

Rupa & Company Ltd.

Modest Topline growth, Margins impacted due to higher raw material prices & adv expenditure, Outlook positive

Rupa & Company Limited (RUPA), delivered a modest topline growth in Q4FY22, with revenue up by ~0.3% YoY (volume decline of ~10% YoY) and rest of the growth was on account of price increase. In FY22 company reported revenue growth of ~12.3% YoY backed by a volume growth of only ~0.5% YoY. Going ahead, company's focus is to improve its product mix, increase share of premium and super premium category, increase focus on women wear, athleisure wear, thermal wear & exports. Company plans to foray in newer markets with increased penetration in the existing markets. Management has guided for a revenue growth of ~15%-18% (volume growth of ~7%-8%) for FY23e & maintains EBIDTA margins at ~18%. We are upbeat on RUPA's long-term growth prospects for its strong brand equity, new products launch pipeline and long-standing operations in innerwear industry. We remain positive on the company's mid-to long term growth potential and maintain our 'Buy' rating on the stock with a target price to Rs 640 (20x FY24e EPS).

Q4FY22 earnings key highlights

- In Q4FY22, the company reported a ~0.3% YoY increase in sales to Rs 4555 mn. Overall volumes were down by ~10% YoY. Athleisure wear brand Bumchum reported a volume decline of ~26% YoY led by high base of last year and increase in product prices. Volumes in the premium segment reported a decline of ~10% YoY.
- Gross margin for Q4FY22 declined by 136 bps YoY to 34.4% due to higher input cost & un-favourable product mix as sales of athleisure wear & premium segment was impacted which has higher gross margins. EBITDA margin for Q4FY22 declined by 366 bps YoY to 16.3%, on account of higher advertisement & employee expenditure. EBITDA declined by ~18.1% YoY to Rs 742 mn. Company has taken a price hike of ~4% in Q1FY23 in order to pass on higher raw material prices.
- PAT declined by 25.5% YoY to Rs 493 mn. Interest cost increased by 121.4% YoY to Rs 62 mn and depreciation increased by 23% YoY to Rs 34 mn.

Outlook and Valuation

- Currently, the innerwear industry is witnessing a structural shift from unorganised to the organised sector. Large organised players like Rupa are expected to get benefitted from this trend. Furthermore, RUPA has been gradually inching its presence in segment of mid-premium and premium segment with a focus on high growth categories like women's leggings, thermal wear, premium inner-wear and athleisure wear.
- At the current price of Rs 431, the stock is trading at 13.5x FY24e EPS. We have valued the stock at 20x FY24e EPS of Rs 32, to arrive at a target price of Rs 640, which provides an upside of 49% based on the current market price.

Y/E Mar (Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Net sales	4,555	4,540	0.3%	4,332	5.2%
Operating costs	3,813	3,634	4.9%	3,523	8.2%
EBITDA	742	906	-18.1%	809	-8.3%
EBITDA Margin (%)	16.3%	20.0%	(366)Bps	18.7%	(238)Bps
Depreciation	34	27	23.0%	36	-5.8%
Interest	62	28	121.4%	50	24.4%
Other income	36	32	9.9%	29	24.5%
PBT	682	883	-22.7%	752	-9.3%
Provision for tax	189	224	-15.6%	169	11.6%
Effective tax rate (%)	27.7%	25.4%	234 Bps	22.5%	520 Bps
PAT (Reported)	493	659	-25.2%	583	-15.4%
NPM (%)	10.8%	14.5%	(369)Bps	13.5%	(263)Bps

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	9,746	-15.1%	1,137	11.7%	619	-17%	7.8	11.0%	12.5%	55.4	31.7
FY21	13,127	34.7%	2,573	19.6%	1,753	183.1%	22.0	26.8%	29.8%	19.6	13.4
FY22	14,741	12.3%	2,685	18.2%	1,918	9.5%	24.1	23.8%	24.0%	17.9	13.6
FY23e	17,188	16.6%	3,085	18.0%	2,154	12.3%	27.1	22.4%	23.6%	15.9	11.2
FY24e	19,297	12.3%	3,522	18.3%	2,545	18.2%	32.0	22.5%	26.2%	13.5	9.5

Source: Company, SMIFS Research



Rating: Buy Upside/(Downside): 49%
Current Price: 431 Target Price: 640

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 719

Market data

Bloomberg: RUPA IN
52-week H/L (Rs): 585/320
Mcap (Rs bn/USD mn): 34.26/445
Shares outstanding (mn): 79.5
Free float: 26.72%
Avg. daily vol. 3mth (3M Avg – in '000): 300.07
Face Value (Rs): 1
Group: S&P BSE SmallCap

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	73.3%	73.3%	73.3%	73.3%
FIIs	1.5%	2.5%	2.9%	3.4%
DIIIs	3.8%	2.0%	2.0%	2.0%
Public/other	21.4%	22.2%	21.7%	21.3%

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
S&P BSE SmallCap	-11.5	1.9	11.1	76.1
RUPA	-15.5	-3.2	31.2	52.7

*as on 24th May 2022; Source: AceEquity, SMIFS research

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Q4FY22 – Key takeaways from the management call

- ✓ **Management has guided for a revenue growth of ~15%-18% & expects to maintain EBIDTA margin at ~18% for FY23e.**
- ✓ In FY22 revenue contribution by segment- Men: ~84%, Women: ~12%, Kids: ~4%
- ✓ In FY22 revenue contribution by segment- Mid-premium: ~58%, Economy: ~32%, Premium: ~10%
- ✓ In FY22 revenue mix from different regions- East: ~42%, North: ~28%, West & Central: ~17%, South: ~8%, North East: ~3%, Exports: ~2%
- ✓ **Company has taken a price increase of ~4% in Q1FY23 in order to pass on higher raw material prices.**
- ✓ In FY22 company achieved sales of ~Rs 2220 mn (~15% of sales) which grew by ~26% YoY from high potential focused markets of West Bengal, Maharashtra (Ex-Mumbai, Pune), Gujarat, MP, Chattisgarh, Western UP, Uttarakhand, Haryana, Himachal Pradesh, Punjab, Tamil Nadu, Andhra Pradesh & Kerala. Company is building a complete eco system of marketing team, retail & distribution network in the focused market. Expecting growth of ~45% in FY23e and medium-term target is to increase the sales by 3x in next 4 years from these focused markets.
- ✓ In FY22 company has achieved sales growth of ~10% YoY (volume de-growth of ~3%) in its womens wear brand “Softline”. Softline contributes ~8% of the sales of the company. Company has appointed actress Kiara Advani as the brand ambassador to endorse brand Softline. Management expect ~25%-30% YoY growth in the womens wear segment going forward for the company.
- ✓ **Company expects to grow its exports sales by ~70% in FY23e from ~Rs 330 mn in FY22 and plans to increase the exports sales by ~5x in the next 3 years.** Company is focusing on export markets of Middle East, Bangladesh, Africa & Russia. Appointed a senior person for heading the export business.
- ✓ Modern trade channel which contributes ~2.6% of the sales grew by ~30% YoY in FY22. Company expects sales to grow by ~4x in the next 3 years from this channel.
- ✓ **In FY22, advertising expense stood at ~Rs 620 mn ~4.2% of its sales which it plans to increase to ~5.5% of sales for FY23e.**
- ✓ **Net working capital days increased to ~186 days in FY22 from 165 days YoY.** Company is targeting to improve its net working capital to below 160 days by FY23 end.
- ✓ Increase in inventory is due to higher inventory of thermal products of ~Rs 400-450 mn and expectation of good demand.
- ✓ At the end of FY22, company has 20 EBOs. Furthermore, it is expecting to roll out ~150 more EBOs in the next 2 years.
- ✓ Company expects capex of ~Rs 300-400 mn for FY23e.

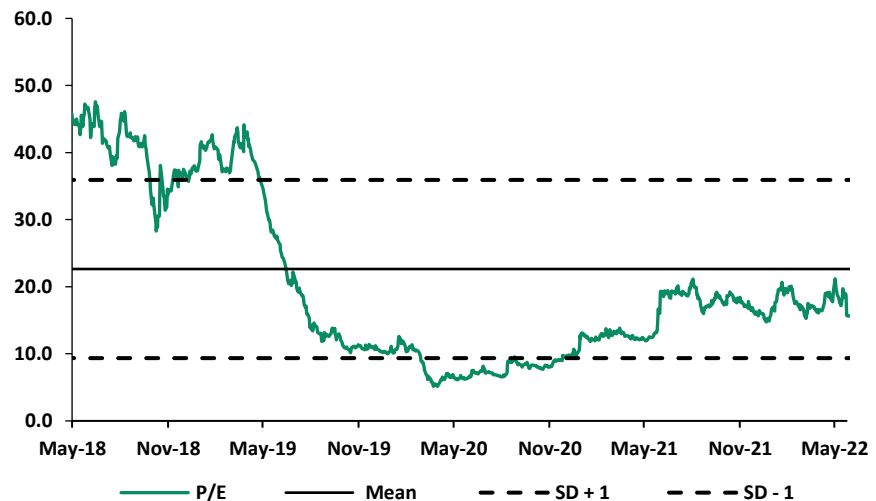
Changes in Management

- **Mr. Dinesh Kumar Lodha, CEO has resigned** from the services of the company due to personal reasons w.e.f 31st May 2022 and he is a part of the selection process for the new CEO to ensure a smooth transition.
- **Mr. Sumit Khowala** has been with the company for over a decade is **promoted to CFO** of the company w.e.f. 1st June 2022.
- **Mr. Ramesh Agarwal, whole time Director - part of the promoter family has resigned from the post of CFO** to free up his bandwidth from regular day to day activities and leverage his rich experience in overall growth and transformation of the company.

Outlook and Valuations

- ✓ Currently, the innerwear industry is witnessing a structural shift from unorganised to the organised sector, we expect company to benefit from this trend. Furthermore, RUPA has been gradually inching its presence in mid-premium and premium segment with a focus on higher growth categories like women’s leggings, thermal wear, premium inner-wear and leisure wear. We remain positive on the company’s mid to long term growth potential.
- ✓ At the current price of Rs 431, the stock is trading at 13.5x FY24e EPS. We have valued the stock at 20x FY24e EPS of Rs 32, **to arrive at a target price of Rs 640, which provides an upside of 49% based on the current market price. We maintain our “Buy” rating on the stock.**
- ✓ **Key risks** are (1) Volatile raw material prices (2) Competition from both organised & un-organised players (3) Any increase in GST rates.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Institutional research

Quarterly financials, operating metrics and key performance indicators

Fig 2: Quarterly Financials (Consolidated)

Y/E March (Rs Mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Sales	2,095	3,035	3,456	4,540	2,180	3,675	4,332	4,555
COGS	1,399	1,954	2,263	2,917	1,335	2,371	2,907	2,988
Gross Profit	696	1,082	1,193	1,623	845	1,304	1,425	1,566
Employee Expenditure	97	127	125	178	144	161	160	216
Other Exp.	236	293	425	539	280	431	456	608
EBITDA	363	661	643	906	421	713	809	742
Depreciation	38	38	35	27	34	35	36	34
Interest	42	28	36	28	32	43	50	62
Other Income	2	21	17	32	20	23	29	36
PBT	286	616	588	883	375	658	752	682
Tax	80	162	155	224	103	107	169	189
Tax rate (%)	28.1%	26.3%	26.3%	25.4%	27.4%	16.2%	22.5%	27.7%
Reported PAT	206	454	434	659	272	551	583	493
YoY Growth (%)								
Revenue	4.9%	5.4%	12.4%	153.2%	4.0%	21.1%	25.3%	0.3%
EBITDA	96.3%	59.2%	40.3%	1049.9%	16.0%	7.9%	25.8%	-18.1%
PAT	259.6%	42.0%	52.3%	NA	32.3%	21.4%	34.3%	-25.2%
QoQ Growth (%)								
Revenue	16.9%	44.8%	13.9%	31.4%	-52.0%	68.6%	17.9%	5.2%
EBITDA	361.1%	82.0%	-2.8%	40.9%	-53.5%	69.2%	13.4%	-8.3%
Adj. PAT	NA	120.6%	-4.4%	51.9%	-58.7%	102.4%	5.8%	-15.4%
Margin (%)								
Gross margin (%)	33.2%	35.6%	34.5%	35.7%	38.8%	35.5%	32.9%	34.4%
EBITDA margin (%)	17.3%	21.8%	18.6%	20.0%	19.3%	19.4%	18.7%	16.3%
PAT margin (%)	9.8%	15.0%	12.6%	14.5%	12.5%	15.0%	13.5%	10.8%

Source: Company, SMIFS research estimates

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Net Sales	9,746	13,127	14,741	17,188	19,297
COGS	6,314	8,533	9,601	11,173	12,505
% of sales	64.8%	65.0%	65.1%	65.0%	64.8%
Gross Profit	3433	4594	5140	6016	6793
Employee Expenditure	657	527	681	756	830
% of sales	6.7%	4.0%	4.6%	4.4%	4.3%
Other Exp.	1638	1493	1774	2174	2441
% of sales	16.8%	11.4%	12.0%	12.7%	12.7%
EBITDA	1,137	2,573	2,685	3,085	3,522
EBITDA Margin (%)	11.7%	19.6%	18.2%	18.0%	18.3%
Depreciation	185	138	139	144	159
EBIT	952	2,436	2,547	2,941	3,363
Interest Expenses	186	134	187	166	76
EBT	766	2,301	2,359	2,775	3,286
Other Income	74	73	108	112	125
PBT	840	2,374	2,467	2,887	3,412
Tax-Total	221	621	549	733	867
Effective tax rate (%)	26.3%	26.2%	22.2%	25.4%	25.4%
Extraord. items - Adj.	0	0	0	0	0
Reported PAT	619	1753	1918	2154	2545

Source: Company, SMIFS research

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Sources of funds					
Capital	79.6	79.6	79.6	79.6	79.6
Reserves & Surplus	5700	7216	8738	10345	12127
Shareholders' Funds	5,780	7,295	8,818	10,425	12,206
Total Debt	1760	1399	3550	1950	900
Deferred Tax Liabilities	96	105	117	117	117
Total Liabilities	7,636	8,800	12,485	12,492	13,223
Application of funds					
Net Block	1,662	1,689	1,887	2,390	2,642
Capital WIP	64	194	261	0	0
Non-current Asset	536	572	435	459	461
Net Fixed Assets	2,262	2,455	2,584	2,848	3,102
Investments	0	0	0	0	0
Inventories	4673	3906	5830	5416	5551
Sundry Debtors	2513	3644	5473	5086	5551
Other Current Assets	541	476	647	727	812
Cash & Bank Balances	17	1184	1237	1725	1775
Total Current Assets	7,744	9,210	13,188	12,953	13,689
Creditors	1,347	1,626	2,199	2,166	2,379
Other Current Liabilities	983	1,201	1,053	1,109	1,155
Provisions	40	38	34	34	34
Total Current Liabilities	2,370	2,865	3,286	3,310	3,568
Net Current Assets	5,374	6,345	9,902	9,643	10,121
Total assets	7,636	8,800	12,485	12,492	13,223

Source: Company, SMIFS research

Key Ratios					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Growth ratios (%)					
Net sales	-15%	35%	12%	17%	12%
EBITDA	-25%	126%	4%	15%	14%
Reported PAT	-17%	183%	9%	12%	18%
Margin Ratio (%)					
Gross Margin	35.2%	35.0%	34.9%	35.0%	35.2%
EBITDA Margin	11.7%	19.6%	18.2%	18.0%	18.3%
EBIT Margin	9.8%	18.6%	17.3%	17.1%	17.4%
PBT Margin	8.6%	18.1%	16.7%	16.8%	17.7%
PAT Margin	6.4%	13.4%	13.0%	12.5%	13.2%
Return Ratio (%)					
ROE	11.0%	26.8%	23.8%	22.4%	22.5%
ROCE	12.5%	29.8%	24.0%	23.6%	26.2%
Turnover Ratio days (days)					
Gross Block Turnover (x)	5.4	6.8	6.7	7.0	7.1
Inventory Period	175	109	121	115	105
Debtors Period	94	101	113	108	105
Creditors	50	45	47	46	45
Cash Conversion Cycle	219	165	186	177	165
Solvency Ratio (%)					
Debt-equity (x)	0.3	0.2	0.4	0.2	0.1
Net Debt-equity (x)	0.3	0.0	0.3	0.0	-0.1
Liquidity ratio (x)	2.0	2.3	2.0	2.6	3.2
Interest coverage ratio (%)	5.1	18.1	13.6	17.7	44.0
Per share (Rs)					
Adjusted EPS	7.8	22.0	24.1	27.1	32.0
CEPS	10.1	23.8	25.9	28.9	34.0
Book value	72.7	91.7	110.9	131.1	153.5
Dividend per share	3.0	5.0	3.0	6.8	8.0
Dividend Payout (%)	39%	23%	12%	25%	25%
Dividend Yield (%)	0.7%	1.2%	0.7%	1.6%	1.9%
Valuation					
P/E	55.4	19.6	17.9	15.9	13.5
P/BV	5.9	4.7	3.9	3.3	2.8
EV/EBITDA	31.7	13.4	13.6	11.2	9.5
Market Cap/Sales	3.5	2.6	2.3	2.0	1.8

Source: Company, SMIFS research

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Operating profit before WC changes	1153	2612	2702	3189	3640
Net change in working capital	193	-67	-3337	743	-432
Income tax paid (net)	-442	-439	-523	-733	-867
Cash flow from operating activities (a)	904	2106	-1161	3199	2341
Capital expenditure	-181	-227	-373	-300	-400
Fee Cash Flow	760	1879	-1525	2899	1941
Cash flow from investing activities (b)	-152	-1370	-336	-300	-400
Cash flow from financing activities (c)	-811	-717	1508	-2412	-1890
Net change in cash (a+b+c)	-59	19	12	487	50
Opening cash balance	72	13	32	43	531
Ending cash balance	13	32	43	531	581

Source: Company, SMIFS research

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Analyst holding in stock: **NO**

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