

Page Industries

Strong volume growth; Maintain BUY

CMP Rs14,219	Target Price Rs16,000 (▲)
Rating BUY (-)	Upside 12.5 %



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- Beat on revenues but miss on margins – Revenue up 28% yoy ar Rs 5.7bn; EBITDA margins at 19.1%, down 330bps yoy; APAT up 9% yoy at Rs 680mn
- Robust volume growth at 21% ahead of our expectation of 13%. Men's wear bucks the trend with 20% volume growth, while women's wear (+17%) and sportswear (+32%) too reported healthy volume growth
- Gross margin declined 520bps yoy to 55.1% impacted by delayed price hike and workers strike. EBITDA impacted by higher ad spends. Company has taken price hike of 4.6% to offset impact of rising input costs
- Long term drivers are well in place to propel strong volume growth. Category expansion and entrance into new segments (kidswear and bath linen) to provide further fillip. Maintain BUY with revised TP of Rs 16,000/share

Robust volume led revenue growth but miss on margins

Page Q1FY17 results were mixed with robust volume led growth. Key highlights: 1) Revenues at Rs 5.7bn up 28% yoy, with volume growth of 21% led by men (+19.8%) and sportswear (+31%). 2) EBITDA at Rs 1.1bn, up 9% yoy, on back of gross margins declined by 520bps to 55.1%. Lower other expenses (-140bps) and employee cost (-50bps) curtailed EBITDA margins decline to 19.1% down 330bps yoy. 3) APAT at Rs 680mn, up 9% yoy.

Volume growth revival in menswear; Margins impacted by one-offs

Volume growth stood at 21% ahead of our expectation of 13%. After nearly four quarters of muted volume growth, men's wear volumes revived growing at a robust 19.8%, while women's wear (+17%) and sportswear (+31.5%) too witnessed healthy volume growth. Overall realisations improved by 4.5% yoy. We expect an overall volume growth of 18%/17% in FY17E/18E. The company has taken a price hike of 4.6% in Q1FY17 the full benefit will be visible in Q2FY17. Gross margins were impacted by delayed price hike (c. Rs 100mn), losses due to workers strike (c.Rs 100mn) while EBITDA margins were affected by increased advertising expenses. Price hike will off-set the increase in raw material cost.

Sustained volumes in all segments key; Maintain BUY

Volume growth has buoyed the overall results, while margins were largely impacted by one-offs. We believe that long-term drivers are in place to drive a strong volume growth. In addition, category expansion and entrance into new segments such as kidswear and bath linen will bode well for the company. We maintain our BUY rating with revised target price of Rs 16,000/share (DCF based target).

Financial Snapshot (Standalone)

(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	11,731	15,140	17,495	22,603	27,921
EBITDA	2,367	2,900	3,432	4,760	5,917
EBITDA Margin (%)	20.2	19.2	19.6	21.1	21.2
APAT	1,393	1,666	1,987	2,925	3,638
EPS (Rs)	124.9	149.3	178.2	262.3	326.2
EPS (% chg)	39.7	19.6	19.3	47.2	24.4
ROE (%)	55.4	49.3	44.6	50.3	48.3
P/E (x)	113.9	95.2	79.8	54.2	43.6
EV/EBITDA (x)	67.6	55.2	46.5	33.6	27.0
P/BV (x)	54.9	41.0	31.4	24.1	18.7

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY17E/FY18E (%)	(1.8)/1.5
Target Price change (%)	6.3
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY17E	FY18E
Emkay	262.3	326.2
Consensus	261.4	321.4
Mean Consensus TP	Rs 12,435	

Stock Details

Bloomberg Code	PAG IN
Face Value (Rs)	10
Shares outstanding (mn)	11
52 Week H/L	15,230 / 9,752
M Cap (Rs bn/USD bn)	159 / 2.37
Daily Avg Volume (nos.)	8,723
Daily Avg Turnover (US\$ mn)	1.8

Shareholding Pattern Jun '16

Promoters	49.0%
FIIs	37.4%
DIIIs	4.7%
Public and Others	8.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	9	33	(4)
Rel. to Nifty	1	-	10	(4)

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs Estimates

(Rs Mn)	Actual	Estimate (Emkay)	Consensus Estimate	% variation		Comment
				Emkay	Consensus	
Revenues	5724	5190	5280	10.3%	8.4%	Better than expected volume growth
EBITDA	1092	1132	1158	-3.5%	-5.7%	
EBITDA margin (%)	19.1%	21.8%	21.9%	-2.7%	-2.9%	Delayed price hike, higher ad spends and workers strike impacts margins
APAT	679	758	751	-10.4%	-9.5%	

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Revision in Earnings Estimates

Y/E, Mar (Rs. mn)	FY17E			FY18E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	21,690	22,603	4.2	26,185	27,921	6.6
EBITDA	4,856	4,760	(2.0)	5,901	5,917	0.3
EBITDA Margin (%)	22.4	21.1	-130 bps	22.5	21.2	-130 bps
APAT	2,979	2,925	(1.8)	3,586	3,638	1.5
EPS	267.1	262.3	(1.8)	321.5	326.2	1.5

Source: Company

Exhibit 3: Key growth assumptions

Key Growth Assumptions	FY14	FY15	FY16	FY17E	FY18E
Men's wear volume growth (%)	9.9%	19.5%	5.8%	16.8%	14.3%
Women's wear volume growth (%)	19.6%	16.8%	17.0%	17.5%	17.5%
Sportswear volume growth (%)	36.7%	21.1%	14.0%	24.0%	24.0%

Source: Company, Company, Emkay Research

Exhibit 4: Quarterly summary - Standalone

Y/E, Mar (Rs. mn)	Q1FY16	Q1FY17	YoY (%)	YTD 17	YTD 16	Gr (%)
Operating Income	4,491	5,724	27.5	5,724	4,491	27.5
Expenditure	3,486	4,632	32.9	4,632	3,486	32.9
Consumption of RM	1,783	2,570	44.1	2,570	1,783	44.1
as % of sales	39.7	44.9		44.9	39.7	
Employee Cost	677	832	22.9	832	677	22.9
as % of sales	15.1	14.5		14.5	15.1	
Other expenditure	1,027	1,231	19.9	1,231	1,027	19.9
as % of sales	22.9	21.5		21.5	22.9	
EBITDA	1,004	1,092	8.8	1,092	1,004	8.8
Depreciation	56	59	4.8	59	56	4.8
EBIT	948	1,033	9.0	1,033	948	9.0
Other Income	56	59	5.8	59	56	5.8
Interest	50	39	-21.6	39	50	-21.6
PBT	953	1,053	10.4	1,053	953	10.4
Total Tax	327	373	14.1	373	327	14.1
APAT	626	679	8.5	679	626	8.5
Minority Interest	0	0	NA	0	0	NA
APAT (after minority)	626	679	8.5	679	626	8.5
Extraordinary Items	0	0	NA	0	0	NA
Reported PAT	626	679	8.5	679	626	8.5
Adjusted EPS	56.1	60.9	8.5	60.9	56.1	8.5
Margins (%)			(bps)			(bps)
EBIDTA	22.4	19.1	-330	19.1	22.4	-330
EBIT	21.1	18.0	-310	18.0	21.1	-310
EBT	21.2	18.4	-280	18.4	21.2	-280
PAT	13.9	11.9	-210	11.9	13.9	-210
Effective Tax rate	34.3	35.5	120	35.5	34.3	120

Source: Company, Emkay Research

Exhibit 5: Segmental summary

Y/E, Mar	Q1FY16	Q1FY17	YoY (%)	YTD 17	YTD 16	Gr (%)
Revenue (Rs mn)						
Men's wear	2165	2671	23.4	2671	2165	23.4
Women's wear	923	1141	23.7	1141	923	23.7
Sportswear	1295	1756	35.6	1756	1295	35.6
Volume (mn pieces)						
Men's wear	19.8	23.7	19.8	23.7	19.8	19.8
Women's wear	7.8	9.1	17.1	9.1	7.8	17.1
Sportswear	6.2	8.1	31.5	8.1	6.2	31.5
Realisation (Rs)						
Men's wear	109	113	2.9	113	109	2.9
Women's wear	119	126	5.6	126	119	5.6
Sportswear	210	217	3.1	217	210	3.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	11,731	15,140	17,495	22,603	27,921
Expenditure	9,364	12,240	14,063	17,842	22,004
EBITDA	2,367	2,900	3,432	4,760	5,917
Depreciation	139	176	238	310	400
EBIT	2,228	2,723	3,194	4,450	5,517
Other Income	66	82	62	71	71
Interest expenses	104	167	153	193	204
PBT	2,190	2,638	3,103	4,329	5,384
Tax	797	973	1,116	1,403	1,745
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,393	1,666	1,987	2,925	3,638
Adjusted PAT	1,393	1,666	1,987	2,925	3,638

Balance Sheet

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	112	112	112	112	112
Reserves & surplus	2,778	3,756	4,941	6,471	8,375
Net worth	2,890	3,868	5,052	6,583	8,487
Minority Interest	0	0	0	0	0
Loan Funds	1,422	1,572	949	1,199	1,269
Net deferred tax liability	95	114	110	110	110
Total Liabilities	4,407	5,554	6,112	7,892	9,866
Net block	1,728	2,173	2,132	2,778	3,573
Investment	0	27	0	0	0
Current Assets	4,932	6,034	7,311	9,264	11,412
Cash & bank balance	35	44	86	80	33
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	2,289	2,680	3,335	4,154	5,123
Net current assets	2,643	3,354	3,976	5,110	6,289
Misc. exp	0	0	0	0	0
Total Assets	4,407	5,554	6,112	7,892	9,866

Cash Flow

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
PBT (Ex-Other income) (NI+Dep)	2,124	2,556	3,041	4,257	5,313
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(977)	(682)	(584)	(1,141)	(1,226)
Operating Cashflow	740	1,670	2,165	2,287	3,017
Capital expenditure	(481)	(586)	(200)	(957)	(1,195)
Free Cash Flow	259	1,084	1,965	1,331	1,822
Investments	10	(27)	27	0	0
Other Investing Cash Flow	(36)	(1)	(148)	(71)	(71)
Investing Cashflow	(441)	(531)	(259)	(957)	(1,195)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	543	150	(624)	250	70
Dividend paid (incl tax)	(783)	(940)	(1,109)	(1,395)	(1,735)
Other Financing Cash Flow	34	(173)	22	1	0
Financing Cashflow	(310)	(1,129)	(1,864)	(1,336)	(1,869)
Net chg in cash	(11)	9	42	(5)	(47)
Opening cash position	46	35	44	86	80
Closing cash position	35	44	86	81	33

Key Ratios

Profitability (%)	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin	20.2	19.2	19.6	21.1	21.2
EBIT Margin	19.0	18.0	18.3	19.7	19.8
Effective Tax Rate	36.4	36.9	36.0	32.4	32.4
Net Margin	11.9	11.0	11.4	12.9	13.0
ROCE	61.3	56.3	55.8	64.6	62.9
ROE	55.4	49.3	44.6	50.3	48.3
RoIC	61.4	55.5	55.5	64.4	62.6

Per Share Data (Rs)	FY14	FY15	FY16	FY17E	FY18E
EPS	124.9	149.3	178.2	262.3	326.2
CEPS	137.4	165.1	199.5	290.1	362.1
BVPS	259.1	346.7	453.0	590.2	760.8
DPS	60.0	72.0	85.0	106.9	132.9

Valuations (x)	FY14	FY15	FY16	FY17E	FY18E
PER	113.9	95.2	79.8	54.2	43.6
P/CEPS	103.5	86.1	71.3	49.0	39.3
P/BV	54.9	41.0	31.4	24.1	18.7
EV / Sales	13.6	10.6	9.1	7.1	5.7
EV / EBITDA	67.6	55.2	46.5	33.6	27.0
Dividend Yield (%)	0.4	0.5	0.6	0.8	0.9

Gearing Ratio (x)	FY14	FY15	FY16	FY17E	FY18E
Net Debt/ Equity	0.5	0.4	0.2	0.2	0.1
Net Debt/EBIDTA	0.6	0.5	0.3	0.2	0.2
Working Cap Cycle (days)	81.1	79.8	81.2	81.2	81.8

Growth (%)	FY14	FY15	FY16	FY17E	FY18E
Revenue	35.9	29.1	15.6	29.2	23.5
EBITDA	44.1	22.5	18.4	38.7	24.3
EBIT	45.7	22.2	17.3	39.3	24.0
PAT	39.7	19.6	19.3	47.2	24.4

Quarterly (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Revenue	4,491	4,537	4,331	4,244	5,724
EBITDA	1,004	937	763	803	1,092
EBITDA Margin (%)	22.4	20.6	17.6	18.9	19.1
PAT	626	603	519	573	679
EPS (Rs)	56.1	54.1	46.5	51.3	60.9

Shareholding Pattern (%)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Promoters	51.0	51.0	51.0	49.0	49.0
FII's	32.9	33.7	34.3	37.2	37.4
DII's	6.3	5.2	5.4	4.8	4.7
Public and Others	9.8	10.1	9.3	9.0	8.9

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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