

Page Industries Ltd.

Reintroduction of ARS impacted primary sales in Q3FY23

Page Industries Ltd. (PAGE), reported results were below our expectations. Revenue grew by a modest ~2.8% YoY while volumes declined by ~11% YoY. Gross margins were impacted due to consumption of higher cost raw materials purchased in the previous quarters, EBITDA margins were impacted due to lower gross margins and lower absorption of factory overheads and higher advertisement expenditure. In Q3FY23 company reintroduced & rolled out Automatic Replenishment System (ARS) across all its product verticals to optimise inventory which impacted primary sales in Q3FY23 and also may have some impact in Q4FY23. While primary sales declined in the quarter, secondary sales volumes were not effected to the same extent. Management highlighted that while this will be having a short term impact on primary sales of the company, but in the long term this will enable the company to have a more robust and efficient distribution system. ARS will also help in improving ROI of the channel partners while also improving order fulfilment to the retailers. In our view moderation in demand is also partly due to inflation led slowdown in consumption and partly due to a high base (pent-up demand and channel filling on impending GST hike last year). Management expects retail demand environment to normalise by Q1FY24.

Growth in distribution expansion to continue

- Company has added 37 and 97 EBO's in Q3FY23 and 9mFY23 respectively. At the end of Q3FY23 company has 1228 EBO's.
- In Q3FY23 added 715 MBO's and 8290 MBO's in 9mFY23, now present in 1,18,838 stores across 2,850 cities and towns.
- Company now has 24 partners under Large Format Stores (LFS) with extensive presence in 2960+ LFS.
- Management believes that there is much more headroom to grow its distribution network and will continue with the retail expansion across EBO's, MBO's and LFS.

Outlook and Valuation

- We believe beyond near term challenges growth should come back from Q1FY24 post completion of reintroduction & rollout of ARS by Q4FY23 and expected improvement in the consumer retail demand environment. Margins to improve led by the stability in the raw material prices.
- PAGE has significant pricing power and consequently stability in margins, along with best in class working capital cycle in the industry. Considering the strong financials and robust revenue growth trajectory, PAGE has always traded at rich multiples. Apart from the robust and consistent top-line growth, the company has also consistently rewarded its shareholders. We believe PAGE is on track to deliver robust growth going forward led by increased distribution reach in both metros as well as smaller towns, increased contribution from kids and womens wear segment. Growth is also expected to happen from increased penetration levels in all the three segments of mens, womens & kids where the current penetration levels are still quite low for the premium segment.
- Company's future plans include: (1) expansion of new categories such as Jockey Junior (kids wear)/ women wear, (2) geographical expansion into Tier 3/4 and rural areas, and (3) launch category specific EBOs. Ongoing capex towards doubling the capacity in the next ~5-6 years provides increased confidence towards strong long-term growth. Given the strong earnings visibility, steady return ratios and lack of credible competitor in the premium segment, we expect the premium valuations to sustain.
- We have valued the stock at 55x FY25e EPS of Rs 828.5 (rollover from Sep'24) to arrive at a target price of Rs 45,566. We are positive on the medium to long term growth prospects of the company & upgrade the rating on the stock to "Buy" from earlier "Accumulate".

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23E	Var. (%)
Net sales	12,233	11,898	2.8%	12,550	-2.5%	11,650	5.0%
Operating costs	10,305	9,391	9.7%	10,172	1.3%		
EBITDA	1928	2,507	-23.1%	2,379	-19.0%	2,097	-8.1%
EBITDA Margin (%)	15.8%	21.1%	(532)Bps	19.0%	(319)Bps	18.0%	(224)Bps
Depreciation	200	167	19.5%	188	6.1%		
Interest	100	77	28.8%	92	8.7%		
Other income	16	71	-77.0%	27	-38.6%		
PBT	1,645	2,334	-29.5%	2,125	-22.6%		
Provision for tax	407	589	-30.8%	504	-19.2%		
Effective tax rate (%)	24.8%	25.2%	(45)Bps	23.7%	105 Bps		
Reported PAT	1237	1746	-29.1%	1,621	-23.7%	1,382	-10.5%
PAT margin (%)	10.1%	14.7%	(456)Bps	12.9%	(280)Bps	11.9%	

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	28,330	-3.8%	5,266	18.6%	3,406	-0.8%	305.3	40.0%	40.2%	73.1	46.5
FY22	38,865	37.2%	7,855	20.2%	5,365	57.5%	481.0	54.4%	55.2%	73.9	50.1
FY23E	50,582	30.2%	9,322	18.4%	6,245	16.4%	559.9	51.4%	53.2%	68.1	45.5
FY24E	58,918	16.5%	11,253	19.1%	7,612	21.9%	682.4	50.5%	51.7%	55.9	37.7
FY25E	69,288	20.7%	13,580	19.6%	9,241	21.4%	828.5	49.2%	50.1%	46.0	31.2

Source: Company, SMIFS Institutional Research Estimates



Rating: Buy Upside: 20%

Current Price: 38,120 Target Price: 45,566

Earlier recommendation

Previous Rating: Accumulate

Previous Target Price: 51,514

Market data

Bloomberg:	PAGE IN
52-week H/L (Rs):	54,262/37,650
Mcap (Rs bn/USD bn):	425/5.25
Shares outstanding (mn):	11.15
Free float:	53.9%
Avg. daily vol. 3mth (3M Avg - in '000):	21.50
Face Value (Rs):	10

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	46.1	46.1	46.1	47.2
FII's	24.7	25.3	25.2	25.2
DII's	19.6	19.5	18.2	17.0
Public/others	9.6	9.1	10.5	10.6

Promoters Pledging (%)

Pledge	0	0	0	0
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Source: BSE

Price performance (%)*

	1M	3M	12M	36M
Nifty 50	-1.1	-1.5	2.5	47.9
Nifty 500	-2.7	-3.4	0.1	50.3
PAGE	-8.3	-23.4	-10.5	59.8

*as on 9th Feb 2023; Source: AceEquity, SMIFS research

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Q3FY23 – Key takeaways from the management call

- ✓ In Q3FY23 company reported sales volume of 52.8 mn pieces down by ~11% YoY & ~7% QoQ. Sales in the base quarter was high due to pent-up demand and channel filling on impending GST rate hike.
- ✓ In 9mFY23 company reported sales volume of 172.4 mn pieces up 23% YoY.
- ✓ In Q3FY23 while there was a decline in primary sales, secondary sales volumes were not effected to the same extent.
- ✓ In Q3FY23 margins were impacted due to higher raw material cost and lower absorption of factory overheads. Lower cost raw material inventory should help in some improvement in gross margins in Q4FY23.
- ✓ In Q3FY23 advertisement spends were also higher, management expect to increase the advertisement spends back to pre-covid levels of ~4% of revenue going forward.
- ✓ Consumer spends have come down and basket size has reduced as a result of external general economic environment. Return to school/office has impacted demand for athleisure wear products as consumers are purchasing more formal wear products.
- ✓ Demand scenario in Q4FY23 is similar compared to Q3FY23 as retail environment is not very different till now.
- ✓ **Men's innerwear category grew at double digits and women's brasserie also performed well in Q3FY23.**
- ✓ During pandemic due to volatility in product demand mix and disruption in the supply chain company was compelled to pause the ARS and distributors were free to order based on the availability and requirement of products. This resulted in an imbalance in the channel partner inventory.
- ✓ In Q3FY23 company decided to correct these imbalances and reintroduced and implement ARS process across all product verticals to optimize the inventory. While this will have a short term impact on the primary sales, **management is confident that this will enable the company to have a more robust and efficient distribution system in the long term.**
- ✓ Reimplementation of ARS will not only streamline inventory, supply chain but this will improve ROI of the channel partner and also help in improving order fulfilment to the retailers.
- ✓ Company has not taken any price hike in Q3FY23 and management is not looking at any price hike in the immediate future. Price increase in FY24 will depend on price movement on raw materials.
- ✓ Company plans to take a balanced approach with price and volumes and would try to keep the products affordable to the consumers.
- ✓ **Management expects to witness growth in all its products categories in FY24. Focussed categories such as Kids and women's brasserie should witness accelerated growth. Athleisure wear category is expected to grow in long term despite some growth moderation in the post pandemic period.**
- ✓ **Growth opportunities remain high in rural, tier 3/4 cities; company is expanding in these regions.**
- ✓ **Management remains upbeat on growth prospects, helped by a robust supply-chain networks, large opportunities in kids wear, women's wear, athleisure, rural expansion and online.**
- ✓ Expansion plans are in line with the accelerated sales growth, which is supplemented by strengthening up of relationship with supply chain partners.
- ✓ At the end of Q3FY23 cash & cash equivalent stood at Rs 408 mn vs Rs 833 mn.

Outlook and Valuations

- ✓ PAGE having significant pricing power and, consequently, stability in margins, along with best in class working capital cycle. Considering the strong financials and robust revenue growth trajectory, PAGE has always traded at rich multiples. Apart from the robust and consistent top-line growth, the company has also consistently rewarded its shareholders. We believe widening product portfolio, coupled with distribution expansion would help company to deliver strong sales & earnings growth going forward.
- ✓ Going forward growth will be driven by: 1) increased focus on the under-penetrated women's and kids segments with a separate team and scale-up in offerings; and 2) accelerated network expansion.
- ✓ Beyond the near term challenges, given the strong earnings visibility, robust return ratios and lack of credible competitor in the premium space, we expect the premium valuations to sustain. **We have valued the stock at 55x FY25e EPS of Rs 828.5 (rollover from Sep'24) to arrive at a target price of Rs 45,566 & thus upgrade the rating on the stock to "Buy" from earlier "Accumulate".**
- ✓ Key risks are (1) Volatile raw material prices (2) Competition from both organised & un-organised players 3) Any increase in GST rates.

Fig 1: 1-year forward P/E



Source: Company, SMIFS Institutional Research Estimates

Quarterly financials, operating metrics and key performance indicators

Fig 2: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	8,808	5,015	10,840	11,898	11,111	13,413	12,550	12,233
COGS	4,082	2,344	5,311	5,992	5,018	6,560	6,011	6,177
Employee Exp	1,648	1,527	1,768	1,900	2,006	2,160	2,301	2,148
Other Exp.	1,380	802	1,427	1,498	1,417	1,715	1,860	1,980
EBITDA	1,698	342	2,334	2,507	2,671	2,978	2,379	1,928
Depreciation	156	159	165	167	164	180	188	200
Interest	72	73	74	77	97	85	92	100
Other Income	56	36	54	71	49	33	27	16
PBT	1526	145	2148	2334	2460	2746	2125	1645
Tax	371	36	543	589	555	675	504	407
Tax rate (%)	24.3%	24.6%	25.3%	25.2%	22.6%	24.6%	23.7%	24.8%
Reported PAT	1156	109	1605	1746	1905	2070	1621	1237
Extraordinary Items	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	1156	109	1605	1746	1905	2070	1621	1237
YoY Growth (%)								
Revenue	62.7%	76.1%	46.4%	28.3%	26.2%	167%	15.8%	2.8%
EBITDA	192.1%	-198.5%	41.2%	10.9%	57.3%	771%	1.9%	-23.1%
Adj. PAT	272.5%	-127.7%	44.8%	13.6%	64.9%	1791%	1.0%	-29.1%
QoQ Growth (%)								
Revenue	-5.0%	-43.1%	116.1%	9.8%	-6.6%	20.7%	-6.4%	-2.5%
EBITDA	-24.9%	-79.9%	582.5%	7.4%	6.5%	11.5%	-20.1%	-19.0%
Adj. PAT	-24.8%	-90.5%	1365.8%	8.8%	9.1%	8.7%	-21.7%	-23.7%
Margin (%)								
Gross margin (%)	53.7%	53.3%	51.0%	49.6%	54.8%	51.1%	52.1%	49.5%
Employee cost/ revenue (%)	18.7%	30.4%	16.3%	16.0%	18.1%	16.1%	18.3%	17.6%
Other expenses/revenue (%)	15.7%	16.0%	13.2%	12.6%	12.7%	12.8%	14.8%	16.2%
EBITDA margin (%)	19.3%	6.8%	21.5%	21.1%	24.0%	22.2%	19.0%	15.8%
Adj. PAT margin (%)	13.1%	2.2%	14.8%	14.7%	17.1%	15.4%	12.9%	10.1%

Source: Company, SMIFS Institutional Research Estimates

Fig 3: Change in estimates

Rs mn	New Estimates			Old Estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	50,582	58,918	69,288	52,887	66,151	78,535	-4%	-11%	-12%
Gross profit	25,772	30,638	36,238	27,501	34,597	41,231	-6%	-11%	-12%
Gross margin (%)	51.0%	52.0%	52.3%	52.0%	52.3%	52.5%	-105 Bps	-30 Bps	-20 Bps
EBITDA	9,322	11,253	13,580	10,710	13,561	16,571	-13%	-17%	-18%
EBITDA margin (%)	18.4%	19.1%	19.6%	20.3%	20.5%	21.1%	-182 Bps	-140 Bps	-150 Bps
PAT	6,245	7,612	9,241	7,447	9,460	11,434	-16%	-20%	-19%
EPS (Rs)	560	682	828	668	848	1025			

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	28,330	38,865	50,582	58,918	69,288
COGS	13,697	18,665	24,811	28,281	33,050
% of sales	48.3%	48.0%	49.1%	48.0%	47.7%
Employee Exp	5638	7201	8761	10311	12125
% of sales	19.9%	18.5%	17.3%	17.5%	17.5%
Other Exp.	3729	5144	7689	9073	10532
% of sales	13.2%	13.2%	15.2%	15.4%	15.2%
EBITDA	5,266	7,855	9,322	11,253	13,580
Other Income	195	210	101	147	173
Depreciation & Amortisation	629	655	787	951	1119
EBIT	4,832	7,410	8,637	10,450	12,635
Interest Expenses	297	322	377	381	411
Core PBT	4,340	7,088	8,260	10,069	12,223
Exceptional Items	0	0	0	0	0
PBT	4,534	7,088	8,260	10,069	12,223
Tax	1128	1722	2016	2457	2982
Tax Rate (%)	24.9%	24.3%	24.4%	24.4%	24.4%
Reported PAT	3406	5365	6245	7612	9241
Minority Interest	0	0	0	0	0
Adjusted PAT	3406	5365	6245	7612	9241

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	-3.8%	37.2%	30.2%	16.5%	17.6%
EBITDA	-1.1%	49.2%	18.7%	20.7%	20.7%
Adjusted PAT	-0.8%	57.5%	16.4%	21.9%	21.4%
Margin Ratio (%)					
Gross Profit	51.7%	52.0%	51.0%	52.0%	52.3%
EBITDA	18.6%	20.2%	18.4%	19.1%	19.6%
EBIT	17.1%	19.1%	17.1%	17.7%	18.2%
Core PBT	15.3%	18.2%	16.3%	17.1%	17.6%
Adj PAT	12.0%	13.8%	12.3%	12.9%	13.3%
Return Ratio (%)					
ROE	40.0%	54.4%	51.4%	50.5%	49.2%
ROCE	40.2%	55.2%	53.2%	51.7%	50.1%
Turnover Ratio (days)					
Gross Block Turnover (x)	6.5	7.3	6.1	5.4	5.2
Adj OCF/Adj PAT (%)	196	55	100	89	97
Inventory	71	92	85	85	85
Debtors	18	16	15	15	15
Creditors	28	34	25	25	25
Cash Conversion Cycle	61	73	75	75	75
Solvency Ratio (%)					
Debt-equity (x)	0.0	0.0	0.0	0.0	0.0
Net Debt-equity (x)	-0.5	-0.3	-0.1	-0.1	-0.1
Gross Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.7	1.7	1.7	1.8
Interest coverage ratio	15.6	22.4	22.7	27.0	30.3
Per share (Rs)					
Reported EPS	305.3	481.0	559.9	682.4	828.5
Adjusted EPS	305.3	481.0	559.9	682.4	828.5
CEPS	361.8	539.7	630.4	767.7	928.8
Book value	793.3	976.0	1200.6	1501.6	1868.1
Dividend					
DPS (Rs)	250.0	370.0	280.0	350.0	420.0
Dividend Payout (%)	82%	77%	50%	51%	51%
Dividend Yield (%)	1.1%	1.0%	0.7%	0.9%	1.1%
Valuation					
P/E	73.1	73.9	68.1	55.9	46.0
P/BV	28.1	36.4	31.8	25.4	20.4
EV/EBITDA	46.5	50.1	45.5	37.7	31.2
EV/Sales	8.6	10.1	8.4	7.2	6.1
Adj M.Cap /Core PBT	56.4	55.6	51.3	42.1	34.6
Adj M.Cap /Adj OCF	36.7	133.7	67.6	62.5	47.2

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	112	112	112	112	112
Reserves & Surplus	8737	10775	13280	16637	20725
Shareholders' Funds	8,849	10,886	13,392	16,749	20,836
Total Debt	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0
Other Non-Current Liabilities	1027	820	820	820	820
Total Liabilities	9,876	11,706	14,211	17,569	21,656
Application of funds					
Net Block	2863	3094	5942	7901	9735
Capital WIP	279	653	0	0	0
Other Non-Current Asset	1606	1642	1700	1762	1829
Investments	0	0	0	0	0
Inventories	5549	9749	11779	13721	16136
Sundry Debtors	1371	1651	2079	2421	2847
Other Current Assets	980	1447	1315	1532	1594
Cash & Bank Balances	4350	2835	1361	969	1823
Total Current Assets	12,251	15,681	16,534	18,643	22,400
Creditors	2,175	3,628	3,465	4,036	4,746
Other Current Liabilities	4,748	5,477	6,242	6,443	7,303
Provisions	200	258	258	258	258
Total Current Liabilities	7,123	9,364	9,965	10,737	12,307
Net Current Assets	5,128	6,317	6,569	7,906	10,092
Total assets	9,876	11,706	14,211	17,569	21,656

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes	5527	7929	9424	11401	13754
Net change in working capital	2691	-2910	-757	-1770	-1384
Income tax paid (net)	-1259	-1750	-2016	-2457	-2982
Cash flow from operating activities (a)	6959	3269	6650	7174	9387
Adjusted OCF	6661	2947	6274	6793	8976
Capital expenditure	-153	-980	-3000	-2500	-2500
Adjusted Free Cash Flow	6508	1968	3274	4293	6476
Cash flow from investing activities (b)	-4011	1189	-3000	-2500	-2500
Debt issuance (repayment)	-321	0	0	0	0
Interest & lease expenses	-551	-617	-377	-381	-411
Dividend Paid	-2787	-3347	-3748	-4685	-5622
Cash flow from financing activities (c)	-3659	-3964	-4124	-5066	-6033
Net change in cash (a+b+c)	-711	493	-474	-392	854

Source: Company, SMIFS Institutional Research Estimates

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