



TTK Prestige

Sector: Consumer Durable

Q4FY16 Result Update

CMP: ₹ 4,625

"Lower than expected sales; Stellar margin expansion"

Recommendation: BUY

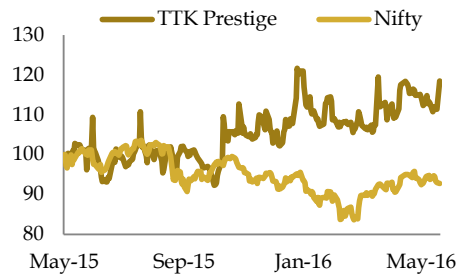
Market statistics

Current stock price (₹)	4,625
Shares O/S (cr.)	1.2
Mcap (₹ cr)	5,384
52W H/L (₹)	4,971/3,442
6m avg. volume	6,743
Bloomberg	TTKPT IN

Shareholding pattern

Promoters	70.37
Domestic Institution	5.57
Foreign Institution	16.33
Non-institution	7.73
of which more than 1%	
Axis Mutual Fund Trustee Limited A/c	5.16
Axis Mutual Fund A/c	
Nalanda India Equity Fund Ltd	3.47

TTK Prestige vs Nifty



Capital efficiency & valuations

Particulars	FY16P	FY17E	FY18E
ROE (%)	16.6	17.1	18.0
ROCE (%)	21.6	22.3	23.4
P/B (x)	6.7	6.4	5.5
P/E (x)	40.5	37.6	30.7
EPS (₹)	103.7	122.2	149.9
EV/OCF (x)	87.7	42.9	37.7

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TTK's net sales grew by 7.5% YoY to ₹3,077mn - lower than our and street's expectation. Drought in many parts of country, stock adjustment for cookware and weak consumer sentiments has impacted the sales growth. Domestic sales (96% of total sales) grew by 8.2% while Exports declined by 10%. Cooker, Cookware, Appliances & others business grew by 3.8%, -10.9%, 16.8% & 23.1% respectively.

Gross Margin continued to expand and increased by 349bps YoY to 45%. EBITDA Margin (ex-CSR) too saw significant improvement of 370bps to 11.2% (our expectation 10%) owing to benign input prices, better capacity utilization & operating efficiency. EBITDA grew by stellar 60.3% YoY. Adjusted PAT (adjusting to CSR expense) has increased by 82.4% to ₹216mn vs. our expectation of ₹194mn.

Sales lower than expected, Preparing for uptrend in demand

TTK's sales growth picked up during Q2FY16 & Q3FY16 and registered 10% & 17% sales growth, respectively. We were expecting the growth momentum would sustain and the company would be able to deliver double digit growth in Q4FY16 too. However, sales growth was slightly at the lower side to 7.5% in Q4FY16 due to sluggish demand and drought in many markets. Cooker & Cookware showed 3.8% & -10.9% growth while Appliances segment posted strong growth of 16.8% in Q4FY16. We believe TTK is well prepared to capture any uptick in demand opportunities. Consistent new launches, more number of SKUs and entry to new "Home cleaning segment" would support TTK for better performance going ahead. We expect mid-teen sales growth in the coming quarters.

Strong Operational Performance; Robust EBITDA growth of 56.6% YoY

Gross margin expanded by robust 349bps YoY to 45% due to benign raw prices & superior growth of premium segment. Better capacity utilization and operating efficiency has resulted into strong EBITDA Margin expansion of 370bps to 11.2% in Q4FY16. Employee costs increased by (+80bps YoY) while other expenses (excluding CSR expense) reduced by 102bps. EBITDA grew by robust 60.3% YoY to ₹346mn. We expect EBITDA Margin expansion to be continued in coming qtrs owing to low base of previous year & higher sales of newly launched products in the premium segment.

Outlook & Valuation

TTK has unique product portfolio that caters to mid-premium kitchenware products. Among its peers, it is only company whose product portfolio is discretionary in nature. Hence, consumer sentiments & economy growth plays a vital role in TTK's growth performance. We found that in strong GDP growth rate, TTK witnessed superior growth of 2.5-5x of GDP growth as compared to 1.5-3x growth in the slowing GDP.

We see several structural positives in TTK's business that gives us confidence that the company can achieve superior growth in the coming years too. Following are the key strength of TTK in the domestic business which would accelerate growth during the next 2 years. (1) Strong profitable growth history; (2) Superior growth performance in the improving economy; (3) Robust distribution in the domestic business; (4) Most aggressive company in the CD space; (5) Low seasonality in the business; (6) Superior EBITDA Margin as compared to its peers and (7) Healthy RoCE of 20%.

The stock trades at a P/E of 37.6x & 30.7x of FY17 & FY18 estimated EPS. TTK's 12-month forward P/E is at par to its last 3 year average. TTK always enjoy P/E premium over Sensex, however, its premium has narrowed down to 105% as compared to last 3 year & 5 year average P/E of 140% & 93%, respectively. TTK's slow growth performance during the last 2 years has de-rated the stock. We expect pick up in earnings would re-rate the stock going ahead. **We maintain our BUY rating and suggest investors to see TTK's long term potential.**



Key Conference Call Highlight

Management guided sales growth would improve in coming quarters on expectation of good monsoon, LPG rollover across country and uptick in consumption activity. The company is being prepared for the demand uptrend through new launches and being aggressive for e-commerce & other channels. Management is very confident of maintaining higher sales growth than its peers in the coming years too.

Key Highlights of Q4FY16

- **Slow Sales growth in Q4FY16 due to subdued demand and drought situations in different markets:** Management mentioned that sales slowed down in Q4FY16 due to consumer sentiment remain weak; drought conditions in different parts of country further impacted the sales growth.
- **Strong operating margin expansion in Q4FY16:** Management intimated that TTK's robust EBITDA margin in Q4FY16 was due to low input prices, better capacity utilization, operating efficiency. They also stated if commodity prices continue to follow downtrend, it would lead to further margin expansion.
- **Cooker segment:** Inner lid cookers grew faster than outer lid cookers. However, outer lid premium cookers is seeing huge demand and largely contributing to the overall cookers value growth. Management foresees that cookers sales would ramp up significantly on account of government initiative of rolling out LPG connections across India.
- **Cookware Segment decline in Q4FY16 due to stock adjustment in market:** Management mentioned that sales decline in cookware segment in Q4FY16 is one off and it is due to stock adjustment in market. This is resulted due to healthy sales growth in Q3FY16.
- **Strong growth in Appliances segment to continue:** Double digit growth has witnessed across products range of Appliances segment. TTK focus remain on core products namely Cooktops, Gas stoves, Mixer Grinder & Rice Cooker. Cooktops forms 13-14% of total sales. Management expects strong growth in Appliances segment to continue supported by new launches of core product variants.
- **Entry into Home Cleaning Segment; expects it to contribute 5% of Sales in FY17:**
 - TTK entered into Home Cleaning segment and launched innovative products in Q1FY17. Products are largely classified into Electric and Non Electric.
 - Electric segment have very unique products such as Electric Mop, Vacuum cleaner cum floor polisher and all-purpose steam cleaner. Electric products have price range from ₹ 6,000 to ₹ 35,000 while Non electric products price ranges from ₹ 200 to ₹ 3,000.
 - Management mentioned that these products are very innovative and doesn't exist in the current market hence hopes to get good traction from consumers. They have targeted top 20 cities for rollout of these products across all distribution channels.
 - Management guided that Ad spend would be marginally higher for newly launched products in this new category
 - Company aims to garner similar margins of Appliances segment in this new category and targets 5% of sales in FY17



Exhibit 1: Quarterly Snapshot

Particulars (₹ mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Net Sales	2,725	3,364	3,820	3,837	2,862	3,486	4,210	4,478	3,077
YoY Gr. (%)	(3.8)	9.8	10.5	3.9	5.0	3.6	10.2	16.7	7.5
Gross Margin (%)	45.2	44.9	43.7	43.2	41.5	43.4	43.8	44.1	45.0
YoY Change	334bps	318bps	296bps	-52bps	-373bps	-149bps	10bps	84bps	349bps
EBITDA Margin (Adjusted)*	10.4	12.2	12.1	11.9	7.5	11.2	12.7	13.1	11.2
Reported PAT	262	258	280	281	98	220	340	371	216
YoY Gr. (%)	(6.5)	0.1	(7.7)	(5.0)	(62.5)	(14.9)	21.7	32.1	120.2
Adjusted PAT	200	258	280	281	119	246	340	371	216
YoY Gr. (%)	(28.7)	0.1	(7.7)	(7.8)	(40.7)	(4.8)	21.7	32.1	82.4
NPM (%)	7.3	7.7	7.3	7.3	4.1	7.1	8.1	8.3	7.0

Source: Company, Trust *adjusted for CSR expense

Exhibit 2: Sales Breakup

	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Gross Sales (₹ mn)									
Cookers	1,040	1,350	1,480	1,390	1,060	1,310	1,610	1,550	1,100
Cooker	1,010	1,240	1,460	1,350	1,030	1,300	1,600	1,530	-
Microwave Cooker	30	120	20	40	30	10	10	20	-
Cookware	520	560	740	780	550	640	760	850	490
Appliances	1,130	1,400	1,550	1,590	1,190	1,490	1,800	2,020	1,390
Others	90	110	140	160	130	130	130	150	160
Total	2,780	3,420	3,910	3,920	2,930	3,570	4,300	4,570	3,140
YoY Gr. (%)									
Cookers	6.1	13.4	7.2	4.5	1.9	(3.0)	8.8	11.5	3.8
Cooker		7.8	14.1	4.7	2.0	4.8	9.6	13.3	-
Microwave Cooker		200.0	(80.0)	-	-	(91.7)	(50.0)	(50.0)	-
Cookware	(1.9)	16.7	32.1	9.9	5.8	14.3	2.7	9.0	(10.9)
Appliances	(10.3)	1.4	2.0	(1.9)	5.3	6.4	16.1	27.0	16.8
Others	(25.0)	37.5	75.0	33.3	44.4	18.2	(7.1)	(6.3)	23.1
Total	(3.8)	9.3	10.5	3.7	5.4	4.4	10.0	16.6	7.2
Sales Mix (%)									
Cookers	37.4	39.5	37.9	35.5	36.2	36.7	37.4	33.9	35.0
Cooker	36.3	36.3	37.3	34.4	35.2	36.4	37.2	33.5	-
Microwave Cooker	1.1	3.5	0.5	1.0	1.0	0.3	0.2	0.4	-
Cookware	18.7	16.4	18.9	19.9	18.8	17.9	17.7	18.6	15.6
Appliances	40.6	40.9	39.6	40.6	40.6	41.7	41.9	44.2	44.3
Others	3.2	3.2	3.6	4.1	4.4	3.6	3.0	3.3	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust

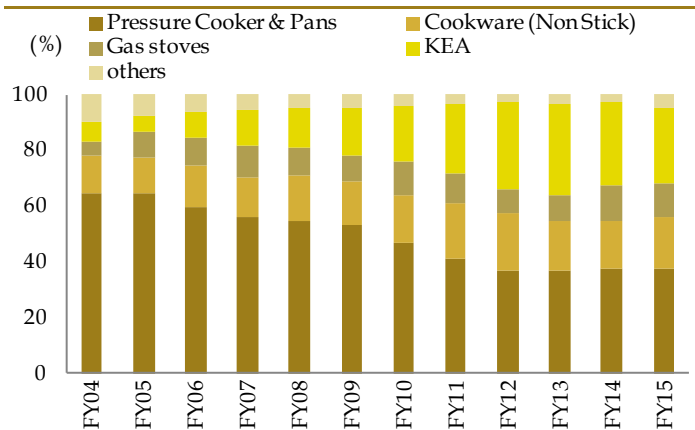


Key Liking for TTK...

Consistent Focus on Diversifying Business

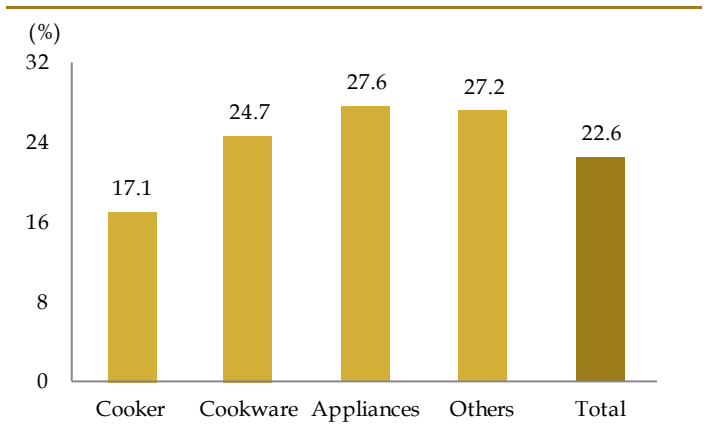
By leveraging strong "Prestige" Brand, TTK established itself complete Kitchen solutions provider from single product pressure cooker Company. This approach led Cookware and Kitchen appliance segment to grow at faster pace of 25% and 28% 5 Yr CAGR than cooker segment & subsequent decline of cooker share in sales to 37% from 60%. TTK Prestige is the only company in the organized space catering complete solutions for the kitchen. It enjoys market leadership with a share of 35-40% in pressure cooker & non-stick cookware in organized market.

Exhibit 3: Focus on diversification has reduced Cooker dependence to 37% as compared to high 60% earlier back



Source: Company, Trust

Exhibit 4: Appliances & Cookware segment's 5 Yr CAGR was ahead of its Cooker business...

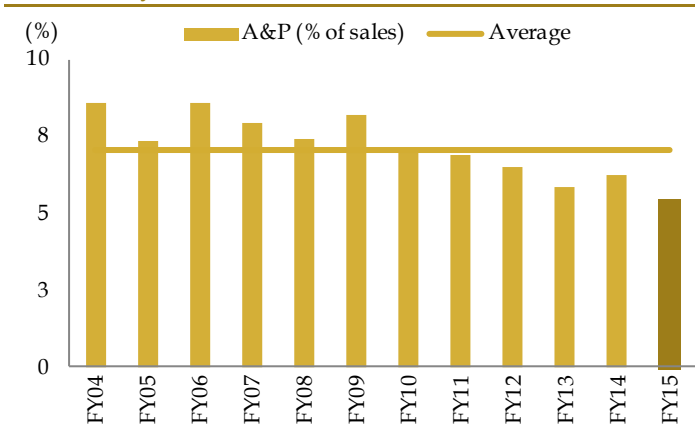


Source: Company, Trust

One of the Most Aggressive CD Company

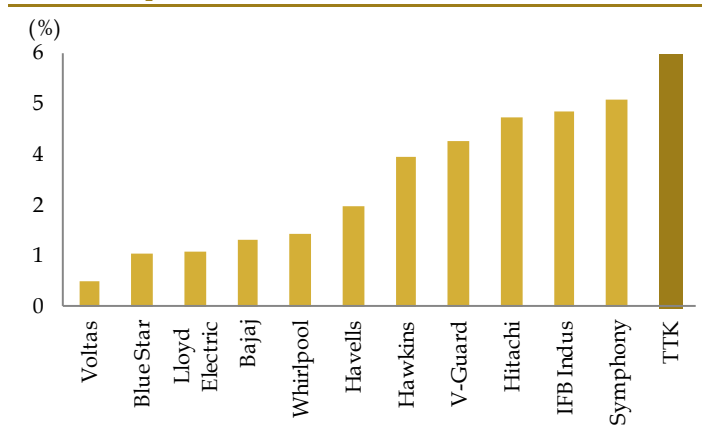
TTK is one of the most aggressive companies in the CD sector and the company has largely maintained its high A&P spend in the past several years. It one of those companies who started focusing on creating brand & distribution model in the CD sector. The company has maintained its high A&P even in those years when demand was also weak. Prestige brand has become one of the prestigious brands in the kitchenware.

Exhibit 5: TTK maintained high A&P since the past so many years...



Source: Company, Trust

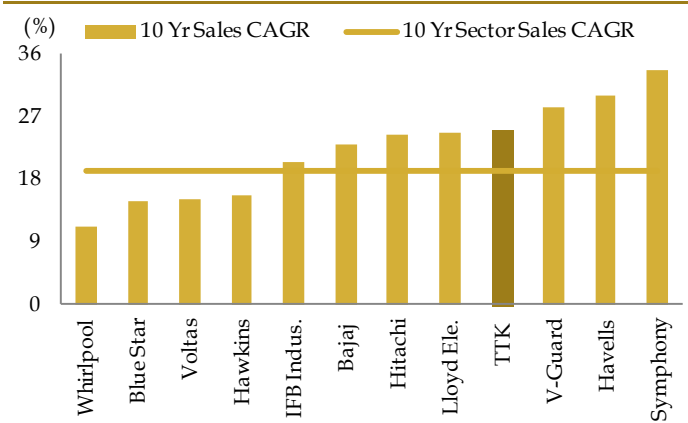
Exhibit 6: TTK's marketing spends is highest among its peers...



Source: Company, Trust

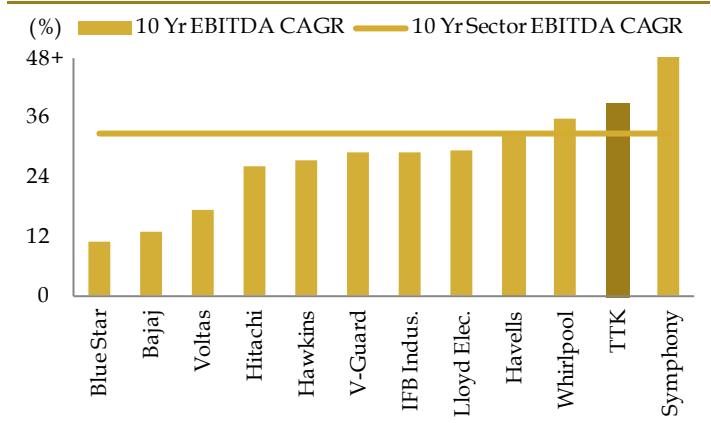


Exhibit 7: TTK's aggressive approach translated into superior growth in the past 10 years...



Source: Company, Trust

Exhibit 8: Despite aggressive marketing, TTK's EBITDA CAGR is one of the highest among its peers...



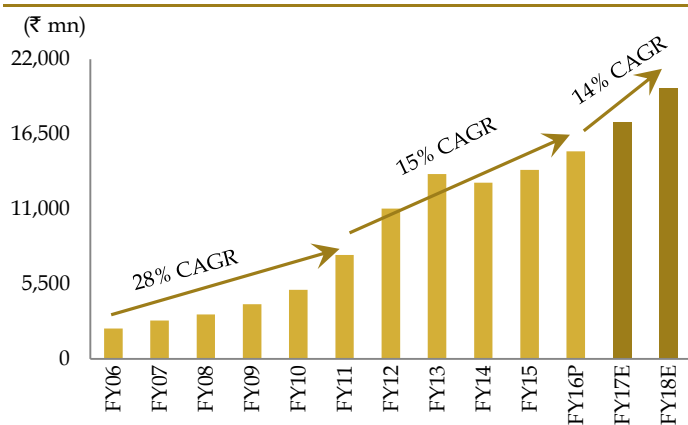
Source: Company, Trust

Promising Financials

Although TTK's past two years performance was not at par with its historical robust performance but we believe TTK's portfolio is more suitable when overall consumer sentiments are good. Last two years were one of weakest years in term of overall consumption and impacted all categories of consumer durable. It impacted more to TTK due to its premium positioning and presence in the discretionary categories. Besides, power issue in South and lower demand of high growth induction cooktop has also impacted TTK's performance.

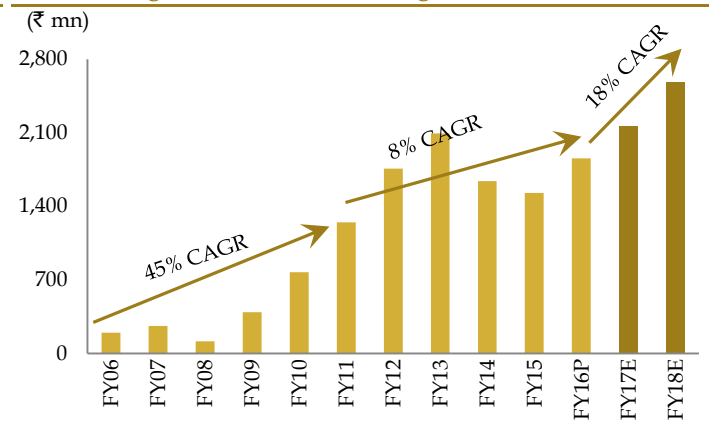
However, we still expect TTK would bounce back by leveraging its superior distribution network where distributors are contented with TTK's large product portfolio, consistent addition of products and managements' responsive approach towards its distributors. We expect TTK's cookware & appliances business would be able to register strong +20% growth during FY16 & FY17 while its cooker segment would clock mid-teens growth in the same period.

Exhibit 9: In improving economy, TTK's would be able to deliver high double digit sales growth during FY16-FY17...



Source: Company, Trust

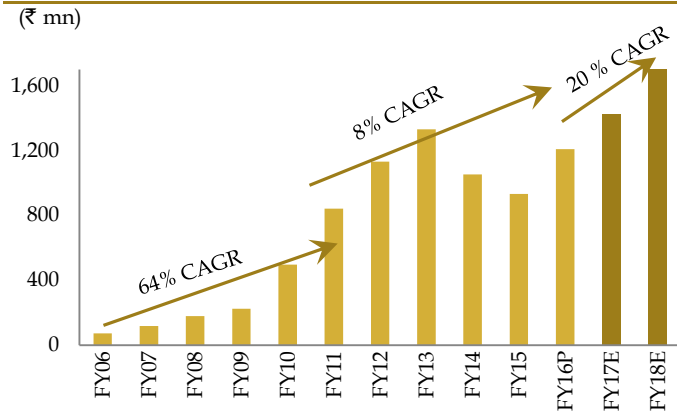
Exhibit 10: Operating leverage advantage & high focus on operational excellence, has enabled TTK's EBITDA growth ahead of its sales growth...



Source: Company, Trust

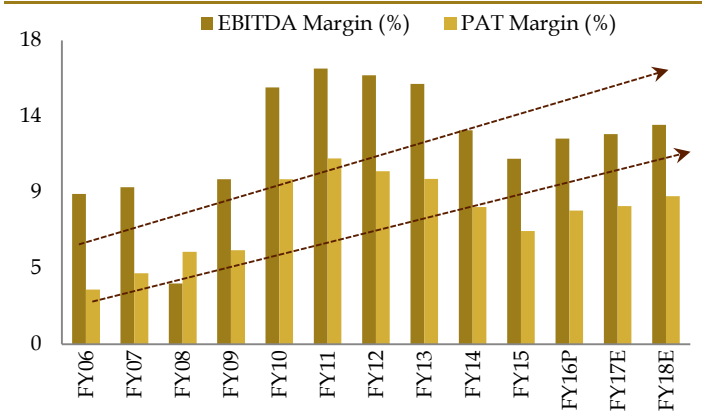


Exhibit 11: TTK's PAT growth is mostly ahead of its sales growth reflecting company's high focus on profitable growth rather than mere sales growth...



Source: Company, Trust

Exhibit 12: Margin profile has always improved barring few years, gives confidence of further improving driven by anticipation of acceleration in growth...



Source: Company, Trust



Financials

P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Net Revenues	12,938	13,883	15,251	17,383	19,903
% Growth	(4.8)	7.3	9.9	14.0	14.5
Raw Material	7,323	7,957	8,535	9,634	10,916
Staff	921	1,036	1,145	1,310	1,498
Selling and Distribution Expenses	2,482	2,687	3,110	3,504	2,810
Other Expenses	571	676	602	771	2,090
Total Expenditures	11,298	12,355	13,393	15,219	17,314
EBITDA	1,641	1,528	1,859	2,164	2,589
% Growth	(22)	(7)	22	16	20
EBITDA Margins (%)	12.7	11.0	12.2	12.4	13.0
Other Income	160	76	96	133	190
Interest	135	79	18	10	10
Depreciation	148	202	209	224	238
Profit Before Tax	1,518	1,322	1,690	2,063	2,530
Provision for tax	400	410	508	640	784
Effective tax rate (%)	26.3	31.0	30.0	31.0	31.0
Reported PAT	1,118	913	1,183	1,424	1,746
% Growth	(16.0)	(18.4)	29.6	20.4	22.6
Adjusted Net Profit	1,053	933	1,209	1,424	1,746
% Growth	(20.8)	(11.4)	29.6	17.8	22.6

Balance Sheet

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	117	117	117	117	117
Reserves & surplus	5,737	6,343	7,157	8,202	9,559
Shareholders' funds	5,853	6,460	7,273	8,319	9,676
Total Debt	269	-	-	-	-
Others	297	345	381	381	381
Capital Employed	6,419	6,805	7,654	8,699	10,056
Net fixed assets	3,639	3,629	3,354	3,445	3,512
Cash & Cash Eq.	296	296	358	678	1,149
Net Current Assets (Ex-cash)	2,303	2,767	3,605	4,009	4,598
Investments	91	35	238	438	638
Others	90	79	100	130	160
Total Assets	6,419	6,805	7,654	8,699	10,056

**Cash Flow**

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	1,518	1,322	1,690	2,063	2,530
Depreciation	148	202	209	224	238
Total Tax Paid	(471)	(373)	(508)	(640)	(784)
Chg in working capital	(367)	(474)	(859)	(435)	(619)
Other operating activities	23	(2)	18	10	10
Cash flow from oper (a)	850	676	551	1,223	1,375
Capital Expenditure	(705)	(193)	66	(315)	(305)
Chg in investments	(90)	55	(203)	(200)	(200)
Other investing activities	62	13	-	-	-
Cash flow from inv.(b)	(734)	(125)	(137)	(515)	(505)
Free cash flow	145	482	617	908	1,070
Equity raised/(repaid)	1,053	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-
Interest paid	(85)	(45)	(18)	(10)	(10)
Dividend (incl. Tax)	(232)	(272)	(369)	(378)	(389)
Other financing activities	(882)	(269)	4	-	-
Cash flow from fin. (c)	(147)	(586)	(383)	(388)	(399)
Net chg in cash (a+b+c)	(30)	(36)	31	320	471

Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	56.6	57.3	56.0	55.4	54.8
Manpower Cost/Sales (%)	7.1	7.5	7.5	7.5	7.5
A&P Cost/Sales (%)	6.2	5.5	6.7	6.7	6.7
Revenue Growth (%)	(4.8)	7.3	9.9	14.0	14.5
EBITDA Margins (%)	12.7	11.0	12.2	12.4	13.0
Net Income Margins (%)	8.1	6.7	7.9	8.2	8.8
ROCE (%)	23.3	19.5	21.6	22.3	23.4
ROE (%)	18.0	14.4	16.6	17.1	18.0

Valuation Parameters

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	90.4	80.1	103.7	122.2	149.9
P/E (x)	33.5	45.0	40.5	37.6	30.7
BV (₹)	502.4	554.5	624.3	714.0	830.5
P/BV (x)	6.0	6.5	6.7	6.4	5.5
EV/EBITDA (x)	21.5	27.2	26.0	24.3	20.0
Fixed assets turnover ratio (x)	3.6	3.8	4.5	5.0	5.7
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
EV/Sales (x)	2.7	3.0	3.2	3.0	2.6



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