

Stock Update

Rupa & Company Ltd.

January 17, 2022





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Branded Apparels	Rs. 518.7	Buy in Rs. 515-521 band and add on dips in Rs. 462-467 band	Rs. 577	Rs. 626	2 quarters

HDFC Scrip Code	RUPLTDEQNR
BSE Code	533552
NSE Code	RUPA
Bloomberg	RUPA:IN
CMP (Jan 14, 2022)	518.7
Equity Capital (RsCr)	8
Face Value (Rs)	1
Equity Share O/S (Cr)	8
Market Cap (RsCr)	4125
Book Value (Rs)	92
Avg. 52 Wk Volumes	469521
52 Week High	547
52 Week Low	279

Share holding Pattern % (Sept, 2021)	
Promoters	73.28
Institutions	4.99
Non Institutions	21.73
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Rupa & Company Ltd. (Rupa) for more than 5 decades, is a house-hold branded inner-wear player in India. It has been operating an asset-light business model with a strong focus on constantly creating and nurturing its brands under flagship brand “Rupa” which comprises of 18 sub-brands (Frontline, Macroman, Euro, Softline, Jon, Bumchums, Torrido, Thermocot, etc). From being present in the mass and economy segments, the company has also strategically marked its presence across mid-premium to super premium brands. It has a Pan-India footprint spread across 125,000 retailers through 1000+ dealers.

Going forward, the company’s key strategies for growth includes - 1) constant focus on asset-light business model with expansion through franchise based EBOs (Exclusive Brand Outlets), 2) enriching its product portfolio with scale up of super-premium licensed brands like “FCUK” and “Fruit of the Loom” 3) foray into newer markets (including exports) and further penetration in existing markets, 5) scaling up of high margin outwear, athleisure and thermal wear segments, 4) dedicated focus on womenswear which offers tremendous growth potential, 6) continued endeavor to improve its brand equity with ~6-7% investments behind A&P.

We had initiated coverage on 28th December 2020 ([Link](#)), followed by stock updates on 20th May 2021 ([Link](#)) and 23th August 2021 ([Link](#)) on Rupa and the all targets were achieved within the time frame. Given the robust outlook, we have now revised the earnings and target price for the stock.

Valuation & Recommendation:

The pandemic inflicted FY21 happened to be a path breaking year of Rupa after period on NIL growth between FY15 (Rs 973 Cr revenues) and FY20 (Rs 975 Cr). In FY21, the company reported an industry leading 34.7% YoY growth aided by strategic intervention, as discussed above. The margins also improved to 19.6% in FY21 from 13-14% historically, and the company expects to maintain the margins at 17-18%, going ahead. The management has increased its revenue guidance to ~17-18% in FY22 from its earlier revenue guidance of ~15-16%, backed by improved traction from its premium, thermal, athleisure wear segment. Going ahead, we expect Rupa to report ~15% revenue CAGR FY21-24E with margins likely to remain stable. Improving working capital cycle, asset light model augur well for strong balance sheet position and with RoCE of 25%+, the re-rating looks certain. **We feel investors can buy the stock in Rs. 515-521 band (16x Dec’23E EPS) and add more on dips in Rs 462-467 band (14.5x Dec’23E EPS) for the base case value of Rs. 577 (18x Dec’23E EPS) and bull case fair value of Rs. 626 (19.5x Dec’23E EPS).**



Financial Summary

Particulars (Rs Cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	365.5	303.5	20.4	218.0	67.6	1,148.7	974.6	1,312.6	1,538.4	1,739.9	1,960.9
EBITDA	71.3	66.1	7.8	42.1	69.2	997.6	113.7	257.3	289.2	323.6	374.5
PAT	53.0	45.4	16.7	27.2	94.7	74.2	61.9	175.2	200.8	227.1	267.7
Diluted EPS (Rs)	6.7	5.7	16.7	3.4	94.7	9.3	7.8	22.0	25.2	28.5	33.6
RoE						14%	11%	27%	25%	24%	23%
P/E (x)						56	67	24	21	18	15
EV/EBITDA						23.3	30.7	13.0	11.4	10.0	8.2

(Source: Company, HDFC sec)

Q2FY22 Result Update

In Q2FY22, Rupa reported 20.4% growth in the revenues to Rs 366 Cr while EBIDTA and PAT grew by 66% and 45% respectively on the back of improved operating efficiencies and cost reduction strategies adopted by the company. The company has witnessed an improved traction during the festivals, and expects a much better second half of the year. With focus on increasing distribution network across India, it expect costs to remain at similar level going ahead.

Key Triggers

Womenwear and athleisure to drive the growth:

Presently, the company is catering to female innerwear and loungewear space through its brands Jon and Softline for economy and premium category; and Macrowoman W-Series for super premium category. The women's innerwear market is expect to significantly outgrow men's innerwear market with improving socio-economic conditions, larger market (more than double the men's innerwear) and lower brand penetration (vs men innerwear). Additionally, the company is looking to increase revenue share from leggings segment which currently contributes only ~20-25% of women's wear revenue. Overall leggings market is more than Rs 3000 Cr in India and growing at high double digit. During H1FY22, sales volume in the women segment grew by ~18-20%. Currently this segment contributes ~12% of sales which company plans to increase to ~17-18% of sales going forward. Company expects premium segment to grow by ~15-20% in H2FY22. It is also creating a separate distribution network for women.

The athleisure segment had been gaining significant traction globally over the last decade. The Indian athleisure market also witnessed significant increase in demand due to WFH, the acceleration of the ongoing trend of wardrobe casualisation, coupled with the ever-increasing fitness consciousness (activities like Yoga, Swimming, exercising, dancing etc) among the consumers. The ongoing pandemic also pushed demand for comfort wear in work from home culture. The demand for athleisure products is projected to report a CAGR of ~20-25% between FY20-25. It is much bigger market than entire innerwear industry, with estimated market around Rs. 540 bn. Rupa sees huge



opportunity in the athleisure segment and reported a ~50% YoY growth in FY21 on a low base. During Q1FY22 company faced challenges in this segment due to supply chain issues in Tirupur but in FY22, athleisure segment is expected to report a sales growth of ~30% (YoY).

The thermal wear (~10% of FY21 revenues) is expected to report a robust growth in H2FY22 on the account of severe cold wave across North India, and with improved distribution network.

Strengthening distribution network

Rupa enjoys very solid position in the eastern India and is gaining a significant presence in North, followed by Western region. As a part of the strategy, the company is expanding in new areas which offer great potential but where Rupa has limited presence like southern India as well as certain parts of central India. In the initial phase, the company is eyeing growth opportunities in MP, Chhattisgarh, western UP, some part of Maharashtra & West Bengal and, has added ~70-75 distributors in the last ~6 months.

Rupa's distribution network comprises of 4 central warehouses, 11 EBOs (Exclusive Brand Outlets), more than 1200 dealers and 1,25,000 retailers. In Q2FY22, the company added ~17 EBOs and expects to add ~35 more EBOs in ~H2FY22. Furthermore, it is plans to roll out ~150 more EBOs in the next ~2 years across top 100 cities. These EBOs would be franchise owned and the company wouldn't require any capex. It also plans to double up its presence through LFS (Large Format Stores) to 300+ stores from ~150 currently as it envisages to increase the contribution from modern trade channel to 5-6% from 4% currently. Rupa also has strong online presence, especially for its premium portfolio and is focused on aggressively expanding presence here.

Favourable outlook on exports: Along with the domestic market, exports also offer huge opportunities for growth for Indian knitwear makers as the global apparel brands seek to look for alternate suppliers. The contribution from exports to the topline was just ~1.5% in FY21. However, the company has an internal target to grow its exports by 5X over next 5 years as it seeks to penetrate deeper into middle-eastern markets and tap into emerging markets of Russia and Africa. While innerwear accounts for majority of exports currently, we see a great opportunity for company's outerwear and athleisure portfolio.

Key Concerns:

Sharp rise in Competition Intensity: Resurgence of stiff competition intensity from regional players and higher competition from large organized retailers getting in the innerwear segment can impact growth. As of now large organized retailers have restricted their presence only in the premium segment, in case if they enter in mid and mass market segment through their retail network and e-com with adoption of aggressive pricing and discounting, it can create disruption in marketplace.



Inability to consistently expand in the premium and women's wear segment: Premium inner-wear, women's brasserie and leisure wear are key focus categories for Rupa & Co. In last few years both these segments have become more crowded and there's a need to further product and SKU expansion which can drive future growth. Rupa has also been in a nascent stage of scaling its women's brasserie through brand "Softline" and expanding casual wear segment through brand FUCH & "Fruit of the Loom". In case if the scaleup of new products becomes a highly elongated tedious task there can be impact on earnings growth momentum.

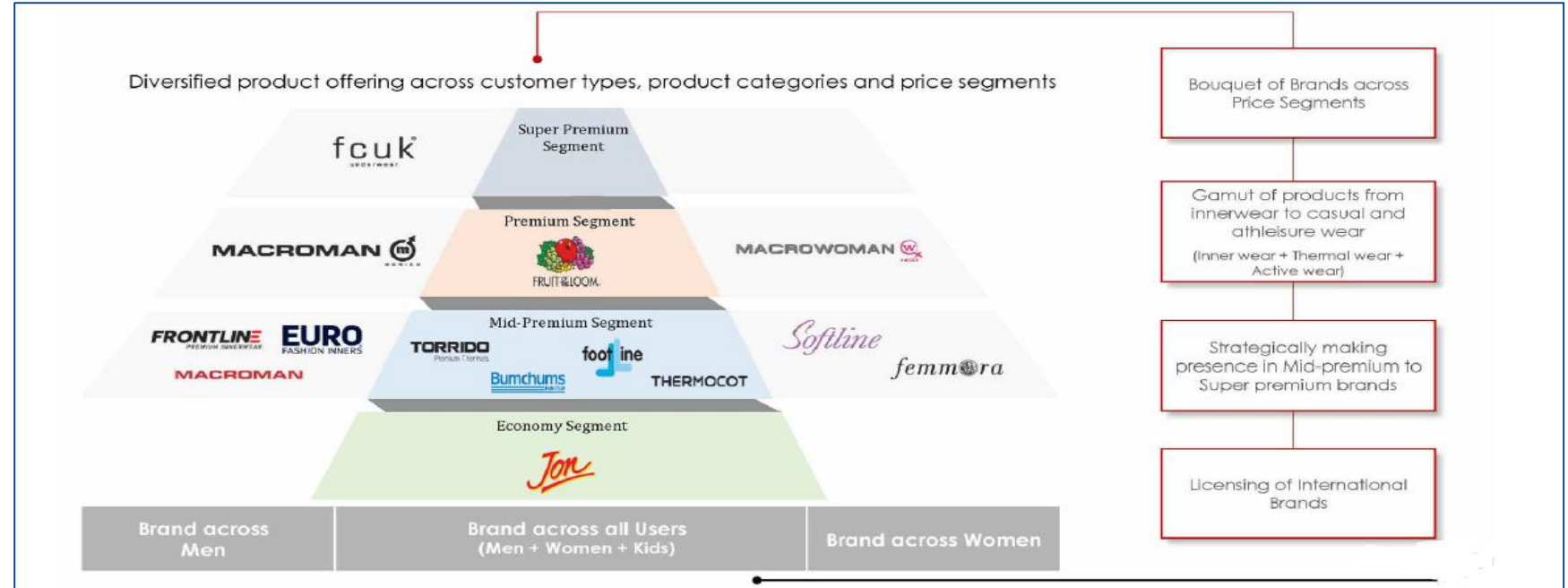
High input cost pressure: Mass market innerwear as a category is highly sensitive to pricing and any elongated phase of higher cotton prices resulting in price hikes can possibly impact growth for larger branded innerwear players. However, Rupa took price hike of ~18-20% in the last ~12 months due to increase in yarn prices and it is expecting one more price hike of ~3-4% shortly, going forward.

Cash conversion cycle is long: The industry is characterized by high working capital requirements – both in terms of debtors and inventories. Rupa also had 86 days of debtors as on FY21 and 119 days of inventory. However, these have fallen over the previous two years and may come down gradually over the next few years due to rationalization of inventories and quicker collection from debtors.

Company Background

Rupa & Company Ltd. (Rupa) has been a leading branded innerwear and knitted-wear company in India. Over the years, Rupa has built a strong portfolio of brands in the economy and mid-premium segment. The company is present across the entire value chain in the knitted garment space offering a gamut of products from innerwear to fashion wear. The Company operates through its state-of-the-art manufacturing facilities in West Bengal, Tamil Nadu, Karnataka and Uttar Pradesh. Some of the major brands include Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline etc. It has PAN India presence with over 1,200 dealers and over 1,25,000 retail touchpoints.

Rupa has diversified brand portfolio



Peer Comparison:

Company	MCap (in Rs Cr)	Sales (in Rs Cr)			EBITDA (%)			RPAT (in Rs Cr)			P/E (X)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Rupa	4125	1313	1538	1740	19.6	18.8	18.6	175	201	227	24	21	18
Dollar	3584	1037	1193	1365	13.3	15.0	15.6	117	118	135	31	32	27
Lux	11061	1943	2307	2674	19.6	20.2	20.5	272	336	395	41	34	29
Page Ind.	49733	2833	3670	4414	18.6	19.7	21.3	341	484	641	146	104	77

(Source: Bloomberg Consensus, Company, HDFC Sec)



Financials

Income Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	1149	975	1313	1538	1740	1961
Growth (%)	2.5%	-15.1%	34.7%	17.2%	13.1%	12.7%
Operating Expenses	998	861	1055	1249	1416	1586
EBITDA	151	114	257	289	324	375
Growth (%)	-3%	-25%	126%	12%	12%	16%
EBITDA Margin (%)	13.2	11.7	19.6	18.8	18.6	19.1
Depreciation	15	19	14	17	19	20
EBIT	136	95	243	272	305	354
Other Income	2	7	7	9	12	16
Interest expenses	19	19	13	16	14	11
PBT	119	84	237	266	303	358
Tax	45	22	62	65	76	91
RPAT	74	62	175	201	227	268
APAT	74	62	175	201	227	268
Growth (%)	-14%	-17%	183%	15%	13%	18%
EPS	9.3	7.8	22.0	25.2	28.5	33.6

Balance Sheet

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS						
Share Capital	8	8	8	8	8	8
Reserves	545	578	730	879	1046	1242
Shareholders' Funds	553	586	738	887	1054	1250
Total Debt	210	179	140	125	120	95
Other non-current Liabilities	4	8	15	39	23	26
Total Source of Funds	759	765	885	1042	1188	1364
APPLICATION OF FUNDS						
Net Block & Goodwill	182	185	193	195	201	206
CWIP	3	6	19	19	19	19
Other Non-Current Assets	11	23	21	31	60	65
Total Non-Current Assets	195	215	234	245	281	290
Current Investments	0	0	0	0	0	0
Inventories	382	467	391	502	548	580
Trade Receivables	397	251	364	400	429	467
Cash & Equivalents	8	2	118	151	199	350
Other Current Assets	35	57	48	62	104	98
Total Current Assets	821	778	921	1115	1280	1495
Trade Payables	149	138	163	190	229	258
Other Current Liab & Provisions	98	86	104	123	139	157
Total Current Liabilities	247	224	267	313	368	415
Net Current Assets	574	553	655	802	912	1081
Total Application of Funds	759	765	885	1042	1188	1364



Cash Flow Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	119	84	237	266	303	358
Non-operating & EO items	0	-4	-7	0	0	0
Interest Expenses	18	17	13	16	14	11
Depreciation	15	19	14	17	19	20
Working Capital Change	-118	19	16	-114	-62	-16
Tax Paid	-61	-44	-62	-65	-76	-91
OPERATING CASH FLOW (a)	-27	90	211	120	198	283
Capex	-24	-18	-23	-15	-25	-25
Free Cash Flow	-51	72	188	104	173	258
Investments	0	0	0	0	0	0
Non-operating income	5	2	-113	-9	-13	-6
INVESTING CASH FLOW (b)	-19	-16	-136	-25	-38	-31
Debt Issuance / (Repaid)	95	-35	39	-15	5	25
Interest Expenses	-18	-18	-13	-16	-14	-11
FCFE	25	20	214	74	164	272
Share Capital Issuance	0	0	0	0	0	0
Others	-29	-29	-74	150	-44	-44
FINANCING CASH FLOW (c)	48	-81	-48	120	-54	-30
NET CASH FLOW (a+b+c)	1	-7	28	215	107	223

One Year Price Chart:



Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	13.2%	11.7%	19.6%	18.8%	18.6%	19.1%
EBIT Margin	11.8%	9.8%	18.5%	17.7%	17.5%	18.1%
APAT Margin	6.5%	6.4%	13.3%	13.1%	13.1%	13.7%
RoE	14.2%	11.0%	26.8%	25.0%	23.6%	23.4%
RoCE	19.6%	12.5%	29.5%	28.3%	27.6%	28.1%
Solvency Ratio						
Net Debt/EBITDA (x)	1.3	1.6	0.1	-0.1	-0.2	-0.7
Net D/E	0.4	0.3	0.0	0.0	-0.1	-0.2
Per Share Data (in Rs)						
EPS	9.3	7.8	22.0	25.2	28.5	33.6
CEPS	11.2	10.1	23.7	27.3	30.9	36.2
Dividend	3.0	3.0	5.0	6.5	7.5	9.0
BVPS	68	73	92	110	131	156
Turnover Ratios (days)						
Debtor days	119	121	86	95	90	87
Inventory days	113	159	119	119	115	108
Creditors days	50	54	42	45	48	48
Valuation						
P/E	56	67	24	21	18	15
P/BV	8	7	6	5	4	3
EV/EBITDA	23	31	13	11	10	8
EV / Revenues	3	4	3	2	2	2
Dividend Yield (%)	0.6	0.6	1.0	1.3	1.4	1.7
Dividend Payout	32%	39%	23%	26%	26%	27%

(Source: Company, HDFC sec)



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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.

Yellow 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.

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