CRISIL RESEARCH

CRISIL IER Independent Equity Research

TTK Prestige Ltd

Detailed Report

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Last updated: August, 2014

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TTK Prestige Ltd

Revival on the cards

Fundamental Grade	**5/5 (Excellent fundamentals)**
Valuation Grade	**2/5 (CMP has downside)**
Industry	**Household Appliances**

CRISIL RESEARCH

December 08, 2015

Fair Value	**₹3,690**
CMP	**₹4,135**

After a weak FY14, where revenue declined ~5%, TTK Prestige Ltd (TTK's) topline grew 7% y-o-y in FY15, aided by higher sales of cookers (7%) and cookware products (16%). However, sturdy growth seen over the past decade remained elusive, owing to an industry-wide slowdown (H1FY16 witnessed similar growth). The kitchen appliance industry is on the cusp of an upturn with urban spends picking up, although muted rural spends might prolong recovery. We believe TTK's management is taking the right steps (product launches, entry into online channels and sustained advertising and promotional (A&P) spend) to further consolidate its market position; These measures, along with its core strengths – strong brand recall, wide product portfolio, well-entrenched distribution network and a robust balance sheet - positions the company aptly to benefit from long-term growth prospects. However, intense competition from domestic as well as foreign players, and a prolonged demand slowdown remain key challenges. We maintain our fundamental grade of **5/5.**

Demand slowdown seem to have bottomed out; growth recovery expected in FY17

The pick-up in demand for kitchen appliances is contingent on a sustained recovery in consumer spending, particularly from rural areas. Although urban spending has been resilient in recent months, rural spending continues to languish. In recent months, demand has shown signs of improvement, with festive season sales faring better than last year. This is expected to drive near-term growth. However, full-fledged recovery hinges on a revival in rural spending, which is unlikely to pick up before FY17.

TTK: Bolstering apex positioning through new initiatives

To overcome growth challenges, TTK has undertaken many new initiatives, which include 1) product launches and innovative designs across segments, and 2) ramping up its e-commerce presence. Additionally, it has maintained healthy A&P spends (5.5% in FY15) to further entrench its already strong brand positioning. We believe that these steps complement its core strengths mentioned previously, and position it aptly to benefit from the growth revival.

Margin likely to expand from FY15 levels – but remain below peak levels

We expect the margin to expand from FY15 levels, as prices of key inputs such as aluminium and stainless steel decline and operating leverage benefits stem from improved utilisation levels. While these factors are expected to drive up operating margin, reaching historic levels of 15-16% (average over FY10-14) is unlikely, owing to intense competitive pressures. We expect operating margin to expand 130 bps over FY15-17 to 12.4%.

Valuation: Current market price has downside

We continue to use the discounted cash flow (DCF) method to value TTK Prestige and reiterate our fair value of ₹3,690. This fair value implies P/E multiples of 37.7x and 28.5x FY16E and FY17E EPS respectively. The stock is currently trading at ₹4,135, which implies a valuation grade of **2/5**.

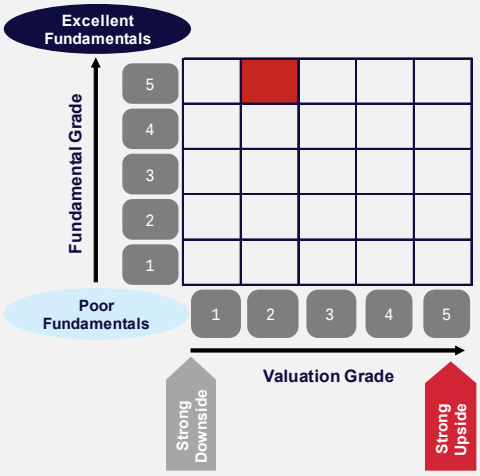
KEY FORECAST

(₹ mn)	FY13	FY14	FY15	FY16E	FY17E
Operating income	13,598	12,955	13,900	15,493	18,273
EBITDA	2,121	1,680	1,544	1,760	2,267
Adj net income	1,329	1,045	902	1,141	1,509
Adj EPS (₹)	117.0	89.6	77.4	97.9	129.6
EPS growth (%)	17.1	(23.4)	(13.7)	26.6	32.3
Dividend yield (%)	0.4	0.5	0.6	0.8	1.1
RoCE (%)	47.5	27.3	21.5	23.1	27.1
RoE (%)	39.0	21.3	14.6	16.8	19.9
PE (x)	33.7	44.0	51.0	40.3	30.5
P/BV (x)	11.3	7.9	7.1	6.4	5.7
EV/EBITDA (x)	21.5	27.3	29.6	25.7	19.7

*#MSP- Minimum support price; *A&P – advertising and promotional spend*

Source: Company, CRISIL Research estimates

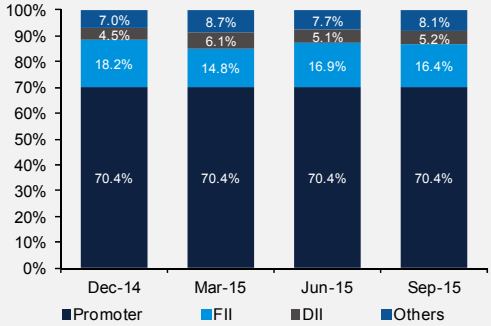
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	7702/25310
NSE/BSE ticker	TTKPRESTIG
Face value (₹ per share)	10
Shares outstanding (mn)	11.6
Market cap (₹ mn)/(US$ mn)	48,196/722
Enterprise value (₹ mn)/(US$ mn)	47,517/711
52-week range (₹)/(H/L)	4,608/2,980
Beta	0.9
Free float (%)	29.6%
Avg daily volumes (30-days)	6,808
Avg daily value (30-days) (₹ mn)	29

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
TTK	1%	6%	7%	9%
CNX 500	-2%	2%	-2%	-5%

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For detailed initiating coverage report please visit: www.ier.co.in
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Table 1: TTK Prestige - Business environment

Product / segment	Pressure cookers	Cookware	Gas stoves	Kitchen electrical appliances	Others
Revenue contribution (FY15)	37.2%	18.5%	12.3%	27%	5%
Revenue contribution (FY17E)	36.2%	18.6%	12.9%	27.2%	5%
Geographic presence	Dominant position with market leadership across most product categories in South India (~55% of sales); focus on increasing penetration across non-South markets (revenue contribution has increased to ~45% from 10-15% over the past one decade)				
Market position	Market leader in the segment. However, lags Hawkins in North and East markets	Dominant position in South India, faces high competition in the other regions	Largely present in the premium segment	Faces stiff competition from organised players	Depends on the product categories
Sales growth (FY12-15 – 3-yr CAGR)	9%	5%	20%	5%	27%
Sales forecast – (FY15-17E – 3-yr CAGR)	16%	9%	15%	14%	14%
Demand drivers	■ Shift in consumer preference towards branded products, aided by rising disposable income levels, is expected to drive demand for branded products in the kitchen appliances segment ■ Established brand, diversified product portfolio boosted by focus on new products, wide distribution reach - including metros as well as tier-I and tier-II cities, and renewed focus on marketing and promotional campaigns, are expected to drive demand for TTK's products				
Key competitors	Hawkins, Butterfly	Hawkins, Butterfly	Butterfly in South India, Sunflame in North India	Bajaj, Butterfly, Philips (including Preethi), Kenstar, Pigeon	Varies based on type of products
Key risks	■ While raw material prices are expected to decline over next couple years, any unexpected rise in prices can impact the company's operating margin ■ Under-utilisation of capacities can impact operating margin as seen during FY15 ■ Prolonged slump in rural income growth can significantly impact demand				

Source: Company, CRISIL Research

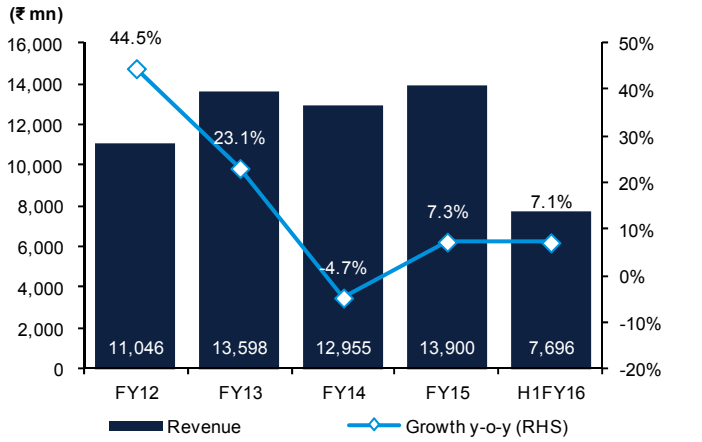
Grading Rationale

High double-digit growth remain elusive

After a weak FY14 where revenue declined 5% y-o-y, TTK came back to the growth path in FY15. However, sluggish demand, stiff competition and regional obstacles restricted growth to single digits – FY15 and H1FY16 revenue grew 7% y-o-y each. The slowdown in demand had an impact, which was visible on financials of other kitchen appliance companies as well – in H1FY16, Butterfly Gandhimathi posted a meagre 2% y-o-y growth in branded products, while Hawkins' net sales remained flat y-o-y. While a sub-normal monsoon and muted growth in MSP for major crops may keep rural demand sluggish, urban consumption is showing signs of recovery, reflected in healthy festive season sales. We expect TTK's revenue growth to remain in low double digits over the next couple of quarters. With gradual improvement in rural spends, we expect revenue to record 15% CAGR over next two years.

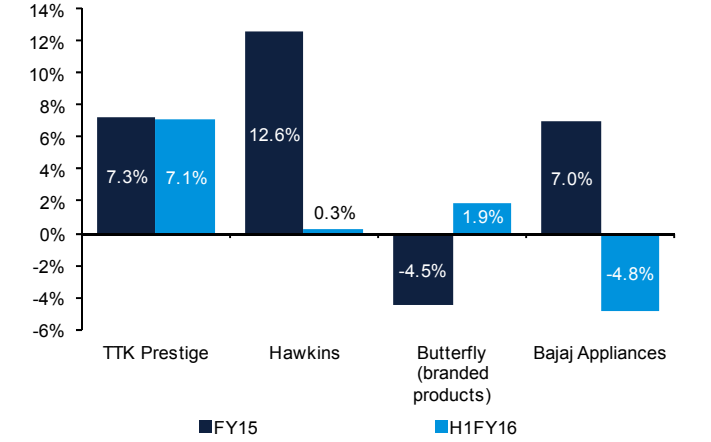
Posted revenue growth of 7% y-o-y and 4% y-o-y, respectively, in FY15 and Q1FY16

Figure 1: Revenue growth abated in recent years…



Source: Company, Industry, CRISIL Research

Figure 2: …But remained better than most peers



Source: Company, CRISIL Research

Cookware and pressure cooker segments posted healthy growth

Revenue growth in FY15 was primarily led by the cookware and pressure cooker segments, which grew at 16% and 7.2% y-o-y, respectively. Introduction of a new range of anodized cookware and pressure cookers was the key driver. Among kitchen appliances, gas stove sales grew at ~5% y-o-y, on the back of launch of high-end hob top products. Induction cooktops segment saw a healthy rise in volume; however, as majority of sales were in the entry segment, overall sales declined marginally by 2% y-o-y. Going forward, we expect revenue growth to be largely driven by product launches, across segments.

Pressure cooker and cookware segments drove growth in FY15

Indian kitchen appliances industry: green shoots visible

Convergence of growth obstacles led to a prolonged demand slowdown

The Indian kitchen appliances industry witnessed severe slowdown in demand over the past 8-9 quarters (prior to Q2FY16), as several growth impediments converged. The organised segment, which had outpaced overall industry growth in the past decade, aided by market share gain from the unorganised segment - has also slowed down considerably. Some of the key factors impacting growth include –

Industry growth has stagnated over the past couple of years

- **Slowdown in rural consumption:** After fuelling the consumption engine for the past few years, rural demand slumped in FY14-15 as income growth was impacted by - 1) moderate hikes in minimum support prices (MSP) compared with levels in FY10-13, 2) lower agricultural exports due to soft global commodity prices, and 3) muted construction and real estate activity, resulting in fewer non-agricultural employment opportunities. Muted rural demand has been the key contributing factor to slowdown in demand.
- **Regional obstacles:** Region-specific issues; including power shortage and erratic monsoons in Tamil Nadu and Kerala, political disturbances in AP, ban on mining in Goa; affected demand. Tamil Nadu government's programme of distributing mixer grinders and table-top grinders for free has also impacted markets for respective product categories.
- **Increased competition:** Competitive pressure in the already fragmented kitchen appliances industry has intensified in recent years, with the entry of global brands (such as Royal Philips Electronics), and the pan-India expansion by regional brands (such as Butterfly). High competitive pressure, along with the slowdown in demand, has restricted growth of organised players.

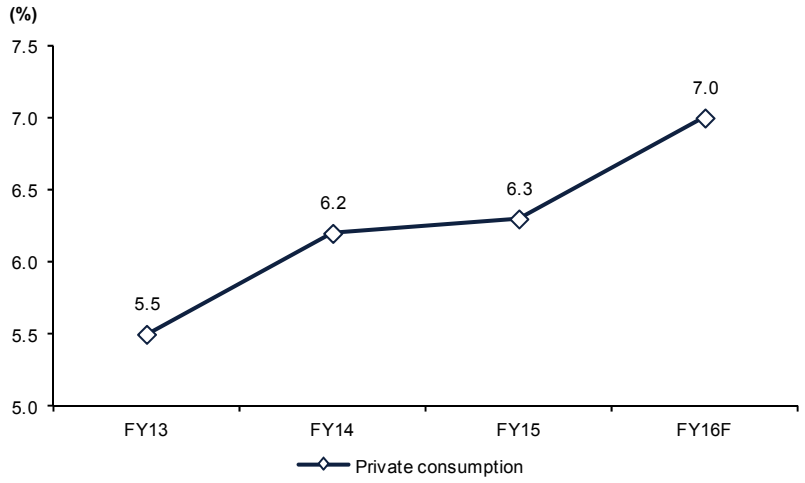
While certain regional issues have alleviated, others (such as sluggish rural demand) are likely to persist in the near-term, partially mitigating the impact of a steady pick-up in urban spends. Therefore, we expect revenue growth to remain steady in H2FY16, followed by further improvement in FY17.

Demand recovery hinges on revival in consumer spending, expected to pick up in FY17

Going ahead, revival in demand for kitchen appliance products is largely contingent on a sustained recovery in consumer spending, particularly from the rural segment. Urban consumer spends have picked up, in recent months, owing mainly to benign inflation, reflected in the private final consumption expenditure (PFCE) growth of 7.1% in H1FY16, higher than last year. However, rural demand is likely to remain subdued, owing to factors mentioned previously, and a weak monsoon impacting the *kharif* output. Owing to this, we expect growth in the kitchen appliance industry to be gradual and pick-up from FY17 onwards.

Consumer spending picking up, but rural consumption yet to pick up

Figure 3: Private consumption expected to inch up



Source: CRISIL Research

TTK's geared up for growth – new products, brand strength - key for revival

Despite growth challenges seen over past couple of years, TTK has remained a leader in the kitchen appliances industry. While its core strengths remain intact (strong brand salience, wide product portfolio, and extensive distribution network), the management is taking further steps to bolster these strengths. We believe these initiatives position the company as a key beneficiary of the revival in growth.

Product launches to remain key for growth revival

Product launches across categories to be a key growth catalyst

Over the years, the company has reinforced its position as an apex player in the kitchen appliances industry, through continuous innovation and product launches. Following the extension inproduct line, contribution of the pressure cooker segment has declined to 37% in FY15 from ~53% in FY09. Going forward, it plans to 1) launch several products across segments – such as convertible gas stoves, new range of induction cooktops, and a new category of mixer grinders; and 2) introduce new features in existing product lines, such as new shapes in inner-lid pressure cookers. Additionally, the company also plans to enter new categories for example, it has identified kitchen hoods as a new category and plans to launch products, aimed at the premium segment. We believe the company is well-positioned to benefit from the revival in industry over the medium term, backed by constant innovation and product development.

Plans to launch new models across different price points

Table 2: List of new product and features introduced by the company

Product	Innovations done to existing products	Recent new product launches
Pressure cooker	Inner Lid pressure cookers	New 'Apple' shaped pressure cookers
	Induction friendly cookers with more than 80% of entire product range induction friendly	Inner lid induction pressure cookers
	Introduced colored pressure cookers for the first time	New capacities and price points
Cookware	Induction friendly durable non-stick cookware	Introduced a new signature series of hard anodized premium cookware products
Gas Stoves	Introduced a new convertible gas stove with gas and electricity based cooking ability	
Mixer grinder	Launched a 550W, 4 jar grinder – a new segment	Launched a new series of mixers and blenders under the 'Mist' series brand
Induction cooktops	New feature which automatically keeps food warm	Induction PIC V3
Kitchen hoods		Introduced new generation auto clean chimneys at higher price points

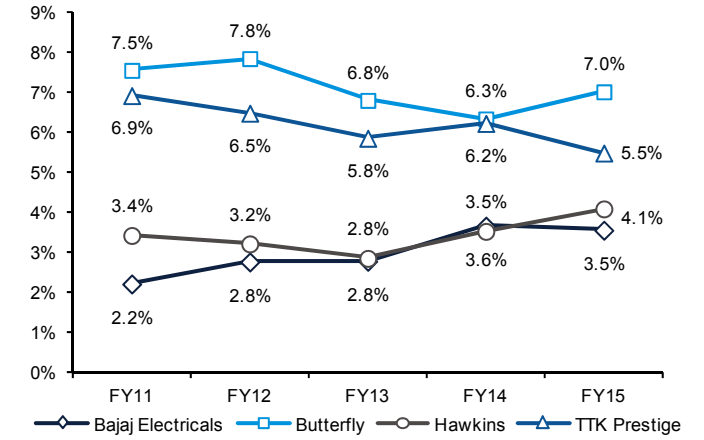
Source: Company, CRISIL research

Sustained promotional spend to support brand salience

Through sustained advertising and promotional (A&P) spends, the company has been able to establish and maintain its leadership position in the industry. Apart from traditional channels, such as print and electronic media (including promotional adverts by film celebrities), and out-of-home advertising; the company has of late been using alternative channels (such as online, television shopping) for promotional activities.

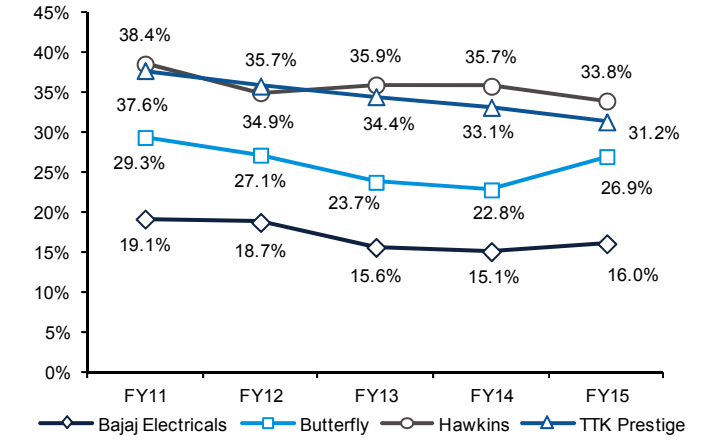
Some of the new initiatives taken over last few quarters include, establishing presence in the television shopping space – targeting wide reach of the television medium and increased marketing on internet-driven advertising platforms. Also, it has introduced innovative exchange schemes where in it provides attractive discounts on new products in exchange for old items. This has helped it bolster brand loyalty, apart from boosting replacement demand. The company has maintained its marketing and advertising spends at a steady 5.5-7%, over the past five years. Strong brand recall, aided by sustained A&P spend, is expected to be a major catalyst in ushering the next phase of growth as well.

Figure 4: Advertising and promotional spend as percentage of sales in line with peers



Source: Company, CRISIL Research

Figure 5: TTK's higher gross margins reflect its brand salience



Source: Company, CRISIL Research

Establishing presence in the growing e-commerce space

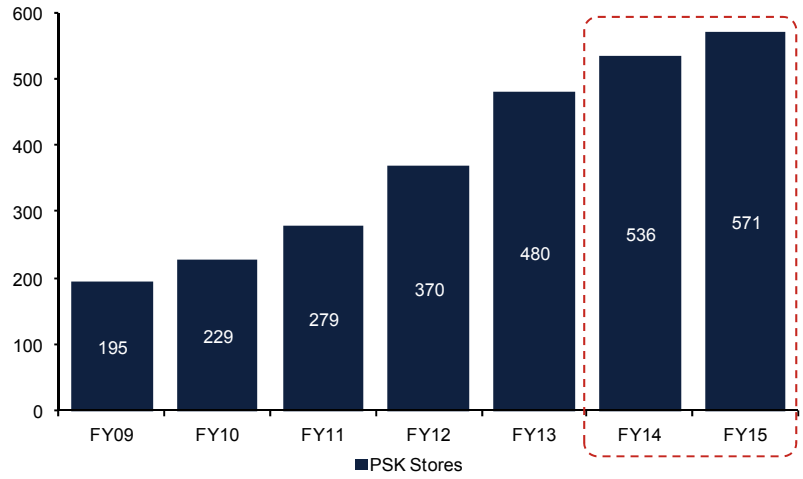
To tap the fast growing online demand, the company is strengthening its presence in the e-commerce space, one of the first movers among kitchen appliance manufacturers in India. After launching its own online portal in FY15, the company also registered itself as a direct seller on most of the leading e-commerce platforms such as Flipkart, Snapdeal, and Amazon. It has set up a fulfilment centre in South India to support these expansions and is in the process of setting up four more in other parts of India. With the e-commerce industry poised for healthy growth over next few years, we believe this is a step in the right direction.

Also, this step has also helped TTK mitigate conflicts with its traditional channel partners, which surfaced as online re-sellers heavily discounted products, and translated into inventory de-stocking.

Consolidating the PSK network owing to growing e-commerce sales

Owing to increase in sales through e-commerce channels, the company has slowed down expansion plans of its franchise--driven Prestige Smart Kitchen (PSK) store network. While this format brings in brand exclusivity and enables the company to highlight its product range, aggressive store expansion, amid muted demand, may impact profitability of these stores. Going forward, it plans to focus on growing sales at existing stores and selectively opens new stores at aggressive locations, scaling down its previous target of 1,000 PSK stores by the end of FY17.

Figure 6: Pace of expansion in PSK network has slowed down in FY15



Source: Company, CRISIL Research

Water purifier segment yet to gain traction

As expected, the water purifier segment is yet to witness traction, with no significant contribution to sales in FY15. This is because the company's brand positioning in this segment is still at a nascent stage, compared to established players such as Eureka Forbes, Tata Chemicals (Tata Swatch) and Hindustan Unilever. The company is currently evaluating the market and is expected to launch products at competitive price points. In the long run, however, given the high levels of competition, scaling up of operations remains a monitorable.

Operating margin to improve from FY15 levels

We expect TTK's EBITDA margin to expand 130 bps to 12.4% over FY15-17, aided by lower raw material prices (aluminium and steel) and better absorption of fixed costs with pick-up in revenue growth.

Material costs to remain soft owing to global supply glut

Also, owing to a slowdown in demand from China, global aluminium and steel prices have corrected sharply over the previous year. CRISIL Research expects prices of aluminium and steel to decline ~10% and ~20%, respectively, over CY14 levels. Although, owing to long-term contracts with suppliers, the impact of lower material prices is yet to reflect in margins, we expect the benefit to trickle gradually over next few quarters, aiding margin expansion.

Operating leverage benefits to accrue with pick-up in utilisation levels

Although increased manufacturing capacity of pressure cookers and cookware (new plant set up in Gujarat during FY15) was expected to aid margin expansion by reducing dependence on imports and outsourced manufacturing, tepid revenue growth led to under-absorption of fixed costs in FY15, with capacity utilisation languishing at ~60%. This, in the absence of material price hike owing to muted demand, impacted operating margin - EBTIDA margin fell to a six-year low of 11.1% in FY15, compared with an average margin of 15.3% over FY10-14. Margins continued to remain under pressure in H1FY16 and declined 34 bps y-o-y to 11.8%. However, with revenue growth expected to improve going forward, we expect margins to expand.

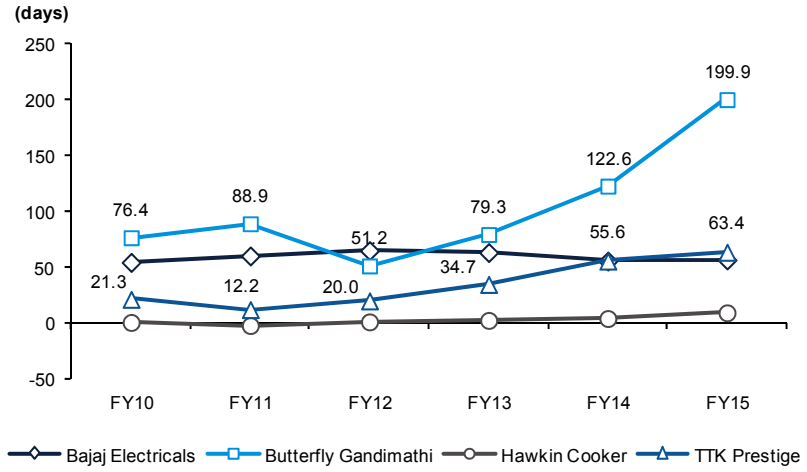
Introduction of premium products to aid margin expansion

As part of its product innovation efforts, the company continues to introduce new premium products with add-ons - such as convertible gas stoves that offer the convenience of both electric and gas-based cooking capabilities. Also, new product segments such as kitchen hoods, sell at higher price points. We expect the expected premiumisation of the product portfolio to further aid margin expansion.

Strong balance sheet aided by efficient working capital management

TTK's balance sheet continues to be robust, stemming mainly from an efficient working capital management, which has resulted in higher cash accruals. Also, the company has paid off its outstanding debt through its internal accruals in FY15 and became a debt-free company. Over the past few years, it has consistently generated operating cash flows and free cash flows.

Figure 7: Working capital management better than most peers



Source: Company, Industry, CRISIL Research

Increasing competitive intensity remains a key challenge

While TTK has been able to successfully foray into multiple segments, from being primarily a pressure cooker brand, it faces competition from many organised and unorganised players. In the pressure cooker and cookware segment, the company has diversified its presence by successfully foraying into the north and west markets. However, incremental market share gains would be hard to come by as competitors, mainly Hawkins and Butterfly Gandhimathi, renew their focus on gaining market share across the country.

Faces intense competition in the overcrowded kitchen appliance segment

The company faces intense competition from several organised and unorganised players in the kitchen appliance industry, which is highly fragmented. Among organised players, Bajaj Electricals, Preethi, Elgi, Sunflame, Phillips India, Butterfly Gandhimathi are its main competitors. All these players have strongly positioned product categories, for eg: Preethi in mixer grinders and Sunflame in gas stoves.

Table 2: Competitive positioning of TTK Prestige Ltd

	TTK Prestige	Gandhimathi	Hawkins	Bajaj Electricals
Product offerings	Only company in India that has a product portfolio covering the entire range of kitchen appliance products	Gas stoves, pressure cookers, mixer grinders and table top grinders. However, the products and variants are not as diversified as TTK Prestige's offerings	Strong in pressure cookers and non-stick cookware	Strong presence in induction cooktops, toasters, grillers and kettles
Market positioning	Leader in the cookware segment, strong positioning in other product categories	Leader in gas stoves in South India, gradually expanding presence in the non-South markets	Leader in the pressure cooker segment	Leader in Induction cooktops
Key markets	South India	Tamil Nadu, also strong in other southern states	North and East India	North and West India

	TTK Prestige	Gandhimathi	Hawkins	Bajaj Electricals
Distribution network				
E-commerce	Yes		Yes	Yes
Retail outlets	Yes			
Distributors	Yes	Yes	Yes	Yes
Large format retail stores	Yes	Yes	Yes	Yes
Target segment	Caters to all income classes, does not have many products for the middle income category	Focused on the middle and lower income categories, does not cater to the ultra-premium category	Catering to all income classes. Has launched a range of cookware products for the ultra-premium customers	Focused on the middle and lower income categories, does not cater to the ultra-premium category
Brand awareness	Strong brand recall among customers across South India as well as in parts of northern and western markets	Strong brand recall in Tamil Nadu, gradually improving in other markets	Strong brand recall in East and North India	Largely know for electrical appliances

Source: Industry, CRISIL Research

Key Risks

Sudden increase in raw material prices

TTK's primary raw materials are aluminium and steel – commodities whose prices are linked to various global factors. Although the company has been able to pass on the increase in raw material prices to consumers in the past owing to a strong brand, any failure to do so in the future can adversely impact operating margin.

Inability to completely pass on any substantial increase in raw material prices or forex volatility may put pressure on margins

Foreign exchange movement

TTK imports 10-15% of its raw materials, which exposes it to fluctuations in foreign exchange rates. Although we expect imports to decline as TTK is shifting to indigenous manufacturing, it is likely to continue to import some raw materials. Sharp depreciation in the currency, coupled with the company's inability to pass on the increase completely to consumers, may negatively impact margins.

Inefficient deployment of cash; under-utilisation of capacity

As per our estimates, TTK is expected to generate substantial amount of cash post FY15 as it has completed capacity expansion. Inefficient utilisation of cash or venturing into unrelated businesses can hamper return ratios. Further, failure to optimally utilise the expanded capacity can negatively impact operating margins.

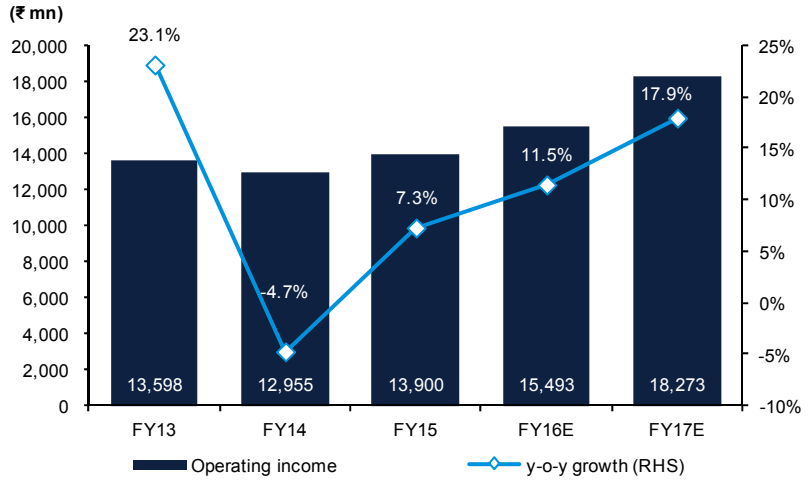
Failure to deploy excess cash efficiently and lower utilisation of capacity may adversely impact return ratios

Financial Outlook

Revenues estimated to grow at a CAGR of 15% over FY15-17

We estimate revenue to record a two-year CAGR of 15% to ₹18.2 bn in FY17. This would be led by 1) pick-up in consumer demand for cookware and kitchen appliances, and 2) product launches. Also, resolution of trade channel conflicts is expected to aid growth over next couple of years. Revenue is forecast to reach ₹14.9 bn in FY15 and ₹17.5 bn in FY16.

Figure 8: Operating income expected to grow at 15% CAGR

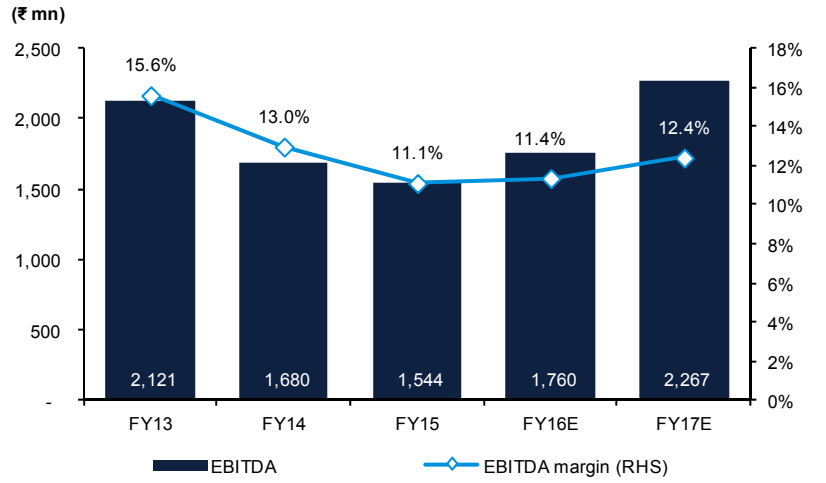


Source: Company, CRISIL Research

Operating margin to expand 130 bps by FY17

TTK's EBITDA margin declined to 11.1% in FY15 against 13% in FY13, as input costs increased owing to rupee depreciation and flat topline growth resulted in under-absorption of fixed costs. We expect EBITDA margin to expand 130 bps over FY15-17 as 1) dependence on imports is expected to decline with commissioning of the capacity in Gujarat 2) pick-up in revenue growth is expected to improve absorption of fixed costs; and 3) we expect the company to retain part of the benefits accruing from a steep fall in prices of certain key raw material such as stainless steel and aluminium, over FY15-17. We expect EBITDA margin to reach 11.4% in FY16 from 12.4% in FY17.

Figure 9: EBITDA margin expected to expand to 12.4% by FY17

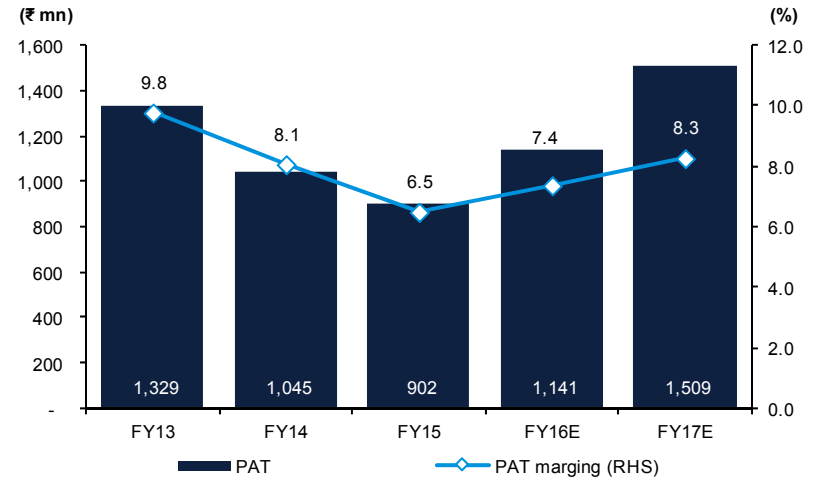


Source: Company, CRISIL Research

Adjusted PAT to grow with EBITDA margin expansion

We forecast adjusted PAT to increase from ₹902 mn in FY15 to ₹1,509 mn in FY17. This is expected to be primarily led by an expansion in EBITDA margin. Also, going forward, we expect the company to fund its working capital requirements largely from operating cash flows. This is likely to lower interest payment, further aiding earnings growth.

Figure 10: PAT estimated to increase to ₹1.5 bn by FY17



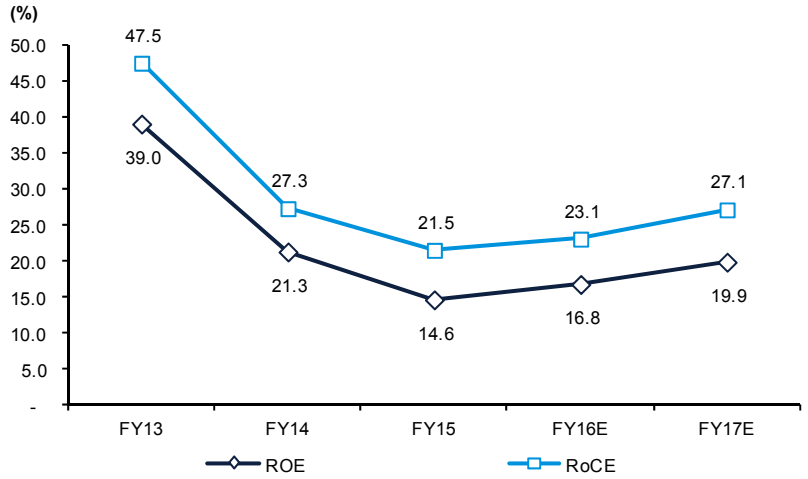
**FY15 PAT includes one-time income of ₹709 mn from sale of residential projects*

Source: Company, CRISIL Research

Expect return ratios to improve in FY17

Return ratios are expected to improve over next couple of years. RoCE is expected to improve to 19.9% in FY17 from 16.8% in FY15, while RoE is expected to increase to 27.1% from 21.5% in FY15. This is largely on account of increase in PAT growth forecasted over the period.

Figure 11: Return ratios expected to moderate from FY13 level but remain healthy



Source: Company, CRISIL Research

Q2FY16 results update

TTK's Q2FY16 results were largely in line with our expectations. Revenue grew 10.1% y-o-y to ₹4,210 mn, driven by the appliances (16% y-o-y growth) and pressure cooker categories (9% y-o-y). H1FY16 revenue grew 7.1% y-o-y to ₹7,696 mn. EBITDA margin expanded 41 bps y-o-y to 12.5%, aided by better absorption of fixed costs stemming from higher utilisation rates and slight improvement in gross margins, owing to lower material prices. Adjusted PAT increased 21.7% y-o-y to ₹340 mn. H1FY16 Adjusted PAT rose 9.6% y-o-y to ₹597 mn.

Revenue growth revived led by appliances, pressure cookers

Led by sturdy growth in appliances (16% y-o-y growth) and pressure cooker (9%) segments, TTK posted double digit y-o-y revenue growth in Q2FY16. However, the cookware segment, which has witnessed healthy traction over the past few quarters, grew only 3%. Sales from the non-South market grew ~15% y-o-y, while growth in the Southern markets remained in single digits (~6% y-o-y). The management highlighted that consumer sentiments continue to be sluggish. However, double-digit growth is expected to be sustained in Q3 owing to festive season sales and a favourable base effect.

Product launches gaining traction

In H1FY16, the company launched 75-80 new stock keeping units (SKUs) (including those in the existing as well as new categories), and plans to set up 25-30 SKUs in the latter half of the year. Majority of these new products were introduced in certain pockets, and are likely to be rolled out in other regions later. As per the company, most of the new products have gained good traction and contributed to the double-digit revenue growth.

EBITDA margin expansion translated into healthy PAT growth

In Q2FY16, gross margin expanded slightly by 10 bps y-o-y to reach 43.8%, due to soft raw material prices. This, coupled with operating leverage benefits stemming from higher revenue growth, drove a 41 bps y-o-y expansion in EBITDA margin. Subsequent to higher EBITDA and other income, and lower interest expenses, adjusted PAT grew 21.7% to ₹340 mn.

Q2FY16 Results Summary

(₹ mn)	Q2FY16	Q1FY16	Q2FY15	q-o-q (%)	y-o-y (%)	H1FY16	H1FY15	y-o-y (%)
Net sales	**4,210**	**3,486**	**3,820**	**20.8**	**10.2**	**7,696**	**7,183**	**7.1**
Raw materials cost	2,365	1,973	2,149	19.8	10.0	4,338	4,034	7.5
Raw materials cost (% of net sales)	56.2%	56.6%	56.3%	-44bps	-10bps	56.4%	56.2%	21bps
Employee cost	288	259	275	11.5	5.0	547	528	3.5
Other expenses	1,031	872	934	18.3	10.4	1,902	1,749	8.8
EBITDA	**526**	**382**	**462**	**37.6**	**13.9**	**909**	**872**	**4.2**
EBITDA margin	**12.5%**	**11.0%**	**12.1%**	**153bps**	**41bps**	**11.8%**	**12.1%**	**-34bps**
Depreciation	49	47	48	4.9	1.7	95	94	1.7
EBIT	**477**	**336**	**414**	**42.2**	**15.4**	**813**	**778**	**4.5**
Interest and finance charges	7	6	11	9.4	(33.3)	13	16	(18.3)
Operating PBT	**470**	**329**	**403**	**42.8**	**16.6**	**800**	**762**	**5.0**
Other income	22	25	11	(11.4)	95.5	46	23	98.3
Extraordinary Income/(expense)	-	(37)	-	NM	NM	(37)	-	-
PBT	**492**	**317**	**414**	**55.5**	**18.8**	**809**	**785**	**3.0**
Tax	152	97	135	56.6	12.7	249	240	3.5
PAT	**340**	**220**	**280**	**55.0**	**21.7**	**560**	**545**	**2.8**
Adj PAT	**340**	**257**	**280**	**32.5**	**21.7**	**597**	**545**	**9.6**
Adj PAT margin	**8.1%**	**7.4%**	**7.3%**	**71bps**	**76bps**	**7.8%**	**7.6%**	**18bps**
No. of equity shares (mn)	11.6	11.6	11.6	-	-	11.6	11.6	-
Adj EPS (₹)	**29.2**	**22.1**	**24.0**	**32.5**	**21.7**	**51.3**	**46.8**	9.6

Source: Company, CRISIL Research

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Led by an experienced top management team

TTK is led by a strong top management team, which comprises Mr TT Jagannathan – promoter and executive chairman, Mr Chandru Kalro – Managing Director, Mr K. Shankaran – Director, Corporate Affairs, and Mr V. Sundaresan, Chief Financial Officer. Mr Jagannathan has been associated with the company for nearly 40 years. The top management team has vast experience in the kitchen appliances industry and has steered the company's growth over the past decade.

Strong top management team with business acumen and domain knowledge

Track record of successfully forging and executing strategies

Over the years, TTK has executed multiple growth strategies, including entry into new product segments, introducing new product lines and innovative designs, launching promotional campaigns, and establishing business line-ups with global players. Owing to successful implementation of most of these strategies, the company has been able to establish the strong 'Prestige' brand and emerged as the leader in most categories. The brand has received several accolades over the years. The ability to successfully pass on any increase in raw material prices so far also showcases brand strength. Thus, we remain confident about the management's capability to successfully implement strategies and drive the company forward.

High confidence on the management's capability to successfully execute strategies

Strong second line of management

Our interactions with the management team over the past two years indicate that the second line of management is capable of supporting the top management. The second line personnel are experienced in their respective domains and have a clear understanding of their roles and responsibilities.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

The corporate governance systems and processes at TTK meet the desired standards, and are supported by an independent board and good disclosure levels.

Board processes are in place

The desired board processes and practices appear to be in place. The requisite committees – audit, investor grievance and remuneration – ensure good corporate governance practices and a strong decision-making framework. The audit and remuneration committees are chaired by independent directors. Board meetings are held at regular intervals and agenda papers are circulated in advance. In FY15, TTK held six board meetings, which were attended by most directors.

Audit and remuneration committees are composed mainly of independent directors

Adequate disclosure standards and good quality of earnings

- **Adequate disclosure standards:** Based on our interaction with the management over the past three years and information available in the public domain (annual report, website, and other public sources), we believe the quality of disclosure is adequate and meets required standards. The management has been forthcoming in sharing data that do not have any competitive implications.
- **Good quality of earnings:** In our opinion, TTK's quality of earnings is good, which is reflected in the following:
  - Earnings are backed by cash flows; it has been consistently generating positive operating cash flows and free cash flows in most of the past few years.
  - Growth in gross block has been commensurate with revenue growth.
- **Consistent dividend payment:** TTK has been regularly paying dividend over the past few years, and its payout ratio has been on the rise. As it has turned debt-free and does not have any major capacity expansion plans in near-term, the dividend payout ratio is likely to rise further.

Long tenure of auditors

The current auditors, M/s. S. Viswanathan, have been associated with the company for more than 10 years. The long tenure may impair their objectivity and independence. As per the Companies Act 2013, companies are required to change their auditors every 10 years.

CRISIL RESEARCH

Valuation Grade: 2/5

We continue to use the DCF method to value TTK and reiterate our fair value of ₹3,690. The fair value estimate implies P/E multiples of 37.7x and 28.5x FY15E and FY16E EPS estimates, respectively. The stock is currently trading at ₹4,135, which implies P/E multiples of 41.0x and 31.0x FY16E and FY17E EPS estimates, respectively. At the current market price, the valuation grade is **2/5**.

We reiterate our DCF-based fair value of ₹3,690 for TTK

Key assumptions

We have considered the discounted value of the firm's estimated free cash flow over FY16-25 to sufficiently capture the growth of the company. In the terminal year, we have assumed a growth rate of 5% and EBITDA margin of 15.1%. We have assumed cost of equity of 14.5%.

WACC assumptions

	Explicit period	Terminal value
Cost of equity	12.5%	12.5%
Cost of debt (post tax)	7.7%	7.7%
WACC	12.5%	12.5%
Terminal growth rate		5.0%

Sensitivity of fair value to terminal growth and WACC

WACC \ Terminal growth	3.0%	4.0%	5.0%	6.0%	7.0%
10.5%	3,363	3,577	3,849	4,204	4,688
11.5%	3,280	3,495	3,766	4,121	4,606
12.5%	3,204	3,418	**3,690**	4,045	4,529
13.5%	3,132	3,347	3,618	3,973	4,458
14.5%	3,066	3,280	3,552	3,907	4,391

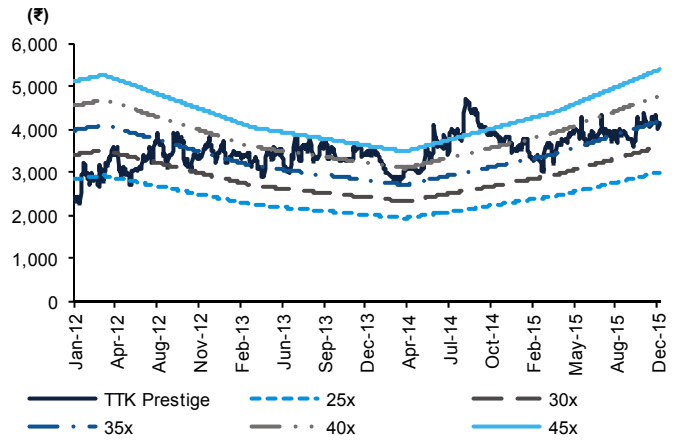
Source: Company, CRISIL Research

Sensitivity of fair value to terminal EBITDA and WACC

WACC \ EBITDA margin %	12.6%	13.6%	14.6%	15.6%	16.6%
10.5%	3,540	3,695	3,849	4,003	4,157
11.5%	3,460	3,613	3,766	3,919	4,073
12.5%	3,385	3,537	**3,690**	3,842	3,994
13.5%	3,316	3,467	3,618	3,770	3,921
14.5%	3,251	3,401	3,552	3,702	3,853

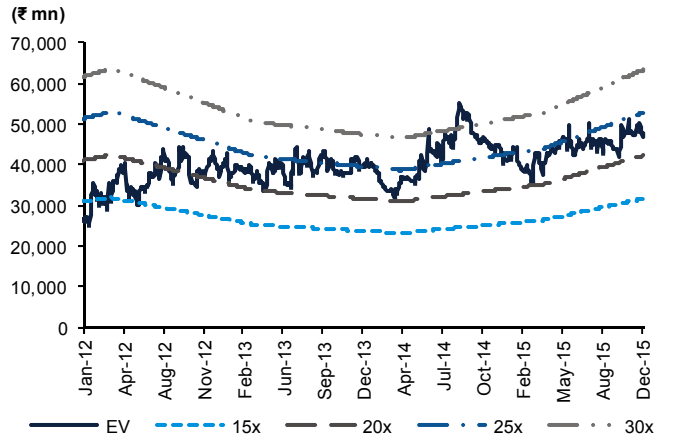
Source: Company, CRISIL Research

One-year forward P/E band



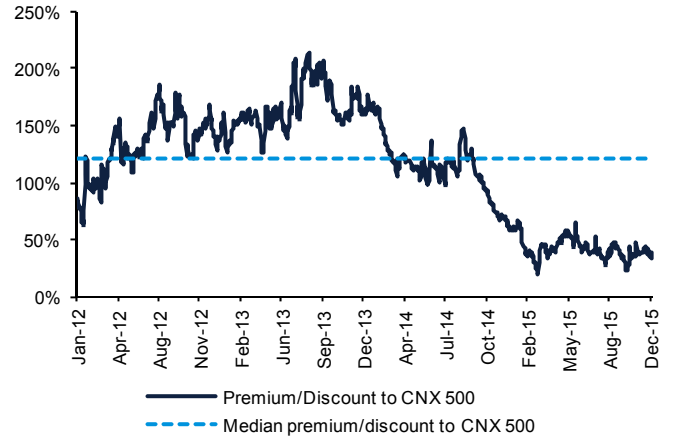
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



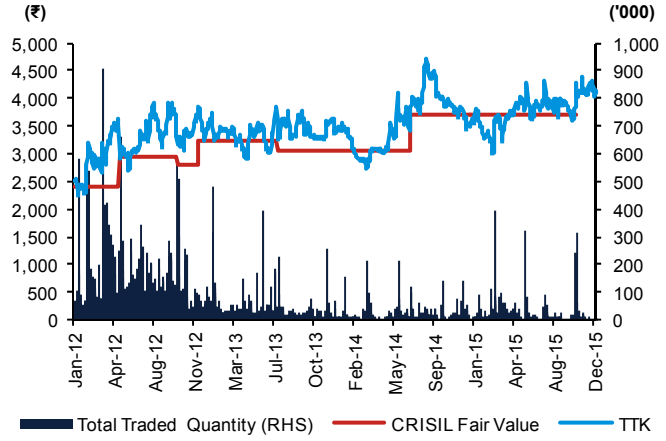
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, CRISIL Research

CRISIL IER reports released on TTK Prestige Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
07-Dec-11	Initiating coverage	5/5	₹2,392	2/5	₹2,787
24-Jan-12	Q3FY12 result update	5/5	₹2,392	3/5	₹2,401
15-May-12	Q4FY12 result update	5/5	₹2,950	3/5	₹3,098
11-July-12	Q1FY13 result update	5/5	₹2,950	2/5	₹3,297
16-Oct-12	Q2FY13 result update	5/5	₹2,800	2/5	₹3,203
12-Dec-12	Detailed report	5/5	₹3,250	2/5	₹3,827
22-Jan-13	Q3FY13 result update	5/5	₹3,250	3/5	₹3,278
23-May-13	Q4FY13 result update	5/5	₹3,250	3/5	₹3,513
22-July-13	Q1FY14 result update	5/5	₹3,050	3/5	₹3,354
28-Oct-13	Q2FY14 result update	5/5	₹3,050	3/5	₹3,262
27-Jan-14	Q3FY14 result Update	5/5	₹3,050	2/5	₹3,398
28-Mar-14	Detailed report	5/5	₹3,050	3/5	₹3,051
05-Jun-14	Q4FY14 result Update	5/5	₹3,050	3/5	₹3,302
31-Jul-14	Q1FY15 result Update	5/5	₹3,690	3/5	₹3,888
17-Oct-14	Q2FY15 result update	5/5	₹3,690	3/5	₹3,857
03-Feb-15	Q3FY15 result update	5/5	₹3,690	4/5	₹3,309
01-Sep-15	Q1FY16 result Update	5/5	₹3,690	3/5	₹3,983
08-Dec-15	Detailed report	5/5	₹3,690	2/5	₹4,135

CRISIL RESEARCH

Company Overview

TTK is the flagship company of the TT Krishnamachari group of companies, which deals with healthcare and consumer products. TTK Prestige Ltd was set up in 1955 as a private limited company; it went public in 2000. The company, through its brand 'Prestige', is among the leading brands in the kitchen appliances space in India, especially in the pressure cooker and non-stick cookware categories. It has a well-diversified product profile, with 60% of revenue from pressure cookers and non-stick cookware products and the remaining from gas stoves and kitchen electrical appliances. TTK has a market share of >30% in the domestic pressure cooker segment in the organised space. It is India's first ISO 9001:2000 certified kitchenware company.

TTK has two manufacturing facilities in Hosur, Coimbatore (Tamil Nadu) and one in Roorkee (Uttarakhand). Additionally, it has set up a greenfield manufacturing facility, primarily for non-stick cookware and water filters, in Gujarat.

TTK, incorporated in 1955, is the leading kitchen appliances manufacturer of India

Annexure: Financials

Income statement

(₹ mn)	FY13	FY14	FY15	FY16E	FY17E
Operating income	**13,598**	**12,955**	**13,900**	**15,493**	**18,273**
EBITDA	**2,121**	**1,680**	**1,544**	**1,760**	**2,267**
EBITDA margin	**15.6%**	**13.0%**	**11.1%**	**11.4%**	**12.4%**
Depreciation	90	148	190	191	207
EBIT	**2,031**	**1,533**	**1,354**	**1,569**	**2,061**
Interest	202	135	79	10	-
Operating PBT	**1,830**	**1,398**	**1,274**	**1,559**	**2,061**
Other income	20	46	33	94	127
Exceptional inc/(exp)	2	61	13	-	-
PBT	**1,852**	**1,505**	**1,320**	**1,654**	**2,188**
Tax provision	521	400	405	513	678
Minority interest	-	-	-	-	-
PAT (Reported)	**1,331**	**1,106**	**915**	**1,141**	**1,509**
Less: Exceptionals	2	61	13	-	-
Adjusted PAT	**1,329**	**1,045**	**902**	**1,141**	**1,509**

Ratios

	FY13	FY14	FY15	FY16E	FY17E
Growth					
Operating income (%)	23.1	(4.7)	7.3	11.5	17.9
EBITDA (%)	19.1	(20.8)	(8.1)	14.0	28.8
Adj PAT (%)	17.3	(21.4)	(13.7)	26.6	32.3
Adj EPS (%)	17.1	(23.4)	(13.7)	26.6	32.3
Profitability					
EBITDA margin (%)	15.6	13.0	11.1	11.4	12.4
Adj PAT Margin (%)	9.8	8.1	6.5	7.4	8.3
RoE (%)	39.0	21.3	14.6	16.8	19.9
RoCE (%)	47.5	27.3	21.5	23.1	27.1
RoIC (%)	38.8	23.1	17.2	20.3	25.4
Valuations					
Price-earnings (x)	34.3	44.8	52.0	41.0	31.0
Price-book (x)	11.5	8.0	7.3	6.6	5.8
EV/EBITDA (x)	21.9	27.8	30.1	26.2	20.1
EV/Sales (x)	3.4	3.6	3.4	3.0	2.5
Dividend payout ratio (%)	14.9	21.1	28.0	33.9	34.2
Dividend yield (%)	0.4	0.5	0.5	0.8	1.1
B/S ratios					
Inventory days	63	75	72	73	73
Creditors days	52	52	43	40	40
Debtor days	38	42	42	42	40
Working capital days	35	56	63	65	62
Gross asset turnover (x)	6.4	4.1	3.3	3.5	3.9
Net asset turnover (x)	8.6	5.1	4.1	4.5	5.2
Sales/operating assets (x)	4.9	3.8	3.8	4.3	5.2
Current ratio (x)	1.7	2.1	2.3	2.5	2.7
Debt-equity (x)	0.3	0.0	-	-	-
Net debt/equity (x)	0.2	(0.0)	(0.1)	(0.1)	(0.2)
Interest coverage (EBITDA/interest)	8.3	11.5	22.3	226.7	NM
Interest coverage (EBIT/Interest)	10.1	11.4	17.1	156.9	NM

Per share

	FY13	FY14	FY15	FY16E	FY17E
Adj EPS (₹)	117.0	89.6	77.4	97.9	129.6
CEPS	124.9	102.3	93.7	114.3	147.3
Book value	348.3	502.2	554.2	613.0	690.7
Dividend (₹)	17.5	20.0	22.0	33.2	44.3
Actual o/s shares (mn)	11.4	11.7	11.7	11.7	11.7

Source: CRISIL Research

Balance Sheet

(₹ mn)	FY13	FY14	FY15	FY16E	FY17E
Liabilities					
Equity share capital	114	117	117	117	117
Reserves	3,841	5,737	6,343	7,028	7,933
Minorities	-	-	-	-	-
Net worth	**3,955**	**5,853**	**6,460**	**7,144**	**8,050**
Convertible debt	-	-	-	-	-
Other debt	1,151	269	-	-	-
Total debt	**1,151**	**269**	**-**	**-**	**-**
Deferred tax liability (net)	101	205	260	260	260
Total liabilities	**5,207**	**6,327**	**6,720**	**7,404**	**8,310**
Assets					
Net fixed assets	1,658	3,378	3,354	3,532	3,461
Capital WIP	1,529	271	277	39	41
Total fixed assets	**3,188**	**3,649**	**3,631**	**3,571**	**3,503**
Investments	**0**	**0**	**188**	**188**	**188**
Current assets					
Inventory	2,355	2,668	2,747	3,089	3,644
Sundry debtors	1,432	1,491	1,593	1,776	2,003
Loans and advances	584	505	458	433	420
Cash & bank balance	326	296	295	678	1,279
Marketable securities	-	90	35	35	35
Total current assets	**4,697**	**5,050**	**5,129**	**6,012**	**7,380**
Total current liabilities	**2,700**	**2,391**	**2,239**	**2,378**	**2,772**
Net current assets	**1,997**	**2,660**	**2,889**	**3,634**	**4,608**
Intangibles/Misc. expenditure	**23**	**18**	**11**	**11**	**11**
Total assets	**5,207**	**6,327**	**6,720**	**7,404**	**8,310**

Cash flow

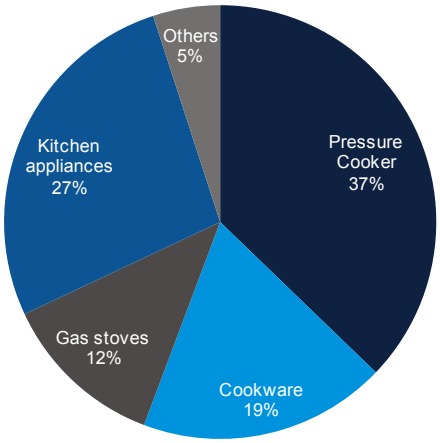
(₹ mn)	FY13	FY14	FY15	FY16E	FY17E
Pre-tax profit	1,850	1,444	1,307	1,654	2,188
Total tax paid	(488)	(295)	(351)	(513)	(678)
Depreciation	90	148	190	191	207
Working capital changes	(757)	(603)	(285)	(362)	(374)
Net cash from operations	**694**	**694**	**861**	**970**	**1,343**
Cash from investments					
Capital expenditure	(925)	(605)	(165)	(131)	(138)
Investments and others	4	(90)	(132)	-	-
Net cash from investments	**(921)**	**(695)**	**(298)**	**(131)**	**(138)**
Cash from financing					
Equity raised/(repaid)	0	1,053	-	12	-
Debt raised/(repaid)	554	(882)	(269)	-	-
Dividend (incl. tax)	(232)	(272)	(308)	(456)	(604)
Others (incl extraordinaries)	7	73	13	(12)	(1)
Net cash from financing	**329**	**(28)**	**(564)**	**(456)**	**(604)**
Change in cash position	102	(29)	(1)	383	600
Closing cash	326	296	295	678	1,279

Quarterly financials

(₹ mn)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Net Sales	**3,820**	**3,837**	**2,862**	**3,486**	**4,210**
Change (q-o-q)	11%	4%	5%	4%	10%
EBITDA	**462**	**455**	**184**	**382**	**526**
Change (q-o-q)	4%	-1%	-35%	-7%	14%
EBITDA margin	**12.1%**	**11.9%**	**6.4%**	**11.0%**	**12.5%**
PAT	280	281	98	220	340
Adj PAT	**280**	**281**	**92**	**257**	**340**
Change (q-o-q)	-8%	-8%	-49%	-3%	22%
Adj PAT margin	**7.3%**	**7.3%**	**3.2%**	**7.4%**	**8.1%**
Adj EPS	**24**	**24**	**8**	**22**	**29**

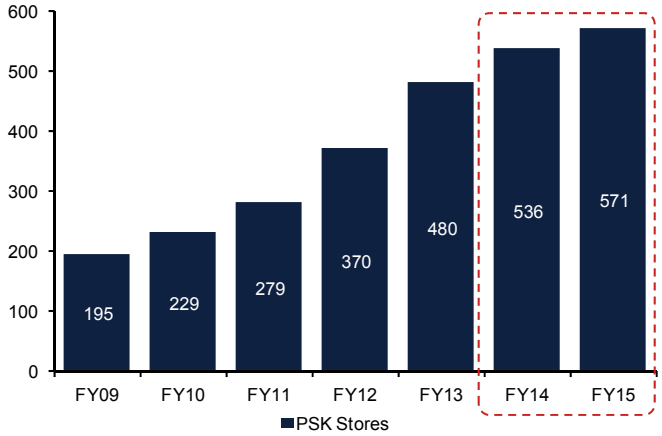
Focus Charts

Pressure cooker remains TTK's biggest segment



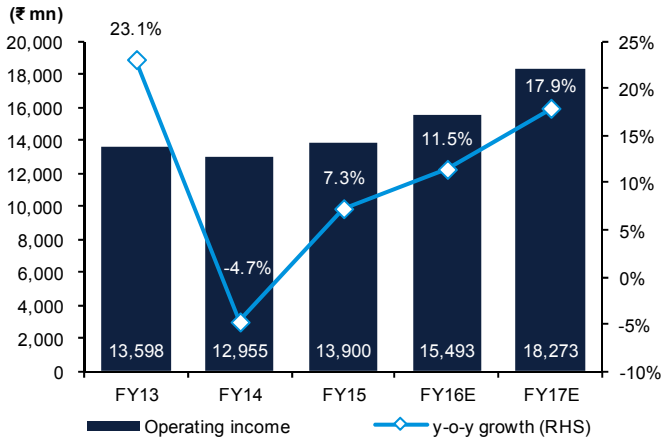
Source: Company, CRISIL Research

Pace of expansion in PSK network has slowed down in FY15



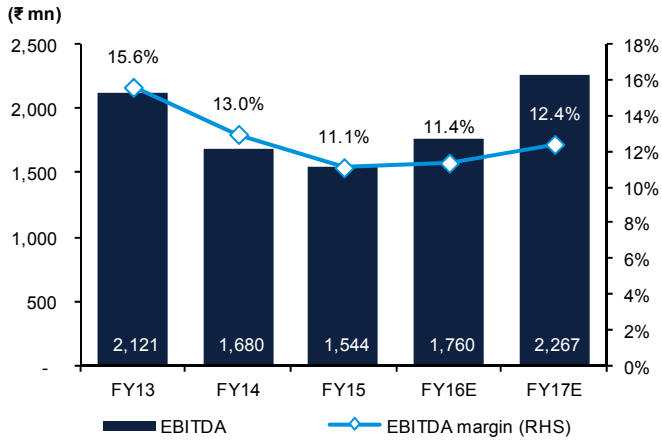
Source: Company, CRISIL Research

Operating income expected to grow at 15% CAGR



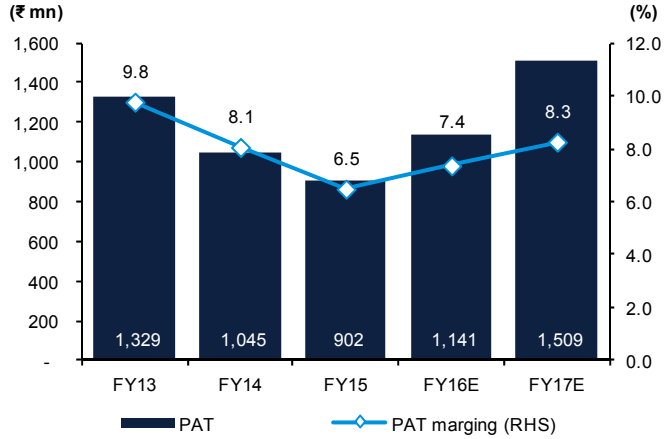
Source: Company, CRISIL Research

EBITDA margin expected to expand to 12.4% by FY17



Source: Company, CRISIL Research

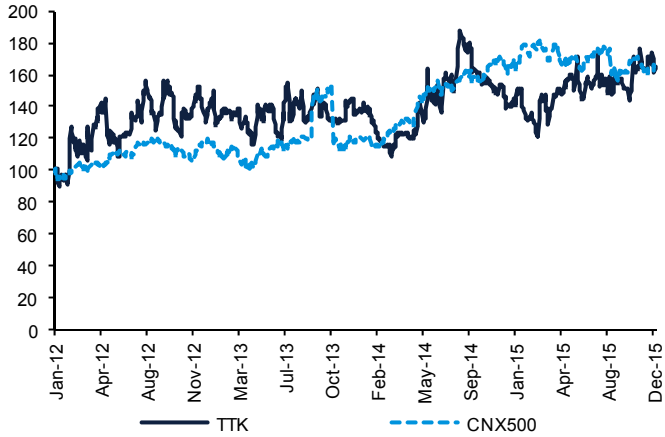
Adjusted PAT estimated to increase to ₹1.5 bn by FY17



**FY15 PAT includes one-time income of ₹709 mn from sale of residential projects*

Source: Company, CRISIL Research

Stock performance vs CNX 500



-Indexed to 100

Source: Company, CRISIL Research

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