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White Goods

Q1FY20 result review
and reco change

Target price Rs6,668

Earnings revision

(%)	FY20E	FY21E
Sales	↓ 1.5	↓ 2.8
EBITDA	↓ 2.7	↓ 6.4
PAT	↓ 2.4	↓ 7.6

Target price revision

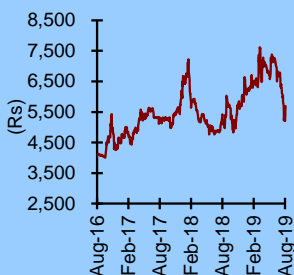
Rs6,668 from Rs7,152

Shareholding pattern

(%)	Dec '18	Mar '19	Jun '19
Promoters	70.4	70.4	70.4
Institutional investors	18.5	18.8	19.0
MFs and others	8.9	8.8	8.8
Banks/Ins. Co.	0.0	0.0	0.0
FII	9.6	10.0	10.2
Others	11.1	10.8	10.6

Source: BSE

Price chart



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INDIA

TTK Prestige

ADD

Upgrade from Hold

Weak quarter; fundamentals remain intact

Rs6,026

TTK Prestige (TTK) reported a weak 3.5% growth in revenues in Q1FY20 owing to tepid demand conditions, especially in the rural segment. EBITDA margin declined 27bps YoY to 13%. However, barring the direct rural business (7-8% of sales) and absent a big institutional order which was there in Q1FY19, the aggregate growth was 17% in Q1FY20. TTK remains focussed on channel and product diversification, which should yield results in tandem with eventual demand recovery. Channel tightening measures to institutionalise more control on secondary sales is a long-term positive step. We upgrade the stock to ADD from *Hold* with a revised target price of Rs6,668 (earlier: Rs7,152) based on 35x FY21E P/E (DCF earlier).

- ▶ **Weak Q1FY20 performance driven by macros.** TTK attributed the weak 3.5% topline growth to general slowdown in the economy amidst liquidity issues, which has been more pronounced for the rural sector, a key thrust area for TTK. This has been compounded by delayed monsoons. Cooker segment was impacted the most with a 7% YoY decline while cookware/appliances/others grew by 5%/10%/12% respectively. Horwood (UK subsidiary) continued to be impacted (7% YoY decline in sales) from economic uncertainty in the UK surrounding Brexit.
- ▶ **17% YoY growth ex-rural and one-off big institutional order in Q1FY19 is encouraging.** As per the management, barring the direct rural business (7-8% of sales) and absent big institutional order which was there in Q1FY19, the aggregate growth was 17% YoY in Q1FY20. This essentially underlines that company-specific efforts of the sales channel and product diversification continues to yield results, especially considering that TTK has not reduced prices unlike competition.
- ▶ **Robust long-term growth outlook:** Management plans to double the company's domestic revenues over next five years capitalising on both organic and inorganic growth opportunities. Increased demand for kitchen products in rural markets with addition of 80mn new kitchens under the government's *Ujwala Yojana* and new product categories are expected to drive growth. Additional capacity will come into effect in FY20, which should help launch 120 SKUs during the year. Also, the rural segment (7-8% mix) will continue to grow much faster (100% growth was witnessed in FY19) in the long term. *Prestige Xclusive* chain increased to 574 stores, contributing significantly to total sales, and the company will keep adding 75-100 stores ever year.
- ▶ **Upgrade to ADD with a target price of Rs6,668 based on 35x FY21E PE.** We now factor-in ~13.5% topline growth with ~14.5% EBITDA margin for TTK in FY20E/FY21E. This builds-in a gradual business recovery over the remainder of FY20 driven by new launches and channel diversification. TTK continues to possess a long term 15% growth potential with 15% EBITDA margin.

Market Cap	Rs83bn/US\$1.2bn	Year to March	FY18	FY19	FY20E	FY21E
Reuters/Bloomberg	TTKL.BO/TTKPT IN	Revenue (Rs mn)	18,714	21,069	23,961	27,217
Shares Outstanding (mn)	13.9	Net Income (Rs mn)	1,689	1,924	2,317	2,641
52-week Range (Rs)	7620/4829	EPS (Rs)	146.1	166.4	167.1	190.5
Free Float (%)	29.6	% Chg YoY	10.1%	13.9%	0.5%	14.0%
FII (%)	10.2	P/E (x)	41.3	36.2	36.1	31.6
Daily Volume (US\$'000)	741	CEPS (Rs)	168.2	189.3	188.4	215.2
Absolute Return 3m (%)	(8.0)	EV/E (x)	27.1	22.9	19.3	16.8
Absolute Return 12m (%)	16.7	Dividend Yield	0.5%	0.5%	1.4%	1.7%
Sensex Return 3m (%)	0.8	RoCE (%)	15.7	15.9	18.1	19.5
Sensex Return 12m (%)	0.1	RoE (%)	17.6	19.1	20.2	22.1

Please refer to important disclosures at the end of this report

Table 1: Q1FY20 result review

(Rs mn)

	Jun-19	Jun-18	% chg YoY	Mar-19	% chg QoQ
Net revenue	4,336	4,189	3.5	4,449	(2.5)
Cost of goods sold	2,494	2,383	4.7	2,576	(3.2)
Employee Cost	394	377	4.6	432	(8.8)
Other expenditure	886	875	1.3	799	10.8
Total expenditure	3,773	3,634	3.8	3,807	(0.9)
EBITDA	563	555	1.4	642	(12.3)
Other income	64	47	36.3	79	(19.0)
Depreciation	71	63	13.1	67	4.9
Finance Expenses	4	3	22.6	4	(7.3)
PBT	552	536	3.0	649	(14.9)
Less: Provision for Tax	187	177	5.9	211	(11.1)
Adjusted PAT	365	359	1.6	438	(16.7)
EPS	31.5	31.1	1.6	37.9	(16.7)
EBITDA margin (%)	13.0	13.2	-27bps	14.4	-144bps
Gross margin (%)	42.5	43.1	-62bps	42.1	39bps
Tax rate (%)	33.9	33.0	92bps	32.5	144bps
NPM (%)	8.4	8.6	-16bps	9.8	-144bps

Source: Company data, I-Sec research

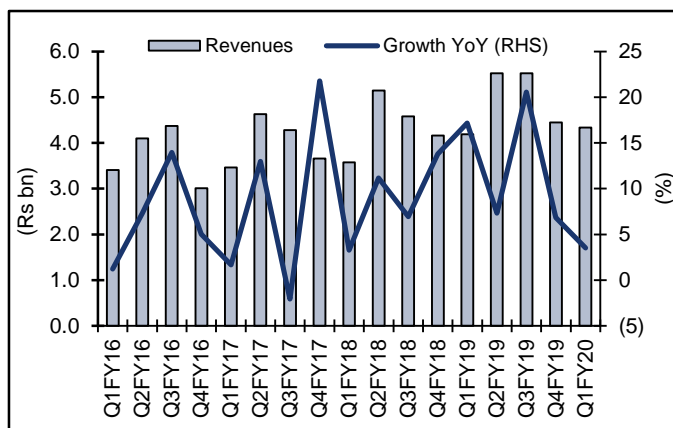
Table 2: Segmental revenue breakup

(Rs mn)

	Jun-19	Jun-18	% chg YoY	Mar-19	% chg QoQ
Cookers	1,399	1,501	(6.8)	1,380	1.3
Cookware	646	614	5.1	655	(1.5)
Appliances	2,151	1,948	10.4	2,231	(3.6)
Others	141	126	12.2	182	(22.7)
Total Gross Sales	4,336	4,189	3.5	4,449	(2.5)

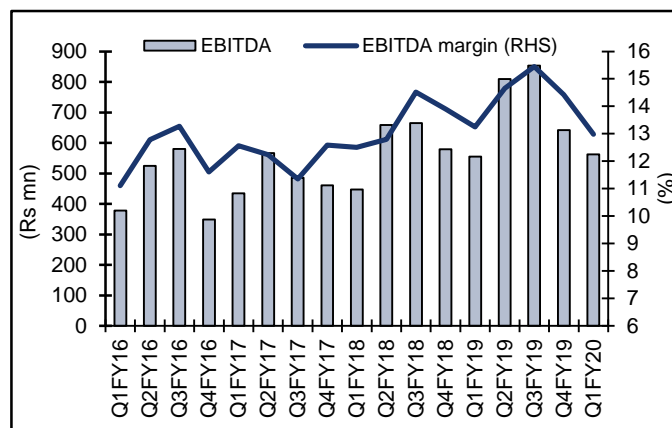
Source: Company data, I-Sec research

Chart 1: Net revenue growth of 3.5% YoY



Source: Company data, I-Sec research

Chart 2 EBITDA margin down 27bps YoY to 13.0%



Source: Company data, I-Sec research

Change in earnings and valuations

We have moderated our growth assumptions along with margins in line with the current demand slowdown and factoring-in the weak Q1FY20 performance.

We upgrade the stock to **ADD** from **Hold** with a revised target price of Rs6,668 (earlier: Rs7,152) based on 35x FY21E P/E (DCF earlier).

Table 3: Earnings revision

(Rs mn)

	FY20E			FY21E		
	Revised	Old	% chg	Revised	Old	% chg
Sales	23,961	24,324	(1.5)	27,217	27,989	(2.8)
EBITDA	3,435	3,529	(2.7)	3,954	4,224	(6.4)
PAT	2,317	2,374	(2.4)	2,641	2,859	(7.6)
TP (Rs)				6,668	7,152	(6.8)

Source: I-Sec research

Financial summary

Table 4: Profit & loss statement
(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Operating Income (Sales)	18,714	21,069	23,961	27,217
Operating Expenses	16,239	18,149	20,526	23,263
EBITDA	2,474	2,920	3,435	3,954
<i>% margins</i>	13	14	14	15
Depreciation & Amortisation	256	265	295	342
Gross Interest	41	45	13	-
Other Income	124	252	280	300
Recurring PBT	2,302	2,863	3,407	3,912
Add: Extraordinaries	1,290	-	-	-
Less: Taxes	956	940	1,090	1,272
- Current tax	927	912	1,090	1,272
- Deferred tax	30	27	-	-
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,635	1,924	2,317	2,641
Recurring Net Income	1,689	1,924	2,317	2,641

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Assets				
Total Current Assets	9,079	9,374	9,839	10,679
<i>of which cash & cash eqv.</i>	<i>1,355</i>	<i>811</i>	<i>659</i>	<i>741</i>
Total Current Liabilities & Provisions	3,788	3,870	4,286	4,745
Net Current Assets	5,292	5,504	5,553	5,934
Investments				
<i>of which</i>	<i>1,671</i>	<i>1,919</i>	<i>1,919</i>	<i>1,919</i>
<i>Strategic/Group</i>	<i>2</i>	<i>264</i>	<i>264</i>	<i>264</i>
<i>Other Marketable</i>	<i>1,669</i>	<i>1,655</i>	<i>1,655</i>	<i>1,655</i>
Net Fixed Assets	3,640	3,948	4,328	4,844
<i>of which</i>				
<i>intangibles</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Capital Work-in-Progress</i>	<i>43</i>	<i>206</i>	<i>42</i>	<i>43</i>
Goodwill	1,303	1,278	1,278	1,278
Total Assets	11,905	12,649	13,078	13,975
Liabilities				
Borrowings	1,292	543	-	-
Deferred Tax Liability	417	443	443	443
Minority Interest	-	-	-	-
Equity Share Capital	116	116	139	139
<i>Face Value per share (Rs)</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>
Reserves & Surplus	10,081	11,547	12,496	13,393
Net Worth	10,197	11,663	12,634	13,532
Total Liabilities	11,905	12,649	13,078	13,975

Source: Company data, I-Sec research

Table 6: Quarterly trend
(Rs mn, year ending March 31)

Standalone	Sep-18	Dec-18	Mar-19	Jun-19
Net sales	5,523	5,520	4,449	4,336
% growth (YoY)	7.3	20.5	6.8	3.5
EBITDA	810	853	642	563
Margin (%)	14.7	15.5	14.4	13.0
Other income	64	66	79	64
Add: Extraordinaries	-	-	-	-
Net profit	538	568	438	365

Source: Company data

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Operating Cashflow	1,566	1,963	2,353	2,707
Working Capital Changes	(486)	(757)	(222)	(323)
Capital Commitments	61	(836)	(662)	(858)
Free Cashflow	1,140	370	1,469	1,525
Cashflow from Investing Activities	(797)	267	280	300
Issue of Share Capital	-	-	23	-
Buyback of shares	(700)	-	-	-
Inc (Dec) in Borrowings	160	(749)	(543)	-
Dividend paid	(416)	(416)	(1,390)	(1,743)
Extraordinary Items	1,290	-	-	-
Chg. in Cash & Bank balances	702	(545)	(152)	82

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY18	FY19	FY20E	FY21E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	146.1	166.4	167.1	190.5
Diluted Reported EPS	227.9	166.4	167.1	190.5
Recurring Cash EPS	168.2	189.3	188.4	215.2
Dividend per share (DPS)	30.0	30.0	83.6	104.8
Book Value per share (BV)	880.2	1,007.0	909.9	974.7
Growth Ratios (%)				
Operating Income	7.2	12.6	13.7	13.6
EBITDA	15.4	18.0	17.6	15.1
Recurring Net Income	9.1	13.9	20.5	14.0
Diluted Recurring EPS	10.1	13.9	0.5	14.0
Diluted Recurring CEPS	8.7	12.5	(0.5)	14.2
Valuation Ratios (x)				
P/E	41.3	36.2	36.1	31.6
P/CEPS	35.8	31.8	32.0	28.0
P/BV	6.8	6.0	6.6	6.2
EV / EBITDA	27.1	22.9	19.3	16.8
EV / Operating Income	3.6	3.2	2.8	2.4
EV / Operating FCF	62.1	55.5	31.2	27.8
Operating Ratios (%)				
Raw Material/Sales	57.8	57.9	57.9	57.9
SG&A/Sales	20.5	19.4	19.0	18.8
Other Income / PBT	5.4	8.8	8.2	7.7
Effective Tax Rate	26.6	32.8	32.0	32.5
NWC / Total Assets	33.1	37.1	37.4	37.2
Inventory Turnover (days)	79.7	78.7	74.7	71.0
Receivables (days)	46.2	48.8	48.3	46.0
Payables (days)	66.6	66.0	56.5	55.4
D/E Ratio (x)	0.2	0.1	0.0	0.0
Profitability Ratios (%)				
Rec.Net Income Margins	9.0	9.0	9.6	9.6
RoCE	15.7	15.9	18.1	19.5
RoNW	18.0	17.6	19.1	20.2
Dividend Payout Ratio	20.5	18.0	50.0	55.0
Dividend Yield	0.5	0.5	1.4	1.7
EBITDA Margins	13.2	13.9	14.3	14.5

Source: Company data, I-Sec research

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