

Retail Equity Research (South India Focus)

# TTK Prestige Ltd

Kitchen Appliances

BSE CODE: 517506  
Bloomberg CODE: TTKPT:IN

NSE CODE: TTKPRESTIG  
SENSEX: 44,618

**Buy**

12M Investment period

Rating as per Mid Cap

CMP Rs.5,762 TARGET Rs.6,870 RETURN 19%  
(Closing:02-12-20)

## Innovations provide more steam for growth...

TTK Prestige Ltd (TTK) is the flagship company of TTK group, mainly operates in the Kitchen Appliances segment. The company has 5 manufacturing plants and a strong distribution network, including 590 Prestige Xclusive over 320 cities & 350 authorized service centers.

- The 'Prestige brand' has a strong brand recall among kitchen products across India aided by consistent and relatively higher ad-spends.
- Consistent product innovation & diversification has been the main strategy for growth. TTK is now a total kitchen solution provider.
- Margins are largely stable as pricing is built on a raw material cost plus and any cost escalation passes to the consumer, indicating pricing power
- Covid-19 impacted industry hardly. With gradual relaxations, volumes are improving, achieved +90% of normal sales with only 2/3rd of the channels open in recent months.
- End of moratorium will revive MFI (Micro Finance) routed sales while increased cooking gas penetration through PMUY would aid demand.
- We initiate TTK by valuing at 40x FY22E PE (2Yr Avg=40) with a Target of Rs.6,870. Recommend Buy considering healthy Balance Sheet and return ratios.

## Total kitchen solution provider with a strong brand recall

Started with a single product manufacturing in 1959, TTK has now become a total Kitchen solution provider consisting of kitchen ware, various household electronic appliances and modular kitchen. The share of pressure cooker in the product mix has now reduced to ~31% from ~47% over the last decade. The 'Prestige brand' has a strong brand recall among kitchen products across India supported by consistent & relatively higher ad-spending (7.3% in FY20).

## Consistent product innovation & diversification, a strategy for growth

Product innovation has been the main strategy of the company that contributes to growth and market share gaining. Supported by strong research base, TTK has been launching new variants of its existing products as well as new products at regular intervals. Recently, TTK launched an innovative range of Pressure Cookers (Svachh-India's first pressure cooker which controls spillage). In the current FY also TTK is geared to launch 100 new SKUs (Stock Keeping Units). Additionally, factors like preference to branded products, growing urbanization, rising disposable income and GST is resulting in a gradual shift to organized players, which will benefit TTK.

## Stable margin profile & strong Balance sheet

EBITDA margin is largely stable as pricing is built on a cost plus. Any cost escalation passes to the consumer which shows pricing power and margin improvement will be through efficiencies. Currently, the main raw material (aluminum) prices are benign and does not expect any cost increase due to discontinuation of imports from China. Relatively high ad-spend also provide a comfort to protect margins. TTK has a strong balance sheet with net cash of ~Rs.350cr.

## Valuation & Outlook

Covid-19 is expected to have an impact on FY21E earnings. But, gradual relaxations along with good monsoon, end of loan moratorium, increased penetration of cooking gas through PMUY would support demand. Expect revenue/PAT to grow at 6%/13% CAGR over FY20-22E. Factoring gradual improvement in volumes, we value the stock at 40x FY22E (2Yr avg=40x) with a Target of Rs.6,870. Recommend Buy considering healthy Balance Sheet and return ratios.

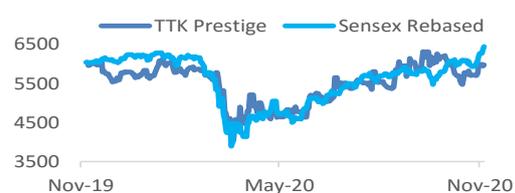
### Company Data

Market Cap (Rs.cr)	7,985
Enterprise Value (Rs.cr)	7,687
Outstanding Shares (cr)	1.4
Free Float	30%
Dividend Yield	0.34%
52 week high Rs.	6,560
52 week low Rs.	3,918
6m average volume (Lakhs)	0.08
Beta	0.8
Face value Rs.	10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	70.4	70.4	70.4
FII's	9.8	9.5	9.4
MFs/Insti	10.5	11.2	11.8
Public	7.2	6.9	6.6
Others	2.0	2.0	1.8
Total	100	100	100
Promotor pledge	0.0%	0.0%	0.0%

Price Performance	3 Month	6 Month	6 Month
Absolute Return	0.4%	50.1%	36.9%
Absolute Sensex	14.4%	13.4%	3.7%
Relative Return*	-14.0%	36.8%	33.2%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	2,073	1,833	2,308
Growth (%)	-1.6	-11.6	25.9
EBITDA	252	210	318
EBITDA Margin (%)	12.1	11.5	13.8
Adj. PAT	184	149	238
Growth (%)	-4.1	-19.5	60.3
Adj. EPS	133.1	107.2	171.8
Growth (%)	-4.1	-19.5	60.3
P/E	36.1	44.8	27.9
P/B	6.1	5.7	5.0
EV/EBITDA	30.5	35.9	23.4
ROE (%)	14.9	11.0	15.9
D/E	0.1	0.0	0.0

Vincent Andrews  
Research Analyst

Mainly operates in kitchen appliances segment with wide range of products. The 'Prestige brand' has a strong brand recall.



## Company Background

TTK Prestige Ltd (TTK), incorporated in 1955 is the flagship company of TTK group promoted by T.T.Krishnamachari. The company mainly operates in the Kitchen Appliances segment with a wide range of product categories including Pressure Cookers, Cookware, Gas Stoves and Domestic Kitchen Electrical Appliances and has entered the Cleaning solutions segment from FY18. The company has 5 manufacturing plants, 2 dedicated R&D centers, strong distribution network consists of 590 Prestige Xclusive stores in over 320 cities, 24 regional sales centers, 350 authorized service centers and employs over 2500 employees, The 'Prestige brand' has a strong brand recall among kitchen products across India and is today a total kitchen solutions provider. The company also exports and has an overseas subsidiary (TTK British Holdings Limited) in UK.

### TTK Group companies

- TTK Prestige Ltd- Consumer durables
- TTK Healthcare Ltd- Pharmaceuticals, Medical devices & Consumer products
- TTK Protective Devices Ltd- Condoms
- TTK Services Private Ltd- NRI Services and KPO
- Cigna TTK Ltd- Health Insurance JV Company

### TTK Prestige-Distribution reach

#### Prestige Xclusive

- The exclusive store from TTK Prestige Ltd
- 545 plus stores spread across 320 plus towns and 27 states.
- A store where every Prestige Product is available 365 days a year.
- Currently accounts for 18% of total sale as of FY20

#### Traditional Trade

- Authorised distributors and retailers.
- Presence at all traditional markets and outlets, big or small.
- Currently accounts for 50% of total sale as of FY20

#### Modern Trade

- Through Hypermarkets, supermarkets and malls, the hubs of retail activity.
- Currently accounts for 15% of total sale as of FY20

#### Institutions

- All major institutional buyers.
- Currently accounts for ~3% of total sale as of FY20

#### Online

- The comfort of buying through the internet without visiting the store.
- At [www.prestigesmartkitchen.com](http://www.prestigesmartkitchen.com) and across all E-commerce platforms.
- Currently accounts for 14% of total sale as of FY20

### Sourcing of products

Currently, all kitchenware products (pressure cooker & cookware) is manufactured in own factories. All gas stoves, mixer grinders, and induction cooktops are manufactured in India through dedicated vendor base while imports from China contributes to less than 10% of turnover. The company has recently made an official announcement to stop finished goods purchases from China after September. Currently, in-house is ~2/3<sup>rd</sup> of the total manufacturing as of Q2FY21.

**Historical higher ad-spend among peers supported strong brand building**



**The first iconic ad with the slogan “Jo Biwi Se Kare Pyaar, Woh Prestige Se Kaise Kare Inkaar” with the celebrity couple was remarkable in the Indian advertising scene**



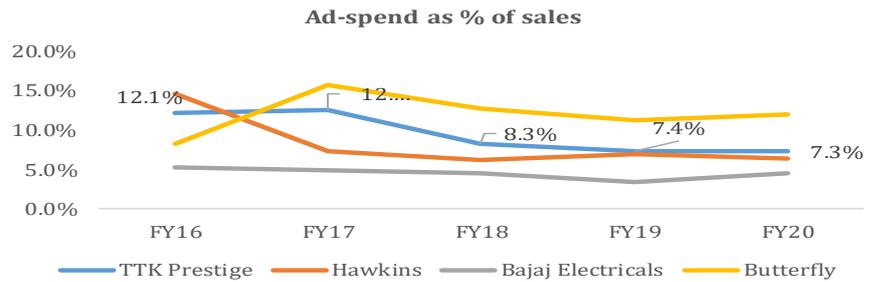
**Over the years, the company has de-risked from being depended on a single product. TTK is now a total Kitchen solution provider.**



## Investment Rationale

### Strong Brand Recall aided by consistent Ad-spend

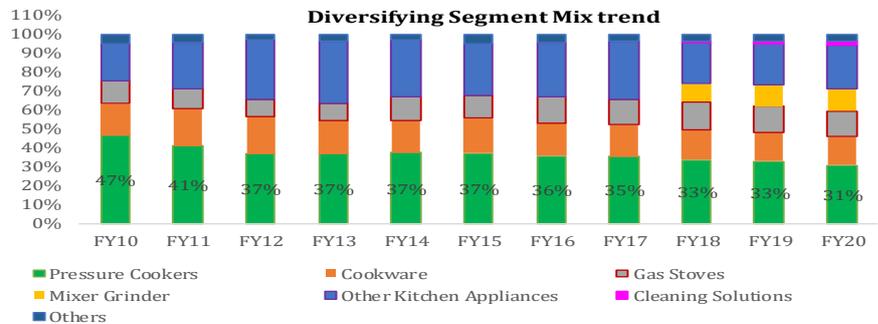
The ‘Prestige brand’ has a strong brand recall among kitchen products across India and is today a total kitchen solutions provider. The company has been consistently spending in the range of ~7-12% of total sales (7.3% in FY20) towards advertisement & marketing. This has supported to create a strong brand recall among consumers and enjoy a good market share in most of the segments. The company continued its ad-spend during the Covid impacted Q1FY21 quarter also though slightly lower at ~4% of sales but expects to be similar to previous year going forward.



Source: Company, Geojit Research

### Diversified into a total kitchen solution provider

Over the years, the company has de-risked from being depended on a single product. Started a single product manufacturing in 1959 (Pressure Cooker till 1990), TTK has now become a total Kitchen solution provider. With Pressure Cooker market maturing, the company has forayed into manufacturing of kitchen ware, various household electronic appliances and modular kitchen. The share of pressure cooker in the product mix has now reduced to ~31% from ~47% over the last decade. Currently, Cookware contributes 15%, Gas stoves 14%, Mixer grinder 12%, and Other Kitchen/Home Appliances 23%.



Source: Company, Geojit Research

### Organised players gaining market share

Indian Cookware and Kitchen Appliances Market, are expected to reach over USD7Bn by 2022. Pressure Cooker market for organized brands is estimated at ~60% of the total market. Currently, TTK’s market share is ~36% in the organized Pressure Cooker Industry in India. This industry has been growing at about 6%-8% over the past 5 years. The share of unorganized players is higher for cookware as compared to pressure cookers. TTK’s market share in Cookware market is ~38%. For the rest of the product categories, the market structure is fragmented. Over the years, the share of unorganized players has been gradually coming down due to factors such as shift in the consumer preference to reliable branded products, narrowing price gap, growing urbanization, rising number of nuclear families, rising disposable income and implementation of GST.

**Product innovation has been the main strategy of the company that contributes to growth and market share gaining**

**The latest innovation, 'Svachh', India's first pressure cooker which controls spillage supports demand.**

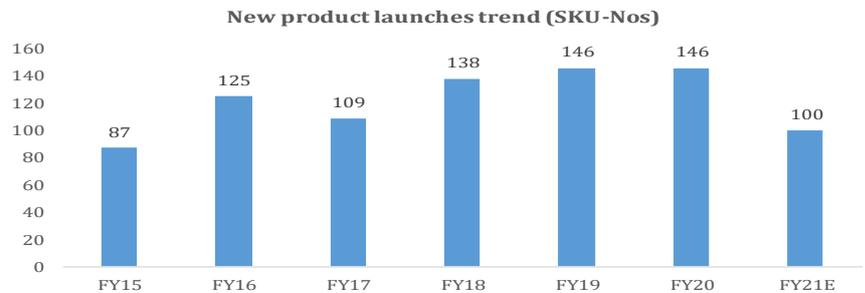


**End of loan moratorium will revive MFI-routed sales while increased penetration of cooking gas to aid growth**

**The Company is on course to put an Omni-channel hyper local delivery model by capitalizing its nationwide exclusive outlets**

### Driving growth through consistent Product Innovation

Supported by strong research base, TTK has been launching new variants of its existing products as well as new products at regular intervals. Product innovation has been the main strategy of the company that contributes to growth and market share gaining. Recently, TTK launched an innovative range of Pressure Cookers (Svachh-India's first pressure cooker which controls spillage). In the current fiscal year also, the company is geared to launch 100 new SKUs (Stock Keeping Units).



Source: Company, Geojit Research



Source: Company

### Silver linings in the dark clouds...

Covid-19 impacted the economy and the industry very hardly, resulted in sharp revenue decline by 52% YoY in Q1FY21. Now, with gradual relaxation in restrictions, the company started to see some improvement in volumes. Only with 2/3<sup>rd</sup> of the channels open, achieved 3% YoY growth in Q2FY21. Going forward, modern formats are also expected to open which will add growth.

**End of loan moratorium will revive MFI-routed sales:** TTK's rural penetration is mainly territory towns and through MFIs (Micro Finance Institutions). MFI sale was at Rs.115cr/Rs.80cr for FY19/FY20. This channel sale was impacted during Covid period as MFI loans were not available for durable purchases because of the moratorium. Moratorium was ended in September which will lead to revival in MFI sales.

**Increased penetration of cooking gas to aid growth:** The government has reached the target of 8 crore new gas connections recently for PMUY scheme by covering rural and urban poor in 715 districts. These markets are right for getting in Pressure Cookers and other Kitchen gadgets.

**Other factors pushing in rural demand:** GoI is planning to kick start infrastructure projects in rural areas to give employment to migrant workmen. This along with good monsoon and record kharif crop sowing will lead to pick in rural demand. The Company has already made a heads-start in rural penetration over the last couple of years.

**National Omni channel:** The e-com sales have almost doubled in recent months due to Covid-19 spread. The Company is on course to put an Omni-channel hyper local delivery model by capitalizing its nationwide exclusive outlets which will further push the growth in this channel.

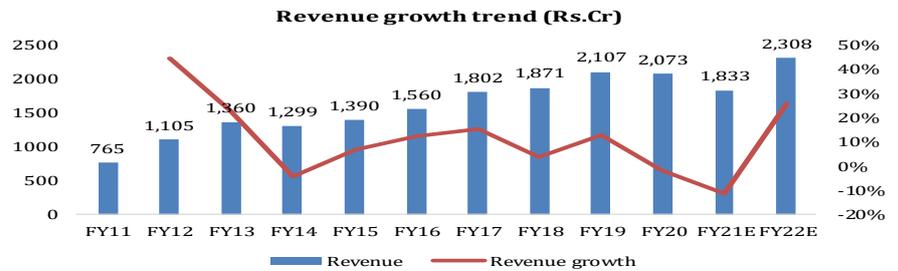
*Revenue has grown at a healthy growth of ~12% CAGR in last decade.*

*The company is also looking at doubling its exports (currently contributes 2-3%).*

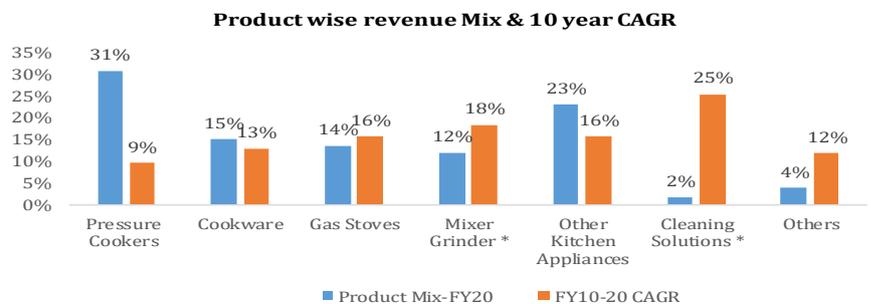
*EBITDA margin is largely stable as pricing is built on a raw material cost plus and any cost escalation passes to consumer indicates strong pricing power*

### Financial Analysis.

Revenue has grown at a healthy growth of ~12% CAGR in last decade. The revenue growth was mainly driven by TTK's strategy of consistent product innovation & diversification, capacity building and region diversification. The large portion of the growth came from Kitchen appliances (16% CAGR) while the main segment Pressure Cooker's growth was at 9% CAGR. The company is also looking at doubling its exports (currently contributes 2-3%). 90% of exports is cookware, which is now at 105% capacity utilization.

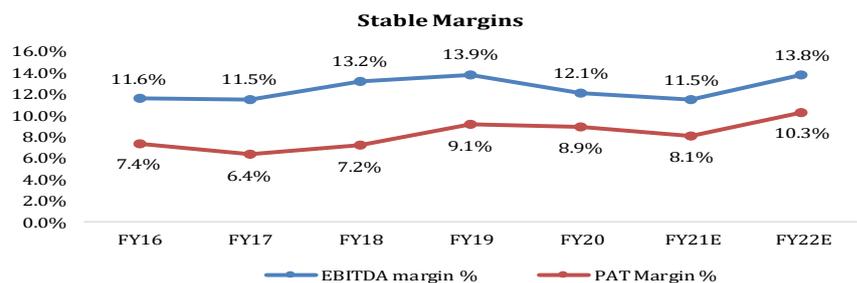


Source: Company, Geojit Research

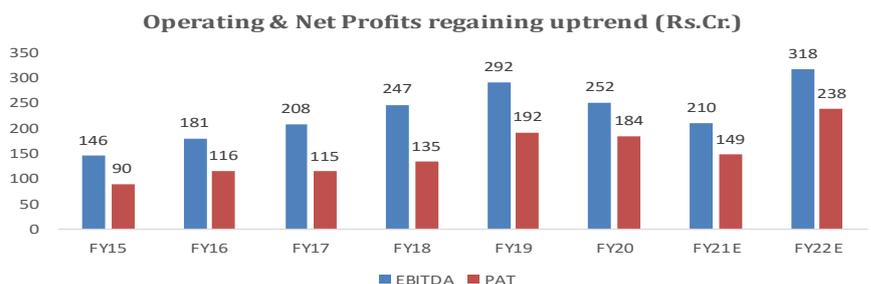


Source: Company, Geojit Research

EBITDA margin is largely stable (in the range of 11%-14% in last 5 years) as the company considers margin as a strategy for growth and pricing is built on a raw material cost plus. Currently, the main raw material (aluminum) prices are benign. Any cost escalation passes to consumer and margin improvement is only through efficiencies. Also, the company does not expect any cost increase due to discontinuation of imports from China. Relatively high ad-spend compared to peers also provides a comfort to protect margins.



Source: Company, Geojit Research



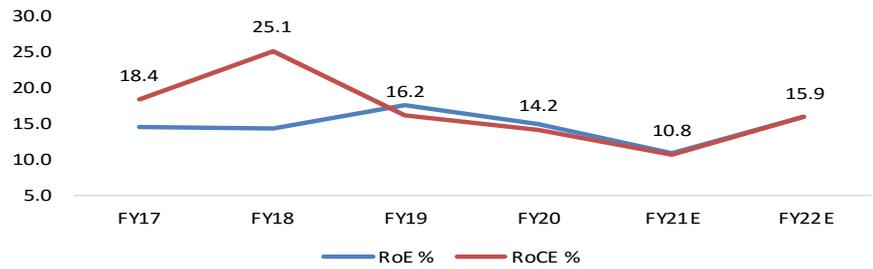
Source: Company, Geojit Research

**TTK does not have any major debt and has net Cash of ~Rs.350cr. The company does not expect any major capex in next 2 years.**

**Return ratios to improve going forward.**

**We expect earnings to drop by 20% YoY in FY21, but expect 14% CAGR during FY20-22E. Currently trading at 36x 1Yr Fwd P/E. We value the stock at 37x FY22E factoring current uncertain situation.**

### RoE & RoCE trend



Source: Company, Geojit Research

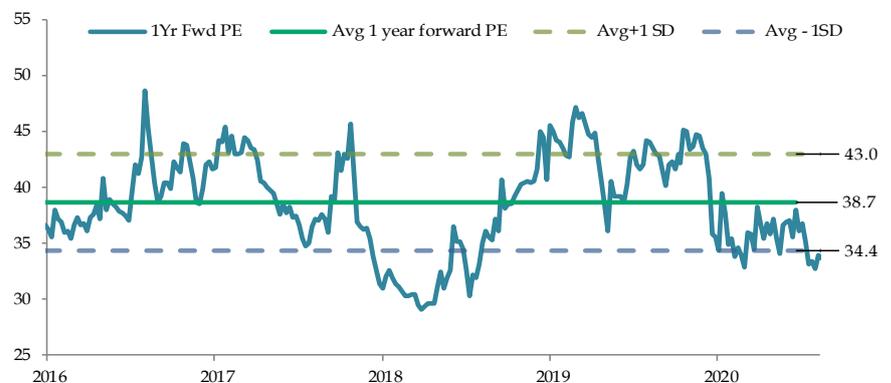
### Debt at negligible levels, having net cash of ~Rs350cr

The company does not have any major debt (Rs.49cr with D/E of 0.1x) and has net Cash (including investment) of ~Rs.350cr. The company is planning to double its capacity to meet the increase in demand both from domestic and exports, but does not expect any major capex in FY21 (expect only ~Rs50cr in FY21). So, interest & depreciation expenses will be lower which along with lower tax rates to support earning growth.

### Valuation

During the last 5 years the stock has been trading in the range of 29x - 47x 1Yr Fwd P/E (5Yr Avg=39x). The Revenue/Earnings of the company has grown at 7%/12% CAGR during this period. Backed by a strong earnings growth in FY19 (Revenue-13% YoY, PAT 43%YoY) aided by strong rural consumption, valuations reached to a high of 47x in May 2019. However, the demand saw some headwinds on account of liquidity stress due to NBFC crisis towards the end of FY20. Though various measures taken by the government to improve liquidity & credit expansion including reduction in corporate tax resulted in some signs of recovery from Jan 2020. Unfortunately, the Covid-19 pandemic spoiled the developments. As a result the valuations started witnessing a steep correction since March 2020 and reached a low level of 33x in May 2020. Now, with more relaxations in the restriction, the industry started to see improvement in volumes. Good monsoon & record Khariff crop sowing and end of moratorium will support demand going forward. We expect earnings to drop by 20% YoY in FY21, but expect 14% CAGR during FY20-22E. Currently the stock is trading at 33x 1Yr Fwd P/E. We value the stock at 40x FY22E (2Yr avg=40x).

### 1Yr Fwd P/E- at attractive valuations



Source: Company, Geojit Research

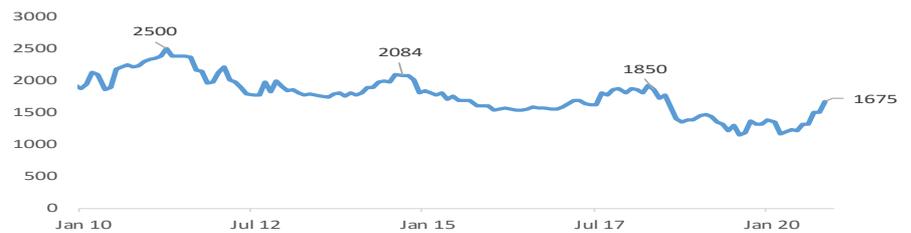
*Consistent profitability and healthy growth among peers.*

### Peer Analysis: Highest revenue growth & stable margins at attractive valuations

Company	Mcap(cr)	Sales (Rs cr)			EBITDA Margin %			Sales CAGR	PAT CAGR	RoE %	RoCE %	P/E
		FY18	FY20E	FY21E	FY18	FY19	FY20	FY16-20	FY16-20	FY20	FY20	FY20E
TTK Prestige	8,552	1,871	2,107	2,073	13%	14%	12%	7%	12%	15%	11%	36
Hawkins Cookers	2,736	553	653	674	13%	13%	15%	5%	16%	56%	46%	37
Bajaj Electricals	5,702	4,687	6,634	4,929	6%	5%	4%	2%	NA	0%	0%	NA
Butterfly	508	541	652	679	6%	7%	6%	-7%	-25%	2%	7%	181

Source: Company, Bloomberg, Geojit Research

### Benign Raw material (Aluminum alloy) prices (USD/Ton)



Source: Company, Bloomberg, Geojit Research

### TTK Prestige -Plants



### Prestige Xclusive



### Risks

- Covid spread may lead to economic slowdown and drop in discretionary spending.
  - With gradual relaxation, most of the channels are open now, which along with vaccine expectation is reducing the concern.
- Stiff competition from regional players.
  - Strong brand recall and relatively higher ad-spend addresses this risk.

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>1,871</b>	<b>2,107</b>	<b>2,073</b>	<b>1,833</b>	<b>2,308</b>
% change	3.8	12.6	-1.6	-11.6	25.9
<b>EBITDA</b>	<b>247</b>	<b>292</b>	<b>252</b>	<b>210</b>	<b>318</b>
% change	19.1	18.0	-13.8	-16.6	51.3
Depreciation	26	26	37	36	35
<b>EBIT</b>	<b>222</b>	<b>266</b>	<b>215</b>	<b>174</b>	<b>283</b>
Interest	4	5	5	4	2
Other Income	12	25	25	30	39
<b>PBT</b>	<b>230</b>	<b>286</b>	<b>234</b>	<b>200</b>	<b>320</b>
% change	28.1	24.4	-18.1	-14.7	60.1
Tax	96	94	50	51	82
Tax Rate (%)	41.6%	32.8%	21.3%	25.7%	25.6%
<b>Reported PAT</b>	<b>263</b>	<b>192</b>	<b>185</b>	<b>149</b>	<b>238</b>
Adj*	129	0	0	0	0
<b>Adj PAT</b>	<b>135</b>	<b>192</b>	<b>184</b>	<b>149</b>	<b>238</b>
% change	17.3	43.0	-4.1	-19.5	60.3
No. of shares (cr)	1.2	1.2	1.4	1.4	1.4
<b>Adj EPS (Rs.)</b>	<b>228.1</b>	<b>166.5</b>	<b>133.1</b>	<b>107.2</b>	<b>171.8</b>
% change	17.3	43.0	-4.1	-19.5	60.3
DPS (Rs.)	33	36	36	36	36
CEPS (Rs.)	138.6	189.4	159.4	133.1	197.0

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>160</b>	<b>219</b>	<b>221</b>	<b>184</b>	<b>273</b>
Non-cash adj.	14	-4	4	0	0
Other adjustments	0	-11	-27	4	2
Changes in W.C	-48	-110	56	12	-113
<b>C.F. Operation</b>	<b>127</b>	<b>94</b>	<b>254</b>	<b>201</b>	<b>162</b>
Capital exp.	-12	-57	-58	-29	-25
Change in inv.	1	39	-141	-100	-100
Other invest.CF	8	18	15	0	0
<b>C.F - Investment</b>	<b>-3</b>	<b>0</b>	<b>-184</b>	<b>-129</b>	<b>-125</b>
Issue of equity	-71	0	0	0	0
Issue/repay debt	0	-38	-42	-43	-6
Dividends paid	-38	-42	-50	-42	-50
Other finance.CF	-4	-5	-3	-4	-2
<b>C.F - Finance</b>	<b>-113</b>	<b>-84</b>	<b>-96</b>	<b>-89</b>	<b>-58</b>
Chg. in cash	11	10	-26	-17	-22
Closing cash	69	79	53	36	14

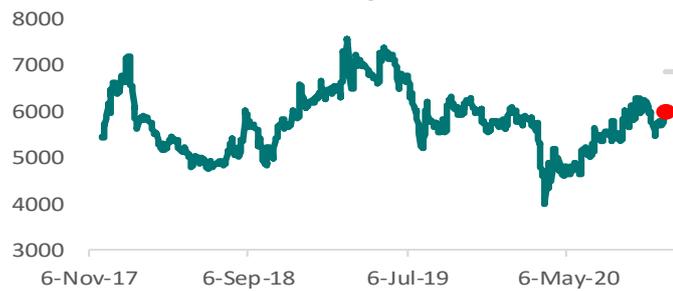
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	69	79	53	36	14
Accounts Receivable	268	316	295	261	316
Inventories	437	471	471	416	517
Other Cur. Assets	116	51	55	51	59
Investments	167	192	331	431	531
Gross Fixed Assets	440	476	580	605	630
Net Fixed Assets	359	371	444	433	424
CWIP	4	21	6	10	10
Intangible Assets	131	131	128	128	128
Def. Tax (Net)	1	0	0	0	0
Other Assets	28	31	35	33	39
<b>Total Assets</b>	<b>1,579</b>	<b>1,663</b>	<b>1,818</b>	<b>1,791</b>	<b>2,029</b>
Current Liabilities	420	395	423	341	398
Provisions	5	3	4	4	3
Debt Funds	92	54	49	6	0
Other Liabilities	42	45	33	33	33
Equity Capital	12	12	14	14	14
Reserves & Surplus	1,008	1,155	1,292	1,391	1,579
Shareholder's Fund	1,020	1,166	1,309	1,407	1,595
<b>Total Liabilities</b>	<b>1,579</b>	<b>1,663</b>	<b>1,818</b>	<b>1,791</b>	<b>2,029</b>
<b>BVPS (Rs.)</b>	<b>882</b>	<b>1,007</b>	<b>940</b>	<b>1,011</b>	<b>1,147</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	13.2	13.9	12.1	11.5	13.8
EBIT margin (%)	11.9	12.6	10.4	9.5	12.3
Net profit mgn.(%)	7.2	9.1	8.9	8.1	10.3
ROE (%)	14.4	17.6	14.9	11.0	15.9
ROCE (%)	7.7	11.0	11.3	8.1	11.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	47.6	50.6	53.8	55.3	45.7
Inventory (days)	79.7	78.7	82.9	88.3	73.8
Payables (days)	66.3	66.4	61.4	64.2	53.8
Current ratio (x)	2.5	2.7	2.8	3.5	3.6
Quick ratio (x)	0.8	1.0	0.8	0.9	0.8
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.3	4.6	3.9	3.1	3.7
Total asset T.O (x)	1.3	1.3	1.2	1.0	1.2
Int. coverage ratio (x)	54.2	59.0	39.4	41.1	131.3
Adj. debt/equity (x)	0.1	0.1	0.1	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	3.5	3.1	3.7	4.1	3.2
EV/EBITDA (x)	26.5	22.2	30.5	35.9	23.4
P/E (x)	49.5	34.6	36.1	44.8	27.9
P/BV (x)	6.5	5.7	6.1	5.7	5.0

## Recommendation Summary



Source: Bloomberg, Geojit Research

Dates	Rating	Target
3-Dec-20	Buy	6,870

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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