Page Industries Limited

December 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	240.0	240.0	[ICRA]AA (Stable); Reaffirmed
Short-term non-fund based	80.0	80.0	[ICRA]A1+; Reaffirmed
Total Bank Facilities	**320.0**	**320.0**	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to derive strength from PIL's strong operational profile with a leadership position in the domestic premium innerwear market and its robust financial profile characterised by industry-leading profitability, conservative capital structure and strong debt-coverage indicators. PIL's strong market position is aided by its access to an established brand (Jockey) having strong aspirational recall, and pan-India multi-channel distribution network. This coupled with the company's strong hold over design and manufacturing continues to support healthy revenue growth while maintaining industry-leading profitability. The resulting healthy cash accruals, despite large dividend payouts and working-capital intensive nature of company's operations, remain sufficient to fund the growth, thereby keeping the company's dependence upon debt low. The company is expected to continue to benefit from favourable growth prospects for the branded innerwear industry, though continued association with Jockey International Inc. on stable royalty terms will remain a rating sensitivity. In this context, ICRA takes a note of extension in PIL's license agreement with Jockey International Inc. till December 31, 2040.

The long-term rating, however, remains constrained by the product and asset-concentration risks resulting from PIL's presence in a small segment of the overall branded apparel industry with a single brand accounting for majority of its revenues and geographical-concentration of its labour-intensive manufacturing units. While the company has taken steps to diversify its product profile by entering into the swimwear segment through tie-up with Speedo brand, the scale remains modest. While reaffirming the ratings, ICRA has taken a note of intensifying competition in the company's target segment in the innerwear market due to increased focus of established domestic innerwear manufacturers on the premium segment, entry of foreign brands through franchisee route and foray of large domestic branded garment manufacturers into the innerwear segment. Nevertheless, PIL's track record of having fended off the competition in the past and extensive focus on labour management provides comfort.

Outlook: Stable

PIL's operational risk profile is expected to remain strong aided by strong brand recall and established multi-channel distribution network, which is likely to continue to aid healthy revenue growth, profitability and cash accruals, despite intensifying competition. Resultant minimal reliance on debt for funding expansion as well as working capital requirements is expected to keep capitalisation and coverage indicators robust. Accordingly, outlook on the long-term rating is stable. The outlook may be revised to 'Positive' if PIL achieves significant growth in scale supported by enhanced product/ brand portfolio and/or geographic presence, while maintaining strong profitability. The outlook may be revised to 'Negative' in case of sharp deterioration in working-capital cycle or profitability impacting the cash flows, besides any large debt-funded capital expenditure or acquisition impacting the capital structure and/or liquidity. In addition, disruptions in association with Jockey International Inc. or material revision in royalty terms, if any, will remain a rating sensitivity.

Key rating drivers

Credit strengths

Leadership position in the 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. 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. In India, which accounts for almost the entire portion (99%) of the company's revenues, Jockey brand is distributed through an established pan-India multi-channel distribution network, encompassing over 50,000 points of sale in about 1,800 cities. Supported by the strong distribution network and aspirational brand recall, Jockey has achieved 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 characterised by industry-leading profitability, conservative capital structure and strong liquidity and debt-coverage indicators: Supported by its strong market position, PIL has consistently delivered strong revenue growth, while maintaining industry-leading profitability (Return on Capital Employed or RoCE of over 60%). The resulting healthy cash flows, despite large dividend payouts and working-capital intensive nature of operations, remain sufficient to fund the growth, thereby minimising dependence upon debt. This has helped PIL consistently maintain a conservative capital structure (Total Debt/TNW of 0.1 times as of March 2018 and a peak Total Debt/TNW of 0.2 times during the past three years). Low leverage with limited debt repayments, coupled with strong profitability and limited capital expenditure are expected to continue to result in strong cash flows and debt-coverage indicators (expected Total Debt/OPBDITA of less than 0.1 times and interest cover of more than 30 times in FY2019). ICRA also notes that PIL's liquidity position remains strong with ample undrawn working capital limits and sizeable liquid investments (~Rs. 284 crore as on March 2018).

Favourable growth prospects for the branded innerwear industry: Like the broader branded-apparel industry, growth prospects for the branded innerwear segment remain healthy given the favourable demographic profile. This augurs well for 'Jockey' due to its strong and established aspirational brand recall.

Credit challenges

Product, brand and asset-concentration risks - While PIL has expanded its product portfolio over the years to offer 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. ICRA notes that the competition is also intensifying in this target segment due to increased focus of domestic innerwear manufacturers on the premium segment corroborated from their increased spending on brand-building, entry of foreign brands through franchisee route and foray of large domestic branded garment manufacturers into the innerwear segment. The concerns are heightened by the company's dependence on a single brand – 'Jockey', which accounts for ~98% 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 tie-up with Speedo brand, its scale remains modest. Further, while PIL has manufacturing capacities spread across multiple manufacturing units, these remain concentrated in Karnataka. The resulting asset concentration 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. Nevertheless, PIL's track record of having fended off the competition in the past and extensive focus on labour management with low attrition rate despite large employee base provides comfort.

High working-capital intensity; but lower than that of competitors: PIL's operations are characterised by high working-capital intensity (Net Working Capital/ Operating Income or NWC/OI of 23% as of March 31, 2018) due to the high inventory holding requirements of the business (125 days as of March 2018). The high inventory level is because of the nature of the business, wherein 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. Also, the risk of obsolete inventory/design is relatively low in case of innerwear items compared to the readymade garments.

Liquidity Position

PIL's liquidity position remains strong aided by healthy cash flows, low debt repayment burden, ample undrawn working capital lines and sizeable liquid investments (~Rs. 284 crore as on March 2018).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry – Apparels
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the company

Incorporated in 1994 by the Genomal family, PIL is the exclusive licensee of the US-based Jockey International Inc. 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 most (99%) of the company's revenues. In India, Jockey brand is distributed through a multi-channel distribution network of exclusive brand outlets, large-format stores, multi-brand outlets, traditional hosiery stores and multi-purpose stores encompassing over 50,000 points of sale in about 1,800 cities. PIL is also the exclusive licensee of Speedo International Limited, UK for manufacture, marketing and distribution of the Speedo brand in India. Products under the Speedo brand are available in around 1,352 stores across 152 cities in India in India and contribute about 2% of PIL's sales.

PIL's manufacturing capacities are spread over 2.40 million square feet across 17 locations in Karnataka. The Genomal family has been associated with Jockey International Inc. for about six decades as their sole licensee in the Philippines. At present, the promoter family holds about 48% stake in the company.

Key financial indicators (Audited)

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	2,136.6	2,559.1	1,506.0
PAT (Rs. crore)	266.3	347.0	217.1
OPBDIT/ OI (%)	19.8%	21.4%	22.1%
RoCE (%)	60.8%	66.9%	NA
Total Debt/ TNW (times)	0.1	0.1	0.1
Total Debt/ OPBDIT (times)	0.2	0.1	0.1
Interest coverage (times)	21.7	32.1	41.6

Source: PIL's Annual Reports and Financial Statements, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Dec 2018	Nov 2017	-	-
1	Fund-based	LT	240.0	68.5*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
2	Non-fund-based	ST	80.0	-	[ICRA]A1+	[ICRA]A1+	-	-

**as on March 31, 2018*

Note: LT: Long-term, ST: Short-term

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
-	Term loan 1	Jan 2014	-	Jan 2019	4.5	[ICRA]AA (Stable)
-	Term loan 2	Sep 2014	-	Sep 2019	7.5	[ICRA]AA (Stable)
-	Term loan 3	Aug 2014	-	Jan 2020	4.6	[ICRA]AA (Stable)
-	Term loan 4	May 2017	-	May 2022	9.1	[ICRA]AA (Stable)
-	Term loan 5	Aug 2017	-	Oct 2021	4.8	[ICRA]AA (Stable)
-	Term loan 6	Jan 2018	-	Jan 2022	4.5	[ICRA]AA (Stable)
-	Term loan 7	Dec 2017	-	Jun 2022	5.7	[ICRA]AA (Stable)
-	Term loan 8	Oct 2017	-	Mar 2022	2.9	[ICRA]AA (Stable)
-	Term loan 9	Oct 2017	-	Mar 2022	10.1	[ICRA]AA (Stable)
-	Term loan 10	May 2018	-	Oct 2022	4.6	[ICRA]AA (Stable)
-	Term loan 11	May 2018	-	Oct 2020	1.7	[ICRA]AA (Stable)
-	Cash credit	-	-	-	180.0	[ICRA]AA (Stable)
-	Letter of credit	-	-	-	80.0	[ICRA]A1+

Source: Page Industries Limited

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

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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.

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