

16 October 2015

## TTK Prestige

*Huge spike in Q2 sales; valuation expensive; Sell*

Rating: **Sell**

Target Price: ₹3,496

Share Price: ₹4,200

TTK Prestige's Q2 revenue growth came at 10.2% yoy, to ₹4.2bn. The EBITDA margin rose 41bps yoy, to 12.5%, aided by a better product mix and utilisation. PAT grew 21.7% yoy, to ₹340m. TTK is going aggressive in e-commerce and is focusing on a better product mix.

**Highest ever Q2 sales.** Q2 sales rose to ₹4.2bn (up 10.2% yoy), 2.6% above our estimate. This was because of growth in its appliances (up 16% yoy), cookers (up 9% yoy), and cookware (up 2.7% yoy). Q2 domestic sales grew 10.5% yoy, whereas exports declined slightly. The non-southern market grew 16% yoy, the southern market, 6%. For H1, revenue came at ₹7.7bn (up 7.1% yoy)

**Margins improve slightly.** The Q2 margin improved 41bps yoy, to 12.5%, because of better fixed-cost absorption, capacity utilisation and product mix. Management plans launches with a better product mix. During H1, margins, at 11.8%, were flattish.

**PAT up 21%.** Q2 profit was ₹340m (up 21.7% yoy). This was aided by declining interest cost (down 33% yoy), increase in other income (up 95.5% yoy) and a 166-bp yoy cut in the tax rate. For H1 FY16, PAT grew 2.8% yoy, to ₹560m.

**Guidance.** The recent launches would drive consumer interest. With this, the company expects double-digit growth in FY16. PSK has been growing robustly and plans to widen its network. The company has no major capex plans for the next two years besides minimal capex of ~₹150m every year. It is focusing on expanding its after-sales service. Also, it expects exports to do better in coming quarters.

**Valuation.** At the CMP, the stock trades at P/E of 34.6 FY17e and 30x FY18e EPS. This, we believe, is richly valued, given the macro-economic headwinds and restricted short-term potential. Based on the above and because of the poor monsoon, we maintain our Sell call, with a Mar'18 price target of ₹3,496.

**Risks.** Easing input costs and better power available in the south.

Key data	TTKPT IN / TTKL.BO
52-week high / low	₹4401 / ₹2989
Sensex / Nifty	27000 / 8100
3-m average volume	\$1m
Market cap	₹49.2bn / \$0.8bn
Shares outstanding	11.65m

Shareholding pattern (%)	Jun'15	Mar'15	Dec'14
Promoters	70.3	70.3	70.3
- of which, Pledged	-	-	-
Free Float	29.7	29.7	29.7
- Foreign Institutions	16.8	14.8	18.1
- Domestic Institutions	5.0	6.0	4.5
- Public	7.7	8.7	6.9

Financials (YE Mar)	FY17e	FY18e
Sales (₹ m)	18,036	20,604
Net profit (₹ m)	1,416	1,629
EPS (₹)	121.5	139.9
Growth (%)	23.2	15.1
PE (x)	34.6	30.0
PBV (x)	6.0	5.2
RoE (%)	18.3	18.6
RoCE (%)	25.1	25.4
Dividend yield (%)	0.8	0.8
Net gearing (%)	-0.1	-0.2

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q2 FY15	Q2 FY16	% yoy	H1 FY15	H1 FY16	% yoy
Sales (₹ m)	3,820	4,210	10.2	7,183	7,696	7.1
EBITDA (₹ m)	462	526	13.9	854	909	6.4
EBITDA margin (%)	12.1	12.5	41 bps	11.9	11.8	(8)bps
Interest (₹ m)	11	7	-33.3	16	13	-18.3
Depreciation (₹ m)	48	49	1.7	94	95	1.7
Other income (₹ m)	11	22	95.5	23	46	98.3
PBT (₹ m)	414	492	18.8	767	846	10.3
Tax (₹ m)	135	152	12.7	240	249	3.5
Tax rate (%)	32.5	30.8	(166)bps	31.3	29.4	(195)bps
PAT (₹ m)	280	340	21.7	545	560	2.8

Source: Company Share price as on 15<sup>th</sup> October 2015

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	12,938	13,883	15,559	18,036	20,604
Revenue growth (%)	-5	7	12	16	14
- Oper. expenses	11,336	12,391	13,769	15,872	18,132
<b>EBIDTA</b>	<b>1,602</b>	<b>1,492</b>	<b>1,789</b>	<b>2,164</b>	<b>2,472</b>
EBITDA margins (%)	12.4	10.7	11.5	12.0	12.0
- Interest	85	45	20	-	-
- Depreciation	148	190	200	224	238
+ Other income	79	51	109	126	144
- Tax	400	410	529	651	749
Effective tax rate (%)	27.6	31.3	31.5	31.5	31.5
+ Associates/(Minorities)					
Adjusted PAT	1,048	899	1,149	1,416	1,629
+ Extraordinary items	70	24	-	-	-
Reported PAT	1,118	923	1,149	1,416	1,629
Adj. FDEPS (₹/share)	91.6	77.8	98.7	121.5	139.9
Adj. FDEPS growth (%)	-21.9	-15.0	26.8	23.2	15.1

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	117	117	117	117	117
Reserves & surplus	5,737	6,343	7,152	8,090	9,243
Net worth	5,853	6,460	7,268	8,207	9,359
Total debt	308	50	-	-	-
Minority interest	-	-	-	-	-
Def. tax liab. (net)	205	260	260	260	260
<b>Capital employed</b>	<b>6,366</b>	<b>6,770</b>	<b>7,528</b>	<b>8,467</b>	<b>9,619</b>
Net fixed assets	3,621	3,618	3,552	3,628	3,690
Intangible assets	18	11			
Investments	91	35	35	35	35
- of which, Liquid	90	35	-	-	-
Working capital	2,341	2,810	3,390	3,829	4,467
Cash	296	295	550	974	1,427
<b>Capital deployed</b>	<b>6,366</b>	<b>6,770</b>	<b>7,528</b>	<b>8,467</b>	<b>9,619</b>
Working capital (days)	66	74	80	77	79
Book value (₹/sh)	502.4	554.5	623.9	704.5	803.4

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Adjusted PAT	1,118	923	1,149	1,416	1,629
+ Non-cash items	252	245	200	224	238
Cash profit	1,370	1,168	1,350	1,640	1,867
- Incr. / (decr.) in WC	547	469	581	439	637
Operating cash-flow	822	699	769	1,200	1,230
- Capex	705	180	123	300	300
Free-cash-flow	117	519	646	900	930
- Dividend	273	300	341	477	477
+ Equity raised	1,053	-17	-	-	-
+ Debt raised	-887	-258	-50	-	-
- Investments	87	-55	-	-	-
- Misc. items	-	-	-	-	-
Net cash-flow	-76	-1	255	423	453
+ Op. cash & bank bal.	372	296	295	550	974
Cl. Cash & bank bal.	296	295	550	974	1,427

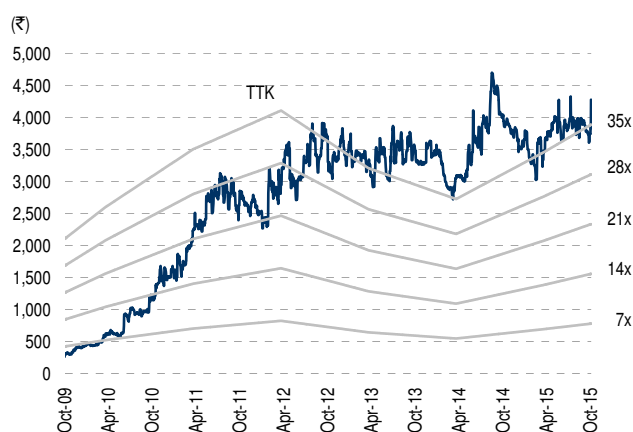
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹4,200**

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	45.9	54.0	42.6	34.6	30.0
Cash P/E (x)	40.2	44.6	36.3	29.8	26.2
EV/EBITDA (x)	30.5	32.6	27.0	22.2	19.2
EV/sales (x)	3.8	3.5	3.1	2.7	2.3
P/B (x)	8.4	7.6	6.7	6.0	5.2
RoE (%)	22.8	15.0	16.7	18.3	18.6
RoCE (%)	25.7	20.6	23.1	25.1	25.4
Dividend yield (%)	0.5	0.5	0.6	0.8	0.8
Dividend payout (%)	24.4	32.5	29.6	33.7	29.3
Net debt/equity (x)	-0.0	-0.0	-0.1	-0.1	-0.2
Debtor (days)	41	41	41	41	41
Inventory (days)	71	71	70	71	71
Payables (days)	105	88	80	85	85
RM/ Sales (%)	56.6	57.3	59.5	58.8	58.8
Fixed asset T/O (x)	3.6	3.8	4.4	5.0	5.6

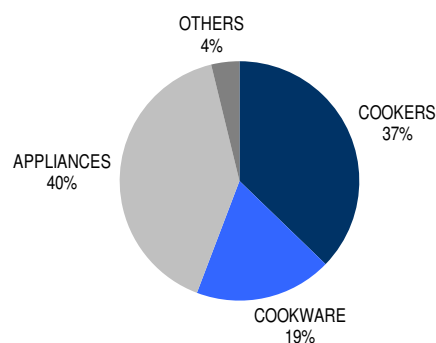
Source: Company, Anand Rathi Research

**Fig 5 – PE Chart**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY15 revenue break-up (standalone)**



Source: Company

## Result Highlights

TTK Prestige reported healthy sales growth in Q2 FY16, with revenues improving a huge 10.2% yoy, to ₹4.2bn (2.6% above what we expected). The chief reason for the robust revenue growth was growth in the cooker and appliances sub-segments. The EBIDTA margin came at 12.5%, against 12.1% in Q2 FY15.

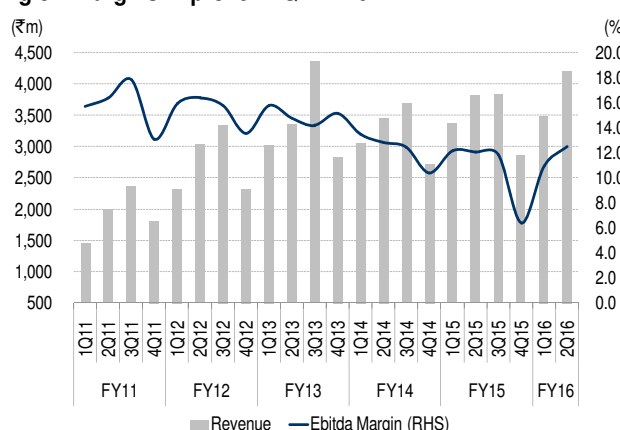
The better fixed-cost absorption and capacity utilisation helped drive the EBIDTA margin. The company incurred ₹8m on CSR activities. Net profit came at ₹340m, up 21.7% yoy. The tax rate was 30.8% (down 166bps yoy).

**Fig 7 – Quarterly results vs expectations**

(₹m)	Q2 FY15	Q2 FY16	% var	Q1 FY16	% var	Q2 FY16e	% var
Sales	3,820	4,210	10.2	3,486	20.8	4,103	2.6
EBIDTA	462	526	13.9	382	37.6	468	12.5
PBT	414	492	18.8	317	55.5	420	17.1
PAT	280	340	21.7	220	55.0	286	19.1

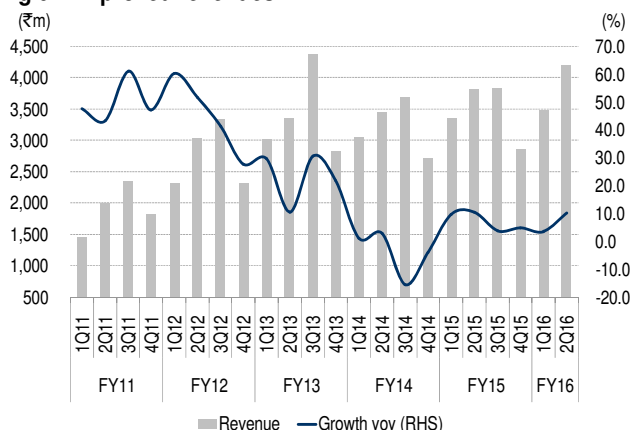
Source: Company, Anand Rathi Research

**Fig 8 – Margins improve in Q2 FY16**



Source: Company, Anand Rathi Research

**Fig 9 – Improved revenues**



Source: Company, Anand Rathi Research

### Key concall highlights

- The company registered the highest-ever Q2 sales of the past 10-12 quarters. The domestic business has grown well; exports have not grown because of slow economic growth. The company expects exports to grow in H2 FY16. It expects double-digit growth in FY16, with margins rising substantially, in line with revenue growth.
- There has been good volume growth in induction cooktops, and mixer-grinders has also done well. PSK sales continue to rise, growing about 20%. The company is going aggressive in e-commerce. Currently, e-commerce contributes about 2-3% of revenue.
- Utilisation levels have improved and the company is at a reasonable level of utilisation. There are no major capex plans for the next two years besides minimal capex of ₹150m each year.
- Currently, ad spend is about 6% and the company is focused on expanding its after-sales services. The company is planning acquisitions (not more than ₹4bn), funded through internal accruals and short-term debt.

## Valuation

We believe that demand for induction-based pressure cookers, cookware and cooktops has been hurt by competition, increasing e-commerce and declining commodity prices (rubber, oil, etc.). Inflationary trends in consumer articles are affecting consumer sentiment. Because of the macro-economic headwinds and restricted short-term potential, we maintain our Sell call on the stock, with an FY18 price target of ₹3,496.

### Risks

- **Volatility in input prices.** The sharp decline in raw material prices of aluminium, copper, steel and zinc might increase profitability of the company
- **Currency fluctuation.** As some products are imported from China, the appreciating rupee against the dollar could push up the margins.

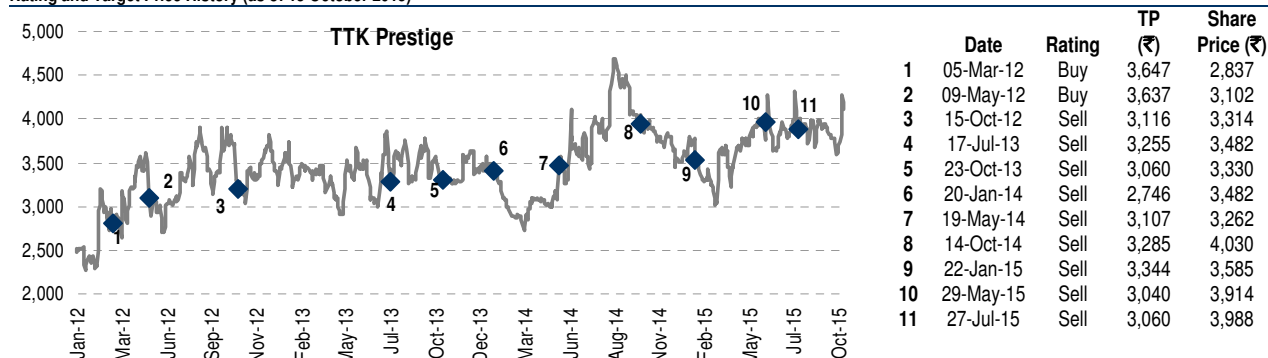
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