

Q2FY23 Update | Textile | 14 November 2022

Rupa & Company Ltd.

Muted all round performance

Rupa & Company Ltd. (RUPA), reported weak all round performance in Q2FY23, which was lower than estimates in a challenging business environment of volatile raw material prices. Revenues in Q2FY23 declined by ~22.3% YoY led by a volume decline of ~26% YoY (volumes in H1FY23 declined by ~18% YoY) as per our estimate. In Q2FY23 volumes declined in core markets of the company as sharp volatility in yarn prices, impacted purchasing decisions of the distribution channels. Company was not able to fully pass on the increase in raw material prices which impacted margins. With some stability in cotton yarn prices there has been an improvement in the sentiments of the distribution channel. Management highlighted that they have shortlisted some candidates for the post of CEO and the selection process is still going on. We expect performance of the company to gradually improve on a QoQ basis from here onwards.

H1FY23 Earnings key highlights

- In H1FY23, company reported a revenue decline of ~14.6% YoY to Rs 5,003 mn.
- Gross margin for H1FY23 declined by ~352 bps YoY to 33.2%. Decline in gross margins was due to increase & volatility in raw material cost, which company was not able to fully pass on to the customers.
- EBITDA margin for H1FY23 declined to ~9.5% vs ~19.4% YoY on account of lower gross margins, higher advertisement expenditure & lower absorption of fixed overhead.
- PAT declined by 63.4% YoY to Rs 293 mn. Interest cost increased by ~62% YoY to Rs 123 mn due to increase in working capital.

Company is witnessing good traction from exports and modern trade which contributed ~10% of revenue in H1FY23. We continue to remain positive on company's mid to long-term growth prospects given its strong brand equity and long-standing operations in innerwear industry. **However, given the weak performance in H1FY23, we have reduced our estimates for Revenues/EBITDA/PAT for both FY23e & FY24e. Accordingly, we have revised our rating to "Accumulate" from 'Buy'.**

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.
- We have valued the stock at 15xSep'24e EPS of Rs 21.0 (rolled over from March'24), to arrive at a target price of Rs 316 and have "ACCUMULATE" rating on the stock.**

Y/E Mar (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Q2FY23E	Var. (%)
Net sales	2,856	3,675	-22.3%	2,147	33.1%	3,492	-18%
Operating costs	2,564	2,962	-13.5%	1,962	30.7%		
EBITDA	292	713	-59.0%	185	58.2%	593	-51%
EBITDA Margin (%)	10.2%	19.4%	(916)Bps	8.6%	163 Bps	17.0%	
Depreciation	34	35	-5.4%	33	1.5%		
Interest	65	43	49.7%	58	11.3%		
Other income	32	23	35.8%	56	-43.5%		
PBT	226	658	-65.6%	150	50.8%		
Provision for tax	57	128	-55.3%	25	126.3%		
Effective tax rate (%)	25.3%	19.5%	586 Bps	16.9%	844 Bps		
Reported PAT	169	530	-68.1%	124	35.5%	420	-60%
PAT Margin (%)	5.9%	14.4%	(851)Bps	5.8%	11 Bps	12.0%	

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	13,127	34.7%	2,573	19.6%	1,753	183.1%	22.0	26.8%	22.0%	9.7	6.7
FY22	14,741	12.3%	2,685	18.2%	1,918	9.5%	24.1	23.8%	18.2%	18.2	13.9
FY23e	13,415	-9.0%	1,502	11.2%	959	-50.0%	12.1	10.4%	8.2%	24.5	16.3
FY24e	14,914	11.2%	2,192	14.7%	1,505	57.0%	18.9	14.8%	12.2%	15.6	11.0
FY25e	16,510	10.7%	2,559	15.5%	1,841	22.3%	23.2	15.5%	14.0%	12.7	9.4

Source: Company, SMIFS Institutional Research Estimates



Rating: Accumulate Upside: 7%
Current Price: 295 Target Price: 316

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 432

Market data

Bloomberg: RUPA IN
52-week H/L (Rs): 585/293
Mcap (Rs bn/USD bn): 23.45/0.29
Shares outstanding (mn): 79.5
Free float: 26.72%
Avg. daily vol. 3mth (3M Avg – in '000): 245.4
Face Value (Rs): 1
Group: BSE SmallCap

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	73.3	73.3	73.3	73.3
FIIs	0.7	1.0	1.5	2.5
DIIIs	4.1	4.5	3.2	2.0
Public/other	21.9	21.2	22.0	22.2

Promoters Pledging

% of o/s shares 0 0 0 0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE SmallCap	1.9	4.1	-0.6	117
RUPA	-5.0	-10.3	-33.8	55.9

*as on 14th Nov 2022; Source: AceEquity, SMIFS research

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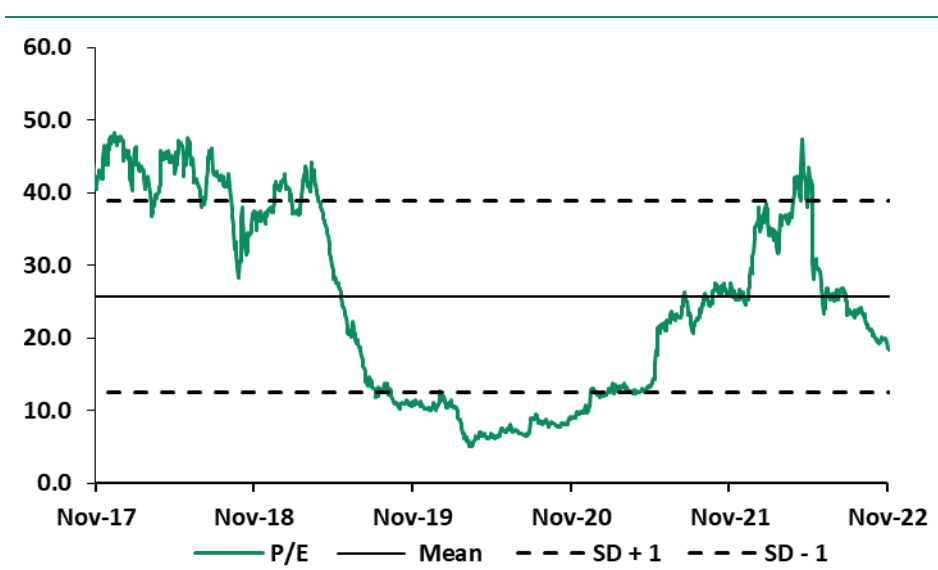
Q2FY23 – Key takeaways from the management call

- ✓ In Q2FY23 company has reported sales decline of ~22.3% YoY (volume de-growth of ~26% YoY as per our estimate)
- ✓ In H1FY23 revenue contribution by segment- Men: ~85%, Women: ~11%, Kids: ~4%
- ✓ In H1FY23 revenue mix from different regions- East: ~42%, North: ~26%, West & Central: ~15%, South: ~8%, North East: ~4%, Exports: ~5%
- ✓ **In H1FY23 company achieved sales of ~Rs 830 mn (~16.6% of sales) which de-grew by ~11% YoY from high potential focused markets** of West Bengal, Maharashtra (Ex-Mumbai, Pune), Gujarat, MP, Chattisgarh, Western UP, Uttrakhand, 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. **Medium-term target is to increase the sales by 3x in next 4 years from these focused markets.**
- ✓ Its womens wear brand “Softline” contributed ~4% of the sales in H1FY23. Company has appointed actress Kiara Advani as the brand ambassador to endorse brand Softline.
- ✓ In H1FY23 export sales (contribution of ~4.8%) of the company grew by ~70% YoY at Rs 240 mn. **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 contributed ~5.6% of the sales & grew by ~17% YoY in H1FY23. **Company expects sales from modern trade channel to grow by ~4x in the next 3 years.**
- ✓ In H1FY23, advertising expense stood at ~Rs 370 mn ~7.4% vs ~3.4% (YoY). **Company has planned for advertisement spend of ~6%-7% of sales in FY23e.**
- ✓ The increase in advertisement spends in H1FY23 is due to increased investment in marketing by engaging celebrity brand ambassadors and running national campaigns.
- ✓ Working capital days have increased at the end of H1FY23. Going forward company is targeting to improve its net working capital days by end of FY23.
- ✓ At the end of H1FY23, company has 24 EBOs. **Company plans to roll out ~150 EBOs on a pan India level in the next 2-3 years.** Company has opened a ~1000 sq feet flagship store in Kolkata.

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 athleisure wear.
- ✓ We continue to remain positive on company’s mid to long-term growth prospects given its strong brand equity and long-standing operations in innerwear industry. **However, given the weak performance in H1FY23, we have reduced our estimates for Revenues/EBIDTA/PAT for both FY23e & FY24e. Accordingly, we revised our rating to “Accumulate” from ‘Buy’.**
- ✓ We have valued the stock at 15xSep’24e EPS of Rs 21.0 (rolled over from March’24) to arrive at a target price of Rs 316, which provides an upside of ~7%. We have an “ACCUMULATE” 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)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Sales	3,456	4,540	2,180	3,675	4,332	4,555	2,147	2,856
COGS	2,263	2,917	1,335	2,371	2,907	2,988	1,344	1,999
Employee Cost	125	178	144	161	160	216	172	147
Other Expenditure	425	539	280	431	456	608	446	418
EBITDA	643	906	421	713	809	742	185	292
Depreciation	35	27	34	35	36	34	33	34
Interest	36	28	32	43	50	62	58	65
Other Income	17	32	20	23	29	36	56	32
PBT	588	883	375	658	752	682	150	226
Tax	155	224	83	128	169	189	25	57
Tax rate (%)	26.3%	25.4%	22.2%	19.5%	22.5%	27.7%	16.9%	25.3%
Reported PAT	434	659	292	530	583	493	124	169
Extraordinary Items	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	434	659	292	530	583	493	124	169
YoY Growth (%)								
Revenue	12.4%	153.2%	4.0%	21.1%	25.3%	0.3%	-1.5%	-22.3%
EBITDA	40.3%	1049.9%	16.0%	7.9%	25.8%	-18.1%	-56.1%	-59.0%
Adj. PAT	52.3%	NA	41.7%	16.7%	34.3%	-25.2%	-57.3%	-68.1%
QoQ Growth (%)								
Revenue	13.9%	31.4%	-52.0%	68.6%	17.9%	5.2%	-52.9%	33.1%
EBITDA	-2.8%	40.9%	-53.5%	69.2%	13.4%	-8.3%	-75.1%	58.2%
Adj. PAT	-4.4%	51.9%	-55.7%	81.6%	10.0%	-15.4%	-74.8%	35.5%
Margin (%)								
Gross margin (%)	34.5%	35.7%	38.8%	35.5%	32.9%	34.4%	37.4%	30.0%
Employee Cost/Revenue (%)	3.6%	3.9%	6.6%	4.4%	3.7%	4.7%	8.0%	5.1%
Other expenses / Revenue (%)	12.3%	11.9%	12.8%	11.7%	10.5%	13.4%	20.8%	14.7%
EBITDA margin (%)	18.6%	20.0%	19.3%	19.4%	18.7%	16.3%	8.6%	10.2%
Adj. PAT margin (%)	12.6%	14.5%	13.4%	14.4%	13.5%	10.8%	5.8%	5.9%

Source: Company, SMIFS research estimates

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Net Sales	13,127	14,741	13,415	14,914	16,510
COGS	8,533	9,601	9,122	9,844	10,814
% of sales	65.0%	65.1%	68.0%	66.0%	65.5%
Employee Expenditure	527	681	698	746	809
% of sales	4.0%	4.6%	5.2%	5.0%	4.9%
Other Exp.	1493	1774	2093	2133	2328
% of sales	11.4%	12.0%	15.6%	14.3%	14.1%
EBITDA	2,573	2,685	1,502	2,192	2,559
Depreciation & Amortisation	138	139	144	159	172
EBIT	2,436	2,547	1,358	2,034	2,387
Interest Expenses	134	187	238	162	81
Core PBT	2,301	2,359	1,120	1,872	2,306
Other Income	73	108	168	149	165
PBT	2,374	2,467	1,287	2,021	2,471
Tax	621	549	328	515	630
Tax Rate (%)	26.2%	22.2%	25.5%	25.5%	25.5%
Extraord. items	0	0	0	0	0
Reported PAT	1753	1918	959	1505	1841
Minority Interest	0	0	0	0	0
Adjusted PAT	1753	1918	959	1505	1841

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	34.7%	12.3%	-9.0%	11.2%	10.7%
EBITDA	126.2%	4.4%	-44.1%	45.9%	16.7%
Adj. PAT	183.1%	9.5%	-50.0%	57.0%	22.3%
Margin Ratio (%)					
Gross Profit	35.0%	34.9%	32.0%	34.0%	34.5%
EBITDA	19.6%	18.2%	11.2%	14.7%	15.5%
EBIT	18.6%	17.3%	10.1%	13.6%	14.5%
Core PBT	17.5%	16.0%	8.3%	12.5%	14.0%
Adj. PAT	13.4%	13.0%	7.1%	10.1%	11.2%
Return Ratio (%)					
ROE	26.8%	23.8%	10.4%	14.8%	15.5%
ROCE	22.0%	18.2%	8.2%	12.2%	14.0%
Turnover Ratio days (days)					
Gross Block Turnover (x)	5.6	5.3	4.0	4.0	4.0
Adj. OCF/ Adj. PAT (%)	112	-70	196	93	114
Inventory Period	109	121	145	140	135
Debtors Period	101	113	125	120	120
Creditors	45	47	45	45	45
Cash Conversion Cycle	165	186	225	215	210
Solvency Ratio (%)					
Debt-equity (x)	0.2	0.4	0.3	0.2	0.1
Net Debt-equity (x)	0.0	0.3	0.1	0.1	0.0
Gross Debt/EBITDA	0.5	1.3	1.8	0.8	0.4
Current Ratio	2.3	2.0	2.4	2.8	3.3
Interest coverage ratio (%)	18.1	13.6	5.7	12.6	29.5
Dividend					
DPS (Rs)	5.0	3.0	2.5	5.0	7.0
Dividend Payout (%)	23%	12%	21%	26%	30%
Dividend Yield (%)	2.3%	0.7%	0.8%	1.7%	2.4%
Per share (Rs)					
Reported EPS	22.0	24.1	12.1	18.9	23.2
Adj. EPS	22.0	24.1	12.1	18.9	23.2
CEPS	23.8	25.9	13.9	20.9	25.3
Book value	91.7	110.9	121.2	134.1	149.2
Valuation					
P/E	9.7	18.2	24.5	15.6	12.7
P/BV	2.3	4.0	2.4	2.2	2.0
EV/EBITDA	6.7	13.9	16.3	11.0	9.4
EV/Sales	1.3	2.5	1.8	1.6	1.5
EV/Core PBT	7.5	15.8	21.8	12.9	10.4

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	79.6	79.6	79.6	79.6	79.6
Reserves & Surplus	7216	8738	9558	10586	11782
Shareholders' Funds	7,295	8,818	9,638	10,666	11,862
Total Debt	1399	3550	2650	1800	900
Deferred Tax Liabilities	105	117	117	117	117
Other-non current liabilities	169	156	156	156	156
Total Liabilities	8,968	12,641	12,560	12,739	13,034
Application of funds					
Net Block	1689	1887	2390	2642	2882
Capital WIP	194	261	0	0	0
Non-current Asset	572	435	449	450	464
Investments	0	0	0	0	0
Inventories	3906	5830	5329	5721	6107
Sundry Debtors	3644	5473	4594	4903	5428
Other Current Assets	476	647	576	636	667
Cash & Bank Balances	1184	1237	1679	1058	394
Total Current Assets	9,210	13,188	12,178	12,318	12,596
Creditors	1,626	2,199	1,654	1,839	2,036
Other Current Liabilities	1,070	932	803	832	872
Total Current Liabilities	2,696	3,131	2,457	2,671	2,908
Net Current Assets	6,513	10,057	9,721	9,647	9,688
Total assets	8,968	12,641	12,560	12,739	13,034

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes					
Operating profit before WC changes	2612	2702	1662	2334	2724
Net change in working capital	-67	-3337	784	-251	92
Income tax paid (net)	-439	-523	-328	-515	-630
Cash flow from operating activities (a)	2106	-1161	2119	1568	2186
Adjusted OCF	1972	-1348	1880	1406	2105
Capital expenditure	-227	-373	-300	-400	-400
Adjusted Fee Cash Flow	1879	-1525	1819	1168	1786
Cash flow from investing activities (b)	-1370	-336	-300	-400	-400
Debt issuance (repayment)	-336	2095	-900	-850	-900
Interest & Lease expenses	-142	-189	-238	-162	-81
Dividend Paid	-239	-398	-239	-477	-668
Cash flow from financing activities (c)	-717	1508	-1377	-1489	-1649
Net change in cash (a+b+c)	19	12	441	-321	137

Source: Company, SMIFS Institutional Research Estimates

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