22nd Aug 2023 | ₹260/- | View – **Hold**

Q1FY24: Expect demand revival in 2HFY24

- Revenue from operations declined 9% YoY and volume grew 5% YoY. Premium segment's volume growth was 12% YoY
- Gross margin for Q1FY24 declined by 960 bps YoY to 23.4% due to higher input cost
- EBITDA margin for Q1FY24 declined to ~5.8% vs ~8.3% YoY on account of lower gross margins, and higher advertisement expenditure. Advertising expenses as a percentage of sales was 12% in Q1FY24.
- PAT declined by 63% YoY to ₹4.3Cr. The reason for declining PAT is basically the impact in gross margin as well as the increase in ad spends.

Important Statistics

M.CAP (₹ bn)	₹20.64
52 Week H/L (₹)	₹364/₹197
NSE Code	RUPA
BSE Code	533552

Shareholding pattern (%)	Jun'23
Promoter	73.28
Institutions	04.61
Public & Others	22.10

Key takeaways from Q4FY23 result

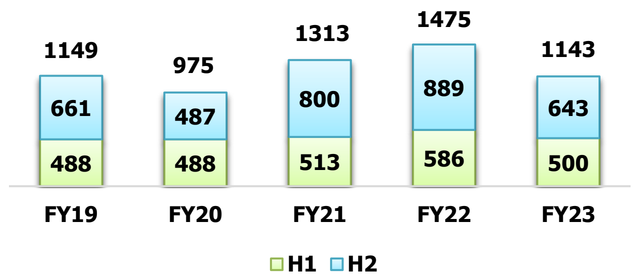
- The year in review has been a challenging year for the industry, witnessing steep volatility in raw material prices which were on increasing trend at the start of the year and then gradually declined steeply.
- This phenomenon led to destocking at distributor level throughout the year. The company also had to decrease net realisation owing to declining trend in raw material prices during the year. Thus, the operating margins suffered due to dual impact of high cost raw material and product supply at higher incentives & schemes to the distribution channel.
- With the stabilisation of raw material prices currently company anticipate pickup in demand. Active steps are being taken in brand building activities. Recently the company has on boarded celebrities for its premium and its economy segment brands. With the steep correction in cotton prices and in the light of volatility in the market forces, the company have taken proactive measures to support trade partners and dealers by offering them extended credit grades as well as some extra schemes. These extra schemes and support resulted in stretched working capital cycles.
- The gradual return to workplace and reducing work from home culture, stunted the growth of the Athleisure segment (flat growth in Q1FY24). The high-margin products in winter and thermal wear witnessed slow demand. These were the major reasons for the downturn in the sales growth
- **Ad Spends and Brand Equity –** Advertising expenses as a percentage of sales was 12% in Q1FY24. The increased expenses, includes engaging top celebrities in marketing campaigns. This increased spend will go a long way in connecting with customers and potential target demography, thus strengthening brand equity. And the company has a legacy of over 4 decades in building and growing demands a great brand popular among customers. Brand development cost in Q1FY24 at ₹23Cr against ₹20Cr in Q1FY23. This is attributable to heavy investments in marketing by engaging celebrity brand ambassadors and running national campaigns. This cost will rationalize going forward and revert to the usual range of 7-8%.
- **Impact of high cost inventory –** Impact of high cost inventory carried in hand is short term and a near-term phenomenon maybe for a quarter or more. As the raw material prices stabilize, going forward, the cost of inventory versus price realized will correct itself, thereby regaining the gross margin to the normal level from H2FY24

W2W Lighthouse - A Quick Perspective

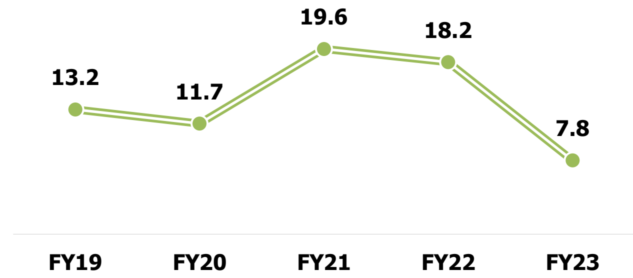
- **Export –** Exports stood at ₹6Cr and contributed ~3% to overall revenues. And based on the encouraging trajectory, the company is commissioning a unit in West Bengal exclusively dedicated to the export division. The company will incur a capex of about ₹18Cr, and the unit will be commissioned in FY24 and targeting an export of around ₹100Cr in next 2 years.
- Additionally, company is also setting up a cutting unit with a capex of around ₹19Cr. The same is also expected to commission in FY24.
- Modern trade contributed 5% to overall revenue and stood at 11cr. The total count of exclusive brand outlet (EBO) stores stands at 29 stores and company continue to expand retail presence to reach a broader customer base
- **Net Debt –** The net working capital deployed in the business has reduced from ₹789Cr to ₹700Cr. The company expect working capital to normalise going forward with expected pickup in demand and stabilisation of raw material prices. The net debt has reduced from ₹134Cr in Q4FY23 to ₹38Cr in Q1FY24.
- **Guidance –** Management expect revenue to reach ₹2000Cr (FY23: `1143cr) by next three years mainly on account of premiumisation, modern trade, export. And management also expect revenue growth of 20-25% and EBITDA margin of 10-11% for FY24.

Story in charts

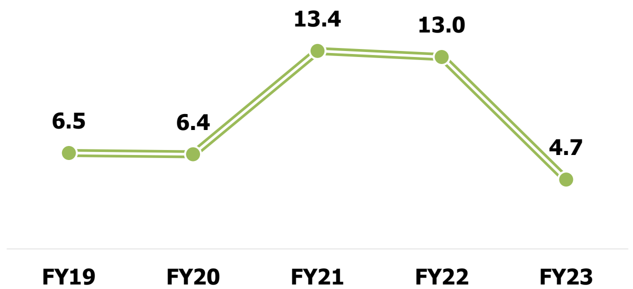
Revenue (₹ Cr)



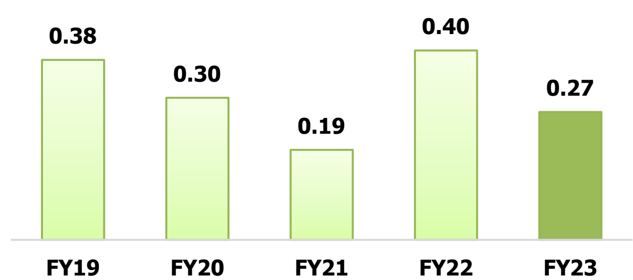
EBITDA MARGIN (%)



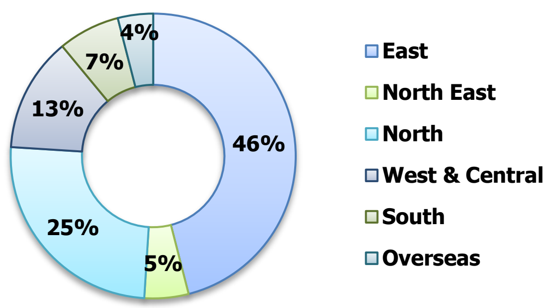
PAT MARGIN (%)



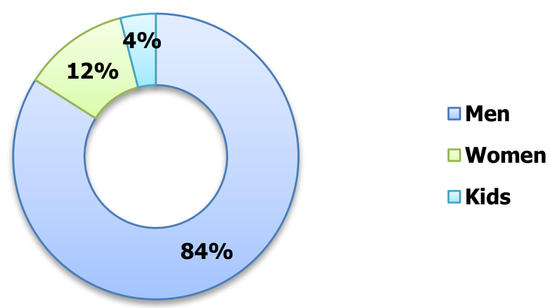
Debt to Equity



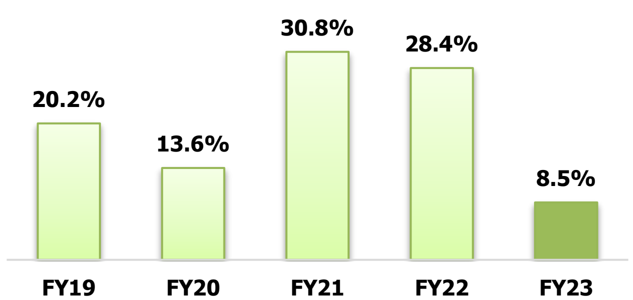
Region-wise Revenue Split



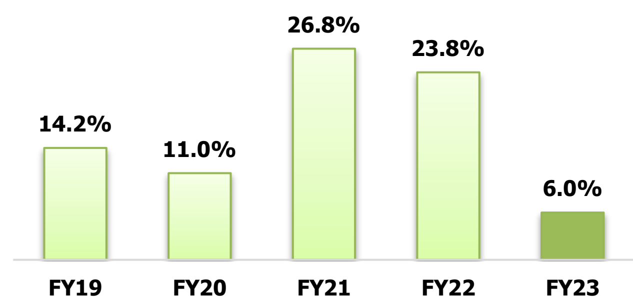
Gender-wise Revenue Split



ROCE (%)



ROE (%)



Source: Company, Way2Wealth

Risks

- Inflation in raw material prices
- Competition from both organized & un-organized players
- Slowdown in the economy

View

FY'23 was almost like a washout year for the company because of the high-cost inventory, however, management expect raw material prices should be stabilized and trade should also be confident by 2HFY24.

With the steep correction in cotton prices and in the light of volatility in the market forces, the company have taken proactive measures to support trade partners and dealers by offering them extended credit grades as well as some extra schemes. Further demand sentiments probably with a steep correction in yarn prices should bring improvement in the demand and strategic efforts are aimed at making the best of the opportunities in the future.

Company's focus on operating efficiencies, enhancing share of premium products and deleveraging the balance sheet has kept the growth momentum steady for long term.

At the current price of ₹260 it is trading at 38x times P/E to its FY23 EPS of ₹6.8. The demand revival is expected in 2HFY24. We reiterate that investors who fully understand the risks associated with such businesses should hold the stock.

22nd Aug 2023 ₹260/- View – **Hold**

Quarterly Performance

(₹ Cr)

	Q1FY24	Q1FY23	VAR	Q4FY23	VAR	FY23
Net Sales	194.2	212.9	-8.79%	405.6	-52.1%	1,137.3
Other Operating Income	1.3	1.2	1.6%	1.2	1.6%	5.8
Other Income	3.2	5.6	-42.4%	4.8	-32.6%	16.2
TOTAL INCOME	**198.7**	**219.8**	**-9.6%**	**411.6**	**-51.7%**	**1,159.3**
Cost Of Materials Consumed	119.1	193.6	-38.5%	118.9	0.2%	503.3
Purchase of stock in trade	3.9	5.0	-22.1%	5.0	-22.1%	23.6
Stock Adjustment	(45.3)	(133.9)	-66.2%	134.4	-133.7%	79.3
RMC as a %age of sales	*39.7%*	*30.2%*		*63.5%*		*53.0%*
Employee Benefit Expenses	13.3	17.2	-22.4%	12.6	6.0%	58.4
EPC as a %age of sales	*6.8%*	*8.0%*		*3.1%*		*5.1%*
Subcontracting / Jobbing	49.1	69.9	-29.7%	53.4	-8.0%	210.4
Subcontracting/jobbing Expenses as a %age of sales	*25.1%*	*32.6%*		*13.1%*		*18.4%*
Other Expenses	44.0	44.6	-1.4%	55.2	-20.3%	179.2
Other Expenses as a %age of sales	*22.5%*	*20.8%*		*13.6%*		*15.7%*
TOTAL EXPENDITURE	**184.1**	**196.4**	**-6.3%**	**379.4**	**-51.5%**	**1,054.1**
EBIDTA	**11.4**	**17.8**	**-36.1%**	**27.4**	**-58.5%**	**89.0**
EBIDTA Margins %	*5.8%*	*8.3%*		*6.7%*		*7.8%*
Finance Costs	5.2	5.8	-10.3%	4.8	9.7%	22.6
PBDT	**9.4**	**17.6**	**-46.6%**	**27.4**	**-65.8%**	**82.5**
Depreciation	3.4	3.3	1.2%	3.3	2.1%	13.3
PBT	**6.0**	**14.2**	**-57.7%**	**24.1**	**-75.0%**	**69.2**
Tax	1.7	2.5	-33.2%	5.2	-67.6%	15.5
Tax Rate	*28.1%*	*17.8%*		*21.6%*		*22.4%*
Reported Profit After Tax	**4.3**	**11.7**	**-63.0%**	**18.9**	**-77.1%**	**53.7**
PATM %	*2.2%*	*5.5%*		*4.6%*		*4.7%*
Other Comprehensive Income (Net of tax)- net credit / (charge)	**0.0**	**0.1**		**(0.1)**		0.1
Total Comprehensive Income	**4.4**	**11.8**	**-62.9%**	**18.9**	**-76.9%**	**53.8**
Basic:						
EPS	**0.5**	**1.5**	**-63.0%**	**2.4**	**-77.1%**	**6.8**
Equity	8.0	8.0		8.0		8.0
Face Value	1.0	1.0		1.0		1.0

Source: Company, Way2wealth Research

<u>**Disclaimer**</u>

Analyst Certification: I, Ashwini Sonawane the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Ashwini Sonawane, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement Rupa & Company Ltd. as on August 22, 2023

Name of the Security	Rupa & Company Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

W2W Lighthouse - A Quick Perspective