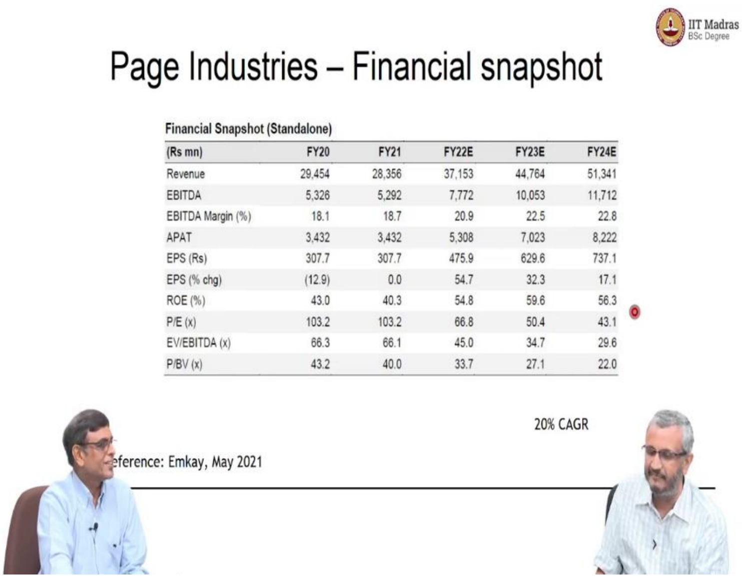
Business Data Management
Professor G. Venkatesh
Professor M Suresh Babu
Department of Humanities and Social Sciences
Indian Institute of Technology, Madras
Textile Industry – Page Industries

(Refer Slide Time: 00:13)



(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	29,454	28,356	37,153	44,764	51,341
EBITDA	5,326	5,292	7,772	10,053	11,712
EBITDA Margin (%)	18.1	18.7	20.9	22.5	22.8
APAT	3,432	3,432	5,308	7,023	8,222
EPS (Rs)	307.7	307.7	475.9	629.6	737.1
EPS (% chg)	(12.9)	0.0	54.7	32.3	17.1
ROE (%)	43.0	40.3	54.8	59.6	56.3
P/E (x)	103.2	103.2	66.8	50.4	43.1
EV/EBITDA (x)	66.3	66.1	45.0	34.7	29.6
P/BV (x)	43.2	40.0	33.7	27.1	22.0

Professor G. Venkatesh: So, now we can look at the next company- Page industries.

Professor M Suresh Babu: Which is from the textile industry.

Professor G. Venkatesh: It is a textile company. So, again, a quick snapshot. This time I have put the 5-year picture. Of course, there are three projected views, and two are previous records. Just, I mean, we could have put 16, 17, 18 also, but it just is enough. Will it show what is going on? So, you can basically see that between FY'20 and FY'21 not much change in revenue for Page. EBITDA margin also has not changed much. So, they have not been impacted that much by COVID. Of course, we can look at the quarterly picture. And moving forward, the EBITDA margin is going to improve slightly. But the revenue you see here is from 28 to 37,000 to 44,000 to 51,000. A considerable increase in revenue is being found.

Professor M Suresh Babu: That is an interesting projection that they have made.

Professor G. Venkatesh: Projection. Yeah. And its historical trend, if you look, it's like this; this kind of growth rate. And we will see their prices PAT, adjusted PAT, and the margin shortly. But adjusted PAT also basically is growing, which helps to increase the revenue.

Professor M Suresh Babu: So, is profit after tax growing?

Professor G. Venkatesh: Yeah. Profit after tax is also growing. And look at the return on equity for this company. So, the returned capital employed is slightly less. They have some debt, but more or less in this line with this. So, where it was 10 %. Here we see what it is- 40 % going up to 50 %, 56 %.

Professor M Suresh Babu: That is phenomenal.

Professor G. Venkatesh: Phenomenal. That is why also they get their valuations on prices, and you can see these are very high.

Professor M Suresh Babu: Very high. Yeah.

Professor G. Venkatesh: In the case of Ultratech also, it was high, but that was because the profits were depressed. Margins were depressed. People expect the margins to go up by 10 %, 15 %. Whereas, here it is high because people expect growth today.

Professor M Suresh Babu: Yeah. But this has been very interesting because the ROE is fairly high in this case.

Professor G. Venkatesh: ROE is just on equity.

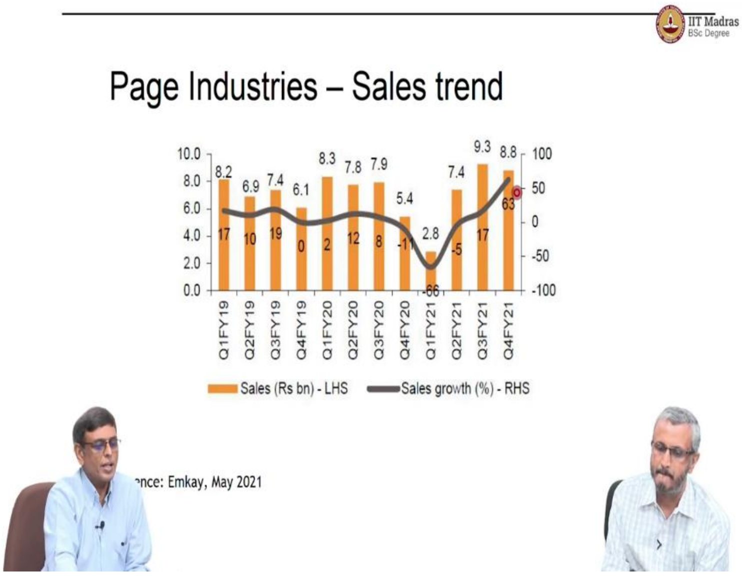
Professor M Suresh Babu: In equity. Yeah.

Professor G. Venkatesh: Yeah. Very high. Which with equity investors will be very happy with this.

Professor M Suresh Babu: Very happy with this.

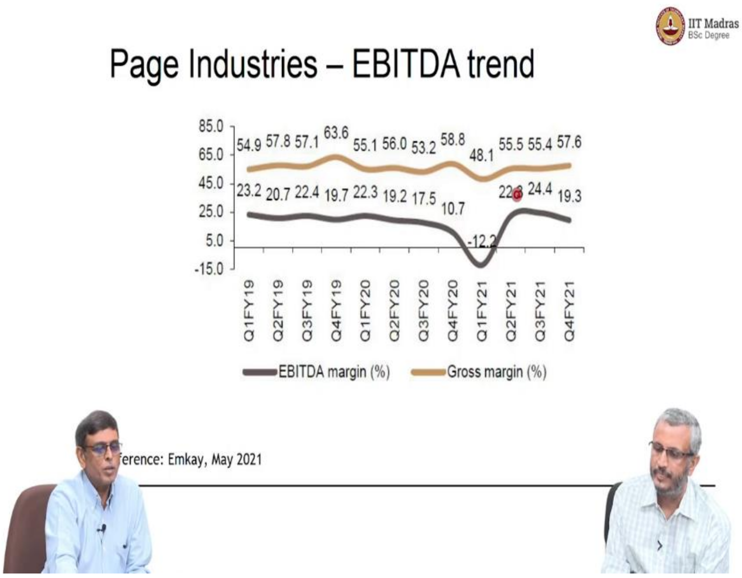
Professor G. Venkatesh: Yeah. 40, 50 % is phenomenal, and it is really good.

(Refer Slide Time: 02:24)



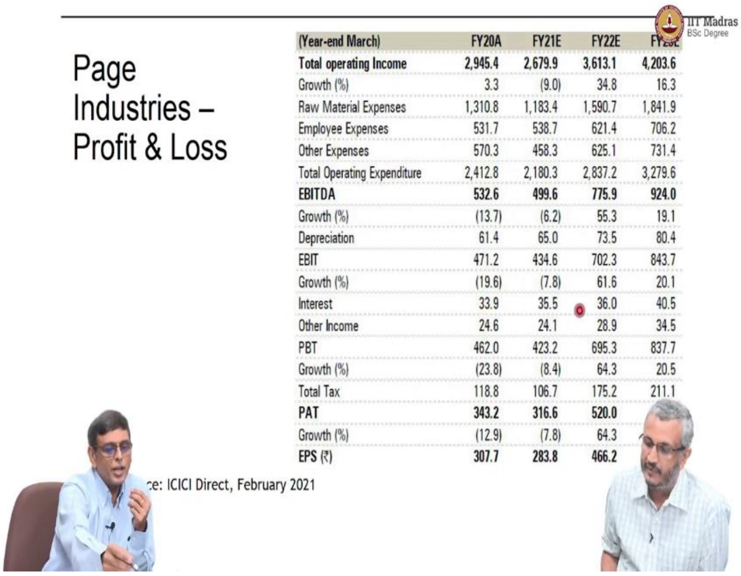
Professor G. Venkatesh: So, again, some key parameters. So, you can basically see sales; this is a growth rate from quarter to the corresponding quarter of the previous year. But this is primarily because of COVID-related things. But the secular trend, if you look at the growth rate, they have been growing 15 -20 % annually, steadily.

(Refer Slide Time: 02:49)



Professor G. Venkatesh: And the EBITDA. Again, if you look, this has been traditionally in the 20-odd percent range. Of course, in Q4. This quarter is COVID-quarter. Here you see, they have not managed the variable cost. It went to negative EBITDA. Unlikely, UltraTech. They were not able to manage. Primarily because, I guess, it is a very labor-intensive industry. They were not able to do, I mean, you cannot ask labor to go or not. So, they were paying their labor and all. And the government was not sufficiently taking care of labor costs. Like they did in the U.S. and other places. So, here the companies had to bear it.

(Refer Slide Time: 03:27)



Professor M Suresh Babu: Okay. But gross margins have been very high.

Professor G. Venkatesh: Gross margins have been very high. So, here again, you can see the margins.

Professor M Suresh Babu: Yeah. Again, the total operating income, raw material cost, employee cost, and so on.

Professor G. Venkatesh: So, here also you have raw material cost, which is very high because they have to buy.

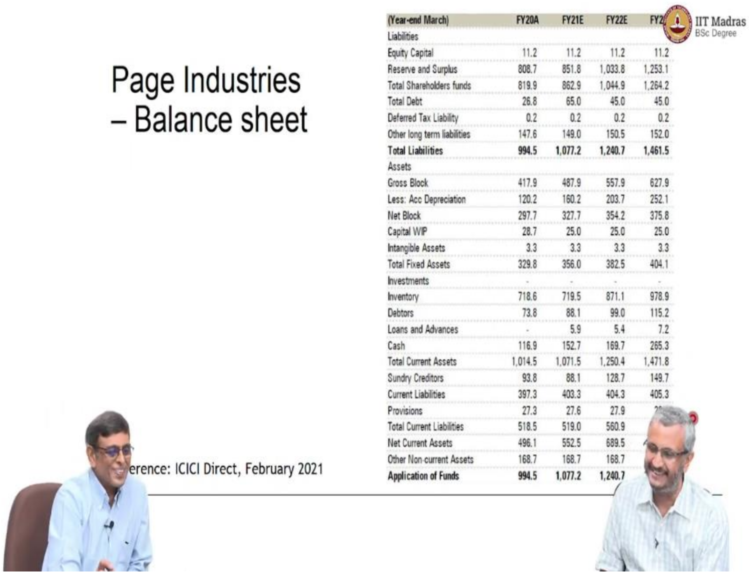
Professor M Suresh Babu: Material.

Professor G. Venkatesh: Materials. Women materials. Knitted cotton and other stuff they have to buy. They have to buy, and employee expenses are also very high. And there are other expenses, mostly logistics, and things like that, will be there.

Professor M Suresh Babu: Right. But their interest is also quite high.

Professor G. Venkatesh: Interest is also reasonably high. As a percentage of sales, it is not that high. But it is 1 % or something. But it is there. Interest cost is there. You will see, when you come to balance sheet maybe, we can see there.

(Refer Slide Time: 04:19)



(Year-end March)	FY20A	FY21E	FY22E	FY2
Liabilities				
Equity Capital	11.2	11.2	11.2	11.2
Reserve and Surplus	808.7	851.8	1,033.8	1,253.1
Total Shareholders funds	819.9	862.9	1,044.9	1,264.2
Total Debt	26.8	65.0	45.0	45.0
Deferred Tax Liability	0.2	0.2	0.2	0.2
Other long term liabilities	147.6	149.0	150.5	152.0
Total Liabilities	**994.5**	**1,077.2**	**1,240.7**	**1,461.5**
Assets				
Gross Block	417.9	487.9	557.9	627.9
Less: Acc Depreciation	120.2	160.2	203.7	252.1
Net Block	297.7	327.7	354.2	375.8
Capital WIP	28.7	25.0	25.0	25.0
Intangible Assets	3.3	3.3	3.3	3.3
Total Fixed Assets	329.8	356.0	382.5	404.1
Investments	-	-	-	-
Inventory	718.6	719.5	871.1	978.9
Debtors	73.8	88.1	99.0	115.2
Loans and Advances	-	5.9	5.4	7.2
Cash	116.9	152.7	169.7	265.3
Total Current Assets	1,014.5	1,071.5	1,250.4	1,471.8
Sundry Creditors	93.8	88.1	128.7	149.7
Current Liabilities	397.3	403.3	404.3	405.3
Provisions	27.3	27.6	27.9	[illegible]
Total Current Liabilities	518.5	519.0	560.9	[illegible]
Net Current Assets	496.1	552.5	689.5	[illegible]
Other Non-current Assets	168.7	168.7	168.7	[illegible]
Application of Funds	**994.5**	**1,077.2**	**1,240.7**	[illegible]

Professor G. Venkatesh: So, you can see basically that this company has about 1,264 crores and, let us do the FY'20 actual right? So, 819 crores of equity capital and debt are 147 crores.

Professor M Suresh Babu: That is quite low.

Professor G. Venkatesh: Very low. No, this liability debt is only 26 crores.

Professor M Suresh Babu: That is all.

Professor G. Venkatesh: That is, it.

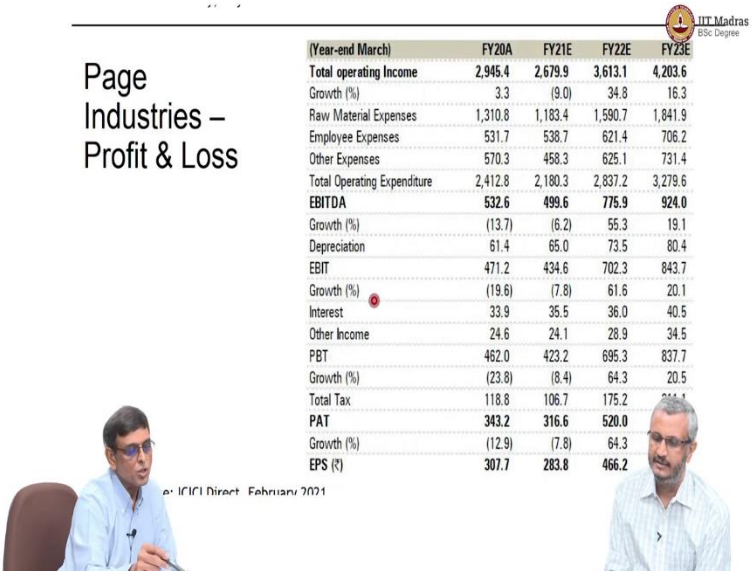
Professor M Suresh Babu: Yeah. So, their major mode of financing is through the equity route, not the debt route.

Professor G. Venkatesh: And also, because it is a highly valued company. They can always raise money in equity. It will not digest the capital.

Professor M Suresh Babu: Investors are willing to put their money into this company.

Professor G. Venkatesh: Money into this company. So, yeah. What else? There is this work-in-progress capital line that is there.

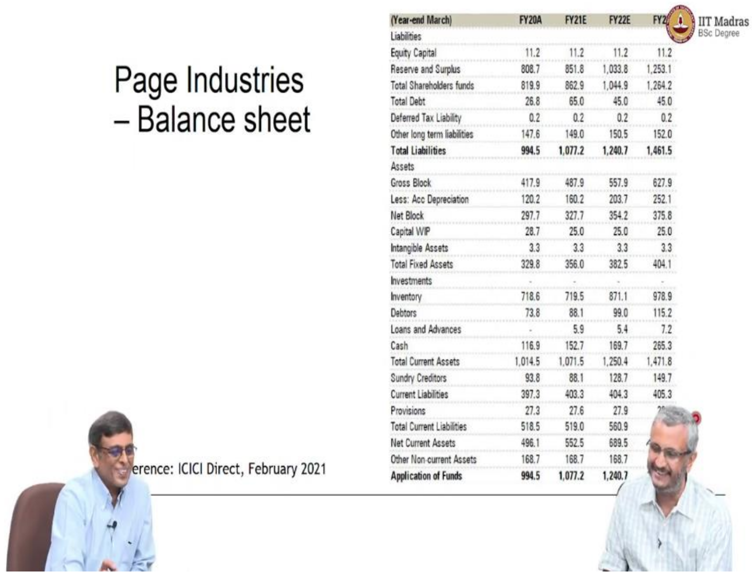
(Refer Slide Time: 05:13)



Page Industries – Profit & Loss

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Total operating Income	**2,945.4**	**2,679.9**	**3,613.1**	**4,203.6**
Growth (%)	3.3	(9.0)	34.8	16.3
Raw Material Expenses	1,310.8	1,183.4	1,590.7	1,841.9
Employee Expenses	531.7	538.7	621.4	706.2
Other Expenses	570.3	458.3	625.1	731.4
Total Operating Expenditure	2,412.8	2,180.3	2,837.2	3,279.6
EBITDA	**532.6**	**499.6**	**775.9**	**924.0**
Growth (%)	(13.7)	(6.2)	55.3	19.1
Depreciation	61.4	65.0	73.5	80.4
EBIT	471.2	434.6	702.3	843.7
Growth (%)	(19.6)	(7.8)	61.6	20.1
Interest	33.9	35.5	36.0	40.5
Other Income	24.6	24.1	28.9	34.5
PBT	462.0	423.2	695.3	837.7
Growth (%)	(23.8)	(8.4)	64.3	20.5
Total Tax	118.8	106.7	175.2	[illegible]
PAT	**343.2**	**316.6**	**520.0**	
Growth (%)	(12.9)	(7.8)	64.3	
EPS (₹)	**307.7**	**283.8**	**466.2**	

e: ICICI Direct, February 2021



Page Industries – Balance sheet

(Year-end March)	FY20A	FY21E	FY22E	FY2
Liabilities				
Equity Capital	11.2	11.2	11.2	11.2
Reserve and Surplus	808.7	851.8	1,033.8	1,253.1
Total Shareholders funds	819.9	862.9	1,044.9	1,264.2
Total Debt	26.8	65.0	45.0	45.0
Deferred Tax Liability	0.2	0.2	0.2	0.2
Other long term liabilities	147.6	149.0	150.5	152.0
Total Liabilities	**994.5**	**1,077.2**	**1,240.7**	**1,461.5**
Assets				
Gross Block	417.9	487.9	557.9	627.9
Less: Acc Depreciation	120.2	160.2	203.7	252.1
Net Block	297.7	327.7	354.2	375.8
Capital WIP	28.7	25.0	25.0	25.0
Intangible Assets	3.3	3.3	3.3	3.3
Total Fixed Assets	329.8	356.0	382.5	404.1
Investments	-	-	-	-
Inventory	718.6	719.5	871.1	978.9
Debtors	73.8	88.1	99.0	115.2
Loans and Advances	-	5.9	5.4	7.2
Cash	116.9	152.7	169.7	265.3
Total Current Assets	1,014.5	1,071.5	1,250.4	1,471.8
Sundry Creditors	93.8	88.1	128.7	149.7
Current Liabilities	397.3	403.3	404.3	405.3
Provisions	27.3	27.6	27.9	[illegible]
Total Current Liabilities	518.5	519.0	560.9	
Net Current Assets	496.1	552.5	689.5	
Other Non-current Assets	168.7	168.7	168.7	
Application of Funds	**994.5**	**1,077.2**	**1,240.7**	

erence: ICICI Direct, February 2021

Professor G. Venkatesh: Maybe we can see the interest costs in this? Interest costs. Yeah. We saw that it is very small. It is 1 % or something.

Professor M Suresh Babu: Yeah. And there is a slight, kind of, an interesting entry here on inventories.

Professor G. Venkatesh: That is true.

Professor M Suresh Babu: And I think that because of the nature of the commodity they are producing, they would like to stock some inventories and release them when there is a variation in demand in another market.

Professor G. Venkatesh: The other thing is that we will see it later when we do the FMCG case, the e-commerce case, is that in textiles especially, you have winter and your summer and you have this autumn season, winter season and all that. In the U.S., you have four seasons; in India, we have two.

Professor M Suresh Babu: Yeah.

Professor G. Venkatesh: So, we have summer, spring, and autumn, winter two seasons.

Professor M Suresh Babu: Yeah.

Professor G. Venkatesh: And if you have sweaters, for example, that you made for winter, summer, winter autumn, you cannot sell them in summer. So, you have to keep it, hold it.

Professor M Suresh Babu: Hold it till the next season comes.

Professor G. Venkatesh: So, there will always be inventory.

Professor M Suresh Babu: And by the next season, if the fashion changes, then perhaps.

Professor G. Venkatesh: The inventory has to be sold as stock.

Professor M Suresh Babu: At the risk of this.

Professor G. Venkatesh: They will dispose of it by discounting; a huge discounting.

Professor M Suresh Babu: That is what we see it, 30 % discount, 50 %.

Professor G. Venkatesh: This is a business model in textiles, and it is the same for retail stores or e-commerce stores. They do not buy textiles. So, the companies like Page Industries will have to place their stock.

Professor M Suresh Babu: There.

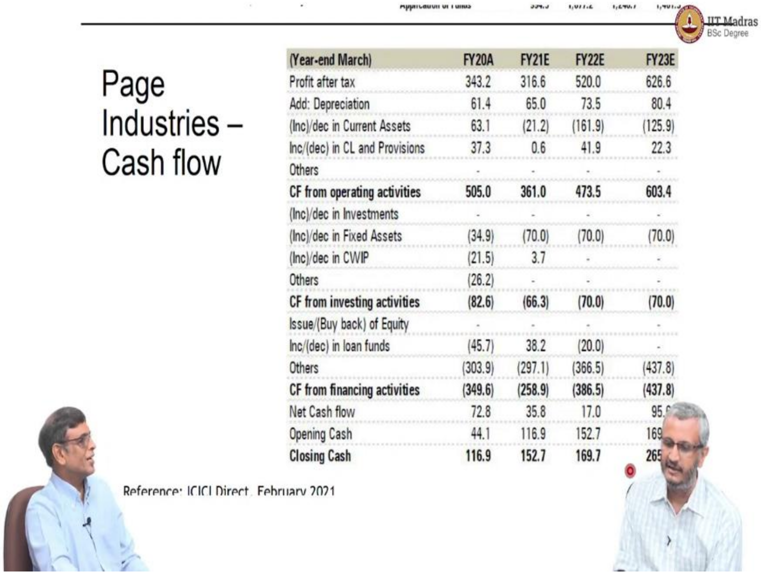
Professor G. Venkatesh: In the retail outfit. When the retail sales it then only they will pay the money.

Professor M Suresh Babu: And all the unsold, they will take it back, and refresh it with the new models.

Professor G. Venkatesh: So, that means that their inventories maybe actually be sitting in the retail stores.

Professor M Suresh Babu: Yes. Very interesting.

(Refer Slide Time: 06:52)



(Year-end March)	FY20A	FY21E	FY22E	FY23E
Profit after tax	343.2	316.6	520.0	626.6
Add: Depreciation	61.4	65.0	73.5	80.4
(Inc)/dec in Current Assets	63.1	(21.2)	(161.9)	(125.9)
Inc/(dec) in CL and Provisions	37.3	0.6	41.9	22.3
Others	-	-	-	-
CF from operating activities	**505.0**	**361.0**	**473.5**	**603.4**
(Inc)/dec in Investments	-	-	-	-
(Inc)/dec in Fixed Assets	(34.9)	(70.0)	(70.0)	(70.0)
(Inc)/dec in CWIP	(21.5)	3.7	-	-
Others	(26.2)	-	-	-
CF from investing activities	**(82.6)**	**(66.3)**	**(70.0)**	**(70.0)**
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(45.7)	38.2	(20.0)	-
Others	(303.9)	(297.1)	(366.5)	(437.8)
CF from financing activities	**(349.6)**	**(258.9)**	**(386.5)**	**(437.8)**
Net Cash flow	72.8	35.8	17.0	95.
Opening Cash	44.1	116.9	152.7	169
Closing Cash	**116.9**	**152.7**	**169.7**	**265**

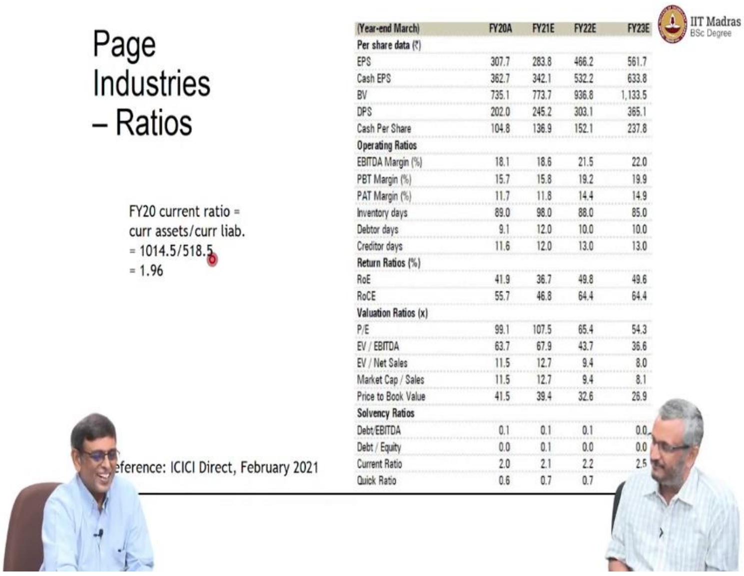
Professor G. Venkatesh: So, again, cash flow. You can see basically that operating expense is generating tons of cash, 500 crores, and they are putting it back in financing. And they have a reasonably healthy closing cash balance.

Professor M Suresh Babu: So, they are flowing back to lower the debt component.

Professor G. Venkatesh: The Debt component is less so, their all their growth is being financed. Working capital growth, inventory, everything is being financed entirely from what is called internal accruals. That means whatever cash you are generating from operating costs, that is being used for further investment.

Professor M Suresh Babu: Further investments and expansion of the firm.

(Refer Slide Time: 07:35)



Professor G. Venkatesh: So, again, here, we can see the ratios.

Professor M Suresh Babu: This is a set of ratios that we discussed.

Professor G. Venkatesh: So, you can see here. First, let us look at the margin rate. So here, the PAT margin is 11, 12 %. And it is expected it to be 14, 15 %. So, it is not like they have a great PAT margin. It is a bit more than UltraTech. But these were ROC numbers. Why? Because capital is low. UltraTech has high capital. So, even though they were producing a 10 % margin because the capital is very high. The ROC is only 10 %. Here the capital is much less; that is why ROC goes to 40 %. So, one-fourth of the capital they are employing to produce the same profit.

Professor M Suresh Babu: So, can we draw this inference that in UltraTech's case, the investment in fixed capital is very high.

Professor G. Venkatesh: Very high.

Professor M Suresh Babu: And a part of that could be sunk costs or whatever sunk capital.

Professor G. Venkatesh: Correct. Yeah.

Professor M Suresh Babu: Whereas, in the case of textiles industries, the investment in fixed capital is less.

Professor G. Venkatesh: Less. So, again, one can try and do, and here, the debtor days are even lesser. Because the invoice was late, that is why. And as I said, only when it is sold. So, from that point onwards, any invoice immediately gets paid. Till then, your stock is sitting there anyways.

Professor M Suresh Babu: But as you point out, inventory days are quite high.

Professor G. Venkatesh: Inventory days are very high.

Professor M Suresh Babu: Close to 3 months.

Professor G. Venkatesh: 3 months. Debtor days are more.

Professor M Suresh Babu: And the same kind of format, just some general ratios, operating ratios, return ratios, valuation ratios, and solvency issues.

Professor G. Venkatesh: So, solvency, you can see, debt by EBITDA is also small. And current ratio we can calculate is 2 or almost 2.

Professor M Suresh Babu: That is phenomenal.

Professor G. Venkatesh: Phenomenal, good. Very solvent. No risk.

Professor M Suresh Babu: So, I think then students should just play around with this data and then use different firms to see how they perform.

Professor G. Venkatesh: Correct. They should do with their firms. We are going to give them an assignment. They will do their own company they will have.