

FEBRUARY 13, 2015

RESULT

Coverage view: **Cautious**

Price (₹): **11,771**

Target price (₹): **8,000**

BSE-30: **28,805**

RM price benefits buoy margins. Page's 3QFY15 results were better versus estimates at the operating profit level. 3QFY15 EBITDA margins at 20.3% (+130 bps yoy) were helped by higher gross margins at 54% (+280 bps yoy) led by declining RM prices; more benefits will flow in the coming quarter. The company has passed on most of these benefits by (1) taking lower price increase in FY2015 and (2) making higher investments in the business, preferring to maintain EBITDA margins in the range of 20-21%. FCF generation in 9MFY15 has been to the tune of ₹390 mn. Gross debt has increased to ₹1.2 bn from ₹1 bn in 4QFY14 due to dividend payment of ₹640 mn. We retain our estimates and SELL rating with a revised target price of ₹8,000 (₹7,500 earlier) at 30X December 2016E EPS.

Company data and valuation summary

PAGE Industries

Stock data

52-week range (Rs) (high,low)	12,850-5,456
Market Cap. (Rs bn)	131.3

Shareholding pattern (%)

Promoters	51.8
FIs	31.9
MFs	6.3

Price performance (%)

	1M	3M	12M
Absolute	7.3	21.5	109.1
Rel. to BSE-30	2.7	18.2	48.5

Forecasts/Valuations

	2015	2016E	2017E
EPS (Rs)	180.6	223.2	273.6
EPS growth (%)	31.0	23.6	22.6
P/E (X)	65.2	52.7	43.0
Sales (Rs bn)	15.2	18.8	23.4
Net profits (Rs bn)	2.0	2.5	3.1
EBITDA (Rs bn)	3.3	4.0	4.9
EV/EBITDA (X)	40.8	33.1	27.0
ROE (%)	59.2	54.0	48.6
Div. Yield (%)	0.6	0.7	0.7

Delivers on the operating profit front

Page reported 3QFY15 sales at ₹3.8 bn (+25.4% yoy). Growth in sales was driven by 15% rise in volumes with the leisurewear segment leading with 24% yoy growth. The company reported 3QFY15 EBITDA at ₹778 mn (+34% yoy); 3QFY15 EBITDA margins at 20.3% were 130 bps higher yoy helped by higher gross margins at 54% (+280 bps yoy), which were partly offset by other expense items. As per the management, gross margins are higher as the company is benefitting out of declining RM prices; more benefits will flow in the coming quarter. However, the company is passing on most of these benefits by (1) taking lower price increase this year as compared to past trends and (2) making higher investments in the business, preferring to maintain EBITDA margins in the range of 20-21%. Reported 3QFY15 PAT at ₹447 mn was lower versus estimates on account of lower other income.

₹390 mn of FCF generated in 9MFY15; gross debt higher on dividend payment

FCF generation excluding dividend has been to the tune of ₹390 mn. Net debt of the company has increased by ₹250 mn in 9MFY15, implying that FCF generation after payment of dividend has been negative. As per our estimates, the company has generated ₹1.5 bn of operating cash excluding working capital. Cash has been deployed in (1) ₹450 mn of capex, (2) ₹640 mn of dividends (including tax) and (3) ₹690 mn of incremental investment into working capital.

Retain estimates and SELL rating; revised target price of ₹8,000

We retain our estimates and SELL rating with a revised target price of ₹8,000 at 30X December 2016E EPS, as we roll over our estimates from September 2016; valuation multiple is unchanged.

Exhibit 1: Outperforms at the operating level led by higher margins
Interim results of Page Industries, March fiscal year-ends (Rs mn)

	3QFY15	3QFY15E	3QFY14	2QFY15	Change (%)			9HFY15	9HFY14	(% chg)
					KIE est.	yoy	qoq			
Total Income	3,830	3,818	3,055	3,965	0.3	25.4	(3.4)	11,628	9,066	28.3
Total Expenditure	(3,051)	(3,093)	(2,475)	(3,220)		23.3	(5.2)	(9,211)	(7,106)	29.6
Raw materials	(1,760)		(1,491)	(1,871)				(5,475)	(4,328)	
Employee expense	(652)		(490)	(677)				(1,926)	(1,396)	
Other expenditure	(639)		(494)	(671)				(1,810)	(1,383)	
EBITDA	778	725	580	746	7.3	34.2	4.4	2,416	1,960	23.3
EBITDA (%)	20.3	19	19.0	18.8				20.8	21.6	
Depreciation	(45)	(35)	(36)	(34)				(130)	(99)	
Interest	(39)	(33)	(28)	(33)				(122)	(95)	
PBT	694	657	516	678	5.5	34.5	2.3	2,164	1,766	22.5
Other income	2	40	10	67				86	23	
Exceptional items										
Tax expense	(249)	(230)	(180)	(246)				(761)	(603)	
PAT	447	467	346	499	(4.3)	29.1	(10.4)	1,489	1,187	25.5
Margins (as % of sales)										
RM	46.0		48.8	47.2				47.1	47.7	
Employee cost	17.0		16.0	17.1				16.6	15.4	
Other expenditure	16.7		16.2	16.9				15.6	15.3	

Source: Company, Kotak Institutional Equities

Exhibit 2: Leisurewear segment grew at a much higher rate versus other product segments
Details of quarterly revenue mix, March fiscal year-ends

	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Volume (mn pieces)	23.7	22.4	21.7	19.0	27.9	25.8	25.7	22.2	30.3	31.3	29.6
Men's	15.6	14.7	14.3	11.5	18.0	16.4	15.8	12.6	18.3	19.6	17.7
Women's	3.9	3.5	3.1	3.2	4.3	3.8	3.8	3.6	5.1	4.5	4.3
Brassiere	0.7	0.7	0.6	0.7	1.0	1.0	1.1	1.0	1.3	1.4	1.2
Leisure wear	3.5	3.5	3.7	3.6	4.6	4.6	5.1	5.0	5.6	5.8	6.3
Volume growth (%)		13.7	15.4	14.5	17.5	15.2	18.2	16.7	8.8	21.1	15.3
Men's		9	16	6	15	12	10	10	2	20	13
Women's		21	0	28	10	9	21	14	19	18	15
Brassiere		40	23	40	44	50	72	38	33	31	15
Leisure wear		25	29	29	31	30	37	38	23	27	24
Revenues (Rs mn)	2,181	2,237	2,154	2,106	3,037	2,873	3,026	2,787	3,779	3,875	3,766
Men's	1,221	1,253	1,213	1,032	1,674	1,535	1,518	1,263	1,914	2,048	1,869
Women's	284	291	205	274	304	274	278	305	387	366	378
Brassiere	131	134	118	147	206	213	225	220	300	317	285
Leisure wear	480	559	618	569	798	826	978	907	1,088	1,114	1,215
Speedo	65	—	—	84	54	25	27	92	90	31	19
Revenue growth (%)		24	25	33	39	28	40	32	24	35	24
Men's		14	26	17	37	23	25	22	14	33	23
Women's		46	(15)	45	7	(6)	35	11	27	34	36
Brassiere		49	37	57	58	59	91	49	46	48	27
Leisure wear		35	44	34	66	48	58	60	36	35	24
Product mix (%)											
Men's	56	56	54	49	53	53	48	45	51	53	50
Women's	13	13	13	13	11	11	10	11	10	9	10
Brassiere	6	6	6	7	7	7	7	8	8	8	8
Leisure wear	22	25	27	27	27	28	33	33	29	29	32
Speedo	3	0	0	4	2	1	1	3	2	1	1

Source: Company, Kotak Institutional Equities

Exhibit 3: Summary financials: Page Industries

Profit model, cash flow statement and balance sheet for Page, March fiscal year-ends (Rs mn)

	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit model (Rs mn)										
Net Sales	1,937	2,572	3,432	4,996	6,966	8,758	11,876	15,163	18,784	23,389
EBITDA	372	531	680	979	1,462	1,766	2,512	3,272	4,029	4,924
Other income	35	42	26	41	52	85	66	72	80	87
Interest	(27)	(31)	(30)	(48)	(67)	(80)	(104)	(128)	(129)	(129)
Depreciation	(36)	(73)	(90)	(98)	(106)	(114)	(139)	(195)	(245)	(303)
Profit before tax	344	469	586	874	1,341	1,657	2,335	3,022	3,734	4,581
Tax expense	(106)	(152)	(189)	(292)	(441)	(531)	(797)	(997)	(1,232)	(1,512)
Exceptional items	—	—	1	(4)	—	—	—	—	—	—
PAT	238	316	396	585	900	1,125	1,538	2,024	2,502	3,069
EPS	21	28	36	52	81	101	138	182	224	275
Balance sheet (Rs mn)										
Equity	774	868	990	1,238	1,658	2,135	2,890	3,929	5,329	7,297
Total borrowings	372	419	548	1,150	759	1,007	1,632	1,639	1,639	1,639
Deferred tax liability	16	17	20	26	36	57	95	95	95	95
Current liabilities	565	819	640	976	1,263	1,518	2,079	2,559	3,174	3,957
Total liabilities	1,727	2,123	2,197	3,389	3,715	4,717	6,696	8,222	10,238	12,987
Net fixed assets	436	668	825	940	1,102	1,422	1,764	2,170	2,724	3,222
Investments	300	52	30	30	18	10	—	—	—	—
Cash	2	103	29	26	31	46	35	137	207	659
Other current assets	989	1,300	1,313	2,394	2,564	3,239	4,897	5,916	7,306	9,107
Total assets	1,727	2,123	2,197	3,389	3,715	4,717	6,696	8,222	10,238	12,987
Cash flow (Rs mn)										
Operating cash flow	260	360	476	673	1,016	1,249	1,694	2,219	2,747	3,372
Working capital changes	(173)	(57)	(205)	(720)	147	(457)	(1,051)	(539)	(774)	(1,018)
Capital expenditure	(231)	(306)	(247)	(285)	(271)	(435)	(473)	(600)	(800)	(800)
Free cash flow	(143)	(3)	23	(333)	891	357	170	1,080	1,173	1,553
Ratios										
EBITDA margin (%)	19.2	20.6	19.8	19.6	21.0	20.2	21.2	21.6	21.4	21.1
Net debt/equity (X)	0.48	0.36	0.52	0.91	0.44	0.45	0.55	0.38	0.27	0.13
Book value (Rs/share)	69.4	77.8	88.8	111.0	148.6	191.4	259.1	352.3	477.8	654.2
RoAE (%)	32.8	38.5	42.6	52.5	62.1	59.3	61.2	59.4	54.0	48.6
RoACE (%)	34.8	31.3	30.6	30.8	38.7	41.1	41.3	41.6	41.6	41.2

Source: Company, Kotak Institutional Equities estimates