
4,600
16-Jul-13
3,703.80
05-Apr-13
3,432.60
31-Dec-12
Page Industries share price in ₹

# *Will the appeal last?*

THERE MAY NOT BE ENOUGH MOMENTUM FOR PAGE INDUSTRIES, THE LOCAL FRANCHISEE FOR JOCKEY, TO KEEP STRETCHING ITS MULTIPLES

*Kripa Mahalingam*

Here's a jockey who has ridden unhindered through tumultuous market cycles and produced outstanding returns for investors. He goes by the name of Prashant Jain, chief investment officer, HDFC AMC, the country's largest asset management company by assets, and who is ranked among the best fund managers ever. So, it's not surprising that given his enviable track record, every stock that he picks or dumps is keenly watched by the investing community. This time around, Jain has dumped one of the market's favourite stocks, Page Industries. The innerwear major has been a darling of the bourses for a while now, with the stock gaining more than 12 times in value since the beginning of 2009. It is a story that investors and analysts couldn't seem to get enough of, thanks to its consistent revenue and earnings growth, strong return ratios and generous payouts. But Jain has used the meteoric rise to jump off the saddle. From July 2011, when the stock began rallying from around ₹1,900 levels, he has more than halved the holding in HDFC Prudence from 780,000 shares — which the fund had been holding since March 2008 — down to 312,000 shares as on date, when the stock is quoting at ₹4,600. So, why would a top fund manager want to sell a multi-bagger stock? Is the growth story losing momentum or is there still enough steam left to justify Page's lofty valuations? We decided to find out.

Page is better known in India for the brand it sells in India — Jockey. The Genomal family brought the brand to India in 1994, although its association with the Wisconsin-based innerwear maker goes back over 45 years — the family has been Jockey's licensee in the Philippines since the 1960s. Page Industries has the right to manufacture and distribute Jockey brand innerwear and leisure for men and women not only in India but also in Sri Lanka, Nepal, Bangladesh and the UAE. Currently, the company sells Jockey products only in India and Sri Lanka, with plans to start with the UAE and Bangladesh soon. With the licence renewed till 2030, royalty payments are fixed at 5% of sales.

Thus far, it has been a dream run of sorts for Page, thanks to consumers with higher disposable incomes becoming more brand conscious and expansion in modern retail. "Aspiration level among consumers is constantly increasing. They are becoming more brand savvy," agrees Sunder 'Ashok' Genomal, managing director, Page Industries. "More importantly, they are becoming more discerning, aspiring for better quality, comfort and styling, and that augurs well for us." The industry, pegged at ₹24,000 crore, consists of three main segments: economy, mid-premium to premium and super premium. While the overall industry has grown at around 15% over the past five years, the mid-premium to premium range, in which Jockey operates both in the men's and women's segments, has grown faster at 18% and 17%, respectively. Thanks to its first-mover advantage, consistent quality and distribution network, Page has been able to grow twice as fast as the segment, at 34% in men's

FILE PHOTO

innerwear and 44% in women's innerwear, during the same period. "We have been able to maintain consistency in our products since we manufacture everything in-house, which gives complete control over quality," says Genomal. "It doesn't matter if you have the strongest brand if you cannot provide consistent product quality." While it has an overall market share of 13% in the men's segment and 2% in the women's segment, Jockey's share in the organised market is much higher at 20.7% and 11.5%, respectively.

### IN SHIP SHAPE

One reason for that is Page's distribution network. "Jockey's biggest strength is its distribution network, which new entrants will find very difficult to replicate," concurs Shivani Bhasin Sachdeva, managing director, India Alternatives Investment Advisors (IAIA), which has invested in one of its peers, Gokuldas Intimatewear (which owns women's innerwear brand Enamor). Currently, the company is present across 1,200 cities and its products are sold through 400 distributors in around 23,000 retail outlets and 100 exclusive brand outlets. "We have a strong distribution base that can cater to many more years of growth," says Genomal. The premium positioning and price allows Page to give its distributors and retailers hefty margins of 11% and 28%. The exclusive brand outlet (Jockey Zone) owners, who buy from distributors, get around 30%, allowing them to make 20% return on their investment. The number of Jockey Zones rose from 71 in FY12 to 100 outlets in FY13 and Page plans to add another 35-40 outlets in the current fiscal. The company already has 60% share of the organised retail market (large format stores) and as the share of organised retail increases from 18% now to 25% of the overall retail pie, it will put Jockey on a stronger wicket.

Given that the women's segment is almost double the size of

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>
> –ASHOK GENOMAL
> Managing director, Page Industries

## Holding strong

*A robust distribution network has boosted Jockey's growth*



| | | |
|---|---|---|
| SEGMENT | Mid-premium to premium | Mid-premium to premium |
| SIZE | ₹3,300 crore | ₹6,780 crore |
| SEGMENT GROWTH RATE 5-YEAR CAGR (2007-2017) | 17% | 18% |
| JOCKEY'S GROWTH RATE 5-YEAR CAGR (2007-2017) | 34% | 44% |
| COMPETITORS | Hanes, Fruit of the Loom, Chromosome | Lovable, Enamor, Amante, Fruit of the Loom, Hanes |
| MARKET SHARE | 13% | 2% |

Source: Industry

the men's segment (*see: Holding strong*) and has a larger unorganised portion (60%), analysts expect women's wear to drive revenues in the coming years. The revenue mix is already seeing the change. While boxers and briefs have been the bread-and-butter business bringing more than half of the revenues, the contribution of women's and sportswear has been steadily increasing, from 18% in 2002 to 46.2% in 2013, on the back of stronger volume growth. "Growth in men's innerwear segment is likely to be more sedate at around 15%; it is women's and sportswear that is largely under-penetrated and will drive growth," says Basant Maheshwari, private investor and founder of online investment forum The Equity Desk, who bought a chunk of the stock in March 2009 at ₹350 a share and has since been holding the stock. "The company can sustain its growth rate by adding new products and increasing its brand profile. They need to grow by expanding the market," he adds.

## Power of fashion

*Thanks to brand-conscious buyers, revenues are growing at a healthy clip*


Source: Company, analyst reports

Page is working on that. In addition to shapewear for women, the company recently introduced performance sportswear for men and also launched POP, a premium men's innerwear label with waistbands in vibrant neon colours. In all, it introduced around 32 new styles in 2012 across segments.

Last year, it also became the exclusive licensee of swimwear brand Speedo — the brand is already available in 630 outlets across 62 cities and five exclusive outlets. While Speedo contributes a modest 2% (₹16 crore) to revenues, analysts expect its share to grow to around 5% in two or three years. Though swimwear market in India is still minuscule at ₹200 crore, it is expected to grow rapidly helped by the increasing awareness of fitness and staying healthy. Also last year, the company introduced kidswear, which will not only help increase market share but also, hopefully, hook customers for life.

"Jockey's biggest strength is the company's distribution network, which new entrants will find very difficult to replicate

—SHIVANI BHASIN SACHDEVA
MD, India Alternatives Investment Advisors

In any case, it's a big window for growth: the overall kidswear market is pegged at ₹48,000 crore but expected to nearly double by 2016 as parents' willingness to spend on their children increases.

Of course, growing market opportunities come with their own problems. The innerwear market is becoming increasingly crowded. While international brands such as Fruit of the Loom, Calvin Klein, Hanes and Tommy Hilfiger have made their entry in the past few years, domestic players such as Rupa, Lux and VIP are also aspiring to an increasingly premium customer group. Still, Page has managed to hold its own. "Some foreign players have not been able to make it work. You cannot just throw marketing dollars and create a brand in this segment. It takes time and only companies that get the customer connect right by understanding buyer behaviour and maintain product quality at reasonable prices will be successful," says IAIA's Sachdeva.

To Page's credit, even in the face of growing competition, it has been able to pass on increases in input prices, which indicates its strong brand strength. Over the past two years, price realisation has moved

SOUMIK KAR

about 10% higher to accommodate rising raw material and labour costs. "We have strong pricing power so we have managed to achieve our aim of being an aspirational yet affordable brand despite volatility in material prices such as cotton, particularly in the past couple of years," says Genomal. The company is also ensuring that it is well-equipped to meet the increasing demand. "We continue to plan expansion of our capacity at 25% per annum, which will be funded by internal accruals," he adds. In FY13, the company increased its capacity from 110 million pieces the previous year to 135 million pieces at a total cost of ₹35 crore funded by internal accruals. The average realisation is ₹108-110 per piece.

### A STRETCHED FEELING

While greater contribution of higher value and faster growing products such as women's and sportswear bodes well for the company on the revenue front, it could face a problem or two on its working capital and inventory management. Women's and sportswear are prone to quick changes in fashion trends, which means Page needs to maintain more stock keeping units. As a result, its inventory days have moved up from 64 days in FY02 to 100 days in FY13 and with these segments growing in importance, that number is only likely to go up in future.

Increasing inventory levels and capital expenditure have led to a longer working capital cycle and impacted Page's ability to consistently generate free cash flows. According to a report by Emkay Securities, dividend payouts (including tax) have been higher than free cash flows generated since the company's listing in 2007, barring 2012, and this has led to increasing debt levels.

In absolute terms, the number isn't alarming — from ₹4.9 crore in FY02, debt went up to ₹88 crore in FY13 and is expected to climb further to ₹168 crore by FY15, according to Emkay estimates. According to the company, the debt availed comes at very attractive terms under the Technology Upgradation Fund (TUF) so it doesn't really hurt profitability. What is worrying, though, is the inability to generate enough free cash flows to meet dividend payouts, which means the company will have to either reduce its dividend pay ratio or debt on books will keeping increasing on the back of sustained capital expenditure. Genomal, however, believes the company will be able to maintain its payout ratio and that increasing inventory and working capital needs are in line with increase in sales, thereby offering no cause for concern.

Revenues over the next two years are expected to grow at an average of 24% coming off the previous five-year average of 38%. While margins are likely to gain from the removal of excise duty of 3.6% on branded garments, which the company has not passed on to its consumers, Page is likely to re-invest the gains in the business through branding initiatives, leaving operating margins stable at around 19-20%. "Branding initiatives are important to us because we realise this is not a 100 metre sprint but a marathon. So any excess money we make, we invest in branding," says Genomal. Earnings growth is likely to move up by about 25% during the same period.

SANDIPAN CHATTERJEE/OUTLOOK

“ Brand stickiness is very high in this business. There will be no serious threat to Jockey unless the company slips on product quality

—BASANT MAHESHWARI
Founder, The Equity Desk

While there have been concerns on slowdown in consumer spending and the possibility of consumers switching to economy brands, The Equity Desk's Maheshwari feels that at best there could postponement of purchases. "Brand stickiness is very high in this business. So there will be no serious threat to Jockey unless they slip on product quality," he says. The company, too, isn't too perturbed by the current slowdown in consumer spending. "Our core products [innerwear and basic leisurewear] are relatively non-discretionary, need based and affordable in terms of ticket price. So we see no reason why we should not be able to continue on our growth path, especially as the macro economic situation gets better," says Genomal.

While the structural story remains intact, it is to be seen whether Page will be able to sustain its dividend payout by generating consistent cash flows without raising additional debt. Revenues and earnings continue to grow at a healthy rate, but the stock could see some de-rating if it doesn't sustain its payout levels. At 35 times estimated FY14 earnings, the valuation looks steep with PEG of more than one. In other words, investors can take the cue from Jain and book profits at current levels.