



Margins surprise, positive commentary...

Page Industries'(PAGE) Q2FY21 revenue at Rs 740 crs was broadly in-line with our estimates at Rs 755 Crs, and was down 5% YoY led by 13% volume de-growth despite ~9% value growth. Healthy sales recovery (up 160% QoQ) was on the back of strong pent up demand, lockdown relaxations and traction in athleisure wear. Gross Margins (GM) came in at 55.5% ahead of our expectations of 53% & up 56bps YoY aided by improved product mix (higher share of premium innerwear & Athleisure). EBITDA at Rs 165crs (est. Rs 143 crs) was up 11% YoY and EBITDA Margin at 22.3% (est. 19%) up 311bps YoY, was a big beat on our estimates driven by extensive cost rationalization efforts (other expenses dropped 24% YoY). PAT at Rs 111crs was ahead of our estimate of Rs 94 crs, but was down 3% YoY due to doubling of tax expenses (up 99.7% YoY) in Q2FY21. On a month-on-month (MoM) basis, company saw healthy demand recovery as August'20 sales was similar to last year and September '20 reported double-digit growth. In Q2FY21, 94% of MBO outlets, 100% of EBOs and 92% of LFS stores have been fully operational since August end. Further, in line with its focus on store expansion, Page has opened 60 new EBOs during the quarter. Attendance at both manufacturing and warehousing facilities improved to 95% during the end of October. Category-wise, management mentioned that athleisure growth was higher than innerwear during the quarter and kids wear continues to be a key focus area for the company (50 new distributors appointed and 10 EBOs added during Q2 for kids wear. PAGE is tracking healthy festive sales in October and expects full business recovery by Q4FY21. Management maintained its long-term target of USD1bn in sales over the next 5 years and also guided to return to its historical EBITDA Margin band of 20-21% going ahead (post FY21E) led by cost saving initiatives.

Key con call takeaways

- **Healthy sales recovery in Q2FY21:** PAGE reported healthy recovery in sales during Q2 (~96% recovery YoY) on back of strong pent up demand for innerwear, higher traction for its athleisure wear (given increased WFH culture amid lockdowns), continued lockdown relaxations & robust online sales. Further it is tracking healthy festive sales in October (secondary sales ahead of primary) and expects full business recovery by Q4FY21. However, growth still lags rural focused mass innerwear companies given its city-focused sales contribution (60% of sales from top 38-40 cities).
- **Margins beat led by cost rationalization efforts:** PAGE's Q2FY21 EBITDA Margins expanded by 311bps at 22.3% driven by rationalization of opex & A&P spends resulting in 24% drop in other expenses, further supported by flat GMs (better mix and marginal price increases). We expect limited GM expansion over FY21E given rising competition leading to limited scope for price hikes, however expect EBITDA Margins to improve given management's aim to return to its historical Op. Margin band of 20-21% going ahead (post FY21E) led by cost saving efforts despite investments in digital infrastructure & marketing spends.
- **Investments in digital infra. & expanding reach to aid growth:** Company's investments in its supply chain via softwares like DMS (Distribution Management Software), ARS (Automatic Replenishment System) and others like SAP, SFA etc. is expected to aid seamless distribution, improve distributor ROIs, minimize sales loss and ensure product availability as per customer requirements leading to stable growth going ahead. Further its aim is to expand retail reach by ~5% and ramp up its EBO channel that bodes well for growth. However expect far lower growth trajectory (6% CAGR over FY20-23E) vs historical growth rates (17% CAGR over FY15-19) going ahead due to keener competition.

Our take

Given faster than expected recovery in business momentum and consumer's preference towards trusted brands amid the pandemic, we expect PAGE to benefit in the near term backed by its market leadership position in mid premium innerwear market. With significant improvement in margins during the quarter we have revised our FY21/22E EBITDA estimates by 13%/11% respectively and have introduced FY23E. Consequently, we revise our rating to HOLD (SELL earlier) and raise TP to Rs. 20,998 (Rs.16,478 earlier) while continuing to value the stock at 50x its FY23E EPS as current valuations offer limited upside.

Key Financials

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
Net Sales	2945	2550	3229	3574
EBITDA	533	472	647	744
Net Profit	343	297	406	468
EPS (Rs.)	307.7	266.7	364.1	420.0
PER (x)	55.5	81.8	59.9	51.9
EV/EBITDA (x)	35.3	51.0	37.4	32.4
P/BV (x)	23.0	28.7	24.7	21.2
ROE (%)	43.04	35.68	44.36	43.94

Source: Company, Axis Research

(CMP as of Nov 13 th , 2020)	
CMP (Rs)	21,815
Upside /Downside (%)	(4%)
High/Low (Rs)	26,891/16,187
Market cap (Cr)	24,327
Avg. daily vol. (6m) Shrs.	51,762
No. of shares (Cr)	1.12

Shareholding (%)

	Sept-20	Jun-20	Mar-20
Promoter	48.3	48.3	48.3
FIIs	25.2	25.5	29.2
MFs / UTI	11.7	11.2	8.4
Banks / FIIs	0.0	0.1	0.1
Others	14.8	14.9	14.1

Financial & Valuations

Y/E Mar (Rs. cr)	2021E	2022E	2023E
Net Sales	2550	3229	3574
EBITDA	472	647	744
Net Profit	297	406	468
EPS (Rs.)	266.7	364.1	420.0
PER (x)	81.8	59.9	51.9
EV/EBITDA (x)	51.0	37.4	32.4
P/BV (x)	28.7	24.7	21.2
ROE (%)	35.68	44.36	43.94

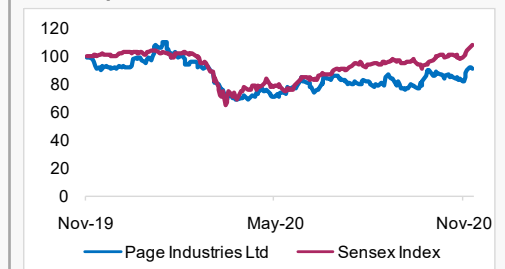
Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Sales	-0.1	5.6	-
EBITDA	12.8	11.2	-
PAT	14.9	10.7	-

Axis vs Consensus

EPS Estimates	2021E	2022E	2023E
Axis	267	364	420
Consensus	224	399	466
Mean Consensus TP (12M)			19,179

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Takeaways

- 1) **On distribution channels:** Since the fag end of Aug'20, 94% of PAGE's total 67,000+ MBO touchpoints, 100% of its total 814 EBOs and 92% of 2,126 LFS stores were fully functional. Management's efforts to expand length & width in the market continues as it added 60 new EBOs during the quarter (including 15 EBOs for kids -Jockey Jr), expanded its retail network (MBO reach) by 1000 outlets over H1FY21. Further aims to expand its store reach by 5-10% p.a.
- 2) **Kids wear:** Kids wear remains a key focus areas of the management as it continues to receive encouraging customer response. It has appointed distributors in 50 cities in phase-1 and will increase the count in phase-2. Company has added 15 new Jockey Junior EBOs during the quarter and has a reach of ~8,000 MBOs at present.
- 3) **Women's innerwear:** Company highlighted that its penetration in women's innerwear is just at 5-6% which is much lower than men's wear (19-20% share of target market), and is in process to develop value for money products where it sees huge scope to grow. Women's wear right now is distributed through 40% of the total company reach.
- 4) **E-Commerce:** Demand from E-commerce was robust during the quarter with its sales at 2x of average sales (Q1FY21 was ~3.5x). Marketplace websites and Jockey portal has seen huge growth.
- 5) **RM & price increase:** Yarn prices have inched up 10-12% recently which is a normal phenomenon according to the management as the prices are usually high before the new crop arrives (new crop arrival in Dec). Company did not witness any RM inflation as it procures RM in advance and expects stable prices ahead. It has taken marginal price increases in few products which were below threshold EBITDA Margin.
- 6) **Regards allegations by Council of Ethics of Norway:** The management has denied the allegations regarding human rights violation in one of its unit saying that they were made in 2018 by some disgruntled employees and the company has provided clarification to the Council of Ethics of Norway regarding the same. It has requested the Council for re-assessment and is confident of coming out clean this time. Furhter, WRAP (global compliance team dedicated to promoting safe, lawful, humane, and ethical manufacturing around the world) has inspected the unit in October and is satisfied by the checks as indicated by the management.
- 7) **Healthy balance sheet postion:** The liquidity position remains strong with cash and cash equivalents increasing 132% QoQ and 488% YoY to Rs 401cr as on Sept'20. No additional borrowing to meet working capital requirements were taken, hence total borrowings were flat in H1FY21 at Rs 21cr over FY20.
- 8) **Capex:** Maintainance capex for FY21 is budgeted around Rs 73crs and capex for FY22 though not finalized could be ~Rs 200crs including normal maintainance capex, capacity expansion and digital transformation. Company would be resuming its work on capacity additions in Odisha plant which had got delayed due to Covid-19.
- 9) Management highlighted the demand in cities (60% sales contribution) is on a improving trajectory barring Mumbai.
- 10) Athleisure has grown highest among its categories and management expects healthy demand to sustain given increased new trials.

Financial Highlights for Q2FY21

	Q2FY21	Q2FY21E Axis Estm	Var (%)	Q2FY20	% Change (Y-o-Y)	Q1FY21	% Change (Q-o-Q)
Net Sales	740	755	-2.0%	775	-4.5%	285	159.9%
Expenditure							
Net Raw Material	330			341	-3.3%	148	123.1%
Gross Profit	411	400	2.6%	434	-5.5%	137	199.7%
Gross Margin (%)	55.5	53	246	56.0	-56	48.1	736
Employee Expenses	130			134	-3.3%	123	5.7%
Other Expenses	115			151	-23.7%	49	136.2%
Total Expenditure	575			626		320	
EBITDA	165	143	15.5%	149	10.9%	-35	-576.4%
EBITDA Margin (%)	22.3	19	334 bps	19.2	311 bps	-12.2	3452 bps
Oth. Inc	4			6	-35.4%	6	-38.6%
Interest	8			8	-6.9%	8	-2.1%
Depreciation	16			15	6.8%	16	-2.4%
PBT	146			132	10.5%	-52	-378.6%
Tax	35			18	99.7%	-13	-373.2%
PAT	111	94	18.4%	115	-3.2%	-40	-380.3%
EPS	99.40	83.9	18.5%	102.7	-3.2%	(35.5)	-380.3%

Source: Company; Axis Securities

Change in Estimates
(Rs Cr)

	Revised			Old			%Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2550	3229	3574	2553	3057	0	-0.1	5.6	-
EBITDA	472	647	744	419	582	0	12.8	11.2	-
EBITDA %	18.53	20.03	20.80	16.4	19.1	0	212 bps	93 bps	-
PAT	297	406	468	259	367	0	14.9	10.7	-
EPS	266.7	364.1	420.0	232.2	329.3	0	14.9	10.6	-

Source: Company, Axis Research

Valuation & Outlook

We revise our rating to HOLD from SELL earlier given a) PAGE's faster than expected recovery in business momentum during Q2FY21 and healthy normalization of full business activity by Q4FY21 and b) Consumer's preference towards trusted brands amid the pandemic backed by PAGE's market leadership position in mid premium innerwear. Hence we expect PAGE to benefit in the near term. Further we expect improvement in EBITDA margins over low base of FY20 with significant improvement witnessed during the quarter and managements's aim to return to its historical EBITDA margin levels at 20-21% going ahead led by its cost rationalization efforts.

As a result, we have revised our FY21/22E EBITDA estimates by 13%/11% respectively and have introduced FY23E numbers. Expect PAGE to post Sales/EBITDA/PAT CAGR at 6%/11%/11% over FY20-23E.

However, we believe at 52x FY23E EPS the stock is trading at rich valuations and offers limited upside considering deceleration of its growth momentum over past 2-3 years.

We revise our rating to HOLD at a target price of Rs 20,998 as we continue to value the stock at 50x its FY23E EPS.

Key risks to our call:

- Rapid fall in COVID-19 cases in the country leading to faster revival in demand
- Lower than expected competitive intensity

Financials

Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	2,894	2,550	3,229	3,574
Other operating income	52	0	0	0
Total income	2,945	2,550	3,229	3,574
Cost of goods sold	1,311	1,150	1,409	1,543
Contribution (%)	54.7%	54.9%	56.4%	56.8%
Advt/Sales/Distrn O/H	1,102	928	1,174	1,288
Operating Profit	533	472	647	744
Other income	25	24	24	25
PBIDT	557	497	671	769
Depreciation	61	67	92	108
Interest & Fin Chg.	34	34	37	34
E/o income / (Expense)	0	0	0	0
Pre-tax profit	462	396	543	626
Tax provision	119	98	137	158
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	343	297	406	468
Other Comprehensive Income	(3.3)	0.0	0.0	0.0
PAT after Comprehensive Income	340	297	406	468

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	963	1,046	1,162	1,297
Net Block	301	307	365	377
CWIP	29	11	20	16
Investments	0	0	0	0
Wkg. cap. (excl cash)	494	407	544	590
Cash / Bank balance	117	298	210	291
Def tax Assets	23	23	23	23
Capital employed	963	1,046	1,162	1,297
Equity capital	11	11	11	11
Reserves	809	836	972	1,137
Minority Interests	0	0	0	0
Borrowings	143	198	178	148
Def tax Liabilities	0	0	0	0

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	162	144	208	243
Cash profit	438	398	534	611
(-) Dividends	272	270	270	304
Retained earnings	167	128	264	307
Issue of equity	0	0	0	0
Change in Oth. Reserves	0	0	0	0
Borrowings	-115	50	-20	-30
Others	110	-34	-37	-34
Applications	162	144	208	243
Capital expenditure	175	55	159	116
Investments	0	0	0	0
Net current assets	-86	-92	138	46
Change in cash	73	181	-88	81

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	4.9	(13.4)	26.6	10.7
OPM	18.1	18.5	20.0	20.8
Oper. profit growth	(13.7)	(11.3)	36.9	14.9
COGS / Net sales	45.3	45.1	43.6	43.2
Overheads/Net sales	38.1	36.4	36.3	36.0
Depreciation / G. block	14.2	13.2	14.0	14.0
Effective interest rate(%)	68.1	62.4	50.8	73.0
Net wkg.cap / Net sales	0.12	0.11	0.09	0.11
Net sales / Gr block (x)	6.7	5.1	4.9	4.6
RoCE	41.6	32.5	39.7	40.6
Debt / equity (x)	0.03	0.10	0.06	0.03
Effective tax rate	25.7	24.9	25.2	25.2
RoE	43.0	35.7	44.4	43.9
Payout ratio (Div/NP)	79.9	90.7	66.5	64.8
EPS (Rs.)	307.7	266.7	364.1	420.0
EPS Growth	(12.9)	(13.3)	36.5	15.3
CEPS (Rs.)	359.7	326.7	446.3	517.2
DPS (Rs.)	161.0	160.0	160.0	180.0

Source: Company, Axis Securities

About the analyst**Analyst:** Tanvi Shetty**Contact Details:** tanvi.shetty@axissecurities.in**Sector:** Consumer Sector**Analyst Bio:** Tanvi Shetty is MBA (Finance) from Chetana's Institute of Management & Research with over 3 years of equity research experience.**About the analyst****Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecurities.in**Sector:** FMCG, Consumption sector, Sp. Chemicals, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10 years of experience in Equity market and research.**Disclosures:**

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