

Stock update

Rupa & Company Ltd.

23-August-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Branded Apparels	Rs 416.4	Buy on dips at Rs. 387 and add further on dips at Rs. 360	Rs 428	Rs 468	2 quarters

HDFC Scrip Code	RUPLTDEQNR
BSE Code	533552
NSE Code	RUPA
Bloomberg	RUPA:IN
CMP	416.4
Equity Capital (Rscr)	8
Face Value (Rs)	1
Equity Share O/S (cr)	8
Market Cap (Rscr)	3311
Book Value (Rs)	92
Avg. 52 Wk Volumes	342.407
52 Week High	550
52 Week Low	174

Share holding Pattern % (Jun, 2021)	
Promoters	73.3
Institutions	5.5
Non Institutions	21.2
Total	100.0

Retail Research Risk Rating:

	Blue*	
--	-------	--

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Nirav Savai

nirav.savai@hdfcsec.com

Our Take:

Rupa & Company is one leading player in branded innerwear segment in India. Despite the pandemic led slowdown, the company has registered best ever operating performance in FY21. This has been mainly driven by its robust distribution network and consistent investment behind brand promotional activities which has been in the tune of ~Rs. 700Cr over FY12-21. The company has been constantly focusing on expanding its product portfolio and venturing into newer markets both in India as well as overseas market. Going forward, we continue to be positive on Rupa & Co. on the back of 1) Accelerated growth in margin accretive premium and super premium innerwear category of products which comprises of brands like FCUK & Fruit of the Loom 2) Higher growth in women's and casual wear range of products 3) Strong guidance of achieving Rs. 200Cr revenues in thermal wear in next 2 years and doubling exports in FY22.

On Dec-28, 2020, we had initiated coverage on Rupa & Company with Buy recommendation at the price of Rs. 214 for base case target of Rs 265 and bull case target of Rs 295. <https://www.hdfcsec.com/hsl.research.pdf/Initiating%20Coverage%20-%20Rupa%20&%20Co%20281220.pdf>. The stock hit a high of Rs 295 and our bull case target got achieved on Dec-29, 2020. Also on May-21, 2021, we had come out with a Stock update on Rupa and Co. <https://www.hdfcsec.com/hsl.research.pdf/Stock%20update-Rupa%20&%20Co.pdf>.

View & Valuation:

Rupa & co reported subdued results in Q1FY22 due to Covid-2 led lockdowns. We are positive on the future growth outlook of Rupa & Company. Going forward, we expect continued re-rating of the company which would be driven by its sustained better operating performance with strong free cash flow generation which is expected to keep the company net debt free. The management has guided for a sustainable EBITDA margin of 18-19%. We have revised upwards our estimates for FY22 and FY23 following a great set of numbers in Q4FY21 and hence FY21. We expect its revenue/EBITDA and PAT to grow at CAGR 10/8 and 10% over FY21-23E. The stock is currently trading at valuation of 16x FY23E earnings. We feel the base case fair value of the stock is Rs 428 (16x FY23E) and bull case fair value is Rs 468 (17.5x FY23E). Investors can buy the stock on dips at Rs. 387(14.5x FY23E EPS) and further add on dips at Rs 360 (13.5x FY23E EPS).

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY20	YoY-%	Q4FY20	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	218.0	209.6	4.0	454.0	-52.0	1,148.7	974.6	1,312.6	1,417.6	1,587.7
EBITDA	42.1	36.0	17.0	90.6	-53.5	997.6	113.7	257.3	266.5	300.1
Depreciation	3.4	3.8	-10.0	2.7	28.1	15.0	18.5	13.8	17.1	19.2
Other Income	2.0	0.3	700.0	2.0	0.0	2.0	7.4	7.3	8.5	9.5
Interest Cost	3.2	4.2	-22.7	1.9	66.5	18.6	18.6	13.4	11.7	7.3
Tax	10.3	8.0	28.2	22.4	-54.1	45.3	22.1	62.2	61.6	70.8
PAT	27.2	20.3	34.3	65.6	-58.5	74.2	61.9	175.2	184.7	212.3
Diluted EPS (Rs)	3.4	2.6	30.8	8.3	-59.0	9.3	7.8	22.0	23.2	26.7
RoE						14%	11%	27%	23%	22%
P/E (x)						45	54	19	18	16
EV/EBITDA						23.3	30.7	13.0	12.3	11.0

(Source: Company, HDFC sec)

Q1FY22 result highlights

- In Q1FY22 overall revenues stood at Rs. 218cr which grew by 4% YoY and declined by 52% on a sequential basis. Mass and premium segment had reported flattish revenue growth while mid-market segment had reported a double digit revenue growth. There was loss of Rs. 15Cr in revenue due to unavailability of materials from Tirupur which was on account of pandemic led lockdown. Going forward, the company expects Q2FY22 revenue to grow at 18-20% on YoY basis while for FY22 it aims to achieve 15-16% revenue growth. Segment-wise the company has guided for 25% revenue growth in the thermal while in the exports business it expects to grow by 100% in Q2FY22.
- EBITDA for the quarter grew by 17% YoY while it declined by 53.5% sequentially. Better operating performance was driven by change in product mix, improved operating efficiencies and cost reduction strategies. Going forward, the company has guided a 18-19% EBITDA margin for FY22. A&P spends for FY22 will be in the tune of 6.2% of overall revenues v/s 4.2% in FY21.
- Consequently, PAT for the quarter stood at Rs. 27cr +17/-54% YoY/QoQ basis.

Rupa & Co. plans to have presence across 300 large format stores in the next 2 years. It also plans to roll out 150 more Exclusive Brand Outlets mainly through FOFO route in the next 2 years. It is looking at enhancing brand visibility through increasing E-commerce activities. It aims to increase share in premium + super premium category and grow through in-licensing or inorganic brand associations as well through organic growth of the Casual wear range. It has four manufacturing facilities in India at Tirupur, Calcutta, Ghaziabad and Bengaluru, with a capacity of producing 0.7mn pieces/day. It has 1,200 distributors servicing 125,000 retailers currently. Its presence is relatively strong in East and North India, while focus remains on improving penetration in parts of West and South India. Economy segments Rupa John/Rupa Frontline contributes ~25%/35% of sales, respectively. Mid-premium category contributes ~25% of sales and premium categories (M-series and FOTL/FCUK) contributes the rest of the business.

Peer Comparison

	Mcap	Revenue			EBITDA Margin			PAT			ROE			Net D/E		
		FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Lux Industries	12,464	1207	1206	1938	14.7%	15.4%	20.0%	99	122	273	27%	27%	25%	0.4	0.2	0.1
Rupa & Co.	3,720	1,149	975	1,313	13.0%	12.0%	20.0%	74	62	175	14%	11%	27%	0.4	0.3	0.0
Dollar Industries	1970	1,029	969	1,037	13.0%	11.0%	13.0%	75	59	87	18%	13%	16%	0.5	0.5	0.2
Page Industries	34,695	2,852	2,945	2,833	22.0%	18.0%	19.0%	394	343	341	52%	42%	39%	0.0	0.0	0.0

	EPS Growth	P/E		EV/EBITDA	
	FY21-23E	FY22E	FY23E	FY22E	FY23E
Lux Industries	10%	40	34	27	23
Rupa & Co.	8.7%	18	16	12	11
Dollar Industries	19.9%	19	16	13	11
Page Industries	34.2%	75	57	50	39

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	1148.7	974.6	1312.6	1417.6	1587.7
Growth (%)	2.5%	-15.1%	34.7%	8.0%	12.0%
Operating Expenses	997.6	860.9	1055.3	1151.1	1287.6
EBITDA	151.1	113.7	257.3	266.5	300.1
Growth (%)	-3%	-25%	126%	4%	13%
EBITDA Margin (%)	13.2	11.7	19.6	18.8	18.9
Depreciation	15.0	18.5	13.8	17.1	19.2
EBIT	136.0	95.2	243.5	249.4	280.9
Other Income	2.0	7.4	7.3	8.5	9.5
Interest expenses	18.6	18.6	13.4	11.7	7.3
PBT	119.5	84.0	237.3	246.3	283.1
Tax	45.3	22.1	62.2	61.6	70.8
RPAT	74.2	61.9	175.2	184.7	212.3
APAT	74.2	61.9	175.2	184.7	212.3
Growth (%)	-14%	-17%	183%	5%	15%
EPS	9.3	7.8	22.0	23.2	26.7

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	8.0	8.0	8.0	8.0	8.0
Reserves	544.7	578.0	729.6	866.5	1023.1
Shareholders' Funds	552.6	585.9	737.5	874.5	1031.1
Total Debt	210.5	179.1	139.8	64.8	40.8
Net Deferred Taxes	2.5	3.7	-1.0	-1.2	-1.4
Other Liabilities	1.4	4.0	16.4	19.7	23.6
Minority Interest					
Total Source of Funds	759	765	885	950	1086
APPLICATION OF FUNDS					
Net Block & Goodwill	181.5	185.3	193.1	184.4	180.2
CWIP	3.0	6.4	19.4	19.4	19.4
Other Non-Current Assets	10.9	22.9	21.5	28.4	39.7
Total Non-Current Assets	195.4	214.6	233.9	232.1	239.3
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	382.3	467.3	391.0	504.9	565.5
Trade Receivables	396.5	251.3	364.4	369.0	391.5
Cash & Equivalents	7.6	1.7	118.4	94.0	138.6
Other Current Assets	34.6	57.5	47.6	56.7	95.3
Total Current Assets	821.0	777.8	921.4	1024.6	1190.9
Trade Payables	149.0	138.0	162.6	174.8	195.7
Other Current Liab & Provisions	97.9	86.4	104.0	127.6	142.9
Total Current Liabilities	246.9	224.4	266.7	302.4	338.6
Net Current Assets	574.1	553.4	654.7	722.2	852.2
Total Application of Funds	759	765	885	950	1086

Cash Flow Statement

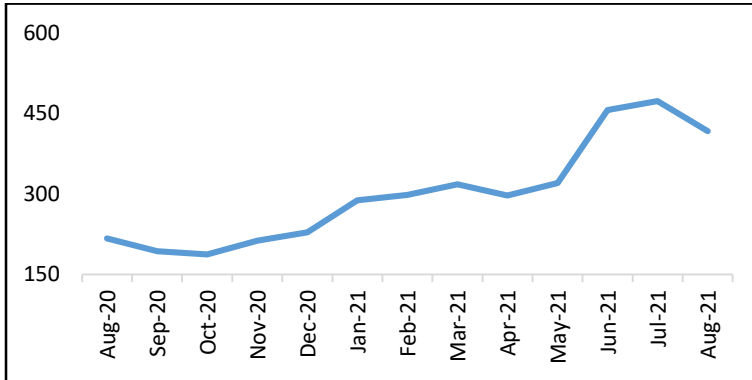
(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	119.5	84.0	237.3	246.3	283.1
Non-operating & EO items	0.0	-4.0	-7.0	0.0	0.0
Interest Expenses	17.5	17.4	13.4	11.7	7.3
Depreciation	15.0	18.5	13.8	17.1	19.2
Working Capital Change	-118.5	18.8	15.9	-91.1	-84.5
Tax Paid	-60.6	-44.3	-62.2	-61.6	-70.8
OPERATING CASH FLOW (a)	-27.0	90.5	211.3	122.3	154.4
Capex	-24.5	-18.1	-23.0	-25.8	-15.0
Free Cash Flow	-51.5	72.3	188.3	96.5	139.4
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	5.0	2.0	-112.6	-6.9	-11.3
INVESTING CASH FLOW (b)	-19.5	-16.1	-135.6	-32.6	-26.3
Debt Issuance / (Repaid)	94.9	-34.8	39.3	-75.0	24.0
Interest Expenses	-18.5	-17.6	-13.4	-11.7	-7.3
FCFE	24.9	20.0	214.1	9.9	156.0
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Others	-28.8	-28.8	-74.0	150.3	-44.3
FINANCING CASH FLOW (c)	47.6	-81.1	-48.1	63.6	-27.6
NET CASH FLOW (a+b+c)	1.1	-6.8	27.6	153.3	100.4

Key Ratios

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin	13.2%	11.7%	19.6%	18.8%	18.9%
EBIT Margin	11.8%	9.8%	18.5%	17.6%	17.7%
APAT Margin	6.5%	6.4%	13.3%	13.0%	13.4%
RoE	14%	11%	27%	23%	22%
RoCE	20%	12%	30%	27%	28%
Solvency Ratio					
Net Debt/EBITDA (x)	1.3	1.6	0.1	-0.1	-0.3
Net D/E	0.4	0.3	0.0	0.0	-0.1
PER SHARE DATA					
EPS	9.3	7.8	22.0	23.2	26.7
CEPS	11.2	10.1	23.7	25.3	29.1
Dividend	3.0	3.0	5.0	6.0	7.0
BVPS	68	73	92	109	129
Turnover Ratios (days)					
Debtor days	119	121	86	95	90
Inventory days	113	159	119	130	130
Creditors days	50	54	42	45	45
VALUATION					
P/E	45	54	19	18	16
P/BV	6	6	5	4	3
EV/EBITDA	23	31	13	12	11
EV / Revenues	3	4	3	2	2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout	32%	39%	23%	26%	26%

(Source: Company, HDFC sec)

One Year Price Chart



(Source: Company, HDFC sec)

HDFCsec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical nature of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, Nirav Savai, MBA author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock - No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | IN-DP-372-2018 (CDSL, NSDL) | CDSL DP ID: 12086700 | NSDL DP ID: IN304279 | AMFI RegNo.ARN -13549 | PFRDA Reg. No - POP 11092018 | IRDA Corporate Agent Licence No.CA0062 | Research Analyst Reg. No. INH000002475 | Investment Adviser: INA000011538 | CIN-U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.