



## STOCK DETAILS

<b>BSE Code</b>	<b>532827</b>
<b>CMP - 11<sup>th</sup> August, 2009</b>	Rs. 580
<b>Face Value (Rs.)</b>	10
<b>Book Value (Rs.)</b>	78
<b>52 Wk High (BSE)</b>	700 (27 <sup>th</sup> July, 2009)
<b>52 Wk Low (BSE)</b>	300 (9 <sup>th</sup> Jan, 2009)

## COMPANY PROFILE

Page Industries Ltd. (PIL) commenced operations in the year 1995 in Bangalore to bring the leading international innerwear brand "JOCKEY" to India. Its promoters had been associated with Jockey International Inc. for 46 Years as their sole licensee in Philippines.

Jockey International Inc's successful relationship with its promoters – Genomal Family, resulted in PIL promoters taking up the India license and set up operations in the country catering to the markets in India, Bangladesh, Nepal and Sri Lanka.

***PIL only operates in Middle, Premium and Super Premium innerwear segments of the industry***

The company operates in the above innerwear segments through its three plants at Hongasandra (two plants) and Bommasandra in Bangalore.



**About Jockey International, US:** Incorporated in 1876, Jockey is an international recognized brand in more than 120 countries. Jockey International, US, innovator of the first 'Y' fronted brief in 1935, today commands ~35% of the branded innerwear market in the US. Apart from US and UK, where it has a direct presence, Jockey follows the franchisee model with 35 – 40 licensees present across 120 countries.

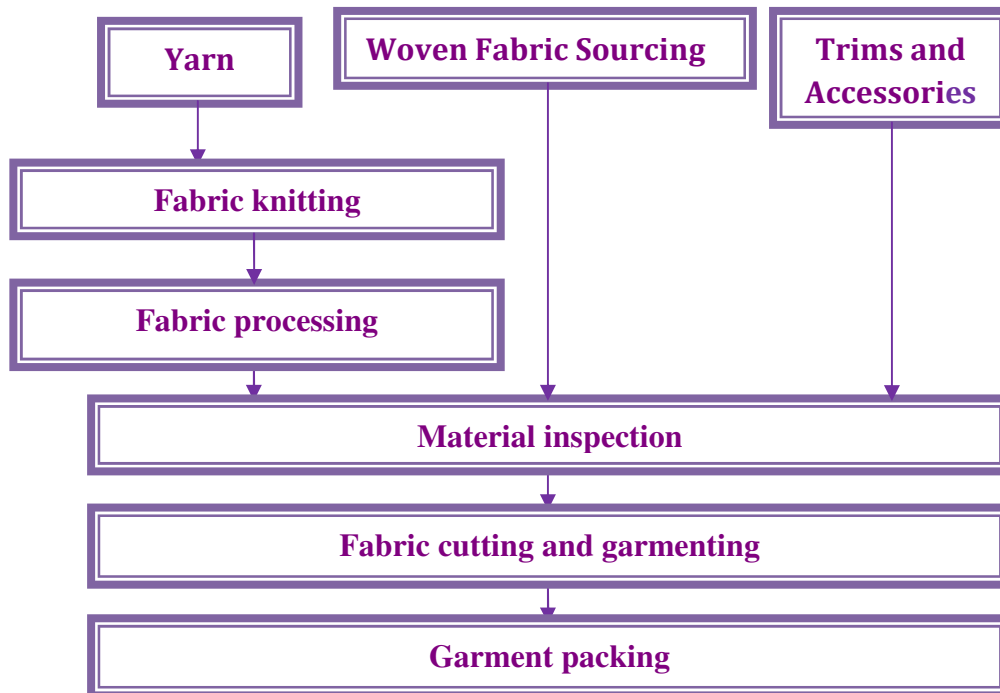
**Tie up with Jockey International, US:** PIL is an exclusive licensee for Jockey products in India, Sri Lanka, Republic of Maldives, Bangladesh and Nepal. **PIL pays 5% royalty on net invoiced sales to Jockey International, Inc. USA** annually towards licensing fee for the use of 'Jockey' brand in India, Pakistan, Bangladesh, Nepal, Republic of Maldives and Sri Lanka.

**Jockey Inc. has recently extended exclusive license agreement for next 20 years till 2030. The new agreement will permit PIL as an exclusive licensee for Jockey products in Middle East.**

## ABOUT THE BUSINESS

PIL has an integrated business model right from material sourcing and inspection to fabric cutting, garmenting, and packaging.

### FULLY INTEGRATED BUSINESS MODEL ...





PIL is one of the few players in the industry to have an integrated business model right from material inspection to fabric cutting, garmenting and packaging.

Although PIL does not process the yarn in-house, it follows stringent checks at each level of the value chain. It procures and supplies yarn to its dedicated suppliers for knitting and processing operations. This model helps PIL to maintain a strict control on the quality and packaging of its products.

Its products are sold in ~16,000 retail outlets across India. It is present in the mid-premium to super premium segments of the men's and women's innerwear market. It is the manufacturer of innerwear, t-shirts, shorts and socks with ~73% of its revenue coming from innerwear segment. It is also making its mark in the leisure wear category of the overall apparel industry.

### JOCKEY'S PRODUCT PORTFOLIO

Men	Women	Leisure Wear
Vests	Brassieres	Bermudas
Briefs	Panties	Boxers
Trunks	Crop Top	Jersey Pants
Thermal wear	Short Top	Round Neck T – shirts
Socks	Camisole	Polo Shirts
-	Legging	-
-	Spaghetti Top	-
-	Thermal Wear	-



### EXTENSIVE PAN INDIA DISTRIBUTION NETWORK

PIL operates through a network of 144 distributors for supply to ~16,000 retail outlets across 1,100 cities and towns throughout the country.

The retail outlets are spread over the following retail formats: exclusive stores, multi-brand outlets (MBOs), hosiery stores, and multipurpose stores. Baring VIP, which dominates the economy to mid-premium segment, PIL has a far wider reach than its premium segment competitors such as Playboy, Hanes, Triumph, and Bodycare. Its close competitor in the premium segment is Playboy which was launched in India by SR Mill - the exclusive license holders for Playboy Men's Underwear and Accessories in India targeting urban population aged 15 to 35 years. PIL has a competitive advantage over Playboy as it targets all the age groups.

PIL has a market leadership of about 21% men mid and premium innerwear segment of Rs. 22 bn and 13% in women premium innerwear segment of Rs. 8 bn women premium innerwear segment which is also being addressed by brands such as Playboy, Lovable, Triumph and Enamor.

### SALES OUTLETS OF JOCKEY V/S PEERS

Brand	Origin	Exclusive Stores	Hypermarts & Departmental stores	MBOs (Multi Branded Outlets)
<b>Jockey</b>	<b>US</b>	<b>38</b>	<b>-</b>	<b>16,000</b>
Bodycare	India	-	-	8,000
Playboy	US			200
Hanes	US			2,000
VIP	India		3	80,000
Enamor	India		70	750
Lovable	Australia		60	2,000
Provogue	India	124		228

Source: Images Business of Fashion

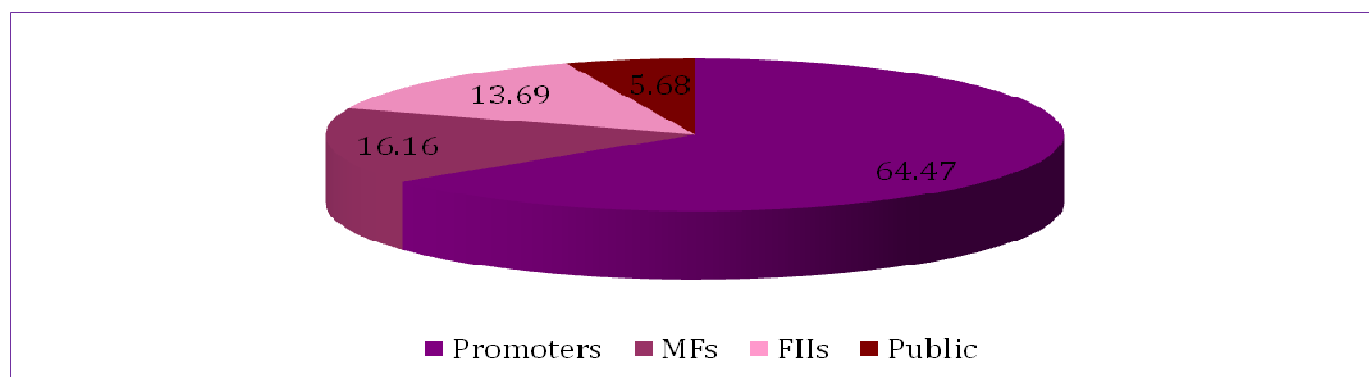


## FINANCIAL HIGHLIGHTS

Particulars (Rs. In millions)	FY 08	FY 09	FY 10E	FY 11E
Sales	1923	2547	3152	3774
EBITDA	368	510	633	777
EBITDA Margin	19%	20%	20%	21%
Net Profit	240	318	373	483
PAT Margin	12%	12%	12%	13%
No. of Equity Shares (mn)	11.15	11.15	11.15	11.15
EPS	21	29	34	43
EPS growth	*(50)%	38%	17%	26%
P/E (x)	-	20	17	13
Book Value (Rs.)	69	78	86	100

\* Post bonus issue of 3:1 & fresh equity issue of 1.41 mn shares

## SHAREHOLDING PATTERN AS ON JUNE 2009





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## IPO IN 2007 FOR CAPACITY EXPANSION AND BRAND BUILDING ....

PIL garnered Rs. 508.4 mn from fresh issue of equity for setting up a new manufacturing facility at Bommasandra (Karnataka) at the cost of Rs. 234 mn and expansion of existing Begur Road capacity at the cost of Rs. 78.5 mn Capacities in garter, elastic, socks, etc. were increased at the cost of Rs.32 mn. Realising the need for consumer awareness of its brand, PIL has spent Rs.78.4 mn towards 'Brand Building' of its products.

## COMPETITIVE STRENGTHS:

- 1) Strong Global brand:** 'Jockey' is a 130 years old brand with presence over 120 countries. Jockey's international success is a derivative of its consumer centric strategies and commitment to quality and value. Jockey's culture of collaboration across over 43 licensees and associates around the globe ensures a gamut of international learning and experience sharing with PIL.
- 2) Promoters have a sound global business understanding:** Promoters have been associated with Jockey Inc. since the last 46 years as their sole licensee in Philippines. They have experience of not only being one of the flag-bearers of the Jockey brand but also understand the nuances of the innerwear market in Asia and rest of the world.
- 3) Product Innovation:** Jockey invests resources in understanding the consumer behaviour and formulates strategies aimed at fulfilling the evolving and ever expanding consumer need for comfort. Continuous innovation in its products ensuring newness in styles, fashion and fabrics aimed at keeping the product portfolio fresh and in tune with the international trends.
- 4) End to end in house operations from "cut-to-pack":** Manufacturing set up across 8 adjacent factories in a single location engaged in the totally integrated garmenting processes from cutting of the fabric to the packing of the finished product. The integrated in house manufacturing capability ensures achieving high levels of manufacturing efficiencies, besides the competitive advantage of "speed to market".
- 5) Strong Distribution Network:** Jockey is retailed through 144 distributors in India. These distributors are segmented geographically and also on the basis of the product range (Men innerwear, Women innerwear and leisurewear being the key segments). Its distributors caters to over 16,000 retail outlets spread across 5 retail formats: *Chain stores (large format stores), Multi Brand Outlets (MBOs), Hosiery stores, Multi-purpose stores, Exclusive Brand Outlets (EBOs)*



## RISK & CONCERNS:

- 1) Company is operating in a highly competitive environment:** Innerwear industry in Innerwear market in India is highly fragmented with majority of the players in the unorganized sector. This industry is also attracting a lot of attention from several International players. Several apparel brands have recently launched their product offerings in this segment. The market place is getting highly competitive.
- 2) Competition from international premium innerwear** brands like Playboy, Triumph, Hanes etc. as it would affect the pricing power and market share of the company.
- 3) Increasing cotton prices** will result in higher input costs for the company that will affect the margins.
- 4) Any increase in license fee by Jockey International, US would affect the margins adversely.**
- 5) Tie-up of Maxwell with Eminence:** Maxwell Industries, a competitor of Page Industries in the innerwear garments segment has approved the license agreement with Eminence, (France) for manufacturing, distributing and selling the men's & women's Innerwear, Pyjamas and socks under the Brand name Eminence which may pose a competition to PIL.

## RISK MITIGATION

- 1)** As Jockey enjoys high consumer loyalty, it has been able to pass the increased input costs to the consumers.
- 2)** As far as competition from Eminence is concerned, we do not see any immediate threat as Brand building of 'Eminence' is not likely to happen in the immediate future. Usually brand building and its consumer acceptance and loyalty is a long term process.
- 3)** Threat from major international innerwear brands have been mitigated by expanding the product portfolio of Jockey catering to different segments besides rolling an emotion based lifestyle brand positioning.



## OVERVIEW OF INNERWEAR INDUSTRY

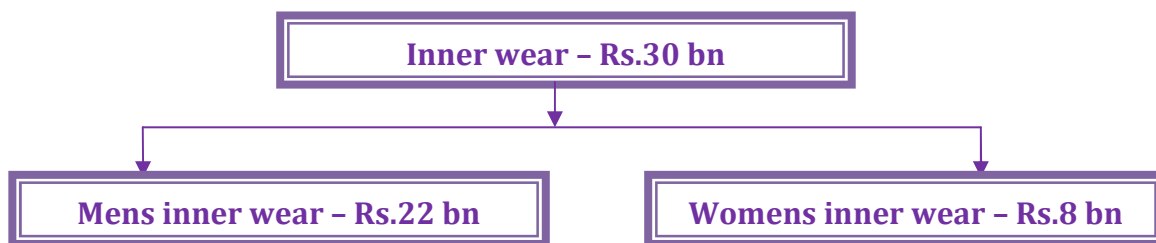
### GLOBAL SCENARIO

**Global innerwear market** was ~US\$ 30 bn in 2007, and is further projected to increase at the rate of 9% to ~US\$ 31.6 bn by 2010.

Of the total global lingerie sales, bras account for 56%, briefs at 32%, and day-wears make the remaining 12%.

### INDIAN SCENARIO

The inner wear market in India, is ~Rs. 84 billion (US\$ 1.68 bn), constituting ~6% share of the Indian apparel market. (Source: IMAGES-KSA Technopak) Out of which Rs. 30 bn is Premium innerwear whereas Rs. 54 bn is accounted by Lower and Economy segment.







## MENS INNERWEAR

The men's innerwear market is estimated at ~Rs. 34 bn with mid segment to premium segment accounting for ~Rs. 22 bn. Organised men's innerwear market accounts for ~65%. **Premium mens innerwear segment in India is growing at 28% p.a whereas Super Premium market is growing at 40% p.a**

*Source: Company*

## WOMENS INNERWEAR

The women's innerwear market is estimated at ~Rs. 50 bn with premium range valued at Rs 8 bn.

Of the total apparel industry, innerwear is the only segment wherein the women's segment dominates the market with ~63% market share. Organised sector in the women's innerwear segment controls only 10% market share. This leaves plenty of opportunity for strong brands like JOCKEY to penetrate their product range in the unorganized segment. Women premium innerwear segment is growing at 31% p.a whereas super premium segment is growing at 18% p.a which is an indication of changing preferences towards branded products.

In the periphery of **Delhi itself has more than 500 manufactures of lingerie**; which makes Delhi as a producer of both quantity and quality in lingerie trade. This region **also caters to more than 1500 retailers of lingerie and hosiery product**, which by far is the largest retail spread for any market in India (*Source: India PRwire Pvt. Ltd.*)

Leisurewear market is currently very fragmented in India, is estimated to be ~ Rs.20 bn



## INDUSTRY GROWTH DRIVERS

- 1) Large Indian Population:** Estimated Indian Population of 1.17 bn people growing at a rate of 1.55%. The demand for innerwear garments is directly correlated to the growth of population. Besides being a consumer non durable product there is a frequent recurring demand to cater to the existing huge population.
- 2) Lopsided rural population to generate demand in future:** Over 70% India's one billion plus population lives in ~627,000 villages in rural areas. As per the National Council for Applied Economic Research (NCAER) study, there are as many 'middle income and above' households in the rural areas as there are in the urban areas. Country's per-capita income has grown from Rs. 20,996 in 2002-03 to Rs. 37,490 (2008 - 09). Disposable incomes are expected to rise at an average of ~8.5% p.a in the coming years. Increasing disposable income will lead to improved lifestyle which will eventually lead to changed dressing habits leading to shift in demand from low end innerwear to branded ones. In times ahead, due to improvement in intellect cum income levels, fall out of urbanisation and subsequent transformation in the lifestyle habits of the present rural masses, a paradigm shift will occur in their dressing habits (from low end to mid and premium innerwear branded segment) and its fallout will experience an exponential volume driven growth in the innerwear garment segment. We believe that PIL is well positioned to capitalize on the unfolding of this story.
- 3) Increasing proportion of working women:** The number of working women, as a percentage of the total female population, has risen from ~12% in 1961 to close to 25% in 2005. Working women are more conscious on their presentation and dressing values. Innerwear garments play a pivotal part in women's appearance.
- 5) Favourable Government Policies:** Government of India has extended the Technology Up-gradation Fund (TUF) for the 11th five year plan and has increased the fund allocation for the year 2009 - 10 to Rs. 3,140 crores from Rs. 1090 crores in 2008-09. Government of India is also setting up various apparel parks, integrated textile parks and special economic zones in partnership with private sector.



## FINANCIALS

## Income Statement - (Rs. in millions)

Particulars	FY 08	FY 09	FY 10E	FY 11E
<b>Sales</b>	<b>1923</b>	<b>2547</b>	<b>3152</b>	<b>3774</b>
<b>Expenditure</b>				
(Increase)/Decrease in inventory	(124)	(88)	(130)	(180)
Manufacturing expenses	1077	1348	1655	2000
Personnel Expenses	302	429	524	604
Administrative and selling expenses	300	348	470	573
<b>EBITDA</b>	<b>368</b>	<b>510</b>	<b>633</b>	<b>777</b>
Depreciation	36	73	86	89
<b>EBIT</b>	<b>332</b>	<b>437</b>	<b>547</b>	<b>688</b>
Interest	34	31	44	35
Other Income	45	64	50	60
<b>Net Profit before tax &amp; extraordinary items (EI)</b>	<b>343</b>	<b>470</b>	<b>553</b>	<b>713</b>
Less: Tax	103	152	181	230
Less: Extraordinary items	-	-	-	-
<b>Net Profit after tax &amp; EI</b>	<b>240</b>	<b>318</b>	<b>373</b>	<b>483</b>
<b>EPS (Rs.)</b>	<b>22</b>	<b>29</b>	<b>34</b>	<b>43</b>

**Balance Sheet - (Rs. in millions)**

Particulars	FY 08	FY 09	FY 10E	FY 11E
<b>LIABILITIES</b>				
Share Capital	112	112	112	112
Reserves and Surplus	662	757	851	1005
Secured Loans	372	419	395	318
Unsecured Loans	-	-	-	-
Net Deferred Tax Liability	17	17	17	17
<b>Total</b>	<b>1163</b>	<b>1305</b>	<b>1375</b>	<b>1452</b>
<b>ASSETS</b>				
Fixed Assets	507	698	816	850
Less: Depreciation	94	149	235	324
<b>Net Fixed Assets</b>	<b>413</b>	<b>549</b>	<b>581</b>	<b>526</b>
<b>CWIP</b>	<b>24</b>	<b>118</b>	<b>-</b>	<b>-</b>
<b>Investments</b>	<b>300</b>	<b>52</b>	<b>52</b>	<b>52</b>
<b>Current Assets, Loans &amp; Advances (A)</b>	<b>1003</b>	<b>1403</b>	<b>1635</b>	<b>1913</b>
<b>Current Liabilities (B)</b>	<b>577</b>	<b>817</b>	<b>893</b>	<b>1039</b>
<b>Net Current Assets: (A) - (B)</b>	<b>426</b>	<b>586</b>	<b>742</b>	<b>874</b>
<b>Total - ASSETS</b>	<b>1163</b>	<b>1305</b>	<b>1375</b>	<b>1452</b>



### Cash Flow Statement – (Rs. in millions)

Particulars	FY 08	FY 09	FY 10E	FY 11E
Operating Cash Flow before Working Capital Changes	401	540	593	739
Net Cash Flow from Operating Activities (A)	122	331	258	313
Net Cash Flow from Investing Activities (B)	(365)	(28)	92	61
Net Cash Flow from Financing Activities (C)	(57)	(202)	(290)	(334)
Increase/(Decrease) in cash & cash equivalents during the year	(300)	101	60	41
Cash and Cash Equivalents at the beginning of the year	302	2	103	163
Cash and Cash Equivalents at the end of the year	2	103	163	204



## RATIO ANALYSIS

Particulars (Rs. In millions)	FY 08	FY 09	FY 10E	FY 11E
EBITDA Margin	19%	20%	20%	21%
PAT Margin	12%	12%	12%	13%
EV/EBITDA	14	14	11	9
ROE (%)	31%	36%	39%	43%
ROCE (%)	29%	17%	19%	23%
Debt/Equity	0.48	0.48	0.41	0.29
Fixed Assets Turnover Ratio	3.99	4.23	5.57	6.81
Interest Coverage Ratio	9.85	14.19	12.59	19.66
Inventory days	90	90	87	87
Debtors days	14	18	18	18
Creditors days	48	35	35	35



## DISCOUNTED CASH FLOW VALUATION (DCF) AND SENSITIVITY ANALYSIS

### ASSUMPTIONS FOR DCF VALUATION:

Risk free rate (Rf)	7%
Beta	0.17
Expected Market Return (Rm)	15%
Risk Premium (Rm - Rf)	8%
Cost of Equity	8%
Cost of Debt	11%
Terminal Growth rate	4%

### SENSITIVITY ANALYSIS

Particulars	Terminal growth rates		
	3%	4%	5%
Value per share (Rs.)	721	829	1001



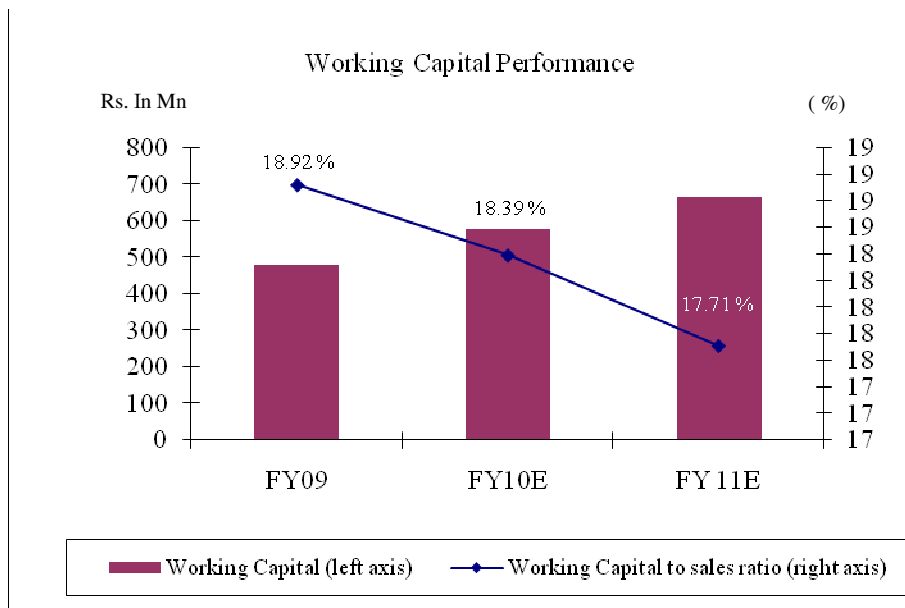
## INVESTMENT RATIONALE

- 1) Well positioning of the Jockey brand in mid premium and super premium segment** vis-a- vis is its competitors would drive future growth and gain market share.
- 2) Possible introduction of high margin products** (presently launched in USA) like Sleep Wear Products, Shape Wear Products for women in future due to improved lifestyle will act as value accretive and future growth driver.
- 3) Economies of scale from increased capacity:** Operating efficiencies would result from increased capacity from 54 mn pieces to 67.90 mn pieces in FY 09. Also, currently company is manufacturing garments on a Single shift basis, changing from single to double shift would drive the revenues for Page Industries in the coming years.
- 4) No further equity dilution or debt expansion on account of capex:** Company has completed capacity, sufficient to meet the growth in demand for another 2/3 years. Further capacity expansion will only result in expenditure on installation of additional machines and manpower. As a result company's ability to generate revenues from its fixed assets will improve. The fixed asset turnover ratio of the company has improved from 3.99 times in FY 08 to 4.23 times in FY 09 and is further projected to improve 6.81 in FY 11. PIL will also enjoy a lower interest burden as it has capital light business model.
- 5) Improved interest coverage:** PIL interest coverage ratio has improved from 9.85 times in FY 08 to 14.19 times in FY 09 and is expected to improve further in coming years.
- 6) Extension of License Agreement to open new markets for PIL:** Extension of agreement by Jockey Inc. for the next 20 years till 2030 will eliminate the risk of Page Industries losing the licensee rights for Jockey branded products. Recently inked 20 year agreement to grant PIL access to Middle East market. Jockey International Inc has extended license agreement for next 20 years till 2030. The new agreement will permit PIL as an exclusive licensee for Jockey products in Middle East.

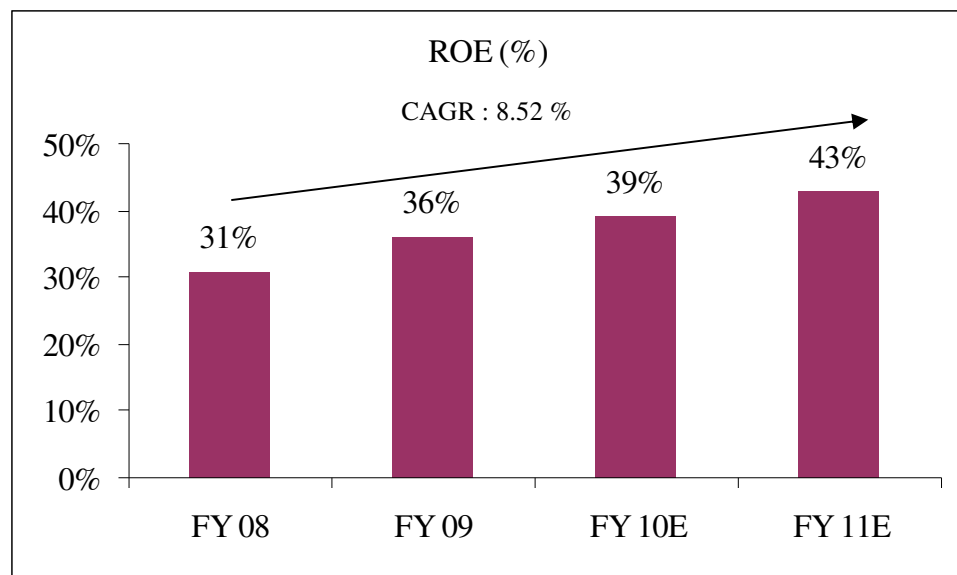




**6) Improved Working Capital Performance.** Working capital performance of the company is likely to improve in the coming years on account of favourable Debtors and Creditors ratio. (Average collection period: 18 days and payable period of 35 days)



**7) Improving trends evident in ROE:** PIL's ROE is expected to improve at a CAGR of ~8.52% from 2008 to 2011E.





## VALUATION

At the CMP of Rs. 580 the stock trades at a P/E of 20x its FY 09 earnings , 17x FY 10E earnings (EPS – Rs. 34) and 13x FY 11E earnings (EPS –Rs.43). In the absence of any significant capex in coming years we do not expect any drag on cashflows. We have arrived at a DCF Value of Rs. 829 per share considering a 4% terminal growth rate. With due consideration to strong “Jockey” Brand, steady growth outlook for innerwear industry and 8.5% CAGR of ROE (FY08-FY11E) we recommend a “**Buy**” at the current market price. Our rating is based on P/E 18x FY 11E (EPS – Rs.43/-) with a price target of Rs.774/- on 12-18 months horizon.



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