

October 07, 2024

Page Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based/ cash credit	309.00	254.00	[ICRA]AA+ (Stable); reaffirmed
Short term – non-fund based	131.80	81.80	[ICRA]A1+; reaffirmed
Total	440.80	335.80	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings on the bank lines of Page Industries Limited (PIL) considers the expected improvement in the company's operational and financial performances over the medium term on the back of its 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 PIL's operating income moderated by ~3% on a YoY basis to Rs. 4,581 crore in FY2024, its operating margins improved by 70 bps to 19%, with various cost-cutting measures undertaken by the entity. PIL had moderated its production volumes in FY2024 for reducing its inventory holding. Going forward, with an expected improvement in demand, the entity intends to increase its manufacturing volumes to support the rise in sales volumes. The capital structure and coverage metrics continue to remain strong, as reflected by total debt to operating profit of 0.2 times and an interest coverage of 19.4 times as on March 31, 2024, compared to 0.5 times and 20.9 times, respectively as on March 31, 2023. 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 ratings, however, continue 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 diversification in its product base with the share of men's innerwear in total sales declining to ~44% in FY2024 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. The company is setting up a greenfield unit in Odisha to geographically diversify its manufacturing base, which is expected to be operational from Q4 FY2025. While the company had planned to complete this capex by Q4 FY2024, the same had been deferred due to sluggishness in the overall demand environment. With this capex, the company is likely to mitigate geographical concentration and associated risks to some extent. The dividend outflow in the current fiscal is higher than the past and the recurring high dividend payouts would be a key monitorable.

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 intense competition. The resultant robust cash flow generation and minimal reliance on debt for funding its 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 the 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 1,04,000 points of sale in more than 2,700 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.

Robust financial profile – Supported by its established market position, PIL has witnessed a healthy revenue growth in the past decade (10-year CAGR of 14%), while maintaining industry-leading profitability (return on capital employed [RoCE] of 50-70% between FY2016 and FY2024). Owing to a weak demand environment in the innerwear segment, PIL's operating income moderated by ~3% on a YoY basis to Rs. 4,581 crore in FY2024. However, the operating margin improved by 70 bps in FY2024 with reduction in employee costs. Further, the cost control measures undertaken by PIL led to a recovery in the operating margin and is expected to remain at 18-20%, going forward. Moreover, efficient working capital management (as reflected by reduction in inventory holding to 137 days as on March 31, 2024 from 178 days as on March 31, 2023) helped PIL to improve its liquidity position. Going forward, ICRA expects continued healthy demand in its key segments (innerwear) and focus on strengthening its distribution network to support PIL's healthy growth trajectory. Despite capex plans of Rs. 180-230 crore in FY2025 towards the Odisha plant, upgradation and maintenance of machinery, 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 FY2024). 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 FY2025. This is expected to help the company mitigate the geographical concentration and associated risks to some extent.

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.

Environmental and Social Risks

Environmental considerations: The overall exposure to environmental risks remains low for the sector. Increase in raw material costs (mainly cotton, which is a water-intensive crop and production of the same is dependent on rainfall), could impact the margins of PIL. While these risks have not resulted in any material implication, policy actions towards waste management like recycling textiles could have cost implications for companies like PIL. Any disruption in measures taken for appropriate treatment of wastewater/effluents could result in significant penalties, while also having a prolonged, adverse impact on operations, if the authorities take any strict action.

Social considerations: Increasing usage of customer data following growing penetration of e-commerce poses data privacy and legal risks for retail entities. The company ensures that employees handling sensitive and critical data are covered with all information security and data leakage prevention controls to mitigate IT risks. Being a manpower intensive segment, entities like PIL are exposed to the risks of business disruption due to inability to properly manage human capital in terms of their safety and overall well-being. Besides, human rights issues could pose social risks for the company. Measures taken by the company towards employee welfare have resulted in no material impact on the performance from the above-mentioned risks till date. As a retailer, the company is also subject to other social factors such as responsible sourcing, product, and supply chain sustainability, given the high reliance on external suppliers. The company continues to emphasise on social and environmental sustainability across its value chain.

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 and liquid balances stood at ~Rs. 254 crore and ~Rs. 513.2 crore, respectively, as on August 31, 2024. In FY2025, the company is planning to undertake a capex of Rs. 230 crore towards the upcoming plant in Odisha, upgradation and maintenance of machinery. Towards the same, it is planning to avail term debt for ~Rs.56 crore to part fund a portion of machinery purchase. The entity has no term debt, however, post considering the proposed debt, the repayment obligations are expected to be ~Rs. 19 crore in FY2026. Overall, ICRA expects PIL to be able to meet its near-term commitments through internal as well as external sources. However, any large payout towards recurring dividend could affect its liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade PIL's long-term 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 higher than 1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles (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. US, 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 (1,395 EBOs as on June 30, 2024), large format stores (LFS), multi-brand outlets (MBO), traditional hosiery stores and multi-purpose stores encompassing over 1,04,000 points of sale in more than 2,700 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 764 stores across 150+ cities in India. Speedo's contribution to PIL's revenues remained at less than 2% since 2012 (~1% in FY2024).

PIL's manufacturing capacities are spread over 2.20 million square feet across 15 locations in Karnataka and one in Tamil Nadu. At present, the promoter family holds ~45% stake in the company as on June 30, 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	4,714.2	4,581.7	1,277.5
PAT	571.2	569.2	165.2
OPBDIT/OI	18.3%	19.0%	19.0%
PAT/OI	12.1%	12.4%	12.9%
Total outside liabilities/Tangible net worth (times)	1.0	0.7	-
Total debt/OPBDIT (times)	0.5	0.2	-
Interest coverage (times)	20.9	19.4	20.8

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Oct 7, 2024	Aug 10, 2023	Jun 30, 2022	--
1	Fund based/ CC	Long-term	254.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	--
2	Non-fund based	Short term	81.80	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--
3	Non-fund based	Long-term/ short term	--	--	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	--

Complexity level of the rated instruments

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	-	-	-	254.00	[ICRA]AA+ (Stable)
NA	Short Term – Non-Fund Based	-	-	-	81.80	[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

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