

**BSE SENSEX** 34,142  
**S&P CNX** 10,491

**CMP: INR22,759 TP: INR27,490 (+21%)**

**Buy**



## Stock Info

	PAG IN
Bloomberg	PAG IN
Equity Shares (m)	112.0
52-Week Range (INR)	25779 / 13650
1, 6, 12 Rel. Per (%)	9/24/44
M.Cap. (INR b)	249.0
M.Cap. (USD b)	3.8
Avg Val, INRm	309.0
Free float (%)	51.0

## Financials Snapshot (INR b)

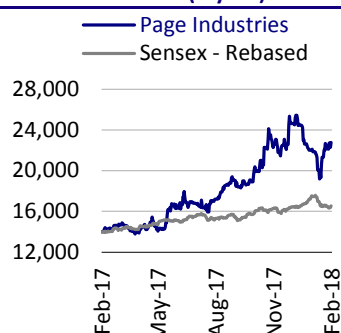
Y/E Mar	2018E	2019E	2020E
Net Sales	25.4	32.3	41.1
EBITDA	5.2	7.1	9.3
PAT	3.3	4.6	6.1
EPS (INR)	297.1	415.7	549.8
Gr. (%)	24.5	39.9	32.2
BV/Sh (INR)	745.5	932.5	1152.5
RoE (%)	39.9	44.6	47.7
RoCE (%)	41.4	47.5	51.7
P/E (x)	76.6	54.7	41.4
EV/EBITDA (x)	48.6	35.5	27.1

## Shareholding pattern (%)

As On	Dec-17	Sep-17	Dec-16
Promoter	49.0	49.0	49.0
DII	5.2	5.7	4.8
FII	36.8	36.2	37.2
Others	9.0	9.1	9.0

FII Includes depository receipts

## Stock Performance (1-year)



## Massive growth opportunity available to sustain premium valuations

We met Page Industries' (PAG) management, post which we have turned even more optimistic about the company's growth prospects.

- Expansion of Exclusive Brand Outlets (EBOs) is happening at a massive pace. The company is adding ~80 outlets in February/March 2018 and likely another 500 in FY19, taking the total EBO count to ~1,000 by end-FY19.
- After forming ~15% of sales in FY17, EBOs are expected to contribute ~40% of sales by FY20 – the year when all the new EBOs will complete at least a year of operations.
- With average cash breakeven in 3-4 months and payback of around 2 years, EBOs are an attractive business proposition to third-party franchisees. Compared to MBOs, the potential for cross-selling is huge in EBOs.
- Apart from INR2b capex over FY17-20, the company plans to increase the proportion of outsourced manufacturing to 35% by end-FY19 from 16-17% in FY17, as the growth prospects are attractive.
- PAG has demonstrated ample discipline on margins, which the company intends to keep in a range to maximize the growth opportunity. Within its target market of aspirers and above, the share of men's innerwear is only ~17%, and of women's innerwear and sportswear is even lower at ~6%.
- We maintain Buy with a target price of INR27,490, based on 50x March FY20E EPS – at a 10% discount to the three-year average P/E.

## Rapid EBO expansion reflects management's confidence about the model

- PAG operated 360 EBOs at end-March 2017. The contribution of EBOs to total sales has increased significantly in recent years – from single-digits to ~15% in FY17. These EBOs are a win-win proposition to both the company and the franchisees. For PAG, EBOs generate several times higher sales than MBOs, enable display of its full-range of products, and facilitate cross-selling. For the EBO owner, the business metrics are favourable because, on average, cash breakeven is attained in three months and payback in two years.
- From ~420 stores at the beginning of February 2018, PAG is adding as many as 80 stores in February and March, taking the total number of stores to ~500 by end-FY18. More impressively, the company is planning to add as many as 500 stores by end-FY19, doubling its store count to 1,000. From 15% of sales in FY17, EBOs are expected to contribute ~40% of sales by FY20.
- Such massive expansion is indicative of the strong confidence (of both management and franchisees) about growth prospects of EBOs. We believe that, with PAG's entry into kids innerwear (boys wear products launched last year saw excellent response and are now available at most EBOs; girls wear will be launched in March 2018), the potential of cross-selling increases further.
- Within its target market of aspirers and above, the share is only ~17% in case of men's innerwear, and 6% in women's innerwear and sportswear.
- EBOs are given 7% higher margins than MBOs. Of this, 3.5% comes from the company and 3.5% from distributors.

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

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- There will be some shift from MBOs to EBOs, but the overall market for branded players like PAG is growing rapidly. Our channel checks over the past few years indicate that the EBO model is doing very well.
- EBOs are typically 600-800 sq. ft. in size and have around 30 days inventory on average. New EBOs will be set up in both existing and new cities.

#### Increased outsourcing and significant investment in capex

- Since the manufacturing process involves hand-stitching, it is fairly labor-intensive. PAG had ~20,000 employees in FY17 and expanding the workforce sharply may pose challenges. Thus, the company is looking to increase the proportion of outsourcing from 17% of sales in FY17 to ~35% by FY19.
- The company would not have equity stakes in entities taking up the outsourced work. Such entities will primarily be the erstwhile fabric suppliers whose employees will be trained to make Jockey products.
- Starting with Athleisure, the company gradually plans to increase outsourcing to men's innerwear and subsequently to women's innerwear.
- The outsourcers will set up captive capacity for Jockey. Some of these suppliers are outside Karnataka and some within the state.
- In addition, PAG intends to incur capex of INR600-700m each year over FY17-20. This will be a combination of greenfield and brownfield. Greenfield expansion will be in Anantapur, Andhra Pradesh (to be commissioned in September 2018) and Orissa (to be commissioned by April- May 2019).

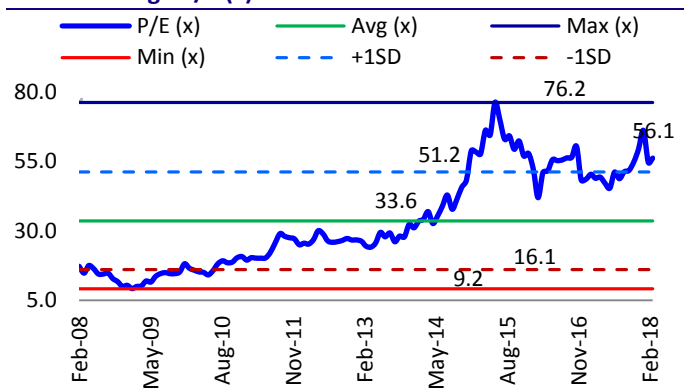
#### Other key highlights

- PAG is also increasing the number of distributors by ~10% every year. It is the distributors who also supply to the EBOs.
- Franchisee agreement with Jockey is until 2030. Royalty has been at 5% since inception. In fact, royalty has been at 5% even for the promoter family in the Philippines business since 1959.
- Our channel checks in the past have suggested that competitive intensity remains low, with Van Heusen too unable to make a dent in most key markets (just like Hanes in the past).
- Ecommerce agreements are of three types:
  - Direct sales to the likes of Flipkart and Amazon
  - Sales to aggregators
  - Sales through its own site jockeyindia.com
- Ecommerce is 2.6% of sales and offers another attractive growth opportunity.

#### Valuation view

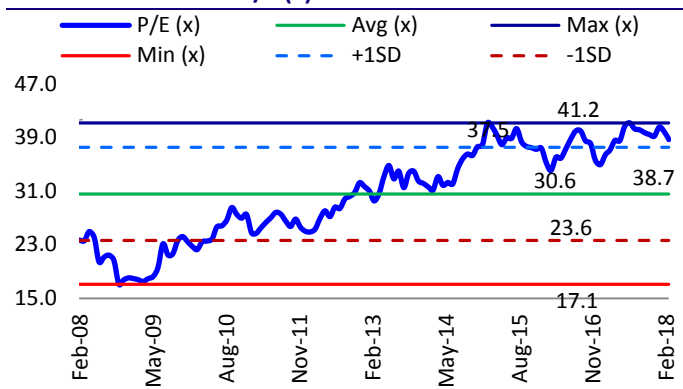
Remarkable track record (neither revenue growth nor EPS growth has slipped below 15% in any year in the past) with healthy growth even during slowdown witnessed by other consumer peers, highly capital-efficient business model with RoCEs consistently over 40%, and among the best-of-breed earnings growth prospects mean that valuation multiples are likely to sustain. Sharply increased pace of EBO expansion and increased outsourcing reflect management's confidence on future prospects and also have positive implications for incremental RoCE improvement. We maintain **Buy** with a TP of INR27,350 based on 50x Mar'20E EPS, at a 10% discount to three-year average P/E.

Exhibit 1: Page P/E (x)



Source: Company, MOSL

Exhibit 2: Consumer P/E (x)



Source: Company, MOSL

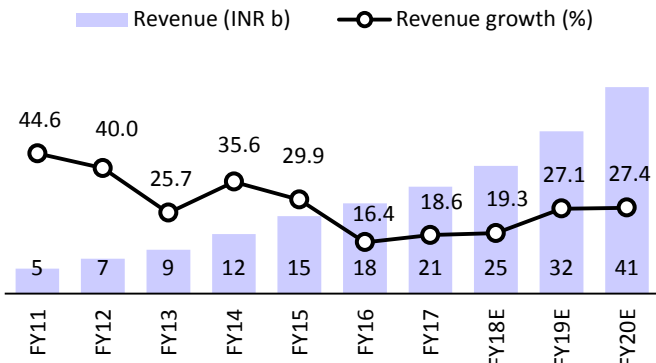
Exhibit 3: Valuation matrix

Company	Reco	CMP (INR)	Target Price (INR)	Upside (%)	Mkt Cap		EPS Growth YoY (%)			P/E (x)			RoE (%)	Div. (%)
					(INR B)	(USD B)	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY17
<b>Consumer</b>														
Asian Paints	Neutral	1,102	1,270	15	1,071	16.5	2.7	18.8	20.2	51.1	43.0	35.8	26.9	0.9
Britannia Inds.	Buy	4,964	5,995	21	583	9.0	14.3	24.8	25.1	58.9	47.2	37.7	33.9	0.5
Colgate-Palm.	Buy	1,050	1,365	30	284	4.4	12.9	17.9	19.7	43.8	37.2	31.0	49.9	1.0
Dabur India	Buy	329	415	26	576	8.9	4.5	19.2	16.2	43.5	36.5	31.4	25.4	0.8
Emami	Buy	1,070	1,505	41	241	3.7	-9.6	30.5	19.1	44.6	34.2	28.7	29.0	0.8
Godrej Cons.	Neutral	1,048	1,065	2	708	10.9	10.6	15.1	14.2	50.1	43.5	38.1	23.6	0.6
GSK C H L	Neutral	6,762	6,350	-6	284	4.4	3.1	14.1	17.4	42.0	36.8	31.3	20.7	1.0
Hind. Unilever	Buy	1,323	1,585	20	2,867	44.3	17.6	20.7	18.1	57.3	47.5	40.2	76.5	1.2
ITC	Neutral	269	278	3	3,245	50.1	6.6	13.7	12.4	30.1	26.4	23.5	22.8	2.1
Jyothy Lab.	Neutral	349	380	9	64	1.0	-27.7	32.0	24.2	42.9	32.5	26.2	13.8	1.7
Marico	Neutral	306	345	13	391	6.0	1.2	19.2	18.4	48.2	40.4	34.1	33.0	1.0
Nestle India	Neutral	7,583	7,882	4	727	11.2	13.2	13.6	20.8	54.2	47.7	39.4	43.4	0.8
P & G Hygiene	Neutral	9,344	9,303	0	305	4.7	6.9	20.5	17.3	65.8	54.6	46.5	61.2	3.5
<b>Page Industries</b>	<b>Buy</b>	<b>22,759</b>	<b>27,490</b>	<b>21</b>	<b>249</b>	<b>3.8</b>	<b>24.5</b>	<b>39.9</b>	<b>32.2</b>	<b>76.6</b>	<b>54.7</b>	<b>41.4</b>	<b>39.9</b>	<b>0.4</b>
Parag Milk	Neutral	290	314	8	24	0.4	147.7	38.7	35.6	32.4	23.4	17.3	10.8	0.0
Pidilite Inds.	Buy	897	1,050	17	454	7.0	5.7	17.8	15.5	50.7	43.1	37.3	25.2	0.5
United Brew.	Buy	1,078	1,380	28	279	4.3	62.0	23.9	31.2	76.6	61.9	47.1	14.9	0.1
United Spirits	Neutral	3,238	3,515	9	459	7.1	22.9	73.4	38.1	98.5	56.8	41.2	17.3	0.0
<b>Retail</b>														
Jubilant Food.	Neutral	2,003	2,185	9	130	2.0	186.2	29.6	31.3	66.0	50.9	38.8	22.5	0.1
PC Jeweller	Buy	333	685	106	130	2.0	44.4	26.6	27.6	21.6	17.0	13.4	16.9	0.3
Titan Company	Buy	814	990	22	725	11.2	38.8	27.0	24.1	65.0	51.1	41.2	23.4	0.4

Source: Company, MOSL

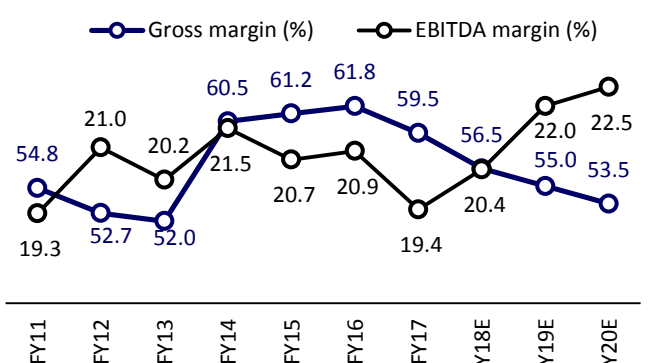
Story in charts

Exhibit 4: Sales to grow at a CAGR of 27% over FY18-20



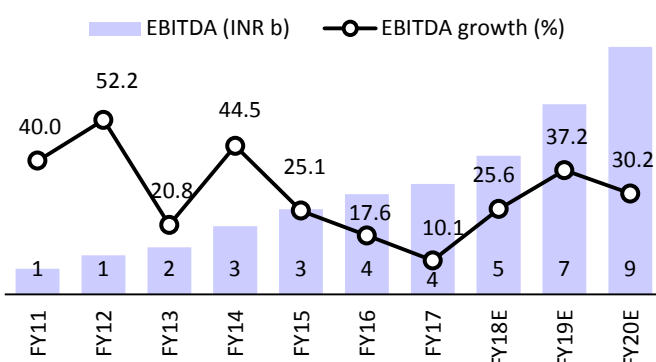
Source: Company, MOSL

Exhibit 5: EBITDA margins to expand 210bp over the same period



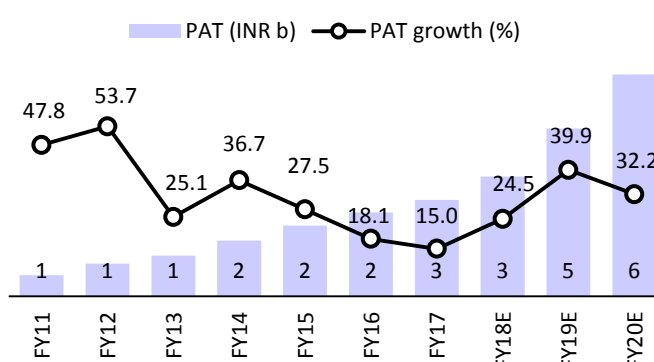
Source: Company, MOSL

Exhibit 6: EBITDA to grow at a CAGR of 34% over FY18-20



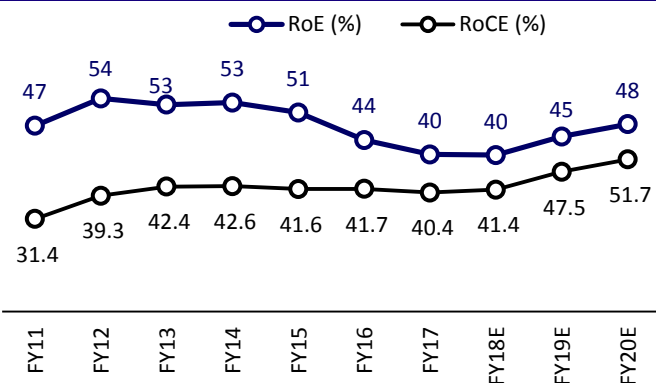
Source: Company, MOSL

Exhibit 7: PAT to grow at CAGR of 36% over FY18-20



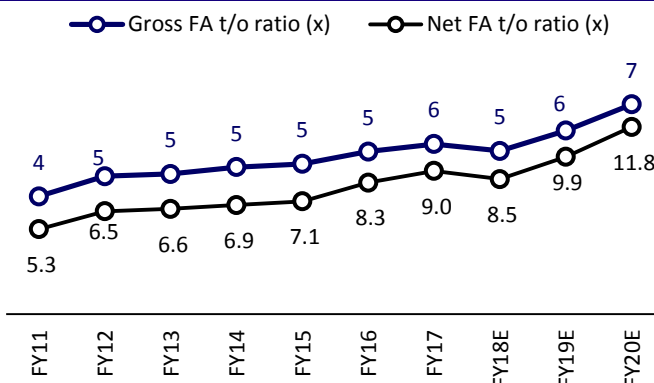
Source: Company, MOSL

Exhibit 8: Return ratios to improve



Source: Company, MOSL

Exhibit 9: Turnover to improve led by outsourcing



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	20,215	25,164	31,848	
<b>EBITDA</b>	<b>3,190</b>	<b>3,752</b>	<b>4,132</b>	<b>5,188</b>	<b>7,117</b>	<b>9,266</b>	
Change (%)	25.1	17.6	10.1	25.6	37.2	30.2	
Margin (%)	20.7	20.9	19.4	20.4	22.0	22.5	
Depreciation	176	241	247	280	331	371	
Int. and Fin. Ch.	167	178	180	165	123	71	
Other Inc.- Rec.	86	98	243	203	258	329	
<b>PBT</b>	<b>2,933</b>	<b>3,431</b>	<b>3,948</b>	<b>4,946</b>	<b>6,921</b>	<b>9,153</b>	
Change (%)	25.6	17.0	15.1	25.3	39.9	32.2	
Tax	973	1,116	1,285	1,632	2,284	3,021	
Tax Rate (%)	33.2	32.5	32.6	33.0	33.0	33.0	
<b>Adjusted PAT</b>	<b>1,960</b>	<b>2,315</b>	<b>2,663</b>	<b>3,314</b>	<b>4,637</b>	<b>6,133</b>	
Change (%)	27.5	18.1	15.0	24.5	39.9	32.2	
<b>Reported PAT</b>	<b>1,960</b>	<b>2,315</b>	<b>2,663</b>	<b>3,314</b>	<b>4,637</b>	<b>6,133</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	8,203	10,290	12,743	
<b>Net Worth</b>	<b>3,868</b>	<b>5,299</b>	<b>6,658</b>	<b>8,315</b>	<b>10,401</b>	<b>12,855</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>9,001</b>	<b>10,888</b>	<b>13,041</b>	
Gross Block	3,059	3,286	3,728	4,634	5,234	5,834	
Less: Accum. Depn.	886	1,120	1,367	1,647	1,977	2,348	
<b>Net Fixed Assets</b>	<b>2,173</b>	<b>2,167</b>	<b>2,361</b>	<b>2,987</b>	<b>3,257</b>	<b>3,486</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>8,271</b>	<b>12,524</b>	<b>15,791</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	222	1,320	2,572	
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>3,750</b>	<b>6,867</b>	<b>8,791</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>9,001</b>	<b>10,888</b>	<b>13,041</b>	

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2015	2016	2017	2018E	2019E	2020E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>175.7</b>	<b>207.6</b>	<b>238.7</b>	<b>297.1</b>	415.7	549.8
Cash EPS	191.5	229.2	260.9	322.2	445.4	583.1
BV/Share	346.8	475.1	596.9	745.5	932.5	1,152.5
DPS	72.0	85.0	87.0	127.0	195.4	282.0
Payout (%)	48.9	49.3	43.7	50.0	55.0	60.0
<b>Valuation (x)</b>						
P/E			95.3	76.6	54.7	41.4
Cash P/E			87.2	70.6	51.1	39.0
EV/EBITDA			61.5	48.6	35.5	27.1
Dividend Yield (%)			0.4	0.6	0.9	1.2
<b>Return Ratios (%)</b>						
RoE	50.7	43.7	40.0	39.9	44.6	47.7
RoCE	41.6	41.7	40.4	41.4	47.5	51.7
RoIC	40.9	41.0	41.2	50.7	60.2	65.2
<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

### Cash Flow Statement

(INR Million)

Y/E March	2015	2016	2017	2018E	2019E	2020E
Profit before Tax	2,933	3,431	3,948	4,946	6,921	9,153
Depreciation	176	241	247	280	331	371
Other Non Cash & Non operating activities	96	80	-63	-38	-135	-258
Incr in WC	-569	-733	-257	799	-2,019	-671
Direct Taxes Paid	-966	-1,116	-1,285	-1,632	-2,284	-3,021
<b>CF from Operations</b>	<b>1,670</b>	<b>1,903</b>	<b>2,590</b>	<b>4,355</b>	<b>2,813</b>	<b>5,574</b>
Incr in FA	-534	-228	-618	-907	-600	-600
<b>Free Cash Flow</b>	<b>1,136</b>	<b>1,675</b>	<b>1,972</b>	<b>3,448</b>	<b>2,213</b>	<b>4,974</b>
Pur of Investments	2	98	-278	-1,276	1,758	329
<b>CF from Invest.</b>	<b>-531</b>	<b>-130</b>	<b>-896</b>	<b>-2,182</b>	<b>1,158</b>	<b>-271</b>
Incr in Debt	-59	-624	-62	-200	-200	-300
Dividend Paid	-899	-1,142	-1,164	-1,657	-2,550	-3,680
Others	-170	35	-135	-254	-212	-160
<b>CF from Fin. Activity</b>	<b>-1,128</b>	<b>-1,731</b>	<b>-1,361</b>	<b>-2,111</b>	<b>-2,962</b>	<b>-4,140</b>
<b>Incr/Decr of Cash</b>	<b>10</b>	<b>43</b>	<b>333</b>	<b>62</b>	<b>1,009</b>	<b>1,163</b>
Add: Opening Balance	34	43	-127	161	311	1,409
<b>Closing Balance</b>	<b>44</b>	<b>86</b>	<b>206</b>	<b>222</b>	<b>1,320</b>	<b>2,572</b>

E: MOSL Estimates

NOTES

## Explanation of Investment Rating

### Investment Rating

BUY	Expected return (over 12-month)	>=15%
SELL		< - 10%
NEUTRAL		> - 10 % to 15%
UNDER REVIEW		Rating may undergo a change
NOT RATED		We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

## Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudicate violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice. The matter is closed and MOSL had to pay Rs. 2 lakhs towards penalty for misplacement of original POA of client.

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