

Not yet out of the woods; topline disappoints in Q2

Retail ▶ Result Update ▶ November 9, 2023

TARGET PRICE (Rs): 39,000

PAG's in-line Q2 result was a combination of a 5-9% revenue miss and a 160-180bps margin beat, on lower marketing spend, hiring freeze and an accounting change (Emkay: 40bps benefit). Volume decline persisted, with 9%/11% de-growth in Q2/H1, while the economy-segment players (Lux/Rupa/Dollar) saw 10-20% volume growth in H1, albeit lackluster revenue growth on pricing cuts. Headwinds—in the form of weak demand trends, inventory-laden peers (unusually high schemes to the trade) and senior-level (CRO/COO) exits—are unrelenting and may keep near-term growth in check. Even distribution expansion took a breather in H1FY24. While there is no change in our FY25/26 estimates, we upgrade our rating to HOLD (TP: Rs39,000/sh), as the stock has lagged benchmark indices by ~30% in the last 1 year. We adopt a conservative stance, as some company-specific issues may stretch the recovery.

Page Industries: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	38,865	47,886	47,410	57,418	66,055
EBITDA	7,855	8,627	9,234	11,408	13,573
Adj. PAT	5,365	5,713	5,975	7,573	9,127
Adj. EPS (Rs)	481.0	512.2	535.7	678.9	818.3
EBITDA margin (%)	20.2	18.0	19.5	19.9	20.5
EBITDA growth (%)	49.2	9.8	7.0	23.5	19.0
Adj. EPS growth (%)	57.5	6.5	4.6	26.7	20.5
RoE (%)	54.4	46.4	39.3	40.7	40.1
RoIC (%)	93.8	53.7	43.4	47.6	47.5
P/E (x)	78.3	73.6	70.4	55.5	46.1
EV/EBITDA (x)	53.2	48.8	45.3	36.7	30.6
P/B (x)	38.6	30.7	25.2	20.5	16.8
FCFF yield (%)	0.6	(0.4)	2.1	1.0	1.9

Source: Company, Emkay Research

Topline miss in Q2; hopes pinned on macro+channel inventory improvement:

PAG saw revenue decline of ~8% in Q2, due to a 9% drop in volume. The revenue decline was owing to weak macros, channel rationalization and lower primary sales on account of a remnant ARS impact. Discounts/schemes remain high for peers, but PAG is not an active participant. Degrowth was seen across categories, with women's innerwear faring relatively better. Among channels, MBO/EBO saw decline in revenue, while E-commerce is seeing encouraging growth trends. Distribution expansion for MBOs was subdued, as PAG reduced its MBO distribution by 2,300 outlets sequentially. EBO expansion continued, with 40/83 additions in Q2/H1, taking the total count to 1,372. EBITDA margin was up by 180bps to ~21%, owing to lower marketing spend, hiring freeze, and change in accounting policy (Emkay: 40bps benefit). PAG expects margins to remain within the guided band of 19-21%, given focus on cost savings and inventory optimization.

Earnings-call KTAs: 1) The major share of ARS and channel rationalization is done, and the primary channel should largely reflect secondary sales going ahead; the EBO channel has always been under ARS. 2) Consumer trends should start improving with the onset of the festive season; but PAG has not yet seen a noticeable trend in the urban/premium segment. 3) PAG saw healthy growth of 31% in its e-commerce business in H1; overall, PAG has seen 9% de-growth in H1, indicating low traction in MBO/EBO channels. 4) PAG has not taken any price hike, and has no such intention in the near term either, given moderation in RM costs/other cost optimizations; benefit of the low-cost inventory should also gradually flow in. 5) With the industry logging high inventory in the premium segment, discounting pressure remains intense. PAG expects discounting to reduce, or it will lead to a sustainability issue in the long term for peers. 6) Efforts to improve the D2C channel continued, which grants confidence to PAG on improvement in customer acquisition. 7) Employee cost came in lower, with reasonable attrition in place and hiring freeze adopted, in view of the muted macro. 8) For CXO level exits, PAG is confident of a smooth transition through internal elevations. 9) PAG attributed the demand weakness to the rise in health cost and rentals as well as challenges in the IT services sector.

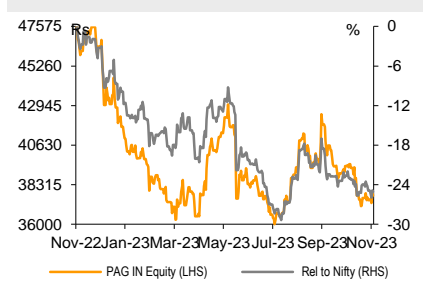
Target Price – 12M	Sep-24
Change in TP (%)	2.6
Current Reco.	HOLD
Previous Reco.	SELL
Upside/(Downside) (%)	3.5
CMP (09-Nov-23) (Rs)	37,686.6

Stock Data	Ticker
52-week High (Rs)	50,450
52-week Low (Rs)	34,953
Shares outstanding (mn)	11.2
Market-cap (Rs bn)	420
Market-cap (USD mn)	5,047
Net-debt, FY24E (Rs mn)	-2,394
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,029.0
ADTV-3M (USD mn)	12.4
Free float (%)	54.0
Nifty-50	19,395
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	45.1
FPIs/MFs (%)	22.0/23.6

Price Performance

(%)	1M	3M	12M
Absolute	(4.5)	(3.5)	(24.0)
Rel. to Nifty	(3.9)	(2.3)	(28.8)

1-Year share price trend (Rs)



Devanshu Bansal

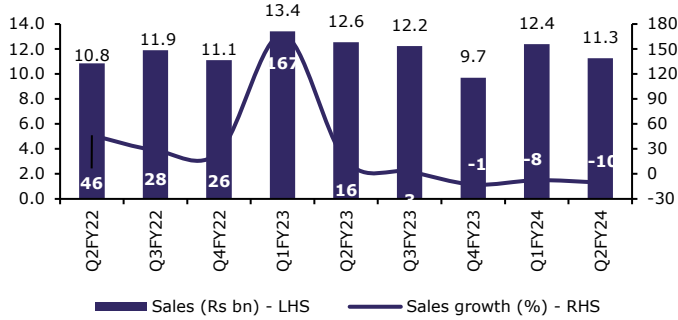
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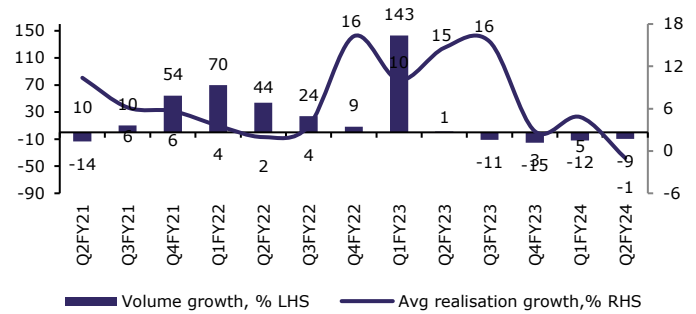
Story in Charts

Exhibit 1: Comparable sales declined 8% in Q2 due to a subdued demand environment and channel rationalization



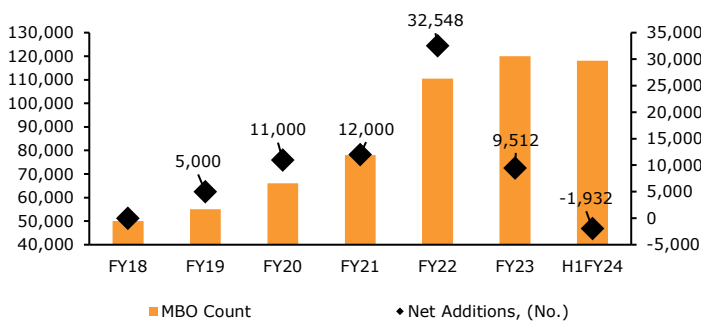
Source: Company, Emkay Research

Exhibit 2: Volumes declined ~9%, while realization lowered by ~1% in Q2



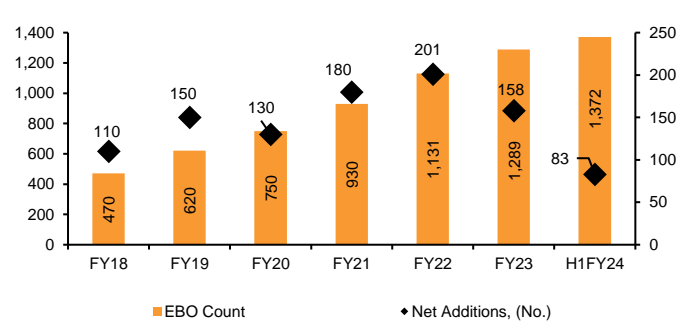
Source: Company, Emkay Research

Exhibit 3: MBO count declined by 1,900+ in H1, amid channel rationalization



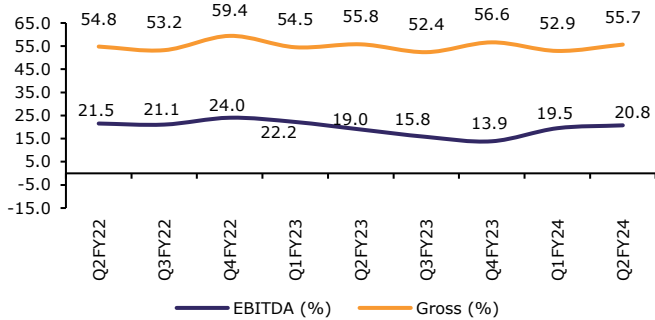
Source: Company, Emkay Research

Exhibit 4: EBO additions were 43 in Q1, pushing up the total MBO count to ~1.3k



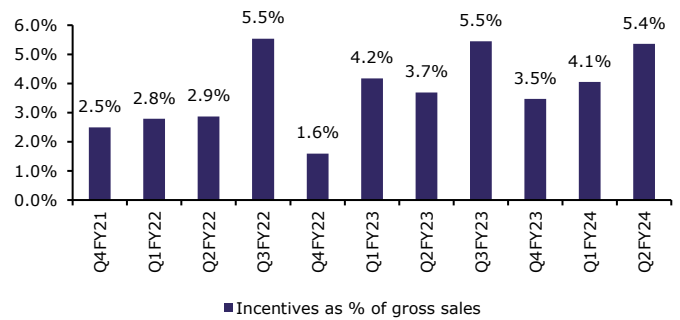
Source: Company, Emkay Research

Exhibit 5: EBITDA margin improved to 21%, led by lower operating cost and a ~40-bps gain, on change in accounting



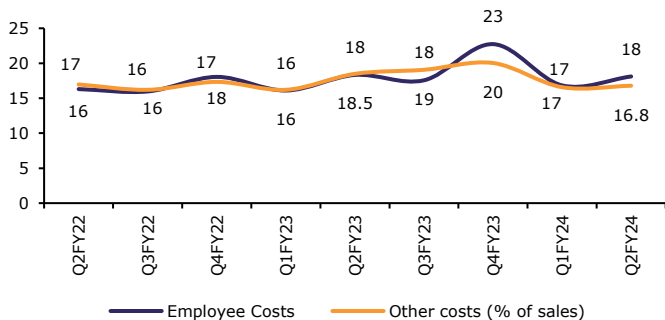
Source: Company, Emkay Research

Exhibit 6: Trade incentives inched up in Q2FY24 vs. historical trends



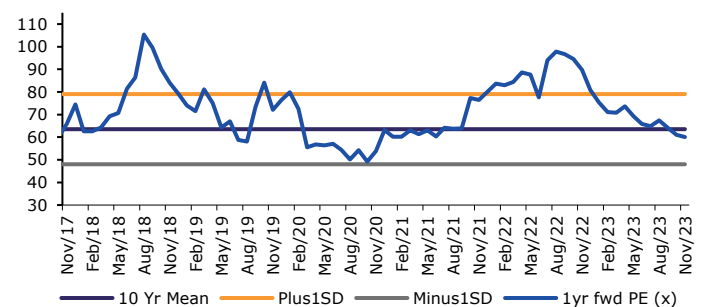
Source: Company, Emkay Research

Exhibit 7: Employee cost/other overheads declined by 20bps/170bps, on hiring freeze and lower marketing costs



Source: Company, Emkay Research

Exhibit 8: Page's one-year forward P/E



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q1FY24)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	11,251	11,893	12,317	-5.4%	-8.7%	Revenue was lower than our estimate led by weak demand
EBITDA*	2,335	2,275	2,324	2.6%	0.5%	Margin came in better than estimate, with lower marketing costs, hiring freeze and change in accounting policy
EBITDA margin*	20.8%	19.1%	18.9%	162	189	
PAT	1,503	1,467	1,514	2.5%	-0.8%	PAT was largely in line with expectations

Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 10: Summary of quarterly results

Y/E, Mar (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	FY23TD	FY24TD	Gr (%)
Operating Income	12,550	12,233	9,691	12,400	11,251	-10.3	-9.3	25,963	23,652	-8.9
Expenditure	10,172	10,305	8,348	9,982	8,916	-12.3	-10.7	20,606	18,898	-8.3
Consumption of RM	5,551	5,825	4,203	5,839	4,989	-10.1	-14.5	11,652	10,828	-7.1
as % of sales	44.2	47.6	43.4	47.1	44.3			44.9	45.8	
Employee Cost	2,301	2,148	2,203	2,087	2,038	-11.4	-2.4	4,461	4,125	-7.5
as % of sales	18.3	17.6	22.7	16.8	18.1			17.2	17.4	
Other expenditure	2,320	2,332	1,942	2,056	1,889	-18.6	-8.1	4,493	3,945	-12.2
as % of sales	18.5	19.1	20.0	16.6	16.8			17.3	16.7	
EBITDA	2,379	1,928	1,343	2,419	2,335	-1.8	-3.4	5,357	4,754	-11.2
Depreciation	188	200	213	210	246	30.9	17.3	368	457	23.9
EBIT	2,190	1,728	1,130	2,209	2,089	-4.6	-5.4	4,988	4,298	-13.8
Other Income	27	16	71	19	17	-37.6	-11.9	60	36	-40.3
Interest	92	100	136	127	112	22.0	-12.2	177	239	35.2
PBT	2,125	1,645	1,065	2,100	1,994	-6.2	-5.1	4,871	4,094	-16.0
Total Tax	504	407	282	517	491	-2.6	-4.9	1,179	1,007	-14.6
APAT	1,621	1,237	784	1,584	1,503	-7.3	-5.1	3,692	3,086	-16.4
Minority Interest	0	0	0	0	0			0	0	
APAT (after minority)	1,621	1,237	784	1,584	1,503	-7.3	-5.1	3,692	3,086	-16.4
Extraordinary Items	0	0	0	0	0			0	0	
Reported PAT	1,621	1,237	784	1,584	1,503	-7.3	-5.1	3,692	3,086	-16.4
Adjusted EPS (Rs)	145.4	110.9	70.2	142.0	134.7	-7.3	-5.1	331.0	276.7	-16.4
(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	(bps)	(bps)	FY23TD	FY24TD	(bps)
Gross margin	55.8	52.4	56.6	52.9	55.7	-10	270	55.1	54.2	-90
EBITDAM	19.0	15.8	13.9	19.5	20.8	180	130	20.6	20.1	-50
EBITM	17.5	14.1	11.7	17.8	18.6	110	80	19.2	18.2	-100
PBTM	16.9	13.4	11.0	16.9	17.7	80	80	18.8	17.3	-150
PATM	12.9	10.1	8.1	12.8	13.4	40	60	14.2	13.0	-120
Effective Tax rate	23.7	24.8	26.5	24.6	24.6	90	0	24.2	24.6	40

Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 11: PAG vs peers

Companies	Price (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV / EBITDA (x)*		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Titan Company	3,284	2,915	Hold	3,670	40.4	50.8	63.4	81.3	64.6	51.8	53.1	42.4	34.7
Page Industries	37,687	420	Hold	39,000	535.7	678.9	818.3	70.4	55.5	46.1	44.9	36.3	30.5
Jubilant FoodWorks	506	334	Sell	380	4.8	7.0	9.0	104.5	72.5	56.4	28.2	22.6	19.0
Devyani International	180	217	Sell	165	1.2	2.1	3.1	152.2	86.1	58.4	30.4	23.8	18.4
ABFRL	215	204	Hold	220	-5.1	-3.6	-2.2	-42.3	-59.2	-98.7	14.8	9.8	7.7
Westlife Development	811	126	Buy	1,040	6.6	10.1	15.1	123.4	80.3	53.7	30.3	23.8	18.7
Sapphire Foods	1,299	83	Buy	1,550	15.3	25.3	35.2	84.7	51.4	36.9	16.2	12.4	9.7
Varun Beverages	1,003	1,302	Buy	1,150	15.8	20.0	25.8	63.5	50.1	38.9	37.1	29.8	24.6
Go Fashion	1,228	66	Buy	1,440	17.2	24.5	32.5	71.4	50.2	37.8	26.0	19.5	15.1
Ethos	1,825	45	Buy	2,000	30.0	42.8	53.5	60.9	42.6	34.1	28.8	20.3	16.3
Senco Gold	702	55	Buy	800	21.6	27.6	35.0	32.4	25.4	20.1	16.7	13.3	10.8

Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 12: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	47,410	47,410	-	57,418	57,418	-	66,055	66,055	-
EBITDA*	8,997	9,234	2.6	11,408	11,408	-	13,573	13,573	-
EBITDA margin (%)*	19.0	19.5	50 bps	19.9	19.9	0 bps	20.5	20.5	0 bps
Net profit	5,797	5,975	3.1	7,573	7,573	-	9,127	9,127	-
EPS (Rs)	519.8	535.7	3.1	678.9	678.9	-	818.3	818.3	-

Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Page Industries: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	38,865	47,886	47,410	57,418	66,055
Revenue growth (%)	37.2	23.2	(1.0)	21.1	15.0
EBITDA	7,855	8,627	9,234	11,408	13,573
EBITDA growth (%)	49.2	9.8	7.0	23.5	19.0
Depreciation & Amortization	655	781	864	1,050	1,292
EBIT	7,200	7,847	8,370	10,358	12,281
EBIT growth (%)	55.3	9.0	6.7	23.8	18.6
Other operating income	0	0	0	0	0
Other income	210	147	125	175	201
Financial expense	322	413	528	476	361
PBT	7,088	7,581	7,967	10,057	12,121
Extraordinary items	0	0	0	0	0
Taxes	1,722	1,869	1,992	2,484	2,994
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,365	5,713	5,975	7,573	9,127
PAT growth (%)	57.5	6.5	4.6	26.7	20.5
Adjusted PAT	5,365	5,713	5,975	7,573	9,127
Diluted EPS (Rs)	481.0	512.2	535.7	678.9	818.3
Diluted EPS growth (%)	57.5	6.5	4.6	26.7	20.5
DPS (Rs)	300.0	260.0	267.8	339.5	409.2
Dividend payout (%)	62.4	50.8	50.0	50.0	50.0
EBITDA margin (%)	20.2	18.0	19.5	19.9	20.5
EBIT margin (%)	18.5	16.4	17.7	18.0	18.6
Effective tax rate (%)	24.3	24.6	25.0	24.7	24.7
NOPLAT (pre-IndAS)	5,450	5,913	6,277	7,800	9,248
Shares outstanding (mn)	11.2	11.2	11.2	11.2	11.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	7,088	7,581	7,967	10,057	12,121
Others (non-cash items)	655	781	864	1,050	1,292
Taxes paid	(1,722)	(1,869)	(1,992)	(2,484)	(2,994)
Change in NWC	(2,846)	(6,863)	1,835	(1,288)	(833)
Operating cash flow	3,286	(104)	9,077	7,636	9,745
Capital expenditure	(952)	(1,545)	(495)	(3,500)	(2,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	210	147	125	175	201
Investing cash flow	(742)	(1,397)	(370)	(3,325)	(1,799)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	2,482	(2,482)	0	0
Payment of lease liabilities	(437)	(481)	(529)	(582)	(640)
Interest paid	(209)	(275)	(395)	(330)	(200)
Dividend paid (incl tax)	(3,346)	(2,900)	(2,988)	(3,786)	(4,564)
Others	(66)	(78)	0	0	0
Financing cash flow	(4,060)	(1,252)	(6,394)	(4,698)	(5,404)
Net chg in Cash	(1,515)	(2,754)	2,313	(387)	2,543
OCF	3,286	(104)	9,077	7,636	9,745
Adj. OCF (w/o NWC chg.)	6,132	6,759	7,242	8,924	10,579
FCFF	2,334	(1,649)	8,581	4,136	7,745
FCFE	2,222	(1,915)	8,178	3,835	7,585
OCF/EBITDA (%)	41.8	(1.2)	98.3	66.9	71.8
FCFE/PAT (%)	41.4	(33.5)	136.9	50.6	83.1
FCFF/NOPLAT (%)	42.8	(27.9)	136.7	53.0	83.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	112	112	112	112	112
Reserves & Surplus	10,775	13,599	16,586	20,373	24,936
Net worth	10,886	13,710	16,698	20,484	25,048
Minority interests	0	0	0	0	0
Deferred tax liability (net)	0	0	0	0	0
Total debt	0	2,482	0	0	0
Total liabilities & equity	10,886	16,192	16,698	20,484	25,048
Net tangible fixed assets	3,094	3,375	4,833	7,638	8,737
Net intangible assets	20	26	26	26	26
Net ROU assets	(189)	(131)	(57)	24	113
Capital WIP	653	1,505	0	0	0
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	2,835	81	2,394	2,006	4,549
Current assets (ex-cash)	13,558	20,491	18,834	22,023	24,431
Current Liab. & Prov.	9,084	9,154	9,332	11,233	12,808
NWC (ex-cash)	4,474	11,337	9,502	10,790	11,624
Total assets	10,886	16,192	16,698	20,484	25,048
Net debt	(2,835)	485	(2,394)	(2,006)	(4,549)
Capital employed	10,886	14,277	16,698	20,484	25,048
Invested capital	7,399	14,607	14,304	18,478	20,499
BVPS (Rs)	976.0	1,229.2	1,497.1	1,836.5	2,245.7
Net Debt/Equity (x)	(0.3)	0.0	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.4)	0.1	(0.3)	(0.2)	(0.3)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
RoCE (%)	75.1	63.5	54.9	56.7	54.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	78.3	73.6	70.4	55.5	46.1
P/CE(x)	69.8	64.7	61.5	48.8	40.3
P/B (x)	38.6	30.7	25.2	20.5	16.8
EV/Sales (x)	11.2	9.0	8.8	7.3	6.3
EV/EBITDA (x)	53.2	48.8	45.3	36.7	30.6
EV/EBIT(x)	58.0	53.6	49.9	40.4	33.9
EV/IC (x)	56.4	28.8	29.2	22.6	20.3
FCFF yield (%)	0.6	(0.4)	2.1	1.0	1.9
FCFE yield (%)	0.5	(0.5)	1.9	0.9	1.8
Dividend yield (%)	0.8	0.7	0.7	0.9	1.1
DuPont-RoE split					
Net profit margin (%)	13.8	11.9	12.6	13.2	13.8
Total asset turnover (x)	3.9	3.8	3.1	3.1	2.9
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	54.4	46.4	39.3	40.7	40.1
DuPont-RoIC					
NOPLAT margin (%)	14.0	12.3	13.2	13.6	14.0
IC turnover (x)	6.7	4.4	3.3	3.5	3.4
RoIC (%)	93.8	53.7	43.4	47.6	47.5
Operating metrics					
Core NWC days	(29.6)	(12.2)	(3.0)	(5.8)	(7.8)
Total NWC days	42.0	86.4	73.2	68.6	64.2
Fixed asset turnover	8.8	9.4	7.4	6.2	5.5
Opex-to-revenue (%)	35.8	36.7	34.7	34.7	34.2

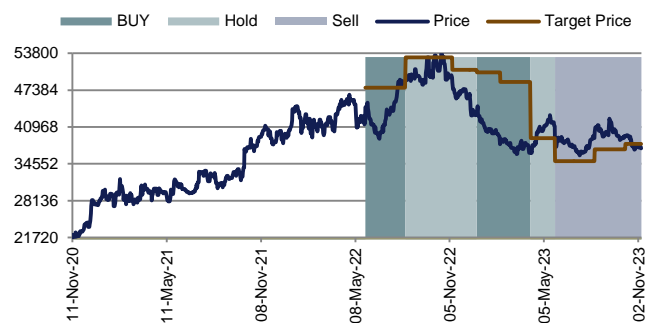
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Oct-23	39,414	38,000	Sell	Devanshu Bansal
10-Aug-23	40,073	37,100	Sell	Devanshu Bansal
10-Jul-23	36,385	35,000	Sell	Devanshu Bansal
26-May-23	37,501	35,000	Sell	Devanshu Bansal
09-Apr-23	36,463	39,000	Hold	Devanshu Bansal
10-Feb-23	38,786	48,800	Buy	Devanshu Bansal
09-Jan-23	41,398	50,500	Buy	Devanshu Bansal
27-Dec-22	43,611	50,500	Buy	Devanshu Bansal
10-Nov-22	48,666	50,900	Hold	Devanshu Bansal
12-Aug-22	49,137	53,100	Hold	Devanshu Bansal
27-May-22	44,442	47,800	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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