

August 10, 2023

Page Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------------------|--------------------------------------|-------------------------------------|---|
| Long Term - Fund Based/ CC | 180.00 | 309.00 | [ICRA]AA+ (Stable); reaffirmed/ assigned for enhanced limits |
| Short Term – Non-Fund Based | 80.00 | 131.80 | [ICRA]A1+; reaffirmed/ assigned for enhanced limits |
| Short Term/Long-term – Non-Fund Based | 0.18 | 0.00 | -- |
| Total | 260.18 | 440.80 | |

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Page Industries Limited's (PIL) strong operational profile with a leading share in the domestic innerwear market, underpinned by its access to an established and well-known brand (Jockey) and pan-India multi-channel distribution network. While the company's performance moderated in FY2023, in line with the broader industry trend, the capital structure and coverage metrics continue to remain strong. Besides, calibrated expansion plans, efficient working capital management and minimal reliance on debt are expected to keep PIL's financial profile strong with healthy return metrics, a conservative capital structure and robust credit metrics.

The long-term rating, however, continues to be constrained by the segment and brand concentration risks resulting from PIL's presence in a small segment of the overall branded apparel industry, with a single brand accounting for most of its revenues. While the company has taken steps to diversify its product and brand profile by foraying into the swimwear segment through a tie-up with the Speedo brand since FY2012, its scale of operations in this segment remains modest. Notwithstanding the continued high segmental concentration, the company has reported some diversification in its product base with the share of men's innerwear in total sales declining to ~44% in FY2023 from ~54% in FY2019. Besides, PIL is exposed to the geographical concentration risk arising from the location of most of its labour-intensive manufacturing units in Karnataka. In this context, ICRA notes that the company is setting up a greenfield unit in Odisha to geographically diversify its manufacturing base, which is expected to become operational by Q4 FY2024. This is expected to help the company mitigate geographical concentration and associated risks to some extent.

The Stable outlook reflects ICRA's expectations that PIL's strong operational profile and continued focus on expanding its geographical footprint will help it in clocking a healthy revenue growth and operating margins, despite intensifying competition. The resultant robust cash flow generation and minimal reliance on debt for funding expansion, as well as working capital requirements, are expected to keep the company's capitalisation and coverage indicators robust.

Key rating drivers and their description

Credit strengths

Leadership position in premium innerwear segment, aided by strong and established brand and pan-India distribution network – PIL is the exclusive licensee of US-based Jockey International Inc. (JII) for manufacturing and distributing the Jockey brand of innerwear and leisurewear in India, the United Arab Emirates (UAE), Sri Lanka, Republic of Maldives, Bangladesh, and Nepal. The company has a long association with JII since the commencement of its operations in 1994, with the current licence agreement valid till December 31, 2040. PIL derives the major portion (~99%) of its revenues from India. Jockey is distributed through an established pan-India multi-channel distribution network, encompassing over 1,20,000+ points of sale in around

2,850 cities. Supported by the strong distribution network and aspirational brand recall, Jockey has achieved a leadership position in the premium innerwear segment in the domestic market. It is the largest selling innerwear brand in the country in value terms, with a track record of industry-leading revenue growth and profitability.

Strong recovery following pandemic-led disruptions; robust financial profile – Supported by its established market position, PIL has witnessed a healthy revenue growth in the past decade (10-year CAGR of ~19%), while maintaining industry-leading profitability (return on capital employed or RoCE of 55-78% between FY2013 and FY2023). Despite slowdown in the overall retail demand for branded apparel and innerwear, the company recorded a healthy growth in FY2023. ICRA notes that the operating margins contracted by 220 bps in FY2023 due to lower volumes, which led to low fixed cost absorption in the factories. However, cost control measures have started materialising, which will lead to the recovery of the operating margin back to 18-20% level, going forward. Moreover, efficient working capital management helped PIL to enhance its liquidity position. Going forward, ICRA expects continued healthy demand in its key segments (innerwear) and continued focus on strengthening its distribution network to help in sustaining its double-digit growth trajectory. Despite capex plans in FY2024, healthy accrual generation and minimal reliance on debt are expected to keep its financial profile strong.

Favourable growth prospects for branded innerwear industry – Growth prospects for the branded innerwear segment remain healthy in the medium term, given India's favourable demographic profile. This augurs well for Jockey due to its strong and established brand recall and distribution network.

Credit challenges

High dependence on single brand and segment; geographical concentration of manufacturing facilities – While PIL has expanded its product portfolio over the years to offer a complete range of innerwear and leisurewear, it continues to be present in a small segment of the overall branded apparel industry, with a single brand (Jockey) accounting for most of its revenues (~99% of total revenues as of FY2023). While the company has taken steps to diversify its product as well as brand presence by venturing into the swimwear segment through a tie-up with Speedo brand, its scale remains modest. While its manufacturing capacities are spread across multiple manufacturing units, these remain concentrated in Karnataka. The resulting geographical concentration of its manufacturing base is a concern, given the highly labour-intensive nature of the industry with instances of labour-related troubles affecting operations of established players in the past. In this context, ICRA notes that the company is setting up a greenfield unit in Odisha to geographically diversify its manufacturing base, which is likely to be commissioned by the end of FY2024. This is expected to help the company mitigate the geographical concentration and associated risks to some extent.

High working capital intensity – PIL's operations are characterised by high working capital intensity (Net Working Capital/ Operating Income [NWC/OI] of ~23% as on March 31, 2023). This is mainly due to the high inventory holding (172 days as on March 31, 2023) as PIL had stocked up high raw material inventory during escalating cotton prices and converted the same into finished goods to leverage fixed costs/ capacities, which were stocked up at the distributor level, raising the inventory. However, as demand trends decelerated sharply in H2 FY2023, inventories piled up at the distributor level. This apart, enough raw materials and finished goods inventory need to be maintained to meet the pan-India requirements within a reasonable time frame. Nevertheless, ICRA draws comfort from the outright sale model followed by the company for most of its sales, which mitigates the risk of obsolete inventory due to unsold stock or sale returns. Further, ICRA notes that PIL's working capital requirements were met largely through internal accruals in FY2023 owing to a strong balance sheet. Moreover, PIL's working capital intensity is lower than other large domestic players in the innerwear segment. The risk of obsolete inventory/design is also relatively lower in case of innerwear items compared to the readymade garments.

Vulnerability to consumption trends and increasing competition – PIL's sales, growth prospects and in turn profitability and cash accruals, like other apparel retailers are linked to macro-economic conditions, consumer confidence and spending patterns. Besides, intensifying competition from the branded innerwear players with increased spending on brand building,

entry of foreign brands through the franchisee route and foray of large domestic branded garment manufacturers into the innerwear segment, will continue to have a bearing on PIL's growth prospects, going forward. Nevertheless, the company has an established track record of having fended off the competition in the past, which provides comfort.

Liquidity position: Strong

PIL's liquidity position continues to be strong, supported by healthy cash accrual generation capacity of the business vis-à-vis its margin requirements for capex and working capital, no term debt obligations and access to sizeable unutilised working capital facilities. The undrawn working capital limits and unencumbered cash balances stood at ~Rs. 309 crore and ~Rs. 90 crore, respectively, as on July 24, 2023.

Rating sensitivities

Positive factors – ICRA could upgrade PIL's rating if the company achieves a significant growth in scale, supported by its diversified product/ brand portfolio, widening geographical presence and increasing market share across the product segments, while maintaining strong return indicators, debt coverage metrics and liquidity profile.

Negative factors – ICRA could downgrade PIL's ratings if there is a sharp decline in its operating margins on a sustained basis or a sharp elongation in the working capital cycle, impacting its cash flows. Large and regular dividend payouts and/or large debt-funded capital expenditure/ acquisition, adversely impacting the company's capital structure and/or liquidity, could also trigger ratings downgrade. Specific credit metrics that may result in ratings downgrade include total debt/ OPBDITA of more than 1 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry – Apparels |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | The ratings are based on the standalone business and financial risk profiles of PIL |

About the company

Incorporated in 1994 by the Genomal family, PIL is the exclusive licensee of Jockey International Inc. USA, in India, the UAE, Sri Lanka, Republic of Maldives, Bangladesh, and Nepal, for manufacturing and distributing the Jockey brand of innerwear and leisurewear for men, women and kids. The Indian market, where Jockey enjoys the leadership position in the premium innerwear segment, accounts for the predominant share (99%) of its revenues. In India, the Jockey brand is distributed through a multi-channel distribution network of exclusive brand outlets (1,289 EBOs as on March 31, 2023), large format stores (LFS), multi-brand outlets (MBO), traditional hosiery stores and multi-purpose stores encompassing over 120,000+ points of sale in about 2,850+ cities.

PIL is also the exclusive licensee of Speedo International Ltd. UK for manufacturing, marketing and distributing of the Speedo brand in India. Products under the Speedo brand are available in 1,180+ stores across 90+ cities in India. Speedo's contribution to PIL's revenues has remained at less than 2% since 2012 (~1% in FY2023).

PIL's manufacturing capacities are spread over 2.20 million square feet across 14 locations in Karnataka and one in Tamil Nadu. At present, the promoter family holds about ~46% stake in the company.

Key financial indicators

| | FY2022 | FY2023 |
|--|---------|---------|
| Operating Income (Rs. crore) | 3,886.5 | 4,788.6 |
| PAT (Rs. crore) | 536.5 | 571.2 |
| OPBDIT/OI (%) | 20.2% | 18.0% |
| PAT/OI (%) | 13.8% | 11.9% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.9 | 1.0 |
| Total Debt/OPBDIT (times) | 0.1 | 0.5 |
| Interest Coverage (times) | 24.4 | 20.9 |

Source: PIL

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

| Instrument | Type | Current rating (FY2024) | | | Chronology of Rating History for the past 3 years | | | | |
|--|--------------------------|--------------------------|---|-------------------------|---|-------------------------|------------------------------|------------------------------|--|
| | | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | | |
| | | | | Aug 10, 2023 | Jun 30, 2022 | -- | Mar 30, 2021 | Oct 23, 2020 | |
| 1 Long Term - Fund Based/ CC | Long-term | 309.00 | -- | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | -- | [ICRA]AA (Stable) | [ICRA]AA (Stable) | |
| 2 Short Term – Non-Fund Based | Short term | 131.80 | -- | [ICRA]A1+ | [ICRA]A1+ | -- | [ICRA]A1+ | [ICRA]A1+ | |
| 3 Short Term/Long-term – Non-Fund Based | Long-term and short term | -- | -- | -- | [ICRA]AA+ (Stable)/ [ICRA]A1+ | -- | [ICRA]AA (Stable)/ [ICRA]A1+ | -- | |
| 4 Long-term – Fund-based Facilities (Term loans) | Long-term | -- | -- | -- | -- | -- | -- | [ICRA]AA (Stable) | |
| 5 Long-term/ short-term unallocated facilities | Long-term and short term | -- | -- | -- | -- | -- | -- | [ICRA]AA (Stable)/ [ICRA]A1+ | |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-----------------------------|----------------------|
| Long Term - Fund Based/ CC | Simple |
| Short Term – Non-Fund Based | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Long Term - Fund Based/ CC | - | - | - | 309.00 | [ICRA]AA+ (Stable) |
| NA | Short Term – Non-Fund Based | - | - | - | 131.80 | [ICRA]A1+ |

Source: PIL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 71501100

jayanta@icraindia.com

Kaushik Das

+91 33 71501104

kaushikd@icraindia.com

Sahil Udani

+91 22 6114 3429

sahil.udani@icraindia.com

Geetika Mamtani

+91 20 66069915

geetika.mamtani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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