June 30, 2022

Page Industries Limited: Long-term rating upgraded to [ICRA]AA+ (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	180.00	180.00	[ICRA]AA+ (Stable); upgraded from [ICRA] AA (Stable)
Short Term – Non-Fund Based	80.00	80.00	[ICRA]A1+; reaffirmed
Short Term/Long-term – Non-Fund Based	0.18	0.18	[ICRA]AA+(Stable)/ [ICRA]A1+; long-term rating upgraded from [ICRA]AA(Stable)/ short-term rating reaffirmed
Total	**260.18**	**260.18**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating upgrade factors in the robust performance of Page Industries Limited (PIL) in FY2022 and expectation of healthy revenue growth and return metrics over the medium term, supported by favourable domestic demand prospects for branded innerwear and the company's widening distribution reach. 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 continue to derive strength from PIL's 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 reported a slowdown in FY2021 and Q1 FY2022 due to the pandemic, in line with the broader industry trend, increased traction in its athleisure segment and a surge in online retail sales facilitated a healthy recovery thereafter. Together with savings on operating expense spends, this translated into improved profit margins for the company in FY2022. This apart, limited capex outlays and efficient working capital management have helped the company 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 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 ~43% in FY2022 from ~55% in FY2019. Besides, PIL is exposed to the geographical concentration risk arising from the location of the majority 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 the end of FY2023. 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 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 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, the 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 110,000+ points of sale in about 2,800 cities. Supported by its 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-induced disruptions; robust financial profile – Supported by its established market position, PIL has achieved 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 over 55-78% between FY2012 and 2022). Despite the pandemic-induced disruptions in Q1 FY2022 and the consequent impact on the overall retail demand for branded apparel and innerwear, the company recorded a strong recovery with healthy volumetric growth in FY2022. Increased traction in the athleisure segment, expansion of distribution network and a surge in online retail sales facilitated the recovery, which together with savings on opex spends supported an improvement in its profitability. Moreover, efficient working capital management helped PIL in enhancing its liquidity position, while pre-paying its term loan borrowings. Going forward, ICRA expects that continued healthy demand in PIL's key segments (innerwear), a sustained growth in the athleisure segment, and continued focus on strengthening its distribution network would help in sustaining its growth trajectory. Despite the capex plans in FY2023, healthy 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 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 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 the Speedo brand, its scale remains modest. While its manufacturing capacities are spread across multiple 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 FY2023. 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 or NWC/OI of ~10% to 18%). This is mainly due to the high inventory holding requirements of the business (115 days as on March 31, 2022), 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 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 other 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 fending off 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 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. 180 crore and ~Rs. 283 crore, respectively, as on March 31, 2022.

Rating sensitivities

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

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, impact 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 be downgrade triggers. Specific credit metrics that may trigger 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, the 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 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 (1,131 EBOs as on March 31, 2022), large format stores (LFS), multi-brand outlets (MBO), traditional hosiery stores and multi-purpose stores encompassing over 1,10,000+ points of sale in about 2,800+ cities.

PIL is also the exclusive licensee of Speedo International Ltd. UK for manufacturing, marketing and distributing the Speedo brand in India. Products under the Speedo brand are available in 1,340+ stores across 90+ cities in India, including 25+ EBOs and 12 LFS. Speedo's contribution to PIL's revenues remained at less than 2% since 2012 (~0.44% in FY2022).

PIL's manufacturing capacities are spread over 2.40 million square feet across 14 locations in Karnataka and one in Tamil Nadu. The Genomal family has been associated with Jockey International Inc. for about six decades. At present, the promoter family holds about ~47% stake in the company.

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	2,833.0	3,886.5
PAT (Rs. crore)	340.6	536.5
OPBDIT/OI	18.6%	20.2%
PAT/OI	12.0%	13.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	17.7	24.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: PIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current rating (FY2023)			Chronology of Rating History for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of May 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jun 30, 2022	--	Mar 30, 2021	Oct 23, 2020	Dec 20, 2019
1	Long Term - Fund Based/ CC	Long-term	180.00	--	[ICRA]AA+ (Stable)	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Short Term – Non-Fund Based	Short term	80.00	--	[ICRA]A1+	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short Term/Long-term – Non-Fund Based	Long-term and short term	0.18	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	--	[ICRA]AA (Stable)/ [ICRA]A1+	--	--
4	Long-term – Fund-based Facilities (Term loans)	Long-term	--	--	--	--	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Long-term/ short-term unallocated facilities	Long-term and short term	--	--	--	--	--	[ICRA]AA (Stable)/ [ICRA]A1+	[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
Short Term/Long-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: www.icra.in

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	-	-	-	180.00	[ICRA]AA+ (Stable)
NA	Short Term – Non-Fund Based	-	-	-	80.00	[ICRA]A1+
NA	Short Term/Long-term – Non-Fund Based	-	-	-	0.18	[ICRA]AA+ (Stable)/ [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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