

Stock update

Rupa & Company Ltd.

20-May-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Branded Apparels	Rs 315	Buy at LTP and add further on dips at Rs. 285	Rs 348	Rs 380	2 quarters

HDFC Scrip Code	RUPLTDEQNR
BSE Code	533552
NSE Code	RUPA
Bloomberg	RUPA:IN
CMP	315
Equity Capital (Rscr)	8
Face Value (Rs)	1
Equity Share O/S (cr)	8
Market Cap (Rscr)	2580
Book Value (Rs)	89
Avg. 52 Wk Volumes	112,265
52 Week High	362
52 Week Low	138

Share holding Pattern % (Mar, 2021)	
Promoters	73.3
Institutions	2.0
Non Institutions	24.7
Total	100.0

Fundamental Research Analyst

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Our Take:

Rupa & Company is one of the oldest and leading branded innerwear company in India. Post the Covid-19 pandemic, there has been a strong tailwind for large organized players in the branded innerwear space. The company has gained traction on the back of its robust distribution network and strong brand portfolio which it has constantly nurtured for more than 5 decades. Over FY12-20, the company had invested ~Rs. 650Cr in brand promotion activities which accounted for ~7.5% of its cumulative revenues. In 9MFY21, its revenue, EBITDA & PAT had registered a growth of 8%, 58% and 65% respectively. Higher earnings growth was mainly on the back of 1) Branded innerwear being a low cost, basic necessity product had benefited from the pent-up demand post lockdown in Q1FY21 quarter 2) Due to shortage of channel inventory in the industry, larger organized player with last mile connectivity were able to command better terms of trade resulting in strong cash flow generation 3) Long winter season resulted in better product mix with strong growth in the margin accretive thermal segment 4) WFH resulted in higher demand for athleisure wear and 5) Aggressive cost rationalization mainly on A&P side had resulted in highest ever EBITDA margins of 19.4% for 9MFY21 v/s 13.3% in 9MFY20.

As far as the Q4FY21 quarter is concerned, we expect strong operating performance on the back of normal business environment and a very favorable base of Q4FY20 quarter where the company had reported a loss due to year- end COVID induced lockdown. In Q4FY21, we expect its revenue to report a growth of 106/7% YoY/QoQ and EBITDA margins are likely to expand by 1300bps on YoY basis to 17.5%. Consequently PAT is expected to be Rs. 45cr v/s a loss of Rs. 4cr in Q4FY20.

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.

View & Valuation:

We are positive on the future growth outlook of Rupa & Company. Going forward, we expect the company to be net debt positive by FY23E on the back of richer product mix resulting in better operating performance and strong free cash flow generation. It has been constantly focusing on increasing its share in premium and super premium category with higher focus on women, casual and thermal wear. Also the company has been planning to double its export business in next 2 years which currently contributes ~2% of its overall

revenues. In domestic markets in has presence across 125k+ retail outlets and aims for foray in newer markets with higher penetration in the existing markets. Going forward, the management has guided for a sustainable EBITDA margin of 18%. However as a matter of prudence, considering the current pandemic-led slowdown and higher inflationary pressures, we have assumed a lower margin for FY22/23E over FY21E. The stock is currently trading at valuation of 15x FY23E earnings. We feel the base case fair value of the stock is Rs 348 (16x FY23E) and bull case fair value is Rs 380 (18x FY23E). Investors can buy the stock on LTP and add on dips at Rs 285 (13x FY23E EPS).

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	345.6	307.6	12.4	303.5	13.9	1,148.7	974.6	1,228.0	1,289.4	1,392.6
EBITDA	64.3	45.8	40.3	66.1	-2.8	997.6	113.7	232.1	219.9	243.0
Depreciation	3.5	5.0	-30.0	3.8	-7.2	15.0	18.5	18.6	19.6	21.5
Other Income	1.7	2.2	-20.9	2.1	-19.0	2.0	7.4	7.4	5.2	5.6
Interest Cost	3.7	5.1	-28.1	2.8	29.4	18.6	18.6	15.4	5.4	2.9
Tax	15.5	9.4	64.2	16.2	-4.9	45.3	22.1	51.4	50.0	56.0
PAT	43.4	28.5	52.3	45.4	-4.4	74.2	61.9	154.1	150.0	168.1
Diluted EPS (Rs)	5.5	3.6	52.8	5.7	-3.5	9.3	7.8	19.4	18.8	21.1
RoE						14%	11%	24%	20%	19%
P/E (x)						34	41	16	17	15
EV/EBITDA						17.9	23.6	11.3	11.5	10.1

(Source: Company, HDFC sec)

Q3FY21 result highlights

- In Q3FY21 overall revenues stood at Rs. 345cr which grew by 12.4% YoY and 13.9% on a sequential basis. Higher revenue growth was on the back of better traction in winter wear sales and festive season.
- EBITDA for the quarter grew by 40% YoY while it declined by 2.8% sequentially. Better operating performance was driven by change in product mix, improved operating efficiencies and cost reduction strategies. During the year gone by, the company has spent ~4-5% on brand development v/s historical spends of ~7-8% of overall revenues.
- Consequently, PAT for the quarter stood at Rs. 44cr up 52% YoY.

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 plans to cross Rs. 200 crores of Thermal wear revenue in next 2 years.

Rupa 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		
		FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Lux Industries	3,950	1078	1207	1206	14.3%	14.7%	15.4%	78	99	122	28%	27%	27%	1.0	0.4	0.2
Rupa & Co.	1,835	1,120	1,149	975	14.0%	13.0%	12.0%	86	74	62	18%	14%	11%	0.2	0.4	0.3
Dollar Industries	1,065	926	1,029	969	13.0%	13.0%	11.0%	64	75	59	19%	18%	13%	0.5	0.5	0.5
Page Industries	26878	2,551	2,852	2,945	21.0%	22.0%	18.0%	347	394	343	42%	52%	42%	0.0	0.0	0.0

	EPS Growth	P/E			EV/EBITDA		
	FY20A-23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Lux Industries	24.1%	39	37	33	25	24	22
Rupa & Co.	31.8%	16	17	15	11	11	10
Dollar Industries	19.9%	16	15	13	11	10	9
Page Industries	16.2%	114	70	60	57	38	33

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1149	975	1228	1289	1393
Growth (%)	2.5%	-15.1%	26.0%	5.0%	8.0%
Operating Expenses	998	861	996	1070	1150
EBITDA	151	114	232	220	243
Growth (%)	-3%	-25%	104%	-5%	11%
EBITDA Margin (%)	13.2	11.7	18.9	17.1	17.5
Depreciation	15	19	19	20	22
EBIT	136	95	214	200	221
Other Income	2	7	7	5	6
Interest expenses	19	19	15	5	3
PBT	119	84	206	200	224
Tax	45	22	51	50	56
RPAT	74	62	154	150	168
APAT	74	62	154	150	168
Growth (%)	-14%	-17%	149%	-3%	12%
EPS	9.3	7.8	19.4	18.8	21.1

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	8	8	8	8	8
Reserves	545	578	708	834	979
Shareholders' Funds	553	586	716	842	986
Total Debt	210	179	154	54	29
Net Deferred Taxes	3	4	4	5	6
Other Liabilities	1	4	5	6	7
Minority Interest					
Total Source of Funds	759	765	872	899	1021
APPLICATION OF FUNDS					
Net Block & Goodwill	182	185	182	177	171
CWIP	3	6	6	6	6
Other Non-Current Assets	11	23	37	39	42
Total Non- Current Assets	195	215	225	222	219
Current Investments	0	0	0	0	0
Inventories	382	467	471	495	534
Trade Receivables	397	251	336	353	382
Cash & Equivalents	8	2	47	44	105
Other Current Assets	35	57	74	64	84
Total Current Assets	821	778	928	956	1104
Trade Payables	149	138	168	159	172
Other Current Liab & Provisions	98	86	111	116	125
Total Current Liabilities	247	224	279	275	297
Net Current Assets	574	553	649	681	807
Total Application of Funds	759	765	872	899	1021

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	119	84	206	200	224
Non-operating & EO items	0	-4	0	0	0
Interest Expenses	18	17	15	5	3
Depreciation	15	19	19	20	22
Working Capital Change	-118	19	-50	-34	-64
Tax Paid	-61	-44	-51	-50	-56
OPERATING CASH FLOW (a)	-27	90	138	141	129
Capex	-24	-18	-15	-15	-15
Free Cash Flow	-51	72	123	126	114
Investments	0	0	0	0	0
Non-operating income	5	2	-14	-2	-3
INVESTING CASH FLOW (b)	-19	-16	-29	-17	-18
Debt Issuance / (Repaid)	95	-35	-25	-100	-25
Interest Expenses	-18	-18	-15	-5	-3
FCFE	25	20	83	21	86
Share Capital Issuance	0	0	0	0	0
Others	-29	-29	2	2	2
FINANCING CASH FLOW (c)	48	-81	-39	-104	-26
NET CASH FLOW (a+b+c)	1	-7	70	21	85

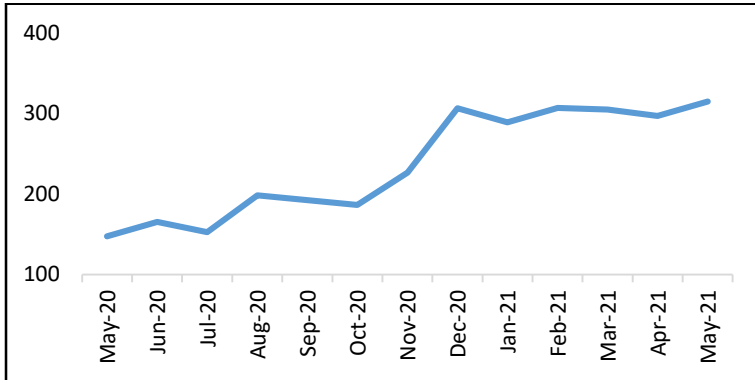
Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	13.2%	11.7%	18.9%	17.1%	17.5%
EBIT Margin	11.8%	9.8%	17.4%	15.5%	15.9%
APAT Margin	6.5%	6.4%	12.6%	11.6%	12.1%
RoE	14%	11%	24%	20%	19%
RoCE	20%	12%	26%	23%	23%
Solvency Ratio					
Net Debt/EBITDA (x)	1.3	1.6	0.5	0.1	-0.2
Net D/E	0.4	0.3	0.1	0.0	-0.1
PER SHARE DATA					
EPS	9.3	7.8	19.4	18.8	21.1
CEPS	11.2	10.1	21.7	21.3	23.8
Dividend	3.0	3.0	3.0	4.0	5.0
BVPS	68	73	89	104	120
Turnover Ratios (days)					
Debtor days	119	121	100	100	100
Inventory days	113	159	140	140	140
Creditors days	50	54	50	45	45
VALUATION					
P/E	34	41	16	17	15
P/BV	5	4	4	3	3
EV/EBITDA	18	24	11	11	10
EV / Revenues	2	3	2	2	2
Dividend Yield (%)	1.0%	1.0%	1.0%	1.3%	1.6%
Dividend Payout	32%	39%	15%	21%	24%

(Source: Company, HDFC sec)

Rupa & Company Ltd.

One Year Price Chart



Rupa & Company Ltd.

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