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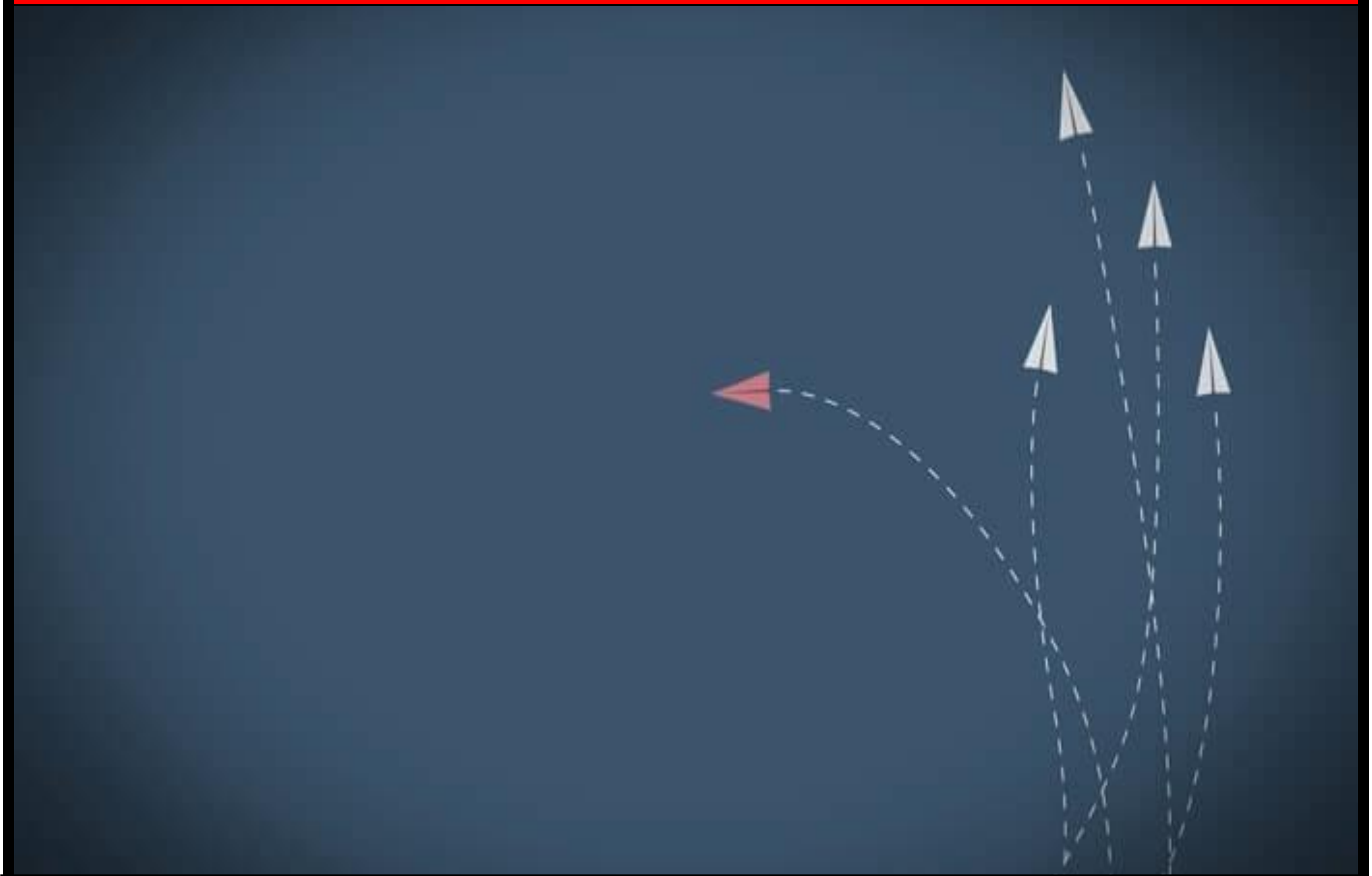

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Disruption is inevitable: We are prepared

We at Ambit are constantly trying to stay ahead of the curve by drowning out the noise and looking ahead. In keeping with our long term investment thesis, we like to stay up to date with not just the present impediments faced by your portfolio companies but also long term disruptions which can hit these companies. Hence we will regularly come out with our thoughts on disruptions in your portfolio companies/ sectors and for the seventh write up of this series we have chosen Page Industries.

A disruptive technology/ innovation is one that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network (over a few years or decades), displacing conventional wisdom or technology. This note takes a closer look at Page Industries with a focus on (1) The challenges that may prove to be a drag to Page's growth in the future (2) How the company is positioned relative to peers to tackle the same.

Page Industries: The Innerwear 'Jockey' of India

Tracing the roots all the way to Philippines six decades ago

Page Industries was founded in 1994 to manufacture and distribute Jockey products in India. This set-up traces its roots back to 1950s and a 6-decade long relationship between the Indian promoters and the parent company, namely Jockey International. In the 1950s, Genomal Verhomal, through his textile and garment import business V Lilaram & Co imported Jockey innerwear to cater to the US military personnel stationed in Philippines. The product however gained popularity among the locals too, prompting Jockey to offer Verhomal a manufacturing and distribution license in 1959 for the Philippines business. Verhomal trained his three sons – Nari, Ramesh and Sunder – well in the business before they took over the reins. Sunder Genomal's (the current MD of Page Industries) connection with Jockey began on the shop-floor even before he turned 10, getting the feel of business, understanding it and running errands right from his boyhood days.

In the year 1993, Sunder Genomal, who was based out of and running the family business from Phillipines, was caught by surprise when Rick Hosley - then President of Jockey International- decided to offer him the exclusive license for manufacturing and distribution in India. Although of Indian origin (Hyderabad), the Genomals had neither lived nor run a business in India before.

Fun Fact: *The name Page came from a portmanteau of his mother's name* ***Pa****rpati* ***Ge****nomal – Business Today*

"Burn you briefs, Jockey has arrived"

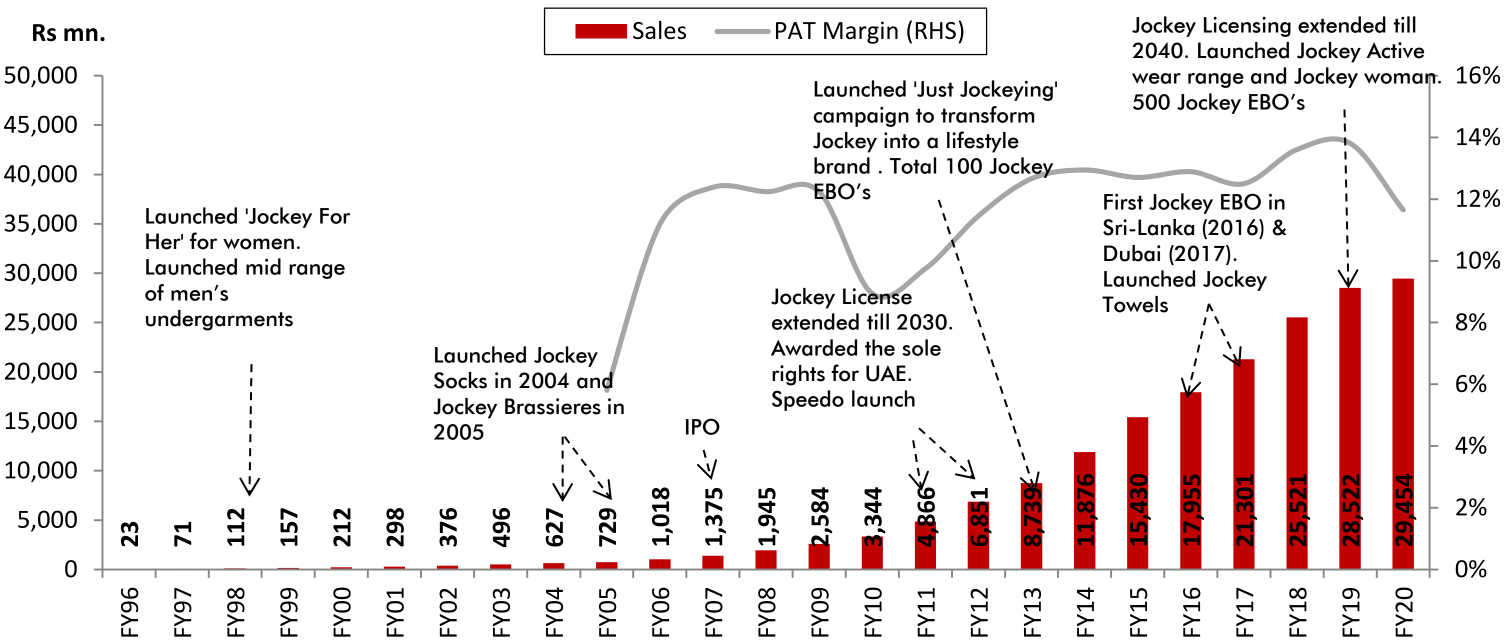
The Genomals had planned to start out of Mumbai but later switched it to Bengaluru-citing cheaper land prices, closer proximity to suppliers, most of whom were from the South of India, and interestingly, the weather. But the dynamics of the Indian market were very different back then. Inner-wears were more of a push-business dominated by brands like Rupa, Amul, Lux Cozi and Dollar in Men's segment. Unlike outer-wear, brands were not on display at garment stores and people often relied on the retailer's recommendations. The Luxury element was unheard of in innerwear. Page cracked this category by focusing on quality and strong brand-pull of Jockey. In-house manufacturing played an important role in quality control. The first factory, which was set up at Bommanahalli, outside Bangalore started production in August 1995. The pre-launch response from top retailers, when the company outlined its products and plans, was overwhelming. Jockey soon announced its entry later that year with the ad ***"Burn your briefs, Jockey is here"***. Page kicked off with Rs23mn revenue in FY96 and has grown EVERY year since then. It initially suffered losses for two years but recovered after that.

Page Industries becomes the biggest licensee of Jockey International

India in the next 10 years witnessed a period of strong economic growth with rising Per Capita income. Jockey – an aspirational brand – slowly became within reach as people were willing to up-trade. To complement its strong manufacturing and brand pull, Page built a strong Distribution network for Jockey and targeted Multi Brand Outlets (MBOs) and Large Format Stores (LFS), especially in malls in addition to opening its own Exclusive stores (EBO). As a result, there are 4,300+ distribution accounts growing at 4-5% YoY which has helped the company reach 2,800+ cities and towns, 66,000+ outlets and 756 EBOs. Over the years, Page has increased its focus on Women's innerwear and entered into new segments like Athleisure and Kids wear segment. The idea is to replicate the success in Men's innerwear in each of these categories. Rick Hosley's prophecy of Page becoming the biggest licensee of Jockey is a reality today. All this while maintaining industry leading margins and a disciplined capital allocation policy which is reflected in the constantly high RoCE. ***(Ref to Exhibit: 2 & 3)***

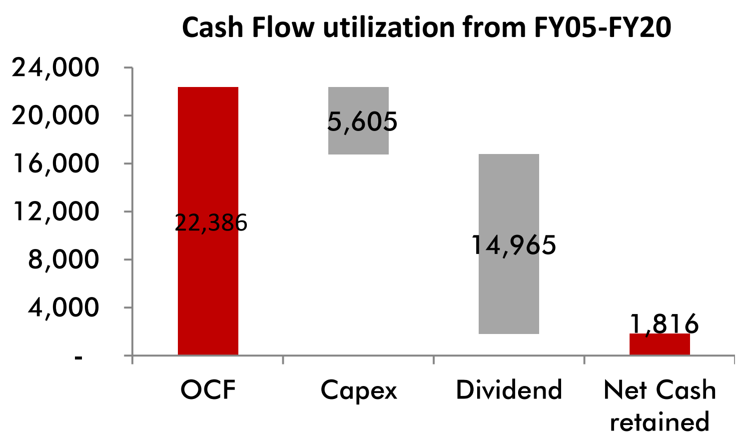
"You guys will one day become the biggest licensee of Jockey in the world" – Rick Hosley, then president of Jockey International. Source – BT

Exhibit 1: Page Industries' Journey since inception



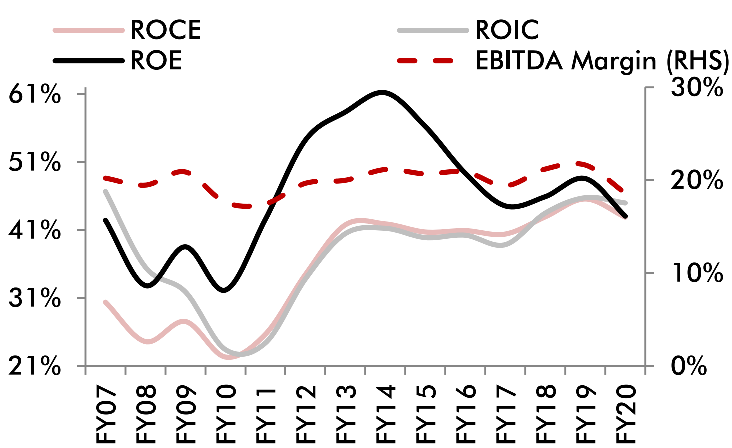
Source: Ambit Asset Management, Company

Exhibit 2: Extremely disciplined capital allocation...



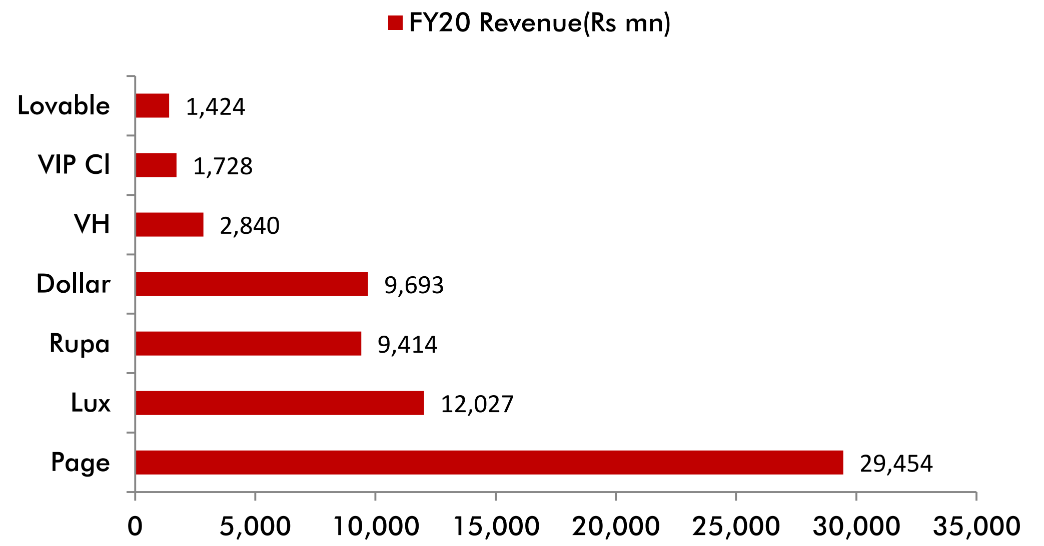
Source: Ambit Asset Management, Company

Exhibit 3:... helped maintain strong return ratios



Source: Ambit Asset Management, Company

Exhibit 4: Revenue comparison of listed innerwear companies

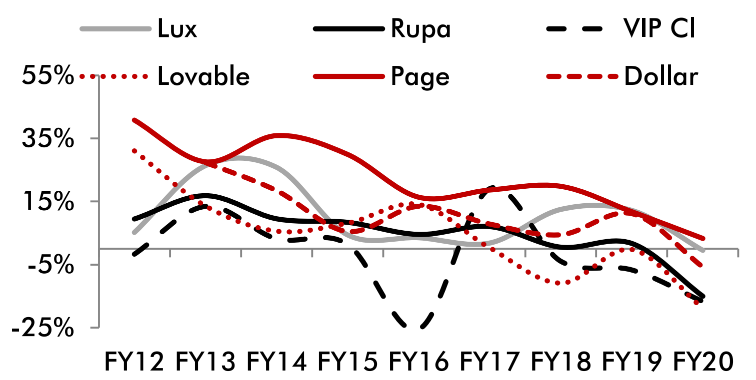


*Source: Ambit Asset Management, Company, *VH Revenue from ABFRL concall and Annual Report*

In 2000, Page's Revenue was Rs21Cr compared to Rupa and Maxwell (now VIP Clothing) which were at Rs150Cr each. In the next 20 years, Page grew by a CAGR of 28% becoming the largest company by revenue in the category.

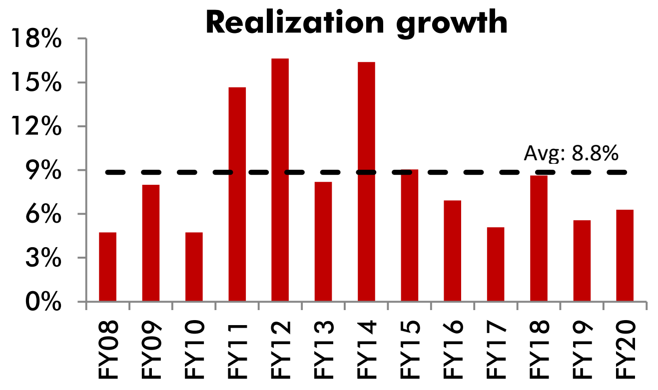
What does a Jockey report-card look like…?

Exhibit 5: Page has led the peers in terms of revenue growth…



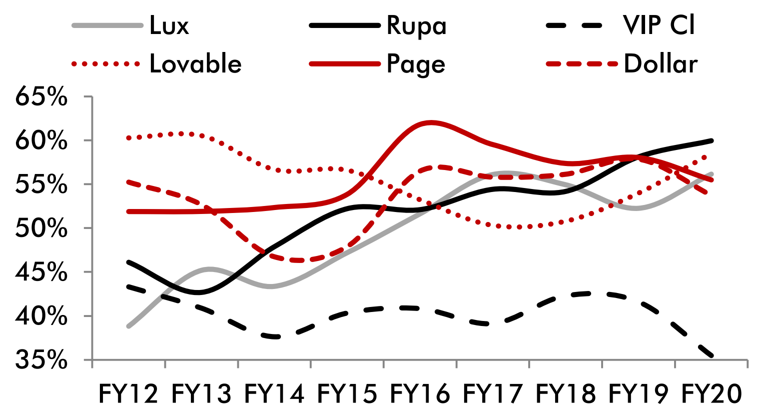
Source: Ambit Asset Management, Company

Exhibit 6:… Based on its ability to take price hike



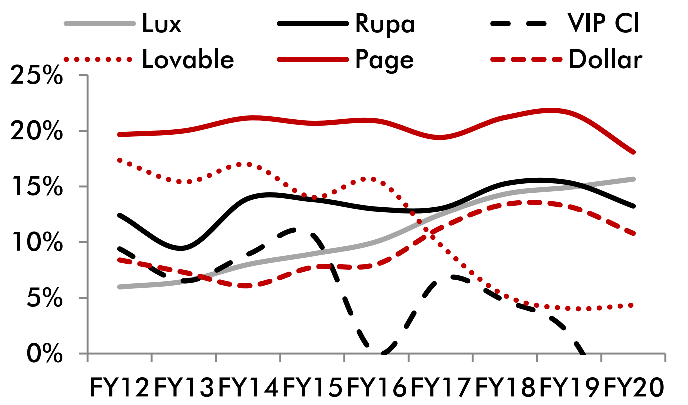
Source: Ambit Asset Management, Company

Exhibit 7: Industry Leading gross margins (COVID Impact in FY20)…



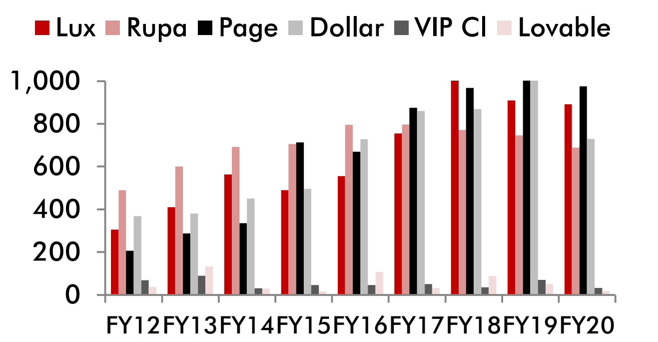
Source: Ambit Asset Management, Company

Exhibit 8:…and EBITDA Margins due to strong op. leverage



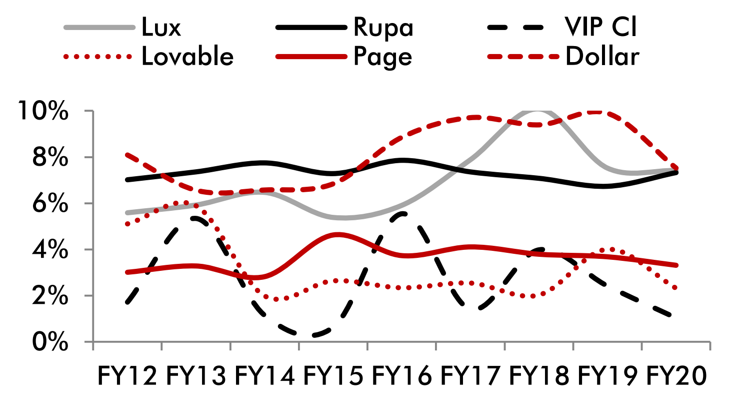
Source: Ambit Asset Management, Company

Exhibit 9: High advertisement spends helped create strong brand recognition.



Source: Ambit Asset Management, Company

Exhibit 10: However, as a % of sales, it has remained constant over the years.



Source: Ambit Asset Management, Company

The Hurdles to 'Jockey or Nothing'

1. **Challenges associated with Jockey's brand image in India –**Jockey's growth in India till a few years back was largely led by Men's Innerwear. The market dynamics favoured a quick shift to branded products in the Men's category. When we come to the women's category, costs and consequently finished good prices are nearly 2x higher vs men's innerwear. This requires a much higher disposable income. Additionally, in India women are generally the non-earning members of the family which means the expenses of men are prioritized over women, moreover price is given more importance over quality and comfort. Page has generated upto ~60% of its revenue from Men's innerwear even as recently as FY11. The company only began an active focus on Women's innerwear in FY05. As a result, because of its dominant position in men's innerwear, Jockey in India developed a slightly masculine brand image which proved to be a challenge when expanding in the Women's category.

***Fun Fact:** Globally, Jockey's revenue from women category is larger than men. But in India the trend is opposite.*

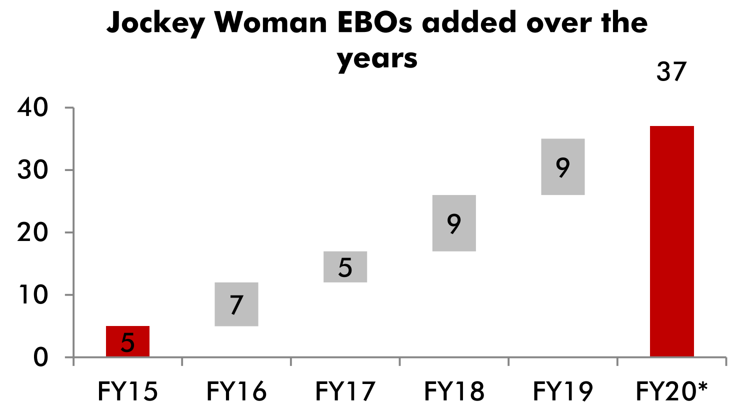
It is common to see a brand to often be associated with a particular product or category. Jockey is associated with men but it is also associated with innerwear. As Jockey is perceived as more of an inner-wear brand, at least in India, growth in Athleisure and Kids wear segment might pose a challenge while using the same brand name.

Exhibit 11: Despite owning numerous brands across segments, Pepsi co is best known as an aerated drinks company

Source: Ambit Asset Management, Company

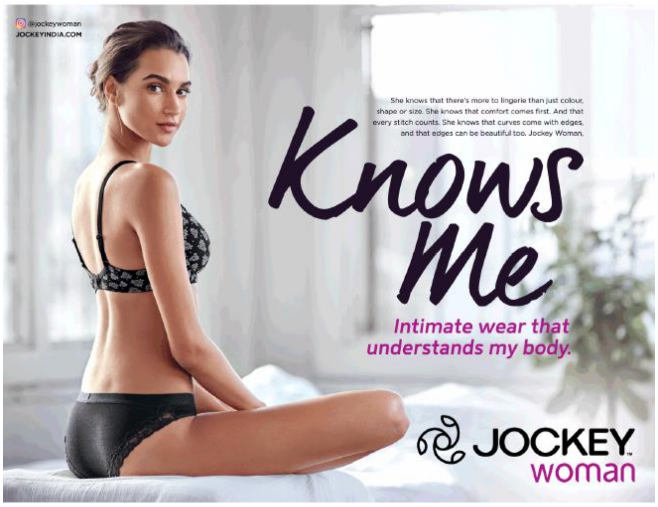
*Page, at its end, has taken several steps to tackle perception around it being a male inner-wear brand. The company has :– **a)** appointed a separate product manager for female innerwear with 25 years of experience. **b)** Launched campaigns like the **Knows Me** campaign **(Ref to Exhibit: 13)** to change brand perception. **c)** Launched exclusive Jockey Women and Jockey Junior EBOs to give a better customer experience. **d)** Launched separate product range to target women in the younger age group.*

Exhibit 12: Increased focus on Exclusive Women EBOs in the last 5 years…



Source: Ambit Asset Management, Company, Note: FY20 number is the total store count

Exhibit 13: … coupled with advertising campaign on social media



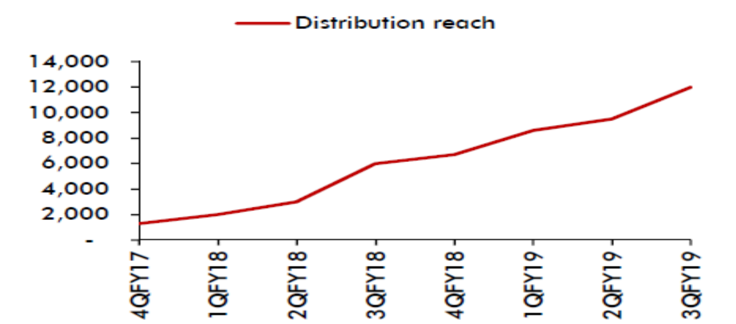
Source: Ambit Asset Management, Google search

2. **Maintaining the harmony in the distribution channel:** The wide distribution network built by Page over the years has given it a key competitive advantage. It is difficult and time consuming to build such a wide network across a country like India. We estimate that ~80-90% sales come through distributors, which has helped it reach 66,000+ outlets in 2,800+ cities, allowing wide availability. Most of this sale is often outright with no/minimal credit period extended. This is a key moat for the company.

   So maintaining its distribution strength is vital to Page Industries. Any challenges in this segment/ discontent among the distributors would impact this moat for the company.

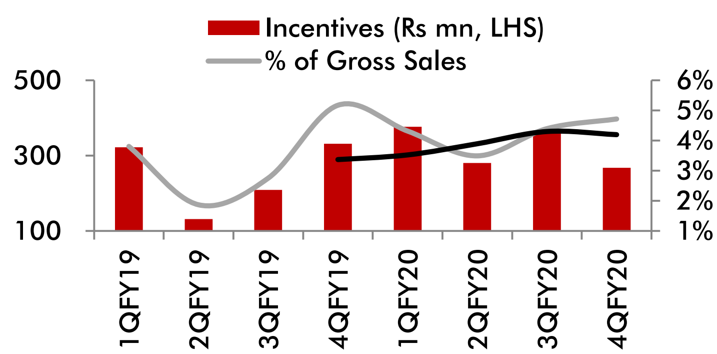
   The 20%+ RoIs generated by Jockey distributors have been key to attract new distributors from other categories like FMCG or Homebuilding. Any severe impact on distributor profitability will make it difficult for the company to attract new distributors. The company strives to keep distributors loyal through a number of initiatives. The sales head remains in continuous dialogue with the distributors to gauge the mood. There has been an increase in incentives to dealers ***(Ref to Exhibit: 15)***. The company in the past has also tried to tie up for channel financing and thus look after their distributors. Moreover, the attractive ROIs of 20%+ persist.

Exhibit 14: The company has scaled up distribution at a rapid pace from 1,300 doors at the end of FY17 to 12,000 by FY19



Source: Ambit Capital Research, Ambit Asset Management

Exhibit 15: Incentives offered by company to distributors have increased over the last few quarters

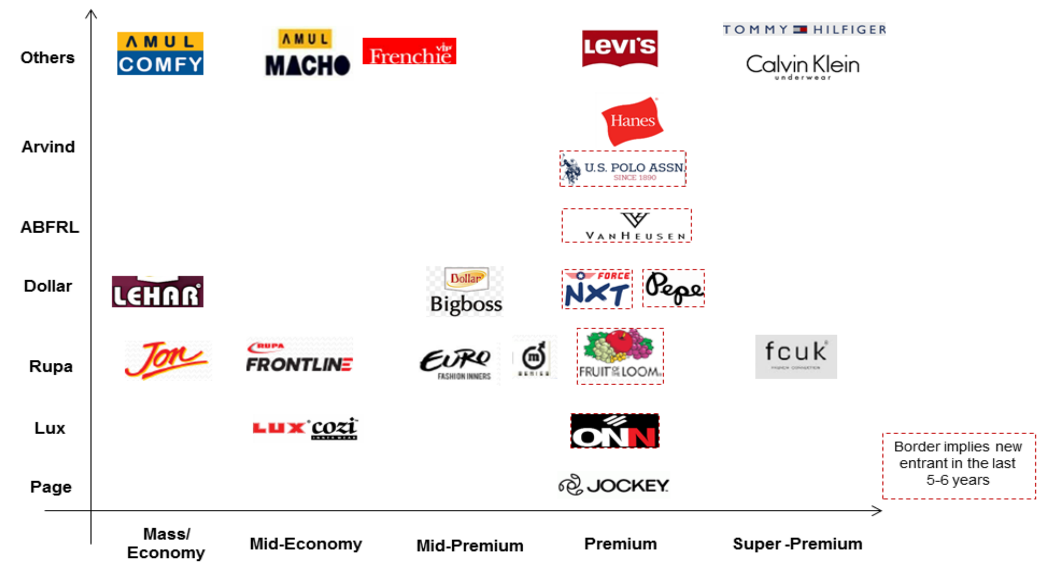


Source: Ambit Asset Management, Company

3. **Competition from new entrants:** While Page is facing increased competition from new entrants in Premium Innerwear category ***(Ref to Exhibit: 16)***, celebrity brands and Private Labels are getting aggressive in Leisurewear.
It wasn't long back when celebrities ventured into hospitality segment, especially restaurants, to generate additional source of income and leverage their brand. This was prevalent in the pre-online and pre-venture investment era. Today an established athlete or a movie star, can more easily create a brand, venture into clothing, sports-wear or other accessories, and successfully leverage her fan-following. Outsourced production leading to easy sourcing and established store network for Private Labels and Online market place have disrupted some of the entry barriers.

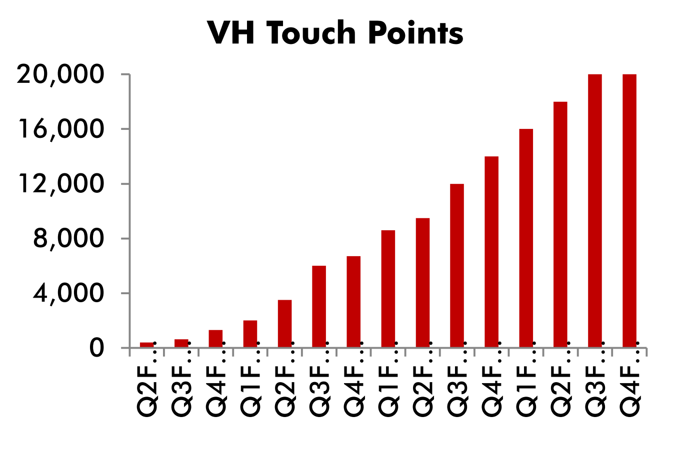
   Changing fashion trends and lower comfort quotient lead to lower brand stickiness in Athleisure compared to innerwear. Jockey is tackling this by widening its portfolio for both men and women, from just sleep wear earlier. Its competitive pricing compared to other global brands is another advantage courtesy the scale of operations.

Exhibit 16: We believe Page is the best positioned despite increased competition lately



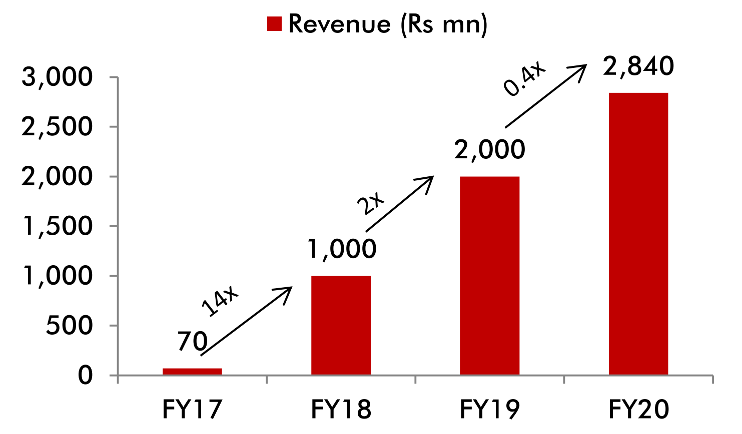
Source: Ambit Asset Management, Company

Exhibit 17: Van Heusen has been expanding aggressively since its entry in Innerwear (Premium category)



Source: Ambit Asset Management, Company

Exhibit 18: Which is visible in the revenue growth



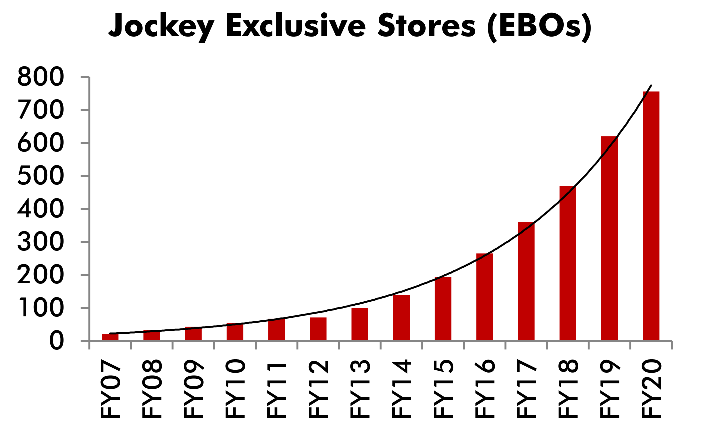
Source: Ambit Asset Management, Company

4. **Expanding other channels apart from MBOs:** It is estimated that Page Industries derives ~70-80% of its revenue from general trade / MBOs which has been an important channel of distribution for the company. However, there is a structural shift underway in purchasing where consumers are moving from general trade / MBOs to EBOs and LFS like Lifestyle or Westside due to better assortment, consumer experience and discounts offered.

   Moreover, the Mom & Pop general trade stores are facing several challenges of their own – like GST implementation - which has made tax evasion difficult and increased Working Capital requirement thus impacting their ability to stock thus affecting sales from that channel. MBOs' profitability too has been under pressure as they look to compete with better infrastructure and pricing of LFS / EBOs.

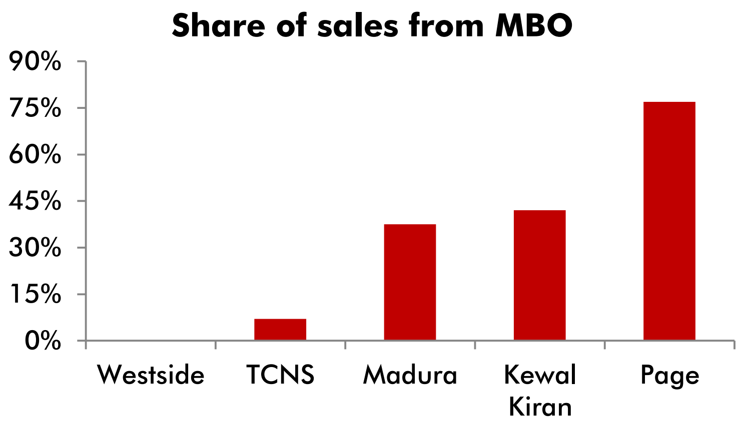
   Page is addressing this and stay ahead of the curve by expanding its EBO network ***(Ref to Exhibit: 19)*** and e-commerce channel (4-5% contribution at present). While there may be some loss of sales from MBO channel due to this, EBO channel has its own benefits like better control over customer store experience and the ability to cross-sell. We expect the transition to be beneficial for the company in the long run and expect it to gradually reduce its dependence on MBO channel and bring it in-line with other garment players. ***(Ref to Exhibit: 20)***

Exhibit 19: Jockey was the first inner-wear brand to focus on EBO expansion



Source: Ambit Asset Management, Company

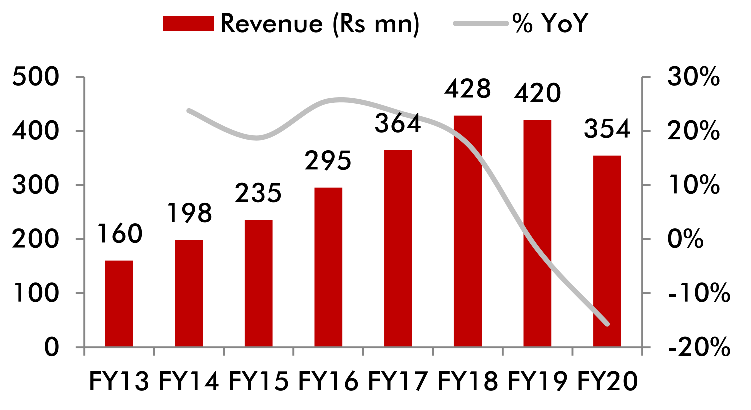
Exhibit 20: Shift to EBO and E-Com will help bring down MBO dependence in-line with other garment players



Source: Ambit Capital research, Ambit Asset Management

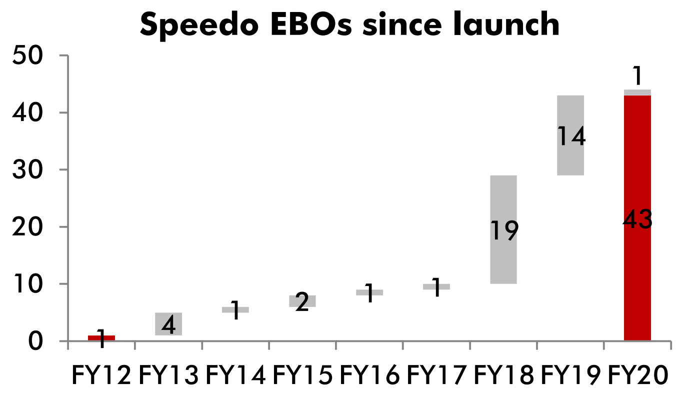
5. **Acquiring licensing of additional brands:** Page Industries acquired the license of Speedo brand in FY12. Apart from Jockey this is the only other brand license they have. Speedo has grown at a CAGR of 12% in the last 7 years on a very small base to Rs35Cr in revenue and constitutes roughly 1% of the overall sales ***(Ref to Exhibit: 21)***. While entry into such additional licensing will increase the growth potential of the company in the long run, we believe these also pose a significant capital allocation risk and divert the management's focus. So far, the focus of the management of Page Industries has not deviated much from what they set about to do. They have remained focussed on growing the Jockey brand in India while slowly diversifying into other product categories.

Exhibit 21: Speedo revenue growth trend since launch



Source: Ambit Asset Management, Company

Exhibit 22: Big EBO addition in the last couple of years



Source: Ambit Asset Management, Company

6. **Dispute with licensor, whether contractual or otherwise:** Page Industries is the biggest and the best performing licensee for Jockey International among the 45 licensees it has in ~130 countries across the globe. It has successfully leveraged the long relationship between the promoters and Jockey international, dating back to 1950s. Any deterioration in this relationship, whether it is over contract licensing, entry into new countries or maybe even problems with Jockey in their Philippines business, may end up impacting Page Industries. Moreover, any inability to meet the terms in their licensing agreement with Jockey due to a Black Swan event could also have an impact. We take comfort in the fact that Page has successfully been able to renew its contract with Jockey three times in the past ***(Ref to Exhibit: 23)*** in addition to certain amendments. The current contract will not expire before 2040 which provides us additional comfort.

"Jockey was approached by some well-known large companies for the license in India. They surprised us by asking if our family would be interested in taking the license since they did not sense the right quality and marketing culture in any of the companies that showed an interest in the brand,"

– Sunder Genomal in an interview

Exhibit 23: License renewal Timeline with Jockey International

Year	Period	Additional rights and amendments to the license
1995	**1995-2004**	**The initial license upon entry was from 1995-1999 which was renewed for further period up to 2004.**
Jan-2005	2005-2010	In addition to India, acquired rights for Sri Lanka, Maldives, Bangladesh and Nepal. Agreement was amended in 2006.
July-2010	Till 2030	Acquired license for Jockey in UAE.
June-2018	Till 2040	20 years left on this License agreement

Source: Ambit Asset Management, Company, News Articles

Exhibit 24: We highlight an excerpt from Page's Licensing agreement with Jockey from their RHP in 2007. The agreement was extended twice following which the terms must have changed as one of the terms (shareholding) is not fulfilled anymore.

*"This Agreement is terminable at the option of Jockey International Inc., in the event of we, our suppliers, contractors and subcontractors violating any of the obligations and warranties under the Agreement including **our failure to make payment of royalty, when due.** In the event of **target sales as prescribed under the Agreement not being met by us on the completion of the second and fourth quarters of each License Year, then we are obliged to pay Jockey International Inc., the difference between the royalties paid and target sales for the previous two quarters.** The Agreement is also **terminable in the event of our shareholders, selling or transferring shares resulting in the present management ceasing to control more than 50% of voting power of our Company.** Further, our Company's inability to carry out production for a period of 60 days consecutively may also result in the termination of the Agreement."*

Source: Ambit Asset Management, Page Industries RHP

7. **Production related challenges:** Page Industries manufactures ~70% of its products in-house. In doing that, it follows a unique concept of employing only women at its factories - a tried and tested formulae from their Philippines business - as they believe their hands are more nimble making it easier for them to handle smaller garments. As a result, Page has 18,637 permanent employees of which 15,330 (~80%) are women, working out if its 17 manufacturing units spread over 14 locations in Karnataka and 1 in Tamil Nadu***(Ref to Exhibit: 26).***
While the in-house manufacturing and the high number of employees on its payroll are a strength, it also makes the company vulnerable to labour related unrest. Any ensuing strikes / lockdowns in an adverse situation may affect production continuity leading to increased overheads. Last month, one of Page's institutional investor - The largest Sovereign Wealth Fund – came out with a report alleging human rights violation at some of Page's Manufacturing facilities thus excluding the company from its investment universe. Following this, Speedo International said it would further investigate the matter. Moreover, the concentration of most manufacturing units in one state makes the company vulnerable to political risks and natural disasters like flood/earthquake and temporary regional lockdowns / restrictions owing to COVID-19.
<u>We take solace from the following points:</u>

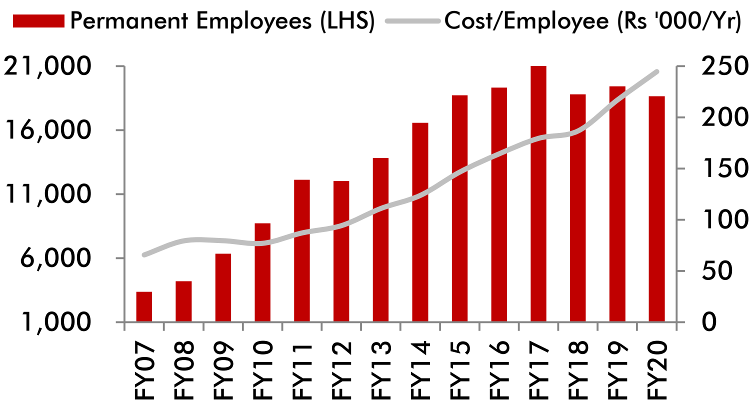
- In-house manufacturing is something which ensures superior quality for Page and gives it an important edge over competitors. Elastic, which is an important component in men's innerwear is manufactured in-house by Page.

- When it comes to employee unrest, paying them well is a basic and most effective solution which Page has been following diligently ***(Ref to Exhibit: 25).***

- While possible human rights violations could be a concern, most international brands conduct a surprise audit of their overseas licensees to gauge any such violations and make sure they are not indulging in any malpractices.

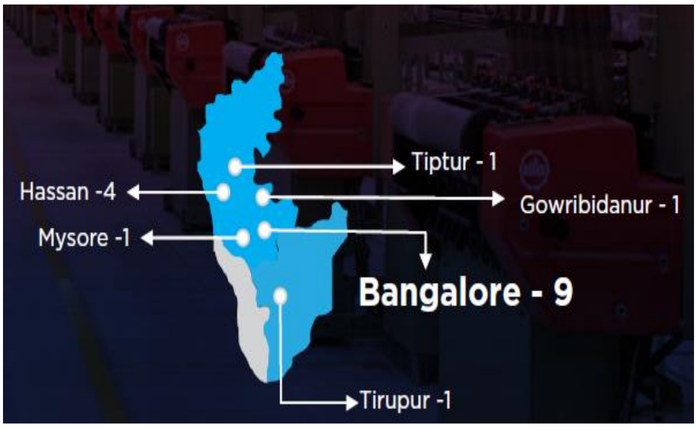
***Fun Fact:** In its initial years, Page was able to grab share from competitors TTK Tantex and Associated Apparels, who fell prey to labour unrests following which, large innerwear dealers in north and western India shifted to Jockey.*

Exhibit 25: Increasing cost/employee over the years indicating well incentivized employees



Source: Ambit Asset Management, Company

Exhibit 26: 17 Manufacturing units spread over 2.4msf



Source: Ambit Asset Management, Company

At Ambit we believe in wealth creation by long term equity investment and through the power of compounding. We constantly try and stay ahead of the curve on what may possibly impede the growth our portfolio companies. While Page Industries has been a leader in Indian innerwear industry, we do a long term scenario analysis on what could be the possible disruptions to the company and whether it can replicate its success in other categories as well. In our view: (1) Jockey's quality, distribution network and brand positioning will be the company's key moats, (2) It remains the most consistent in product quality and profitable of all the players (3) It can leverage this strong brand recall and distribution and extend this to Athleisure and Kidswear segment as well.

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