

Institutional Equities
 India Research

Page Industries

COMPANY UPDATE

 Bloomberg: PAG IN
 Reuters: PAGE.BO

BUY

Innovation or Lack of Competition; Page Leads Branded Innerwear Market; Upgrade to BUY

Page Industries' strong market presence makes it the market leader in branded innerwear (Jockey) & Swim-wear (Speedo) segments in India. Its wide distribution channel coupled with fully integrated in-house manufacturing facilities are expected to benefit from the rising demand. Moreover, its sustained growth prospects are strengthened by the fact that it currently operates in domestic market despite having rights to sell in other markets i.e. Sri Lanka, Nepal, Bangladesh & the UAE.

Well-positioned in High Growth Segments: Indian innerwear market –pegged at Rs. 160 bn in 2012 – is likely see 12% CAGR to Rs. 279 bn by 2017. Page caters to middle and premium segments of Men's & Women's category with market share of ~21% & ~12%, respectively. The premium innerwear market is likely to grow faster at ~25% YoY. Moreover, per capita spend for innerwear in India is drastically lower by >90% compared to Asian peers i.e. China & Thailand. We expect Page to lead the growth potential due to brand recognition, product innovation and distribution strength of over 500 distributors and 30,000+ retail outlets along with 126 EBOs.

Leisure Wear: Evolving as a leading growth segment: Page's Leisure Wear segment includes functional-wear, shape-wear, sports-wear apart from basic products like camisoles, T-Shirt and boxers etc. We believe leisure-wear segment to continue its robust growth and increase its revenue pie from existing 25% to 37% by FY16E, which will further drive average realizations and profitability for the Company. Leisure-wears' current average realization is ~Rs. 191 a piece compared to blended realization of ~Rs. 118 and command better profitability of ~200bps compared to overall profitability.

Outlook & Valuation

We expect revenue & earnings growth at strong CAGR of 31% over FY13-FY16E with volume & realization CAGR of 16% & 13% respectively. At CMP of Rs. 5,573 per share, the stock is trading at 31.4x and 24.8x FY15E and FY16E earnings respectively. We introduce FY16E earnings and upgrade our recommendation to "BUY" from "HOLD" with a revised target price of Rs. 6,740 per share (from Rs. 5,389 earlier) based on 30x FY16E earnings; having an upside potential of 21%.

Key Financials

Y/E Mar (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Net Sales	6,834	8,635	11,768	15,229	19,428
EBITDA	1,330	1,642	2,283	3,008	3,837
EBITDA margin (%)	19.5	19.0	19.4	19.8	19.8
PAT (Rs)	900	1,125	1,501	1,978	2,506
EPS (Rs)	80.7	100.9	134.6	177.3	224.7
RoE (%)	62.2	59.3	60.9	60.6	58.6
RoCE (%)	32.7	34.6	36.2	36.6	37.7
P/E (x)	69.1	55.2	41.4	31.4	24.8
P/Sales (x)	9.1	7.2	5.3	4.1	3.2
EV/EBITDA (x)	47.4	38.6	27.9	21.3	16.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs5,574
Target Price:	Rs6,740
Previous Target Price	Rs5,389
Upside (%)	21%

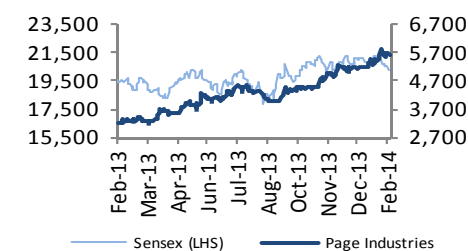
Stock Information

Market Cap. (Rs bn / US\$ mn)	62/998
52-week High/Low (Rs)	5,980/3,130
3m ADV (Rs mn /US\$ mn)	84/1.4
Beta	0.6
Sensex/ Nifty	20,634/6,127
Share outstanding (mn)	11

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.3	12.3	71.4	7.7
Rel. to Sensex	4.4	13.5	62.0	10.6

Performance



Source: Bloomberg

Earnings Revision

(%)	FY14E	FY15E
Revenue	↑ 1.7	↑ 3.2
EBITDA	↑ 1.2	↑ 1.9
EPS	↓ 2.0	↓ 1.3

Source: Karvy Institutional Research

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Segmental Performance

Men-Innerwear Bigger Segment; Leisure-Wear Segment Growing Faster

We expect leisure-wear segment to continue its robust growth and increase its revenue pie from existing 25% to 37% by FY16E, which will drive average realizations and profitability for the Company.

In FY13, Men Innerwear contributed the largest i.e. 54% (Rs. 4,637 mn), while Leisure Wear – Page’s second largest segment – contributed 25% (Rs. 3,459 mn) followed by Women-wear, Brasseries & Speedo with revenue share of 13%, 6% & 2%, respectively to Page’s revenue.

We expect Leisure wear to grow faster over FY13-FY16E with a CAGR of 49% followed by Brasseries (47%), Speedo (32%), Women-wear (27%) and Men innerwear at 20% over the same period. Therefore, by FY2016E we expect Page’s dependence on Men-innerwear would shrink to 41%, followed by Leisure-wear (37%), Women-innerwear (12%), Brasseries (9%) and Speedo (2%) towards overall revenue contribution.

Exhibit 1: Revenue & Volume break up

Revenue (Rs. mn)	Q3 FY14	Share (%)	9M FY14	9MFY14 Share (%)	Volume (Mn Pcs)	Q3 FY14	Share (%)	9M FY14	9MFY14 Share (%)
Men Innerwear	1,462	48.3%	4,568	51.1%	Men Innerwear	15.4	59.7%	49.0	61.5%
Women Innerwear	307	10.1%	939	10.5%	Women Innerwear	4.0	15.5%	12.5	15.7%
BRA	225	7.4%	645	7.2%	BRA	1.1	4.1%	3.1	3.9%
Leisure Wear	1,005	33.2%	2,679	30.0%	Leisure Wear	5.3	20.5%	14.7	18.5%
Speedo	27	0.9%	106	1.2%	Speedo	0.1	0.2%	0.2	0.3%

Source: Company, Karvy Institutional Research

According to our interaction with Page’s management, capacity expansion plans are inline with expected installed capacity to reach ~160mn pcs by Mar-14 with total capex of Rs. 700mn. Going further, the management indicates required capex to maintain current growth rate would be ~Rs. 500mn YoY.

Exhibit 2: Variance from Our Earlier Estimates

(Rs Mn)	Previous Estimates		Current Estimates		Variance (%)	
Parameter	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Revenue	11,568	14,752	11,768	15,229	1.7	3.2
EBITDA	2,256	2,950	2,283	3,008	1.2	1.9
EBITDA Margin (%)	19.5	20.0	19.4	19.8	(10bps)	(25bps)
Net Income	1,532	2,004	1,501	1,978	(2.0)	(1.3)
EPS	137	180	135	177	(2.0)	(1.3)
ROCE (%)	35.8	36.4	36.2	36.6	38bps	28bps
ROE (%)	61.8	60.6	60.9	60.6	(87bps)	2bps

Source: Company, Karvy Institutional Research

We introduced FY2016E numbers while marginally revised up revenue estimates by 1.7% and 3.2% for FY14E and FY15E respectively on higher realizations. We also revised down our EBITDA margin estimates by 10bps & 25bps for FY2014E & FY2015E respectively on marginally higher input costs. However, Net Income estimates were lowered by 1.5%-2.0% on cut in other income estimates. We expect Page to maintain current operating margins due to better pricing power and with growing share of Leisure-wear; operating margins would be aided further.

Quarterly Performance

During Q3FY14, The Company's top-line grew 39.9% YoY to Rs. 3,025 mn (our expectations Rs. 2,892 mn). For the quarter, Volume grew 18.5% YoY while realizations grew ~20% YoY at Rs. 117.7/pc (grew on factors like Excise duty removal, improving product mix and ~5% price hike). EBITDA margin for the quarter improved 120bps to 18.2%. Consequentially EBITDA grew 49.9% YoY to Rs. 550 mn (our expectations Rs. 524mn). Net income grew 36.2% YoY to Rs. 346 mn (our expectations Rs. 345 mn).

Segment wise Revenue Analysis:

Men innerwear, Women innerwear, Brasseries & Leisure wear sales grew 25.2%, 35.3%, 90.6% & 58.3% respectively. In volume terms, the reported growth was 10.5%, 21.3%, 71.6% & 36.7% respectively. *Please refer Exhibit 1 for details.*

Exhibit 3: Quarterly Performance

(Rs Mn)	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	QoQ (%)	YoY (%)
Revenue	1,543	2,181	2,201	2,162	2,091	3,041	2,876	3,025	5.2%	39.9%
Operating Costs	1,301	1,714	1,761	1,794	1,723	2,404	2,255	2,475	9.7%	37.9%
EBIDTA	242	467	440	367	367	637	620	550	-11.3%	49.9%
EBIDTA Margin (%)	15.7	21.4	20.0	17.0	17.6	20.9	21.6	18.2	(338bps)	120bps
Other Income	43	68	50	53	37	67	41	40	-3.3%	-25.6%
Interest	16	18	16	17	30	19	20	28	34.9%	65.6%
Depreciation	27	26	27	29	31	29	33	36	8.4%	25.9%
Profit Before Tax	242	492	447	375	343	655	608	526	-13.4%	40.3%
Tax	71	164	139	121	107	224	198	180	-9.2%	48.8%
Tax Rate (%)	29.5	33.4	31.1	32.2	31.3	34.2	32.6	34.2		
Rep. PAT	170	328	308	254	236	431	409	346	-15.4%	36.2%

Source: Company, Karvy Institutional Research

Financials

Exhibit 4: Profit & loss statement

Y/E Mar (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Net revenues	6,834	8,635	11,768	15,229	19,428
% Growth	39.0	26.3	36.3	29.4	27.6
Raw Material	3,296	4,203	5,719	7,348	9,374
Staff	1,138	1,436	1,912	2,475	3,157
Operating Expenses	1,070	1,353	1,853	2,399	3,060
Operating expenses	5,504	6,992	9,485	12,221	15,591
EBIDTA	1,330	1,642	2,283	3,008	3,837
% Growth	47.2	23.4	39.0	31.7	27.6
EBIDTA margin (%)	19.5	19.0	19.4	19.8	19.8
Other income	184	208	206	267	291
Interest	67	80	105	138	168
Depreciation	106	114	144	184	220
Profit Before Tax	1,341	1,657	2,241	2,952	3,740
Provision for tax	441	531	739	974	1,234
Effective tax rate (%)	32.9	32.1	33.0	33.0	33.0
Adjusted Net Profit	900	1,125	1,501	1,978	2,506
% Growth	53.7	25.1	33.4	31.7	26.7
Reported Net Profit	900	1,125	1,501	1,978	2,506

Source: Company, Karvy Institutional Research

Exhibit 5: Balance Sheet

Y/E Mar (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Equity capital	112	112	112	112	112
Reserves & surplus	1,546	2,024	2,682	3,623	4,703
Shareholders funds	1,658	2,135	2,794	3,735	4,815
Short term Loans	422	589	789	909	1,009
Long Term Loans	497	613	893	1,093	1,193
Total Loans	919	1,202	1,682	2,002	2,202
Deferred tax liability	36	57	57	57	57
Total Liabilities and Equity	2,613	3,394	4,533	5,794	7,074
Gross block	1,504	1,860	2,560	3,110	3,660
Depreciation	428	538	682	866	1,086
Net block	1,076	1,322	1,878	2,244	2,574
Capital WIP	27	101	101	101	101
Other Non-current Assets	280	193	193	193	193
Investments	18	10	-	-	-
Inventory	1,726	2,350	3,177	4,112	5,284
Debtors	437	581	788	1,066	1,399
Cash & Bank Balance	31	46	48	63	69
Current Assets	2,333	3,102	4,178	5,507	7,141
Sundry Creditors	373	473	658	845	1,078
Other current liabilities	729	850	1,159	1,406	1,857
Current Liabilities	1,102	1,323	1,817	2,251	2,935
Net current assets	1,231	1,779	2,361	3,256	4,206
Total Assets	2,613	3,394	4,533	5,794	7,074

Source: Company, Karvy Institutional Research

Exhibit 6: Cash Flow Statement

Y/E Mar (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
EBIT	1,224	1,529	2,139	2,823	3,617
(Inc.)/Dec in working capital	172	(542)	(590)	(880)	(944)
Cash flow from operations	1,396	986	1,549	1,944	2,673
Other income	184	208	206	267	291
Depreciation	106	114	144	184	220
Interest paid (-)	(67)	(80)	(105)	(138)	(168)
Tax paid (-)	(441)	(531)	(739)	(974)	(1,234)
Dividends paid (-)	(480)	(648)	(843)	(1,037)	(1,426)
Deferred Tax Liability	10	22	-	-	-
Net cash from operations	708	70	212	245	356
Capital expenditure (-)	(197)	(430)	(700)	(550)	(550)
Net cash after capex	511	(360)	(488)	(305)	(194)
Inc./Dec.) in short-term borrowing	(323)	166	200	120	100
Inc./dec.) in long-term borrowing	92	116	280	200	100
Inc./dec.) in borrowings	(231)	283	480	320	200
(Inc.)/Dec. in investments	12	8	10	-	-
Cash from Financial Activities	(219)	291	490	320	200
Others	(285)	89	-	-	-
Opening cash	26	31	46	48	63
Closing cash	31	46	48	63	69
Change in cash	5	14	2	15	6

Source: Company, Karvy Institutional Research

Exhibit 7: Key Ratios

Y/E Mar (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Raw Material Cost / Sales (%)	48.2	48.7	48.6	48.3	48.3
Manpower Cost / Sales (%)	16.7	16.6	16.3	16.3	16.3
Operating & Other cost / Sales (%)	15.6	15.7	15.8	15.8	15.8
Revenue Growth (%)	39.0	26.3	36.3	29.4	27.6
EBIDTA Margins (%)	19.5	19.0	19.4	19.8	19.8
Net Income Margins (%)	13.2	13.0	12.8	13.0	12.9
ROCE (%)	32.7	34.6	36.2	36.6	37.7
ROE (%)	62.2	59.3	60.9	60.6	58.6

Source: Company, Karvy Institutional Research

Exhibit 8: Valuation Parameters

Y/E Mar (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
EPS (Rs)	80.7	100.9	134.6	177.3	224.7
P/E (x)	69.1	55.2	41.4	31.4	24.8
BV (Rs)	148.6	191.4	250.5	334.8	431.7
P/BV (x)	37.5	29.1	22.3	16.6	12.9
EV/EBIDTA (x)	47.4	38.6	27.9	21.3	16.8
Fixed assets turnover ratio (x)	6.8	7.2	7.4	7.4	8.1
Debt/Equity (x)	0.5	0.5	0.6	0.5	0.4
EV/Sales (x)	9.2	7.3	5.4	4.2	3.3

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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