

TTK Prestige Ltd

Moving full steam ahead!

We recently met the management of TTK Prestige (TTKPT). The company, besides being one of the largest manufacturers of pressure cookers in India, has diversified into the faster growing market of kitchen appliances. TTKPT sees its growth coming from a shift in consumer preference from the unorganised to the organised segment. The management has guided for a 25–30% CAGR in sales and earnings over the next 2–3 years, with margins likely to be sustained at current levels. At the current valuations (based on the management guidance), the stock is trading at a P/E of 23.2x/18.6x its FY11/FY12 earnings.

Pressure cooker remains the cash cow: TTKPT is the leader in India's pressure cooker market (60% of which is organised, 40% unorganised), which is growing at 10-15% per annum. The company, however, is growing ahead-of-the-market at 20% per annum, primarily driven by a shift in consumer preference from the unorganised to the organised segment. TTKPT generates a healthy 20% operating margin from the segment which it expects to sustain over the medium term.

Growth driven by kitchen appliances: While India's kitchen appliances market has seen a strong 30–35% growth over the past two years, TTKPT has outperformed with a 50% growth in the segment. The company follows a strategy to push sales from this segment as it is currently underpenetrated with operating margins at 10–12%. TTKPT plans to add some table wear, dinner set and cutlery items to its current kitchen appliances portfolio, going ahead.

Capex of Rs 1.5bn planned over next 18 months: TTKPT is currently running at near full capacity for its pressure cooker segment and has planned a capex of Rs 1.5bn over the next 18 months. The company plans to fund this expansion through internal accruals and may take a short-term bridge loan of Rs 200mn–300mn.

Strong growth outlook, stock has re-rated over the past one year: TTKPT has clocked revenues/PAT of Rs 5bn/Rs 486mn in FY10 and of Rs 3.5bn/Rs 378mn in H1FY11. For FY11, the management's revenue guidance stands at Rs 6.5bn–7bn and PAT guidance at Rs 750mn–800mn. The management also expects a strong growth of 25–30% in its FY12 revenues and PAT, with margins likely to be maintained at current levels. Based on management guidance, the stock is trading at 23.2x and 18.6x its FY11 and FY12 earnings and looks fairly valued at current levels after the significant re-rating over the past one year. We do not have a rating on the stock.

CMP	TARGET	RATING	RISK
Rs 1,642	-	NR	-

BSE	NSE	BLOOMBERG
517506	TTKPRESTIG	TTKPT IN

Company data

Market cap (Rs mn / US\$ mn)	18,601 / 410
Outstanding equity shares (mn)	11.3
Free float (%)	25.1
Dividend yield (%)	0.6
52-week high/low (Rs)	1752 / 398
2-month average daily volume	178,292

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
TTK Prestige	1,642	0.5	33.6	103.1
BSETCD	6,402	0.3	(2.9)	35.5
Sensex	20,301	1.7	(0.5)	16.4

Valuation matrix

(x)	FY07	FY08	FY09	FY10
P/E @ CMP	158.0	90.0	83.1	35.5
EV/EBITDA @ CMP	71.4	159.5	47.6	24.3

Financial highlights

(Rs mn)	FY07	FY08	FY09	FY10
Revenue	2,814	3,256	4,013	5,079
Growth (%)	26.8	15.7	23.2	26.6
Adj net income	118	207	224	524
Growth (%)	65.5	75.6	8.3	134.3
FDEPS (Rs)	10.4	18.2	19.8	46.3
Growth (%)	65.5	75.6	8.3	134.3

Profitability and return ratios

(%)	FY07	FY08	FY09	FY10
EBITDA margin	9.3	3.6	9.8	15.2
EBIT margin	8.5	2.4	8.9	14.5
Adj PAT margin	4.2	5.5	5.6	10.3
ROE	43.0	28.8	29.2	50.2
ROIC	32.3	6.3	30.1	58.0
ROCE	30.9	22.2	26.8	48.1





Management meeting takeaways

Leading player in the Indian pressure cooker market

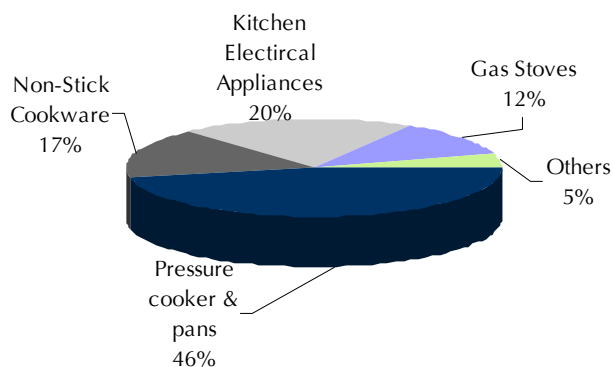
TTKPT remains the leader in the Rs 11bn–12bn Indian pressure cooker market (which is 60% organised, 40% unorganised). TTKPT and Hawkins virtually command the organised segment with a combined share of more than 70%. While the growth in the pressure cooker market is in the range of 10–15% per annum, TTKPT and Hawkins have been outperforming the market with a strong 20% growth, mainly on account of a shift in consumer preferences from the unorganised to the organised segment. The incremental growth in the organised segment is largely on account of these changing preferences; a decade back, the unorganised market contributed equally to the industry revenues for pressure cookers. TTKPT also remains the market leader in terms of price increases taken in the cooker segment, with the market then following the same.

TTKPT and Hawkins together command 70% of India's organised pressure cooker market

Coverage presence across 80–85% of the total retail chain selling pressure cookers

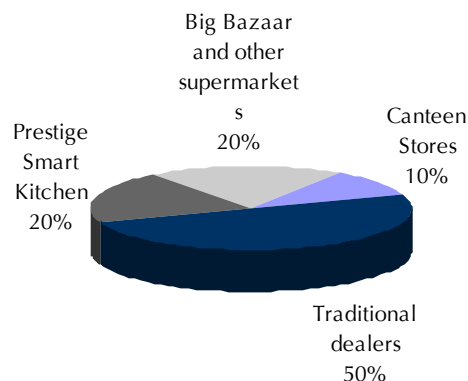
As a dominant player in the Indian pressure cooker market, TTKPT has a presence across 80-85% of the retail outlets selling pressure cookers pan-India. Although the company was reaching the same percentage of retailers a decade back, growth is now being led by increase in retail outlets and higher same-store sales through product diversification. Over the past decade, TTKPT has transformed from single-product player to a multi-product company specialising in kitchen solutions.

Fig 1 - Segmental Revenue breakup Region wise 2010



Source: Company, RCML Research

Fig 2 - Sales channel distribution



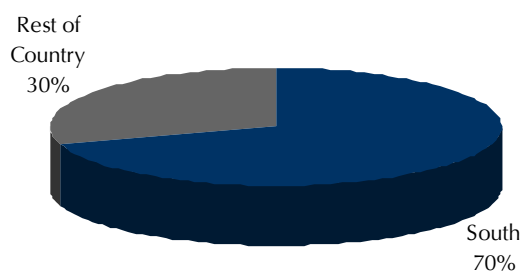
Source: Company, RCML Research

Growth is being driven by increase in retail outlets and higher same-store sales through product diversification

Traditional sales still account for ~50% of the total company sales. TTKPT has 65% of its sales coming from south India, down from 70% a decade back. Growth for the company is higher in north India as it steps up its reach and introduces more products in this market. The company targets to cater to towns with a population of more than 50,000 people. Since most rural consumers travel to semi-urban areas to make their purchases, the growth in these regions is higher than in urban areas. The company has a 10% share in India's northern markets.

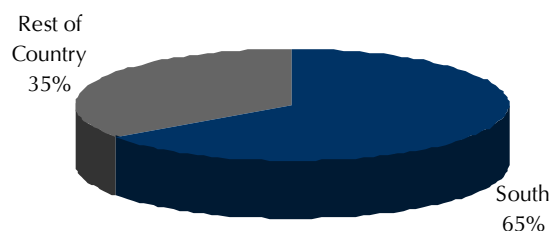


Fig 3 - Revenue breakup Region wise 2000



Source: Company, RCML Research

Fig 4 - Revenue breakup Region wise 2010



Source: Company, RCML Research

Fig 5 - Dynamics of Pressure cooker & pans sales

Pressure cooker & pans	FY06	FY07	FY08	FY09	FY10
Volumes (nos)	1,621,380	1,825,736	2,133,118	2,375,223	2,745,078
Growth (%)	8.8	12.6	16.8	11.3	15.6
Domestic sales (Rs mn)	1,225	1,492	1,680	2,006	2,252
Growth (%)	26.1	21.8	12.6	19.4	12.2
Export Sales (Rs mn)	148	142	182	197	155
Growth (%)	(39.9)	(4.4)	28.2	8.7	(21.4)
Total Sales (Rs mn)	1,373	1,634	1,861	2,203	2,407
Growth (%)	12.7	19.0	13.9	18.4	9.2
Realization per piece (Rs)	847	895	872	928	877
Growth (%)	3.6	5.7	(2.5)	6.3	(5.5)

Source: Company, RCML Research

Fig 6 - Dynamics of Non-Stick Cookware sales

Pressure cooker & pans	FY06	FY07	FY08	FY09	FY10
Volumes (nos)	1,123,070	1,179,119	1,193,269	1,526,222	1,962,809
Growth (%)	26.1	5.0	1.2	27.9	28.6
Domestic sales (Rs mn)	354	432	539	631	871
Growth (%)	46.1	22.0	24.7	17.1	38.1
Export Sales (Rs mn)	3	3	1	5	1
Growth (%)	(25.6)	(12.5)	(67.9)	400.0	(75.6)
Total Sales (Rs mn)	357	435	540	636	873
Growth (%)	44.9	21.7	24.1	17.8	37.3
Realization per piece (Rs)	318	369	452	416	445
Growth (%)	14.9	15.9	22.6	(7.9)	6.7

Source: Company, RCML Research

Capex plan of Rs 1.5bn to increase pressure cooker capacities

While the entire manufacturing of cookers is done in-house at the Coimbatore plant, other products such as non-stick cookware and electrical appliances are manufactured in-house as well as sourced from China. Most of the electrical appliances are fully sourced either from India or China as the margins in these businesses are lower at 10–12% and the cost of manufacturing remains high. The company manufactures 65% of its total products in-house, whereas 35% of its products are contracted.



TTKPT plans to fund its capex through internal accruals and take a short-term bridge loan of Rs 200mn–300mn

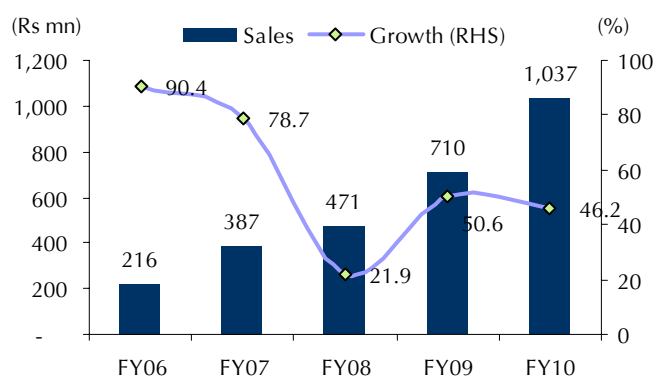
TTKPT is seeing over 40% growth in the kitchen appliances segment

TTKPT has planned a capex of Rs 1.5bn over the next 18 months to increase its capacity in the cooker segment. The company is likely to meet all its capex requirements through internal accruals. With cash balance at ~ Rs 400mn as on March '10, TTKPT will be required to take only a short-term bridge loan of Rs 200mn-300mn to fund the balance requirement. The capex is unlikely to increase any debt/ lead to any dilution for raising funds—a key positive, in our view.

Appliances market to be the growth driver

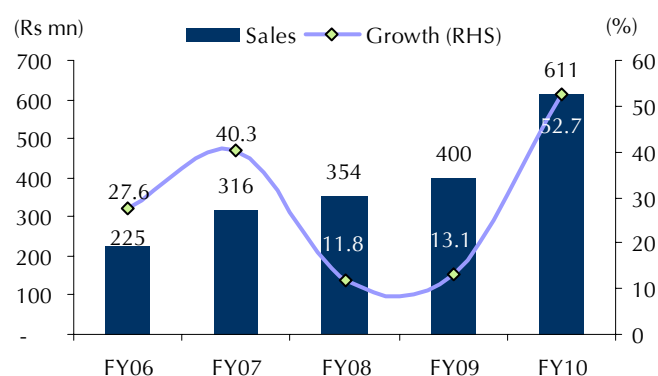
The Indian appliances market is growing fast at 30–35% per annum, driven by product innovation and increased penetration. The appliances segment remains the fastest growing segment for TTKPT, with the company seeing a growth of >40% in the segment. The Indian appliances market is fragmented with many organised and unorganised players dominating some niche category. Significant players in the segment are Maharaja, Bajaj Electrical, Kanchan Appliances, and Preeti. TTKPT is largely present in all categories of the kitchen appliances segment, except for table wear and cutlery, into which it is likely to foray over the medium term. The margins in this segment are in the range of 10–12% and most of the products are sourced either from China (50% value, 70% volume) or India as manufacturing costs remain very high. The company, however, does not intend to enter any of the white goods categories which are dominated by MNCs.

Fig 7 - Kitchen Electrical Appliances sales trend



Source: Company, RCML Research

Fig 8 - Gas Stoves sales trend



Source: Company, RCML Research

Bengaluru land to unlock value

TTKPT has shifted its factory from Bengaluru to Coimbatore, which has freed-up 800,000sq ft of land that TTKPT is now developing. The company's share of land would be 340,000sqft, which would result in a one-time income of Rs 1bn on residential property sale and a recurring income of Rs 70mn per year as rental income.

'Prestige Smart Kitchen' to increase store count to 500 by FY12

TTKPT operates 'Prestige Smart Kitchen' outlets through the franchisee route, with the current store count at 270 stores. TTKPT plans to increase this number to 300 by March '11 and to 500 by March 12.

Strong growth outlook, stock has re-rated over the past one year: TTKPT has clocked revenues/PAT of Rs 5bn/Rs 486mn in FY10 and of Rs 3.5bn/Rs 378mn in H1FY11. For FY11, the management's revenue guidance stands at Rs 6.5bn–7bn and PAT guidance at Rs 750mn–800mn. The management also expects a strong growth of 25–30% in its FY12 revenues and PAT, with margins likely to be maintained at current levels. Based on management guidance, the stock is trading at 23.2x and 18.6x its FY11 and FY12 earnings and looks fairly valued at current levels after the significant re-rating over the past one year. We do not have a rating on the stock.



Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09	FY10
Revenues	2,814	3,256	4,013	5,079
<i>Growth (%)</i>	26.8	15.7	23.2	26.6
EBITDA	262	117	393	771
<i>Growth (%)</i>	32.5	(55.3)	235.0	96.3
Depreciation & amortisation	22	38	35	36
EBIT	240	79	358	735
<i>Growth (%)</i>	34.2	(67.2)	354.1	105.4
Interest	81	92	73	35
Other income	7	258	5	54
EBT	166	245	290	754
Income taxes	48	38	66	230
Effective tax rate (%)	-	15.5	22.8	30.5
Extraordinary items	(1)	28	-	-
Min into / inc from associates	-	-	-	-
Reported net income	118	179	224	524
Adjustments	1	(28)	-	-
Adjusted net income	118	207	224	524
<i>Growth (%)</i>	65.5	75.6	8.3	134.3
Shares outstanding (mn)	11.3	11.3	11.3	11.3
FDEPS (Rs) (adj)	10.4	18.2	19.8	46.3
<i>Growth (%)</i>	65.5	75.6	8.3	134.3
DPS (Rs)	3.0	3.5	5.0	10.0

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09	FY10
Net income + Depreciation	140	217	259	560
Non-cash adjustments	92	79	54	(41)
Changes in working capital	(192)	167	116	97
Cash flow from operations	40	463	428	617
Capital expenditure	(128)	(219)	(64)	(41)
Change in investments	-	177	-	-
Other investing cash flow	1	1	4	11
Cash flow from investing	(127)	(41)	(61)	(29)
Issue of equity	-	-	-	-
Issue/repay debt	158	(265)	(256)	(179)
Dividends paid	(32)	(40)	(47)	(66)
Other financing cash flow	(64)	(79)	(62)	(12)
Change in cash & cash eq	(25)	39	3	331
Closing cash & cash eq	67	106	109	440

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09	FY10
Cash and cash eq	67	106	109	440
Accounts receivable	413	473	489	603
Inventories	739	607	503	613
Other current assets	179	170	213	426
Investments	181	4	4	4
Gross fixed assets	642	674	755	835
Net fixed assets	296	313	359	405
CWIP	63	253	237	235
Intangible assets	-	-	-	-
Deferred tax assets, net	(31)	(31)	(31)	(31)
Other assets	1	-	-	-
Total assets	1,909	1,895	1,883	2,694
Accounts payable	535	592	592	903
Other current liabilities	-	-	-	-
Provisions	88	146	237	522
Debt funds	735	469	207	28
Other liabilities	-	-	-	-
Equity capital	113	113	113	113
Reserves & surplus	438	576	733	1,128
Shareholder's funds	551	689	846	1,242
Total liabilities	1,909	1,895	1,883	2,694
BVPS (Rs)	48.6	60.8	74.7	109.6

Financial ratios

Y/E March	FY07	FY08	FY09	FY10
Profitability & Return ratios (%)				
EBITDA margin	9.3	3.6	9.8	15.2
EBIT margin	8.5	2.4	8.9	14.5
Net profit margin	4.2	5.5	5.6	10.3
ROE	43.0	28.8	29.2	50.2
ROCE	30.9	22.2	26.8	48.1
Working Capital & Liquidity ratios				
Receivables (days)	27	50	44	39
Inventory (days)	149	131	87	74
Payables (days)	106	110	93	99
Current ratio (x)	2.6	2.3	2.2	2.3
Quick ratio (x)	0.8	0.8	0.8	0.7
Turnover & Leverage ratios (x)				
Gross asset turnover	4.6	4.9	5.6	6.4
Total asset turnover	2.3	1.7	2.1	2.2
Interest coverage ratio	3.0	0.9	4.9	21.2
Adjusted debt/equity	1.3	0.7	0.2	0.0
Valuation ratios (x)				
EV/Sales	6.6	5.7	4.7	3.7
EV/EBITDA	71.4	159.5	47.6	24.3
P/E	158.0	90.0	83.1	35.5
P/BV	33.8	27.0	22.0	15.0



Quarterly trend

Particulars	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Revenue (Rs mn)	1,394	1,467	1,235	1,454	1,999
YoY growth (%)	22.3	20.8	44.8	47.8	43.4
QoQ growth (%)	41.7	5.3	(15.8)	17.7	37.5
EBITDA (Rs mn)	216	228	179	229	321
EBITDA margin (%)	15.5	15.6	14.5	15.8	16.1
Adj net income (Rs mn)	169	153	128	160	218
YoY growth (%)	89.2	135.1	264.4	116.9	28.8
QoQ growth (%)	129.1	(9.5)	(16.6)	25.3	36.0

Company profile

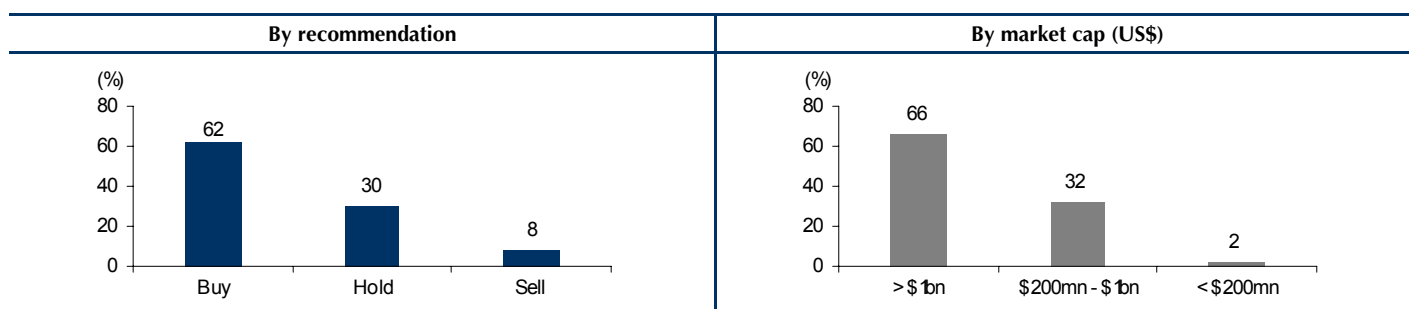
TTK Prestige (TTKPT) is one of the largest manufacturers of pressure cookers in India. The company is also largely present in most of the Kitchen appliances categories except for certain categories like Table wear, Cutlery, etc which it is likely to foray into. The company is also developing 800,000 sq ft of land in Bangalore out of which its share would be 340,000 sq ft.

Shareholding pattern

(%)	Mar-10	June-10	Sep-10
Promoters	74.9	74.9	74.9
FIs	4.5	6.0	3.0
Banks & FIs	2.4	2.5	1.5
Public	18.2	16.6	20.6



Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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