

BSE SENSEX
38,024

S&P CNX
11,471

CMP: INR 32,391 TP: INR31,600 (-2%) Downgrade to Neutral

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INR b)/(USD b)	361.3 / 5.3
52-Week Range (INR)	32750 / 15089
1, 6, 12 Rel. Per (%)	4/40/75
12M Avg Val (INR M)	422
Free float (%)	51.0

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	25.5	30.3	37.9
EBITDA	5.4	7.0	8.8
PAT	3.5	4.6	5.9
EPS (INR)	311.1	412.2	529.4
Gr. (%)	30.3	32.5	28.5
BV/Sh (INR)	759.6	945.1	1156.9
RoE (%)	41.0	43.6	45.8
RoCE (%)	42.9	46.3	49.3
P/E (x)	104.1	78.6	61.2
EV/EBITDA (x)	66.4	51.5	40.5

Estimate change

TP change

Rating change



Massive growth opportunity; fair valuations limit near-term upside

- **PAGE reported healthy net sales growth of 17.1% YoY** to INR8.2b (est. of INR8.4b). Overall volume growth stood at 9% YoY for 1QFY19. Men's Innerwear, women's innerwear and sportswear segments grew by 16%, 14% and 21% YoY, led by volume growth of 6.2%, 6.7% and 18.3% YoY, respectively.
- **The company posted another quarter of strong EBITDA growth** (+38.6% YoY to INR1.9b v/s est. of INR1.8b). Adj. PAT increased by a healthy 45.9% YoY to INR1.2b (in-line).
- **Gross margin expanded 70bp YoY** to 54.9%. Strong operating leverage led to employee costs as % of sales being lower by 130bp YoY and other expenses as % of sales being lower by 160bp YoY, resulting in EBITDA margin expansion of 360bp YoY to 23.2% in 1QFY19
- **Valuation and view:** PAG is among the most compelling investment cases in the Indian consumer space. The company's structural earnings growth prospects have improved over the past year, aided by its strategic changes (EBO expansion and outsourcing) and ongoing/likely balance sheet improvements ([refer our annual report update](#)). The stock has seen a massive re-rating. In FY18, the stock witnessed a 55% spurt compared to 30% earnings growth. Even in YTD FY19, the stock has rallied by a further 42%, now trading at a P/E of 61x FY20E EPS. We expect earnings momentum to remain strong with a CAGR of 30% over FY18-20. However, valuations are now at a sharp premium. Post results, we cut our FY20 earnings estimate by 5%, led by moderation of volume growth forecasts for FY19 and consequently for FY20 as well. We value PAG at 53x one-year forward P/E (in line with three-year average). At our price target of INR31,600, we see no upside, and thus, downgrade our rating to **Neutral**. Since our initiation in November 2015, the stock has delivered 42% CAGR return compared to 18% return for Nifty FMCG and 15% for the broader Nifty Index. Risks to our rating would be continued expansion in valuation multiples, as we see limited upsides to our estimates.

Quarterly Performance

Y/E MARCH	FY18				FY19				FY18	FY19E	FY19	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	6,962	6,257	6,210	6,084	8,153	7,726	7,455	7,015	25,514	30,350	8,390	-2.8%
YoY Change (%)	22.5	17.1	17.6	22.3	17.1	23.5	20.0	15.3	19.9	19.0	20.5	
COGS	3,187	2,651	2,760	2,275	3,674	3,351	3,276	2,749	10,873	13,050	4,176	
Gross Profit	3,775	3,606	3,450	3,809	4,479	4,375	4,179	4,266	14,640	17,299	4,214	6.3%
Gross margin (%)	54.2	57.6	55.6	62.6	54.9	56.6	56.1	60.8	57.4	57.0	50.2	
Other Expenditure	2,410	2,321	2,162	2,341	2,586	2,596	2,520	2,644	9,234	10,346	2,401	
EBITDA	1,365	1,284	1,289	1,468	1,893	1,779	1,659	1,622	5,407	6,953	1,813	4.4%
Margins (%)	19.6	20.5	20.8	24.1	23.2	23.0	22.3	23.1	21.2	22.9	21.6	
YoY Change	25.0	19.5	30.0	50.8	38.6	38.5	28.7	10.5	30.8	28.6	32.8	
Depreciation	67	68	70	76	72	76	78	94	280	320	75	
Interest	45	36	41	44	40	27	31	22	166	120	33	
Other Income	40	49	53	73	72	83	90	104	215	349	68	
PBT	1,294	1,229	1,231	1,421	1,852	1,759	1,640	1,610	5,175	6,862	1,773	4.5%
Tax	441	389	397	479	608	580	541	535	1,705	2,264	585	
Rate (%)	34.1	31.6	32.2	33.7	32.8	33.0	33.0	33.2	33.0	33.0	33.0	
PAT	853	841	834	942	1,244	1,179	1,099	1,076	3,470	4,597	1,188	4.7%
YoY Change (%)	25.5	22.4	32.6	41.1	45.9	40.2	31.8	14.2	30.3	32.5	39.3	

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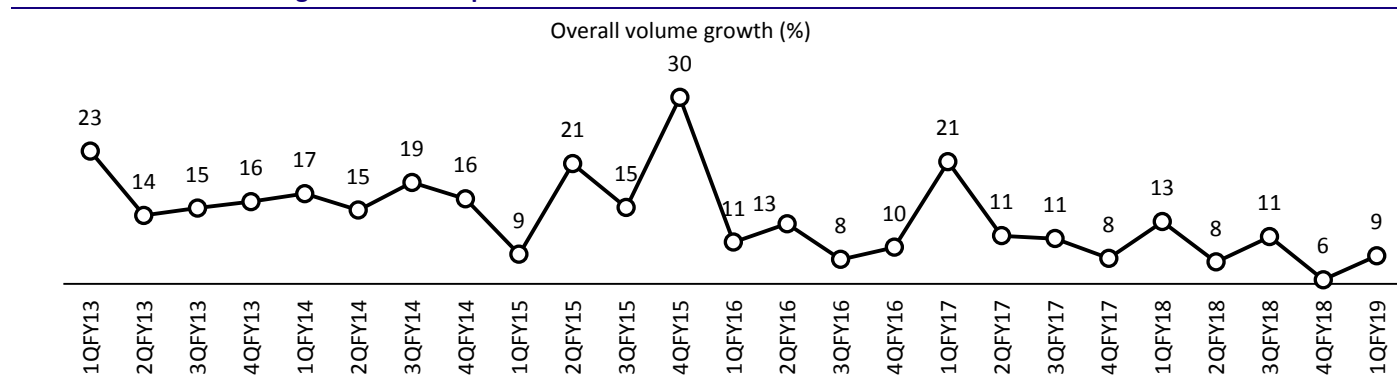
Operating metrics

Exhibit 1: Quarterly operational data

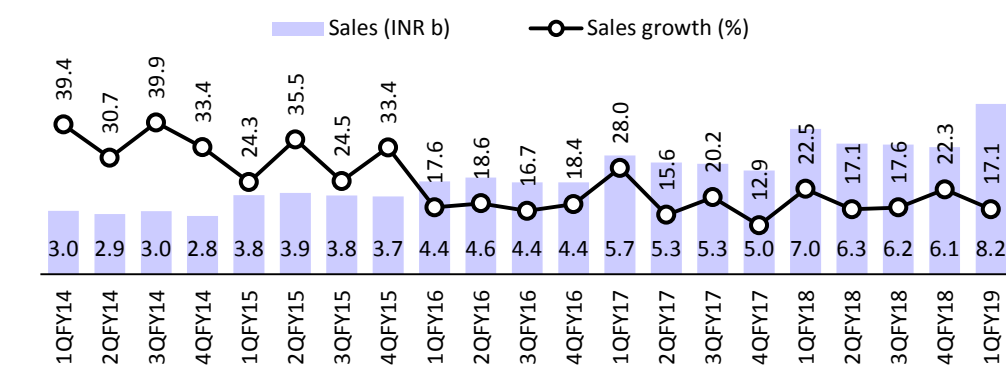
Volume ('000)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Men innerwear	23,739	23,579	19,510	19,550	26,260	24,430	21,770	19,380	27,890
Women innerwear	9,061	8,220	7,370	7,150	10,430	9,330	7,970	7,790	11,130
Sports+Socks	7,814	7,569	8,710	7,740	9,420	8,730	9,810	9,160	11,140
Speedo	291	75	40	170	250	80	110	200	260
Total	40,905	39,442	35,630	34,610	46,360	42,570	39,660	36,530	50,420
% YoY	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Men innerwear	19.8	10.4	2.0	10.5	10.6	3.6	11.6	(0.9)	6.2
Women innerwear	17.1	18.7	12.9	7.9	15.1	13.5	8.1	9.0	6.7
Sports+Socks	30.4	4.0	36.3	4.8	20.6	15.3	12.6	18.3	18.3
Speedo	74.2	20.6	32.8	(21.3)	(14.0)	7.1	175.0	17.6	4.0
Total	21.4	10.7	11.1	8.4	13.3	7.9	11.3	5.5	8.8
Sales value (INR m)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Men innerwear	2,711	2,643	2,386	2,325	3,239	2,999	2,766	2,713	3,758
Women innerwear	1,158	1,069	998	920	1,436	1,278	1,128	1,130	1,638
Sports+Socks	1,614	1,532	1,807	1,559	2,029	1,840	2,178	2,023	2,461
Speedo	168	47	20	114	181	60	63	124	201
Total	5,651	5,291	5,212	4,919	6,885	6,177	6,135	5,990	8,058
% YoY	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Men innerwear	22.8	16.7	10.7	17.0	19.5	13.5	15.9	16.7	16.0
Women innerwear	23.7	22.1	17.0	12.1	24.0	19.6	13.1	22.8	14.1
Sports+Socks	35.2	9.3	32.0	14.2	25.7	20.1	20.5	29.7	21.2
Speedo	80.2	21.5	30.8	(24.5)	7.6	27.1	212.8	8.6	11.5
Total	27.6	15.5	18.6	13.7	21.8	16.7	17.7	21.8	17.0
Avg realization (INR/unit)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Men innerwear	114	112	122	119	123	123	127	140	135
Women innerwear	128	130	135	129	138	137	142	145	147
Sports+Socks	207	202	208	201	215	211	222	221	221
Speedo	577	632	503	673	722	750	572	621	775
Total	138	134	146	142	149	145	155	164	160

Source: Company, MOSL

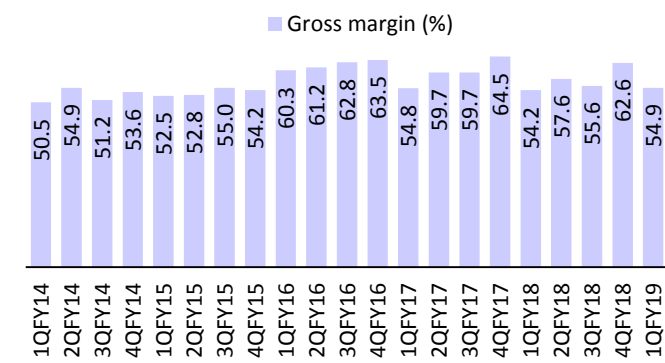
Exhibit 2: Overall volume growth for the quarter stood at 9% YoY



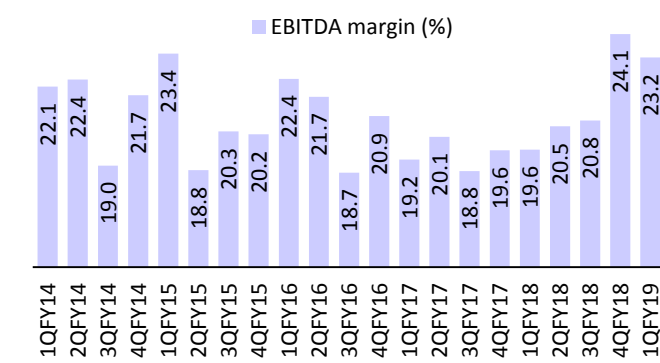
Source: Company, MOSL

Exhibit 3: Sales grew 17.1% YoY to INR8.2b

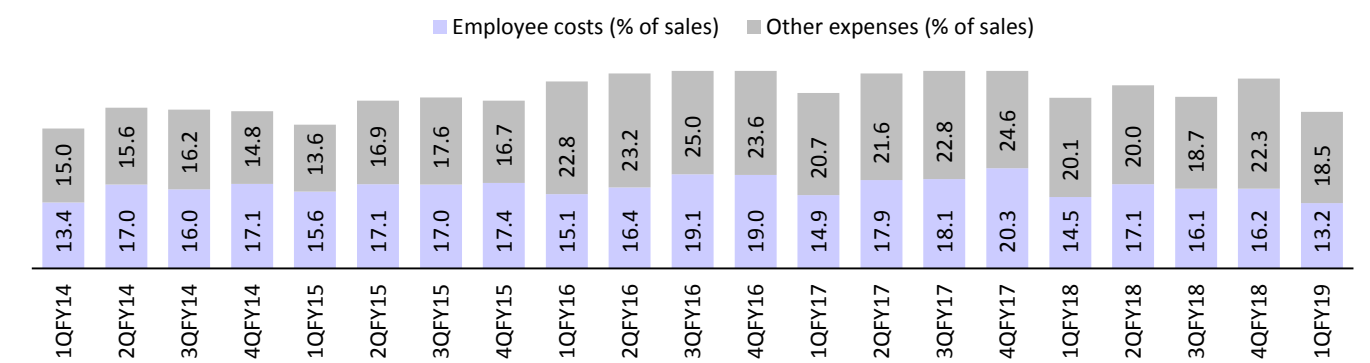
Source: Company, MOSL

Exhibit 4: Gross margin expanded 70bp YoY to 54.9%...

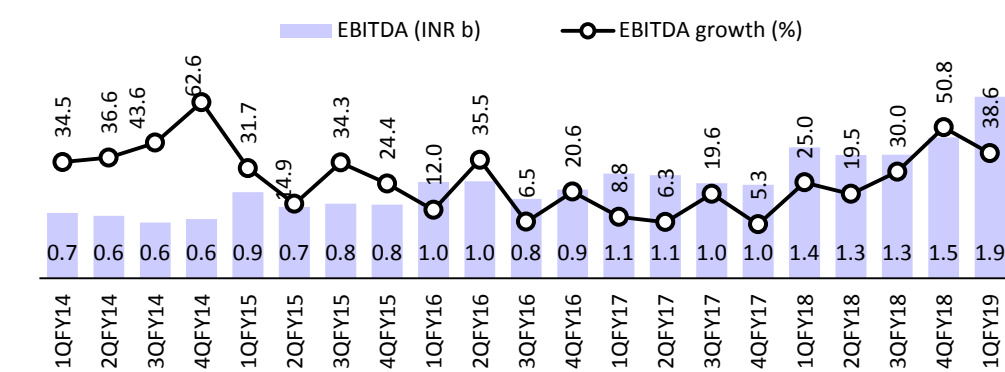
Source: Company, MOSL

Exhibit 5: ..while EBITDA margin expanded 360bp YoY to 23.2%

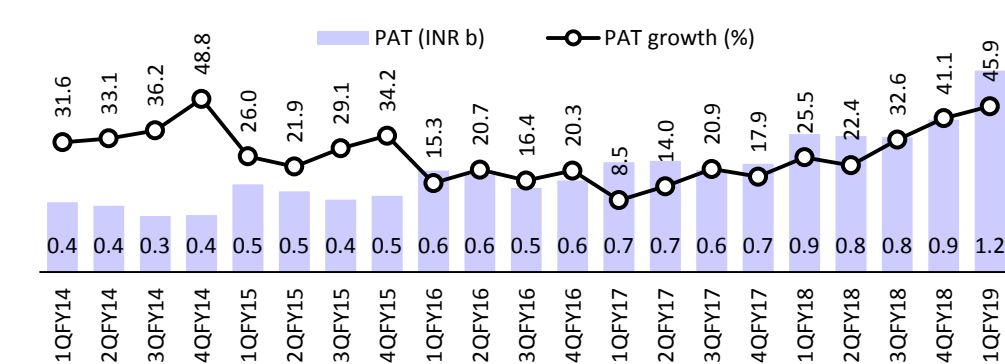
Source: Company, MOSL

Exhibit 6: Other expenses to sales were lower by 160bp YoY and employee cost to sales declined by 130bp YoY

Source: Company, MOSL

Exhibit 7: EBITDA growth was robust at 38.6% YoY to INR1.9b

Source: Company, MOSL

Exhibit 8: PAT grew 45.9% YoY to INR1.2b

Source: Company, MOSL

Further takeaways

- Overall volume growth for the quarter was at ~9%.
- Elastic shortage witnessed in men's innerwear for 4QFY18 (which affected volumes but boosted realizations due to a better mix) continued into the early part of 1QFY19. This was however resolved during the quarter. This also had a positive rub-off on gross and EBITDA margins which may not sustain in subsequent quarters. Volume growth could however be better for the rest of the year.
- Yarn costs have started going up marginally on a sequential basis; this could possibly affect them 3QFY19 onward if the increase in momentum sustains. The company usually takes price increase in the fourth quarter, which is likely again this year.
- Capex for the current year is likely to be around INR700-800m.
- Outsourcing proportion was 28% for the quarter and is likely to be around 30-35% by end of the year and around 40% by end of FY20. Lower staff costs to sales as a result of outsourcing are also contributing to EBITDA margin expansion.
- EBO store openings are on track and there are likely to be around 1,000 EBOs by the end of FY20, as per the earlier target.

Valuation and view

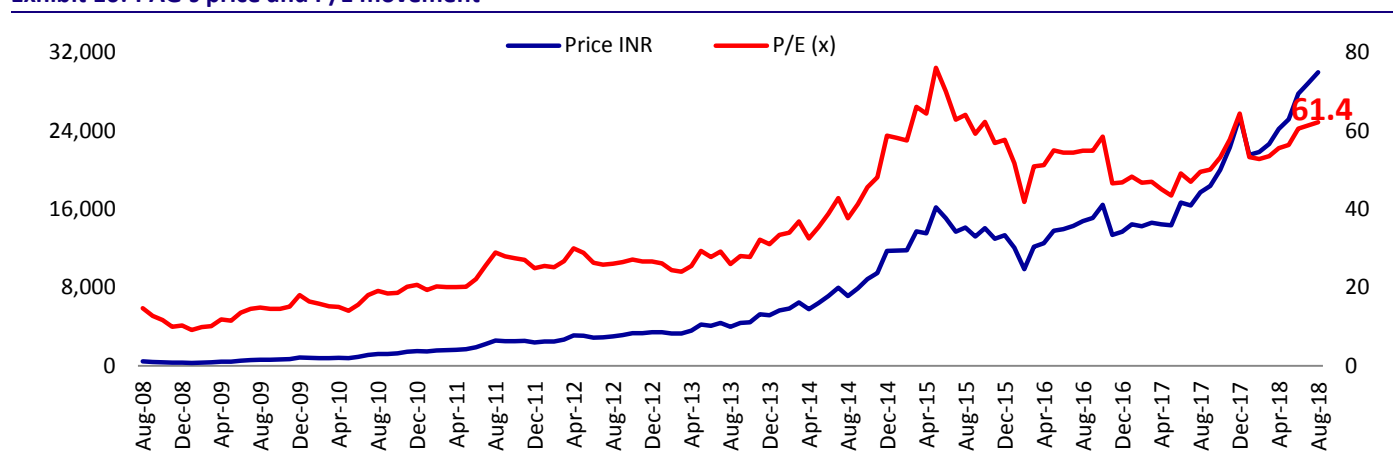
- From a stock price return perspective, PAG has been the best performing among Consumer stocks over the past ten years with an immense CAGR return of 53.7%. It has also been the second best performing stock after Britannia over the past five years with extremely impressive CAGR return of 49.5%. Over the past three years also it among the best performing stock with strong 30.4% CAGR return over this period.

Exhibit 9: 3/5/10 yrs. stock performance of consumer coverage universe

Company	CAGR (%)		
	3 Year	5 Year	10 Year
Asian Paints	16.4	26.9	28.9
Britannia Inds.	25.5	55.6	37.3
Colgate-Palm.	3.6	11.9	20.2
Dabur India	13.0	22.5	25.7
Emami	-4.0	20.7	30.9
Future Consumer	41.5	50.2	NA
Godrej Consumer	22.8	24.5	35.6
GlaxoSmith C H L	1.9	11.1	27.2
Hind. Unilever	24.7	23.9	22.7
ITC	11.8	6.9	16.9
Jyothy Lab.	12.4	22.2	25.5
Marico	18.3	30.2	29.3
Nestle India	18.4	16.8	21.4
Page Industries	30.4	49.8	53.7
Pidilite Inds.	23.7	35.1	32.4
P & G Hygiene	17.1	30.6	31.1
United Breweries	5.2	9.5	22.6
United Spirits	-5.3	6.2	9.2

Source: Company, MOSL

Exhibit 10: PAG's price and P/E movement

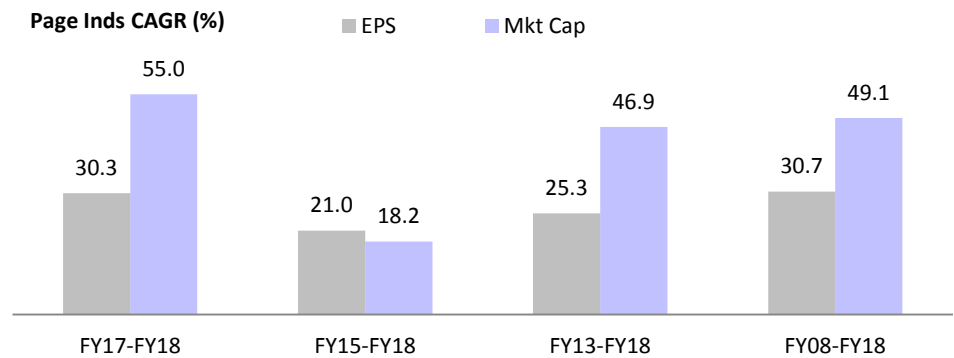


Source: Company, MOSL

- PAG remains among the most compelling investment cases in the Indian Consumer space. Its structural earnings growth prospects have improved over the past year, aided by strategic changes (EBO expansion and outsourcing) and ongoing and likely balance sheet improvements ([refer our annual report update](#)). The stock has seen a massive rerating. In FY18 the stock witnessed 55%

sput compared to 30% earnings growth. Subsequently, even in YTD FY19, the stock has witnessed a further 42% spike and now trades at PE of 61x FY20 EPS. We expect earnings momentum to remain strong with a CAGR of 30% over FY18-20.

Exhibit 11: PAG's 1/3/5/10 yrs. earnings and Market Cap CAGR performance



Source: Company, MOSL

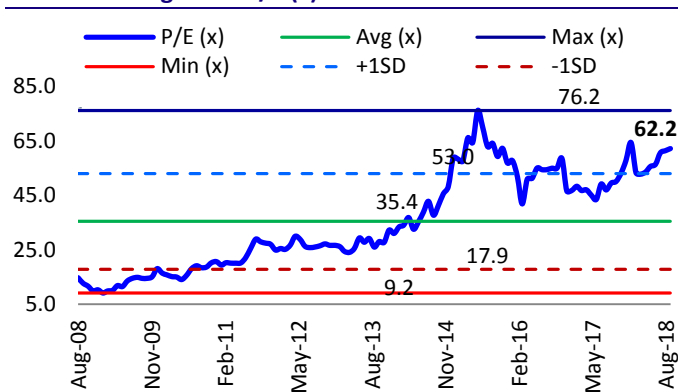
- However, valuations have now become super premium. Post results, our estimates have seen moderation of 5% in FY20, led by temperance in volume growth forecasts for FY19 and consequently for FY20 as well. We value Page at 53x PE 1yr forward (in-line with 3-yr average). At our price target of INR31,600, we see no upside, hence DOWNGRADE to Neutral. Since initiation in November 2015, the stock has delivered 42% CAGR return compared to 18% return for Nifty FMCG and 15% for the broader Nifty Index over this period. Risks to our rating would be continued expansion in valuation multiples, as we see limited upsides to our estimates.

Exhibit 12: Changes in model have led to 2.6%/5.2% downwards revision in FY19/FY20 EPS

	New		Old		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Sales	30,350	37,853	31,862	40,234	-4.7%	-5.9%
EBITDA	6,953	8,807	7,118	9,267	-2.3%	-5.0%
PAT	4,597	5,905	4,720	6,232	-2.6%	-5.2%

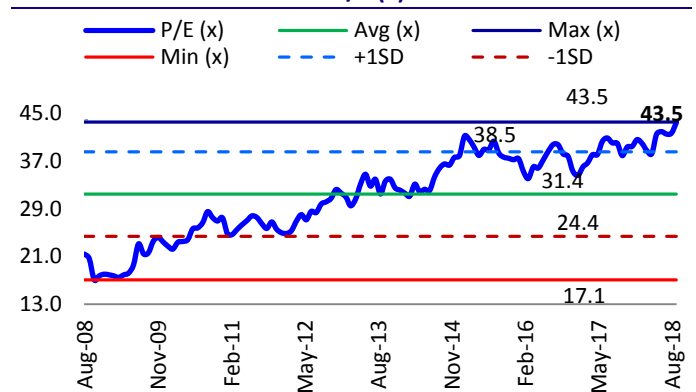
Source: Company, MOSL

Exhibit 13: Page Inds P/E (x)



Source: Company, MOSL

Exhibit 14: Consumer sector P/E (x)



Source: Company, MOSL

Financials and valuations

Income Statement						(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	11,877	15,430	17,956	21,285	25,514	30,350	37,853
Change (%)	35.6	29.9	16.4	18.5	19.9	19.0	24.7
Total Expenditure	9,326	12,240	14,204	17,153	20,107	23,396	29,046
EBITDA	2,551	3,190	3,752	4,132	5,407	6,953	8,807
Change (%)	44.5	25.1	17.6	10.1	30.8	28.6	26.7
Margin (%)	21.5	20.7	20.9	19.4	21.2	22.9	23.3
Depreciation	139	176	241	247	280	320	375
Int. and Fin. Ch.	142	167	178	180	166	120	54
Other Inc.- Rec.	65	86	98	243	215	349	435
PBT	2,335	2,933	3,431	3,948	5,175	6,862	8,814
Change (%)	40.9	25.6	17.0	15.1	31.1	32.6	28.5
Tax	797	973	1,116	1,285	1,705	2,264	2,909
Tax Rate (%)	34.1	33.2	32.5	32.6	33.0	33.0	33.0
Adjusted PAT	1,538	1,960	2,315	2,663	3,470	4,597	5,905
Change (%)	36.7	27.5	18.1	15.0	30.3	32.5	28.5
Reported PAT	1,538	1,960	2,315	2,663	3,470	4,597	5,905

Balance Sheet						(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	112	112	112	112	112	112	112
Reserves	2,778	3,756	5,187	6,546	8,361	10,430	12,792
Net Worth	2,890	3,868	5,299	6,658	8,473	10,542	12,904
Loans	1,632	1,573	949	877	685	485	185
Capital Employed	4,522	5,440	6,248	7,535	9,158	11,027	13,089
Gross Block	2,404	3,059	3,286	2,764	3,048	3,698	4,348
Less: Accum. Depn.	676	886	1,120	403	669	990	1,365
Net Fixed Assets	1,728	2,173	2,166	2,361	2,379	2,709	2,984
Capital WIP	36	1	4	241	585	585	585
Investments	0	0	0	521	2,180	2,180	2,180
Curr. Assets, L&A	5,092	6,061	7,445	8,418	8,979	11,191	14,396
Inventory	3,626	4,435	5,408	6,229	5,679	6,652	8,089
Account Receivables	727	884	1,024	1,127	1,480	1,580	1,867
Cash and Bank Balance	35	44	86	206	669	1,677	2,962
Others	705	698	926	856	1,152	1,282	1,479
Curr. Liab. and Prov.	2,239	2,680	3,289	3,895	4,855	5,528	6,946
Account Payables	586	821	941	1,112	1,363	1,580	1,970
Other Liabilities	423	504	640	169	276	291	415
Provisions	1,230	1,355	1,708	2,613	3,216	3,657	4,561
Net Curr. Assets	2,853	3,381	4,156	4,523	4,123	5,663	7,450
Def. Tax Liability	95	114	79	112	110	110	110
Appl. of Funds	4,522	5,440	6,247	7,535	9,158	11,027	13,090

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)							
EPS	137.9	175.7	207.6	238.7	311.1	412.2	529.4
Cash EPS	150.4	191.5	229.2	260.9	336.2	440.9	563.1
BV/Share	259.1	346.8	475.1	596.9	759.6	945.1	1,156.9
Payout (%)	50.9	48.9	49.3	51.0	52.6	55.0	60.0
Valuation (x)							
P/E	234.9	184.3	156.1	135.7	104.1	78.6	61.2
EV/EBITDA	142.3	113.7	96.5	87.5	66.4	51.5	40.5
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.4	0.6	0.8
Return Ratios (%)							
RoE	53.2	50.7	43.7	40.0	41.0	43.6	45.8
RoCE	42.6	41.6	41.7	40.4	42.9	46.3	49.3
RoIC	42.9	40.9	41.0	41.2	55.9	72.2	81.0
Working Capital Ratios							
Asset Turnover (x)	3.1	3.1	3.1	3.1	3.1	3.0	3.1
Debtor Days	20	19	19	18	19	18	17
Creditor Days	16	17	18	18	18	18	17
Inventory Days	92	95	100	100	85	74	71
Leverage Ratio							
Debt/Equity (x)	0.6	0.4	0.2	0.1	0.1	0.0	0.0

Cash Flow Statement

INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Profit before Tax	2,335	2,933	3,431	3,948	5,175	6,862	8,814
Depreciation	139	176	241	247	280	320	375
Other Non Cash & Non operating activities	122	96	80	-63	-48	-229	-382
Incr in WC	-1,098	-569	-733	-247	863	-532	-502
Direct Taxes Paid	-750	-966	-1,116	-1,285	-1,705	-2,264	-2,909
CF from Operations	747	1,670	1,903	2,599	4,564	4,157	5,397
Incr in FA	-511	-534	-227	522	-284	-650	-650
Free Cash Flow	237	1,136	1,676	3,121	4,280	3,507	4,747
Pur of Investments	22	2	98	-278	-1,444	349	435
CF from Invest.	-489	-531	-129	244	-1,729	-301	-215
Incr in Debt	625	-59	-624	-72	-191	-200	-300
Dividend Paid	-756	-899	-1,142	-1,357	-1,826	-2,529	-3,543
Others	-139	-170	35	-1,082	-1,257	-1,210	-1,144
CF from Fin. Activity	-270	-1,128	-1,731	-2,511	-3,275	-3,939	-4,987
Incr/Decr of Cash	-11	10	43	333	-439	-82	195
Add: Opening Balance	46	34	43	-127	1,108	1,759	2,767
Closing Balance	34	44	86	206	668	1,677	2,961

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

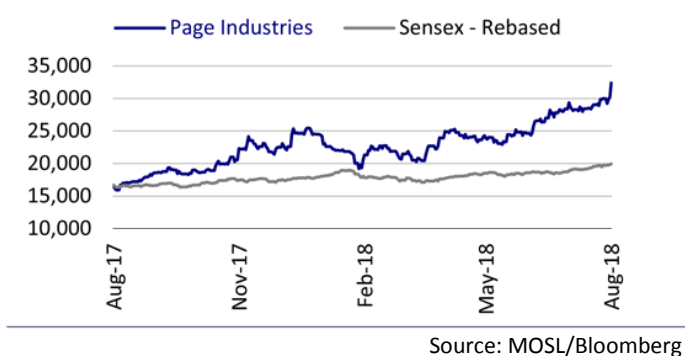


Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	49.0	49.0	49.0
DII	5.9	5.4	5.5
FII	35.2	36.1	36.1
Others	9.9	9.5	9.4

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Nalanda India Fund Limited	9.3
Cartica Capital Ltd	6.1
Steadview Capital Mauritius Limited	4.7
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Long Term Equity Fund	2.6
ABG Capital	1.1

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
R Vijayakumar	Secretarial Audit
S R Batliboi & Associates LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	412.2	391.9	5.2
FY20	529.4	487.1	8.7

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=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.

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