

TTK Prestige Ltd.

Growth to revive...

TTK Prestige (TTK) is the leading brands in kitchen appliances with 40%+ market share in organized market. It has evolved from being a single product company to a multi product company offering an entire gamut of kitchen and home appliances (600+ products). It expects to double its revenue in the next 5 years backed by revival in consumption demand, new 5 cr LPG connections under the Ujjawala Scheme, inorganic expansion and traction in exports.

Leader in product innovation: TTK has been the pioneer in launching new products like non-stick cookware, cookers. It has been launching 50-100 new products every year for the past few years which has boosted its revenue growth while its peers like Hawkins suffered stagnation. It has also launched a economy range – 'Judge Cookware' to capture the untapped demand especially at the bottom end of the pyramid. It is also expecting good growth in cleaning solutions.

Favorable market dynamics: Indian Kitchen appliances industry is valued at ₹12000cr+ where TTK commands > 15% market share. After posting a couple of subdued years, we feel that the company is now in sweet spot with revival in consumption demand, especially rural. 5 cr new LPG connections have rekindled demand for pressure cookers/cookware. TTK is also scouting for inorganic opportunities to support its growth plans.

Strong balance sheet: TTK has been aggressively investing in its manufacturing capabilities and has invested over ₹ 500 cr in the last 7-8 years. Looking at buoyant expected demand, it is incurring a capex of ~₹250 cr over FY2019-21. This capex is to be internally funded from its robust operating cash flows. With improving profitability and debt free status, its return ratios are likely to improve.

Outlook and valuation: We expect TTK to report a CAGR of 18.6%/24.5% in revenue/PAT respectively over FY2018-20E. It is currently trading at a P/E of 29x FY2020E EPS which is at discount to its 5 year average PE multiple of 40x. Hence, we initiate coverage on the stock with a BUY and Target Price of ₹7500 (35x FY2020E EPS), an upside of 21% from the current levels.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	1,559	1,837	1,982	2,371	2,788
% chg	12.3	17.8	7.9	19.6	17.6
Net Profit	115.6	150.7	164.5	205.4	247.4
% chg	25.2	30.3	9.2	24.9	20.4
OPM (%)	11.8	11.4	12.7	13.4	13.6
EPS (Rs)	100.0	130.3	142.3	177.7	214.0
P/E (x)	62.4	47.9	43.8	35.1	29.1
P/BV (x)	0.4	0.3	0.3	0.2	0.2
RoE (%)	16.0	17.6	16.1	17.3	17.8
RoCE (%)	22.4	19.0	19.6	22.0	22.7
EV/Sales (x)	4.6	3.9	3.6	3.0	2.5
EV/EBITDA (x)	38.8	34.2	28.1	22.1	18.3

Source: Company, Angel Research; Note: closing price of 16th August, 2018

BUY

CMP	₹6237
Target Price	₹7500

Investment Period	12 Months
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Stock Info

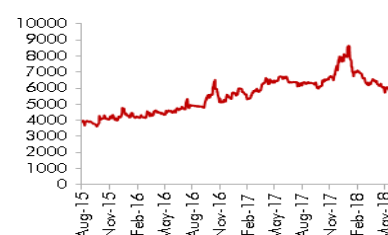
Sector	Kitchen Appliances
Market Cap (₹ cr)	7,210
Net Debt (₹ cr)	-
Beta	0.6
52 Week High / Low	8911/5612
Avg. Daily Volume	3,576
Face Value (₹)	10
BSE Sensex	37,663
Nifty	11,384
Reuters Code	TTKL.BO
Bloomberg Code	TTKPT.IN

Shareholding Pattern (%)

Promoters	70.4
MF / Banks / Indian Fls	8.4
FII / NRIs / OCBs	10.0
Indian Public / Others	11.2

Abs. (%)	3m	1yr	3yr
Sensex	6.4	1.0	35.1
TTK Prestige	5.3	1.5	60.0

Price Chart



Source: Company, Angel Research

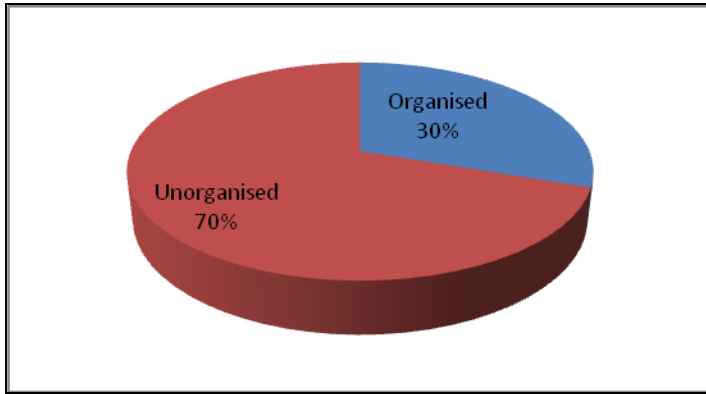
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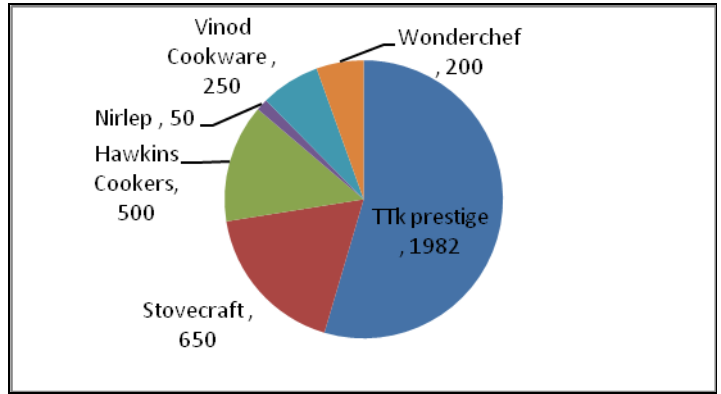
TTK prestige in charts

Exhibit 1: Kitchen appliances industry break up



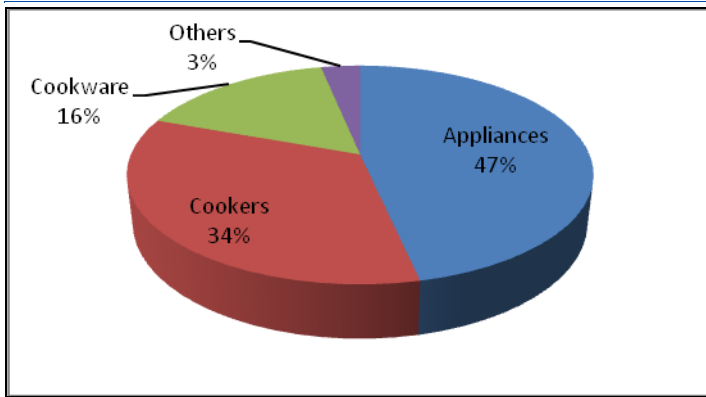
Source: Industry, Angel Research

Exhibit 2: Top 6 players by their revenue (₹cr)



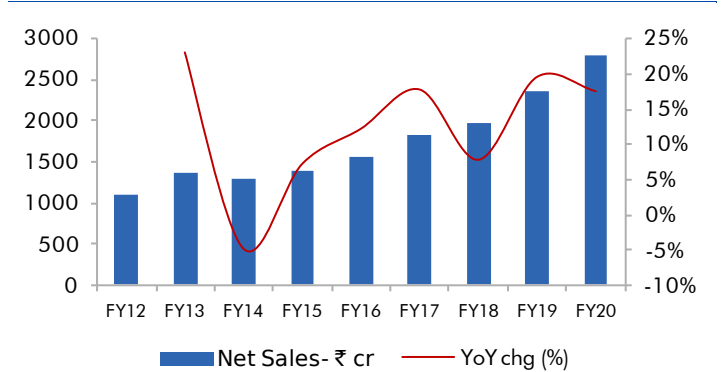
Source: Industry, Angel Research

Exhibit 3: TTK's product wise revenue break up



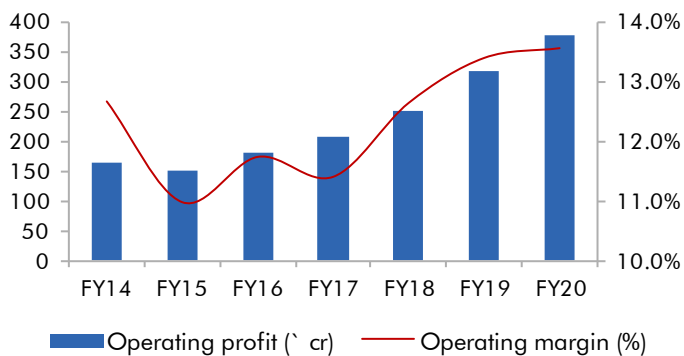
Source: Company, Angel Research

Exhibit 4: Sales growth to rekindle over next few years



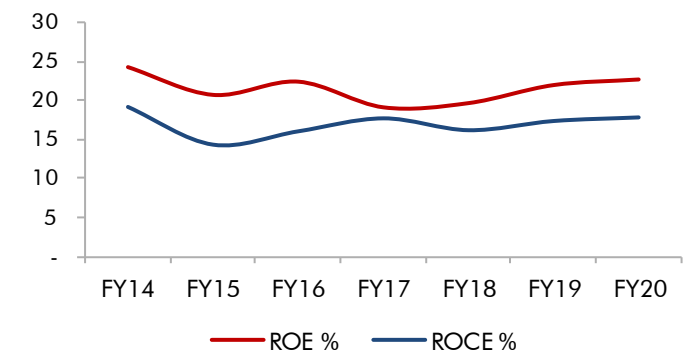
Source: Company, Angel Research

Exhibit 5: Improving its margin profile



Source: Company, Angel Research

Exhibit 6: Stable return ratios



Source: Company, Angel Research

Company background

Founded in 1928, the TTK group spans 30 product categories with 7 group companies and a turnover ₹3000cr+. TTK Prestige is its flagship company. It started manufacturing in 1949 by setting up a unit near Bangalore. TTK was incorporated as a private limited company in 1955 and it became a public limited company in 1988. It remained a single product company till 1990. The company is known for its manufacturing and innovations, be it distributing pamphlets from helicopters in the fifties or introducing the exchange schemes.

Exhibit 7: Evolved from single product company..... to a well diversified multi-product portfolio



Source: Company

Exhibit 8: Time line of the company

Year	Event/ development
1955	Incorporation
1959	First manufacturing unit in Bangalore
1981	Second manufacturing unit in Hosur
Till 1990	A single product company—just aluminum outer lid pressure cookers—dominant in southern India
1990-94	Launch of pressure cookers and non-stick cookware
1990s	Export thrust—launch of mantra brand
2000-03	Period of turbulences—yet bold initiatives laying the foundation for brand extension and explosive growth
2006-10	Transformation into a total kitchen solution provider lead by innovations like induction tops, apple cookers, microwave pressure cookers and a host of appliances
2011	Largest capacity expansion initiatives to back the above vision
2012	Alliances with global high end brands entered for high end cookware/store ware/water filters/gas tops
2016	Entered new horizons —UK acquisition & cleaning solutions

Source: Company, Angel Research

Investment Rationale

Leader in product innovation

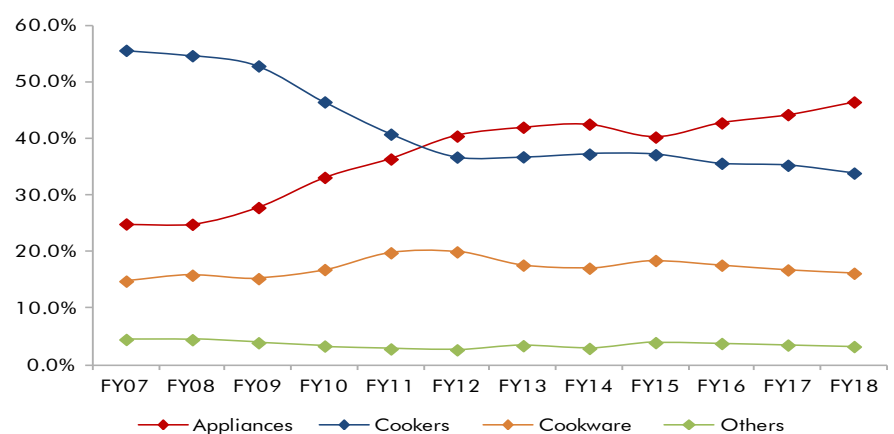
TTK has been the first mover in introducing many pioneering products like non-stick cookware, pressure cookware etc which has led to company garnering over 40% market share in organized market. Introduction of new appliances led to reduction in revenue contribution from pressure cookers to 34% in FY2018 from past level of 50%. The company is rebranding its exclusive branded outlets (17% of sales) from 'Prestige Smart Kitchen' to Prestige Exclusive' to re-energize its traditional channels to offers its new launches. It has also launched a economy range - Judge Cookware to capture the untapped demand especially rural at the bottom end of the pyramid.

Exhibit 9: Product-wise revenue break up

₹ cr	FY08	FY14	FY18
Appliances	85	564	861
Cookers	186	494	628
Cookware	54	227	300
Others	15	39	60
Total Standalone revenue	340	1,323	1,849
As a % of revenue			
Appliances	24.9%	42.6%	46.6%
Cookers	54.8%	37.3%	34.0%
Cookware	15.9%	17.1%	16.2%
Others	4.5%	2.9%	3.2%

Source: Company, Angel Research

Exhibit 10: Successfully diversified away from cookers segment



Source: Company, Angel Research

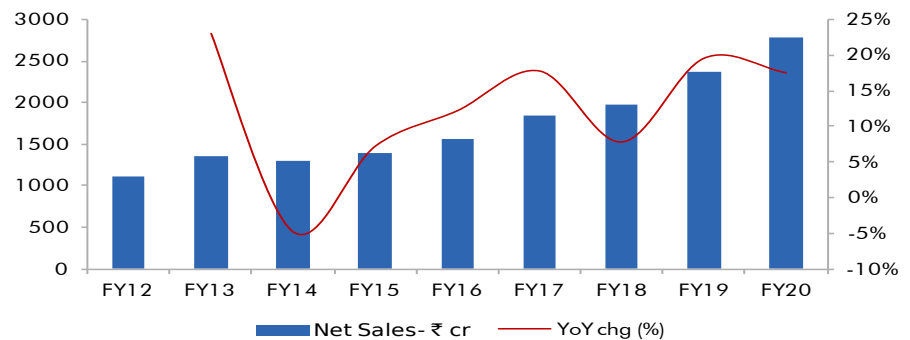
Growth to revive

The company has been annually launching 50-100 new products for the past few years which led to diversification in its product portfolio away from pressure cookers. In Q1FY2019 itself, there were 30 new launches and expects to launch 100 products in FY2019. Growth has revived un Q1FY2019 with 17.5% yoy growth which is expected to continue for few more quarters.

After posting a couple of subdued years, we feel that the company is now in sweet spot with revival in consumption demand especially rural, improving outlook for

exports and the new 5 cr LPG connections in India which rekindle demand for pressure cookers and cookware. It is also expecting exponential growth in cleaning solutions and expects the segment revenue to grow from ~₹23 cr in FY2018 to ~₹400 cr from in next five years.

Exhibit 11: Revenue growth to revive after a brief spell of slowdown



Source: Company, Angel Research

Favorable market dynamics

Indian Kitchen appliances industry is valued at ~₹12000cr where TTK commands over 15% market share. Top 6 branded players form about 30% of market. The 2nd player – StoveKraft and 3rd player- Hawkins Cookers is having 1/3rd and 1/4th of TTK's revenue. Many other players have faced revenue fall like Nirlep for lack of innovation whose market share has been acquired by TTK prestige.

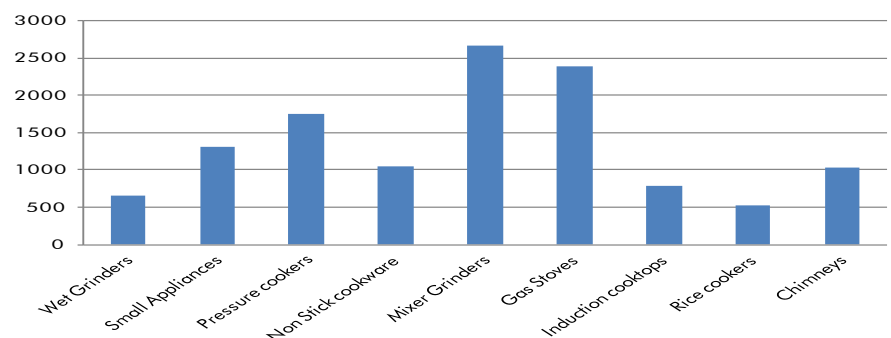
Exhibit 12: Top 6 players forms ~30% of market

	Revenue- ₹ Cr	Market Share %
TTK prestige	1982	17%
Stovecraft (Pigeon and Gilma brand)	650	5%
Hawkins	500	4%
Nirlep *	50	0%
Vinod ware	250	2%
Wonder chef	200	2%
Total organized market	3,632	30%

Source: Companies, media reports

* acquired by Bajaj Electrical in June 2018

Exhibit 13: Market size (₹ Cr) for TTK's products



Source: Company's 2016 presentation

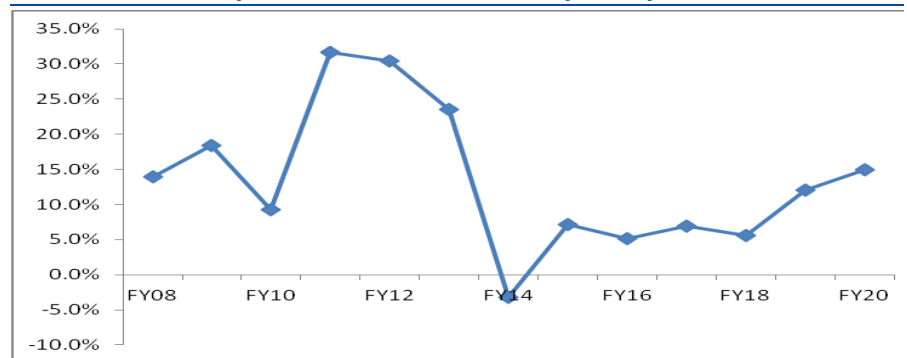
Ujjawala scheme –big boost to pressure cookers and cookware

Twenty-eight months since its launch, Pradhan Mantri Ujjwala Yojana (PMUY) has already achieved the initial target of providing 5-crore LPG connections to BPL households, and considering its success in the current year, the government has revised the target to 8 crore with a budgetary allocation of ₹12,800 crore. As on July 1, 2018, there are 23.5 cr LPG consumers in the country. As soon as a household gets a LPG stove connection, one of the first appliances they buy is a pressure cooker.

Pressure cooker industry to grow at double digit for next few years

Pressure cooker industry is estimated at ₹1,500-2,000 crore and has as many as 250 brands. TTK with over 35-40% market share is the leader with Hawkins and United among the other key organised brands in the market. It is a mature market and was seeing a single-digit growth of 5-6 % till recently which has now started seeing a double-digit growth. While the penetration of pressure cookers is nearly 90% in urban regions, in rural areas it is just ~30 %. But Ujjwala seems to be opening up the market in rural areas as well. TTK reported a 17.5% yoy growth in pressure cooker in Q1FY2019 and expects similar run rate for next few quarters.

Exhibit 14: TTK 's pressure cookers sales to perk up

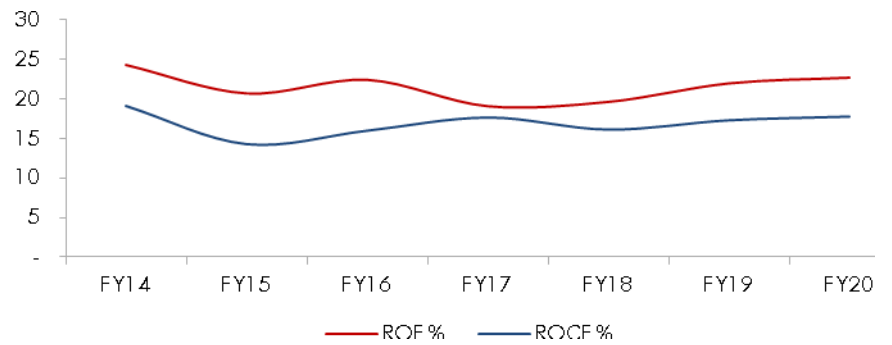


Source: Company, Angel Research Source: Company, Angel Research

Strong balance sheet and improving ratios

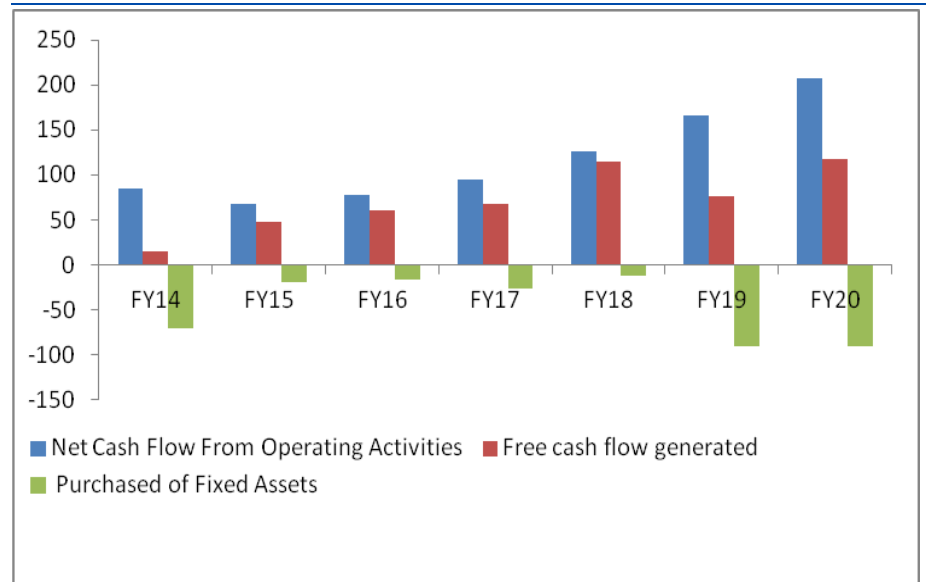
The company is debt free and generated free cash flow in excess of ₹100 cr in FY2018. The company has been investing in increasing its manufacturing capabilities and invested over ₹500 cr in last 7-8 years. It has reduced outsourcing to 20% from past higher levels of 40-50% (FY2012) to reduce working capital cycle and foreign currency exposure. Looking at buoyant demand for its products, it is likely to incur a capex of ~₹250 cr over FY2019-21. This capex is to be internally funded from its robust operating cash flows. With improving profitability, its return ratios are expected to improve.

Exhibit 15: Return ratios remain stable



Source: Company, Angel Research

Exhibit 16: Robust operating cash flow would fund its capex



Source: Company, Angel Research

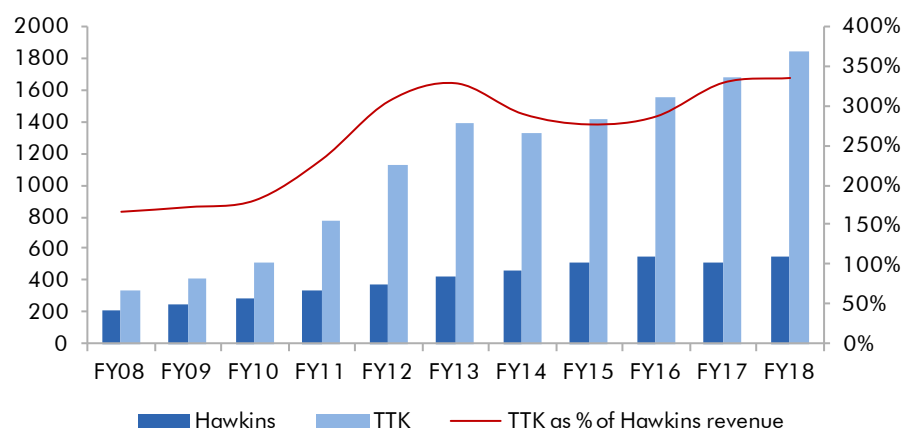
Outlook

TTK has posted a CAGR of 18% in revenue over FY2008-18 backed by 26% CAGR in appliances segment whereas cookers and cookware segments showed a somber CAGR of 13/19% respectively. Going ahead, we expect that appliances segment will grow at higher 23% CAGR while cookers and cookware will also see a revival with 13-15% CAGR over FY2018-20. Margins are largely expected to improve marginally in line with better product mix and improving scale. In view of its strong balance sheet, we expect that PAT will grow by 23% CAGR over the same period.

Competition analysis

TTK's revenue was just 1.7x of that of Hawkins in FY2008. However, TTK widened this gap at 3.3x in FY2018 by constantly introducing new products and distribution expansion especially in North India. On the other hand, Hawkins remained focused on the pressure cookers and cookware and hence suffered stagnation as the cookers segment became highly penetrated segment.

Exhibit 17: TTK's revenue growth outpaces its closet peer's

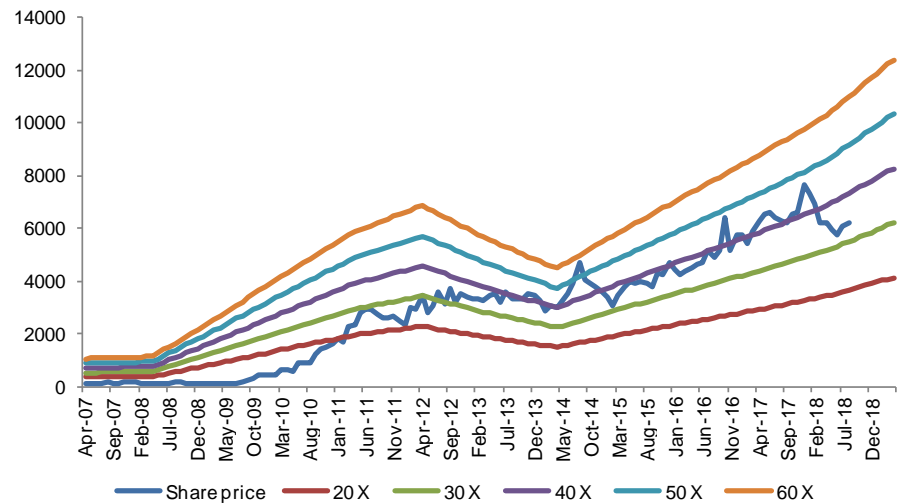


Source: Companies, Angel Research

Valuation

The stock currently trades at a P/E of 29x FY2020E EPS which is at significant discount to its past average 5 year PE multiple of 40x. Hence, looking at above positive growth triggers, we initiate coverage on the stock with a BUY recommendation and Target Price of ₹7500 (35x FY2020E EPS), an upside of 20% from the current levels.

Exhibit 18: Forward PE chart



Source: Company, Angel Research

Risks and concerns

Abrupt fluctuations in its primary raw materials- Aluminum and steel whose prices are linked to global commodity prices. 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 margins.

Foreign exchange movement- The company imports raw materials and finished goods from outside India as well as makes export sales to countries outside the territories in which they operate from which exposes it to foreign currency risk. Foreign currency exchange risks are managed by entering into forward contracts against foreign currency vendor payables.

Excessive competition/ pricing war – TTK is competing with many different players in different category. Many foreign players are also entering Indian markets which could lead aggressive competition, pricing war. So far, TTK has gained market share from its competition over the years with its innovative culture and growth strategies.

Income statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Total operating income	1,559	1,837	1,982	2,371	2,788
% chg	12.3	17.8	7.9	19.6	17.6
Total Expenditure	1,376	1,627	1,731	2,053	2,410
Raw Material	931	1,085	1,124	1,339	1,571
Personnel	114	138	159	185	217
Selling and Administration Expenses	313.8	374.0	421.0	497.9	585.5
Others Expenses	17	31	27	31	36
EBITDA	183	210	251	318	378
% chg	20.0	14.5	19.5	26.7	19.0
(% of Net Sales)	11.8	11.4	12.7	13.4	13.6
Depreciation & Amortisation	21	26	26	28	32
EBIT	162	184	225	289	346
% chg	21.4	13.4	22.3	28.6	19.5
(% of Net Sales)	10.4	10.0	11.4	12.2	12.4
Interest & other Charges	6	11	7	7	7
Other Income	10	11	141	20	25
(% of PBT)	6.2	5.9	39.4	6.6	6.9
Share in profit of Associates	-	-	-	-	-
Recurring PBT	167	184	359	302	364
% chg	25.1	10.2	95.3	(15.9)	20.4
Tax	51	33	96	97	116
(% of PBT)	30.7	18.1	26.6	32.0	32.0
PAT (reported)	116	151	263	205	247
Extraordinary Items	-	-	99	-	-
Less: Minority interest (MI)	0	0	0	0	0
PAT after MI (reported)	115	150	263	205	247
ADJ. PAT	116	151	165	205	247
% chg	25.2	30.3	9.2	24.9	20.4
(% of Net Sales)	7.4	8.2	8.3	8.7	8.9
Fully Diluted EPS (Rs)	100.0	130.3	142.3	177.7	214.0
% chg	25.2	30.3	9.2	24.9	20.4

Source: Company, Angel Research

Balance sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019	FY2020
SOURCES OF FUNDS					
Equity Share Capital	12	12	12	12	12
Reserves & Surplus	711	842	1,008	1,175	1,381
Shareholders Funds	723	854	1,020	1,187	1,392
Equity Share Warrants	-	-	-	-	-
Total Loans	-	113	129	129	129
Deferred Tax Liability	-	-	-	-	-
Other liabilities	6.8	6.3	5.4	5.4	5.4
Total Liabilities	730	973	1,154	1,322	1,527
APPLICATION OF FUNDS					
Gross Block	351	567	598	688	778
Less: Acc. Depreciation	21	58	108	137	169
Net Block	330	510	490	552	609
Capital Work-in-Progress	3	2	4	4	4
Investments	68	75	167	167	167
Current Assets	583	680	880	1,057	1,283
Inventories	325	380	437	523	615
Sundry Debtors	175	215	258	309	363
Cash	31	65	136	166	235
Loans & Advances	52	20	49	59	69
Other Assets	-	-	-	-	-
Current liabilities	238	281	373	445	522
Net Current Assets	346	400	507	612	761
Deferred Tax Asset	(29)	(35)	(42)	(42)	(42)
Total Assets	730	973	1,154	1,321	1,528

Source: Company, Angel Research

Cash flow statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019	FY2020
Profit before tax	167	184	359	302	364
Depreciation	21	26	26	28	32
Change in Working Capital	0	0	0	(75)	(80)
Interest / Dividend (Net)	9	(0)	(6)	7	3
Direct taxes paid	(36)	(37)	(93)	(97)	(116)
Others	(83)	(78)	(159)	1	5
Cash Flow from Operations	78	94	127	166	207
(Inc.)/ Dec. in Fixed Assets	(17)	(26)	(12)	(90)	(90)
(Inc.)/ Dec. in Investments	11	(142)	9	20	25
Cash Flow from Investing	(6)	(168)	(3)	(70)	(65)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	0	113	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0	0
Interest / Dividend (Net)	(2)	(8)	(75)	39	(31)
Cash Flow from Financing	(71)	106	(113)	0	(73)
Inc./(Dec.) in Cash	2	31	11	97	69
Opening Cash balances	25	27	58	69	166
Closing Cash balances	27	58	69	166	235

Source: Company, Angel Research

Key Ratios

Y/E March	FY2016	FY2017	FY2018	FY2019	FY2020
Valuation Ratio (x)					
P/E (on FDEPS)	62.4	47.9	43.8	35.1	29.1
P/CEPS	2.1	1.6	1.0	1.2	1.0
P/BV	0.4	0.3	0.3	0.2	0.2
Dividend yield (%)	0.4	0.4	0.5	0.5	0.6
EV/Sales	4.6	3.9	3.6	3.0	2.5
EV/EBITDA	38.8	34.2	28.1	22.1	18.3
EV / Total Assets	9.7	7.4	6.1	5.3	4.5
Per Share Data (₹)					
EPS (Basic)	100.0	130.3	142.3	177.7	214.0
EPS (fully diluted)	100.0	130.3	142.3	177.7	214.0
Cash EPS	118.1	152.6	250.1	202.1	241.9
DPS	22.0	27.0	30.0	33.0	36.3
Book Value	625.5	738.4	882.1	1,026.8	1,204.5
Dupont Analysis					
EBIT margin	10.4	10.0	11.4	12.2	12.4
Tax retention ratio	0.7	0.8	0.7	0.7	0.7
Asset turnover (x)	2.5	2.2	2.3	2.4	2.5
ROIC (Post-tax)	18.0	18.2	19.5	20.0	21.0
Cost of Debt (Post Tax)	-	0.1	0.0	0.0	0.0
Returns (%)					
ROCE	22.4	19.0	19.6	22.0	22.7
Angel ROIC (Pre-tax)	26.0	22.3	26.6	29.4	30.9
ROE	16.0	17.6	16.1	17.3	17.8
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.4	3.2	3.3	3.4	3.6
Inventory / Sales (days)	76	75	81	81	81
Receivables (days)	41	43	48	48	48
Payables (days)	93	94	121	121	121
Working capital cycle (ex-cash) (days)	24	24	7	7	7

Source: Company, Angel Research

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)