March 30, 2021

Page Industries Limited: Ratings reaffirmed at [ICRA]AA(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Facilities	369.83	180.00	[ICRA]AA(Stable); reaffirmed
Short-term Non-fund Based Limits	80.00	80.00	[ICRA]A1+; reaffirmed
Long-term/ Short-term Non-fund Based Facilities	--	0.18	[ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term Unallocated Facilities	11.40	--	--
Total	**461.23**	**260.18**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to derive strength from 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. PIL's financial profile remains robust characterised by its strong profitability, conservative capital structure and healthy debt coverage indicators. Despite the pandemic-led disruptions in the current fiscal and the consequent impact on overall retail demand for branded apparel and innerwear, PIL has demonstrated strong recovery with healthy volumetric growth in Q3 FY2021. Increased traction in its athleisure segment and surge in online retail sales facilitated the recovery, which together with savings on opex spends supported an improvement in its profitability. This apart, reduced discretionary spends on capex and efficient working capital management helped in enhancing its strong liquidity position, while also pre-paying its entire term loan borrowings.

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 its foray into the swimwear segment through a tie-up with the Speedo brand since FY2012, its scale of operations in this segment remains modest. Besides, PIL is exposed to the geographical concentration risk arising from the location of all its labour-intensive manufacturing units in Karnataka. While ICRA notes that the company is planning to set up greenfield capacities at other locations to geographically diversify its manufacturing base, the capex is at a nascent stage at present. In this context, its extensive focus on labour management provides comfort.

The Stable outlook reflects ICRA's expectation that PIL's strong operational profile and continued focus on increasing its geographical footprint will help in revenue growth with healthy operating margins, despite the intensifying competition. The resultant minimal reliance on debt for funding expansion, as well as working capital requirements, is 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 manufacture and distribution of 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-standing association with JII since the commencement of its operations in 1994, with the

current licence agreement being valid up to December 31, 2040. PIL derives a major portion (~99%) of its revenues from India. Jockey is distributed through an established pan-India multi-channel distribution network, encompassing over 72,300+ points of sale in about 2,900 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 trajectory, following pandemic-led disruptions; robust financial profile – Supported by its established market position, PIL has delivered healthy revenue growth in the past decade (10-year CAGR of ~24%), while maintaining industry-leading profitability (return on capital employed or RoCE of over 55-60% in FY2012-2020). Despite the pandemic-led disruptions in the current fiscal and the consequent impact on overall retail demand for branded apparel and innerwear, the company recorded strong recovery with healthy volumetric growth in Q3 FY2021. Increased traction in its athleisure segment and surge in online retail sales facilitated the recovery, which together with savings on opex spends supported an improvement in its profitability. Moreover, reduced discretionary spends on capex and efficient working capital management helped PIL in enhancing its liquidity position, while pre-paying its term loan borrowings. Going forward, ICRA expects continued revival in demand in its key segments (innerwear), sustained growth in the athleisure segment, and continued focus on strengthening its distribution network to help in sustaining its growth trajectory. Despite plans to revive capex spending in FY2022, steady accrual generation and minimal reliance on debt are expected to keep its financial profile strong.

Favourable growth prospects for branded innerwear industry – Like the broader branded-apparel 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 aspirational brand recall.

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 accounting for most of its revenues. 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. Further, 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. While ICRA notes that the company is planning to set up greenfield capacities at other locations to geographically diversify its manufacturing base, the capex remains at a nascent stage. In this context, its extensive focus on labour management provides comfort.

High working capital intensity – PIL's operations are characterised by high working capital intensity (Net Working Capital/ Operating Income or NWC/OI of ~13 to 20%). This is mainly due to the high inventory holding requirements of the business (130 days as on March 31, 2020 and 117 days as on September 30, 2020), as the manufacturing cycle is long and the number of stock keeping units (SKUs) is large. As a result, enough raw material and finished goods inventory need to be maintained to meet the pan-India requirements in 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 intensity is lower compared to other large domestic players in the innerwear segment. The risk of obsolete inventory/design is also relatively low 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-a-vis margin requirements for capex and working capital, as well as access to sizeable unutilised working capital facilities. The undrawn working capital limits and unencumbered cash balances stood at ~Rs. 172 crore and ~Rs. 409 crore, respectively, as on September 30, 2020.

Rating sensitivities

Positive factors – ICRA could upgrade PIL's ratings if the company achieves a significant growth in scale, supported by enhanced product/ brand portfolio and/or geographical presence (for manufacturing base) and increasing market share across product segments, while maintaining strong return metrics.

Negative factors – Negative pressure on PIL's ratings could arise if, for reasons including a change in the industry conditions or terms of agreement with Jockey International Inc., there is a sharp decline in operating margins on a sustained basis or a sharp elongation in working capital cycle impacting the cash flows. Any large debt-funded capital expenditure or acquisition adversely impacting the capital structure (resulting in total debt/ OPBDITA exceeding 1.5 times on a sustained basis) and/or liquidity or large and regular dividend payouts resulting in increased dependence on debt could also be downgrade triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Apparels Liquidity Analysis of Entities in the Non-Financial Sector
Parent/Group Support	None
Consolidation/Standalone	The ratings are based on the standalone business and financial risk profile of PIL

About the company

Incorporated in 1994 by the Genomal family, Page Industries Limited (PIL) is the exclusive licensee of Jockey International Inc. USA, in India, the UAE, Sri Lanka, Republic of Maldives, Bangladesh, and Nepal, for manufacture and distribution of the Jockey brand of innerwear and leisurewear for men, women and kids. The Indian market, wherein Jockey enjoys leadership position in the premium innerwear segment, accounts for a predominant share (99%) of its revenues. In India, the Jockey brand is distributed through a multi-channel distribution network of exclusive brand outlets (873 EBOs as on February 10, 2021), large format stores (LFS), multi-brand outlets (MBO), traditional hosiery stores and multi-purpose stores encompassing over 72,300+ points of sale in about 2,900+ cities.

PIL's manufacturing capacities are spread over 2.40 million square feet across 15 locations in Karnataka. The Genomal family has been associated with Jockey International Inc. for about six decades. At present, the promoter family holds about 48% stake in the company.

Key financial indicators (audited)

	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	2,852.2	2,945.4	1,952.2
PAT (Rs. crore)	393.9	343.2	225.0
OPBDIT/OI (%)	21.7%	18.1%	18.3%
PAT/OI (%)	13.8%	11.7%	11.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8	NA
Total Debt/OPBDIT (times)	0.1	0.1	NA
Interest Coverage (times)	35.9	15.5	15.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: PIL's financial statements
**Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Effective from April 1, 2019, PIL has adopted Ind AS 116: "Leases" for all its long-term lease contracts existing on April 1, 2019. The comparatives for the prior years have not been restated.

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2021 (Rs. crore)	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 30, 2021	Oct 23, 2020	Dec 20, 2019	Dec 4, 2018	Nov 14, 2017
1	Long-term – Fund-based Facilities (Cash Credit)	LT	180.00	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Long-term – Fund-based Facilities (Term loans)	LT	--	--	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Short-term non-fund-based limits	ST	80.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long-term/ Short-term Non-fund-based facilities	LT/ST	0.18	--	[ICRA]AA (Stable)/ [ICRA]A1+	--	--	--	--
5	Long-term/ short-term unallocated facilities	LT/ST	--	--	--	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	--	--

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – fund-based facilities (Working Capital)	FY2020	-	-	180.00	[ICRA]AA (Stable)
NA	Short-term non-fund-based limits (Letter of Credit)	-	-	-	80.00	[ICRA]A1+
NA	Long-term/ Short-term Non-fund-based facilities (Bank Guarantee)	-	-	-	0.18	[ICRA]AA (Stable)/ [ICRA]A1+

Source: *Page Industries Limited*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Nidhi Marwaha
+91 124 4545 337
nidhim@icraindia.com

Annu Mendiratta
+91 124 4545 887
annu.mendiratta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.