

October 30, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

TTK Prestige Ltd

Demand lower than anticipated; downgrade to ADD

Result Synopsis

TTKPT revenue declined 15.4% on yoy basis. Revenue decline can be attributed to 1) lower discretionary spends amid high inflation, 2) Wallet share has been diverted to other avenue like travel, hospitality and entertainment resulting in lower spends for kitchen, 3) Shifting of festive season by few days also impacted Q2 revenues and 4) Exports have remained weak affected by the global economic slowdown. Gross margins have improved on yoy basis, sequentially it has contracted by ~21bps as there have been excessive discounting by certain brands which resulted in company having to respond, leading to margin erosion. Company is confident of better 2H demand aided by the festive season and base being favorable the company has not indulged into discounting and will selectively in taking on competition and will ensure that profitability is not compromised on permanent basis. Given the muted demand environment and lower margin trajectory on back of intense competition, we downgrade the Stock to ADD with the PT of Rs882. TTKPT is looking to increase the capacity by way of automation which will enable it to improve the margin once demand returns.

We now expect FY23-25E growth trajectory of 6% revenue CAGR vs the earlier expectation of 9%. With margins also expected to be 13.8% by FY25. We now estimate FY23-25E EBITDA and PAT CAGR of 8% and 11% respectively. We however remain positive on the stock in longer run as company has been able to protect its margin and market share despite challenging environment, with company is confident of better 2H performance in 2H. We continue to value the company at 40x FY25 EPS and arrive at a revised PT of Rs882 with ADD rating.

Result Highlights

- Topline** – Revenue was lower than estimates with revenue declining by 15.4% yoy. All segments except other has seen double digit decline, while others which consist on new products has seen growth of 21%.
- Margins** – Company EBITDA margin at 12.1% was lower by 263bps on yoy basis, while on sequential basis it is up by 36bps. Negative operating leverage has resulted in lower EBITDA margins.
- Exports** – The global slowdown in developed markets has had impact on exports. Exports for the quarter stood at Rs183mn vs Rs173mn marginally growing by 6%. Company expects exports to pickup from Q3 onwards.
- Judge brand** – The repositioning of the Judge brand is progressing as per plan though the positive impact of this change will be more visible over the next couple of quarters. The company is phasing out inventory with the old packaging and replace with new packaging and SKU.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,837	8,811	8,170	-22.4	-16.3	Lower discretionary spends resulted in revenue decline
EBITDA	829	1,338	1,150	-38.1	-27.9	
EBITDA Margin (%)	12.1	15.2	14.0	-307 bps	-190 bps	
Adjusted PAT	622	953	850	-34.7	-26.8	

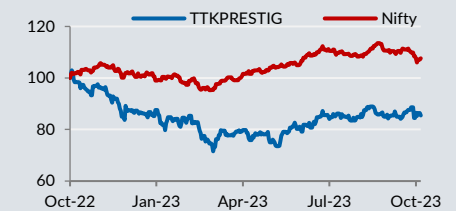
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 783
Target Price	: Rs 882
Potential Return	: +12.9%

Stock data (as on Oct 30, 2023)

Nifty	19,141
52 Week h/l (Rs)	988/652
Market cap (Rs/USD mn)	110532/1328
Outstanding Shares (mn)	140
6m Avg t/o (Rs mn):	74
Div yield (%)	0.8
Bloomberg code:	TTKPT IN
NSE code:	TTKPRESTIG

Stock performance



	1M	3M	1Y
Absolute return	0.0%	0.8%	-14.6%

Shareholding pattern (As of Jun'23 end)

Promoter	70.4%
FII+DII	21.4%
Others	8.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	882	938

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	20.3	22.1
EPS (Old)	20.3	23.4
% change	0.0%	-5.6%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	26,252	27,447	29,424
YoY Growth	3.7	4.6	7.2
EBIDTA	3492	3705	4072
YoY Growth	-14.1	6.1	9.9
PAT	2506	2813	3057
YoY Growth	-14.7	12.3	8.7
ROE	14.0	14.2	14.0
EPS	18.1	20.3	22.1
P/E	43.2	38.5	35.4
BV	135.4	149.9	165.7
EV/EBITDA	30.9	28.7	25.7

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	8,079	6,521	5,660	5,500	6,837	(15.4)	24.3	12,337	14,076	(12.4)
EBITDA	1192	776	797	647	829	(30.5)	28.1	1,476	2,021	(27.0)
EBITDA Margin %	14.8	11.9	14.1	11.8	12.1			12.0	14.4	
Depreciation	114.0	117.5	137.3	132.3	143.5	25.9	8.5	276	222	24.1
EBIT	1078	658	659	515	685	(36.4)	33.2	1,200	1,799	(33.3)
EBIT Margin %	13.3	10.1	11.6	9.4	10.0			9.7	12.8	
Interest charges	7	17	15	17	21	216.4	24.0	38	18	115.2
Other Income	79	130	153	182	173	117.9	(5.0)	355	146	143.2
PBT	1150	772	797	679	837	(27.3)	23.2	1,516	1,927	(21.3)
Tax	293	197	203	175	215	(26.7)	23.3	390	494	(21.1)
Effective Tax Rate (%)	25.5	25.5	25.5	25.7	25.7	0.8	0.1	25.7	25.6	
PAT	857	575	594	505	622	(27.5)	23.2	1,126	1,433	(21.4)
PAT Margin %	10.6	8.8	10.5	9.2	9.1			9.1	10.2	
EPS (Rs)	6.2	4.1	4.3	3.6	4.5	(27.5)	23.2	8	10	(21.4)

Source: Company, YES Sec

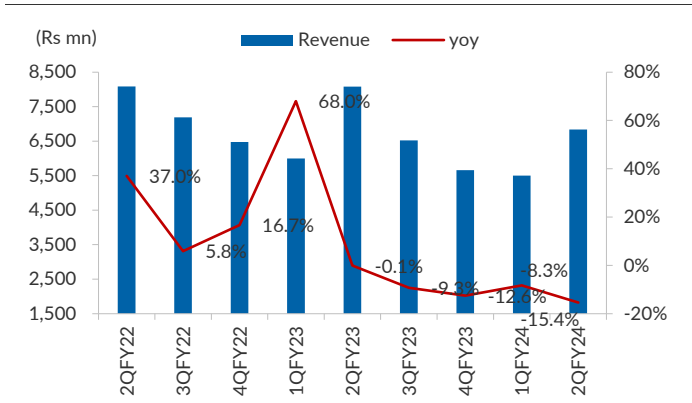
Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Cookers	2,495	2,028	1,753	1,784	2,162	(13.3)	21.2	3,946	4,435	(11.0)
Cookware	1307	981	828	899	1149	(12.0)	27.8	2,048	2,363	(13.3)
Appliances	3996	3247	2824	2512	3184	(20.3)	26.8	5,696	6,717	(15.2)
Others	282	265	255	306	341	20.8	11.5	646	560	15.3
Total Sales	8079	6521	5660	5500	6837	(15.4)	24.3	12,337	14,076	(12.4)

Source: Company, YES Sec

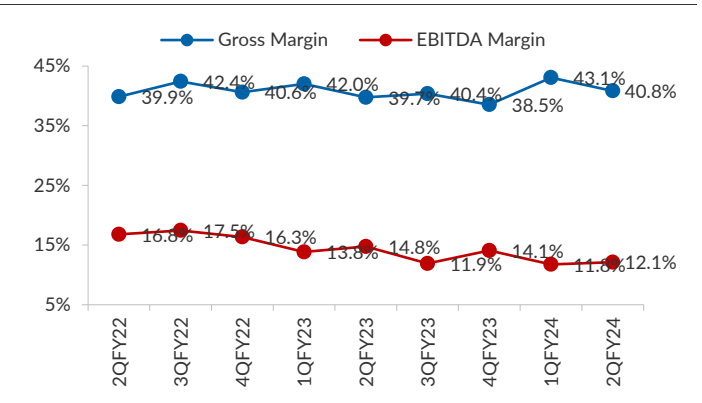
CHARTS

Exhibit 4: Lower discretionary spends amid high inflation and shifting of festive season has resulted in decline



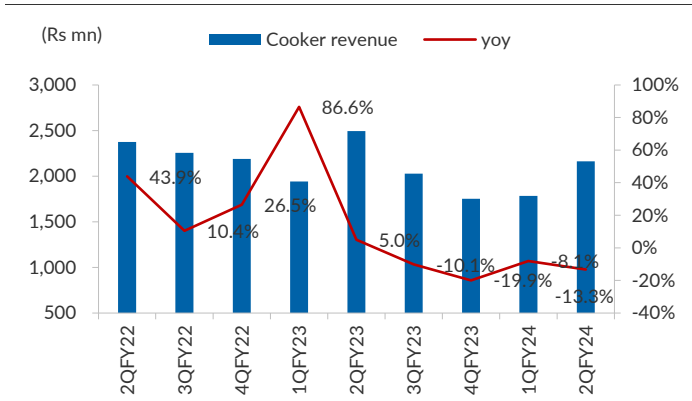
Source: Company, YES Sec

Exhibit 5: Sequential drop in gross margins was on account of unfavorable product mix and liquidation of high cost inventory



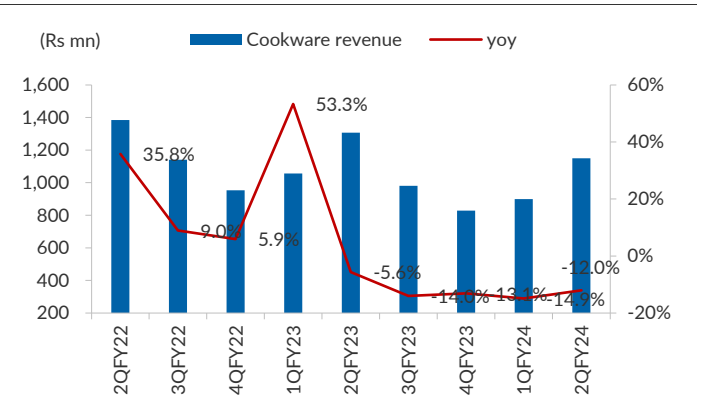
Source: Company, YES Sec

Exhibit 6: Lower spends on kitchen has resulted revenue decline for cookers



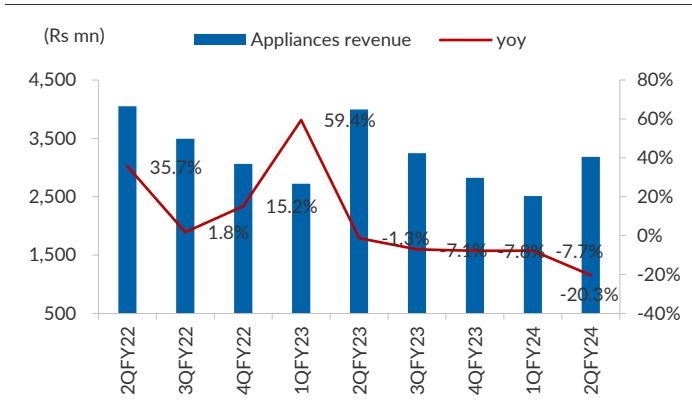
Source: Company, YES Sec

Exhibit 7: Lower domestic demand coupled with decline in exports has resulted in revenue de-growth for cookers



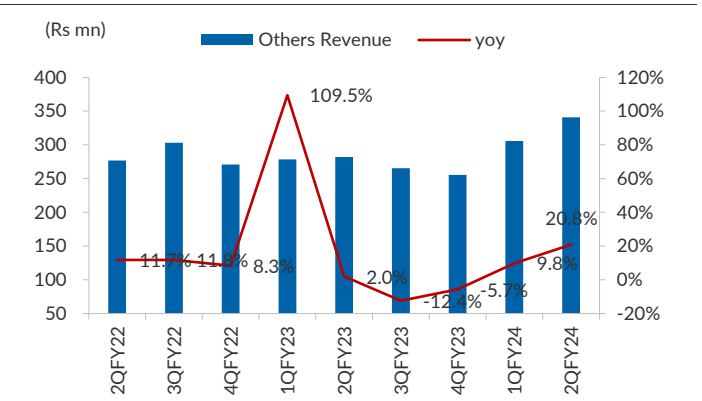
Source: Company, YES Sec

Exhibit 8: Appliance's revenues are muted on lower discretionary spends



Source: Company, YES Sec

Exhibit 9: Others segment has seen bounce back in terms of revenue growth



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business Update** – Quarter has not gone as per expectation. Company was expecting better demand as economy has been growing. Another important factor during the quarter was the intense competition and heavy discounting has taken place which company has largely stayed away from discounting and largely maintained the profitability as per expectations.
- **Demand** – Some festive demand spike will be realized in Q3, but demand is nowhere close to the buoyant.
- **Inventory** – There is no write-off of any absolute inventory, company has only liquidated high cost inventory during the quarter.
- **Capex** – Capex is on stream and company is likely to incur capex of Rs700mn.
- **Packaging** – Packaging cost is 8-10% of the total bill of material. Company is not seeing any inflationary pressure on the packaging cost. The company has in fact renegotiating packaging costs and the benefit will be accrue in the 2H.
- **Mid-level segment seeing muted demand** – Demand is largely for the premium products and mid-level segment is seeing muted demand and the wallet share is shifting to travel and entertainment.
- **Demand to improve from 2H** – The company expects 2H to be better than the first half as base will be favorable.
- **Discounting** – Competitive discounting has been across the product category largely led by online platform.
- **Looking to tap new subcategories** – Company is looking to tap new sub-categories and company has launched new products to tap new opportunities.
- **Market share** – Market share is largely stable, overall market has not grown and has slightly decline.
- **Channel inventory** – Channel inventory is at the comfortable level, and they are not increasing the inventory
- **Judge brand** – Judge brand is a bit slow as there has been heavy discounting going on as other brands are operating at the price where Jude brand would operate. 30-35% of the prestige distribution carries Judge brand
- **Focus** – The company will not indulging in discounting which will not impact profitability permanent basis. Tactically there will be some discounting to respond to competition.
- **Capacity** – Company is not looking to aggressively increasing capacity by way of new factory or new machine. The capacity will be enhanced by the way of automation. **The current capacity utilization is in the range of 65-70%**
- **Exports** – The company is very close to seal the deal with the new customers, that will lead to increase in exports. Exports will see increase in next 2-3 quarters.

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	139	139	139	139	139
Reserves	14,662	16,829	18,625	20,641	22,832
Net worth	14,800	16,967	18,763	20,780	22,971
Debt	0	0	0	0	0
Deferred tax liab (net)	346	362	362	362	362
Other non current liabilities	198	281	281	282	283
Total liabilities	15,345	17,610	19,406	21,423	23,615
Fixed Asset	4,160	4,171	4,319	4,420	4,492
Investments	6,131	5,489	5,489	5,489	5,489
Other Non-current Assets	664	796	848	877	888
Net Working Capital	4,270	7,009	8,355	8,579	8,950
Inventories	3,934	5,103	5,351	5,595	5,998
Sundry debtors	2,719	2,987	3,510	3,670	3,934
Loans and Advances	35	78	78	78	78
Sundry creditors	1,997	3,559	2,949	3,083	3,305
Other current liabilities	1,828	1,585	1,640	1,709	1,824
Cash & equivalents	120	146	394	2,058	3,796
Total Assets	15,345	17,610	19,406	21,423	23,615

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	20,331	25,322	26,252	27,447	29,424
Operating profit	3,146	4,062	3,492	3,705	4,072
Depreciation	379	417	460	535	590
Interest expense	31	40	40	75	75
Other income	275	350	383	693	711
Profit before tax	3,012	3,955	3,375	3,789	4,117
Taxes	779	1,019	869	976	1,060
Minorities and other	-	-	-	-	-
Adj. profit	2,232	2,937	2,506	2,813	3,057
Exceptional items	(119)	-	-	-	-
Net profit	2,351	2,937	2,506	2,813	3,057

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	3,043	3,995	3,415	3,864	4,192
Depreciation	379	417	460	535	590
Tax paid	(779)	(1,019)	(869)	(976)	(1,060)
Working capital Δ	(1,663)	(1,895)	(1,347)	(224)	(371)
Other operating items					
Operating cashflow	979	1,498	1,659	3,198	3,351
Capital expenditure	(358)	(428)	(607)	(635)	(663)
Free cash flow	621	1,070	1,051	2,563	2,688
Equity raised	6,373	62	0	-	-
Investments	(192)	(201)	-	-	-
Debt financing/disposal	-	-	-	-	-
Interest paid	(31)	(40)	(40)	(75)	(75)
Dividends paid	(6,930)	(832)	(710)	(797)	(866)
Net Δ in cash	(231)	26	249	1,664	1,738

Source: Company, YES Sec

Exhibit 13: Du-point analysis

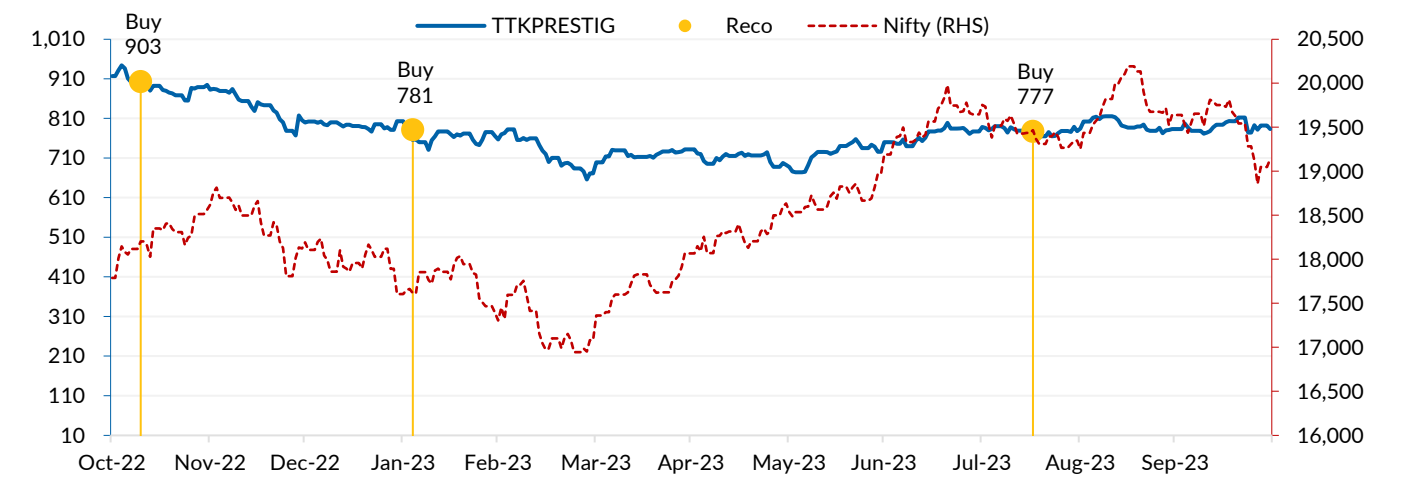
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.74	0.74	0.74	0.74	0.74
Interest burden (x)	0.99	0.99	0.99	0.98	0.98
EBIT margin (x)	0.15	0.16	0.13	0.14	0.14
Asset turnover (x)	1.12	1.20	1.12	1.09	1.07
Financial leverage (x)	1.31	1.33	1.31	1.28	1.26
RoE (%)	16.1	18.5	14.0	14.2	14.0

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	5.0	24.5	3.7	4.6	7.2
Op profit growth	20.6	29.1	(14.1)	6.1	9.9
EBIT growth	21.3	31.3	(14.5)	13.1	8.5
Net profit growth	12.5	31.5	(14.7)	12.3	8.7
Profitability ratios (%)					
OPM	15.5	16.0	13.3	13.5	13.8
EBIT margin	15.0	15.8	13.0	14.1	14.2
Net profit margin	11.0	11.6	9.5	10.2	10.4
RoCE	21.9	25.2	19.1	19.5	19.2
RoNW	16.1	18.5	14.0	14.2	14.0

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	12.3	13.9	10.7	11.2	11.1
Per share ratios					
EPS	17.0	21.2	18.1	20.3	22.1
Dividend per share	50.0	6.0	5.1	5.7	6.2
Cash EPS	18.8	24.2	21.4	24.2	26.3
Book value per share	106.8	122.4	135.4	149.9	165.7
Valuation ratios					
P/E	46.0	36.9	43.2	38.5	35.4
P/CEPS	39.1	29.6	35.1	30.8	29.5
P/B	7.2	6.3	5.6	5.1	4.6
EV/EBIDTA	34.4	26.6	30.9	28.7	25.7
Payout (%)					
Dividend payout	310.4	28.3	28.3	28.3	28.3
Tax payout	25.9	25.8	25.8	25.8	25.8
Liquidity ratios					
Debtor days	48.8	43.1	48.8	48.8	48.8
Inventory days	70.6	73.6	74.4	74.4	74.4
Creditor days	35.9	51.3	41.0	41.0	41.0

Recommendation Tracker



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