

17 July 2014

TTK Prestige

All's not well, rich valuations; Sell

Rating: **Sell**

Target Price: ₹3,107

Share Price: ₹3,494

Key takeaways

Revenue showing signs of betterment. TTK Prestige's 1QFY15 revenue was ₹3.36bn, up 9.8% yoy and broadly in line with our estimated ₹3.33bn. Its efforts to market new models and improve in its key southern market helped it grow during the quarter. The power situation in Tamil Nadu has improved from Jun'14. It has recently entered into water purifiers in partnership with Swiss Lifestraw SA. According to the management this would help it boost sales by ₹300m in FY15 utilising its present distribution network.

128-bp drop in EBIDTA margin. The EBIDTA margin declined a sharp 128bps yoy to 12.2% due to unabsorbed higher overheads (on account of two new plants commissioned). To gain market share, though, the company will continue its aggressive ad-spend (6.2% of sales in 1QFY15) and, ahead, this could cut into margins.

At ₹258m, profit flat yoy. PBT for 1QFY14 came at ₹360m, down 4.3% yoy. This was due to the low margin and higher depreciation. The depreciation was higher because of the altered depreciation policy. PAT for the current quarter came in at ₹258m, with no change from 1QFY14.

Outlook. In the present context, the company would find it difficult to grow at over 15-20% in FY15 as well. Exports during the quarter grew 43%, from ₹114.6m to ₹163.5m. The company has turned debt free, paying off the entire amount. At present, there are 546 Prestige Smart Kitchen stores, a net addition of 10 during the quarter.

Our take. At ₹3,494, the stock quotes at P/E of 28.1x FY15e and 23.4x FY16e EPS. This, we believe, is richly valued, given the macroeconomic headwinds and constrained near-term upsides. Based on this and the continuing slowdown in the south, we maintain our Sell recommendation, with a Mar'16 target price of ₹3,107. **Risks.** Easing input costs and better power available in the south.

Key data	TTKPT IN / TTKL.BO
52-week high / low	₹4358 / ₹2700
Sensex / Nifty	25550 / 7924
3-m average volume	US\$1.2m
Market cap	₹40.7bn / US\$0.68bn
Shares outstanding	11.65m

Shareholding pattern (%)	Mar '14	Dec '13	Sep '13
Promoters	70.3	70.0	70.0
- of which, Pledged	-	-	-
Free Float	29.7	30.0	30.0
- Foreign Institutions	20.8	22.1	20.8
- Domestic Institutions	2.0	1.4	2.7
- Public	6.6	6.4	6.4

Financials (YE Mar)	FY15e	FY16e
Sales (₹m)	15,445	17,888
Net profit (₹m)	1,439	1,723
EPS (₹)	123.5	147.9
Growth (%)	34.9	19.7
PE (x)	28.1	23.4
PBV (x)	5.8	4.8
RoE (%)	22.4	22.4
RoCE (%)	28.3	28.8
Dividend yield (%)	0.6	0.6
Net gearing (%)	(0.1)	(19.7)

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY15	1QFY14	% yoy	FY13	FY14	% yoy
Sales (₹m)	3,063	3,364	9.8	13,585	12,938	(4.8)
EBITDA (₹m)	414	411	(0.6)	2,037	1,602	(21.4)
EBITDA margin (%)	13.5	12.2	(128) bps	15.0	12.4	(261) bps
Interest (₹m)	31	6	(80.8)	143	85	(40.1)
Depreciation (₹m)	24	57	138.3	90	148	64.3
Other income (₹m)	17	12	(29.5)	47	148	213.7
PBT (₹m)	376	360	(4.3)	1,852	1,518	(18.1)
Tax (₹m)	118	102	(13.8)	521	400	(23.3)
Tax rate (%)	31.5	28.3	(312) bps	28.1	26.3	(180)bps
PAT (₹m)	258	258	0.1	1,331	1,118	(16.0)

Source: Company

Girish Solanki
+9122 6626 6712
girishsolanki@rathi.com

Rashi Saraf
rashisaraf@rathi.com

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net sales	11,034	13,585	12,938	15,445	17,888
Sales growth (%)	44.5	23.1	(4.8)	19.4	15.8
- Oper. expenses	9,319.9	11,547.6	11,336.1	13,360.0	15,437.0
EBIDTA	1,715	2,037	1,602	2,085	2,451
EBITDA margins (%)	15.5	15.0	12.4	13.5	13.7
- Interest	64	143	85	17	-
- Depreciation	63	90	148	199	210
+ Other income	45	47	79	93	107
- Tax	499	521	400	517	618
Effective tax rate (%)	30.6	28.1	26.3	26.3	26.3
Reported PAT	1,134	1,331	1,118	1,446	1,729
+/- Extraordinary items	-	-	70	-	-
Adjusted PAT	1,134	1,331	1,067	1,446	1,729
Adj. FDEPS (₹/sh)	100.0	117.3	91.6	124.1	148.5
Adj. FDEPS growth (%)	34.7	17.2	(21.9)	35.5	19.6
DPS (₹/sh)	15.0	17.5	20.0	22.0	22.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	113	114	117	117	117
Reserves & surplus	2,738	3,841	5,737	6,882	8,312
Shareholders' fund	2,851	3,955	5,853	6,999	8,428
Debt	597	1,145	308	-	-
Minority interests	-	-	-	-	-
Deferred Tax Liab (net)	68	101	205	205	205
Capital employed	3,516	5,201	6,367	7,204	8,634
Net Fixed assets	2,300	3,082	3,639	3,489	3,330
Investments	4	4	91	91	91
Working capital	988	1,794	2,341	3,612	3,538
Cash	223	322	296	13	1,674
Capital deployed	3,516	5,201	6,367	7,204	8,634
Net Debt	373.37	823.30	12.10	(12.95)	(1,674.39)
Net Debt/Equity (%)	13.1	20.8	0.2	(0.2)	(19.9)
W C turn (days)	21.2	37.4	58.3	70.3	73.0
Book Value (₹/share)	251.5	348.4	502.4	600.8	723.5

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

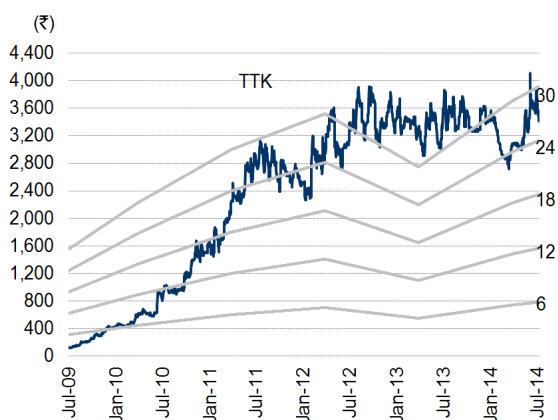
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	1,134	1,331	1,118	1,446	1,729
+Non-cash Items	98	123	252	199	210
Cash profit	1,232	1,454	1,370	1,644	1,940
- Incr./ (Decr.) in WC	694	805	547	1,271	(74)
Operating cash-flow	538	649	822	373	2,013
-Capex	1,448	871	705	48	52
Free cash-flow	(911)	(223)	117	325	1,961
-Dividend	199	232	273	300	300
+ Equity raised	1	5	1,053	-	-
+ Debt raised	574	548	(837)	(308)	-
-Investments	(222)	-	87	-	-
-Misc. items	-	-	-	-	-
Net cash-flow	(312)	98	(26)	(283)	1,661
+Opening cash	535	223	322	296	13
Closing cash	223	322	296	13	1,674

Source: Company, Anand Rathi Research

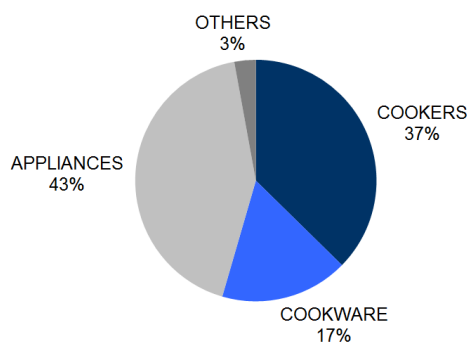
Fig 4 – Ratio analysis @ ₹3,494

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	34.6	29.5	37.8	27.9	23.3
P/B (x)	31.9	27.1	29.5	24.6	20.8
EV/Sales (x)	23.1	19.7	25.1	19.3	15.8
EV/EBITDA (x)	3.6	3.0	3.1	2.6	2.2
RoAE (%)	13.8	9.9	6.9	5.8	4.8
RoACE (%)	47.6	39.1	22.8	22.5	22.4
Dividend yield (%)	61.4	45.6	25.8	28.7	29.0
Dividend payout (%)	0.4	0.5	0.6	0.6	0.6
RM to sales (%)	17.5	17.5	24.4	20.7	17.3
Ad spend % sales	0.3	0.3	0.1	-	-
EBITDA growth (%)	29.9	33.5	41.2	45.0	45.0
EPS growth (%)	46.3	55.1	70.9	72.2	71.0
PAT margin (%)	99.8	97.8	104.6	95.0	94.8
Volume growth (%)	(23.6)	(9.1)	7.4	22.2	21.2
Realization growth %	4.8	4.4	3.6	4.4	5.4

Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE Band)


Source: Bloomberg, Anand Rathi Research

Fig 6 – FY14 revenue break-up (standalone)


Source: Company, Anand Rathi Research

Result highlights

TTK Prestige reported 1QFY15 revenue growth broadly in line with what we expected, with revenues improving 9.8% yoy to ₹3.36bn. The chief reasons for the better revenue growth were improvements in its key southern markets and its efforts to market new models. The EBIDTA margin during the quarter stood at 12.2%, against 13.5% the previous year.

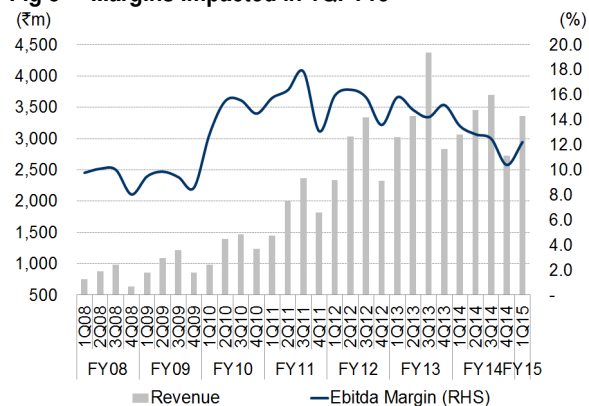
The company incurred higher other expenses and higher employee costs (as percent of revenue), which led to the drop in the EBIDTA margin. Other expenditure rose on account of the higher cost at the newly commissioned plant. This was despite benefits accruing from brand-building and the launch of products. Net profit stood at ₹258m, with no change yoy. The tax rate was 28.3% (down 312bps). Interest expenditure declined 81% yoy to ₹6m because of debt repaid from the equity dilution done.

Fig 7 – Quarterly results vs expectations

Quarterly results	1QFY14	1QFY15	% var	4QFY14	% var	1QFY15e	% var
Sales	3,063	3,364	9.8	2,725	23.4	3,338	0.8
EBIDTA	414	411	(0.6)	283	45.1	441	(6.7)
PBT	376	360	(4.3)	323	11.5	422	(14.6)
PAT	258	258	0.1	262	(1.5)	371	(30.4)

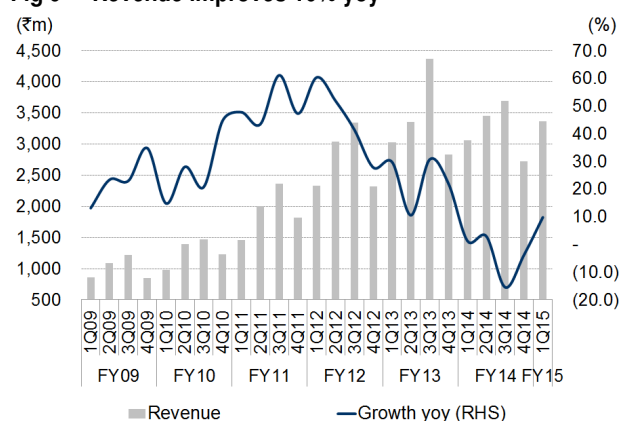
Source: Company, Anand Rathi Research

Fig 8 – Margins impacted in 1QFY15



Source: Company, Anand Rathi Research

Fig 9 – Revenue improves 10% yoy



Source: Company, Anand Rathi Research

Valuations

We believe that government's policy on capping the number of subsidized cylinder from 9-12 has affected demand for induction-based pressure cookers, cookware and cooktops. The inflationary trend in consumer articles is affecting consumer sentiment. Because of the present slowdown in sales and reduction in the profit margin, we maintain our Sell recommendation on the stock, with a target price of ₹3,107.

Risks

- **Mounting competition.** Aggressive marketing and brand-building have led to the company's market share rising over the years. However, ahead, this high-profit business could invite fierce competition (new and old), resulting in price wars, which could cut into profits. Havells has launched consumer-durable products, and many foreign operators are coming in. Philips has acquired the Preethi brand in India, and SEB, a French company, has acquired a 55% stake in Maharaja Whiteline.
- **Volatile input prices.** The sharp rise in raw material prices of aluminium, copper, steel and zinc would eat into profitability if the company is unable to pass on such price rises.
- **Currency fluctuation.** As some products are imported from China, the depreciating rupee against the dollar could eat into margins.

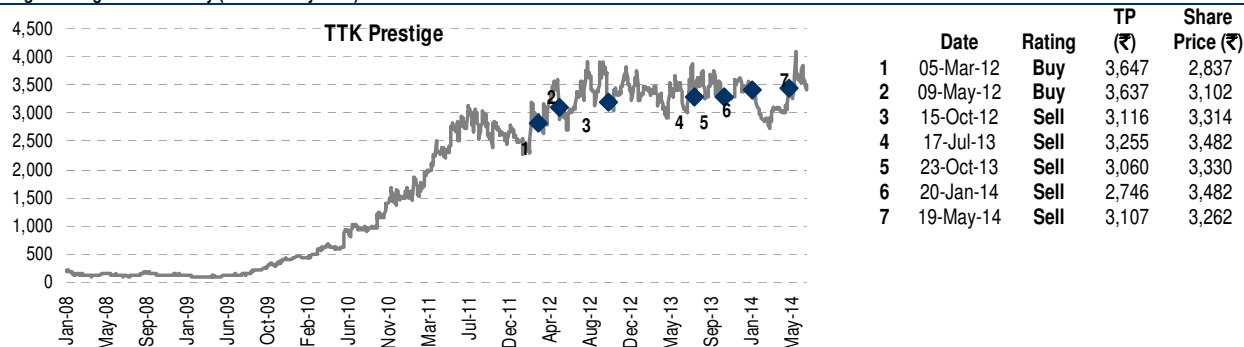
Appendix

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