Equity Research
September 28, 2011
BSE Sensex: 16446

INDIA

Page Industries

BUY

Mid-cap

Galloping Jockey

Rs2,515

Reason for report: Initiating coverage

Target price Rs3,320

"Investors are often in too much of a hurry to latch on to growth stocks to stop and listen because they're afraid of being left out. Very often it would be a good thing if they were." -Peter Cundill

Page Industries, the franchisee of Jockey international in India, is a strong play on the rapidly growing innerwear industry with focus on premium branded wear. The company has created robust entry barrier on the back of its early bird advantage leading to strong brand recall, well-channelised distribution and integrated manufacturing facility. Jockey, Page Industries' flagship brand, is one of the strongest brands in India's innerwear industry and is set to benefit from the Indian consumer's shifting preference for branded innerwear driven by rising income levels, urbanisation and penetration of organised retail. The company witnessed a 5x jump in profitability in the past five years and we expect profitability to grow 4x during FY11-FY16. We initiate coverage on Page Industries with a BUY rating and target price of Rs3,320, which implies a P/E of 30x FY13E earnings.

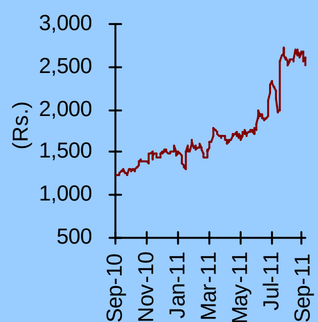
- **Strong innerwear industry growth driven by uptrading.** The domestic innerwear industry is expected to grow at a CAGR of 13% over 2009-20, but more importantly it would witness a shift to premium segment, which is the stronghold of Page Industries (Page).
- **Invested 15 years to create a strong franchise.** Since 1996, Page has invested in building a strong distribution network (20,000 outlets), an integrated manufacturing facility (13,000 employees) and gaining a super brand status, which provides it a significant lead time advantage over potential competitors. Page has the franchisee rights of Jockey International for innerwears till 2030.
- **Strong fundamentals justify high multiples.** Page's business is comparable to the best of consumer plays in terms of high margins, high growth, return on capital and strong brand recall. We expect Page to post a revenue CAGR of 32% and a PAT CAGR of 37% during FY11-FY15, while maintaining the margins. The stock currently trades at P/E of 23x and EV/sales of 3.2x FY13E, which look justified in comparison to peers with similar strong franchises.

Shareholding pattern

(%)	Dec '10	Mar '11	Jun '11
Promoters	60.4	60.4	60.1
Institutional investors	33.4	34.0	34.1
MFs and UTI	20.5	20.5	20.3
Banks/Ins. Co.	-	-	-
FIIs	13.0	13.5	13.8
Others	6.2	5.6	5.8

Source: NSE

Price chart



Market Cap	Rs28.1bn/US$575mn
Reuters/Bloomberg	PAGE.BO/PAG IN
Shares Outstanding (mn)	11.2
52-week Range (Rs)	2,717/1,225
Free Float (%)	39.9
FII (%)	13.8
Daily Volume (US$/'000)	963
Absolute Return 3m (%)	30.6
Absolute Return 12m (%)	102.8
Sensex Return 3m (%)	(12.0)
Sensex Return 12m (%)	(17.6)

Year to March	FY11	FY12E	FY13E	FY14E
Revenue (Rs mn)	5,012	6,824	9,019	11,698
Rec. Net Income (Rs mn)	585	924	1,218	1,576
EPS (Rs)	52.5	82.9	109.2	141.3
% Chg YoY	47.8	57.9	31.7	29.4
P/E (x)	47.9	30.4	23.0	17.8
CEPS (Rs)	61.3	93.2	122.7	158.3
EV/E (x)	29.2	18.7	14.4	11.2
Dividend Yield (%)	1.0	1.3	1.7	2.2
RoCE (%)	31.2	38.4	42.2	44.6
RoE (%)	52.6	61.9	58.5	55.3

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Please refer to important disclosures at the end of this report

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Valuations: BUY – High-growth branded play

We initiate coverage on Page with BUY rating with target price of Rs3,320/share (average of DCF based valuation and 30x FY13 P/E) implying an upside of 32% from the current market price. We expect the company to sustain high P/E multiples in line with strong brand plays, as it exhibits similar brand loyalty, return on capital, EBITDA margin and growth outlook. The company's growth is hinged on demographic dividend, rising income levels and urbanisation, which we believe will lead to a sustained high-growth phase.

Chart 1: Page's offers higher growth

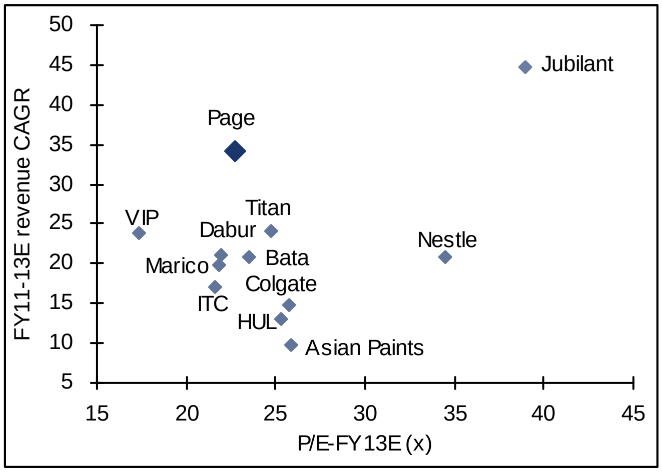
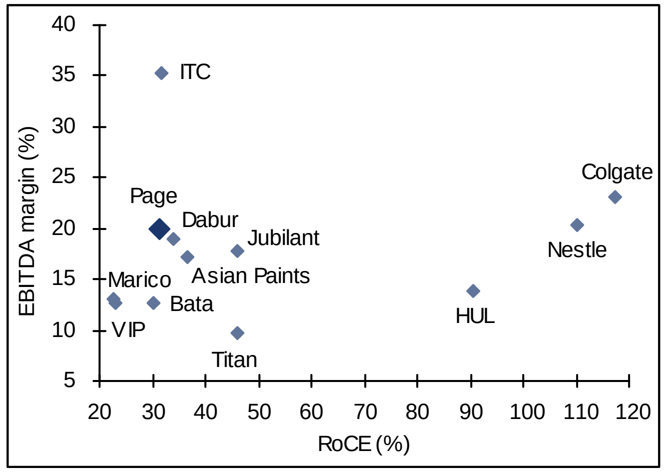


Chart 2: Page's margins and return profile comparable to consumer players



Source: Company data, Bloomberg, I-Sec Research

Page – Earnings to drive stock performance

The revenues and profits of Page have grown five times each over the last five years, implying a CAGR of 37% each. The company witnessed a very strong performance even in FY11, which has been a very difficult year for innerwear industry owing to high prices of cotton (raw material for innerwear). With raw material prices now softening, we expect Page to continue on its high growth trajectory. The company currently trades at FY13E EV/sales of 3.2x and price/earnings of 23x. However, on PEG basis, it trades at 0.6x and we believe it can sustain high P/E multiples on the back of superlative earnings growth.

Table 1: Page trading inline with other consumer players

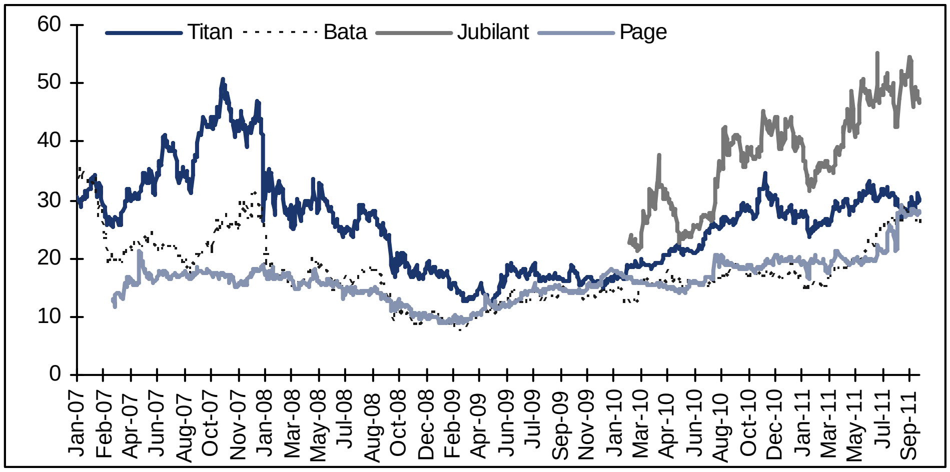
	Price (Rs)	Market Cap (Rs mn)	EV/sales (x)			Price/Earnings (x)		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E
Jubilant	870	56,238	8.3	5.5	3.9	79.3	55.7	39.0
Bata	639	41,058	3.2	2.6	2.2	46.5	30.3	23.5
Titan	207	183,949	2.7	2.1	1.7	42.5	30.8	24.7
VIP	949	26,824	3.7	3.0	2.4	30.2	23.7	17.3
Page	2,515	28,056	5.8	4.3	3.2	47.9	30.4	23.0

Table 2: Page commands a premium over other innerwear players

	Price (Rs)	Market Cap (Rs mn)	EV/sales (x)		Price/Earnings (x)	
			FY10	FY11	FY10	FY11
Page	2,515	28,056	8.5	5.8	70.8	47.9
Lovable	463	7,771	7.7	6.4	32.1	55.0
Maxwell	29	1,798	1.2	1.1	35.2	NM
Rupa Co	152	12,080	2.7	2.2	5.0	3.8

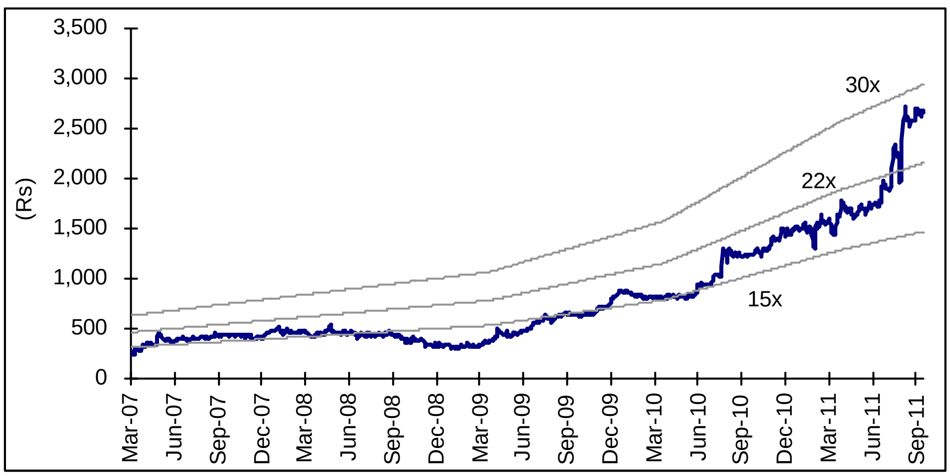
Source: I-Sec Research, Bloomberg as of September 27, '11; For Bata FY11 indicates year ending December '10 (similar for FY12 and FY13)

Chart 3: Page trading at par with strong consumer brand plays



Source: Bloomberg

Chart 4: P/E re-rating driven by strong earnings uptick



Source: Bloomberg

DCF value at Rs3,369/share

Table 3: DCF model

(Rs mn)

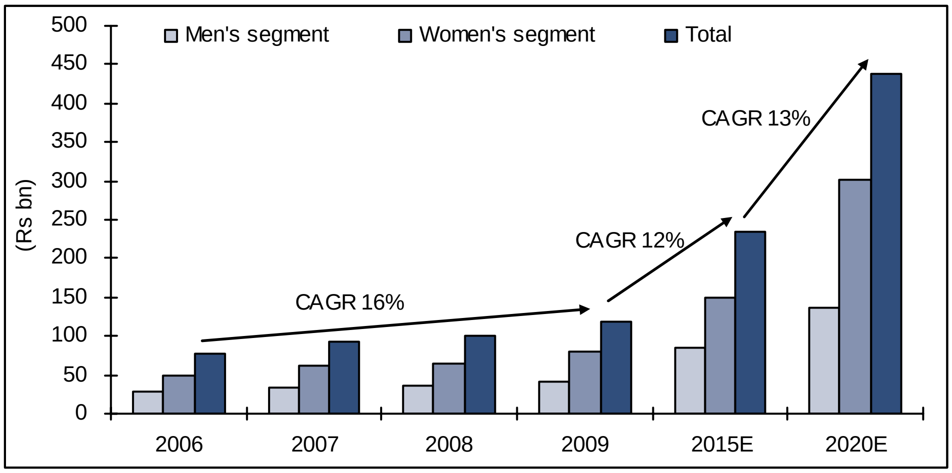
	FY11	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
DCF											
EBIT	902	1,417	1,833	2,345	2,998	3,642	4,417	5,471	6,293	7,236	8,319
NOPAT	634	962	1,233	1,569	1,996	2,421	2,933	3,635	4,184	4,814	5,537
Depreciation & amortisation	98	115	151	190	243	272	324	387	444	508	581
Capex	(271)	(389)	(514)	(551)	(754)	(413)	(752)	(902)	(806)	(912)	(1,041)
Net change in working capital	(680)	226	(55)	(358)	(457)	(424)	(515)	(627)	(535)	(609)	(694)
Free cashflow	**(219)**	**914**	**815**	**850**	**1,027**	**1,855**	**1,991**	**2,494**	**3,287**	**3,800**	**4,382**
Terminal value (PV FY12)		25,186	28,343								
Enterprise value (FY12)		**36,293**	**39,929**			**Assumptions**					
Net debt (FY12)		643	415			WACC (%)	12.5				
Equity value (FY12)		**35,650**	**39,513**			Terminal growth rate (%)	6				
Total shares outstanding (mn)		**11**									
Total value/share (Rs)		**3,369**				Average of FY12E and FY13E					

Source: I-Sec Research

Brand consciousness drives innerwear industry

The innerwear industry in India is witnessing rapid growth led by discerning consumer preference shifting to branded innerwear driven by rising income levels, urbanisation, media spends and increasing penetration of organised retail. The innerwear industry is expected to grow fourfold over 2009-2020 at a CAGR of 13%. However, this growth would be driven by faster growth in medium, premium and super premium categories led by increase in middle class households and rising aspiration levels.

Chart 5: Innerwear industry to quadruple from 2009 to 2020

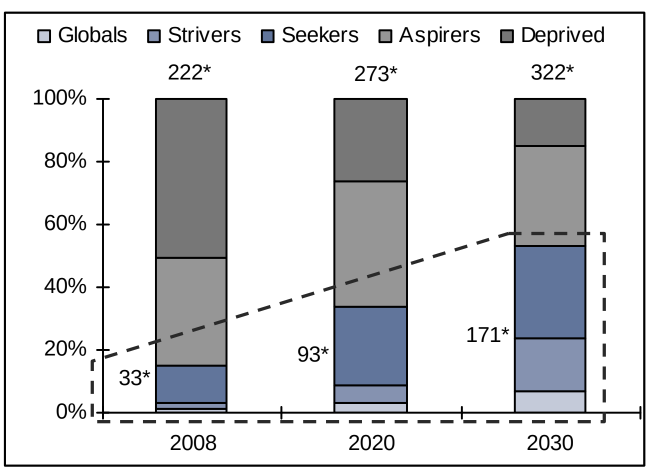


Source: Technopak and Images F&R Research

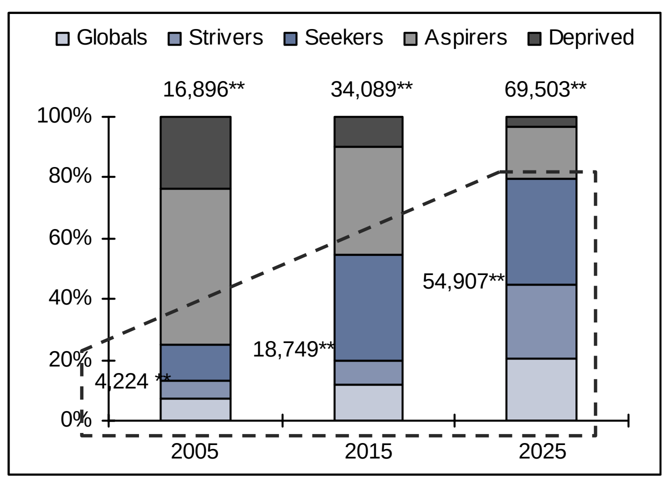
According to Mckinsey, number of households which would have an annual income in excess of Rs0.2mn (at constant prices, base year 2000) would grow to 53% of total households by 2030 from 15% in 2008. Further, these households (with income >0.2mn/per annum) would account for 79% of total domestic consumption in 2025, more than threefold jump from 25% in 2005. We believe, such a migration in income levels over the coming two decades would result in shift of preferences from non-branded products to branded products.

Chart 6: Demand growth driven by growth in middle class households

100mn+ HHs to join middle class by 2030



Middle class consumption to increase 13x by 2025



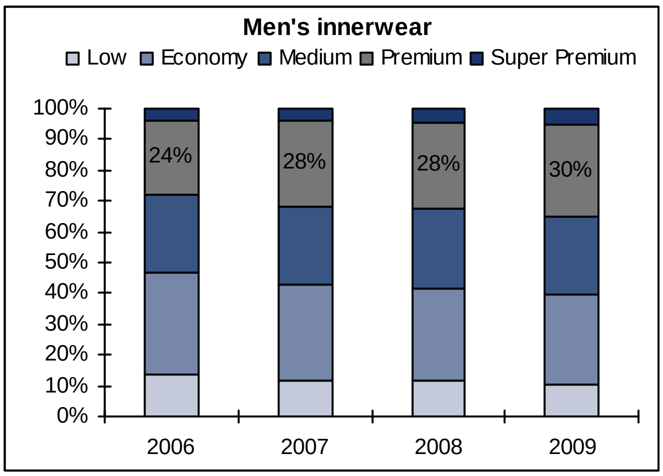
* Numbers represent total households; ** Numbers represents total household consumption

Source: Mckinsey Global Institute analysis

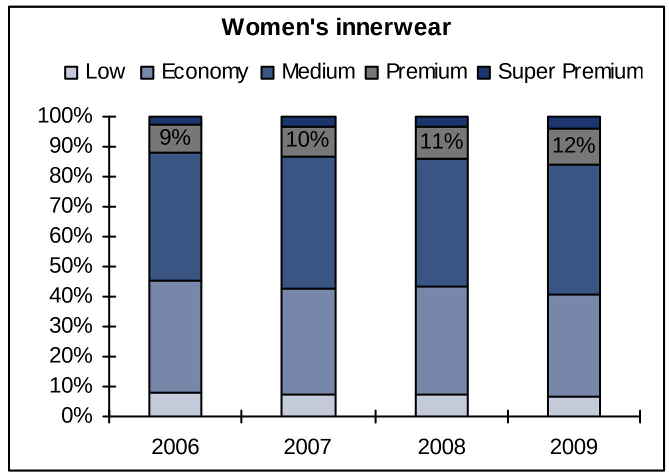
The Indian innerwear industry could be broadly divided into five categories on the basis of prices – low, economy, medium, premium and super premium. During 2006-09, the combined share of medium, premium and super premium category innerwear has increased from 54% to 59%. The premium segment has grown at a CAGR of 22% and 27% in men's and women's innerwear segment respectively. The faster growth in women's premium innerwear segment has been led by increase in the number of working women.

Chart 7: Uptrading to drive future growth

Premium segment's market share in men's innerwear has increased from 24% to 30% in four years



Premium segment's market share in women's innerwear has increased from 9% to 12% in four years



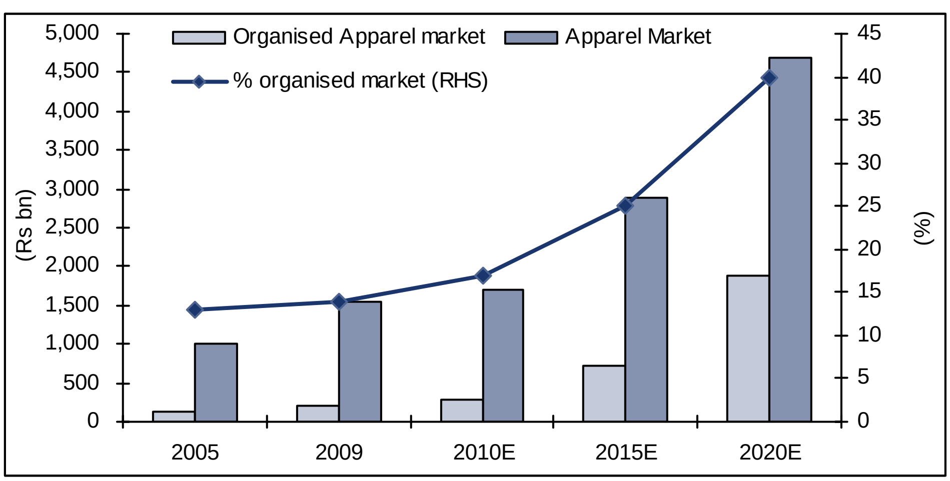
Source: Technopak and Images F&R Research

Branded innerwear would see growth in demand led by increasing urbanisation and higher share of organised retail. According to a study by Technopak, organised apparel market is slated to grow six fold by 2020, at a CAGR of 22% during 2009-20, which would push up demand for branded innerwear.

Organised apparel market to grow at a CAGR of 22% till 2020

40% of apparel market slated to be organised by 2020

Chart 8: Increasing share of organised apparel market



Source: Technopak Research

Page – Focused on high growth segments

Page is best positioned to gain from rising spend in branded innerwear as it is focussed on high-growth segments – medium and premium segments in men's innerwear and premium segment in women's innerwear.

During 2006-09, men's innerwear industry, the segment which accounts for almost two-thirds of Page's revenues, witnessed a growth of 14%, whereas the medium and the premium categories in men's innerwear (Page's focus areas) grew at a CAGR of 18%. However, Page's men's innerwear segment grew at a higher CAGR of 35% during the same period.

Over the same period (2006-09), Page's women's innerwear and leisurewear segments grew two times and three times the industry CAGR respectively.

Table 4: Jockey's target segments are growing faster than overall industry

	Contribution to revenue in FY11 (%)	Page's target segment	CAGR (%) (2006 to 2009)		
			Page's target segment	Overall industry	Page's revenue CAGR*
Men's innerwear	59	Medium & Premium	18	14	35
Women's innerwear	16	Premium	27	17	37
Leisure items	22	N/A	13	13	41

* Page's revenue CAGR from FY07 to FY09

Source: Technopak and Images F&R Research, I-Sec Research, Company Data

According to a Technopak study, leisurewear segment is slated to grow at a CAGR of 14% during 2009-2020E. Page is to benefit due to its focus on these higher growth segments. Further, the company would also benefit from consumer preference shifting from economy segment to premium segment.

Table 5: Page Industries witnessed revenue CAGR of 38% during FY07-11

(Rs mn)

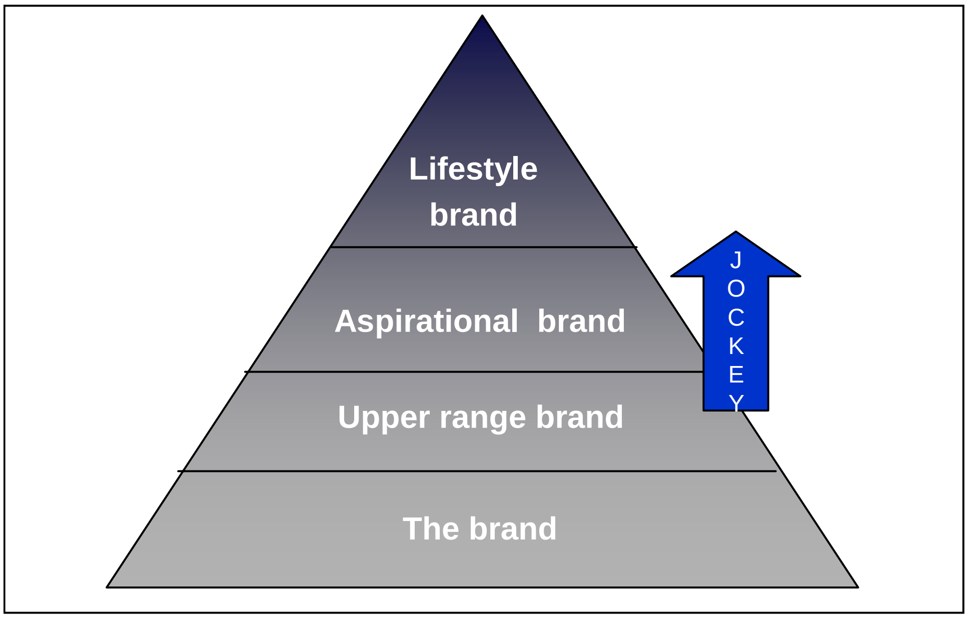
	FY07	FY08	FY09	FY10	FY11
Men items	892	1,242	1,632	2,110	2,921
Bra			8	169	253
Women items	153	214	281	363	534
Leisure items	289	436	574	655	1,096
Factory seconds	25	32	51	97	112
Total sales	1,359	1,923	2,547	3,394	4,916
% Growth YoY		*41.5*	*32.4*	*33.3*	*44.8*

Source: Company data; I-Sec Research

Jockey – Positioned as a premium brand

Globally, Jockey is positioned as a premium brand and in India Page has been successful in positioning Jockey as an aspirational brand by maintaining quality standards and through brand building exercise. Jockey became the first and the only brand in innerwear market to be credited "Superbrand" status in India. With the segmentation in the innerwear market driven by price points, Jockey has positioned itself in premium and medium segments in men's innerwear and premium segment in women's innerwear. As part of its brand-building activity, the company has opened 67 exclusive brand outlets in malls and on high street. The company is also coming up with exclusive brand outlets in smaller towns and cities to extend its reach. According to management, the company will open 100 and 125 exclusive brand outlets by FY12 and FY13 respectively. Further, as part of its brand awareness, the company has recently launched 'Just Jockeying' ad campaign.

Chart 9: Jockey positioned as an aspirational brand



Source: Company

Table 6: Players in men's innerwear market

Price segment	Price range (Rs)	Major brands
Super premium	Above 300	Calvin Klein, Tommy Hilfiger
Premium	150-300	Jockey Sport, Hanes, Eminence
Middle	90-150	Jockey, Fruit of the Loom, Hanes, Chromosome, Eminence
Economy	45-90	VIP, Rupa, Amul Macho, Lux
Low	Less than 45	Regional companies

Source: Industry data, I-Sec Research

Table 7: Players in women's innerwear market

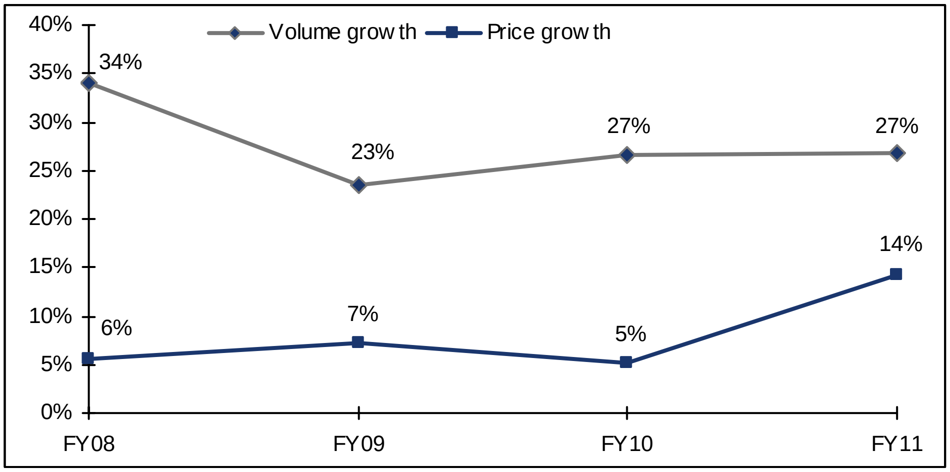
Price segment	Price range (Rs)	Major brands
Super premium	Above 500	Benetton, Triumph, La Senza
Premium	250-500	Jockey, Lovable, Enamor, Benetton
Middle	100-250	Feelings, Daisy Dee, VIP, Body Care, Body Line, Groversons, Juliet, Softline
Economy	50-100	Softline, Lux Hosiery, Grover Sons
Low	Less than 50	Regional companies

Source: Industry data, I-Sec Research

Strong brand leads to better pricing power

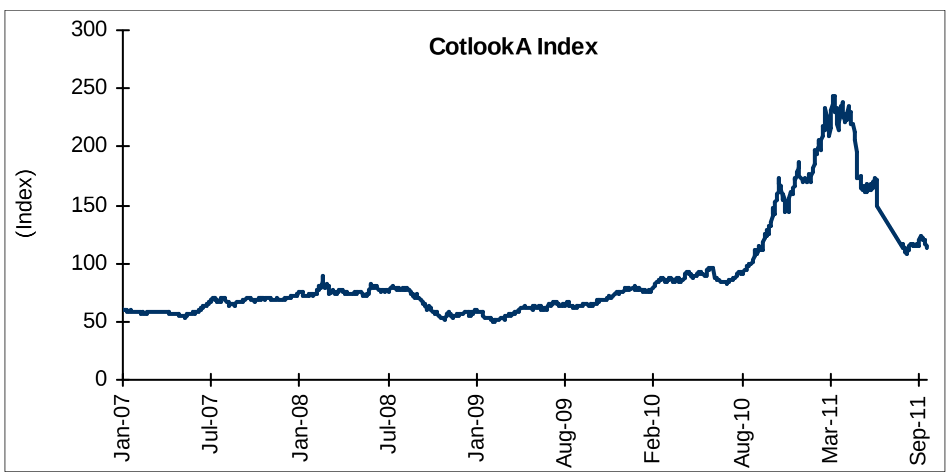
Page, which focuses on premium category, is currently operating at an EBITDA margin of 20%, higher than 8-10% EBITDA margins enjoyed by brands focused on economy and mid-economy categories. Further, Jockey has witnessed low elasticity with the company maintaining 27% volume growth despite hiking prices by an average 14% in FY11 to pass on rising input costs (high cotton prices). The volume growth for the company was far higher than economy and medium segment players Rupa and Maxwell, which witnessed volume growth of 5% and de-growth of 4% respectively.

Chart 10: Jockey experiences low price elasticity



Source: Company data

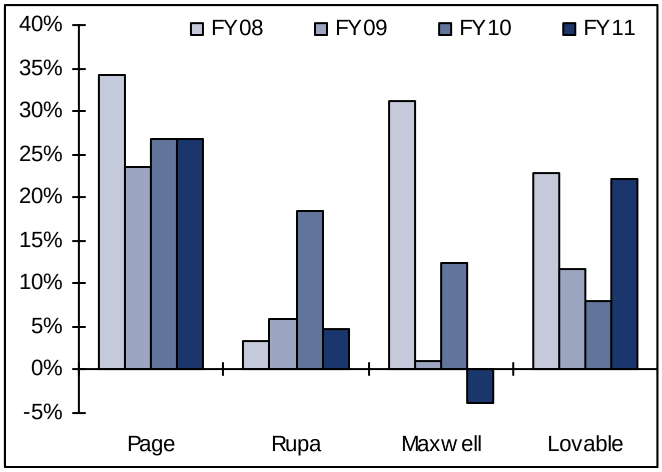
Chart 11: Cotton prices have meaningfully corrected after spike



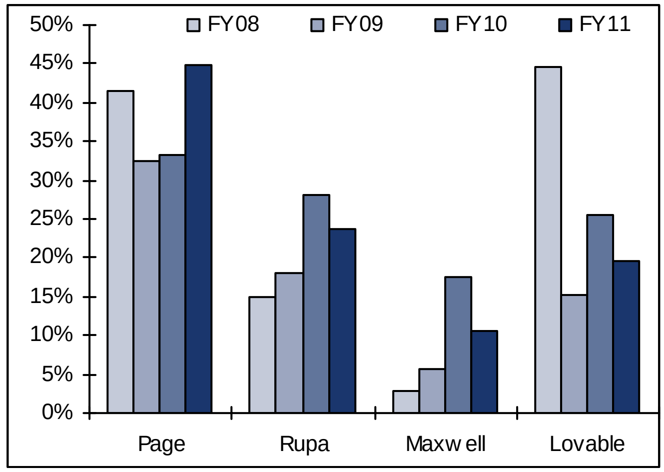
Source: Bloomberg

Chart 12: Jockey growing substantially faster than peers

Volume growth of 28% over FY07-11 substantially higher than peers



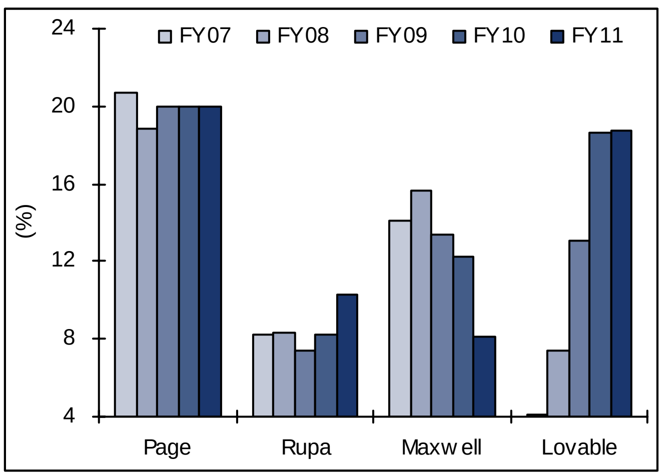
Volume growth and high realisations lead to 38% value growth over FY07-11



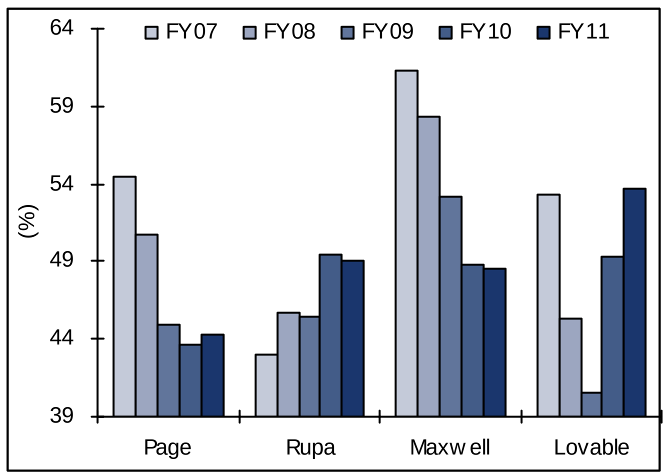
Source: Company data, i-Sec Research

Chart 13: Page most operationally efficient among peers

Page maintains higher EBIDTA margin



Raw material cost as % of sales lowest for Page



Source: Company data, i-Sec Research

Competition – Page enjoys significant moat

Jockey enjoys the first mover advantage in India among premium international brands and the company has strengthened its foothold by aggressive branding strategy and distribution over the past 15 years. Even though global brands like Hanes and Fruit of the Loom are expanding in India, it would be some time before they are able to make a mark as Jockey enjoys strong brand recall, well-channelled distribution network and integrated manufacturing facility in India.

Table 8: Jockey's early-mover advantage has created a strong entry barrier

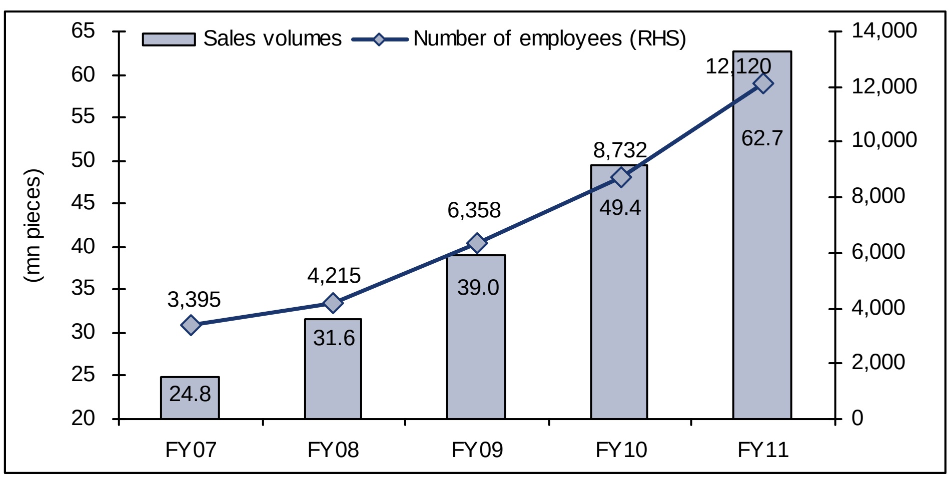
International brand	Time of launch	Country of origin	Product category
Jockey	1995	USA	Innerwear
Lovable	1996	USA	Lingerie
Marks & Spencers	2001	UK	Apparel, footwear, home, food and furniture
Triumph	2002	Germany	Lingerie
Vanity Fair	2003	USA	Lingerie
Tommy Hilfiger	2004	USA	Apparel, accessories
Hanes Brands	2004	USA	Innerwear
Calvin Klien	2007	USA	Designer fashion brand
La Peria	2007	Italy	Lingerie
Fruit of the Loom	2009	USA	Innerwear

Source: Technopak and Images F&R Research

Integrated manufacturing facilities

The company has an integrated manufacturing process, ranging from yarn knitting to finished product, with an installed capacity of 87mn units. The manufacturing facility is located close to Bengaluru. The company employs a workforce of ~13,000 and has been able to quickly source and train manpower to meet its high growth. The Karnataka Industrial Areas Development Board has allocated another nine acre land (out of which four acre has been physically handed over) to Page in Karnataka for further expansion of capacities.

Chart 14: Jockey has been able to ramp up production swiftly



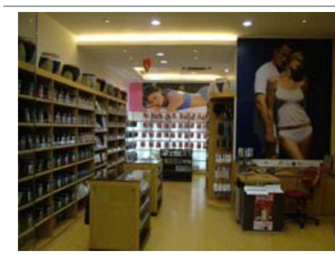
Source: Company data

The company has low reliance on third party for production process, which safeguards it from any disruption in production and assures it of product quality. In 2010, when the entire textile industry was hit by the Madras High Court's order of closing down some 700-odd bleachers and dyers in Tirupur (Tamil Nadu) for polluting water source in the region, Page was largely unaffected. The company is planning to increase its capacity from 87mn units in FY11 to 109mn by FY12 and 136mn by FY13.

Well-channeled distribution network

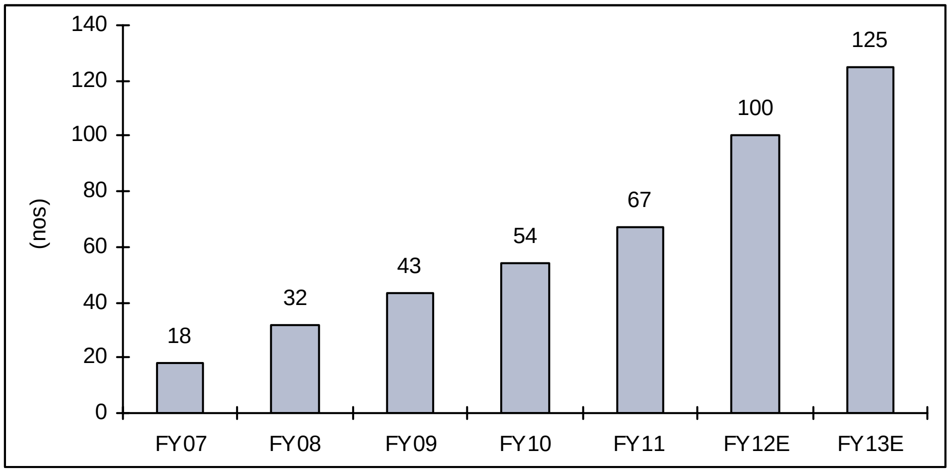
The company has a well-channelled distribution network of over 20,000 retail outlets spread across 1,100 cities of India. The company's products are distributed through five formats – large format stores, multi brand outlets, hosiery stores, multipurpose stores and exclusive brand outlets. Page is increasing its focus on tier II cities and towns as these cities are at an early stage of evolution towards branded market. According to the management, the company plans to scale up its exclusive brand outlets from 67 in FY11 to 100 in FY12 and 125 in FY13. Exclusive brand outlets help the company to increase brand visibility and showcase its entire range of products. We believe the company has taken a huge leap in establishing its distribution network, which will be difficult for other new entrants to emulate.

Chart 15: Jockey's distribution network

Distribution format		Percentage of sales
	Hosiery store	50
	Multipurpose store	15
	Chain format	6
	Multi brand outlet	25
	Exclusive brand outlet	4

Source: Company data

Chart 16: Jockey rapidly increasing its exclusive brand outlets



Note: FY12E and FY13E exclusive brand outlet numbers are as per management expectations
Source: Company data

Trusted partner of Jockey International

Page has recently renewed its franchisee agreement with Jockey International for manufacture and distribution of innerwear for men and women, leisurewear and kids wear till 2030 for India, Sri Lanka, Nepal and Bangladesh. Established in 1896, Jockey is a well known apparel brand with presence across 120 countries. Jockey International Inc manufactures and distributes innerwear and leisurewear across men, women and kids' segments. Jockey International Inc also provides Page with its technical know-how and research & development expertise for product development and innovation. Page benefits from the international support it receives from Jockey International Inc in terms of manufacturing, merchandising and marketing know-how as well as use of Jockey trade marks.

Management team holds strong execution track record

The company's promoters, the Genomal family, hold more than 40 years experience in the textile industry. The Genomal group of companies have been the licensees of Jockey International Inc. in the Philippines since 1958 operating under the name GTVL Manufacturing Industries Inc.

Page's revenues have grown ~5 times in the past five years – from Rs1bn in FY06 to Rs5bn in FY11. In recognition of its strong performance, Page was granted "Licensee of the Decade" by Jockey International Inc. (USA). Page has also been awarded license for the UAE.

Financials – In for a long haul

Page has grown phenomenally over the past five years with its revenues growing fivefold from Rs1.0bn in FY06 to Rs5bn in FY11. We expect the strong revenue growth trajectory to continue fuelled by brand extensions and benign raw material environment.

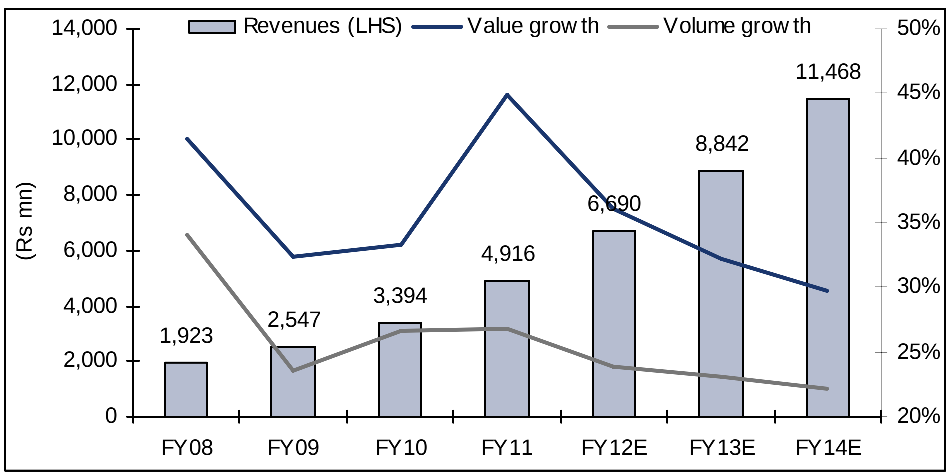
Key forecasts

- Revenues to grow at a CAGR of 33% over FY11-14E led by volumes growing at a CAGR of 23%
- EBITDA margin to expand 250bps in FY12E to 22.5% led by lower cotton prices and then stabilise at 22% in FY13E and 21.7% in FY14E. EBITDA will grow at a CAGR of 36% from FY11-14E to Rs2.5bn in FY14E (FY11: Rs1.0bn)

Revenue CAGR at 33% in FY11-14E

We expect revenues to grow at a CAGR of 33% during FY11-14E led by 23% volume CAGR and 8% price CAGR. The volume growth would be led by leisurewear and women's innerwear segments, which are displaying high rate of growth and likely to grow at ~30% till FY15E. Men's segment will continue to grow at ~20% led by high growth in premium innerwear segment. High growth in women and leisurewear segments would however change the company's revenue mix.

Table 9: Page to sustain high growth till FY14E



Source: Company data, I-Sec Research

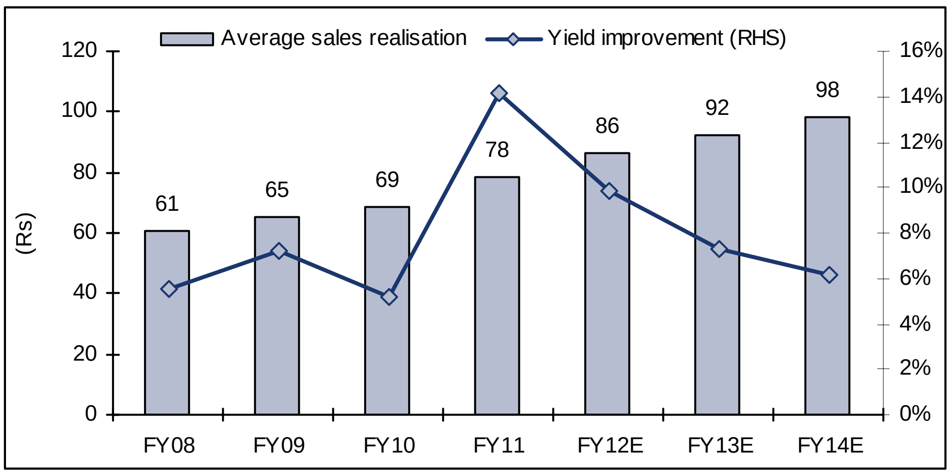
Average sales realisation in Q1FY12 at Rs91/ piece

Table 10: Assumptions – Women's innerwear and leisurewear to drive growth

	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Volume growth (%)							
Men	27.7	20.4	26.7	22.6	18.1	20.0	20.0
Bra	-	-	NM	41.9	33.5	30.0	30.0
Women	27.7	20.4	26.7	25.7	26.9	20.0	20.0
Leisure wear	85.5	32.9	12.6	54.9	43.9	30.0	30.0
Overall	**34.1**	**23.5**	**26.7**	**26.9**	**23.9**	**23.2**	**22.2**
Price growth (%)							
Men	8.9	9.2	2.0	12.9	8.0	5.0	5.0
Bra	-	-	(14.0)	5.3	5.0	5.0	5.0
Women	8.9	9.2	2.0	17.1	5.0	5.0	5.0
Leisure wear	(18.6)	(1.0)	1.4	8.1	10.0	5.0	5.0
Overall		**7.2**	**5.2**	**14.2**	**9.9**	**7.3**	**6.1**

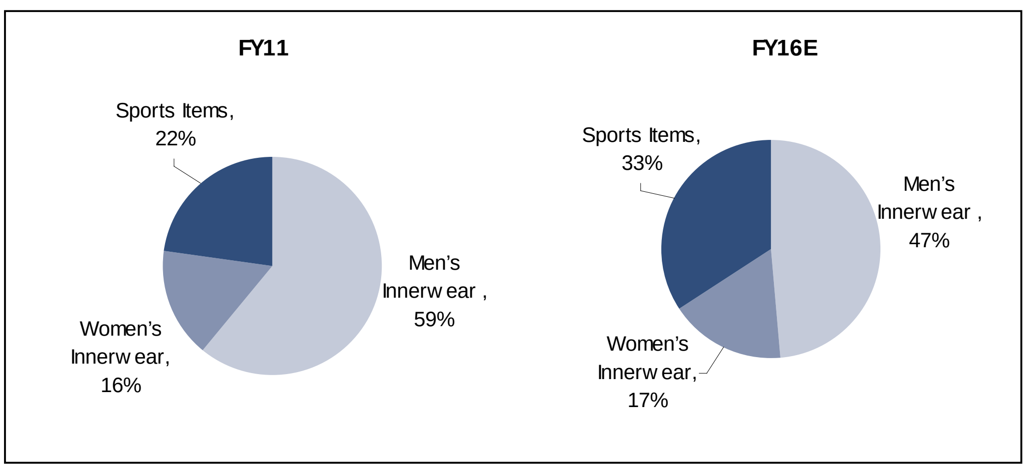
Source: Company data, I-Sec Research

Chart 17: High input costs in FY11 drove yields higher



Source: Company data, I-Sec Research

Chart 18: Contribution of leisurewear and women's innerwear to revenues to increase



Note: excludes factory seconds
Source: Company data; I-Sec Research

EBITDA margin to remain stable at ~22%

We expect EBITDA margin to remain flat at ~22% levels, as higher revenue growth would be offset by change in mix due to higher contribution of low-margin women innerwear segment to total revenues. The company has improved its EBIDTA margin from 18.7% in FY06 to 20% in FY11. We expect EBITDA to grow at a CAGR of 36% over FY11-14E to Rs2.5bn. EBITDA margin for FY12E will be higher at 22.5% (Q1FY12: 24.8%) led by lower raw material cost and is likely stabilise at 21-22% post FY12E. We expect the company to invest in brand building and strengthening the distribution network to capitalise on gains from operating leverage and/or softening raw material prices.

Chart 19: EBITDA margins to remain at 21-22%

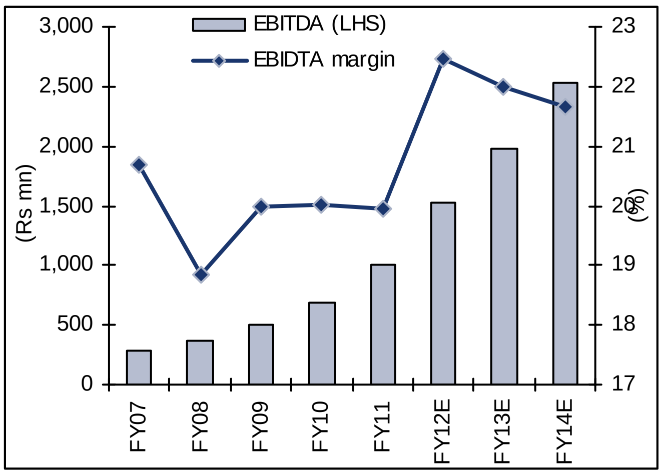
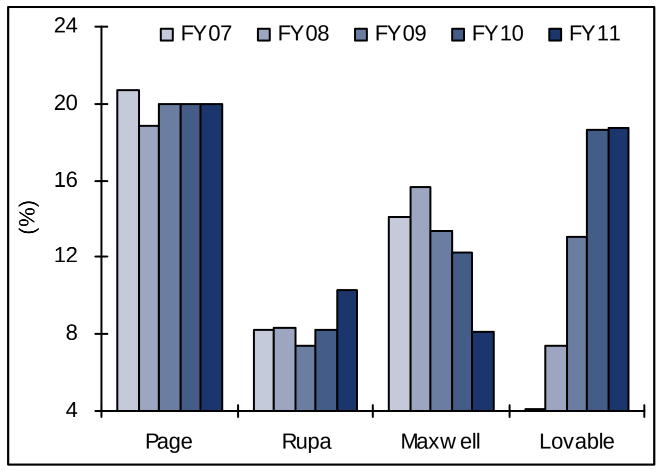


Chart 20: Page's margin higher than peers



Source: Company data, I-Sec Research

Pricing power mitigates volatile cotton price risk

FY11 was a difficult year for apparel companies with cotton prices skyrocketing to all time high. Page's raw material cost as a percentage of sales stood at ~44.2% in FY11. As of March, 2011, CotlookA index stood at 227.75 – as compared to 85.25 in March 2010 and 54.6 in March 2009.

However, cotton prices have softened since with CotlookA index currently at 112 levels – at ~50% of highs in 2011. Hence, Page's raw material cost as a percentage of sales is expected to come down to 43% in FY12E. Further, we expect this to remain stable at ~43% levels on of the back of the company's ability to pass on rising cotton prices in the form of price hike.

Chart 21: Raw material cost to be stable

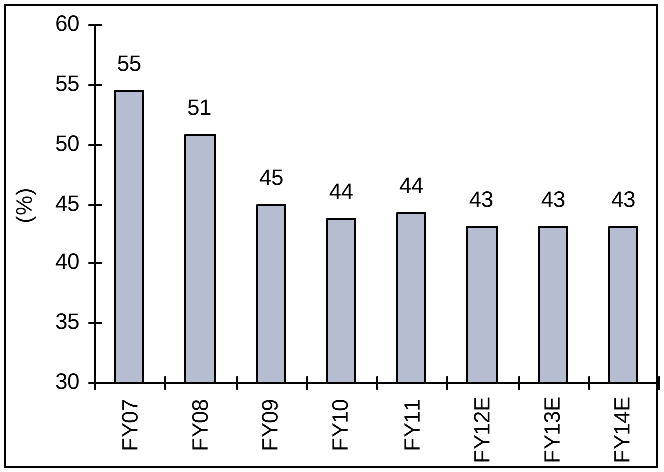
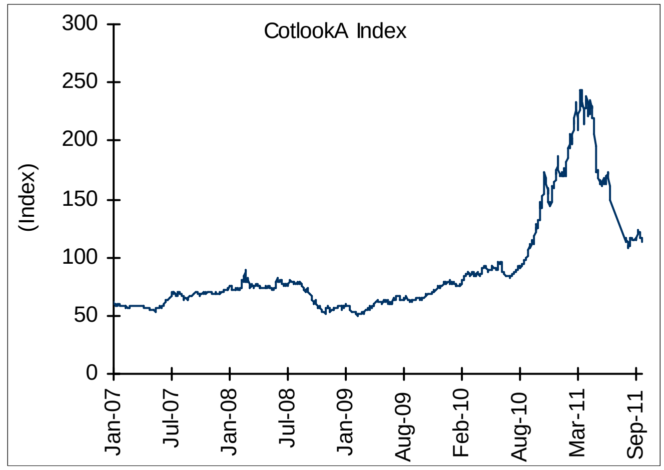


Chart 22: Cotton prices Volatility not a major risk for premium players



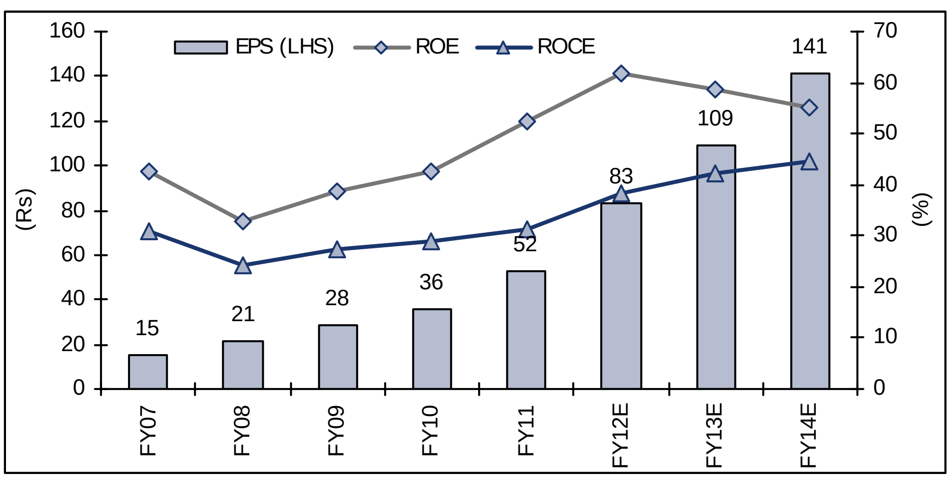
Source: Company data, Bloomberg, I-Sec Research

EPS CAGR at 39% in FY11-14E; RoE to increase to 58.5%

We expect the company's earnings to grow at a CAGR of 39% to Rs1,576mn in FY14E from Rs585mn in FY11. We estimate the company to post an EPS of Rs83 in FY12E, Rs109 in FY13E and Rs141 in FY14E.

The company also has very high return ratios with FY11 RoCE and RoE at 31.2% and 52.6% respectively. We expect these to increase further to 42.2% and 58.5% respectively in FY13E.

Chart 23: EPS growth to accelerate through FY11-14E

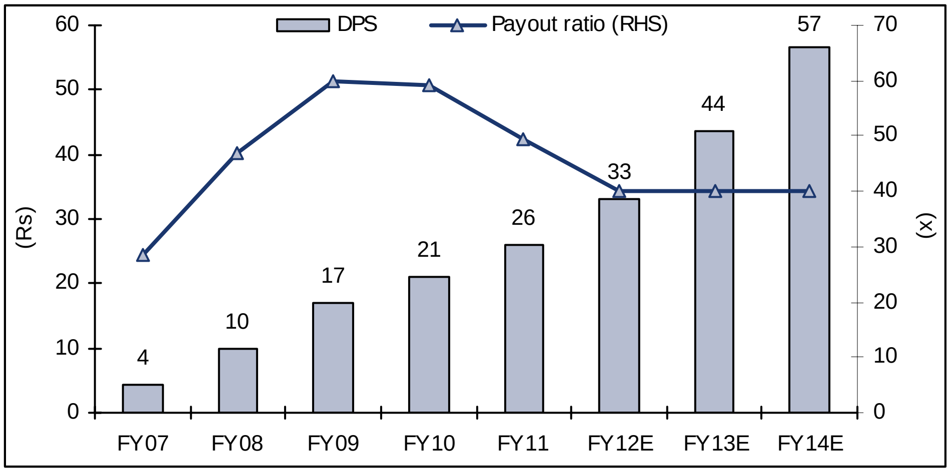


Source: Company data, I-Sec Research

High dividend payout on the back of strong cashflow generation

Page's dividend payout ratio has been consistently high at ~50-60% in FY09-11. We expect dividend payout to continue to remain high at ~40% led by strong cashflow of Rs2.6bn over FY12-FY14E. We expect capex requirement of ~Rs1.5bn over FY12-FY14E largely for increasing capacity, modernising machinery and opening company-owned exclusive outlets.

Chart 24: Dividend yield of ~1.5%



Source: Company data, I-Sec Research

Key risks

Rise in raw material/cotton prices. Cotton is the primary input for Page accounting for ~45% of its overall revenues. So, rise in cotton prices pushes up cost of production, adversely impacting the margins of the company. In spite of enjoying significant pricing power, the company is hit by rise in cotton prices, as hike in prices of final goods happen with a lag after rise in cotton prices.

Labour-intensive nature of industry. Page has a huge employee base of ~13,000 due to labour-intensive nature of the (innerwear) industry it is operating in. Further, a predominant part of its workforce comprises of women. The ability to attract and maintain an efficient workforce should by an integral part of any company operating in this industry.

The company could witness significant cost pressure in the wake of increasing minimum wage levels and rising urbanisation. Geographical concentration of the manufacturing facilities in and around Bengaluru could also be a potential risk in case of labour unrest in the region. However, the company is in the process of automating its production process, which would lower its reliance on workforce.

Relations with franchiser. Currently Page shares excellent relations with its franchiser; Jockey International Inc. Page has recently got its licensing agreement renewed for the next 20 years till 2030. However, any review of licensing terms and agreement by Jockey International Inc (the franchiser) could be a potential long-term risk for Page.

Regulatory changes. The textile industry is susceptible to policy decisions by the government with regard to incentives, sops and taxes. The last Union budget brought the branded innerwear industry under the ambit of excise duty, hitting Page et al. Further, the entire textile industry was hit in 2009 by the Madras High Court ordering the closure of some 700 bleachers and dyers in Tirupur (Tamil Nadu) for polluting water source. Any such instance of regulatory change on the industry holds the potential of hurting both the demand and profitability of the company.

Increase in competitive intensity. A host of global innerwear brands (Fruit of the Loom and Eminence) have marked their entry into India. Though they are yet to make any significant dent on Jockey, any aggressive price-related competition could erode latter's market share. Additionally, any increase in FDI limit for retailing of multiple brands could lead to increased competition for Page, as this would permit entry of other leading global brands into India. However, we do not see any meaningful increase in competitive intensity till new players set up basic infrastructure, distribution and supply chain – and this would take some time.

About the company

Set up in 1995, Page Industries is a leading player in innerwear/leisurewear for men and women in India. It has exclusive license to manufacture and distribute Jockey products in India, Sri Lanka, Bangladesh, Nepal and UAE till 2030. The company is promoted by Genomal family, which has been associated with Jockey International Inc for over four decades as their sole licensee in the Philippines. Recently, Page has entered into an agreement with Speedo International to manufacture, distribute and market Speedo range of swimwear in India. Page was awarded the 'International Licensee of the Year' award by Jockey International for the year 2005 and 2009 and also the award of 'Licensee of the Decade'.

The company operates through eight factories spread over 735,000 sq feet in Bengaluru. It employs ~13,000 personnel with current capacity of 87mn pieces, which it is in the process of expanding to 109mn by FY12 and 136mn by FY13.

About Jockey International

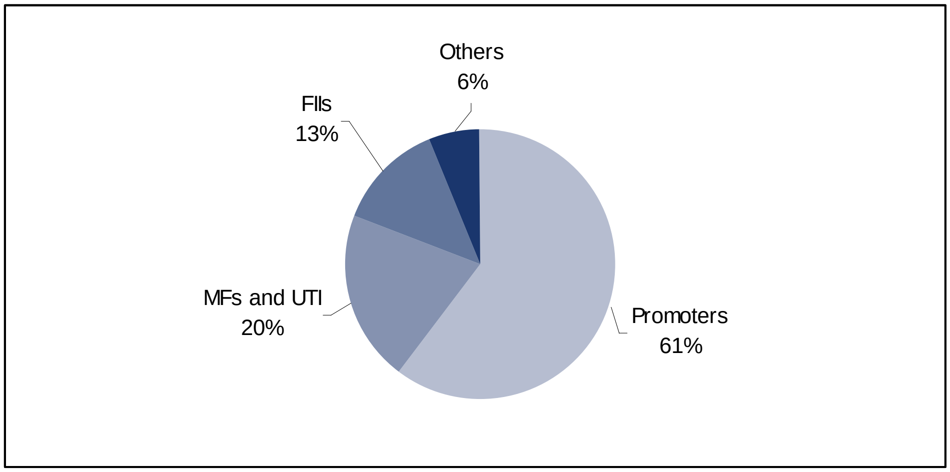
Jockey International Inc established in 1876 by Samuel T Cooper is one of the oldest US underwear manufacturers. It is a privately held company headquartered in Kenosha, Wisconsin. The company markets a broad range of underwear for men, women and children along with related products. Jockey International's manufacturing facilities include about a dozen plants in Costa Rica, Honduras, Jamaica, the United Kingdom and the southern United States and it licenses and distributes its products in more than 120 countries worldwide. Within the United States, the Jockey brand is distributed through more than 14,000 department and specialty stores.

Table 11: Key management personnel

Name	Designation	Comments
Mr Sunder Genomal	MD & CEO	• One of the founders of Page and has ~ 30 years of experience in various facets of textile industry
Mr Vedji Ticku	Chief Operating Officer	• Joined Page in 1997 • Was previously General Manager - Sales
Mr Pius Thomas	General Manager - Finance	• Joined Page in 1995 • Over 35 years of experience in finance, accounting, taxation, costing, textiles and general administration
Mr MC Cariappa	General Manager - Sales & Marketing	
Mr Shamil Genomal	General Manager - Operations	

Source: Company data

Chart 25: Shareholding pattern



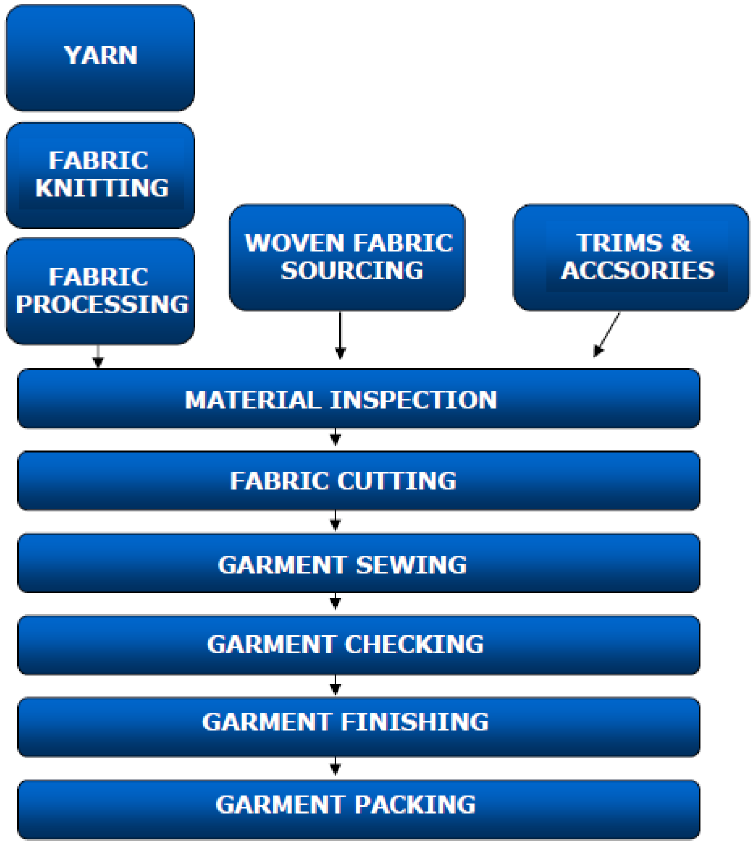
Source: NSE

Table 12: Milestones

Year	Key event
1995	Incorporation of company under the name of Page Apparel Manufacturing Private Limited
1997	• Jockey products for women were launched under the style of 'Jockey For Her' • The middle range of men's undergarments was launched
2001	Retail network touched 100 towns
2003	• The turnover of Page crossed Rs500mn • Retail network of 10,000 outlets • Achieved production of 1mn pieces a month
2004	Launch of sub brand 'Jockey Zone'
2005	Launch of Jockey brassieres in India
2006	• Jockey introduces 'No Panty Line Promise' range for women. • Turnover of Page crossed Rs1,000mn in terms of factory selling price for the year ended March 31, 2006 • Production crossed 2mn pieces per month
2007	Page listed on Indian bourses
2008	Turnover of Page crossed Rs2,000mn in terms of factory selling price for the year ended March 31, 2008
2010	• Renewal of license agreement with Jockey International USA for a period of 20 years till 2030 • Awarded the sole marketing and distribution rights for UAE • Awarded "International Licensee of the decade" by Jockey International
2011	Page Industries ties up with swimwear brand Speedo International to manufacture, market and distribute the brand in India

Source: Company data, News sources

Chart 26: Manufacturing process



Source: Company

Chart 27: Products categories

INNERWEAR - MEN	INNERWEAR - WOMEN	SOCKS	LOUNGE WEAR / RELAX WEAR / CASUAL WEAR
• Inner Tees	• Brassieres	• Dress	• Bermudas
• Vests	• Panties	• Casuals	• Boxers
• Briefs	• Crop Top	• Sports	• Jersey Pants
• Trunks	• Sport Top		• Round Neck 'T' Shirt
• Thermal Wear	• Camisole		• Polo shirts
	• Legging		
	• Spagetti top		
	• Thermal Wear		

Source: Company

Chart 28: Product range

Source: Company

Annexure 1: Financials

Table 13: Profit and loss statement

(Rs mn, year ending March 31)

	2010	2011	2012E	2013E	2014E
Total Operating Income	**3,441**	**5,012**	**6,824**	**9,019**	**11,698**
Less:					
Raw materials consumed	1,502	2,218	2,934	3,878	5,045
Personnel expenses	581	897	1,162	1,601	2,131
Manufacturing Expenses	131	191	273	361	468
Administrative, selling and other expenses	537	706	923	1195	1519
Total Operating Expenses	**2,752**	**4,012**	**5,292**	**7,035**	**9,163**
EBITDA	**689**	**1,000**	**1,532**	**1,984**	**2,535**
Depreciation & Amortization	90	98	115	151	190
Other Income	17	25	70	77	85
EBIT	**616**	**927**	**1,487**	**1,910**	**2,430**
Less: Gross Interest	30	52	108	93	78
Recurring Pre-tax Income	**586**	**874**	**1,379**	**1,817**	**2,352**
Add: Extraordinary Income	-	-	-	-	-
Less: Extraordinary Expenses	-	-	-	-	-
Less: Taxation	189	292	455	600	776
--Current Tax	186	268	455	600	776
--Deferred Tax	3	6	-	-	-
-- Wealth Tax	0	0	-	-	-
Net Income (Reported)	**397**	**582**	**924**	**1,218**	**1,576**
Minority interest	-	-	-	-	-
Recurring Net Income	**396**	**585**	**924**	**1,218**	**1,576**

Source: Company data, I-Sec Research

Table 14: Balance sheet

(Rs mn, year ending March 31)

	2010	2011	2012E	2013E	2014E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	30	26	327	405	380
Inventory	946	1,647	1,447	1,594	2,073
Sundry Debtors	205	258	374	494	641
Loans and Advances	163	423	465	512	563
Operational	163	423	465	512	563
Total Current Assets	**1,343**	**2,355**	**2,614**	**3,005**	**3,657**
Current Liabilities & Provisions					
Current Liabilities	**621**	**897**	**1,081**	**1,340**	**1,659**
Sundry Creditors	397	620	804	1,063	1,382
Other Current Liabilities	224	277	277	277	277
Provisions	**18**	**78**	**78**	**78**	**78**
Total Current Liabilities and Provisions	**640**	**976**	**1,160**	**1,418**	**1,738**
Net Current Assets	**703**	**1,379**	**1,454**	**1,587**	**1,919**
Investments					
Other Marketable Investments	30	30	30	30	30
Total Investments	**30**	**30**	**30**	**30**	**30**
Fixed Assets					
Gross Block	1,013	1,259	1,648	2,162	2,713
Less Accumulated Depreciation	237	328	444	595	785
Net Block	776	931	1,204	1,567	1,928
Add: Capital Work in Progress	49	74	84	110	135
Total Fixed Assets	**825**	**1,005**	**1,289**	**1,677**	**2,063**
Total Assets	**1,558**	**2,414**	**2,773**	**3,294**	**4,012**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Short Term Debt	100	150	150	150	150
Non-Convertible Preference Shares	-	-	-	-	-
Long Term Debt	448	1,000	850	700	550
Total Borrowings	**548**	**1,150**	**1,000**	**850**	**700**
Deferred Tax Liability	**20**	**26**	**26**	**26**	**26**
Share Capital					
Paid up Equity Share Capital	112	112	112	112	112
No. of Shares outstanding (mn)	*11*	*11*	*11*	*11*	*11*
No. of Warrants outstanding (mn)*	-	-	-	-	-
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*
Preference Share Capital (convertible)	-	-	-	-	-
Reserves & Surplus	**879**	**1,126**	**1,636**	**2,306**	**3,175**
Share Premium	**412**	**412**	**412**	**412**	**412**
General & Other Reserve	**119**	**179**	**179**	**179**	**179**
Less: Misc. Exp. not written off	**-**	**-**	**-**	**-**	**-**
Less: Revaluation Reserve	**-**	**-**	**-**	**-**	**-**
Net Worth	**990**	**1,238**	**1,747**	**2,418**	**3,286**
Total Liabilities & Shareholders' Equity	**1,558**	**2,414**	**2,773**	**3,294**	**4,012**

Source: Company data, I-Sec Research

Table 15: Cash flow statement

(Rs mn, year ending March 31)

	2010	2011	2012E	2013E	2014E
Cash Flow from Operating Activities					
Reported Net Income	397	582	924	1,218	1,576
Add:					
Depreciation & Amortisation	89	91	115	151	190
Provisions	(373)	60	-	-	-
Deferred Tax	3	6	-	-	-
Less:					
Other Income	17	25	70	77	85
Net Extra-ordinary income	-	-	-	-	-
Operating Cash Flow before Working Capital change (a)	**99**	**714**	**970**	**1,292**	**1,681**
Changes in Working Capital					
(Increase) / Decrease in Inventories	(266)	(702)	200	(147)	(479)
(Increase) / Decrease in Sundry Debtors	(35)	(54)	(115)	(120)	(147)
(Increase) / Decrease in Operational Loans & Adv.	286	(260)	(42)	(47)	(51)
(Increase) / Decrease in Other Current Assets	1	-	-	-	-
Increase / (Decrease) in Sundry Creditors	115	223	184	259	320
Increase / (Decrease) in Other Current Liabilities	79	53	-	-	-
Working Capital Inflow / (Outflow) (b)	180	(740)	226	(55)	(358)
Net Cash flow from Operating Activities (a) + (b)	**279**	**(26)**	**1,196**	**1,237**	**1,324**
Cash Flow from Capital commitments					
Purchase of Fixed Assets	(246)	(271)	(399)	(540)	(576)
Purchase of Investments	-	-	-	-	-
Consideration paid for acquisition of undertaking					
Cash Inflow/(outflow) from capital commitments (c)	(246)	(271)	(399)	(540)	(576)
Free Cash flow after capital commitments (a) + (b) + (c)	**34**	**(297)**	**797**	**697**	**748**
Cash Flow from Investing Activities					
Purchase of Marketable Investments	**23**	**-**	**-**	**-**	**-**
Consideration received for sale of undertaking/division					
Other Income	17	25	70	77	85
Net Cash flow from Investing Activities (d)	**39**	**25**	**70**	**77**	**85**
Cash Flow from Financing Activities					
Proceeds from fresh borrowings	128	603	(150)	(150)	(150)
Dividend paid including tax	(274)	(338)	(415)	(547)	(708)
Others	(1)	4	-	(0)	0
Net Cash flow from Financing Activities (e)	**(146)**	**268**	**(565)**	**(697)**	**(858)**
Net Extra-ordinary Income (f)	**-**	**-**	**-**	**-**	**-**
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**(73)**	**(4)**	**302**	**78**	**(25)**
Opening Cash and Bank balance	**103**	**30**	**26**	**327**	**405**
Closing Cash and Bank balance	**30**	**26**	**327**	**405**	**380**
Increase/(Decrease) in Cash and Bank balance	**(73)**	**(4)**	**302**	**78**	**(25)**

Source: Company data, I-Sec Research

Table 16: Key ratios

(Year ending March 31)

	2010	2011	2012E	2013E	2014E
Per Share Data (Rs)					
Diluted Recurring Earning per share (DEPS)	35.5	52.5	82.9	109.2	141.3
Diluted Earnings per share	35.6	52.2	82.9	109.2	141.3
Recurring Cash Earnings per share (CEPS)	43.6	61.3	93.2	122.7	158.3
Free Cash flow per share (FCPS-post capex)	3.0	(26.6)	71.4	62.5	67.0
Reported Book Value (BV)	88.8	111.0	156.6	216.8	294.6
Adjusted Book Value (ABV)	88.8	111.0	156.6	216.8	294.6
Dividend per share	21.0	26.0	33.1	43.7	56.5
Valuation Ratios (x)					
Diluted Price Earning Ratio	70.8	47.9	30.4	23.0	17.8
Price to Recurring Cash Earnings per share	57.7	41.0	27.0	20.5	15.9
Price to Book Value	28.3	22.7	16.1	11.6	8.5
Price to Adjusted Book Value	28.3	22.7	16.1	11.6	8.5
Price to Sales Ratio	8.2	5.6	4.1	3.1	2.4
EV / EBITDA	41.5	29.2	18.7	14.4	11.2
EV / Total Operating Income	8.3	5.8	4.2	3.2	2.4
EV / Operating Free Cash Flow (Pre-Capex)	102.3	(1,142)	24.0	23.0	21.4
EV / Net Operating Free Cash Flow (Post-Capex)	848.9	(98.4)	36.1	40.9	37.9
Dividend Yield (%)	0.8	1.0	1.3	1.7	2.2
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	25.2	47.8	57.9	31.7	29.4
Diluted Recurring CEPS Growth	24.7	40.7	52.0	31.7	29.0
Total Operating Income Growth	35.1	45.6	36.2	32.2	29.7
EBITDA Growth	35.4	45.2	53.2	29.5	27.8
Recurring Net Income Growth	25.2	47.8	57.9	31.7	29.4
Operating Ratios (%)					
EBITDA Margins	20.0	20.0	22.5	22.0	21.7
EBIT Margins	17.9	18.5	21.8	21.2	20.8
Recurring Pre-tax Income Margins	16.9	17.4	20.0	20.0	20.0
Recurring Net Income Margins	11.5	11.6	13.4	13.4	13.4
Raw Material Consumed / Sales	43.7	44.2	43.0	43.0	43.1
SGA Expenses / Sales	15.6	14.1	13.5	13.3	13.0
Other Income / Pre-tax Income	2.9	2.8	5.1	4.2	3.6
Other Operating Income / EBITDA	6.9	9.6	8.7	8.9	9.0
Effective Tax Rate	32.3	33.4	33.0	33.0	33.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	29.1	31.2	38.4	42.2	44.6
Return on Invested Capital (RoIC)	50.5	51.1	63.4	74.4	77.7
Return on Net Worth (RoNW)	42.6	52.6	61.9	58.5	55.3
Dividend Payout Ratio	59.1	49.5	40.0	40.0	40.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	57	95	59	36	22
Long Term Debt / Total Debt	82	87	85	82	79
Net Working Capital / Total Assets	43	56	41	36	38
Interest Coverage Ratio-based on EBIT	20.7	17.7	13.8	20.6	31.3
Debt Servicing Capacity Ratio (DSCR)	5.4	5.0	6.1	8.4	11.4
Current Ratio	1.6	1.7	1.6	1.6	1.6
Cash and cash equivalents / Total Assets	1.9	1.1	11.8	12.3	9.5
Turnover Ratios					
Inventory Turnover Ratio (x)	4.3	3.9	4.5	6.0	6.4
Assets Turnover Ratio (x)	2.4	2.5	2.7	3.0	3.2
Working Capital Cycle (days)	35.8	54.5	52.0	41.8	37.9
Average Collection Period (days)	19.9	16.9	16.9	17.6	17.7
Average Payment Period (days)	70.1	63.6	95.0	84.6	80.8
Fixed Assets Turnover Ratio (x)	4.6	5.5	6.0	6.1	6.3

Source: Company data, I-Sec Research

Annexure 2: Index of Tables and Charts

Tables

Charts

New I-Sec investment ratings (all ratings based on absolute return)
BUY: >15% return; ADD: 5% to 15% return; REDUCE: Negative5% to positive5% return; SELL: < negative 5% return

ANALYST CERTIFICATION

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