23rd February 2023 | CMP – ₹222/- | View – **Accumulate**

## Q3FY23: Most challenging quarter

- Revenue from operations declined 45.6% YoY to ₹235Cr.
- Gross margin for Q3FY23 declined by 520 bps YoY to 27.7% due to higher input cost
- EBITDA margin for Q3FY23 declined to ~6.1% vs ~18.7% YoY on account of lower gross margins, higher employees expenses and higher advertisement expenditure
- PAT declined by 90.5% YoY to ₹5.6Cr. The reason for declining PAT is basically the impact in gross margin as well as the increase in ad spends. Interest cost increased by ~20% YoY to ₹6 Cr due to increase in working capital.

### Important Statistics

| | |
|---|---|
| M.CAP (₹ Cr) | ₹1,755 |
| 52 Week H/L (₹) | ₹585/₹214 |
| NSE Code | RUPA |
| BSE Code | 533552 |

| Shareholding pattern (%) | Dec'22 |
|---|---|
| Promoter | 73.28 |
| Institutions | 04.86 |
| Public & Others | 21.86 |

## Key takeaways from Q3FY23 result

- **Sales –** Management has guided for a revenue growth of ~15%-20% but management have to see how market behaves in Q4FY23, then be able to give a definite and a concrete working co guidance for the next year.
- It was the most challenging quarter for the industry. And the challenging environment in the textile industry has affected business adversely. The impact was seen across the spectrum starting from highest raw material prices in decades to high energy cost in manufacturing. These factors had a significant impact on gross margin. Consequently, as prices escalated, there was dampening demand, which has led to a significant slowdown in sales
- 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. 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 –** The spend on marketing in the 9MFY23 is at ₹53Cr being 7.2% of the top line was much higher compared to ₹33Cr, that is to say 3.3% of the top line incurred last year. 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.
- Advertising expenses will be quite high in Q4FY23 because company is taking more celebrities for its economy brand also. So company is going all out and very aggressive in marketing efforts. So marketing spend would be around 6% - 7% of the top-line.
- **Impact of high cost inventory –** Impact of high cost inventory carried in hand is short term and a near-term phenomena 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.

- **Export –** Exports continue to perform well and now contribute 5% to revenue. And have registered an impressive 51% YoY growth with the revenue from ₹23Cr to ₹33Cr in exports. And based on the encouraging trajectory, the company is commissioning a unit in West Bengal exclusively dedicated to the export division and will incur a capex of about ₹18Cr, and the unit will be commissioned in FY24 and targeting an export of around ₹100Cr in next 1 or 2 years.
- **Additionally**, company is also setting up a cutting unit with a capex of around ₹23Cr. The same is also expected to commission in FY24.
- **Net Debt –** Generated positive cash flow from operations net of taxes at ₹138Cr for this quarter. Despite facing multiple challenges and extending credit to our customers, net debt has reduced from ₹275Cr at the end of Q2FY23 to ₹153Cr as of December 31, 2022. This improvement of ₹122Cr is a result of focus on financial discipline and commitment to managing resources effectively.
- **EBOs/Modern Trade –** Modern trade and e-commerce registered a robust growth of 35% and contributed 5.5% towards overall topline, and the business grew from ₹28Cr to ₹39Cr. And It is continually exploring new and innovative ways to reach customers and provide them with the desired products and services, which include opening of EBOs.
- **Consumer demand –** Expect consumer demand sentiments remain weak in the foreseeable future over the short term. Because of the ongoing global slowdown and rising inflation in the domestic market, industry is having an adverse effect on consumer confidence, leading to lower spending. However, going forward in the medium term, we believe that the demand sentiments probably with a steep correction in yarn prices, and yarn prices should be at bottom at these prices. We feel gradually there should be improvement in the demand and strategic efforts are aimed at making the best of the opportunities in the future.

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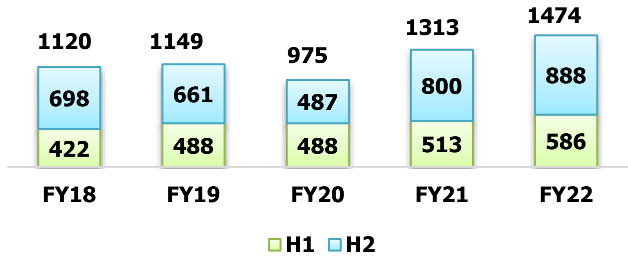
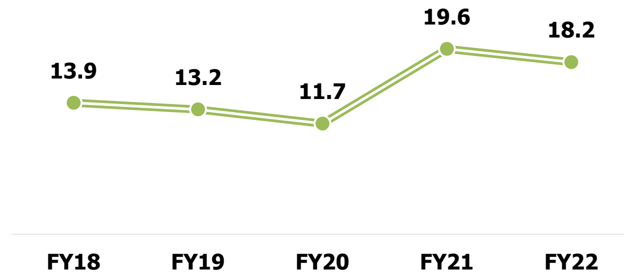
## Story in charts

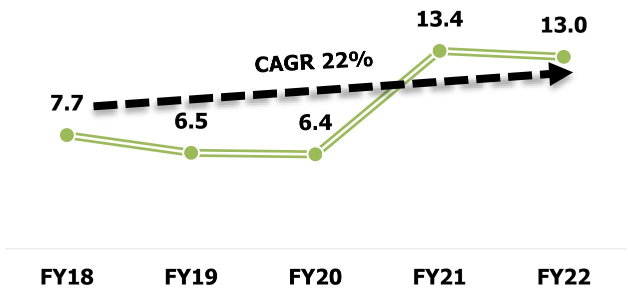
**Revenue (Rs Cr)**



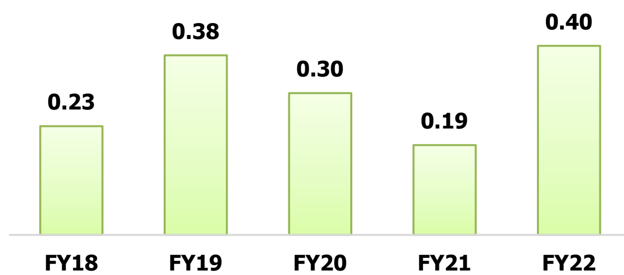

**EBITDA MARGINS (%)**



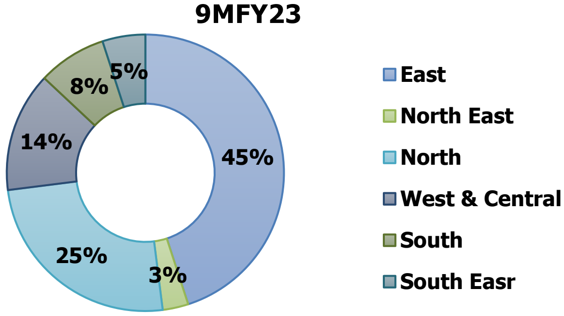

**PAT MARGINS (%)**



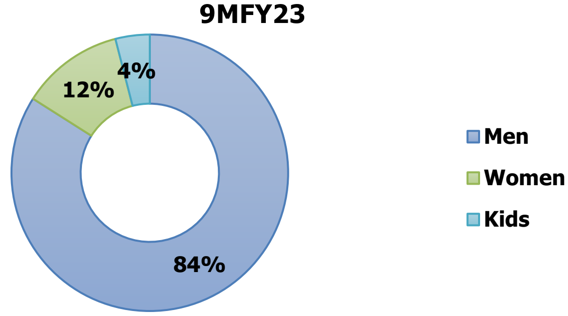

**Debt to Equity (x)**



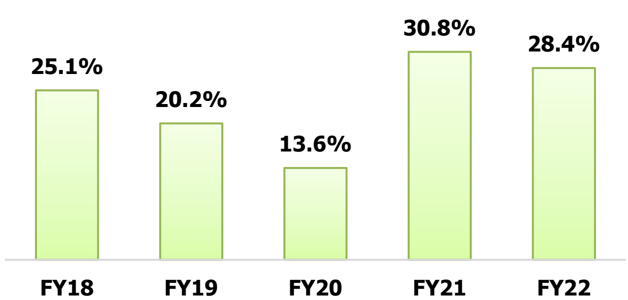

**Region-wise Revenue Split 9MFY23**



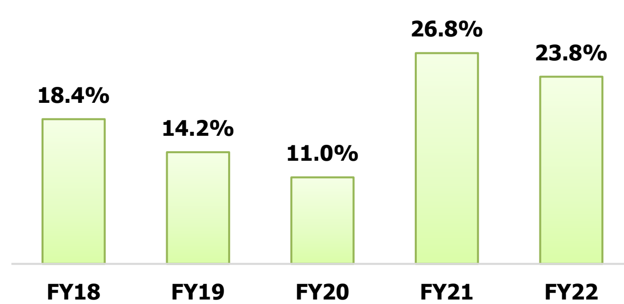

**Gender-wise Revenue Split 9MFY23**




**ROCE (%)**




**ROE (%)**




*Source: Company, Way2Wealth*

W2W Lighthouse - A Quick Perspective

## Risks

- Inflation in raw material prices
- Competition from both organised & un-organised 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 get stabilized and trade should also get bette. The company is hopeful about FY'24.

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 should improve with a steep correction in yarn prices and various strategic efforts would bring 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.

**Currently the inner-wear industry is witnessing a structural shift from unorganized to the organized sector. We expect Rupa to benefit from this trend. At the current price of ₹222 it is trading at 21.2x times P/E to its TTM EPS of ₹10.46. Consumer demand sentiments remain weak over the short term but long term trajectory remains strong and hence we advise investors to accumulate this business.**

23rd February 2023 | CMP – ₹222/- | View – **Accumulate**

## Quarterly Performance

*(₹ Cr)*

| | Q3FY23 | Q3FY22 | VAR[%] | Q2FY23 | VAR[%] | 9MFY23 | 9MFY22 | VAR[%] |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 234.7 | 431.6 | -45.61% | 284.1 | -17.4% | 731.7 | 1,014.2 | -27.86% |
| Other Operating Income | 1.3 | 1.6 | -20.6% | 1.6 | -18.6% | 4.6 | 4.4 | 3.4% |
| | | | | | | | | |
| Other Income | 2.6 | 2.9 | -9.4% | 3.2 | -18.0% | 11.4 | 7.2 | 57.6% |
| **TOTAL INCOME** | **238.6** | **436.0** | **-45.3%** | **288.8** | **-17.4%** | **747.7** | **1,025.9** | **-27.1%** |
| Cost Of Materials Consumed | 74.9 | 164.4 | -54.5% | 115.9 | -35.4% | 384.4 | 539.5 | -28.7% |
| Purchase of stock in trade | 7.1 | 11.8 | -39.9% | 6.7 | 5.4% | 18.6 | 28.9 | -35.6% |
| Stock Adjustment | 51.8 | 30.6 | 69.2% | 27.0 | 91.9% | (55.1) | (143.7) | -61.7% |
| *RMC as a %age of sales* | *56.7%* | *47.8%* | | *52.4%* | | *47.3%* | *41.7%* | |
| Employee Benefit Expenses | 13.9 | 16.0 | -13.1% | 14.7 | -5.1% | 45.8 | 46.5 | -1.5% |
| *EPC as a %age of sales* | *5.9%* | *3.7%* | | *5.1%* | | *6.2%* | *4.6%* | |
| Subcontracting / Jobbing | 36.8 | 83.9 | -56.1% | 50.2 | -26.7% | 157.0 | 236.6 | -33.7% |
| *Subcontracting/jobbing Expenses as a %age of sales* | *15.6%* | *19.4%* | | *17.6%* | | *21.3%* | *23.2%* | |
| Other Expenses | 37.2 | 45.6 | -18.4% | 41.8 | -11.1% | 123.7 | 116.6 | 6.1% |
| *Other Expenses as a %age of sales* | *15.8%* | *10.5%* | | *14.6%* | | *16.8%* | *11.4%* | |
| **TOTAL EXPENDITURE** | **221.7** | **352.3** | **-37.1%** | **256.4** | **-13.5%** | **674.3** | **824.3** | **-18.2%** |
| **EBIDTA** | **14.3** | **80.9** | **-82.4%** | **29.3** | **-51.2%** | **62.0** | **194.3** | **-68.1%** |
| ***EBIDTA Margins %*** | ***6.1%*** | ***18.7%*** | | ***10.2%*** | | ***8.4%*** | ***19.1%*** | |
| Finance Costs | 6.0 | 5.0 | 20.3% | 6.5 | -7.4% | 18.3 | 12.5 | 45.7% |
| **PBDT** | **10.9** | **78.8** | **-86.2%** | **26.0** | **-58.0%** | **55.1** | **189.0** | **-70.9%** |
| Depreciation | 3.3 | 3.6 | -7.0% | 3.4 | -1.5% | 10.0 | 10.5 | -5.2% |
| **Profit before Tax** | **7.6** | **75.3** | **-89.9%** | **22.6** | **-66.4%** | **45.1** | **178.5** | **-74.7%** |
| Tax | 2.0 | 17.0 | -88.0% | 5.7 | -64.3% | 10.3 | 36.0 | -71.3% |
| *Tax Rate* | *26.9%* | *22.5%* | | *25.3%* | | *22.8%* | *20.1%* | |
| **Reported Profit After Tax** | **5.6** | **58.3** | **-90.5%** | **16.9** | **-67.2%** | **34.8** | **142.6** | **-75.6%** |
| ***PATM %*** | ***2.4%*** | ***13.5%*** | | ***5.9%*** | | ***4.7%*** | ***14.0%*** | |
| | | | | | | | | |
| Basic: | | | | | | | | |
| **EPS** | **0.7** | **7.3** | **-90.5%** | **2.1** | **-67.2%** | **4.4** | **17.9** | **-75.6%** |
| Equity | 8.0 | 8.0 | | 8.0 | | 8.0 | 8.0 | |
| Face Value | 1.0 | 1.0 | | 1.0 | | 1.0 | 1.0 | |

*Source: Company Filing, Way2wealth Research*



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