

Page Industries Limited

Buy**Target price: Rs 630**

Market data

Current price	Rs 305 (BSE)
Market cap	Rs 3,402 m
Face value	Rs 10.0
FY08 div./share	Rs 10.0
NSE symbol	PAGEIND
No of shares	11.2
Avg. 52-w liquidity	2,779
Free float	33.0%
52 week H/L	Rs 540 / 300

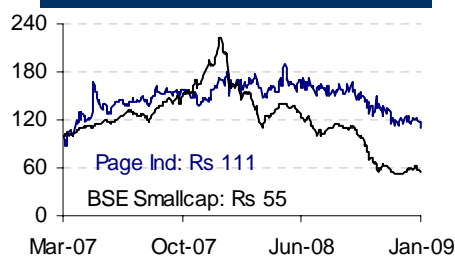
Stock Price Performance

	Page Ind.	Index*
6-Mths	-32.8%	-46.7%
12-Mths	-37.3%	-73.2%
18-Mths	-14.6%	-44.0%

Returns over 1 year are compounded annual averages (CAGR)

* BSE Smallcap

Rs 100 invested is worth



Shareholding (Dec-08)

Category	(%)
Promoters	67.0
Banks, FIs & MFs	14.4
FII's	13.5
Public	5.2
Total	100.0

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A jockey, riding on the brand

In an attempt to find a recession proof business, we came across this company whose products to which you might be quite 'attached'. This month we are recommending a company which is into the business of manufacturing undergarments. Now that we have broken the ice, here comes the rest.

Peter Lynch, one of the world's most celebrated investors, had said, "Buy what you know." We believe this stock fits the bill. In fact, one could add a slight twist to it and say "Buy what you know and own."

We are talking about **Page Industries Limited (PIL)**, a company which is the sole licensee for the 'Jockey' brand in India. It is perhaps difficult to imagine that a company with a name like 'Page Industries' is involved in the business of manufacturing innerwear. But it is. PIL is basically 'Jockey' in India. The only difference is that it pays a 5% royalty to Jockey International (US) for the use of its brand.

Jockey, as you may be already aware, is a super brand in the innerwear market. Incorporated in 1876, Jockey International has come a long way in establishing and maintaining its brand identity globally. It is believed that Jockey products have a 30% market share in the global innerwear market.

Post the economic liberalisation, more and more western brands have found acceptance in India. Given the demographics of the Indian market, high quality products are likely to witness both repeat and upgrade business from brand conscious customers. International brands that entered India early and carved a niche for themselves are particularly well poised to benefit in times to come. In a category like innerwear, people are likely to stick to a product that they are happy with. This is why, we believe, PIL is likely to benefit enormously by leveraging the 'Jockey' brand in India.

The fact that the company's business is simple to understand makes the story even more attractive. There can be no doubt that innerwear is an essential product and India is a large market. A very strong brand in such a product obviously is of great value.

Investment Rationale

- **It's all about the brand:** Nowadays, a brand's image is taken into consideration like never before. Buyers nowadays tend to make their own decisions according to their brand loyalty. This is where brand positioning comes into play. Over the past few years, PIL has promoted Jockey's products very aggressively. The company has made inroads into the lucrative tier-I markets (large cities). As part of its growth strategy, the company now plans to expand into smaller cities as well.

A brand is called a super brand based on various parameters such as market dominance, awareness, longevity, goodwill, customer loyalty and market acceptance. Jockey, definitely has these characteristics.

PIL is focused on the medium, premium and super premium segment of the Indian innerwear market. The company has an average market share of nearly 15% to 17% in the premium and super premium segment. That makes it the largest organised international player present in the space.

When it comes to awareness, there must only be a handful of people who have not heard of Jockey. Moreover, PIL has utilised nearly 12% of its IPO (issued in early 2007) proceeds towards brand building. The fact that Jockey has been around for over 130 years speaks volumes for the longevity of its brand. It may be noted that international competition such as Hanes, which entered India in 2004, and Fruit of The Loom (both American brands) have failed to make a mark in the Indian markets. That suggests Jockey's superior acceptance in the market.

Quality is the one of the main factors that is taken into consideration when purchasing essentials such as innerwear. This is especially the case when a brand caters to the mid to high income segments. The quality of Jockey innerwear is considered superior to its local Indian counterparts.

On an average an individual would purchase innerwear at regular intervals of a few months. This will hold the company in good stead in the long run. In our meeting with the management, it was clear that the company plans to strengthen its brand positioning further. We expect this to drive the company's growth in the future.

- **First mover advantage:** The Indian government initiated economic reforms in the early 1990s. In the last few years, several international brands have entered the country to grab the opportunities in their respective markets.

PIL captured the first mover advantage by entering the country in the mid 1990s. First of all, there was less organised sector competition back then. It allowed them to set up a strong business structure by setting up a manufacturing

unit and an excellent distribution chain. Second, it gave the management enough time to understand the market, during both good and bad times.

At present, PIL is present in over 1,100 cities and towns in India. In addition, it has nearly 144 distributors and sells its products through approximately 14,000 outlets across the country. These outlets include five different retail formats-

- Chain stores (large format stores);
- Multi-brand stores (MBOs);
- Hosiery stores;
- Multi-purpose stores; and
- Exclusive brand outlets (EBOs).

EBOs contribute to nearly 10% of PIL's revenues, while the balance is contributed by the distributors. As per PIL's management, it has 55% market share when it comes to the large retail formats such as Shopper's Stop. However, revenues from hosiery shops contribute to nearly 50% of the topline. It should be noted that margins remain similar across formats.

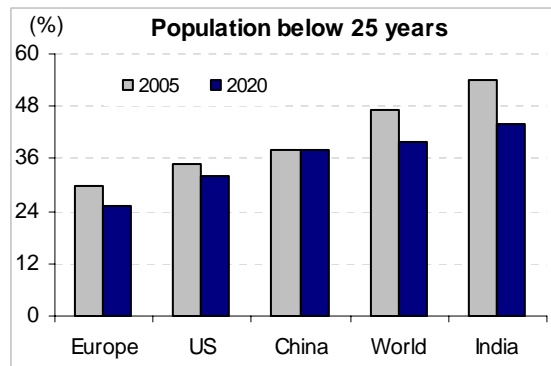
Over the years, the company has snatched a large portion of the market share of well established local players such as VIP and Lux. As per PIL's management, these brands cater to the lower end of the innerwear market, where competition with unorganised players is very high.

Here's an interesting fact - the promoters of PIL, the Genomal family have been associated with Jockey International for over 40 years. Prior to entering the Indian markets, the family ran a similar license based business model in the Philippines. Before PIL, Jockey International had appointed another unknown company to run the business. Due to issues regarding the product quality, the management of Jockey International asked the Genomal family (due to their Indian origin) to handle the business in India.

- **Favorable demographics:** India is a young country. Nearly half the population is aged below 25 years. This suits PIL perfectly as the Jockey brand targets the younger generation (in the 15 to 34 years age group). Also with an increase in the disposable income of a sizeable portion of India's population, there is a growing preference for better quality branded products across the

consumption chain. This is the case with most consumer durables and non-durables.

In addition, the company has several other growth factors that it can bank upon. These include – increased urbanisation, change in consumer behaviour, recognition of innerwear as apparel and a rapid expansion in retail formats.



(Source: HUL)

- **Support from licensor:** Jockey International was established way back in 1876. It is one of the oldest innerwear companies in the world. The company has a presence in over 100 countries across the world. It runs on similar licensee model in all regions except for the US and Europe. All these licensees largely rely on Jockey International for product innovations. Same is the case with PIL. The company has access to all new products developments at Jockey International.

Moreover, all the licensees meet at conferences twice a year to discuss about product developments, among other things. This puts PIL in the same league as the other Jockey licensees worldwide and more importantly gives it an edge over its competition in India.

- **Stability in business model:** PIL's strong track record highlights the stability of its business model. Its revenues have increased by a compounded growth rate of 31% over the past six years. During the same period, its profits have grown by 54%. Over the years the company has been able to expand its operating margins from 10% in FY02 to 19% in FY08 on account of its fully integrated garmenting process.

All processes right from knitting of fabrics to packing the finished products are done in-house.

The company currently has a manufacturing facilities spread over 367,000 square feet and has the capacity to manufacture over 50 m units per year. It is currently in the process of expanding its capacities and is likely to enhance the same to 74 m units by March 2009. In fact, the company has aggressively gone for capacity addition in the past few years, which it has done in two ways – expansion of existing facilities and through leasing properties.

This integrated approach (of having 100% own manufacturing) benefits the company in many ways. First, it allows them to manage costs. More importantly, it allows them to adapt to the changing market demand. This helps the company in efficiently controlling its inventories. It also allows them to keep a constant check on quality controls.

Investment Concerns

- **High returns could attract competition:** PIL has recorded an average RONW of 62% over the past 5 years. We expect the company to clock returns of around 36% in the next 5 years. These high returns could draw more players into the markets and trigger unhealthy competition. This could push the returns considerably lower.
- **Low volumes:** Typically, a high promoter holding in a company gives a sense of safety to a minority shareholder. In the case of PIL, promoter holding stands at a prudent 67%. Ironically, this is a concern. As a large chunk is held by the promoters, the free float stake stands at 33%, which keeps the average daily volumes in the stock traded on a daily basis on the lower side. The 52-week average daily volumes for PIL are 2,779 shares.
- **Potential clash with Jockey International:** The fact that PIL depends on one brand makes it the biggest concern. Although the company's has a long term association with Jockey International, the dependence leaves PIL vulnerable to any deterioration in the relationship. The relationship could sour due to a change in management at Jockey International, differences between the parties, dissatisfaction over product quality etc. It may be noted that Jockey International does not hold any stake in the company. Its promoters, the Genomal family, hold almost 67% stake in the company.

Key management personnel

Mr. Ravi Uppal, Chairman, was appointed to the designation in June 2008. In addition, he is presently the Managing Director and CEO of L&T's power unit. He is a graduate of the Indian Institute of Technology, Delhi and a post graduate in Business Management from IIM, Ahmedabad. He has also participated in the advance management program at Wharton Business School. Mr. Uppal has been conferred the Royal Order of the Polar Star and has also been named a Knight of Order by the King of Sweden.

Mr. Sunder Genomal, Managing Director, is one of the founders of the company and has spent over 25 years in various facets of the textile industry. He is a post graduate in Industrial Management Engineering, DeLaSalle University, Manila. Mr. Genomal is a member of the Young President's Organisation and the World Presidents Organisation. He received an award during the 125th anniversary of Jockey International in 2001 for his association with Jockey International.

Background

Established in 1995, PIL is engaged in the manufacturing of high quality innerwear and is the sole licensee for the 'Jockey' brand in India. Based in Bangalore, PIL carries out everything from fabric knitting to packing the garment. PIL's product range varies from innerwear, casual wear, and relax wear amongst others. The company's promoters, the Genomal family, have been licensees for the Jockey and Speedo brands in the Philippines since 1959 and 1988 respectively. The company currently has over 7,000 employees.

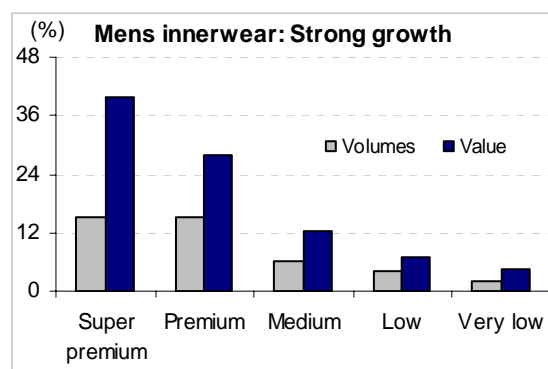
Industry Prospects

The Indian apparel market is estimated to be worth Rs 1 trillion. The intimate market is believed to be nearly 10% of the total apparel market. Of the intimate wear market, around 68% is the innerwear market, wherein the men to women ratio stands at 2:3. The industry is largely dominated by unorganised players. This presents a strong opportunity for organised players such as PIL. Brand conscious customers, especially in the medium, premium and super premium range will gradually shift to quality products.

As per the company, the intimate wear market size has doubled over the past four years. The men's innerwear segment has witnessed high growth, both

in volume and value terms over the past few years. According to the company, volumes in the super premium range have been growing at over 15%, while growth has been in excess of 40% in value terms. In the premium segment, growth in volumes is in excess of 15%, while the increase in value stood at almost 28%. In case of the medium segment, growth in volumes stood at nearly 6%, while growth in value terms has been around 12%.

PIL's products are largely focused towards the premium and super premium range, which are expected to witness high growth. In addition, the company also faces lesser competition in the high quality segment.



(Source: Company)

Risk Analysis

Please refer to the Risk Matrix on page 7 of this report

Sector: The innerwear market in India is segregated into various segments such as very low, low, medium, premium and super premium. The number of players present in each segment is different. As the quality of market improves, the numbers of players present decreases. PIL caters to the high-end of the market. This segment is characterised by openness to international brands and higher spending power besides favourable demographics, which cuts across segments. Based on these parameters, we assign a 'low' risk rating to the sector.

Company standing: With a well renowned brand to fall back on, PIL's products are already well accepted. They are likely to gain even more acceptance going forward. PIL is amongst the largest organised players in the innerwear sector in India. While PIL is likely to retain its advantage going forward, competition can be expected from the well established domestic and emerging international players. Keeping this in mind we assign a 'medium' risk rating to the company.

Sales: PIL has earned average revenues of US\$ 26 m during the past four years (FY05 to FY08). The company's sales in FY08 stood at nearly US\$ 39 m and are expected to grow at a compounded annual rate of 25% over the next four years. However, based on the size of sales, we assign a medium-risk rating of 4 to the stock on this parameter.

Operating margin: Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as raw materials, wages, and sales and marketing costs. A healthy operating margin is required for a company to be able to pay for its fixed costs, such as interest on debt. The higher the margin, the better it is for the company as it indicates its operating efficiency. PIL's average operating margins for the past five years has been 16.3%, which we expect to be maintained over the next five years as well. We assign a medium risk rating of 5 to the stock on this parameter.

Long term EPS growth: PIL has grown its net profits at a compounded annual growth rate (CAGR) of 45.8% over the past four years. This has mainly been due to a robust topline growth and strong expansion in operating margins. Considering the fact that the company undergoes capacity expansion at regular intervals will on boost revenues and subsequently, profitability going forward. The rating assigned to the stock on this parameter is 5.

Return on capital invested (ROIC): ROIC is an important tool to assess a company's potential to be a quality investment by determining how well the management is able to allocate capital into its operations for future growth. A ROIC of above 15% is considered decent for companies that are in an expansionary phase. Considering PIL's last five years' average ROIC of 34.9%, which is expected to remain stable over the next four years, we have assigned a low-risk rating of 8 to the stock on this parameter.

Dividend payout: Stable dividend history inspires confidence in the management's intentions of rewarding shareholders. However, small companies who are in constant requirement of capital to fund growth generally pay out less as dividend. PIL's average payout over the past five years has been around 54%. Given this, we assign a low risk rating of 10 to the stock on this parameter.

Promoter holding: A larger share of promoter holding indicates the confidence of people who run

it, especially in case of small companies that lie low in terms of visibility. We believe that more than 50% promoter holding indicates safety for investors. At the end of December 2008, the promoter holding in PIL stood at 67%. We have assigned a rating of 10 to the stock on this parameter.

FII holding: We believe that FII holding of greater than 20% can lead to high volatility in the stock price. At the end of December 2008, FII holding in PIL stood at around 13.5%. We have assigned a medium risk rating of 4 to the stock on this parameter.

Liquidity: The 52-week average daily volume of PIL is in the range of 2,779 shares, which is not so comfortable even for a small company. As such, we have assigned a high risk rating of 1 to the stock on this parameter.

Current ratio: PIL has averaged a current ratio of 2 times over the past five years, which we expect to remain stable over the next five years as well. We have thus assigned a medium risk rating of 6 to the stock on this parameter.

Debt to equity ratio: A highly leveraged business is the first to get hit during times of economic downturn, as companies have to consistently pay interest costs, despite lower profitability. We believe that a debt to equity ratio of greater than 1 is a high-risk proposition. PIL's average debt to equity ratio has been high at 1.2 times during the past five years. However its D/E ratio in the past three years stood at 0.6 times. As such, we have assigned a medium risk rating of 6 to the stock on this parameter.

Interest coverage ratio: It is used to determine how comfortably a company is placed in terms of payment of interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expense for a given period. The lower the ratio, the greater are the risks. Considering PIL's five year average interest coverage ratio of 10.1, we have assigned a rating of 8 to the stock on this parameter.

P/E Ratio: The P/E ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the per share income or profit earned by the company. This is one of the important metrics to judge the attractiveness of a stock, and thus gets the

highest weightage in our risk matrix. The stock of PIL is currently trading at a multiple of about 13 times its trailing twelve months earnings. We have assigned a medium risk rating of 5 to the stock on this parameter.

Considering the above analysis, the total ranking assigned to the company is 72 that, on a weighted basis, stands at 5.9. This makes the stock a medium-risk investment among its small cap peers from a long-term perspective.

Valuations

PIL is down by more than 40% from its 52-week high. That makes it among the least hit small cap stocks in the recent market meltdown. Considering its strong fundamentals, the low impact on its stock price is justified. At the current price of Rs 305, the stock is trading at a multiple of 5.9 times our estimated FY12 earnings, which we believe is attractive. Given that the nature of the business is easy to understand and the brand enjoys a sustainable competitive advantage, PIL offers an opportunity to participate in the brand's growth story provided sufficient margin of safety is sought in the buy price. Hence, we recommend a 'BUY' on the stock with a target of Rs 630 expected to be achieved in a 3 to 4 year period.

Valuations at a glance

(Rs m)	FY08	FY09E	FY10E	FY11E	FY12E
Net sales (Rs m)	1,923	2,453	3,669	4,070	4,824
Net profit (Rs m)	238	279	428	481	589
No. of shares (m)	11.2	11.2	11.2	11.2	11.2
Diluted EPS (Rs)	21.4	25.0	38.4	43.1	52.8
Price to earnings (x)	14.3	12.2	7.9	7.1	5.8
Price to sales (x)	1.8	1.4	0.9	0.8	0.7
Price to book value (x)	4.4	3.8	3.1	2.5	2.1

Risk Matrix

Rating	Weightage* (A)	Ratings accorded	
		Rating# (B)	Weighted (A*B)
Sector risk		Low	
Company's standing		Medium	
Performance parameters			
Sales	5.0%	4	0.2
Operating margins	5.0%	5	0.3
Long term EPS growth	10.0%	5	0.5
Return on invested capital	10.0%	8	0.8
Technical parameters			
Dividend payout	5.0%	10	0.5
Promoter holding	10.0%	10	1.0
FII holding	5.0%	4	0.2
Liquidity	10.0%	1	0.1
Safety parameters			
Current ratio	5.0%	6	0.3
Debt to equity ratio	10.0%	6	0.6
Interest coverage ratio	5.0%	8	0.4
P/E ratio	20.0%	5	1.0
Final Rating**		72	5.9

Rating has been assigned on the basis of the company's performance over the past five years and expected performance over the next 3 to 5 years. Rating is on a scale of 1 to 10, with 1 indicating highest risk and 10 indicating lowest risk. * 'Weightage' indicates the relative importance in percentage terms of the parameter. For instance, for an investor, given all the performance metrics, valuation (say P/E) should be one of the foremost criteria for buying/not buying stocks. ** The final rating has been arrived at by multiplying the rating/points given on each parameter with the respective weightage

Financials at a Glance

(Rs m)	FY08	FY09E	FY10E	FY11E	FY12E
Sales	1,923	2,453	3,669	4,070	4,824
Sales growth (%)	41.5	27.5	49.5	10.9	18.5
Operating profit	367	454	642	712	868
Operating profit margin (%)	19.1	18.5	17.5	17.5	18.0
Net profit	238	279	428	481	589
Net profit margin (%)	12.4	11.4	11.7	11.8	12.2
No. of shares (m)	11.2	11.2	11.2	11.2	11.2
Diluted EPS (Rs)	21.4	25.0	38.4	43.1	52.8
Balance Sheet					
Net fixed assets	436	611	607	596	711
Current assets	1,013	1,000	1,470	1,781	2,067
Investments	300	160	120	100	100
Total assets	1,749	1,771	2,197	2,477	2,878
Current liabilities	603	527	784	866	1,016
Net worth	774	906	1,109	1,337	1,615
Total debt	372	339	305	274	247
Total liabilities	1,749	1,771	2,197	2,477	2,878

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