

Weak Q1; slow ARS progress dilutes positive commentary

Retail ▶ Result Update ▶ August 8, 2024

TARGET PRICE (Rs): 37,300

PAG reported a 2-5% EBITDA miss on modest expectations, due to a ~5% miss on volumes and higher marketing spends; realizations though were ~3% better on better mix. Although channel inventory is down by 5-10 days across categories since the ARS implementation, it remained at Q4 levels sequentially; PAG will need 2 more Quarters to completely bridge the gap between primary and secondary growth. Among channels, e-com (~10% mix) grew 32% and led most of the Q1 growth, while physical channels continue to see muted trends. Backed by pick-up in rural spends, Tier-2 and below towns are doing better than the Metros/Tier-1. With higher marketing activities, new launches, distribution expansion, and dedicated sales teams across categories, PAG expects strong growth revival in H2. However, we remain conservative due to a weak Q1/lack of near-term triggers, and maintain Reduce and TP of Rs37,300/sh (50x Jun-25E EPS). Estimates do not see material changes due to only a small miss in Q1.

Page Industries: Financial Snapshot (Standalone)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	47,886	45,817	49,494	57,212	65,922
EBITDA	8,627	8,723	9,884	11,741	13,844
Adj. PAT	5,713	5,692	6,614	7,960	9,432
Adj. EPS (Rs)	512.2	510.3	593.0	713.7	845.7
EBITDA margin (%)	18.0	19.0	20.0	20.5	21.0
EBITDA growth (%)	9.8	1.1	13.3	18.8	17.9
Adj. EPS growth (%)	6.5	(0.4)	16.2	20.4	18.5
RoE (%)	46.4	38.4	38.6	40.5	41.5
RoIC (%)	53.7	47.1	58.5	57.4	56.4
P/E (x)	79.5	79.8	68.7	57.1	48.2
EV/EBITDA (x)	52.7	51.7	45.6	38.4	32.6
P/B (x)	33.1	28.5	24.8	21.6	18.6
FCFF yield (%)	(0.4)	2.1	1.1	1.3	1.6

Source: Company, Emkay Research

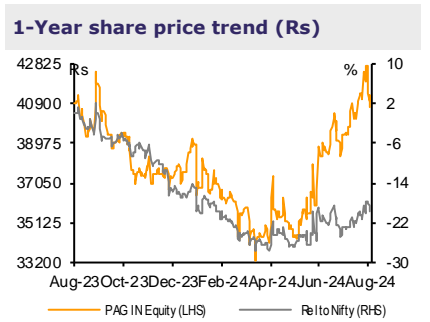
EBITDA miss of 2% over weak expectations; demand commentary encouraging: PAG saw a muted topline of 4% in Q1, on ~3% volume growth amid weak demand trends. Realizations improved ~1.0%, led by premiumization and better growth in women wear/athleisure. Encouragingly, PAG is seeing early green shoots, given the discounting pressure from peers largely behind now. Channel inventory remained at Q4 levels and is likely to require a couple of more quarters to fully bridge the gap between primary and secondary growth. Channel consolidation continued as PAG further tapered its MBO distribution by ~2,100 outlets in Q1. Exit EBO count stood at 1,395, with 13 adds in Q1 and 150-180 additions expected in FY25. Distributor base increased to ~4,300 with ~200 additions in Q1 after 5 quarters of consolidation. Although gross margin was up by ~90bps on stable input cost and better mix, EBITDA margin dipped by ~60bps to 19.0% owing to higher operating expenses (accentuated by higher marketing spends in Q1). PAG maintained its EBITDA guidance of 18-21%.

Earnings-call KTAs: 1) Q1 trends were in line with the muted trends of Q4FY24; green shoots toward the tail-end of Q1 and Q2TD are led by better rural consumption. Tier-II/III towns (mix% in the late 40s) saw better growth vs Metros/Tier-I (~50% of the business); however, PAG did not witness growth disparity between regions. 2) Channel Inventory remained at ~20mn pieces in volume terms. Continued focus on lightening the channel inventory caused primary growth to lag secondary/tertiary channel growth. 3) PAG remained debt free at end-Q1; being cash rich, it declared Rs300/sh dividend, in line with its policy to distribute 50% of PAT. 4) PAG is unlikely to take a price hike in the current fiscal, as cotton prices remain stable. With no price hikes since Jul-22, PAG feels the product-value proposition has improved vs. peers. 5) While Q1 saw higher marketing spends, the full-year marketing budget will remain in the 4-5% guided range. 6) With ~200mn pcs of own capacity, ~60mn pcs of outsourcing capability and upcoming Orissa/Mysore plants likely to commence operations by FY25-end, PAG does not foresee need for more manufacturing capex in the near term. 7) Relatively lower growth in LFS was led by a few key account exits. 8) PAG has launched new designs in the athleisure segment, at sharp price points over past two quarters. 9) Online B2B margin is comparable with that of the offline business; while Online D2C margin is marginally lower due to higher customer acquisition/logistics costs. 10) PAG believes the earlier guided target of US\$1bn sales by FY26 is tough to achieve due to prolonged slowdown. 11) Impact from the Bangladesh unrest is immaterial, as the supplier has already started operating normally, with supply-chain contingency on a particular vendor/staying low for PAG. 12) It aims to expand its modern retail channel by 150-180 stores every year.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(8.4)
CMP (08-Aug-24) (Rs)	40,734.0

Stock Data	Ticker
52-week High (Rs)	42,922
52-week Low (Rs)	33,070
Shares outstanding (mn)	11.2
Market-cap (Rs bn)	454
Market-cap (USD mn)	5,411
Net-debt, FY25E (Rs mn)	-3,212
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,011.7
ADTV-3M (USD mn)	12.0
Free float (%)	54.0
Nifty-50	24,117
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	45.0
FPIs/MFs (%)	20.5/28.1

Price Performance			
(%)	1M	3M	12M
Absolute	3.2	18.1	3.9
Rel. to Nifty	4.1	9.2	(15.7)

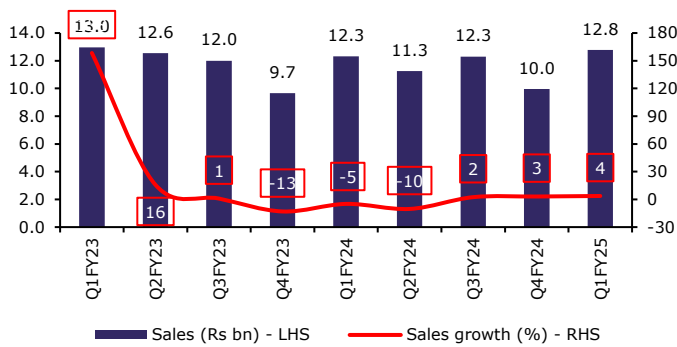


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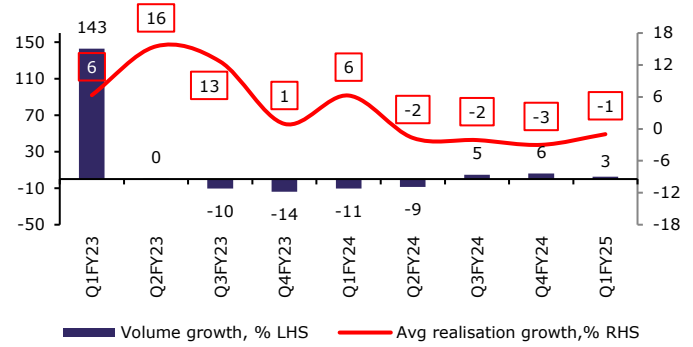
Story in Charts

Exhibit 1: Topline grew a modest 4% in Q1, led by 32% growth in the online channel



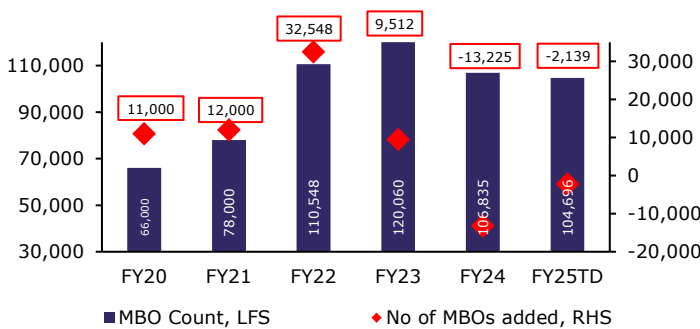
Source: Company, Emkay Research

Exhibit 2: Volumes grew ~3% in Q1 amid weak demand, while realization improved ~1% owing to a better mix



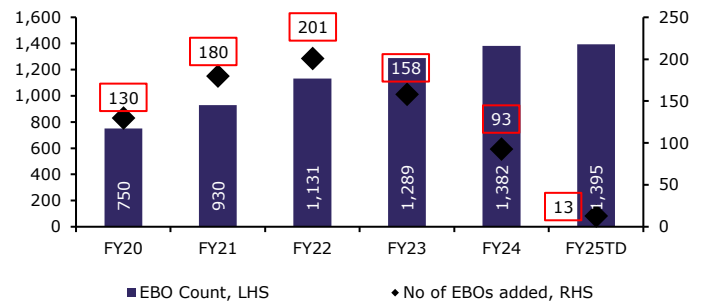
Source: Company, Emkay Research

Exhibit 3: The MBO count declined by >2,100 in Q1, amid channel rationalization efforts



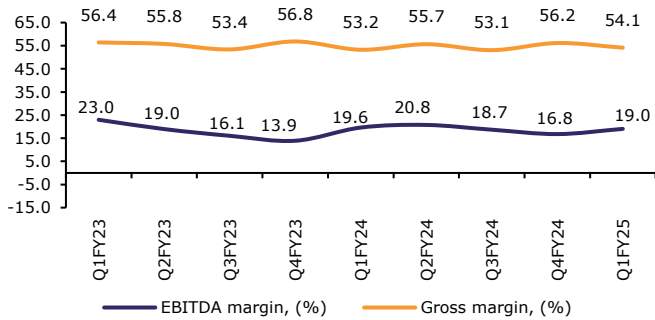
Source: Company, Emkay Research

Exhibit 4: EBO additions were 13 in Q1, pushing up the total EBO-count to 1,395 stores



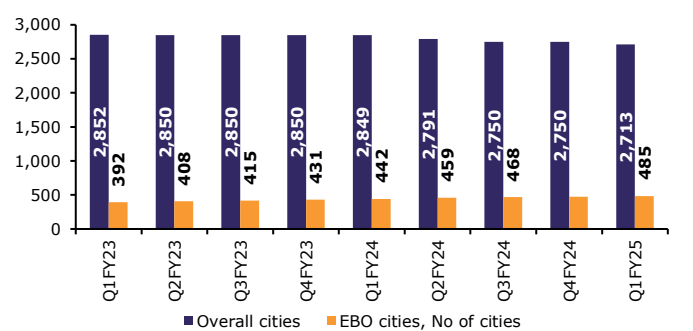
Source: Company, Emkay Research

Exhibit 5: EBITDA margin dipped by ~60bps to 19%, led by higher operating cost, partially offset by a 90-bps uptick in gross margin



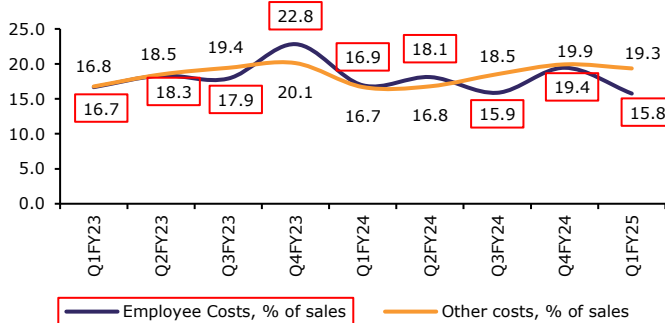
Source: Company, Emkay Research

Exhibit 6: While PAG's overall city presence reduced by 37 to 2,713 cities, EBO penetration improved to 485 cities



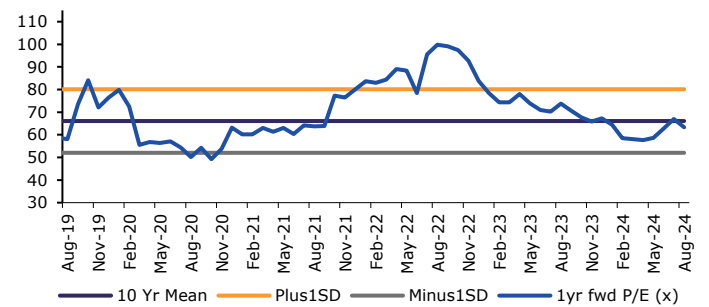
Source: Company, Emkay Research

Exhibit 7: Employee cost lowered by 110bps, whereas other operating cost was up by 260bps on higher marketing/IT spends



Source: Company, Emkay Research

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



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q1FY25)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	12,775	12,923	13,092	-1.1%	-2.4%	The topline miss was on account of weak demand trends and festive mismatch in Q1
EBITDA*	2,433	2,486	2,561	-2.1%	-5.0%	The topline miss along with the ~20bps lower EBITDA margin (vs estimate) led to a ~2% miss in overall EBITDA
EBITDA margin*	19.0%	19.2%	19.6%	-19	-51	
PAT	1,652	1,667	1,699	-0.9%	-2.8%	PAT miss was slightly lower due to higher other income

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

Exhibit 10: Summary of quarterly results

Y/E, Mar (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Operating Income	12,324	11,251	12,288	9,954	12,775	3.7	28.3	47,165	45,817	-2.9
Expenditure	9,906	8,916	9,991	8,281	10,342	4.4	24.9	38,537	37,094	-3.7
Consumption of RM	5,762	4,989	5,765	4,363	5,858	1.7	34.3	20,958	20,880	-0.4
as % of sales	46.8	44.3	46.9	43.8	45.9			44.4	45.6	
Employee Cost	2,087	2,038	1,949	1,935	2,013	-3.6	4.0	8,812	8,010	-9.1
as % of sales	16.9	18.1	15.9	19.4	15.8			18.7	17.5	
Other expenditure	2,056	1,889	2,276	1,983	2,472	20.2	24.6	8,767	8,204	-6.4
as % of sales	16.7	16.8	18.5	19.9	19.3			18.6	17.9	
EBITDA	2,419	2,335	2,297	1,672	2,433	0.6	45.5	8,627	8,723	1.1
Depreciation	210	246	226	226	221	5.2	-2.1	781	908	16.3
EBIT	2,209	2,089	2,070	1,446	2,213	0.2	53.0	7,847	7,814	-0.4
Other Income	19	17	55	109	129	581.6	18.8	147	200	35.5
Interest	127	112	105	105	117	-8.2	11.7	413	449	8.7
PBT	2,100	1,994	2,021	1,450	2,225	5.9	53.4	7,581	7,565	-0.2
Total Tax	517	491	497	368	572	10.8	55.4	1,869	1,873	0.2
APAT	1,584	1,503	1,524	1,082	1,652	4.3	52.7	5,712	5,692	-0.4
Reported PAT	1,584	1,503	1,524	1,082	1,652	4.3	52.7	5,712	5,692	-0.4
Adjusted EPS (Rs)	142.0	134.7	136.6	97.0	148.1	4.3	52.7	512.2	510.3	-0.4
(%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	(bps)	(bps)	FY23	FY24	(bps)
Gross margin	53.2	55.7	53.1	56.2	54.1	90	-200	55.6	54.4	-110
EBITDAM	19.6	20.8	18.7	16.8	19.0	-60	230	18.3	19.0	70
EBITM	17.9	18.6	16.8	14.5	17.3	-60	280	16.6	17.1	40
PBTM	17.0	17.7	16.4	14.6	17.4	40	280	16.1	16.5	40
PATM	12.8	13.4	12.4	10.9	12.9	10	210	12.1	12.4	30
Effective Tax rate	24.6	24.6	24.6	25.4	25.7	110	30	24.6	24.8	10

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)*		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Titan Company	3,297	2,927	Buy	4,000	38.4	55.9	73.4	86.0	59.0	44.9	48.8	39.3	31.5
Page Industries	40,734	454	Reduce	37,300	593.0	713.7	845.7	68.7	57.1	48.2	44.7	37.8	32.1
Jubilant FoodWorks	597	394	Add	600	5.0	7.5	10.0	118.6	79.7	59.7	23.7	20.3	17.6
Devyani International	175	211	Reduce	175	0.9	1.4	2.2	200.4	126.3	80.8	23.1	18.6	15.3
ABFRL	316	321	Sell	260	-3.5	-0.8	0.1	NA	NA	NA	18.4	13.6	11.1
Westlife Foodworld	795	124	Reduce	875	2.0	8.1	11.6	399.5	98.4	68.5	34.5	23.7	19.5
Sapphire Foods	1,611	103	Add	1,700	9.3	20.4	32.1	174.1	78.9	50.1	18.9	14.3	11.2
Go Fashion	1,110	60	Buy	1,350	20.1	27.1	33.3	55.2	40.9	33.3	20.0	15.6	12.8
Ethos	3,062	75	Buy	3,200	42.5	55.7	75.0	72.1	54.9	40.8	37.2	27.3	20.6
Senco Gold	1,034	80	Buy	1,150	27.6	35.4	43.9	37.5	29.2	23.6	19.0	15.3	12.7
Varun Beverages	1,490	1,936	Add	1,650	19.2	25.3	32.0	77.8	58.9	46.5	42.9	35.5	29.9
Aditya Vision	4,097	53	Buy	5,800	96.2	132.7	180.6	42.6	30.9	22.7	23.2	17.7	13.6

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

Exhibit 12: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	% change	Old	New	Change (%)	Old	New	Change (%)
Revenue	49,666	49,494	(0.3)	57,123	57,212	0.2	65,814	65,922	0.2
EBITDA	9,914	9,884	(0.3)	11,701	11,741	0.3	13,838	13,844	0.0
EBITDA margin (%)	20.0	20.0	0 bps	20.5	20.5	0 bps	21.0	21.0	0 bps
Net profit	6,636	6,614	(0.3)	7,930	7,960	0.4	9,428	9,432	0.0
EPS (Rs)	595.0	593.0	(0.3)	711.0	713.7	0.4	845.3	845.7	0.0

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

Page Industries: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	47,886	45,817	49,494	57,212	65,922
Revenue growth (%)	23.2	(4.3)	8.0	15.6	15.2
EBITDA	8,627	8,723	9,884	11,741	13,844
EBITDA growth (%)	9.8	1.1	13.3	18.8	17.9
Depreciation & Amortization	781	908	928	1,000	1,151
EBIT	7,847	7,814	8,956	10,740	12,693
EBIT growth (%)	9.0	(0.4)	14.6	19.9	18.2
Other operating income	0	0	0	0	0
Other income	147	200	260	280	300
Financial expense	413	449	433	449	467
PBT	7,581	7,565	8,784	10,571	12,526
Extraordinary items	0	0	0	0	0
Taxes	1,869	1,873	2,170	2,611	3,094
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,713	5,692	6,614	7,960	9,432
PAT growth (%)	6.5	(0.4)	16.2	20.4	18.5
Adjusted PAT	5,713	5,692	6,614	7,960	9,432
Diluted EPS (Rs)	512.2	510.3	593.0	713.7	845.7
Diluted EPS growth (%)	6.5	(0.4)	16.2	20.4	18.5
DPS (Rs)	260.0	310.0	385.4	463.9	549.7
Dividend payout (%)	50.8	60.7	65.0	65.0	65.0
EBITDA margin (%)	18.0	19.0	20.0	20.5	21.0
EBIT margin (%)	16.4	17.1	18.1	18.8	19.3
Effective tax rate (%)	24.6	24.8	24.7	24.7	24.7
NOPLAT (pre-IndAS)	5,913	5,880	6,744	8,088	9,558
Shares outstanding (mn)	11.2	11.2	11.2	11.2	11.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	7,581	7,565	8,784	10,571	12,526
Others (non-cash items)	781	908	928	1,000	1,151
Taxes paid	(1,869)	(1,873)	(2,170)	(2,611)	(3,094)
Change in NWC	(6,863)	3,995	(822)	(1,354)	(1,530)
Operating cash flow	(104)	10,844	6,893	7,775	9,220
Capital expenditure	(1,545)	(1,242)	(2,000)	(2,000)	(2,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	147	200	260	280	300
Investing cash flow	(1,397)	(1,043)	(1,740)	(1,720)	(1,700)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	2,482	(2,482)	0	0	0
Payment of lease liabilities	(481)	(529)	(582)	(640)	(704)
Interest paid	(275)	(301)	(270)	(270)	(270)
Dividend paid (incl tax)	(2,900)	(3,458)	(4,299)	(5,174)	(6,131)
Others	(78)	98	0	0	0
Financing cash flow	(1,252)	(6,672)	(5,151)	(6,084)	(7,105)
Net chg in Cash	(2,754)	3,129	2	(29)	415
OCF	(104)	10,844	6,893	7,775	9,220
Adj. OCF (w/o NWC chg.)	6,759	6,850	7,715	9,130	10,750
FCFF	(1,649)	9,602	4,893	5,775	7,220
FCFE	(1,915)	9,353	4,720	5,606	7,053
OCF/EBITDA (%)	(1.2)	124.3	69.7	66.2	66.6
FCFE/PAT (%)	(33.5)	164.3	71.4	70.4	74.8
FCFF/NOPLAT (%)	(27.9)	163.3	72.6	71.4	75.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	112	112	112	112	112
Reserves & Surplus	13,599	15,858	18,173	20,959	24,260
Net worth	13,710	15,969	18,284	21,070	24,372
Minority interests	0	0	0	0	0
Deferred tax liability (net)	0	0	0	0	0
Total debt	2,482	0	0	0	0
Total liabilities & equity	16,192	15,969	18,284	21,070	24,372
Net tangible fixed assets	3,375	3,161	4,619	6,043	7,359
Net intangible assets	26	41	41	41	41
Net ROU assets	(131)	(173)	(140)	(103)	(62)
Capital WIP	1,505	2,387	2,387	2,387	2,387
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	81	3,210	3,212	3,183	3,598
Current assets (ex-cash)	20,491	16,351	17,524	20,257	23,340
Current Liab. & Prov.	9,154	9,008	9,360	10,738	12,292
NWC (ex-cash)	11,337	7,342	8,164	9,518	11,049
Total assets	16,192	15,969	18,284	21,070	24,372
Net debt	485	(3,210)	(3,212)	(3,183)	(3,598)
Capital employed	14,277	15,969	18,284	21,070	24,372
Invested capital	14,607	10,372	12,685	15,500	18,387
BVPS (Rs)	1,229.2	1,431.7	1,639.3	1,889.0	2,185.0
Net Debt/Equity (x)	0.0	(0.2)	(0.2)	(0.2)	(0.1)
Net Debt/EBITDA (x)	0.1	(0.4)	(0.3)	(0.3)	(0.3)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
RoCE (%)	63.5	53.0	53.8	56.0	57.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	79.5	79.8	68.7	57.1	48.2
P/CE(x)	70.0	68.8	60.2	50.7	42.9
P/B (x)	33.1	28.5	24.8	21.6	18.6
EV/Sales (x)	9.8	9.8	9.1	7.9	6.8
EV/EBITDA (x)	52.7	51.7	45.6	38.4	32.6
EV/EBIT(x)	58.0	57.7	50.4	42.0	35.5
EV/IC (x)	31.1	43.5	35.6	29.1	24.5
FCFF yield (%)	(0.4)	2.1	1.1	1.3	1.6
FCFE yield (%)	(0.4)	2.1	1.0	1.2	1.6
Dividend yield (%)	0.6	0.8	0.9	1.1	1.3
DuPont-RoE split					
Net profit margin (%)	11.9	12.4	13.4	13.9	14.3
Total asset turnover (x)	3.8	3.0	2.9	2.9	2.9
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	46.4	38.4	38.6	40.5	41.5
DuPont-RoIC					
NOPLAT margin (%)	12.3	12.8	13.6	14.1	14.5
IC turnover (x)	4.4	3.7	4.3	4.1	3.9
RoIC (%)	53.7	47.1	58.5	57.4	56.4
Operating metrics					
Core NWC days	(12.2)	(8.1)	(13.3)	(11.3)	(10.9)
Total NWC days	86.4	58.5	60.2	60.7	61.2
Fixed asset turnover	9.4	8.2	7.3	6.5	6.1
Opex-to-revenue (%)	36.7	35.5	35.3	34.8	34.3

Source: Company, Emkay Research

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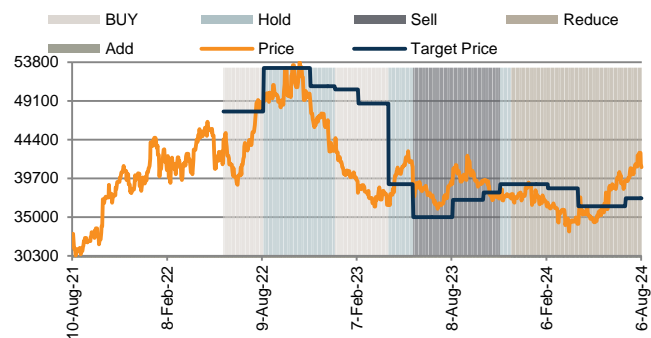
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jul-24	40,900	37,300	Reduce	Devanshu Bansal
07-Jul-24	39,410	37,300	Reduce	Devanshu Bansal
23-May-24	35,581	36,300	Reduce	Devanshu Bansal
07-Apr-24	34,168	36,300	Reduce	Devanshu Bansal
09-Feb-24	36,304	38,500	Reduce	Devanshu Bansal
10-Jan-24	37,139	39,000	Reduce	Devanshu Bansal
30-Nov-23	37,259	39,000	Reduce	Devanshu Bansal
09-Nov-23	37,687	39,000	Hold	Devanshu Bansal
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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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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