,808**	**5,015**	**8,514**	**10,383**	**8,867**	**28,330**	**32,779**	**4,842**	3.6%
YoY change (%)	-65.9	-4.5	16.8	62.7	76.1	15.0	12.0	0.7	-3.8	15.7	70.0	
Gross Profit	**1,370**	**4,106**	**5,139**	**5,075**	**2,895**	**4,938**	**6,022**	**5,140**	**15,690**	**18,995**	**2,760**	
Gross margin (%)	48.1	55.5	55.4	57.6	57.7	58.0	58.0	58.0	55.4	58.0	57.0	
Other Expenditure	1,717	2,452	2,878	3,377	2,553	3,107	3,582	3,001	10,424	12,244	2,469	
% to sales	60.3	33.1	31.0	38.3	50.9	36.5	34.5	33.8	36.8	37.4	51.0	
EBITDA	**-347**	**1,654**	**2,261**	**1,698**	**342**	**1,830**	**2,440**	**2,139**	**5,266**	**6,752**	**291**	17.7%
Margins (%)	-12.2	22.3	24.4	19.3	6.8	21.5	23.5	24.1	18.6	20.6	6.0	
YoY change	P/L	10.9	62.9	192.1	L/P	10.7	7.9	26.0	-1.1	28.2	L/P	
Depreciation	160	157	156	156	159	172	181	194	629	706	180	
Interest	77	75	74	72	73	75	77	79	297	305	67	
Other Income	61	37	42	56	36	41	46	52	195	174	61	
PBT	**-524**	**1,459**	**2,073**	**1,526**	**145**	**1,625**	**2,227**	**1,918**	**4,534**	**5,915**	**104**	39.8%
Tax	-128	350	536	371	36	409	561	484	1,128	1,491	27	
Rate (%)	24.5	24.0	25.8	24.3	24.6	25.2	25.2	25.2	24.9	25.2	25.6	
PAT	**-396**	**1,109**	**1,537**	**1,156**	**109**	**1,215**	**1,666**	**1,434**	**3,406**	**4,425**	**77**	41.7%
YoY change (%)	P/L	-3.2	76.6	272.5	L/P	9.6	8.4	24.1	-0.8	29.9	L/P	

E: MOFSL Estimates

Key Performance Indicators

Y/E MARCH	FY21				FY22
	1Q	2Q	3Q	4Q	1Q
Volume growth (%)	-69.0	-13.6	10.0	54.0	70.0
Realization growth (%)	3.1	9.1	6.8	8.7	6.1
2Y CAGR (%)					
Volume (2Y average)	-35.7	-2.2	3.6	17.6	0.5
Sales	-40.9	3.5	12.1	20.4	-22.5
EBITDA	N/M	7.6	17.0	19.1	-57.2
PAT	N/M	9.4	22.8	24.1	-68.5
% of Sales					
COGS	51.9	44.5	44.6	42.4	42.3
Employee Expenses	43.1	17.5	15.8	18.7	0.0
Other Expenses	17.1	15.6	15.3	19.6	0.0
Depreciation	5.6	2.1	1.7	1.8	3.2
YoY change (%)					
COGS	-60.6	-3.3	11.1	67.5	43.4
Employee Expenses	-4.3	-3.3	8.6	22.7	0.0
Other Expenses	-66.2	-23.7	-4.7	37.2	0.0
Other Income	10.0	-35.4	19.1	-43.9	-41.2
EBIT	-129.4	11.4	72.0	268.8	-136.1

Highlights from management interaction

Performance and outlook

- Volume growth stood at 70% YoY, with 76% YoY growth in sales. However, sales were down 40% v/s 1QFY20 levels.
- Volumes stood at 12m units in April, 5m units in May, and 9m units in June. Hence, volumes are not back at April levels.
- July was also disrupted in some markets. Although it was better v/s June, it was still not back at pre-COVID levels.
- PAG lost around half its 1QFY22 sales due to the lockdowns.
- Manufacturing and most EBO outlets are now fully operational. 61% of 80,250 MBOs are operational.
- The outlook remains good. Barring a couple of states, most have re-opened.
- Athleisure continues to increase as a proportion of sales. Women's Innerwear is also doing well.

Costs and margins

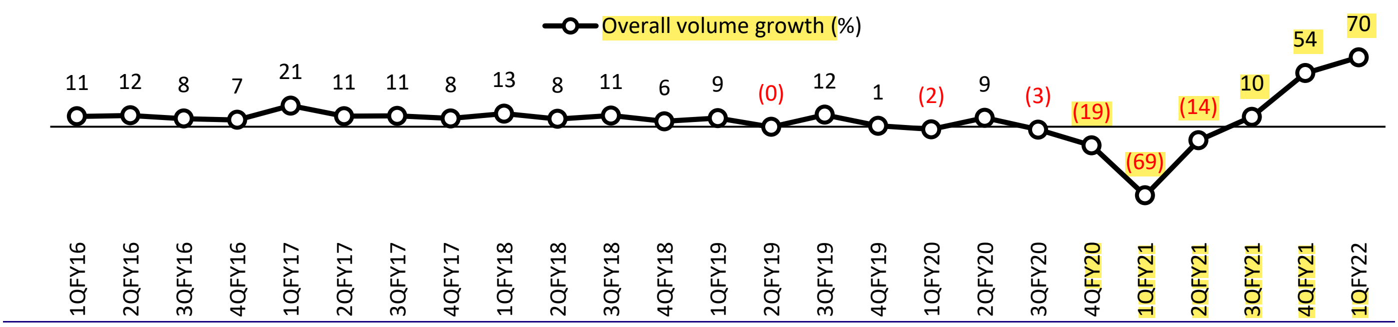
- Yarn costs increased ~3% in 1QFY22, but are now moderating.
- Average price hikes of 4% were taken in 1QFY22.
- July EBITDA margins were ~19%.

New products/channel/outsourcing

- Kids' Innerwear continues to receive a good response.
- Rural, tier 3, and tier 4 opportunities remain high; the company is expanding in these regions.
- 50% of stores adds are seen in tier 2/3 cities and lower towns. The main states where PAG has expanded in smaller centers are Maharashtra, UP, West Bengal, and Rajasthan.
- Outsourcing is now around one-third of sales.
- FY21 e-commerce stood at 7.4% of sales, but contribution was inflated due to overall sales being impacted by COVID. The share of e-commerce is expected to steadily increase, adjusted for a more normalized proportion to sales.

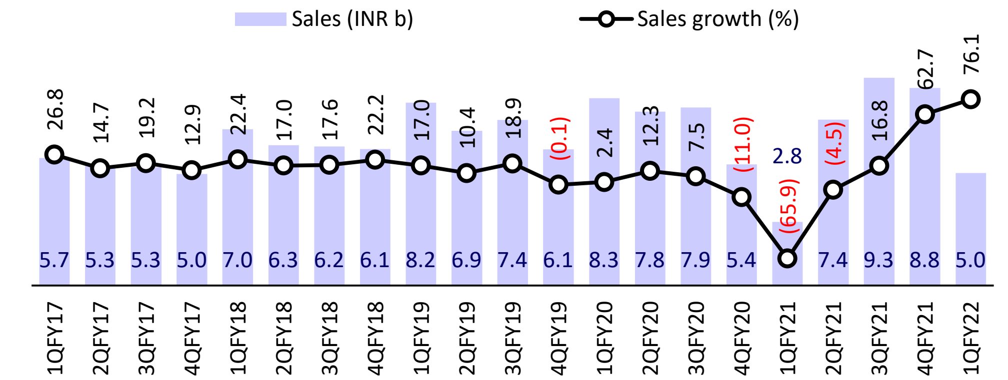
Key exhibits

Exhibit 1: Overall volumes up 70% YoY in 1QFY22



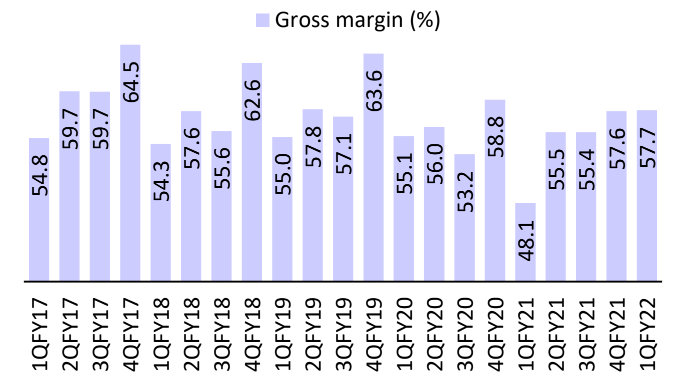
Source: Company, MOFSL

Exhibit 2: Sales up 76.1% YoY to INR5b



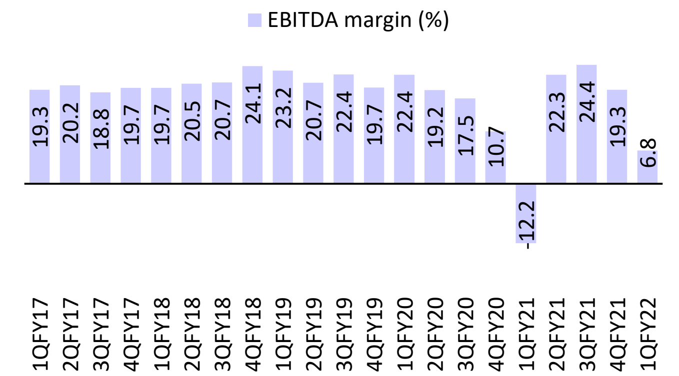
Source: Company, MOFSL

Exhibit 3: Gross margin expands 120bp YoY to 57.6%



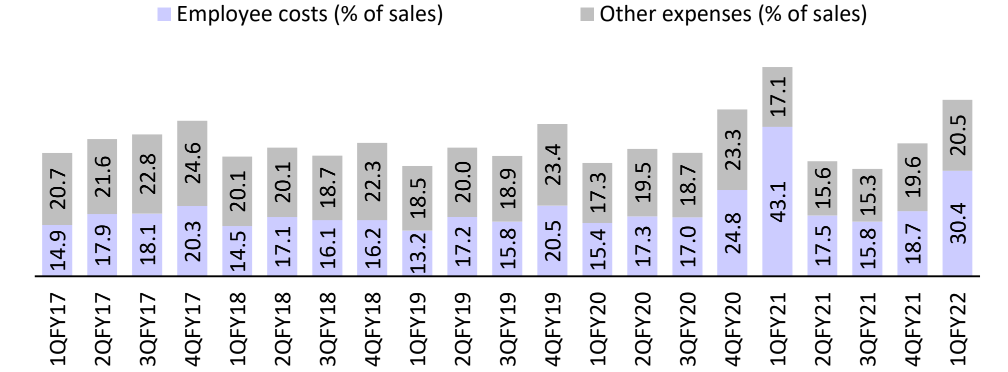
Source: Company, MOFSL

Exhibit 4: EBITDA margin expands 1900bp YoY to 6.8%



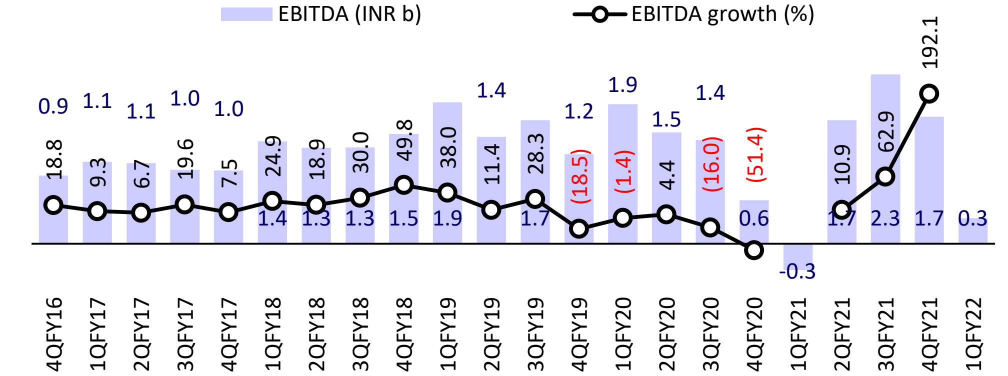
Source: Company, MOFSL

Exhibit 5: With second wave affecting sales in 1QFY22, operating expenses seem magnified



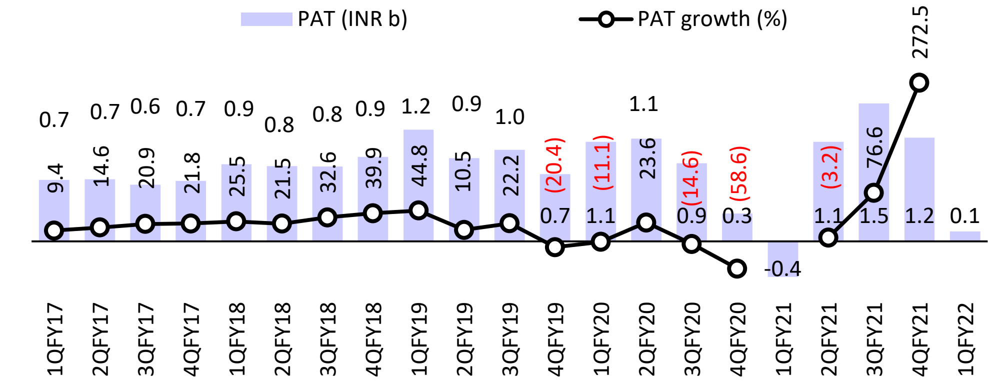
Source: Company, MOFSL

Exhibit 6: EBITDA at INR342m in 1QFY22 v/s loss of INR347m in 1QFY21



Source: Company, MOFSL

Exhibit 7: Adjusted PAT at INR109m in 1QFY22 v/s loss of INR396m in 1QFY21



Source: Company, MOFSL

Valuation and view

What has happened in the last 10 years?

- PAG has had a stupendous track record in topline and earnings growth over the past decade ended FY20.
- Over this period, the sales/EBITDA/PAT CAGR stood at ~24%/~25%/28%. Earnings growth was led by best-of-breed sales growth, with lower utilization of the margin lever. With sales of ~INR29b in FY20, the growth potential for the Innerwear and Athleisure segments in India remains large.
- There has, however, been a relative slowdown in the pace of growth in financial metrics in recent years, with the sales/EBITDA/PAT CAGR at ~14%/~11%/~12% in the five years ended FY20 and ~11%/~9%/~9% in the three years ended FY20. Despite the relative slowdown, these numbers are, nevertheless, impressive.

- Various factors have played an important role in driving impressive growth in financial metrics over the past decade: a) single-minded focus on topline growth, b) the ability to manage a large laborforce, c) design strength, d) the successful rollout of outsourcing, e) effective branding, f) premiumization, with a value-for-money proposition, and g) the rapid expansion of EBO stores, facilitating cross-selling.
- In the past three years ended FY21, growth has been far more modest, with sales/EBITDA/PAT growth at ~4%/-1%/-1%. In addition to the COVID impact, the emergence of competition in Premium Innerwear, overall slowdown in demand, and liquidity concerns in the trade are other key factors affecting performance.

Our view on the stock

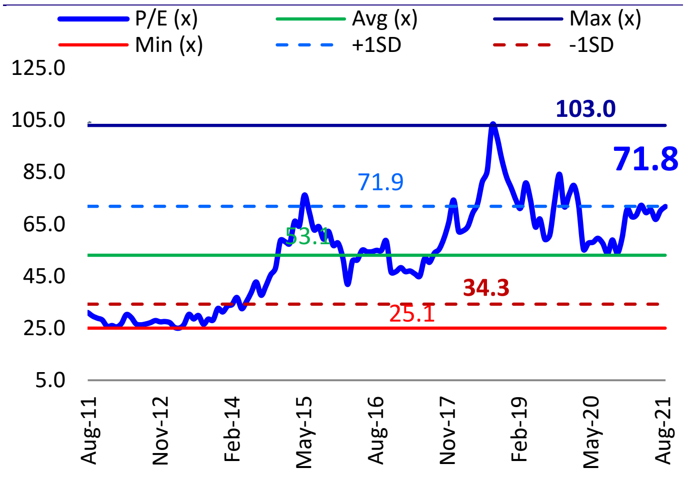
- While sales for 1QFY22 were in line with our expectations, they were 40% lower v/s 1QFY20 levels. Slower-than-expected recovery and lower-than-estimated margins in July have led to a 5.4% reduction in our FY22 EPS forecasts, even as our FY23 EPS has been cut by just 1.9%.
- The recent distribution expansion, rural growth initiatives, and balance sheet improvements are impressive. RoCEs are in the 35–45% range, despite three years of flat EPS, albeit FY21 was substantially affected by the lockdown.
- The Athleisure segment is poised to do well for the second consecutive year, with consumers likely to stay at home for a decent part of FY22. Women's Innerwear sales have also apparently gained some traction. Kids' Innerwear has gotten off to a good start. However, momentum needs to pick up in Men's Innerwear and the Women's Innerwear business needs to sustain, especially as factors favoring rapid growth in the Athleisure segment would not be present beyond FY22. Valuations at 65.2x FY23E EPS are expensive. We maintain our **Neutral** rating, with TP of INR30,100/share (55x Sep'23E EPS).

Exhibit 8: We cut our FY22E/FY23E EPS estimates by -5.4%/-1.9%

	New		Old		(%) Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	32,779	38,095	32,779	38,095	0.0%	0.0%
EBITDA	6,752	8,364	7,017	8,435	-3.8%	-0.8%
PAT	4,425	5,550	4,678	5,660	-5.4%	-1.9%

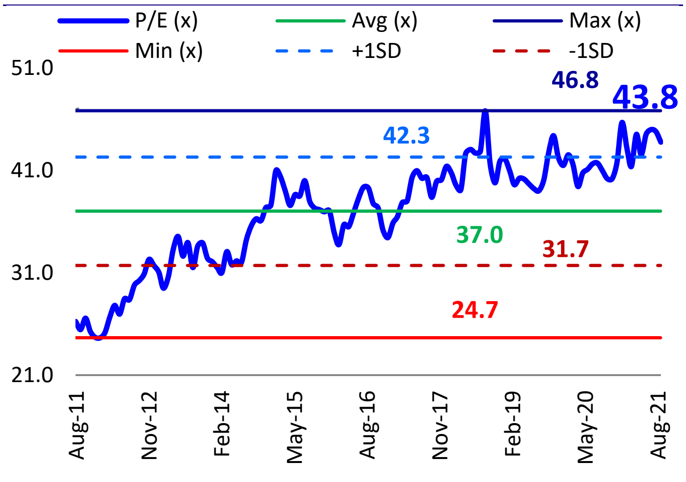
Source: Company, MOFSL

Exhibit 9: PAG's P/E (x)



Source: Company, MOFSL

Exhibit 10: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Net Sales	**21,285**	**25,514**	**28,522**	**29,454**	**28,330**	**32,779**	**38,095**
Change (%)	18.5	19.9	11.8	3.3	-3.8	15.7	16.2
Gross Profit	**12,662**	**14,640**	**16,555**	**16,346**	**15,690**	**18,995**	**22,095**
Margin (%)	59.5	57.4	58.0	55.5	55.4	58.0	58.0
Other operating expenditure	8,530	9,234	10,386	11,020	10,424	12,244	13,731
EBITDA	**4,132**	**5,407**	**6,169**	**5,326**	**5,266**	**6,752**	**8,364**
Change (%)	10.1	30.8	14.1	-13.7	-1.1	28.2	23.9
Margin (%)	19.4	21.2	21.6	18.1	18.6	20.6	22.0
Depreciation	247	280	311	614	629	706	989
Int. and Fin. Ch.	180	166	163	339	297	305	222
Other Inc.- Rec.	243	215	364	246	195	174	267
PBT	**3,948**	**5,175**	**6,060**	**4,620**	**4,534**	**5,915**	**7,419**
Change (%)	15.1	31.1	17.1	-23.8	-1.9	30.5	25.4
Tax	1,285	1,705	2,121	1,188	1,128	1,491	1,870
Tax Rate (%)	32.6	33.0	35.0	25.7	24.9	25.2	25.2
Adjusted PAT	**2,663**	**3,470**	**3,939**	**3,432**	**3,406**	**4,425**	**5,550**
Change (%)	15.0	30.3	13.5	-12.9	-0.8	29.9	25.4
Margin (%)	12.5	13.6	13.8	11.7	12.0	13.5	14.6
Reported PAT	**2,663**	**3,470**	**3,939**	**3,432**	**3,406**	**4,425**	**5,550**

Balance Sheet							(INR m)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Share Capital	112	112	112	112	112	112	112
Reserves	6,546	8,361	7,638	8,087	8,737	9,539	10,268
Net Worth	**6,658**	**8,473**	**7,750**	**8,199**	**8,849**	**9,651**	**10,379**
Loans	877	685	848	1,764	1,270	1,270	1,270
Capital Employed	**7,535**	**9,158**	**8,598**	**9,963**	**10,119**	**10,921**	**11,650**
Gross Block	2,764	3,048	3,982	5,364	5,481	6,181	8,281
Less: Accum. Depn.	403	669	976	1,309	1,618	2,324	3,313
Net Fixed Assets	**2,361**	**2,379**	**3,006**	**4,055**	**3,863**	**3,857**	**4,968**
Capital WIP	241	585	72	287	279	279	279
Investments	521	2,180	0	0	0	0	0
Curr. Assets, L&A	**8,418**	**8,979**	**10,427**	**10,787**	**12,835**	**13,162**	**13,396**
Inventory	6,229	5,679	7,501	7,186	5,549	7,184	7,515
Account Receivables	1,127	1,480	1,238	738	1,371	1,167	1,774
Cash and Bank Balance	206	669	440	1,169	4,350	3,041	2,199
Others	856	1,152	1,247	1,694	1,564	1,769	1,908
Curr. Liab. and Prov.	**3,895**	**4,855**	**4,783**	**5,165**	**6,879**	**6,374**	**6,991**
Account Payables	1,112	1,363	1,220	938	2,175	2,066	1,983
Other Liabilities	169	276	159	273	200	359	417
Provisions	2,613	3,216	3,403	3,953	4,504	3,950	4,590
Net Curr. Assets	**4,523**	**4,123**	**5,644**	**5,622**	**5,956**	**6,787**	**6,405**
Def. Tax Liability	112	110	125	2	-22	2	2
Appl. of Funds	**7,535**	**9,158**	**8,598**	**9,963**	**10,119**	**10,921**	**11,649**

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Basic (INR)							
EPS	**238.7**	**311.1**	**353.2**	**307.7**	**305.3**	**396.7**	**497.6**
Cash EPS	260.9	336.2	381.0	362.7	361.8	459.9	586.2
BV/Share	596.9	759.6	694.8	735.1	793.3	865.2	930.6
DPS	97.0	131.0	344.0	161.0	250.0	324.8	432.3
Payout incldg DDT (%)	51.0	46.8	115.4	79.1	81.9	81.9	86.9
Valuation (x)							
P/E	135.9	104.3	91.9	105.5	106.3	81.8	65.2
Cash P/E	124.4	96.5	85.2	89.5	89.7	70.6	55.4
EV/Sales	17.0	14.1	12.7	12.3	12.7	11.0	9.5
EV/EBITDA	87.6	66.6	58.7	68.1	68.2	53.4	43.2
P/BV	54.4	42.7	46.7	44.2	40.9	37.5	34.9
Dividend Yield (%)	0.3	0.4	1.1	0.5	0.8	1.0	1.3
Return Ratios (%)							
RoE	40.0	41.0	50.8	41.9	38.5	45.8	53.5
RoCE	40.4	42.9	45.6	39.7	36.1	44.2	50.6
RoIC	41.2	55.9	55.2	42.2	49.8	69.1	65.8
Working Capital Ratios							
Asset Turnover (x)	3.1	3.1	3.2	3.2	2.8	3.1	3.4
Debtor Days	18	19	17	12	14	14	14
Creditor Days	18	18	17	13	20	24	19
Inventory Days	100	85	84	91	82	71	70
Leverage Ratio							
Debt/Equity (x)	0.1	0.1	0.1	0.2	0.1	0.1	0.1

Cash Flow Statement							(INR m)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Profit before Tax	3,948	5,175	6,060	4,620	4,534	5,915	7,419
Depreciation	247	280	311	614	629	706	989
Other Non Cash & Non operating activities	2	46	-361	179	304	131	-44
Incr in WC	-64	690	-1,657	1,024	2,751	-2,140	-460
Direct Taxes Paid	-1,397	-1,645	-2,056	-1,270	-1,259	-1,491	-1,870
CF from Operations	**2,736**	**4,546**	**2,297**	**5,167**	**6,959**	**3,121**	**6,035**
Incr in FA	-613	-565	-374	-744	-135	-700	-2,100
Free Cash Flow	**2,122**	**3,981**	**1,923**	**4,423**	**6,824**	**2,421**	**3,935**
Pur of Investments	-500	-1,872	2,216	400	-3,950	0	0
Others	38	338	65	-319	3,967	198	267
CF from Invest.	**-1,076**	**-2,099**	**1,907**	**-663**	**-119**	**-502**	**-1,833**
Issue of Shares	0	0	0	0	0	0	0
Incr in Debt	0	0	275	-470	-321	0	0
Dividend Paid	-1,289	-1,624	-4,545	-2,716	-2,787	-3,623	-4,821
Others	-252	-359	-163	-589	-551	-305	-222
CF from Fin. Activity	**-1,541**	**-1,984**	**-4,433**	**-3,775**	**-3,659**	**-3,927**	**-5,044**
Incr/Decr of Cash	**119**	**463**	**-228**	**729**	**3,181**	**-1,308**	**-842**
Add: Opening Balance	86	206	669	440	1,169	4,350	3,042
Closing Balance	**206**	**669**	**440**	**1,169**	**4,350**	**3,042**	**2,199**

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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