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Page Industries

Walking on a Tight Rope

Initiating Coverage

September 20, 2012

Rating

Sell

CMP	**Target Price**
Rs3,311	Rs2,849

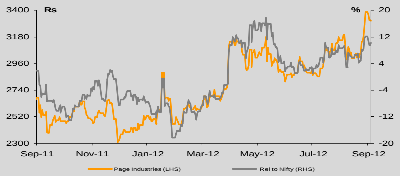
EPS Chg FY13E/FY14E (%)	NA
Target Price change (%)	NA
Nifty	5,554
Sensex	18,349

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	16	27	25
Rel. to Nifty	1	7	20	14

Source: *Bloomberg*

Relative price chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	PAG IB
Equity Capital (Rs mn)	112
Face Value(Rs)	10
No of shares o/s (mn)	11
52 Week H/L	3,475/ 2,250
Market Cap (Rs bn/USD mn)	37/ 679
Daily Avg Volume (No of sh)	10,005
Daily Avg Turnover (US$mn)	0.6

Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	59.2	59.5	59.7
FII/NRI	16.6	15.8	14.9
Institutions	17.7	18.6	19.4
Private Corp	1.5	0.9	0.9
Public	5.0	5.2	5.1

Source: Bloomberg

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- Jockey's growth story remains intact. Richer product mix, product launches and capacity ramp ups to drive 19% earnings CAGR over FY12-30E
- However, mix improvement from men's innerwear to women's & sportswear to increase working capital days by 48% over FY12-30E, while asset turns to be capped at 7x
- At crossroads - Free cash flow insufficient to maintain average payout of 55-60%. Page may have to increase debt to retain dividend payout 'OR' reduce payout ratio
- De-rating inevitable- Only timing depends on company action (payout reduction or maintenance). To pare Page's premium valuations despite strong growth. Initiate with a Sell

Multiple growth triggers to drive sustainable earnings CAGR

Page has several growth triggers in place, which include improved market dynamics, higher premiumisation, richer product mix (higher share of sportswear and women's innerwear), capacity ramp up, new product launches, etc that would ensure sustainable gains in market share over the license period. We expect Page's market share to see sustained and realistic rise during its license period till 2030 at 20% (+230bps). This would be led by 170bps rise in men's innerwear premium market share to 22.4% and 500bps rise in women's innerwear market share to 16.6%. This should translate into revenue CAGR of 21% and earnings CAGR of 19% over FY12-30E.

But, mix change to result in higher working capital & cap on asset turn

Page's gradual shift in revenue mix from men's innerwear (56.9% in FY12 to 35.9% in FY30E) to women's & sports wear (41% in FY12 to 63.8% in FY30E) will deliver sustainable revenue & earnings growth. However, it will also result in increased working capital cycle from 50 days in FY12 to 74 days (48% increase) by FY30E, largely due to higher inventory requirement. We also believe Page might not be able to increase its asset turns beyond its all time high of 7-7.5x.

At crossroads – raise debt to retain dividend payout or reduce payout

Although we expect Page to deliver healthy cash flows over the license period, we are at crossroads regarding Page maintaining its high dividend payout ratio. If Page is to maintain its usual payout ratio of 55-60%, its free cash flows may not be sufficient to pay the dividends. Thus, Page would either have to continue increasing debt on its books to maintain its payout ratio "OR" it would have to reduce its high payout ratio – both negative triggers.

Either scenario could lead to de-rating; Initiate with Sell

We like Page for its robust business model, ample growth drivers and healthy return ratio profile. However, we feel the company's free cash flows would be insufficient to fund its high dividend payout, which might lead to debt addition or payout reduction. We have valued Page on DCF basis on the assumption that the current payout ratio would continue. We initiate coverage on Page with a 'Sell' rating and a DCF price target of Rs 2,849, which is a 14% downside from current levels.

Financial Snapshot (Standalone) **(Rs mn)**

YE-Mar	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY11A	4,916	899	18.3	582	52.2	46.5	52.2	63.6	42.4	29.9
FY12A	6,834	1,331	19.5	901	80.7	54.7	62.2	41.1	28.3	22.3
FY13E	8,923	1,790	20.1	1,150	103.1	27.7	61.7	32.2	21.3	17.9
FY14E	11,591	2,318	20.0	1,454	130.4	26.4	62.4	25.5	16.6	14.3

Company Background

Dominant player in innerwear market with 17.7% market share, led by 20.7% market share in men's innerwear and 11.5% in women's innerwear

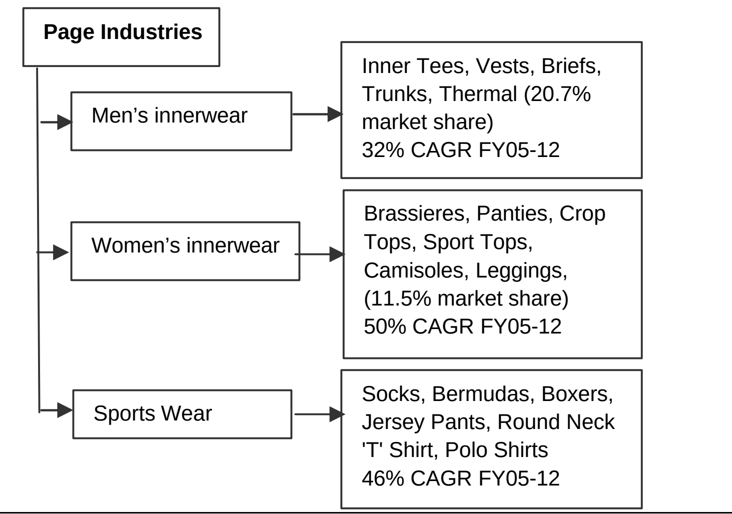
Page Industries Ltd (PAGE) was established in 1995 to market and manufacture the global innerwear brand 'Jockey' in India. The company has the license to sell 'Jockey' brand innerwear products in India, Sri Lanka, Bangladesh and Nepal. The products of PAGE can be largely classified under three major categories- men's innerwear, women's innerwear and sports wear. PAGE is promoted by the Genomal family, which has been associated with Jockey International for over 45 years by virtue of being its licensee in Philippines. Over a span of 13 years, PAGE has become the largest player in the premium innerwear segment with net revenues of Rs 6.8 bn in FY12 and 10 year revenue CAGR (FY02-12) of 30%. It enjoys a 17.7% market share of the organised innerwear market in India. PAGE has eight garment manufacturing units located at Bangalore with an annual installed capacity of 83 mn pieces of men's innerwear, women's innerwear and sportswear together. The company sells Jockey products in India through a network of 18,000 shops in 1,100 cities. As a part of its branding exercise, it has set up 65 exclusive brand outlets; all franchised under the brand name 'Jockey Zone'. Brand Jockey also has a sizeable presence (in its category) in large format retail stores like Shoppers Stop, Pantaloon, etc.

Men's innerwear – The men's innerwear business is their largest revenue contributor (58% of FY12 net revenues). Page had a 20.7% market share of the organized men's innerwear market (Middle, Premium and Super Premium category) in FY11. The men's innerwear range comprises of inner tees, vests, briefs, trunks, thermal wear, etc. Over FY05-FY12, net revenues in this segment have grown at 32% CAGR to Rs 3.9bn in FY12.

Women's innerwear – Women's innerwear business has been one of the fastest growing segments for PAGE, recording 50% revenue CAGR over FY05-FY12 to Rs 1.2bn in FY12. It constituted 18% of PAGE's FY12 net revenue. PAGE's market share in the organised women's innerwear market (Premium & Super premium segment) was 11.5% for FY11. Its women's innerwear range comprises of brassieres, panties, crop tops & sport tops, camisoles, leggings, thermal wear etc.

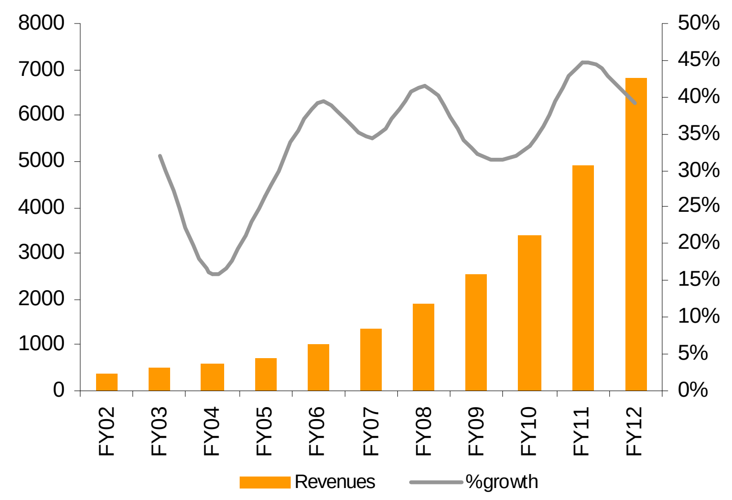
Sportswear – The sportswear business contributed 23% to PAGE's FY12 net revenues. PAGE has launched bermudas, boxers, jersey pants, round neck 'T' Shirts, polo shirts, sports socks, etc. The FY05-12 period has seen the net revenues of this segment grow at a CAGR of 46% to Rs 1.6bn in FY12.

Exhibit 1: Product Profile



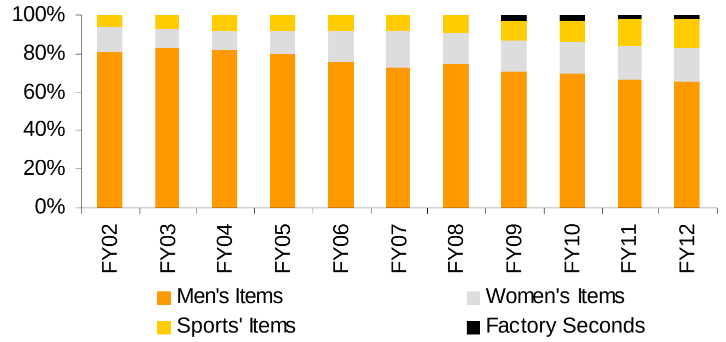
Source: Emkay Research

Exhibit 2: Revenues have grown at a CAGR of 30% over FY02-FY12



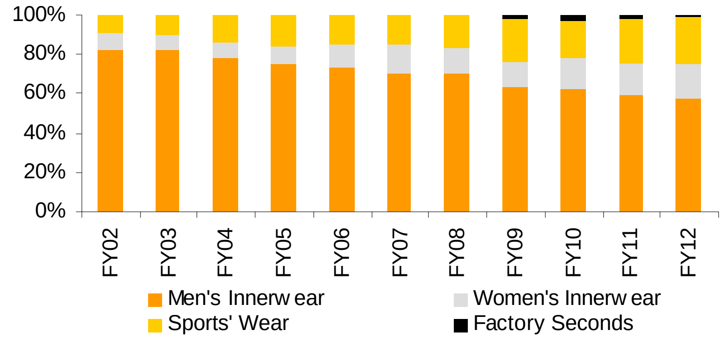
Source: Emkay Research

Exhibit 3: Women's innerwear & sportswear volumes on the rise



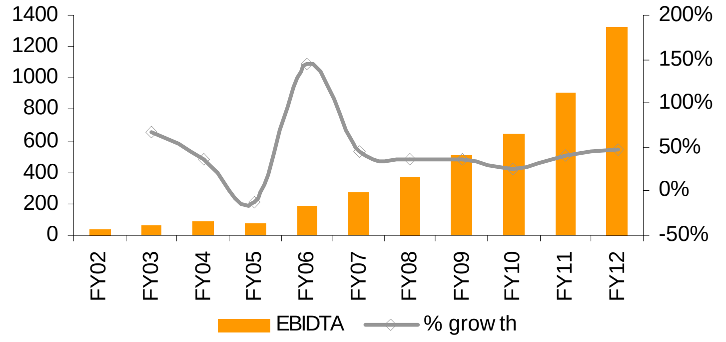
Source: Company, Emkay Research

Exhibit 4: Value share of sportswear growing rapidly



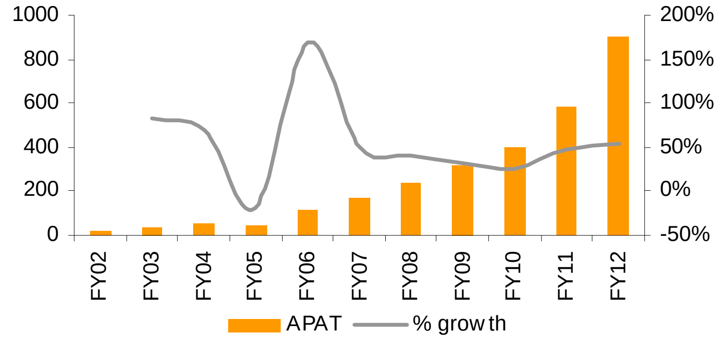
Source: Company, Emkay Research

Exhibit 5: EBIDTA has grown at 43% CAGR over FY02-FY12



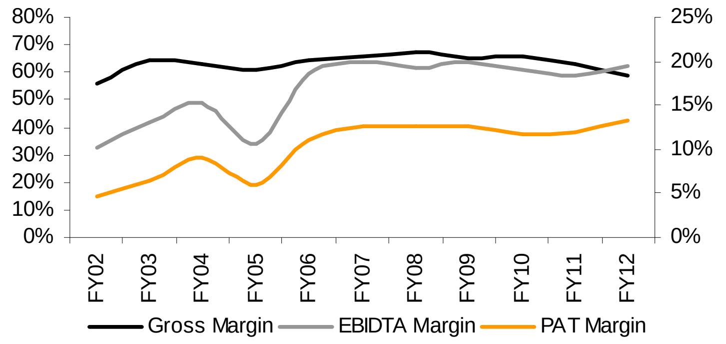
Source: Company, Emkay Research

Exhibit 6: PAT has grown at 49% CAGR over FY02-FY12



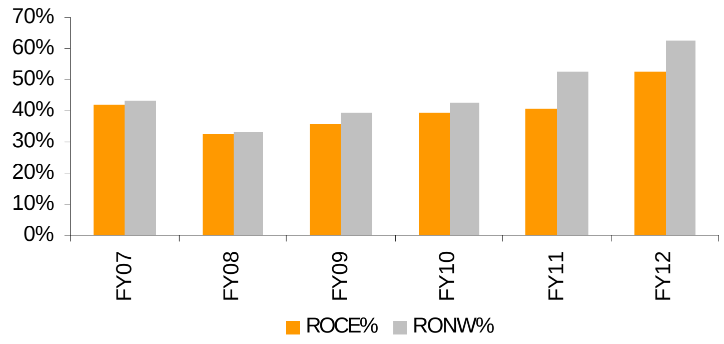
Source: Company, Emkay Research

Exhibit 7: Margins have expanded over the years



Source: Company, Emkay Research

Exhibit 8: Return ratios too, have been on the rise



Source: Company, Emkay Research

About Jockey International Inc

Jockey is a 130 year old brand with presence in more than 120 countries, marketing underwear, socks, thermals, sleepwear, active wear, sportswear, lounge wear, men's, women's and children's ranges. Apart from the US and UK, where it has a direct presence, Jockey follows the franchisee model with 50 licensees present across 120 countries. Jockey International, US, operates on the franchisee model, wherein all its licensees pay 5% of their annual turnover as royalty fees. Presently, Page Industries has a licensing agreement with Jockey International Inc. for a twenty year period valid up to 2030.

Investment Rationale

Growth story intact

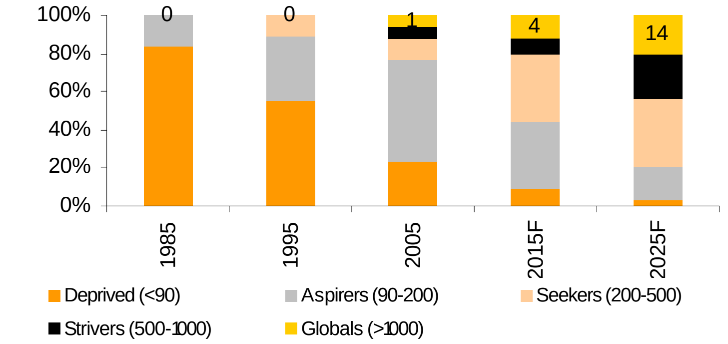
Rising preference for branded innerwear, strong brand image of Jockey and well spread distribution network have enabled Page Industries to emerge as a dominant player in organised innerwear market. We believe Page has several growth drivers in place, which would ensure sustainable market share gains and subsequently, revenue & earnings growth as well. These growth drivers have been described below:

Multiple growth drivers like growing market dynamics, rising premiumisation, capacity ramp up, new product launches to result in sustainable market share gains

Steadily growing innerwear market coupled with rise in premiumisation

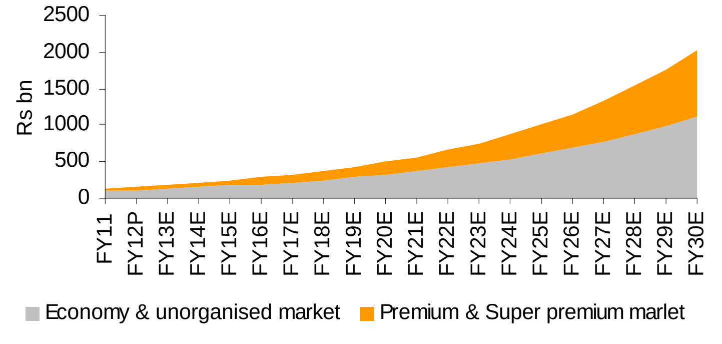
Increasing urbanization, high disposable incomes and expansion in organised retail have led to healthy growth in the domestic innerwear industry (Rs 140bn, 15% CAGR over FY05-FY11) with the premium segment (19% CAGR over FY05-FY11) growing at a faster pace. We expect this trend to continue with the premium segment (19% over FY12-FY30E) outpacing the industry (15% over FY12-FY30E) led by shift in consumer preference towards branded and premium products coupled with favorable market dynamics.

Exhibit 9: Rising share of high income cadre



Source: McKinsey Report, Emkay Research

Exhibit 10: Premium segment to outperform the innerwear market



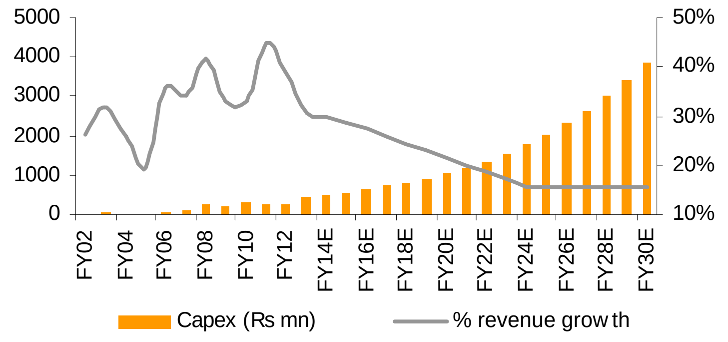
Source: McKinsey Report, Emkay Research

Capacity expansion to help cater to rising demand; but asset turns to be capped

In order to maintain its high revenue growth, PAGE would have to continuously invest in capex. Currently, it is expanding capacity from 110mn units in FY12 to 139mn units in FY13 at a capex of Rs 350mn, which would meaningfully contribute to revenues from FY13E.

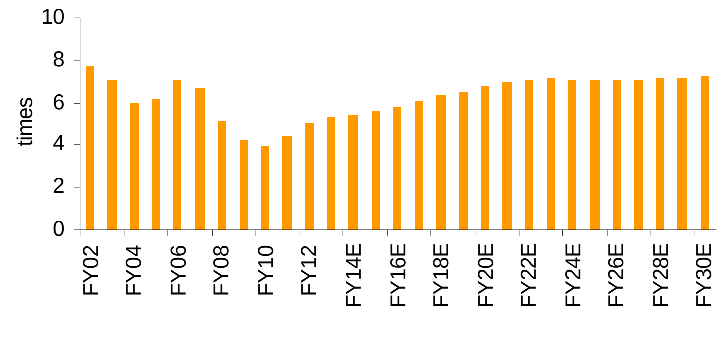
However, we feel that the asset turns may not be able to surpass its previous high of 7.5x. Over the license period, we have assumed that Page will incur capex of Rs 28.9bn till FY30E, translating into a 21% revenue CAGR over FY12-30E. Subsequently, we expect the asset turns to rise from 5.1x in FY12 to 7.2x in FY30E. However, we do not expect the asset turns to rise beyond the 7-7.5x mark.

Exhibit 11: Rs 29bn capex over FY13-30E to drive 21% revenue CAGR



Source: Company, Emkay Research

Exhibit 12: But, asset turns to be capped at a maximum of 7x



Source: Company, Emkay Research

Distribution network to grow at historical levels of 8% CAGR; share of EBOs in distribution mix to rise gradually

Strong distribution network to help Page further capitalise on rising demand

Page's strong network of 500 distributors and over 23,000 retail outlets, is spread across 4 retail formats - hosiery stores (65% of revenues), multi brand outlets (MBO-25%), large format stores (6%) and exclusive brand outlets (EBO–4%) - in over 1,100 cities in India. Page is gradually increasing its EBO stores through franchisees and plans to add 15 more stores in FY13E to the existing 67 stores in FY12. We believe Page's distribution network will continue to grow at 8% CAGR, thereby aiding revenue growth in ensuing years.

Page's market share to grow at a sustainable and realistic pace; Expect 230bps expansion in market share to 20.0% till license expiry in FY30E

Assumed realistic market share for Jockey by end of license period (till 2030)

We have assumed a realistic and sustainable rise in market share. To validate this, we have compared Page's market share gains with Jockey International, USA, market leader with 40% share in men's innerwear and 35% in women's innerwear market. We believe a similar trend of increasing acceptance towards branded and premium innerwear would be visible in the Indian market over the next 10-15 years.

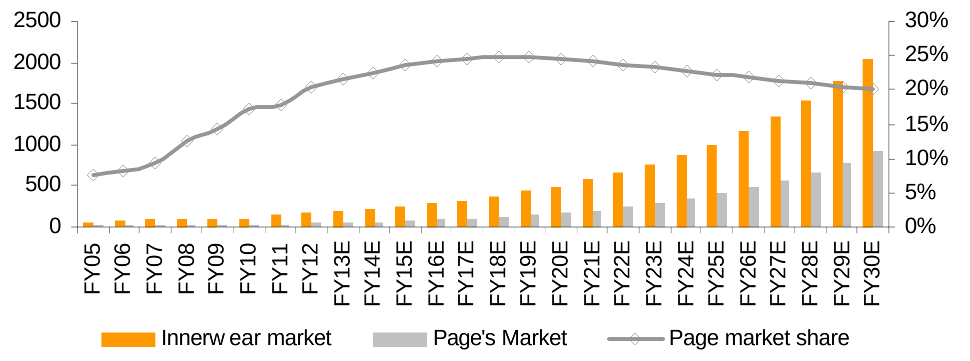
Page with its strong brand, distribution reach and capacity expansion plans would benefit immensely from these growth triggers. We expect Page to still hold about 1/5th of the total organised innerwear market at 20% in FY30E, translating into 230bps gain from FY11. We expect men's innerwear market share to grow 170bps to 22.4% and women's innerwear share to grow 500bps to 16.6% over FY11-30E.

Exhibit 13: Page's market share rise to be sustainable and realistic over license period (2030)

PAGE (%)	FY11	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
In Total Market	4.4	5.3	5.8	6.4	6.9	7.4	7.8	8.1	8.4	8.5	8.7	8.8	8.8	8.9	8.9	9.0	9.0	9.0	9.1	9.1
In Organized Market	17.7	20.3	21.5	22.6	23.5	24.1	24.6	24.8	24.8	24.5	24.1	23.7	23.3	22.7	22.2	21.7	21.3	20.8	20.4	20.0
PAGE's Men's IW																				
Of organized men's IW	20.7	23.1	24.6	25.8	26.8	27.5	27.9	27.9	27.7	27.0	26.4	25.9	25.4	24.9	24.4	24.0	23.5	23.1	22.8	22.4
Of total market	10.0	11.5	12.5	13.5	14.3	15.1	15.6	16.0	16.1	16.1	16.0	16.0	15.9	15.8	15.8	15.7	15.7	15.6	15.5	15.5
PAGE's Women's IW																				
Of organized women's IW	11.5	14.5	15.5	16.4	17.2	18.0	18.7	19.3	19.8	20.2	20.2	20.1	19.8	19.3	18.8	18.3	17.8	17.4	17.0	16.6
Of total market	1.4	1.9	2.2	2.4	2.6	2.9	3.1	3.3	3.6	3.8	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Organized market																				
Men's IW	67.5	66.9	66.3	65.7	65.2	64.7	64.3	63.8	63.4	62.9	62.5	62.1	61.8	61.4	61.0	60.7	60.3	60.0	59.6	59.3
Women's IW	32.5	33.1	33.7	34.3	34.8	35.3	35.7	36.2	36.6	37.1	37.5	37.9	38.2	38.6	39.0	39.3	39.7	40.0	40.4	40.7

Source: Emkay Research

Exhibit 14: Page to gain 230bps market share by FY30E to 20%



Source: Company, Emkay Research

Rising share of women's & sportswear and steady men's innerwear to aid 30% revenue CAGR over FY12-14E

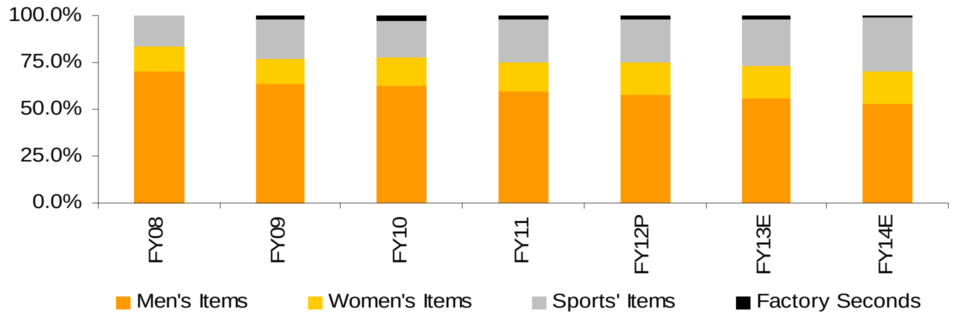
We believe men's innerwear segment would witness sustainable growth at 26% CAGR over FY12-14E. In addition, we expect the high value women's and sports wear segment to outpace men's innerwear segment by growing at 29% and 44% respectively. Subsequently, we expect Page's revenues to grow by 30% CAGR to Rs 11.6bn by FY14E.

Fast growing women's innerwear and sportswear to strengthen revenue mix

Revenue mix to strengthen with share of high value sports wear and women's innerwear rising to 46% of revenue by FY14E

Page's revenue mix is undergoing a change with the high growth women's and sportswear segments constituting a higher share (25% in FY05 to 41% in FY12). Going forward too, we expect these two segments to outpace the growth in men's innerwear, given the under penetration of these segments in the organised market. We estimate new product launches, expanded capacities and Jockey's brand equity to fuel 29% CAGR to Rs 2bn in women's innerwear and 44% CAGR to Rs 3.3bn in sportswear segment over FY12-14E. Subsequently, this would strengthen the revenue mix with combined share of women's and sports wear increasing to 46% of revenues by FY14E.

Exhibit 15: Sportswear and women's innerwear segment to enhance revenue mix by FY14E



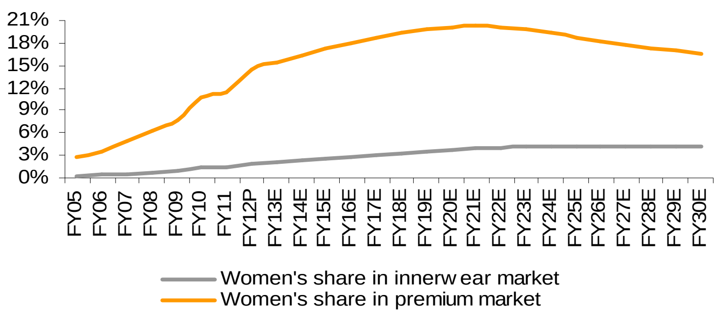
Source: Company, Emkay Research

Gaining ground in under penetrated and lucrative women's innerwear segment

Shift from unorganized players to organized market along with new product launches and expanded capacities to drive 500bps gain in market share to 16.6% by FY30E

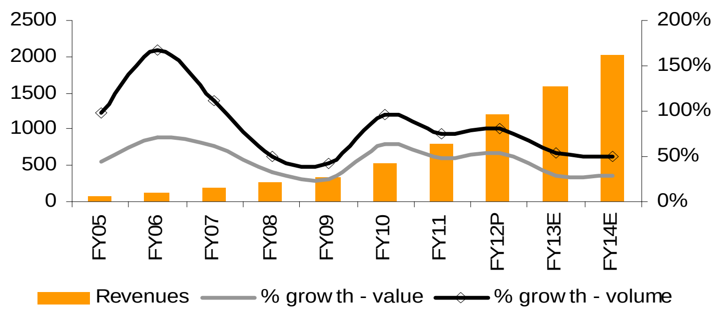
Women's innerwear is largely dominated by unorganized and low end players, thus leaving the women's premium innerwear market largely under penetrated. Page, with the Jockey brand and strong distribution reach has successfully penetrated this segment and currently has a market share of 11.5% (FY11). We expect Page's market share to grow 500bps over FY11-30E to 16.6% in the premium innerwear market led by healthy market dynamics, launch of lifestyle and fashionable women's innerwear and expanded capacities. In near term, we expect revenue from this segment to grow at 29% CAGR over FY12-14E to Rs 2bn aided by 23% volume growth.

Exhibit 16: New launches and capex to aid market share expansion



Source: Company AR, Industry, Emkay Research

Exhibit 17: Expect revenues to grow by 29% CAGR over FY12-14E



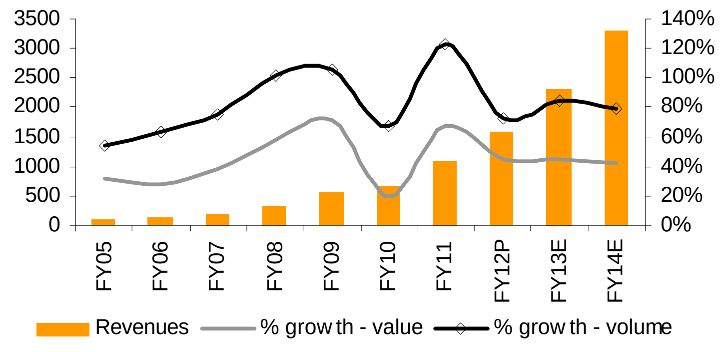
Source: Company, Emkay Research

Sportswear to contribute significantly towards the revenue mix

Product innovations, new tie ups like Speedo and increased penetration to drive 44% growth in sports wear segment;

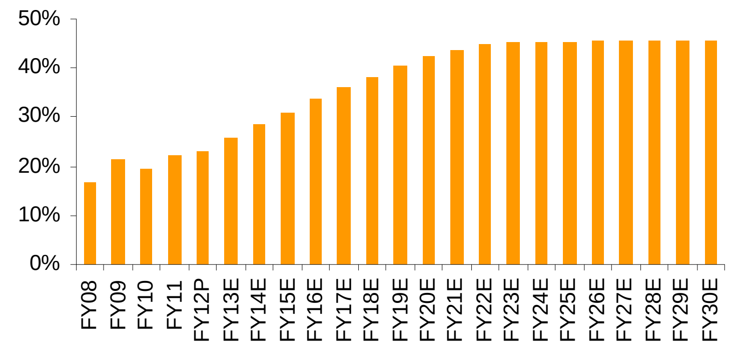
Higher realization and a wide product basket (t-shirts, bermudas, women tops, thermals, etc) have led to strong growth of 46% CAGR over FY05-12 and its share has risen to 23% of sales in FY12 vs 15% in FY05. Constant product innovation, new tie ups (with Speedo International, Australia for swimwear & accessories) and increased penetration is likely to drive growth in sportswear segment. Barring Speedo, we expect sportswear revenues to grow at 44% CAGR to Rs 3.3bn over FY12-14E, with revenue contribution increasing from 23% in FY12 to 28% in FY14E. By end of license period, sportswear segment is expected to be largest contributor in revenue mix at 46%. Although there is no market share data to validate Page's strong and sustainable growth in sportswear segment, we believe that Page would make ample headway in sports and leisure wear during license period.

Exhibit 18: Expect sportswear to grow at 44% CAGR over FY12-14E



Source: Company, Emkay Research

Exhibit 19: Sportswear to contribute significantly to revenue mix



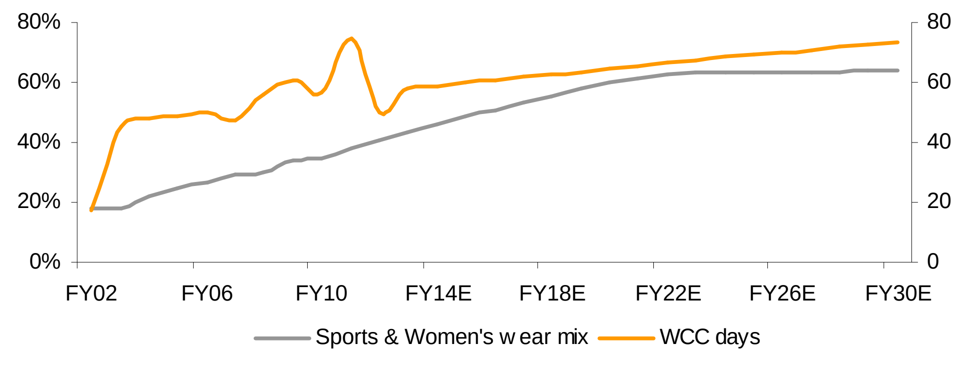
Source: Company, Emkay Research

However, mix change to women's & sportswear to further strain working capital cycle

Improvement in product mix due to rise in women's & sports wear would be at the cost of higher working capital cycle; to rise from 50 days in FY12 to 74 days in FY30E

Product mix change of women's wear and sportswear from 18% in FY02 to 41% in FY12 has increased inventory days from 64 days in FY02 to 92 days in FY12. The inventory level in stock keeping units (SKUs) has risen owing to faster change in fashion trends in these segments. Going forward, we expect that increase in product mix in favour of women's and sports wear from 41% in FY12 to 64% by FY30E would result in higher inventory cycle from 92 days in FY12 to 120 days in FY30E. This would eventually lead to increase in working capital cycle (Inventory+Debtors-Creditors) from 50 days in FY12 to 74 days in FY30E.

Exhibit 20: Rise in product mix to increase working capital cycle



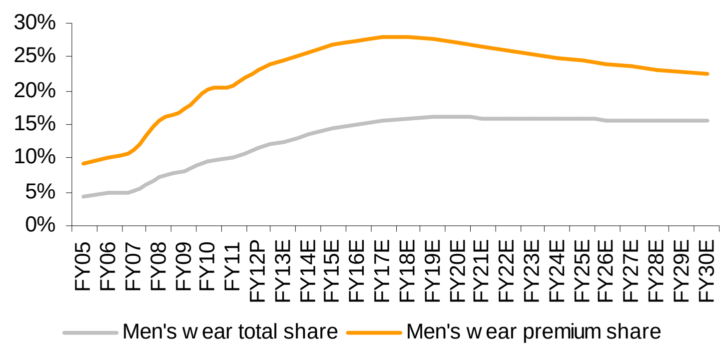
Source: Company, Emkay Research

Men's innerwear to hold fort; To grow at 26% CAGR over FY12-14E

Men's innerwear to maintain 26% revenue CAGR over FY12-14E; In the long run, expect market share to improve 170bps to 22.4% by FY30E

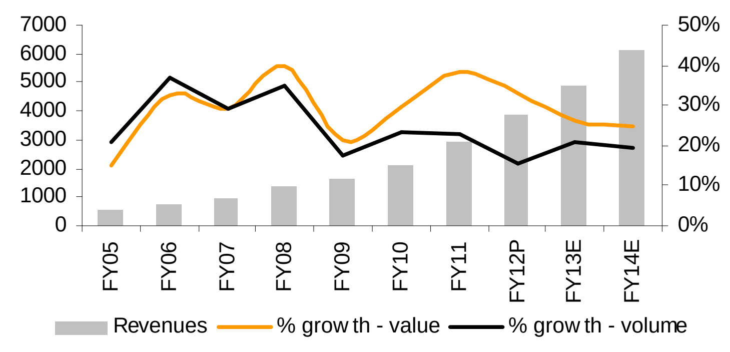
Jockey's brand image, rising distributor network and rising preference towards premium products have led to strong growth of 32% to Rs 3.9bn over FY05-12. In addition, new product launches and expansion in existing capacities across segments will drive sustainable growth in this segment. We expect men's innerwear market share to increase to 22.4%, +170bps over FY11-30E. In the near term, we estimate men's segment to grow at 26% CAGR to Rs 6.1bn over FY12-14E, led by 20% volume CAGR.

Exhibit 21: Men's innerwear to sustain market share



Source: Company AR, Industry, Emkay Research

Exhibit 22: Men's innerwear to grow at 26% CAGR over FY12-14E



Source: Company AR, Industry, Emkay Research

Page to maintain growth trajectory with 30% revenue CAGR over FY12-14E

We expect men's innerwear segment to witness sustainable growth at 26% CAGR over FY12-14E. In addition, we expect the high value women's and sportswear segment to outpace men's innerwear segment by growing at 29% and 44% respectively. Subsequently, we expect Page's revenues to grow by 30% CAGR to Rs 11.6bn by FY14E.

Exhibit 23: Revenue Breakup

Overall Revenue Break Up	FY08	FY09	FY10	FY11	FY12P	FY13E	FY14E
Men's Innerwear Business	1,344	1,630	2,110	2,921	3,892	4,915	6,130
Growth %	39.8%	21.3%	29.4%	38.5%	33.2%	26.3%	24.7%
Women's Innerwear Business	259.5	326.4	531.8	786.5	1213.4	1574.5	2026.6
Growth %	33.0%	25.8%	62.9%	47.9%	54.3%	29.8%	28.7%
Sports Wear	320.2	547.6	655.2	1096.6	1586.4	2308.2	3297.9
Growth %	57.6%	71.0%	19.6%	67.4%	44.7%	45.5%	42.9%
Factory Seconds		51	97	111	115	125	136
Growth %			88.9%	14.4%	3.4%	8.8%	8.8%
Total Net Revenue	1923.5	2555.2	3393.7	4915.6	6806.3	8922.6	11590.8
Growth %	41.5%	32.8%	32.8%	44.8%	39.0%	30.6%	29.9%

Source: Company, Emkay Research

However, we suspect the cash flow management of Page

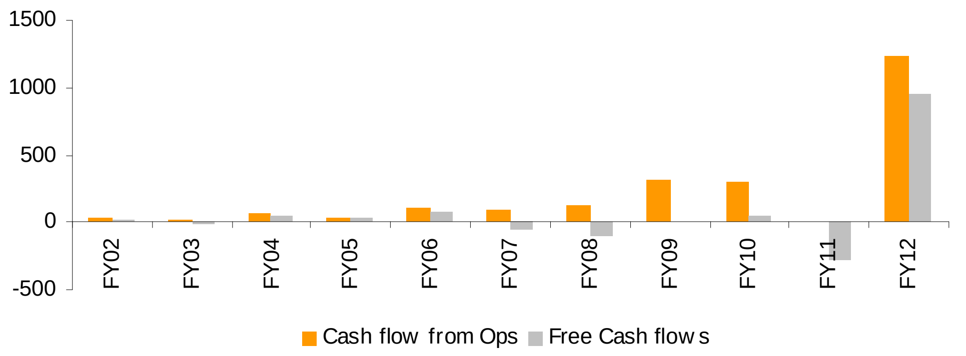
We are enthused by the strong business model of Page and its key growth drivers, which would ensure sustainable revenue and earnings CAGR, but we are skeptical on the free cash flows generation ability of the company. Our close scrutiny of past financials reveals that Page's free cash flow generation has been low and inconsistent. Despite this, Page has consistently maintained its high dividend payouts (50-60%) with the absolute dividend rising every year. Moreover, its free cash flows have been insufficient to pay these high dividends, resulting in debt addition on the balance sheet.

Free cash flows in the past have been low and inconsistent

Rising working capital & capex have led to low free cash flow generation in the past

Rising inventory levels due to product mix change towards women's & sports wear coupled with increasing capex spend has led to inconsistency in Page's free cash flow generation. Inventory cycle has risen by 28 days to 92 days over FY02-12, which has led to sporadic rise in working capital cycle from 17 days in FY02 to 50 days in FY12. Meanwhile, capex spend in last 10 years has been Rs 1.4bn till FY12. This has led to low or inconsistent free cash flow generation of the company. Given the consistently high dividend payout policy (50-60%) of Page, the free cash flows have been inadequate to meet its dividend pay-outs.

Exhibit 24: Free cash flows have been low & inconsistent (Rs mn)



Source: Company, Emkay Research

Exhibit 25: Dividend Payout > Free cash flows

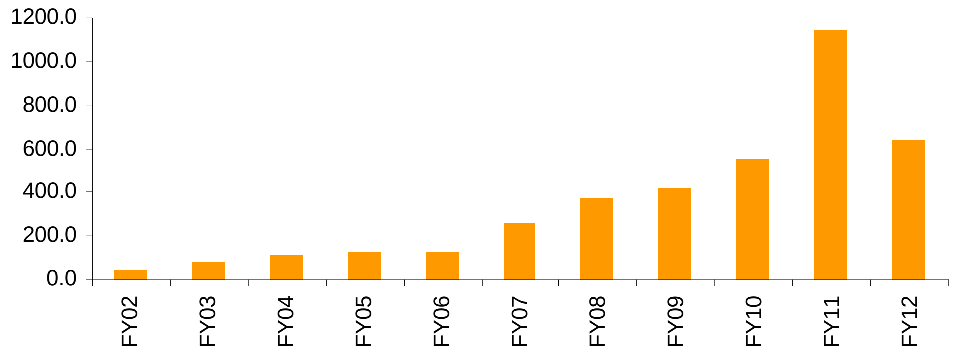
Particulars (Rs mn)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Free Cash flows	21.4	-12.6	47.7	37.4	74.9	-49.3	-100.2	9.4	50.6	-282.9	955.8
Dividend	-10.8	-13.7	-55.0	-27.5	-55.4	-55.5	-130.5	-182.7	-313.2	-286.1	-401.9
Dividend Payout	63.2%	44.1%	104.3%	64.9%	48.6%	32.6%	54.8%	70.1%	69.2%	57.7%	60.7%
Free Cash flows - Dividend	**10.6**	**-26.3**	**-7.3**	**9.9**	**19.5**	**-104.9**	**-230.7**	**-173.3**	**-262.6**	**-569.0**	**554.0**

Source: Company, Emkay Research

…resulting in absolute rise in debt

Inability to fund the high dividend payout has led to debt accumulation on the balance sheet. Although, the debt on the balance sheet is not alarming (0.4x debt/equity for FY12 at Rs 642mn), but the absolute debt figure has been gradually rising over the years.

Exhibit 26: Absolute debt has been on the rise over the years (Rs mn)



Source: Emkay Research, Company

This brings us at crossroads…

We like Page's business model and are enthused by its ability to capitalize on the growth triggers, which would drive 21% revenue CAGR and 19% earnings CAGR over FY12-30E. However, while analyzing the high dividend payout structure of Page in conjunction with its free cash flows, we derive that even though Page might generate cash flows over the license period till FY30E, it may not be able to service its high dividend outflow. This brings us at crossroads, where Page may have to make either of the following moves at some point of time.

Continue to raise debt in order to maintain its high payout ratio

We believe for now, the company will continue to maintain its high dividend payout ratio (one of the factors for premium valuations). However, to maintain this payout, the company will have to keep adding debt on its balance sheet. Although, the debt to equity ratio should be at comfortable levels (average of 0.4:1 over license period), we believe that adding debt to maintain its high dividend payout ratio would pare Page's premium valuations as a consumer company in the intermediate term.

OR

Reduce the dividend payout ratio

As stated above, to maintain its high dividend payout ratio, Page would have to increase absolute debt. On the other hand, to maintain its debt levels or be debt free, it would have to reduce its dividend payout ratio at the earliest. This would lead to a transitory impact on Page's premium valuations as a consumer company. A reduction in the payout ratio, which has been maintained for so many years would impact shareholders' image of the company.

Reduce dividend payout or increase debt - De-rating inevitable

We are positive on the business prospects of Page and expect its growth drivers to play out during the license period, but we believe, that a de-rating on the stock is inevitable as either of the above actions i.e. reduction in dividend payout or rise in debt to fund the high payout would materially have a one-off adverse impact on stock valuations. Payout reduction would lead to an immediate/short-term de-rating on the stock, while maintaining the dividend payout will postpone the de-rating as rising debt will take some time to reflect adversely on valuations. We have compared Page to few other similar consumption models, where Page scores well on most counts be it revenue growth, earnings growth, high return ratios, etc., but its inability to pay dividend from its free cash flows is a key negative that may play against it. Eventually, we feel that a reduced payout or debt addition on the balance sheet would impact Page's premium valuations.

Since there is no definite timeline on the payout reduction by the company, we have considered that the company will continue to maintain its high dividend payout ratio and thus debt on the balance sheet would continue to rise.

Exhibit 27: Page stands weak vs other consumption companies on comparison of "Free cash flows – Dividend"

Company (Rs mn)	FY12	FY11	FY10	FY09	FY08	FY07
Titan Industries	(970)	9,228	2,548	635	340	445
Bata India	(273)	(184)	406	(142)	349	177
Berger	18	(185)	993	(2,128)	272	(765)
Nestle	(8,325)	1,256	2,103	1,523	424	282
Kewal Kiran Clothing	(37)	159	209	253	(53)	(152)
Marico	2,586	159	23	580	(510)	(1,550)
Page Industries	**554**	**(569)**	**(263)**	**(173)**	**(231)**	**(105)**

Source: Company, Emkay Research

Exhibit 28: Page's dividend payout % is higher than most peers in the consumption space

Company (%)	FY12	FY11	FY10	FY09	FY08	FY07
Titan Industries	25.8%	25.5%	26.3%	25.8%	22.9%	20.6%
Bata India	24.9%	28.9%	30.8%	27.3%	31.5%	0.0%
Berger	27.0%	30.6%	31.7%	24.1%	17.2%	36.4%
Nestle	48.4%	56.7%	71.2%	76.5%	74.5%	75.1%
Kewal Kiran Clothing	40.8%	44.1%	22.7%	26.2%	23.4%	16.6%
Marico	13.6%	16.0%	16.7%	20.0%	24.9%	39.6%
Page Industries	**60.7%**	**57.7%**	**69.2%**	**70.1%**	**54.8%**	**32.6%**

Source: Company, Emkay Research

Key risks to our rating

Better working capital management

We have assumed that improved product mix of women's & sports wear would strain inventory cycle and thereby working capital cycle. However, if Page is able to grow these segments faster than anticipated and is able to manage its working capital more efficiently than expected, this could positively impact our cash flows.

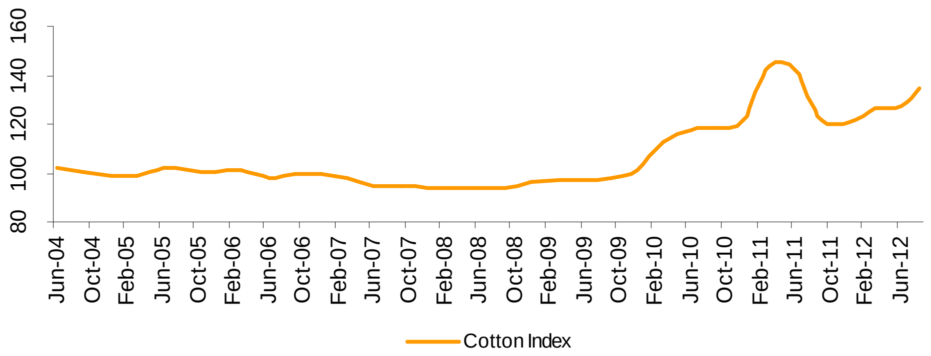
Higher than expected growth in revenue & earnings

We have estimated 21% revenue CAGR and 19% PAT CAGR over FY12-30E. However, if the demand environment turns out to be better than expected, it could lead to higher than anticipated earnings growth.

Volatility in the prices of yarns and fabrics

PAGE sources yarns and fabrics from its suppliers in the domestic market and hence, is exposed to raw material price volatility. If the raw material cost of cotton depreciates significantly, this could positively help Page in improving its earnings.

Exhibit 29: Cotton yarn index has corrected in the past one year



Source: Bloomberg, Emkay Research

Not factored any estimates from Page's international exclusive licenses

We have not factored any financials from Page's exclusive license (till 2030) of Jockey brand products in Sri Lanka, Republic of Maldives, Bangladesh and Nepal and UAE. Page has sub-distribution in Nepal and Sri Lanka, while it has one distributor in UAE and it has not yet ventured into Bangladesh. We believe that if Page manages to replicate India's success story in any of these countries taking into account the market dynamics of that particular country, Page could achieve a dominant position in these geographies also over the medium-to-long term (10-20 years). Presently, Page is not focused on these markets. We have not factored any upside potential of newer geographies in our estimates and DCF valuation. Therefore, any positive action/step taken by Page towards these geographies could positively impact our earnings estimates and rating.

Exhibit 30: Potential revenues from new geographies

Country	Population (mn)	Innerwear market (Rs bn)	Page's Market	Innerwear Market Growth	Innerwear Market - 2030 (Rs bn)	Premium market growth%	Premium market - 2030 (Rs bn)	Page's premium market share% - 2030	Potential Revenues – 2030 (Rs bn)
Sri Lanka	20.9	2.38	0.6	15.1%	34.5	18.8%	15.7	20.0%	1.9
Maldives	0.3	0.04	0.0	15.1%	0.5	18.8%	0.2	20.0%	0.0
Nepal	30.0	3.42	0.9	15.1%	49.6	18.8%	22.5	20.0%	2.7
Bangladesh	148.7	17.00	4.2	15.1%	246.1	18.8%	111.9	20.0%	13.4
UAE	7.5	0.86	0.2	13.1%	8.9	16.8%	4.1	20.0%	0.5

*Source: Emkay Research, Note - * assumed lower propensity to consume in UAE as compared to other countries, thus lower growth*

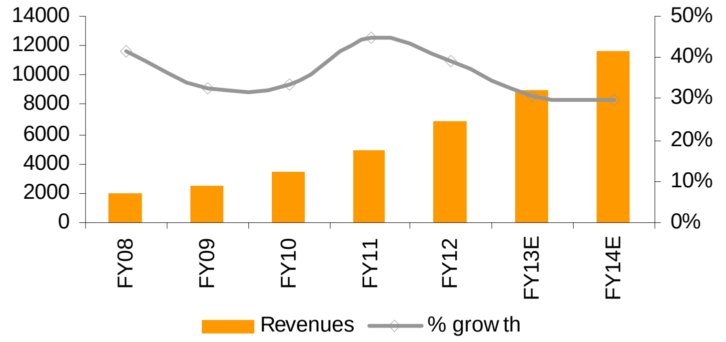
Financials

Expect revenues to grow at 30% CAGR during FY12-14E

Expect 30% revenue CAGR over FY12-14E led by strong growth in sports wear (44%) and women's wear (29%)

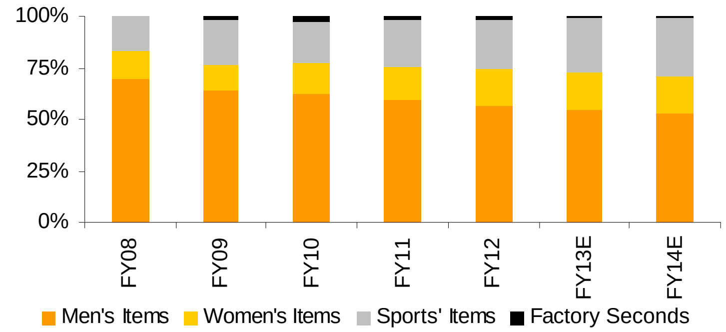
We expect the net revenues of PAGE to grow at a CAGR of 30% during FY12-14E as against 33% during FY02-12. The growth would be driven by 1) men's innerwear business continuing to outpace the organized market with a 26% CAGR, 2) capacity expansion and deeper penetration of women's innerwear, thereby leading to healthy 29% revenue CAGR over FY12-FY14E and 3) new launches and tie ups in sports wear business leading to 44% CAGR during the same period. Our estimates factor a total sales volume CAGR of 23% (113mn pieces in FY14E against 75mn pieces in FY12) and sales realization CAGR of 5.8% (Rs 102.4 per piece in FY14E as against Rs 91.4 per piece in FY12) during the period. The revenue mix is expected to increase in favour of sports wear and women's innerwear, with their combined contribution at 46% in FY14E vs 41% in FY12.

Exhibit 31: Revenues to grow at 30% CAGR over FY12-FY14E (Rs mn)



Source: Company, Emkay Research

Exhibit 32: Expect revenue mix to see rising share of sportswear



Source: Company, Emkay Research

Exhibit 33: Net revenue estimates

Overall Revenues & Growth	FY08	FY09	FY10	FY11	FY12P	FY13E	FY14E
Sales Quantity (mn pieces)	32	39	49	63	75	92	113
Growth %	32%	23%	27%	27%	19%	24%	23%
Realization (Rs/ piece)	60.4	65.5	68.7	78.4	91.4	96.6	102.4
Growth %	7.1%	8.4%	4.8%	14.2%	16.6%	5.7%	5.9%
Net Revenue (Rs mn)	1923.5	2555.2	3393.7	4915.6	6834.1	8922.6	11590.8
Growth %	41.5%	32.8%	32.8%	44.8%	39.0%	30.6%	29.9%
Capacity (mn pieces)	32	46	54	86	114	144	176
Capacity Utilization %	99%	85%	92%	73%	65%	64%	64%
Market Share in Organized Innerwear Market %	13%	14%	17%	18%	20%	21%	23%

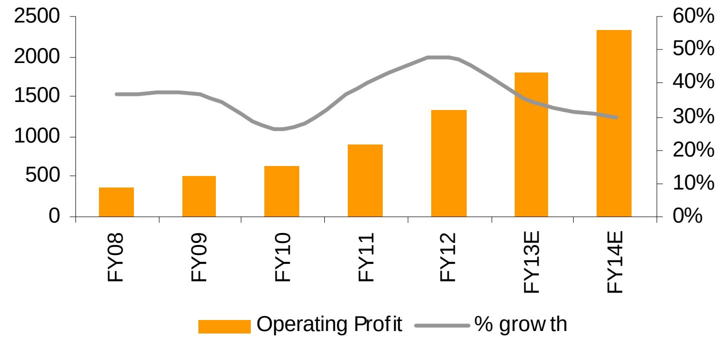
Source: Company, Emkay Research

Healthier product mix to drive 32% EBITDA CAGR during FY12-14E; rise of sportswear in revenue mix to help improve margins to 20%

EBIDTA margins to rise to 20% led by an improved product mix

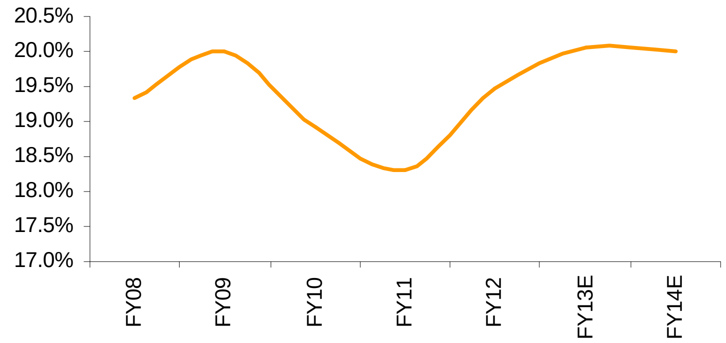
We expect PAGE's EBITDA to grow at 32% CAGR to Rs 2.3bn during FY12-14E, led by higher realizations across all businesses coupled with better operational efficiency. Increase in revenue share of women's innerwear and sportswear (from 41% in FY12 to 46% in FY14E) is expected to help improve EBIDTA margins to 20%. In addition, softening in cotton prices would reduce Page's input cost, but this would be offset by higher advertising cost.

Exhibit 34: Better product mix to drive 32% EBIDTA CAGR by FY14E



Source: Company, Emkay Research

Exhibit 35: EBIDTA margins to improve to 20%

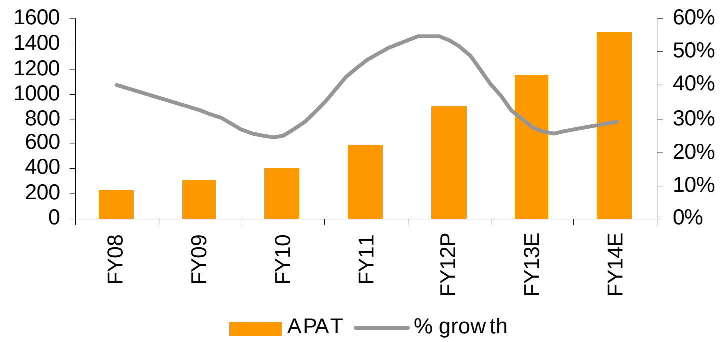


Source: Company, Emkay Research

Expect PAT CAGR of 27% during FY12-14E

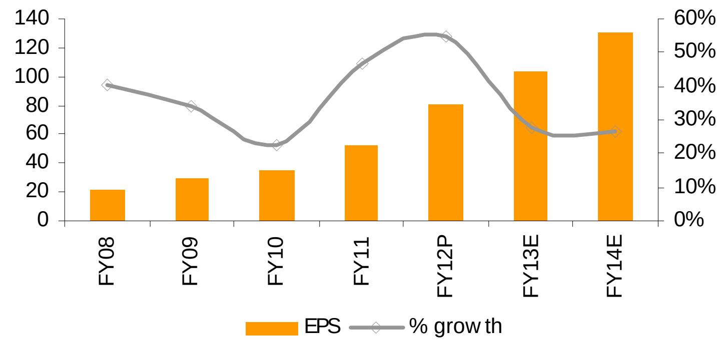
We expect PAGE's net profit to grow in line with EBIDTA at a CAGR of 27% to Rs 1.5bn during FY12-14E. Subsequently, we expect the net margins to contract by 60bps to 12.5% in FY14E. EPS is expected to grow at a CAGR of 27% from Rs 81/share in FY12 to Rs 130.4/share in FY14E.

Exhibit 36: PAT to grow at 27% to Rs 1.5bn in FY14E



Source: Company, Emkay Research

Exhibit 37: Expect EPS to rise to Rs 130.4/share in FY14E

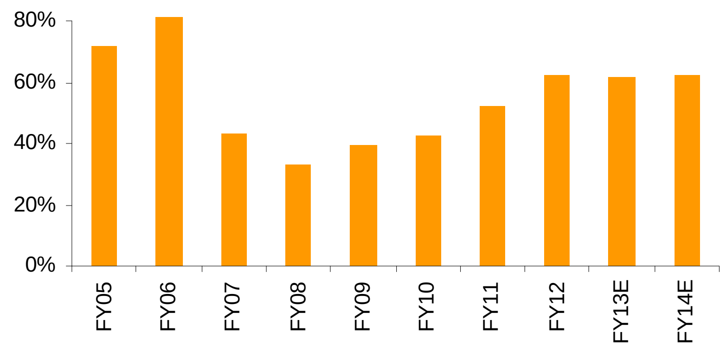


Source: Company, Emkay Research

Expect ROCE to rise to 58%, while ROE to remain at 62% in FY14E

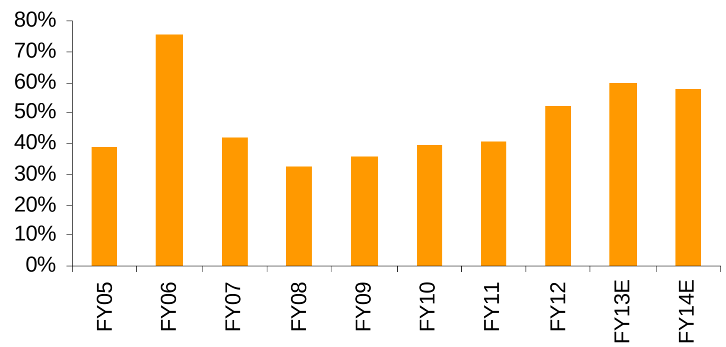
Strong growth in revenues and earnings are likely to ensure sustenance of its already high return ratios of 50%+. We expect ROCE to expand from 53% in FY12 to 58% in FY14E. However, we expect the ROE to remain constant at 62% in FY14E owing to our assumption of high dividend payout of 55-60%.

Exhibit 38: ROE to stay at 62% owing to high dividend payouts...



Source: Company, Emkay Research

Exhibit 39: ...and ROCE to rise to 58% in FY14E



Source: Company, Emkay Research

Valuations and Recommendation

At crossroads – free cash flows insufficient to fund the high dividend payout

Key thesis to our negative bias – Page at crossroads as its free cash flows is insufficient to pay its high dividends. Either raise debt to service high dividends or reduce dividend payout

Although, we are enthused by Page's robust business model, several growth drivers being in place, strong revenue and earnings growth, high return ratios, etc, we are skeptical on the continuity of high dividend payouts by the company. Till now, the company has rewarded shareholders with a high dividend payout, but it has come at the cost of debt addition on the books, as the free cash flows generated by Page have not been adequate to pay dividends. We foresee there could be 2 situations, out of which the company may have to adopt one at any given point of time.

Add debt on its books to fulfill the dividend payout commitments of the shareholders **OR** Reduce the dividend payout ratio

Either move could result in an intermediate de-rating of the stock, which we believe may occur either soon if the company reduces its dividend payout or with a lag, if the company keeps adding debt on the books.

May not get high multiples like similar consumption companies if debt continues to rise due to high dividend payout policy

Given the business model of Page and its growth profile, we prefer to compare Page with a peer set which meets the following criteria:

Compared Page with companies having similar revenue and earnings growth profile, strong operating metrics and high dividend payouts

- Consumption driven model – discretionary & non discretionary with strong brand profile
- Asset light model with low/no leverage
- Strong revenue and earning growth drivers
- Strong operating metrics resulting in healthy free cash flows & robust return ratios
- Dividend payout structure that can be well funded through free cash flows

Page, when viewed alongside the peer set, which matches the above criterion, appears attractive on most counts. We are fairly confident of Page's robust business model along with its strong growth drivers, which will result in healthy revenue growth, earnings growth and healthy return ratios. But, on the other side, we believe, Page would have to continuously invest in capex for maintaining this level of growth, which would keep its asset turns in check, while its working capital days would also increase significantly due to product mix change from men's innerwear to women's and sports wear (increase in stock keeping units).

One major factor that reaffirms our negative bias on the stock is the challenge to retain payout ratios from its free cash flows, thereby adding debt on the balance sheet.

As given in the table below, it is evident that Page is well-placed as far its business & operations are concerned, but when we compare the other consumption models, it is clearly evident that most of the consumption models are able to pay off their dividends from their free cash flows itself, while in case of Page, in last 6 years, only on one occasion, its free cash flows were sufficient to pay dividends. This depicts that the company is adding debt on the books, which is very unusual for a consumption driven company. This may trigger a de-rating for the company at some point of time, as the debt would continue to accumulate on the balance sheet, if the company maintains its high dividend payout ratio.

Exhibit 40: Page stands weak vs other consumption companies, when we compare 'free cash flows – dividend'

Rs mn	FY12	FY11	FY10	FY09	FY08	FY07
Titan Industries	(970)	9,228	2,548	635	340	445
Bata India	(273)	(184)	406	(142)	349	177
Berger	18	(185)	993	(2,128)	272	(765)
Nestle	(8,325)	1,256	2,103	1,523	424	282
Kewal Kiran Clothing	(37)	159	209	253	(53)	(152)
Marico	2,586	159	23	580	(510)	(1,550)
Page Industries	**554**	**(569)**	**(263)**	**(173)**	**(231)**	**(105)**

Source: Company, Emkay Research

Exhibit 41: Peer Comparison with similar consumption driven businesses

Company	Revenues'14 (bn)	FY12-FY14E CAGR	EPS'14	EPS CAGR 12-14E	ROE'14	ROCE'14	FCF'14 (Rs mn)	P/E	P/BV	Mcap (bn)	CMP*	BV	Dividend Yield
Titan Industries	131	21.9%	13	35.6%	40.5%	15.3%	9.5	19	8	214.6	242	29	1.2%
Bata India	23	21.8%	36	-5.0%	29.7%	17.3%	1.7	26	7	60.8	946	136	0.9%
Berger	40	17.0%	7	19.3%	23.6%	12.7%	1.5	19	4	49.2	142	34	1.3%
Nestle	104	17.8%	141	18.9%	68.7%	28.5%	13.0	31	19	421.8	4,375	232	1.8%
Kewal Kiran Clothing	4	14.0%	52	10.4%	22.7%	-	0.4	13	3	8.0	647	239	2.7%
Marico	56	18.5%	8	26.1%	24.9%	15.4%	3.2	23	5	123.2	191	37	0.6%
Page Industries (Consensus)	11.2	28.1%	134	28.8%	58.2%	31.0%	0.7	25	13	36.9	3,311	263	1.9%
Page Industries (Emkay)	11.6	30.2%	130	27.1%	62.4%	57.6%	0.7	25	14	36.9	3,311	232	2.2%

*Source: Capitaline, Bloomberg, Emkay Research, * Prices as at close on 20th September'2012.*

DCF value for Page works out to Rs 2,849

We have assumed that Page will continue to maintain its dividend payout ratio, which will lead to debt addition on the balance sheet. We have valued Page on DCF as it reflects the impact of the same.

Assumed debt addition to maintain high dividend payout

We have assumed that Page would continue to maintain its high dividend payout for now, which would lead to debt addition on the balance sheet. We feel that constant rise in absolute debt due to its inability to service the high dividends outflow from its free cash flows, would affect the premium valuations commanded by Page. This would cap any upside on the stock in near term, while over time; this might impact premium valuations of Page. Assuming Page maintains its high dividend payout, it will result in debt addition of Rs 10bn over FY12-30E.

DCF Model

Assumed Page would retain payout and add debt. Valued Page on DCF with target price of Rs 2,849

Given the definite horizon and tenure of license agreement (till 2030); we have valued PAGE using Free Cash Flows to Equity model of DCF valuation. We have not factored any numbers from Speedo International and its International license agreements. We have used the 2 stage DCF to arrive at our target price i.e. a) 'Market share gains' phase (FY13-20) and b) 'Growth in-line with industry' phase (FY21-30).

We have assumed Page's overall market share in organised innerwear market to increase 230bps over FY11-30E to 20%, which would result in 20% revenue CAGR and 19% earnings CAGR over FY12-30E. On the balance sheet side, we have assumed increase in working capital cycle from 50 days in FY12 to 74 days in FY30E. On capex, we have assumed an increase of Rs 29bn over the license period, resulting in asset turns of 7.2x by FY30E. Assuming Page maintains its high dividend payout, it will result in debt addition of Rs 10bn over FY12-30E. Based on the above assumptions, our DCF value for Page works out to Rs 2,849.

Exhibit 42: DCF Valuation

DCF Valuation	
Cost of Equity	14.20%
Cost of Debt	10.40%
WACC	14.03%
Terminal Growth	0.00%
Cash Flow at N+1	12,768
Terminal Value (N+1)	91,016
Discounted Terminal Value	9,770
Present Value of Equity till Terminal Year	22,007
Present Value of Equity	31,777
No. of Equity Shares (mn)	11.2
Price Target (Rs)	**2,849**

Source: Emkay Research

Exhibit 43: Projected Cash flows till license period (2030)

Y/E Mar (Rs mn)	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Sales	8,923	11,591	14,911	18,984	23,904	29,748	36,561	44,348	53,127	63,010	73,922	85,466	98,815	114,252	132,102	152,744	176,614	204,217
Net Profit	1,150	1,454	1,839	2,313	2,884	3,564	4,351	5,243	6,276	7,406	8,599	9,774	11,098	12,586	14,257	16,134	18,235	20,587
Depreciation	138	174	215	262	314	373	440	514	600	698	811	940	1,087	1,255	1,447	1,665	1,912	2,193
Non-Cash Expen.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest(1-T)	124	166	207	254	306	358	410	457	504	545	582	602	634	680	748	836	961	1,122
Capital Expenditure	(435)	(497)	(565)	(640)	(723)	(814)	(914)	(1,025)	(1,179)	(1,353)	(1,550)	(1,774)	(2,026)	(2,311)	(2,633)	(2,996)	(3,406)	(3,867)
(Inc)/Dec in Non-Cash Work. Cap.	(651)	(579)	(731)	(909)	(1,114)	(1,341)	(1,586)	(1,837)	(2,118)	(2,410)	(2,687)	(2,868)	(3,349)	(3,910)	(4,565)	(5,331)	(6,224)	(7,268)
FCF To Equity	326	718	966	1,279	1,668	2,140	2,701	3,352	4,083	4,886	5,754	6,674	7,444	8,300	9,253	10,308	11,478	12,768
FV Factor	100	114	130	148	169	193	220	251	286	326	372	424	483	551	628	717	817	932
Discount Factor	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Present Value of FCF To Firm	326	629	743	863	987	1,110	1,228	1,337	1,428	1,499	1,548	1,575	1,540	1,506	1,472	1,439	1,405	1,370
Cumulative Cash Flow	326	955	1,698	2,560	3,547	4,657	5,885	7,222	8,651	10,150	11,698	13,273	14,813	16,319	17,791	19,230	20,635	22,005

Source: Emkay Research

A reduction in dividend payout could trigger short term de-rating

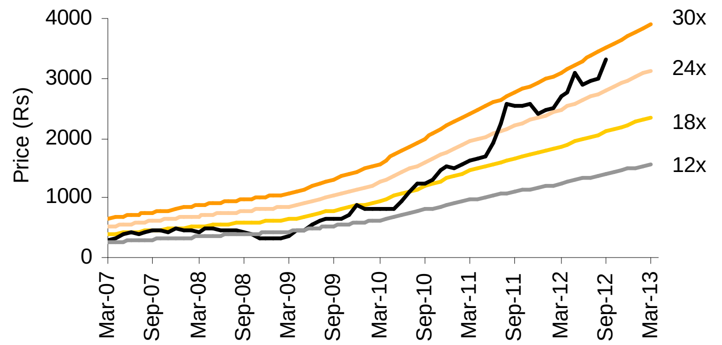
A reduction in dividend payout could trigger short term de-rating. However as timeline is not definite, we have not considered payout reduction in our estimates

At the current juncture, we expect Page to continue to maintain a high dividend payout ratio, which would lead to debt addition on the books. We do not expect an immediate reduction in payout by the company. In case, the company goes ahead and reduces its payout, this would result in an immediate/short-term de-rating and also impact shareholders' confidence on the stock. If Page is to curtail its debt on balance sheet, it would have to reduce its dividend payout structure. Considering, high dividend payout is one of the factors for premium valuations of Page, a reduction in payout would result in short term de-rating to the stock and it may also not be able to enjoy such premium valuations (currently trading at 25.5x FY14E earnings). Even in the case of debt addition to maintain its high dividend payout, we believe, the current valuations are not sustainable and would correct gradually. In either case of debt addition or reduced payout, we do not expect Page to trade beyond 20x earnings multiples. The derived price of Page works out to Rs 2600, which discounts FY14E multiple at 20x. As there is no definite time line on this event, we have not considered dividend payout reduction in our estimates.

Initiate coverage with a Sell and target price of Rs 2,849

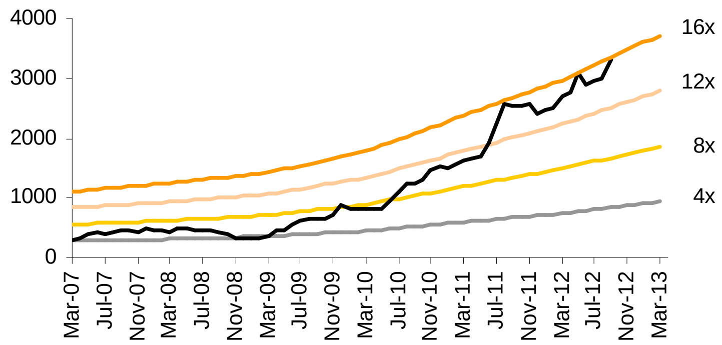
We are positive on the business model and growth drivers that would trigger 19% earnings CAGR over the license period (till 2030). However, we are uncertain on the free cash flow generation being sufficient to pay out its high dividends. We have factored that the dividend payout would continue to remain high at 56% and subsequently, lead to debt addition on the balance sheet. Our DCF price works out to Rs 2,849, which is 14% lower than the current price. We initiate coverage on Page Industries with a Sell rating.

Exhibit 44: 1 year forward P/E band



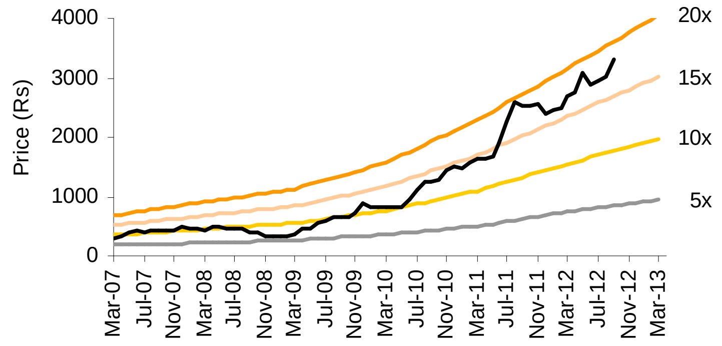
Source: Emkay Research

Exhibit 45: 1 year forward P/BV band



Source: Emkay Research

Exhibit 46: 1 year forward EV/EBIDTA band



Source: Emkay Research

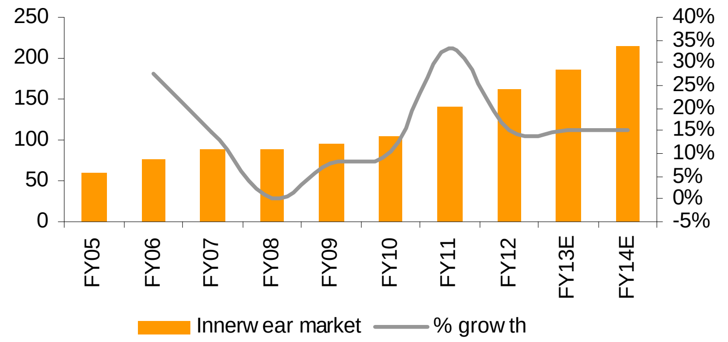
Annexure

Industry Background

Indian innerwear market growing at 15% with premium innerwear market growing faster at 16.4%; Market shifting to organised players

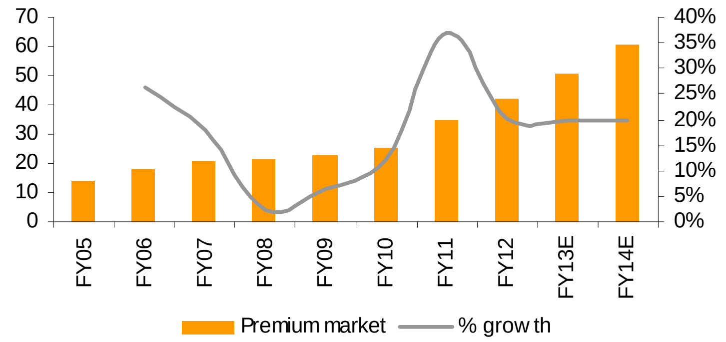
The Indian innerwear industry has historically grown at an average rate of 15% in value terms to Rs 140bn over FY05-11. Within that, the share of middle & premium market has grown at a faster pace of 16.4% CAGR to Rs 35bn as against the low and unorganized market, which grew at 14.7% CAGR over FY05-11. Growth in the premium innerwear market has been led by expansion in the organised retail, rising disposable income levels and increasing shift in consumer preference towards premium and super premium products. The innerwear market comprises of men's and women's innerwear. The size of total innerwear market was Rs 140 bn in FY11, with Rs 50bn from men's and Rs 90 bn from women's innerwear. Out of this, the market share of middle & premium players in men's and women's innerwear was 48% (Rs 24 bn) and 13% (Rs 12 bn) respectively. During FY05-11, the middle & premium men's and women's innerwear market grew at a CAGR of 15% and 19% to Rs 24bn and Rs 12bn respectively. At CAGR of 15%, the total innerwear market is estimated to be Rs 214 bn by FY14E and men's and women's innerwear market at Rs 76bn and Rs 142bn respectively. The share of premium market in men's and women's innerwear segment is expected to be 58% and 20% respectively. There are more than 20 players in the organized innerwear market with presence in different segments. Among these, Rupa, VIP, LUX, Amul and Jockey are the major players (in volume terms).

Exhibit 47: Innerwear market has grown at 15% CAGR over FY05-11



Source: Company AR, Emkay Research

Exhibit 48: Premium segment growing faster than innerwear market



Source: Company AR, Industry, Emkay Research

Innerwear industry - Lesser risk of getting exposed to economic slowdown

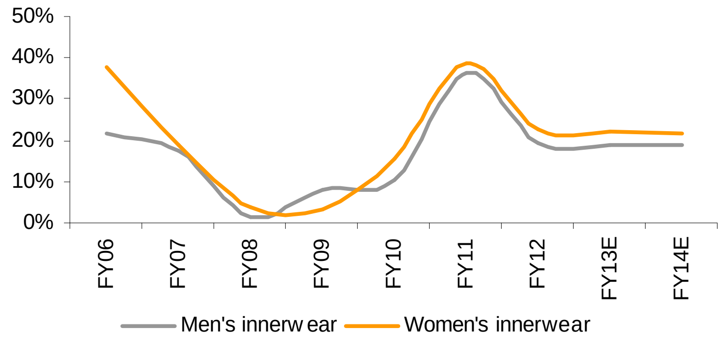
Historically, the innerwear garment industry has grown at an average rate of 15% in value terms over FY05-11. The growth rate is expected to continue despite the moderation in the current economic environment. This is on account of 1) innerwear products being part of regular consumption and 2) spending on innerwear being an insignificant part of the consumer's income. Since the innerwear products are part of non discretionary spending, we believe that the innerwear garments industry has lesser risk of getting exposed to the current economic slowdown.

Higher growth expected in women's innerwear market

Women's innerwear has grown faster than men's innerwear at 19% CAGR over FY05-11; expect this trend to continue in ensuing years

The middle & premium men's innerwear segment has grown at 15%, while the women's premium innerwear segment has grown at a much faster pace of 19% over FY05-11. The premium men's innerwear segment contributes 48% to total men's innerwear market, thereby leaving less scope for growth as compared to premium women's innerwear market, whose share is just 13% of the total women's innerwear market. Over the long term, we expect the premium men's innerwear segment to grow at 18% over FY11-30E. On the other hand, the organized women's innerwear segment is expected to grow at 20% CAGR over the same period on account of its increasing focus on this segment and ample headroom for growth in the premium women's market.

Exhibit 49: Premium men's innerwear to grow slower than women's



Source: Company AR, Industry, Emkay Research

Exhibit 50: Share of women's premium innerwear to grow rapidly

Source: Company AR, Industry, Emkay Research

Exhibit 51: Key players in organized innerwear market

Players	Men' Segment	Women Segment
Amul	Y	Y
Body Secrets	N	Y
Body Care	Y	Y
Chromozome	Y	N
Crocodile	Y	Y
Dollar	Y	Y
Dreams	N	Y
Enamor	N	Y
Euro	Y	Y
Gen X	Y	Y
Hanes	Y	Y
Jockey	Y	Y
Lasenza Lingerie	N	Y
Little Lacy	N	Y
Lovable Lingerie	N	Y
Peter England	Y	N
Rupa	Y	Y
Splash	N	Y
Triumph	Y	Y
Van Heusen	Y	N
VIP	Y	Y

Source: Industry, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Net Sales	**4,916**	**6,834**	**8,923**	**11,591**
Growth (%)	*44.8*	*39.0*	*30.6*	*29.9*
Expenditure	**4,016**	**5,503**	**7,133**	**9,273**
Raw Materials	2,248	3,295	4,161	5,433
Employee Cost	909	1,138	1,486	1,931
Other Exp	860	1,070	1,486	1,909
EBITDA	**899**	**1,331**	**1,790**	**2,318**
Growth (%)	*40.1*	*48.0*	*34.5*	*29.5*
EBITDA margin (%)	***18.3***	***19.5***	***20.1***	***20.0***
Depreciation	98	106	138	174
EBIT	**801**	**1,225**	**1,652**	**2,144**
EBIT margin (%)	***16.3***	***17.9***	***18.5***	***18.5***
Other Income	121	184	186	188
Interest expenses	48	67	124	166
PBT	**874**	**1,342**	**1,714**	**2,167**
Tax	**292**	**441**	**563**	**712**
Effective tax rate (%)	*33.4*	*32.9*	*32.9*	*32.9*
Adjusted PAT	**582**	**901**	**1,150**	**1,454**
Growth (%)	*46.5*	*54.7*	*27.7*	*26.4*
Net Margin (%)	***11.8***	***13.2***	***12.9***	***12.5***
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	**582**	**901**	**1,150**	**1,454**
E/O items	4	0	0	0
Reported PAT	**586**	**901**	**1,150**	**1,454**
PAT after MI	**582**	**901**	**1,150**	**1,454**
Growth (%)	46.5	54.7	27.7	26.4

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	112	112	112	112
Reserves & surplus	1,126	1,546	1,959	2,481
Net worth	**1,238**	**1,658**	**2,071**	**2,593**
Minority Interest	**0**	**0**	**0**	**0**
Secured Loans	994	642	1,192	1,592
Unsecured Loans	150	0	0	0
Loan Funds	**1,144**	**642**	**1,192**	**1,592**
Net deferred tax liability	26	36	36	36
Total Liabilities	**2,408**	**2,335**	**3,298**	**4,220**
Gross Block	1,238	1,461	1,896	2,393
Less: Depreciation	322	416	554	728
Net block	**916**	**1,045**	**1,342**	**1,665**
Capital work in progress	9	27	27	27
Investment	**30**	**18**	**18**	**18**
Current Assets	**2,420**	**2,595**	**3,692**	**4,834**
Inventories	1,647	1,726	2,486	3,261
Sundry debtors	258	437	538	699
Cash & bank balance	26	31	46	66
Loans & advances	488	401	622	808
Other current assets	0	0	0	0
Current lia & Prov	**981**	**1,380**	**1,810**	**2,353**
Current liabilities	904	1,226	1,610	2,093
Provisions	78	154	200	260
Net current assets	**1,438**	**1,215**	**1,882**	**2,481**
Misc. exp	0	0	0	0
Total Assets	**2,393**	**2,305**	**3,268**	**4,190**

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	**753**	**1,158**	**1,528**	**1,979**
Depreciation	98	106	138	174
Interest Provided	48	67	124	166
Other Non-Cash items	0	0	0	0
Chg in working cap	-733	239	-651	-579
Tax paid	-292	-441	-563	-712
Operating Cashflow	**-2**	**1,227**	**761**	**1,214**
Capital expenditure	-199	-252	-435	-497
Free Cash Flow	**-200**	**974**	**326**	**718**
Other income	121	184	186	188
Investments	0	12	0	0
Investing Cashflow	**-273**	**-253**	**-435**	**-497**
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	597	-503	550	400
Interest Paid	-48	-67	-124	-166
Dividend paid (incl tax)	-338	-547	-737	-932
Income from investments	0	0	0	0
Others	60	148	0	0
Financing Cashflow	**271**	**-968**	**-311**	**-698**
Net chg in cash	**-4**	**6**	**14**	**20**
Opening cash position	30	26	31	46
Closing cash position	**26**	**32**	**46**	**66**

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	18.3	19.5	20.1	20.0
Net Margin	11.8	13.2	12.9	12.5
ROCE	46.5	59.4	65.2	62.0
ROE	52.2	62.2	61.7	62.4
RoIC	42.4	53.7	61.1	59.1
Per Share Data (Rs)				
EPS	52.2	80.7	103.1	130.4
CEPS	61.0	90.3	115.5	146.0
BVPS	111.0	148.6	185.7	232.5
DPS	2.3	3.9	5.2	6.6
Valuations (x)				
PER	63.6	41.1	32.2	25.5
P/CEPS	54.4	36.8	28.7	22.7
P/BV	29.9	22.3	17.9	14.3
EV / Sales	7.8	5.5	4.3	3.3
EV / EBITDA	42.4	28.3	21.3	16.6
Dividend Yield (%)	0.1	0.1	0.2	0.2
Gearing Ratio (x)				
Net Debt/ Equity	0.9	0.4	0.6	0.6
Net Debt/EBIDTA	1.2	0.5	0.6	0.7
Working Cap Cycle (days)	104.9	63.2	75.1	76.0

Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.

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