

May 25, 2012

PAGE INDUSTRIES LTD

HOLD

Page Industries Ltd (Page), promoted by the Genomal Brothers in 1995, is the exclusive licensee of Jockey International Inc (US) for manufacture and distribution of the Jockey brand innerwear/leisure wear for men and women in India, Sri Lanka, Bangladesh, Nepal and UAE. The agreement is in place till 2030. The company paid a royalty of 4.9% of sales. Page has also been appointed the India franchisee for Speedo, a swimwear brand.

- Leading Global branded Innerwear Company:** - Jockey is an established & well know inner ware brand. Page is the sole licensee of the Jockey brand in India and is the leader in the India innerwear (undergarments) market. We expect the branded innerwear market to continue to grow at CAGR of 15-20% over the medium term, driven by increasing consumer aspirations and the shift from the unorganized segment to branded goods.
- Shift from unorganized to organized segment to aid overall growth:** - Indian apparel market has been witnessing a shift to organized segment over the past couple of years. The share of the organized segment in the overall pie has increased from 13% in 2005 to 16% in 2010 and the same is expected to go up to 40% in 2020E. It is expected to grow more rapidly at a CAGR of ~22% during 2010-2020E as compared to the apparel industry which is expected to grow as 10.6%. This is an advantage for organized players.
- Tie-up with Speedo to boost up the top line going ahead:** - Page has tied up with swimwear brand Speedo International to manufacture market and distribute the brand in India. Under the exclusive licensing agreement, effective from July 2011, the company will make swimwear, water shorts, apparel, equipment and footwear in India. Page will be able to leverage the strong distribution network created for the innerwear products to market this range of swimwear products also.

Based on a standalone FY14 P/E multiple of 24, the fair value for the company works out to Rs 3,336.

Standalone Financial Snapshot

Projections (Rs Mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue	2,547	3,467	5,031	7,150	9,653	12,356
Y-o-Y Growth %		36%	45%	42%	35%	28%
EBITDA	516	652	920	1,277	1,653	2,087
Y-o-Y Growth %		26%	41%	39%	29%	26%
Adjusted PAT	316	396	585	837	1,181	1,557
Y-o-Y Growth %		25%	48%	43%	41%	32%
EPS Rs	28	35	52	75	105	139
BVPS Rs	78	88	111	144	192	254
EBITDA %	20%	19%	18%	18%	17%	17%
NPM %	12%	11%	12%	12%	12%	13%
ROE %	36%	40%	47%	52%	55%	55%
PER x			40	29	22	
P/B Ratio			21.0	15.8	11.9	

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy - Expected Returns > 20% p.a.
Buy - Expected Returns from 10 to 20% p.a.
Hold - Expected Returns from 0% to 10% p.a.
Reduce - Expected Returns from 0% to 10% p.a. with possible downside risk
Sell - Returns < 0%



STOCK DATA

BSE / NSE Code	532827 / PAGEIND
Bloomberg Code	PAG IN EQUITY
No. of Shares (Mn)	11
Sensex / Nifty	15,948 / 4836

PRICE DATA

CMP Rs (23rd May 2012)	3,027.5
Beta	0.55
Market Cap (Rs mn)	33,756
52 Week High-low	3249 / 1628
Average Daily Volume	1,080

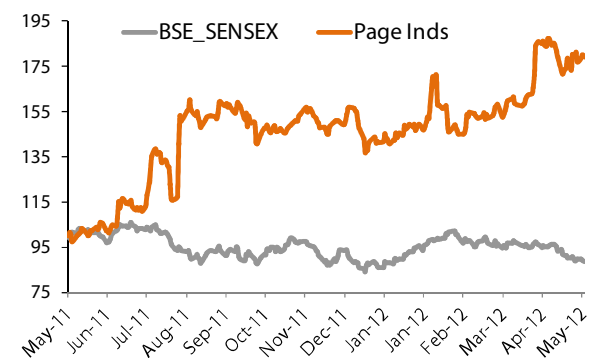
STOCK RETURN (%)

	30D	3M	6M	1Y
Page Industries Ltd	-3%	22%	23%	76%
Sensex	-7%	-12%	2%	-11%
Nifty	-7%	-12%	3%	-10%

SHARE HOLDING PATTERN (%)

Promoter	60%
Institution	35%
Non Institution	6%
Total	100%

1 Year Price Performance (Rel. to Sensex)



BUSINESS PROFILE

Page Industries Ltd, a Genomal Group company, was established in 1994. The Genomal group companies have been the licensees for the Jockey and Speedo brands in Philippines since 1959 and 1988 respectively. The companies are run by the second generation Genomal Family, sons of the group founder and guiding spirit, late Topandas Genomal Page Industries Ltd. They are specialists in the development and production of high quality underwear for men, women, and children, and are the licensees of Jockey International Inc. (USA) for manufacture and distribution of the Jockey brand in India and Sri Lanka, Bangladesh, Nepal and UAE. The agreement is in place till 2030.

The promoters have been associated with Jockey International Inc. since 1959 which is more than 50 years as their sole licensee in the Philippines. Because of the successful venture in Philippines, Jockey International Inc. gave a proposal to the Genomal Brothers, when they decided to tap the Indian markets. Jockey has not just been a leading brand in the innerwear industry but has continued to influence the worldwide markets for over 130 years with its range of diversified products.

Over the last 17 years, Page has shown phenomenon growth. It has increased its production base from 3 factories to 8 factories and employs more than 12,000 people. Currently the company has installed capacity of 109mn pieces, up from 21mn in FY07. One of the key strength of Page is that, it has strong distribution network. The products are distributed in over 1,100 cities and towns through a network of over 400 distributors. These distributors are segmented geographically and also on the basis of the product range (men's innerwear, women's innerwear and leisurewear being the key segments). The distributors cater to over 20,000 retail outlets spread across five formats - chain stores (large format stores), multi brand outlets (MBOs), hosiery stores and multipurpose stores. Page has been setting up exclusive brand outlets (EOB's) in recent years, using the franchisee route. While the network is currently small, the company is expected to grow with the increasing number of stores. Page has increased its store from 67 in FY11 to 125 by the end of FY13. Moreover, the company is focusing on Tier II/III locations through these stores.

Page has a well diversified product portfolio, spread across men and women's innerwear, socks, casual wear (bermudas, shorts, t-shirts etc) and thermal wear. Men's innerwear dominates the revenue mix with ~60% of sales. However, growth in the women's and leisure segments have been faster as the company has enlarged its product range in the space over the past few years.

Page is the India franchisee for Jockey International

It is one of the leading and largest brands in men's inner wear segment

Over the years, Page has built a strong retailing model to tap all possible avenues for marketing its products

Page Industries

Distributors

Large format stores (6%)

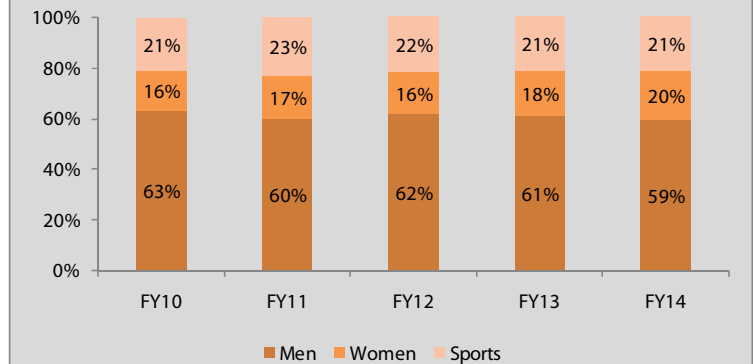
Hosiery Stores (50%)

Exclusive Brand Outlets (EBOs) (4%)

Multi Brand Outlets (MBOs) (25%)

General Stores (15%)

Revenue Mix

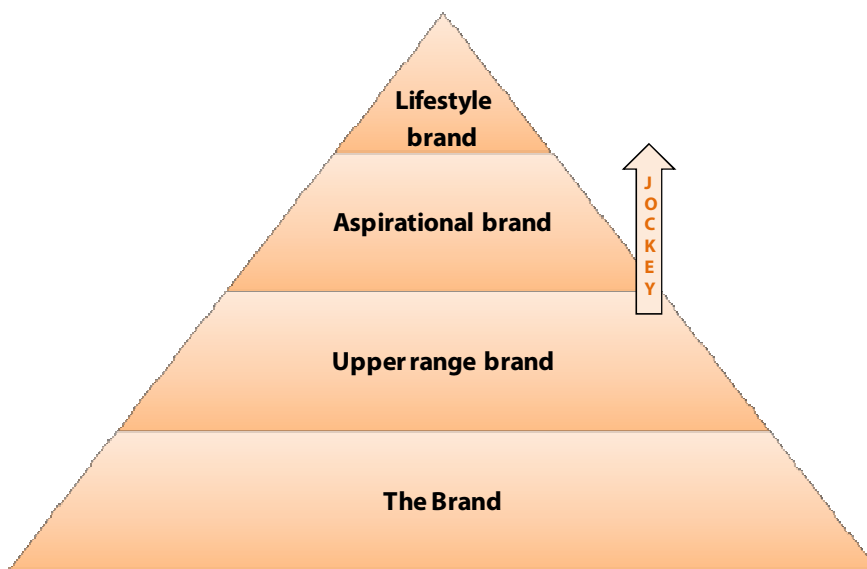


INVESTMENT RATIONALE

Leading branded innerwear company: - Jockey is an established and well-known global innerwear brand. Page has exclusive licensee rights for Jockey products in India and several other countries. The company's founders and largest shareholders, the Genomal family, have been associated with the Jockey brand for 50 years; prior to founding Page they were Jockey's sole licensee in the Philippines. The company launched the Jockey brand in 1995 in India and has been a pioneer in bringing branded innerwear products to the Indian market. Jockey is the only innerwear brand to be awarded '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.

Brand Positioning



Dominant position in Aspirational-based consumption segments

We believe that Page remains well-positioned to benefit from expansion in the high growth middle and premium segments (Rs25bn) of the men's innerwear market. It has a dominant (20%+) market share in the organized/branded segment of these markets. It also has a strong presence in the Rs12bn premium segment of the women's innerwear market, with a market share of 12% in the organized segment.

Jockey is the only innerwear brand to be awarded 'Super brand' status in India

Players in men's innerwear market

Players in women'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

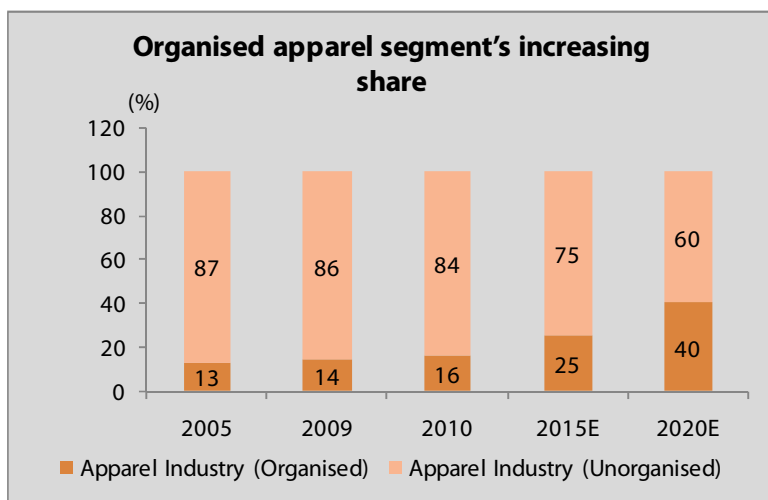
Price segment	Price range (Rs)	Major brands
Super premium	Above 500	Benetton, Triumph, La Senza
Premium	250 - 500	Jockey, Lovable, Enamor, Benetton
Middle	100 - 150	Feelings, Daisy Dee, VIP, Body Care, Body Line, Groversons, Juliet, Softline
Economy	50 - 100	Softline, Lux Hosiery, Grover Sons
Low	Less than 50	Regional companies

INVESTMENT RATIONALE

Shift in consumer's preference towards organized segment to aid overall growth: - Apparel is the second largest retail category (behind food and groceries), representing approximately 10% of the total market. By 2020E, Indian apparel sales are expected to reach and estimated Rs 4,700bn, on the back of faster growth in the organized apparel segment.

As per research group IMAGES F&R Research, the Indian apparel industry having grown in excess of 11% over 2005-2010, is expected to grow at a CAGR of 10.6% during 2010- 2020E. While the rate of growth has slowed down marginally, the organized apparel segment is expected to grow at a CAGR of 21.3% during the same period, at 3x the growth of the unorganized segment. This is an advantage for organized players.

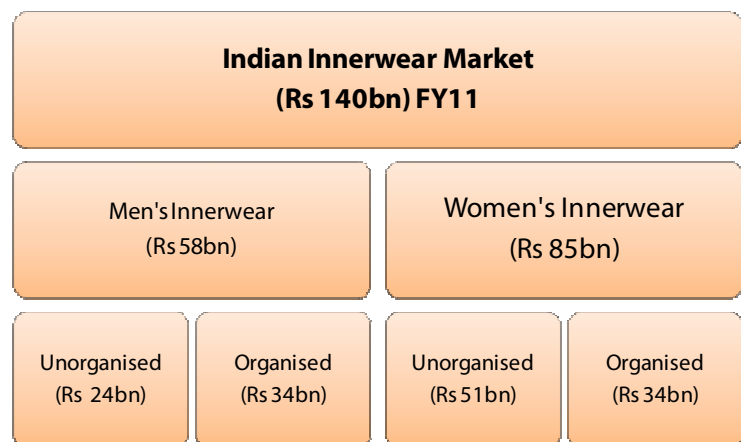
Market is highly fragmented and mainly served by unorganized/unbranded companies—branded innerwear is only a third of the market; providing a significant opportunity for growth



The Indian innerwear market is currently valued at ~Rs 140bn and is expected to grow at a CAGR of 13% during 2010-2020E. Of the ~ Rs 140bn innerwear market, the men's innerwear market accounts for ~ Rs58bn and the women's market size is currently ~ Rs 85bn. The estimated value of the Indian innerwear market is expected to touch ~ Rs 440bn by 2020E.

In the men's innerwear segment, organized players have ~60% market share. On the other hand, the women's segment is relatively fragmented with only ~40% of the market being controlled by organized players. This also highlights the significant potential that organized players in the women's segment have. IMAGES F&R Research estimates that at 15%

CAGR during 2010-2020E, the women's segment will not only outpace the innerwear segment but will also grow significantly faster than the men's segment, which is expected to grow at a CAGR of 10% during the same period. The women's segment is expected to be worth Rs 300bn significantly outstripping the men's segment, which is likely to touch Rs137bn by 2020E.



INVESTMENT RATIONALE

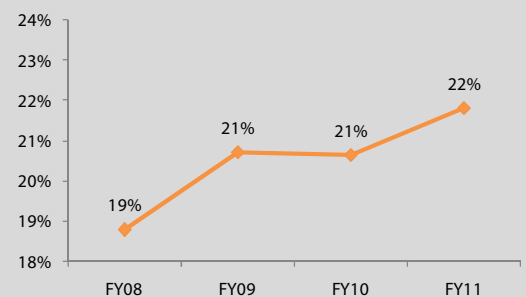
Tie-up with Speedo to boost up the top line going ahead: - Page Industries (Page; exclusive right to manufacture Jockey International [USA] for manufacture and distribution of Jockey brand innerwear and leisure wear for men and women in India, Srilanka, Bangladesh, Nepal, Maldives and UAE up to 2030) has entered into yet another exclusive licensing agreement with Speedo International for manufacture and distribution of Speedo brand of swim wear, water shorts, apparel, equipment and footwear. The agreement is effective June 1, 2011. The first set of brand products is available in India via Page from January 1, 2012. As per the agreement, the company would be required to pay royalty ranging between 6.5-8% of the ex-factory sales price for Speedo products. The percentage would vary based on the total sales, demand and volume of the products sold. The initial agreement period is for a period of 5 years up to 2016 after which it would be renewed. The products will be initially imported and distributed directly in India and further down the line swimwear will be manufactured by Page at its Bangalore facility, while the other merchandise would be imported and distributed. The company will be setting up additional distribution network, apart from the current one of approximately 400 distributors that the company in place for its brand "Jockey". So, now with the Speedo agreement in place, the risk of being dependent on one brand wanes off further, providing revenue diversification and increased strength for Page to play the strong growing Indian brand and consumption story.

With Speedo agreement, the risk of being dependent on one brand wanes off, proving diversification

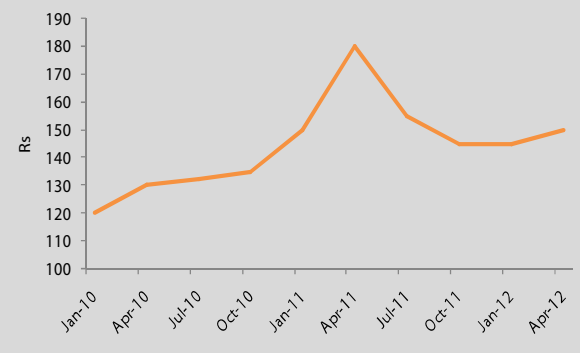
Risk & Concerns

- Adverse movement in cotton prices:** - Raw materials make up 45% of total costs, with cotton accounting for 70% of raw material costs. Cotton prices are volatile and despite Page has pricing power, any sharp rise in cotton prices would lead to interim margin pressure since it takes a couple of quarters to pass on price hikes. An inability to pass on the impact of the increase in raw material prices will have an adverse impact on the company's profitability. Also, too many price hikes will also take a toll on the volume growth prospects of the company.
- Stiff competition:** - Most global majors are already present in the India innerwear market and some are increasing competitive intensity through predatory pricing. 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.
- Lack of availability of man power could be dent to growth:** - The textile industry as a whole is a highly labor intensive industry. Lack of availability of skilled labor poses a threat to the expansion plans of the company.
- Slowdown in economic growth:-** Even though innerwear is a necessity, Page has positioned itself as an aspirational brand and its products as fashion apparel; sales are thus susceptible to any macro slowdown.
- Geographic Concentration:-** Page industries has 12 manufacturing facilities located in one state; Karnataka, in close vicinity. Any regional specific calamity, disturbance etc. can hamper its business activities.

Employee costs as a % of total expenses



Cotton Yarn WPI Index



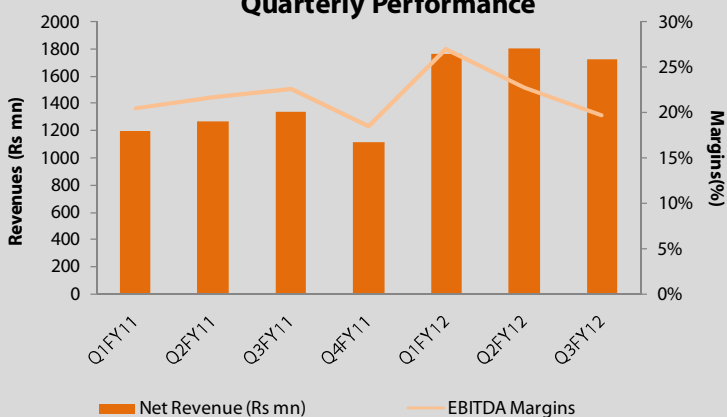
BUSINESS PERFORMANCE

Page Industries Ltd reported a phenomenal rise in standalone net profit for Q3FY12. During the quarter, net profit of the company surged 27.47% to Rs 199mn from Rs 156mn in the same quarter previous year. Net sales for the quarter rose 28.38% to Rs 1,721mn from Rs 1,341mn recorded in the prior year period. It reported earnings of Rs 17.85 a share during the quarter, registering 27.47% increase over previous year period.

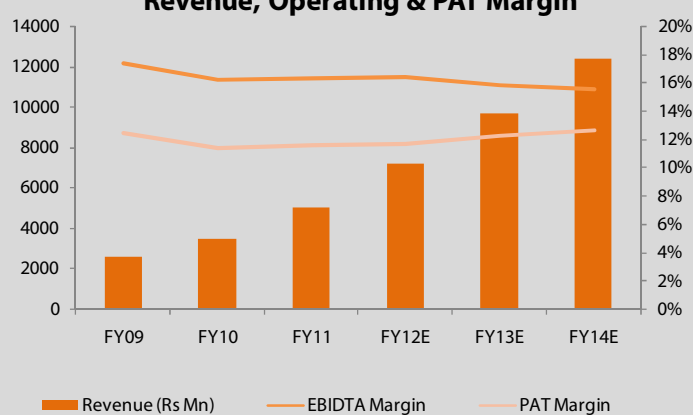
The company has posted net profit of Rs.729mn for the 9 months period ended Dec. 31, 2011 as compared to Rs.457mn for the 9 months period ended Dec. 31, 2010, representing an increase of 59.68%. Total income stood at Rs.5,291mn for the period ended December 31, 2011 compared to Rs.3,802mn for the 9 months representing an increase of 39.18%. The company has reported an EPS of Rs.65.39 for the 9 months as compared to Rs 40.95.

For Q3FY12, the net profit surged 27.47% and net sales rose 28.38% Y-o-Y

Quarterly Performance



Revenue, Operating & PAT Margin



Peer Comparison

Peer Group Comparison

Companies	Revenue (Rs. mn)	EBITDA Margin (%)	PAT Margin (%)	ROE (%)	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
Page Inds	5031	18%	11.6%	47%	57.9	27.4	3027	10
Lovable Lingerie	1351	17%	16.0%	14%	24.1	3.3	311	10
Rupa & Company	6741	12%	5.5%	23%	30.3	6.9	141	1

Though Page can't be compared directly with any of the listed player, we have compared with Lovable Lingerie and Rupa & Co as both operate in innerwear and have some similar products. Page has been very successful in its marketing strategies over the past 15 years which has helped it to dominate men's innerwear segment. Page derives 60% of its revenue from men's segment and merely 16% from women's segment. Whereas Lovable majorly concentrates on women's segment. The revenues and profits of Page have grown five times each over the last five years, implying a CAGR of 37%. Even on margins front Page has highest EBITDA margins as compared to its peers. PAT margin is slightly lower as compared to Lovable. The company also has very high return ratio for FY11 at 47%.

VALUATIONS

Page is one of the leading brands in the India innerwear market (Jockey under license from Jockey International). We expect the India branded innerwear market to continue to grow at 15-20% over the medium term, driven by rising consumer aspirations and shift from the unorganized segment to branded goods. Page has an extensive distribution network and integrated manufacturing facilities which provide cost advantages and quality assurance, which will help the company to take advantage of rising demand. Benefitting from this trend, Page has reported a CAGR growth of 37% in revenue and 39% in PAT in the last 5 years. It also has a strong record of rewarding its shareholders by paying healthy dividends each year. The company's dividend payout ratio has increased from 29% in FY07 to 50% in FY11. We expect the company to maintain its payout ratio ~55%, going forward. We expect the revenue and PAT to grow at a CAGR of 31% and 36% respectively over FY12 – FY14E.

We expect the India branded innerwear market to continue to grow at 15-20% over the medium term, driven by rising consumer aspirations and shift from the unorganized segment to branded goods which is beneficial for Page

Based on a standalone FY14 P/E multiple of 24, the fair value for the company works out to Rs 3,336. We recommend a **"HOLD"** rating on the stock.

Standalone Profit & Loss Statement

Particulars (Rs Mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Net Revenue	2,547	3,467	5,031	7,150	9,653	12,356
Operating Expenditure	2,031	2,815	4,111	5,873	8,000	10,269
Depreciation	73	90	98	108	130	170
EBIT	443	562	821	1,169	1,523	1,917
EBIT Margin (%)	17%	16%	16%	16%	16%	16%
Interest	41	41	68	81	83	89
Other Income	67	64	125	160	250	350
Profit Before Tax	468	585	878	1,248	1,690	2,178
Less: Tax	152	189	292	411	509	621
Adjusted PAT	316	396	585	837	1,181	1,557
PAT Margin (%)	12%	11%	12%	12%	12%	13%
ROE (%)	36%	40%	47%	52%	55%	55%
EPS (Rs)	28.2	35.4	52.3	74.8	105.4	139.0
BVPS (Rs)	78	88	111	144	192	254

Ratio Analysis

Ratios (x)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Current Ratio	1.7	2.1	2.4	2.0	1.9	1.9
Cash Ratio	0.1	0.0	0.0	0.1	0.1	0.0
Debt-Equity	0.5	0.6	0.9	0.8	0.7	0.7
Sales / Assets	2.0	2.3	2.1	2.5	2.6	2.6
ROE %	36%	40%	47%	52%	55%	55%
ROCE %	23%	25%	23%	28%	27%	36%

Standalone Balance Sheet

Particulars (Rs Mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Sources of Funds						
Equity Capital	112	112	112	112	112	112
Reserves & Surplus	757	879	1,126	1,503	2,034	2,735
Shareholders funds	868	990	1,238	1,614	2,146	2,847
Loan funds	419	548	1,150	1,240	1,590	1,950
Total	1287	1538	2388	2855	3736	4797
Application of funds						
Net Block	550	776	931	1,223	1,593	2,023
Capital WIP	118	49	74	74	74	74
Investments	52	30	30	30	30	30
Inventories	680	946	1,647	2,002	2,413	2,965
Debtors	170	205	259	358	483	618
Cash & bank balances	103	30	26	75	92	52
Loans & advances	450	163	423	423	423	423
Total Current Assets	1,402	1,343	2,355	2,858	3,411	4,058
Current Liabilities	427	621	897	1,287	1,641	1,977
Provisions	391	18	78	107	145	185
Total Current Liabilities	819	640	976	1,394	1,786	2,162
Net Current Assets	584	703	1,379	1,464	1,625	1,896
Other Assets				90	440	799
Net Deferred Tax	(17)	(20)	(26)	(26)	(26)	(26)
Total	1,287	1,538	2,388	2,855	3,736	4,797

Standalone Cash Flow Statement

Particulars (Rs Mn)	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Profit Before Tax	468	585	878	1,248	1,690	2,178
Total Adjustments (PBT & Extraordinary Items)	71	102	139	189	213	259
Change in Working Capital	(258)	(205)	(720)	(35)	(145)	(311)
Direct Taxes Paid	(152)	(184)	(298)	(411)	(509)	(621)
Cash Flow from Operating Activities	130	298	(2)	991	1,249	1,505
Net Investment in GFA	(306)	(247)	(285)	(400)	(500)	(600)
Change in Investments	248	26	0	0	0	0
Others	30	12	9	0	0	0
Cash Flow from Investing Activities	(28)	(209)	(273)	(400)	(500)	(600)
Proceed from Other Long Term Borrowings	47	178	603	0	0	0
Net Interest Paid	(28)	(27)	(46)	(81)	(83)	(89)
Cash Flow from Financing Activities	(202)	(162)	271	(542)	(733)	(945)
Net Cash Flow	(100)	(74)	(4)	49	17	(40)
Opening Balance of Cash	2	103	30	26	75	92
Closing Balance of Cash (T/F to BS)	(98)	30	26	75	92	52



Board Of Directors

Director Name	Current Position	Description
Vedji Ticku	Chief Operating Officer	Mr. Vedji Ticku is Chief Operating Officer of Page Industries Limited. He joined the Company as Regional Sales Manager for South Zone. He is a Bachelor of Electronics (Mechanical). After setting up the business in South, he was promoted as Senior Sales Manager, with additional charge of North Zone in the year 2001. Prior to joining the Company he was working with Eureka Forbes Limited. His Nature of Duties are to Direct and oversee sales and marketing function, develop and manage sales and marketing budgets and to research and develop strategies and plans to identify marketing opportunities. He has sixteen years of experience in sales field.
Mr. Sunder Genomal	Managing Director	Mr. Sunder Genomal is Managing Director, Executive Director of Page Industries Limited. He is a Master of Technology in Industrial Management Engineering, DeLaSalle University, Manila, Philippines where he was ranked among the top 3 students. Mr. Genomal is a member of the Young President's Organisation and the World Presidents Organisation. He received an award during the 125th anniversary of Jockey International in 2001 for his dedicated association with Jockey International. Mr. Sunder Genomal laid the foundation of Page Industries Limited in 1994 and has been the key inspiration for the company's personnel and his leadership has established foundation for company's future. As Managing Director, he oversees the entire working and affairs of the Company's management.
Mr. Nari Genomal	Non-Executive Director	Mr. Nari Genomal is Non-Executive Director of Page Industries Limited. He served as Non Executive Chairman, has over 40 years experience in various facets of the textile industry. Mr. Nari Genomal is a Post Graduate in Commerce from the Letran College, Manila, Philippines. In the year 2001 which was the 125th anniversary of Jockey International Inc, he received an award for his dedicated work and association with Jockey International Inc. He has been the chief mentor and key builder of the company's culture and values.
Mr. Ramesh Genomal	Non-Executive Director	Mr. Ramesh Genomal is Non Executive Director of Page Industries Limited. He has over 30 years experience in the textile and garmenting industry. Mr. Ramesh Genomal is a Post Graduate in Business Administration from the Hofstra University, New York. Mr. Ramesh Genomal has been elected as the Director of the Philippine- Indian Chamber of Commerce. In the year 2001 which was the 125th anniversary of Jockey International Inc, he received an award for his dedicated work and association with Jockey International Inc. He is responsible for the production process innovations in the company.
Mr. Timothy Ralph Wheeler	Non-Executive Director	Mr. Timothy Ralph Wheeler is Non Executive Director of Page Industries Limited. He is a Certified Public Accountant in the USA. He has 3 decades of business experience and 25 years experience in textiles and apparels. He is a Post Graduate Majoring in Accountancy and Political Science. He is presently President (International Division), Jockey International Inc. He has been associated with Price Waterhouse & Co as a senior auditor, Lacoste, Dawson International Plc.
Mr. G. P. Albal	Non-Executive Director	Mr. G. P. Albal is Non-Executive Independent Director of Page Industries Limited . Mr. Albal is a B.Tech in Textile Technology from Bangalore University, 1975 and has completed project management from Tata Management Training Centre , Pune. He has three decades of experience in textiles and apparels. He has been associated with Mafatlal, Arvind Mills and Orkay Mills, Voltas. He is also a member of the Association of Export Oriented Mills, Kolhapur and Indo-Italian Chamber of Commerce, Mumbai.