November 14, 2017

# Page Industries Limited

**Summary of rated instruments**

| Instrument* | Rated Amount (in Rs. crore) | Rating Action |
|---|---|---|
| Long-term fund-based bank facilities | 240.0 | [ICRA]AA(Stable); Assigned |
| Short-term non-fund based bank facilities | 80.0 | [ICRA]A1+; Assigned |
| Total Bank Facilities | **320.00** | |

*Instrument details are provided in Annexure-1

**Rating action**

ICRA has assigned the long-term and short-term ratings of [ICRA]AA (pronounced ICRA double A)[1] and [ICRA]A1+ (pronounced ICRA A one plus), respectively for the Rs. 320.00-crore[2] bank facilities of Page Industries Limited (PIL). The outlook on the long-term rating is Stable.

**Rationale**

The ratings 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 has supported strong revenue growth on a consistent basis while maintaining industry-leading profitability. The resulting healthy cash accruals, despite large dividend payouts and working-capital intensive nature of company's operations, have been sufficient to fund the strong growth, thereby minimising the company's dependence upon debt.

PIL has consistently maintained a conservative capital structure with Total Debt/TNW of ~0.13 times as of March, 2017. Low leverage with limited debt repayments coupled with strong profitability and limited capital expenditure is expected to continue to result in strong cash flows and debt-coverage indicators. The company is also 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.

The ratings are 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. Also, ICRA notes that the competition is intensifying in the company's target segment 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. 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.

In ICRA's view, any sharp deterioration in working-capital cycle or profitability impacting the cash flows will remain a rating sensitivity besides any large debt-funded capital expenditure or acquisition, impacting the capital structure and/or liquidity. Significant growth in scale supported by enhanced product portfolio and/or geographic presence, while maintaining strong profitability can further strengthen the credit profile.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

[2] 100 lakh = 1 crore = 10 million

## 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 1,600 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 consistent 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 (~50% of net profits) and working-capital intensive nature of operations, have been sufficient to fund the strong growth, thereby minimising dependence upon debt. PIL has consistently maintained a conservative capital structure with Total Debt/TNW of ~0.13 times as of March, 2017 (peak Total Debt/TNW of 0.4 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 0.2 times and interest cover of more than 25.0 times in FY2018).

- **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 and low penetration of the organised retail market. This augurs well for 'Jockey' due to its strong and established aspirational brand recall.

### Credit weaknesses

- **Product 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 a majority 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 with high expenditure on brand-building, entry of foreign brands through franchisee route and large domestic branded garment manufacturers' foray into the innerwear segment. 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 (~20,000) provides comfort.

- **High working-capital intensity; but lower than that of competitors** – PIL's operations are characterised by high working-capital intensity (NWC/OI of 23% as of March, 2017) due to the high inventory holding period (164 days as of March, 2017). 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, sufficient 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. 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.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**
Corporate Credit Rating Methodology
Rating Methodology for Indian Textiles Industry– Apparels

**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 a major portion (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 1,600 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 1,100 stores across 106 cities 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 49% stake in the company.

## Key financial indicators

| | FY2016 | FY2017 | Q1FY2018 |
|---|---|---|---|
| Operating Income (Rs. crore) | 1,799.1 | 2,136.6 | 696.9 |
| PAT (Rs. crore) | 231.5 | 266.3 | 85.3 |
| OPBDITA/ OI (%) | 21.2% | 19.8% | 19.6% |
| RoCE (%) | 60.3% | 60.8% | NA |
| | | | |
| Total Debt/ TNW (times) | 0.2 | 0.1 | NA |
| Total Debt/ OPBDIT (times) | 0.2 | 0.2 | NA |
| Interest Coverage (times) | 20.2 | 21.7 | 30.7 |
| NWC/ OI (%) | 22.7% | 22.9% | |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in Progress); NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:**

**Table:**

| S. No. | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Rated amount (Rs. crore) | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | | | | Nov 2017 | - | - | - |
| 1 | Long-term fund-based | Long-term | 240.0 | [ICRA]AA (Stable) | - | - | - |
| 2 | Short-term non-fund based | Short-term | 80.0 | [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 | Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Current Rating |
|---|---|---|---|---|---|---|
| - | Term loan 1 | - | - | Jan 2019 | 4.5 | [ICRA]AA (Stable) |
| - | Term loan 2 | - | - | Sep 2019 | 7.5 | |
| - | Term loan 3 | - | - | Jan 2020 | 4.6 | |
| - | Term loan 4 | - | - | May 2022 | 9.1 | |
| - | Term loan 5 | - | - | Oct 2021 | 4.8 | |
| - | Term loan 6 | - | - | Jan 2022 | 4.5 | |
| - | Term loan 7 | - | - | Jun 2022 | 5.7 | |
| - | Term loan 8 | - | - | Mar 2022 | 2.9 | |
| - | Term loan 9 | - | - | Mar 2022 | 10.1 | |
| - | Term loan 10 | - | - | Oct 2022 | 4.6 | |
| - | Term loan 11 | - | - | Oct 2020 | 1.7 | |
| - | Cash credit | - | - | - | 180.0 | |
| - | Letter of credit | - | - | - | 80.0 | [ICRA]A1+ |

*Source: PIL*

## Name and contact details of Rating Analyst(s):

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

**Deep Inder Singh**
+91 124 4545 830
deep.singh@icraindia.com

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

## Relationship Contact:

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@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**

**Registered Office**
**ICRA Limited**
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**
**Mr. Vivek Mathur**
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

| | |
|---|---|
| **Mumbai**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>3rd Floor, Electric Mansion<br>Appasaheb Marathe Marg, Prabhadevi<br>Mumbai—400025,<br>Board : +91-22-61796300; Fax: +91-22-24331390 | **Kolkata**<br>**Mr. Jayanta Roy**<br>Mobile: **+91 9903394664**<br>Email: jayanta@icraindia.com<br><br>A-10 & 11, 3rd Floor, FMC Fortuna<br>234/3A, A.J.C. Bose Road<br>Kolkata—700020<br>Tel +91-33-22876617/8839 22800008/22831411,<br>Fax +91-33-22870728 |
| **Chennai**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>5th Floor, Karumuttu Centre<br>634 Anna Salai, Nandanam<br>Chennai—600035<br>Tel: +91-44-45964300; Fax: +91-44 24343663 | **Bangalore**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>'The Millenia'<br>Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,<br>Murphy Road, Bangalore 560 008<br>Tel: +91-80-43326400; Fax: +91-80-43326409 |
| **Ahmedabad**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>907 & 908 Sakar -II, Ellisbridge,<br>Ahmedabad- 380006<br>Tel: +91-79-26585049, 26585494, 26584924; Fax:<br>+91-79-25569231 | **Pune**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range<br>Hills Road, Shivajinagar,Pune-411 020<br>Tel: + 91-20-25561194-25560196; Fax: +91-20-<br>25561231 |
| **Hyderabad**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj<br>Bhavan Road, Hyderabad—500083<br>Tel:- +91-40-40676500 | |