

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
33,251	10,309
<b>Bloomberg</b>	<b>PAG IN</b>
Equity Shares (m)	11.2
M.Cap.(INRb)/(USDb)	167.1 / 2.5
52-Week Range (INR)	22600 / 12360
1, 6, 12 Rel. Per (%)	14/39/17
Avg Val, INRm/ Vol m	220
Free float (%)	51.0

### Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	21.3	25.4	32.3
EBITDA	4.3	5.2	7.1
PAT	2.7	3.3	4.6
EPS (INR)	238.7	296.6	413.1
Gr. (%)	15.0	24.3	39.3
BV/Sh (INR)	596.9	745.2	931.1
RoE (%)	40.0	39.8	44.4
RoCE (%)	40.4	41.2	47.1
P/E (x)	93.5	75.2	54.0
EV/EBITDA (x)	60.3	47.6	34.9

Estimate change



TP change



Rating change



**CMP: INR22,314**

**TP: INR25,580(+15%)**

**Buy**

### Strong earnings traction continues; deserves high valuation

- PAGE's net sales grew at a strong 17.1% YoY** to INR6.26b (est. of INR6.45b), with 7.9% YoY volume growth. Mix improvement was well ahead of expectation. Men's innerwear, Women's innerwear and Sportswear segments grew at 14%, 20% and 20% YoY, with volumes increasing 4%, 14% and 15% YoY, respectively. Speedo sales grew 27% YoY, with 7% YoY volume growth.
- Gross margin shrunk 200bp YoY to 57.6%.** This was offset by lower employee costs (-90bp YoY) and other expenses (-160bp YoY), resulting in EBITDA margin expansion of 40bp YoY to 20.5% in 2QFY18. Thus, EBITDA grew at a healthy 19.5% YoY to INR1.28b (est. of 1.29b). Adj. PAT rose 22.4% YoY to INR841m (est. of INR825m).
- Robust cash flow generation:** We note that the net working capital increase of 16% YoY has been far lower than the sales increase of over 20% in 1HFY18. Other current and non-current assets have declined both YoY and QoQ. Net cash and cash equivalents have thus gone up from INR813m at end-1HFY17 to INR2.27b at end-2QFY18.
- Management interaction takeaways:** (1) Management expect sales trajectory to continue. (2) Yarn costs remain soft – have been on a downtrend since August (saw a blip-up in October before coming down).
- Valuation view:** We believe PAG offers a compelling, capital-efficient long-term lifestyle play on the premiumizing innerwear category. A widening branded product portfolio, coupled with distribution expansion, will aid market share expansion and drive multiple years of growth, in our view. Unlike retail peers, PAG has shown a remarkable ability to maintain strong double-digit volume growth and high RoEs, making it fully deserving of high valuations. Continued impressive performance leads us to upgrade forecasts for FY19/20 by 4%/7%. Maintain **Buy** with a TP of INR25,580 (50x December 2019E EPS, a 10% discount to three-year average P/E).

### Quarterly Performance

Y/E MARCH	FY17				FY18				FY17	FY18E	FY18	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
<b>Net Sales</b>	5,686	5,344	5,283	4,989	6,962	6,257	6,154	6,030	21,301	25,403	6,453	-3.0%
YoY Change (%)	26.7	14.6	19.2	12.8	22.5	17.1	16.5	20.9	18.3	19.3	20.0	
<b>EBITDA</b>	1,092	1,075	991	974	1,365	1,284	1,186	1,362	4,132	5,197	1,290	-0.4%
Margins (%)	19.2	20.1	18.8	19.5	19.6	20.5	19.3	22.6	19.4	20.5	20.0	
YoY Change	8.8	6.3	19.6	5.3	25.0	19.5	19.6	39.8	9.7	25.8	20.0	
Depreciation	59	60	62	65	67	68	69	70	247	273	66	
Interest	39	40	45	56	45	36	45	16	180	142	40	
Other Income	59	62	20	103	40	49	20	18	243	127	40	
<b>PBT</b>	1,053	1,037	904	955	1,294	1,229	1,092	1,294	3,948	4,909	1,224	0.4%
Tax	373	350	275	287	441	389	356	415	1,285	1,600	399	
Rate (%)	35.5	33.8	30.4	30.1	34.1	31.6	32.6	32.0	32.6	32.6	32.6	
<b>PAT</b>	679	687	629	668	853	841	736	879	2,663	3,309	825	1.9%
YoY Change (%)	8.5	14.0	20.9	17.9	25.5	22.4	17.0	31.6	15.0	24.2	20.1	

E: MOSL Estimates

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Exhibit 1: Quarterly operational data**

Volume ('000)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Men innerwear	20,734	19,133	17,694	23,739	23,579	19,510	19,550	26,260	24,430
Women innerwear	6,742	6,527	6,624	9,061	8,220	7,370	7,150	10,430	9,330
Leisure wear	7,036	6,390	7,386	7,814	7,569	8,710	7,740	9,420	8,730
Speedo	66	30	216	291	75	40	170	250	80
<b>Total</b>	<b>34,579</b>	<b>32,080</b>	<b>31,920</b>	<b>40,905</b>	<b>39,442</b>	<b>35,630</b>	<b>34,610</b>	<b>46,360</b>	<b>42,570</b>
<b>% YoY</b>									
Men innerwear	NA	10.1	(0.9)	19.8	10.4	2.0	10.5	10.6	3.6
Women innerwear	NA	19.9	13.8	17.1	18.7	12.9	7.9	15.1	13.5
Leisure wear	NA	3.9	23.1	30.4	4.0	36.3	4.8	20.6	15.3
Speedo	NA	(11.7)	1,212.5	74.2	20.6	32.8	(21.3)	(14.0)	7.1
<b>Total</b>	<b>NA</b>	<b>10.6</b>	<b>7.5</b>	<b>21.4</b>	<b>10.7</b>	<b>11.1</b>	<b>8.4</b>	<b>13.3</b>	<b>7.9</b>
<b>Sales value (INR m)</b>									
Men innerwear	2,235	2,156	1,987	2,711	2,643	2,386	2,325	3,239	2,999
Women innerwear	874	853	821	1,158	1,069	998	920	1,436	1,278
Leisure wear	1,370	1,369	1,365	1,614	1,532	1,807	1,559	2,029	1,840
Speedo	37	15	151	168	47	20	114	181	60
<b>Total</b>	<b>4,515</b>	<b>4,393</b>	<b>4,325</b>	<b>5,651</b>	<b>5,291</b>	<b>5,212</b>	<b>4,919</b>	<b>6,885</b>	<b>6,177</b>
<b>% YoY</b>									
Men innerwear	NA	13.6	5.6	22.8	16.7	10.7	17.0	19.5	13.5
Women innerwear	NA	26.5	19.2	23.7	22.1	17.0	12.1	24.0	19.6
Leisure wear	NA	11.3	21.4	35.2	9.3	32.0	14.2	25.7	20.1
Speedo	NA	(21.9)	59.9	80.2	21.5	30.8	(24.5)	7.6	27.1
<b>Total</b>	<b>NA</b>	<b>14.9</b>	<b>14.1</b>	<b>27.6</b>	<b>15.5</b>	<b>18.6</b>	<b>13.7</b>	<b>21.8</b>	<b>16.7</b>
<b>Avg realization (INR/unit)</b>									
Men innerwear	108	109	112	114	112	122	119	123	123
Women innerwear	129	126	124	128	130	135	129	138	137
Leisure wear	194	206	185	207	202	208	201	215	211
Speedo	570	505	700	577	632	503	673	722	750
<b>Total</b>	<b>131</b>	<b>132</b>	<b>135</b>	<b>138</b>	<b>134</b>	<b>146</b>	<b>142</b>	<b>149</b>	<b>145</b>
<b>% YoY</b>									
Men innerwear	NA	3.2	6.5	4.2	5.7	8.5	5.1	9.8	7.5
Women innerwear	NA	5.5	4.8	7.4	1.9	3.6	3.7	11.1	7.2
Leisure wear	NA	7.1	(1.4)	3.5	3.9	(3.1)	9.6	16.5	2.0
<b>Total</b>	<b>NA</b>	<b>3.9</b>	<b>6.1</b>	<b>6.3</b>	<b>4.1</b>	<b>6.8</b>	<b>4.6</b>	<b>9.6</b>	<b>5.0</b>

Note: FY16 and FY17 are as per Ind AS

Source: Company, MOSL

**Key takeaways from management interaction****Sales and volumes**

- Volume growth was around 8% YoY, but there has been a strong mix improvement across categories, which led to 17% sales growth.
- Men's innerwear volumes were up by around 3.6%, but volume growth in other categories was in high-single-digits or double-digits.
- Management expect sales trajectory to continue going forward.

**Material costs, other operating costs and pricing**

- Yarn costs remain soft. They had been on a downward trend since August (saw a blip-up in October before declining again).
- Management will review pricing in December before rolling out the increase sometime in February.

- There is no update on minimum wage increase for textile workers in Karnataka. While minimum wages were increased in Karnataka earlier this year, textile workers were kept out of the ambit of the increase and they had appealed against the same.

**Operating cash flow generation has been strong**

- We note that the net working capital increase of 16% YoY has been far lower than the sales increase of over 20% in 1HFY18.
- Other current and non-current investments have declined both YoY and QoQ.
- Net cash and cash equivalents have thus gone up from INR813m at end-2QFY17 and INR54m at end-FY17, to INR2.27b at end-2QFY18.
- Capex for FY18 and FY19 will be around INR600-700m each.

**Valuation view**

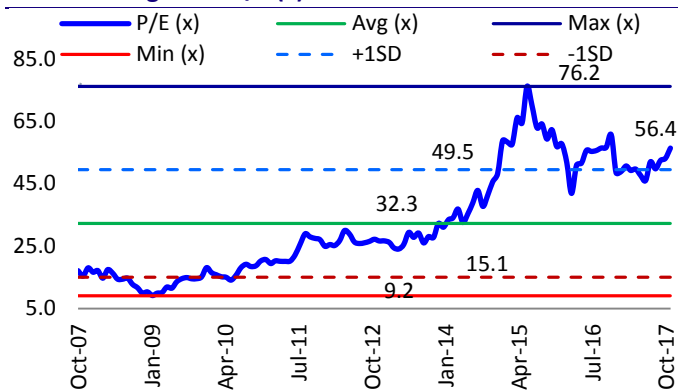
- We believe PAG offers a compelling, capital-efficient long-term lifestyle play on the premiumizing innerwear category. A widening branded product portfolio, coupled with distribution expansion, will aid market share expansion and drive multiple years of growth, in our view.
- Unlike retail peers, PAG has shown a remarkable ability to maintain strong double-digit volume growth and high RoEs, making it fully deserving of high valuations.
- Continued impressive performance leads us to upgrade forecasts for FY19/20 by 4%/7%. Maintain **Buy** with a TP of INR25,580 (50x December 2019E EPS, a 10% discount to three-year average P/E).

**Exhibit 2: We upgrade forecasts for FY19/FY20 by 4%/7%**

	New			Old			Change (%)		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales	25,403	32,280	41,113	26,230	32,316	39,844	-3.2%	-0.1%	3.2%
EBITDA	5,197	7,101	9,233	5,187	6,915	8,707	0.2%	2.7%	6.0%
PAT	3,309	4,607	6,073	3,287	4,444	5,671	0.7%	3.7%	7.1%

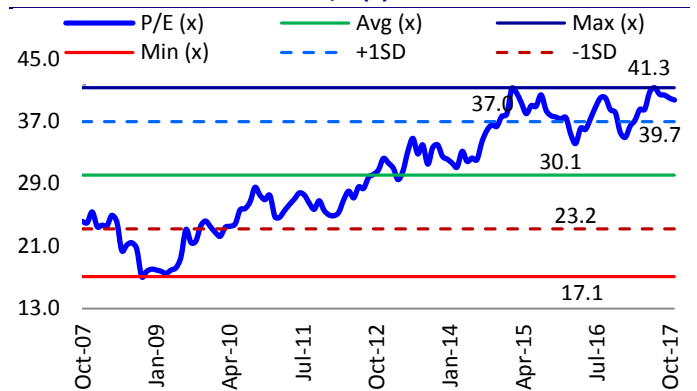
Source: Company, MOSL

**Exhibit 3: Page Inds P/E (x)**



Source: Company, MOSL

**Exhibit 4: Consumer sector P/E (x)**



Source: Company, MOSL

## Exhibit 5: Valuation Matrix

Company	Reco	CMP	Target Price		Mkt Cap		EPS Growth YoY (%)			P/E (x)			RoE (%)	Div. (%)
			(INR)	(INR)	Upside (%)	(INR B)	(USD B)	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17
<b>Consumer</b>														
Asian Paints	Neutral	1,195	1,280	7	1,123	17.3	8.7	2.6	19.8	56.9	55.4	46.2	28.5	0.8
Britannia Inds.	Buy	4,759	5,165	9	556	8.6	7.3	15.8	22.6	64.6	55.8	45.5	36.9	0.0
Colgate-Palm.	Buy	1,039	1,328	28	278	4.3	-5.7	10.2	22.1	48.9	44.4	36.4	50.4	1.0
Dabur India	Buy	348	395	14	594	9.1	1.9	6.8	20.0	48.0	44.9	37.5	28.4	0.7
Emami	Buy	1,252	1,435	15	283	4.4	4.5	0.2	25.0	47.2	47.1	37.7	35.8	0.7
Godrej Cons.	Neutral	977	1,015	4	656	10.1	12.4	11.9	15.8	51.7	46.2	39.8	24.6	0.6
GlaxoSmith C H L	Neutral	5,936	5,400	-9	238	3.7	0.9	3.0	13.4	38.0	36.9	32.6	22.2	0.9
Hind. Unilever	Buy	1,253	1,440	15	2,677	41.2	1.9	16.2	21.0	63.8	54.9	45.4	66.5	1.3
ITC	Neutral	260	280	8	3,224	49.6	9.4	8.5	10.2	31.0	28.6	25.9	23.5	2.1
Jyothy Lab.	Neutral	346	365	6	63	1.0	175.7	-18.3	18.9	30.8	37.7	31.7	21.1	1.7
Marico	Neutral	314	340	8	399	6.1	12.1	3.5	21.8	49.9	48.2	39.6	36.7	1.0
Nestle India	Neutral	7,793	6,160	-21	755	11.6	-1.6	-2.5	16.1	66.1	67.7	58.3	39.0	0.8
P & G Hygiene	Neutral	8,808	9,200	4	287	4.4	2.3	14.0	16.1	66.3	58.1	50.0	39.3	3.7
<b>Page Industries</b>	<b>Buy</b>	<b>22,314</b>	<b>25,580</b>	<b>15</b>	<b>230</b>	<b>3.5</b>	<b>15.0</b>	<b>24.3</b>	<b>39.3</b>	<b>93.5</b>	<b>75.2</b>	<b>54.0</b>	<b>40.0</b>	<b>0.4</b>
Parag Milk	Neutral	254	275	8	22	0.3	-46.4	147.7	38.7	70.6	28.5	20.5	6.0	0.0
Pidilite Inds.	Neutral	813	865	6	393	6.1	6.7	7.9	14.0	48.6	45.0	39.5	28.2	0.6
United Breweries	Buy	1,101	1,320	20	301	4.6	-23.0	68.9	22.4	126.8	75.1	61.3	10.2	0.1
United Spirits	Neutral	3,109	2,970	-4	444	6.8	87.1	30.6	53.8	116.3	89.0	57.9	21.3	0.0
<b>Retail</b>														
Jubilant Food.	Sell	1,650	1,270	-23	106	1.6	-32.1	114.2	28.0	164.9	77.0	60.1	8.2	0.2
Titan Company	Buy	778	850	9	662	10.2	18.5	38.5	27.0	86.1	62.2	49.0	20.6	0.5

Source: Company, MOSL

## Financials and Valuations

Income Statement						(INR Million)
Y/E March	2015	2016	2017	2018E	2019E	2020E
<b>Net Sales</b>	<b>15,430</b>	<b>17,956</b>	<b>21,301</b>	<b>25,403</b>	<b>32,280</b>	<b>41,113</b>
Change (%)	29.9	16.4	18.6	19.3	27.1	27.4
Total Expenditure	12,240	14,204	17,169	20,206	25,180	31,880
<b>EBITDA</b>	<b>3,190</b>	<b>3,752</b>	<b>4,132</b>	<b>5,197</b>	<b>7,101</b>	<b>9,233</b>
Change (%)	25.1	17.6	10.1	25.8	36.6	30.0
Margin (%)	20.7	20.9	19.4	20.5	22.0	22.5
Depreciation	176	241	247	273	321	368
Int. and Fin. Ch.	167	178	180	142	106	61
Other Inc.- Rec.	86	98	243	127	161	206
<b>PBT</b>	<b>2,933</b>	<b>3,431</b>	<b>3,948</b>	<b>4,909</b>	<b>6,836</b>	<b>9,010</b>
Change (%)	25.6	17.0	15.1	24.3	39.3	31.8
Tax	973	1,116	1,285	1,600	2,229	2,937
Tax Rate (%)	33.2	32.5	32.6	32.6	32.6	32.6
<b>Adjusted PAT</b>	<b>1,960</b>	<b>2,315</b>	<b>2,663</b>	<b>3,309</b>	<b>4,607</b>	<b>6,073</b>
Change (%)	27.5	18.1	15.0	24.3	39.3	31.8
<b>Reported PAT</b>	<b>1,960</b>	<b>2,315</b>	<b>2,663</b>	<b>3,309</b>	<b>4,607</b>	<b>6,073</b>

Balance Sheet						(INR Million)
Y/E March	2015	2016	2017	2018E	2019E	2020E
Share Capital	112	112	112	112	112	112
Reserves	3,756	5,187	6,546	8,201	10,274	12,703
<b>Net Worth</b>	<b>3,868</b>	<b>5,299</b>	<b>6,658</b>	<b>8,312</b>	<b>10,385</b>	<b>12,815</b>
Loans	1,573	949	887	687	487	187
<b>Capital Employed</b>	<b>5,440</b>	<b>6,248</b>	<b>7,544</b>	<b>8,999</b>	<b>10,872</b>	<b>13,001</b>
Gross Block	3,059	3,286	3,728	4,433	5,137	5,842
Less: Accum. Depn.	886	1,120	1,367	1,640	1,961	2,329
<b>Net Fixed Assets</b>	<b>2,173</b>	<b>2,167</b>	<b>2,361</b>	<b>2,792</b>	<b>3,177</b>	<b>3,514</b>
Capital WIP	1	4	241	376	376	376
Investments	0	0	521	2,000	500	500
<b>Curr. Assets, L&amp;A</b>	<b>6,061</b>	<b>7,445</b>	<b>8,571</b>	<b>8,464</b>	<b>12,588</b>	<b>15,723</b>
Inventory	4,435	5,408	6,229	5,916	8,225	9,574
Account Receivables	884	1,024	1,099	1,253	1,503	1,802
Cash and Bank Balance	44	86	206	414	1,384	2,504
Others	698	926	1,037	881	1,476	1,842
<b>Curr. Liab. and Prov.</b>	<b>2,680</b>	<b>3,289</b>	<b>4,038</b>	<b>4,521</b>	<b>5,657</b>	<b>6,999</b>
Account Payables	821	941	1,112	1,322	1,680	2,140
Other Liabilities	504	640	705	766	884	1,126
Provisions	1,355	1,708	2,220	2,433	3,092	3,733
<b>Net Curr. Assets</b>	<b>3,381</b>	<b>4,156</b>	<b>4,533</b>	<b>3,942</b>	<b>6,931</b>	<b>8,723</b>
Def. Tax Liability	114	79	112	112	112	112
<b>Appl. of Funds</b>	<b>5,440</b>	<b>6,248</b>	<b>7,544</b>	<b>8,999</b>	<b>10,872</b>	<b>13,001</b>

E: MOSL Estimates

## Financials and Valuations

<b>Ratios</b>						
<b>Y/E March</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>Basic (INR)</b>						
<b>EPS</b>	<b>175.7</b>	<b>207.6</b>	<b>238.7</b>	<b>296.6</b>	<b>413.1</b>	<b>544.5</b>
Cash EPS	191.5	229.2	260.9	321.1	441.8	577.4
BV/Share	346.8	475.1	596.9	745.2	931.1	1,148.9
DPS	72.0	85.0	87.0	126.8	194.2	279.2
Payout (%)	48.9	49.3	43.7	50.0	55.0	60.0
<b>Valuation (x)</b>						
P/E	127.0	107.5	93.5	75.2	54.0	41.0
Cash P/E	116.5	97.4	85.5	69.5	50.5	38.6
EV/Sales	16.2	13.9	11.7	9.7	7.7	6.0
EV/EBITDA	78.5	66.6	60.3	47.6	34.9	26.7
P/BV	64.4	47.0	37.4	29.9	24.0	19.4
Dividend Yield (%)	0.3	0.4	0.4	0.6	0.9	1.3
<b>Return Ratios (%)</b>						
RoE	50.7	43.7	40.0	39.8	44.4	47.4
RoCE	41.6	41.7	40.4	41.2	47.1	51.2
RoIC	40.9	41.0	41.2	51.9	61.7	65.5
<b>Working Capital Ratios</b>						
Asset Turnover (x)	3.1	3.1	3.1	3.1	3.2	3.4
Debtor Days	19	19	18	17	16	15
Creditor Days	17	18	18	17	17	17
Inventory Days	95	100	100	87	80	79
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.4	0.2	0.1	0.1	0.0	0.0
<b>Cash Flow Statement</b>						
						<b>(INR Million)</b>
<b>Y/E March</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Profit before Tax	2,933	3,431	3,948	4,909	6,836	9,010
Depreciation	176	241	247	273	321	368
Other Non Cash & Non operating activities	96	80	-63	15	-56	-145
Incr in WC	-569	-733	-257	799	-2,019	-671
Direct Taxes Paid	-966	-1,116	-1,285	-1,600	-2,229	-2,937
<b>CF from Operations</b>	<b>1,670</b>	<b>1,903</b>	<b>2,590</b>	<b>4,395</b>	<b>2,853</b>	<b>5,624</b>
Incr in FA	-534	-228	-618	-705	-705	-705
<b>Free Cash Flow</b>	<b>1,136</b>	<b>1,675</b>	<b>1,972</b>	<b>3,690</b>	<b>2,148</b>	<b>4,919</b>
Pur of Investments	2	98	-278	-1,352	1,661	206
<b>CF from Invest.</b>	<b>-531</b>	<b>-130</b>	<b>-896</b>	<b>-2,057</b>	<b>956</b>	<b>-499</b>
Incr in Debt	-59	-624	-62	-200	-200	-300
Dividend Paid	-899	-1,142	-1,164	-1,654	-2,534	-3,644
Others	-170	35	-135	-231	-195	-150
<b>CF from Fin. Activity</b>	<b>-1,128</b>	<b>-1,731</b>	<b>-1,361</b>	<b>-2,085</b>	<b>-2,929</b>	<b>-4,094</b>
<b>Incr/Decr of Cash</b>	<b>10</b>	<b>43</b>	<b>333</b>	<b>253</b>	<b>880</b>	<b>1,031</b>
Add: Opening Balance	34	43	-127	161	503	1,473
<b>Closing Balance</b>	<b>44</b>	<b>86</b>	<b>206</b>	<b>414</b>	<b>1,384</b>	<b>2,504</b>

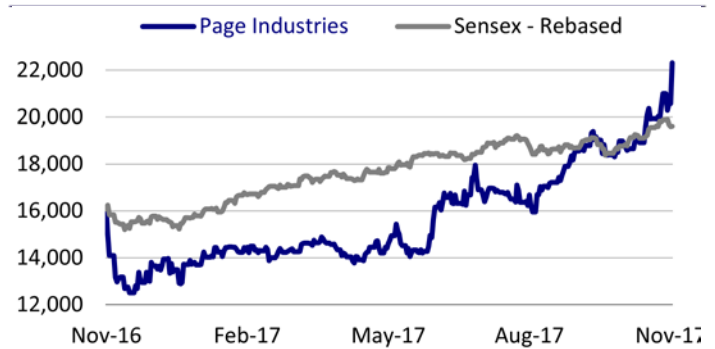
E: MOSL Estimates

## Corporate profile

### Company description

Page Industries commenced operations in the year 1994 with the key objective of bringing the innerwear brand “Jockey” to India. The company has the exclusive right for manufacturing, distribution and marketing of Jockey International products in India, Sri Lanka, Maldives, Bangladesh, Nepal and UAE as well as “Speedo” brand in India. Page Industries is promoted by the Genomal family who have been associated with Jockey International Inc for more than 50 years.

### Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	49.0	49.0	49.0
DII	5.7	5.5	4.6
FII	36.2	36.1	37.2
Others	9.1	9.4	9.2

Note: FII Includes depository receipts Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Nalanda India Fund Limited	10.0
Cartica Capital Ltd	7.7
Steadview Capital Mauritius Limited	3.5
ABG Capital	1.5
Smallcap World Fund, Inc	1.5

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Pradeep Jaipuria	Chairman
Sunder Genomal	Managing Director
Shamir Genomal	Executive Director
Pius Thomas	Executive Director (Finance)
C Murugesh	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
B C Prabhakar	G P Albal
Nari Genomal	Ramesh Genomal
Rukmani Menon	Sandeep Kumar Maini
Timothy Ralph Wheeler	Vikram Gamanlal Shah
P V Menon	V Sivadas

\*Independent

### Exhibit 6: Auditors

Name	Type
Haribhakti & Co LLP	Statutory
R Vijayakumar	Secretarial Audit

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	296.6	296.3	0.1
FY19	413.1	374.9	10.2
FY20	544.5	468.1	16.3

Source: Bloomberg



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