

28th March 2022

CMP – ₹441/-

View – Buy on Dips

Company Background

Rupa & Company Limited (RUPA), one of the leading and largest knitwear brand in India, engaged in the manufacturing, marketing, selling and distribution of men's and women's innerwear, thermal wear and fashion wear.

The company has a bouquet of brands across all price segments – Economy, Mid-Premium, Premium as well as the Super-Premium across men, women and kids.

The company has 4 state-of-the-art manufacturing facilities in Domjur (West Bengal), Tirupur (Tamil Nadu), Bengaluru (Karnataka) and Ghaziabad (NCR) with a capacity of 700,000 finished goods per day.

The company has Pan-India presence with over 1,200 dealers and over 125000 retail touchpoints.

Important Statistics

M.Cap (₹ cr)	3,506
52 Week H/L (₹)	561/288
NSE Code	RUPA
BSE Code	533552

Shareholding pattern (%)	Dec'21
Promoter	73.3
Institutions	04.6
Public & Others	22.2

Experience Board & Strong Management Team

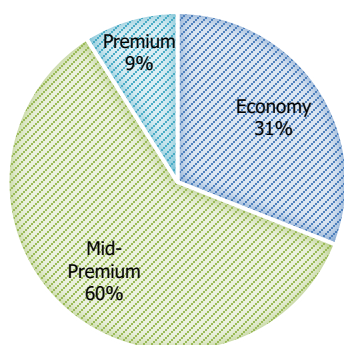
- Mr. P.R. Agarwala (Chairman) awarded with the prestigious Padma Shri Award. He has more than 50 years of experience in textile industry.
- Mr. Kunj Bihari Agarwala (Managing Director) has more than 45 years of experience in the textile industry, specialization in marketing and distribution.
- Mr. Ramesh Agarwal (CFO), has more than 30 years of experience in the textile industry and plays a key role in the production, planning and distribution of products and completely manage processing house

Financials

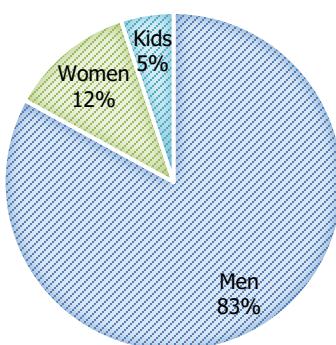
Particulars (cr)	FY20	FY21	9MFY22
Sales	975	1313	990
EBITDA	114	257	195
EBITDA Margin	11.7%	19.6%	19.1%
Reported PAT	62	175	143
PAT Margin	6.4%	13.4%	14.0%
Reported EPS	7.8	21.9	17.9
D/E Ratio	0.30	0.19	
ROE	11.0%	26.8%	

Source: Company, Way2Wealth

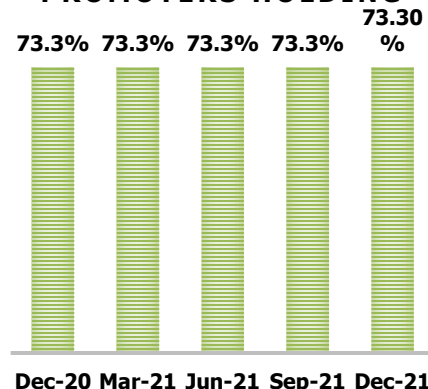
9MFY22



9MFY22



PROMOTERS HOLDING



Source: Company, Way2Wealth

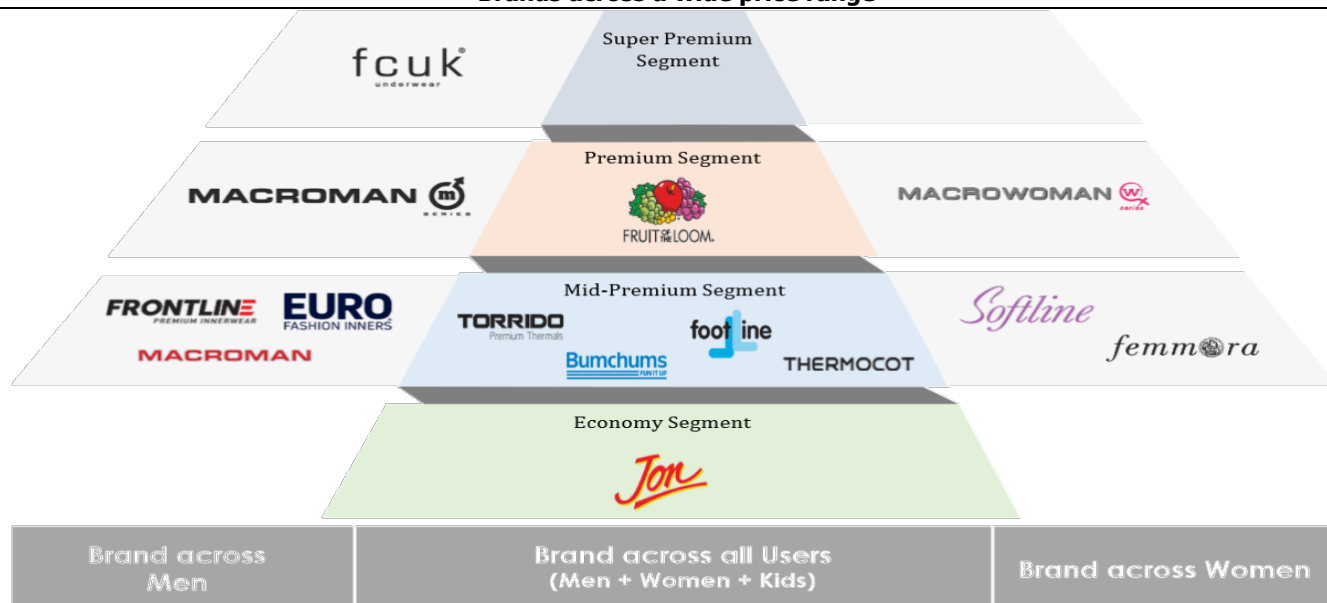
Why we like Rupa & Company Ltd?

- Diversified products portfolio with high margin revenue business
- Distribution strength with penetration in high potential areas
- **Guidance:** CAGR of 16-20% for next 3 years
- Better position amongst peer
- Valuations at a discount to long term historical averages

Investment Rationale

- **Diversified product portfolio with high margin revenue business** – The company has a wide range of product portfolio which helps to strategise the product offering suiting to the different consumer preferences of the respective states. The company caters to all segments including men, women and kid segment with its wide range of brands. The various sub-brands of the company includes, **Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline, etc.**, catering to various segments, under its umbrella brand 'Rupa'. The brands are endorsed by leading celebrities including Ranveer Singh and Siddharth Malhotra. The company also has premium brand, **Macroman M-Series** and the premium brand under female segment, **Macrowoman W-Series** includes products like, lingerie, active wear and leisurewear.

Brands across a wide price range



Source: Company, Way2Wealth

Merged high margin global brands:

1. Recently the company has merged its wholly-owned premium brand subsidiary Oban Fashions with itself. In 2017 the company acquired licenses for brands like FCUK and Fruit of the Loom in order to enter in the premium segment and keep up with the competition.
2. The management aims to reset the business model and the distribution network and expects to grow it at 30% post demerger.
3. In FY21, Oban Fashions Pvt Ltd was EBITDA positive for the first time since 2017 i.e. acquisition. The management aims to grow the business profitably.
4. The management guided that it will contribute a EBITDA of 10-12% from next year and gradually will match the EBITDA margins of Rupa and be PAT positive as well.

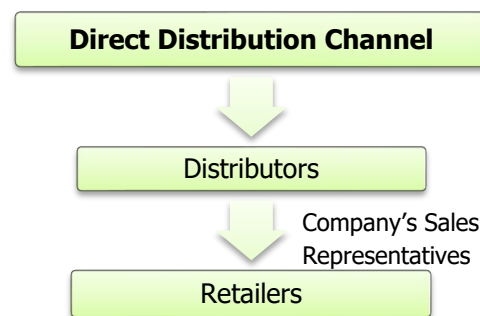
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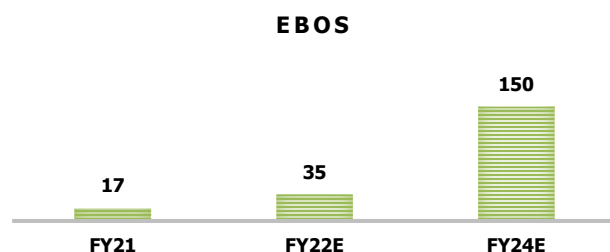
- **Distribution Reach** – The company has PAN India presence with over 1,200 dealers and over 125,000 retail touchpoints. The company has a very strong position in the East and has gained significant presence in the North followed by the West of India. The company is also taking strategic initiatives to improve customer base in the Central and Southern part of the country, appointing new distributors and building experience centres to further strengthen sales in the potential and existing markets.

The company is also strategically moving towards direct distribution channel for its product categories for better inventory management and for increasing availability at retail counters of all the SKUs.



Source: Company, Way2Wealth

The company currently has 17 EBOs and aims to take this number to 35 by this year end. Further it aims to set up 150+ in the next 2 years and expand its retail footprint.



Source: Company, Way2Wealth

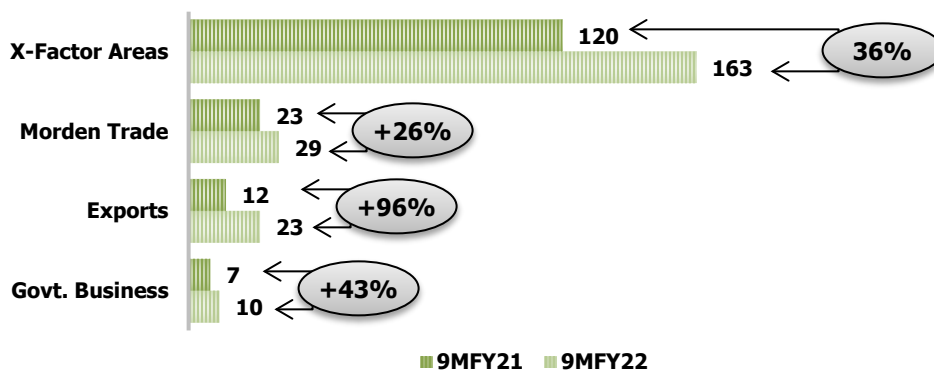
- **Reinforcing high growth segments (Thermal, Athleisure & Women wear)**

1. Casualisation as a trend has been gaining traction in terms of Athleisure, Comfort Wear, T-shirts, Shorts and Sportswear. Customers are getting comfortable with the idea of wearing premium dressed up and easy-to-wear, casual wear which is well represented by Athleisure category. The company has seen a growth of 27-28% in this segment and also expects a strong growth coming forward from this segment.
2. Further in case of women wear market, branded innerwear in women's segment contributes ~38-42% of the total women's innerwear market and is expected to increase to ~45-48% of the total market by 2023. During FY15-20, the women's innerwear segment grew at 14%, outperforming the overall innerwear segment and the men's innerwear segment growth. The company has also seen a robust growth of 17-18% for 9MFY22. Management expects a 30-35% growth in this segment going forward. For the women's brand Softline, the management has appointed Kiara Advani as the brand ambassador
3. Thermal wear witnessed weak demand in Q3FY22 due to delayed winters. The company has a wide range of products under the thermal wear and plans to cross ₹200Cr of thermal wear revenue in the next two years.

Penetration in High Potential Areas:

Category	Growth Target	
Focused Market	3x in 4 years	West Bengal, Maharashtra [Ex Mumbai Pune], Gujarat, MP, Chattisgarh, Western UP, Uttarakhand, Haryana, HP, Punjab, Tamil Nadu, Andhra Pradesh & Kerala. Building complete ecosystem of marketing team, retail & distribution network is the key focus here. For 9MFY22, the company saw a growth of 36% from these areas and expects it to be 40% for FY22.
Modern Trade	4x in 3 years	Focus on e-commerce via partnerships with Amazon, Flipkart. Drive direct sales through own website and focus on EBO expansion. Modern trade is right now 4% of revenue which used to be 2-3%. This segment has shown a growth of 26% in 9MFY22, robust growth is also expected in Q4FY22.
Exports and New Markets	5x in 3 years	International business is seeing substantially improved traction, and expect the momentum to continue with focus on Middle East, Bangladesh, Africa & Russia business. The company aims to double the exports this year from 20 cr. to 40 cr.
Govt Business	5x in 3 years	CSD & CPC offers great opportunity. Introduction of new product will drive volume

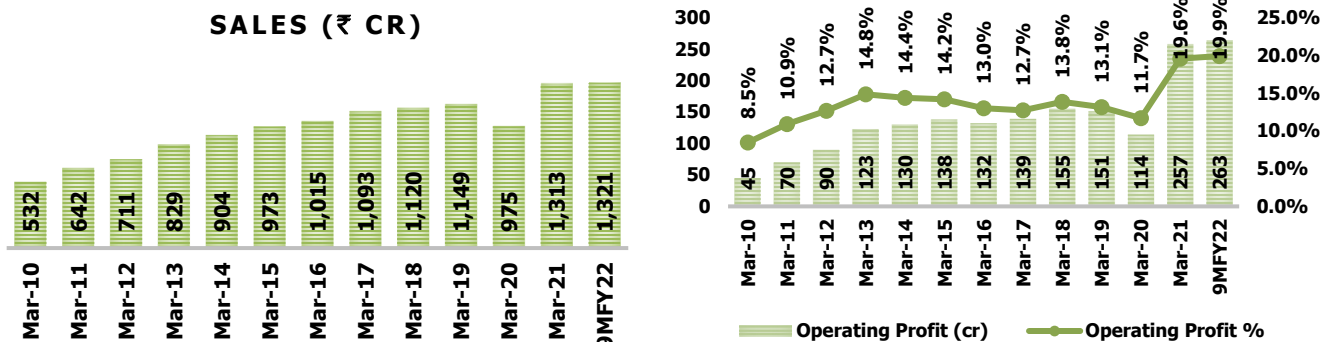
REVENUE (₹ CR)



Source: Company, Way2Wealth

➤ **Revenue & Margins** – Healthy sales and profitability growth across the years along with strengthening margins.

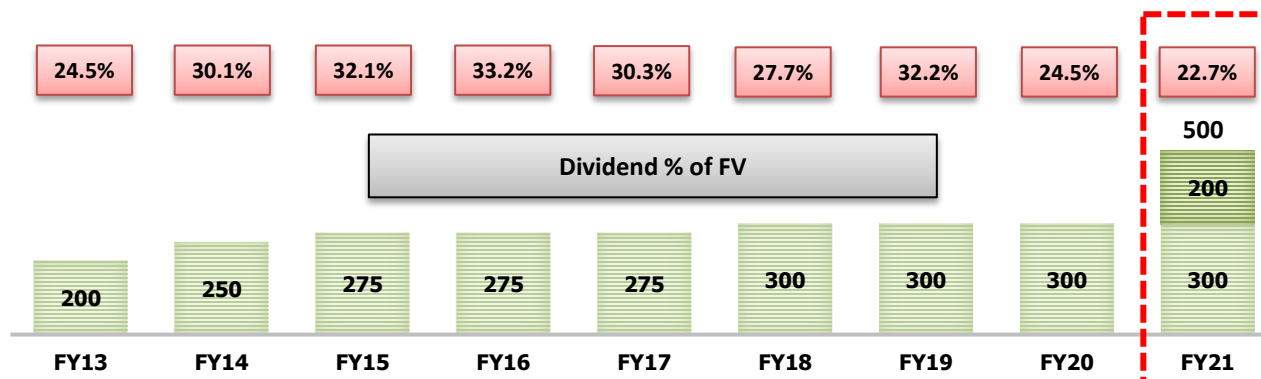
SALES (₹ CR)



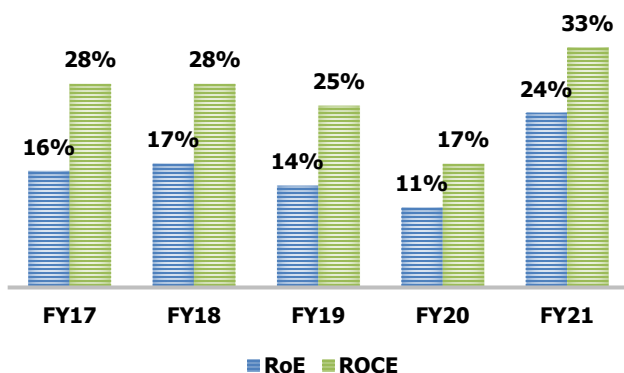
Source: Company, Way2Wealth

Strong return profile, healthy D/E ratio with consistent dividend payout

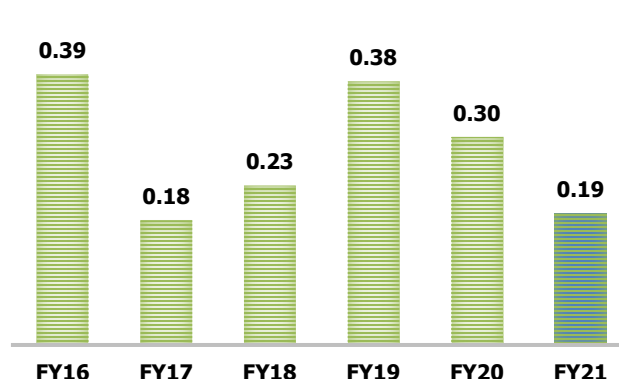
SHARING PROFITS CONSISTENTLY PAYOUT AS A % OF PROFIT



RETURN RATIO



DEBT TO EQUITY



Source: Company, Way2Wealth

Strong Q3FY22 Performance

Particulars (₹ crs)	Q3FY22	Q3FY21	YoY	Q2FY22	QoQ
Net Sales	433.2	345.6	25.3%	367.5	17.9%
Operating Costs	352.3	281.3	25.2%	296.2	18.9%
EBITDA	80.9	64.3	25.8%	71.3	13.5%
EBITDA Margin	18.7%	18.6%	10 bps	19.4%	70 bps
Depreciation	3.6	3.5	2.9%	3.5	2.9%
Other Income	2.9	1.7	70.6%	2.3	26.1%
PBIT	80.2	62.5	28.3%	70.1	14.4%
Interest	5	3.6	38.9%	4.3	16.3%
Tax Expenses	16.9	15.5	9.0%	10.7	57.9%
PAT	58.3	43.4	34.3%	55.1	5.8%
PAT Margin	13.5%	12.6%	90 bps	15.0%	150 bps
EPS	7.3	5.4	35.2%	6.9	5.8%

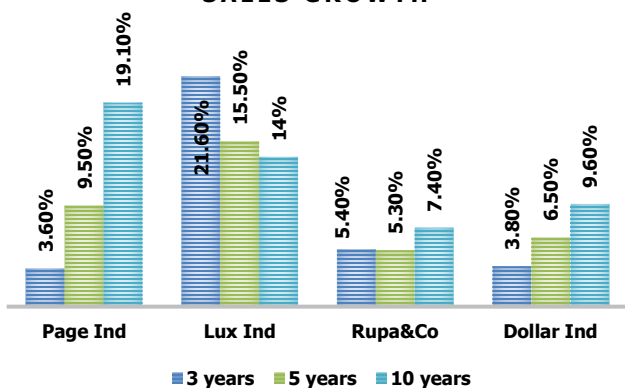
Source: Company, Way2Wealth

Key Q3FY22 Highlights

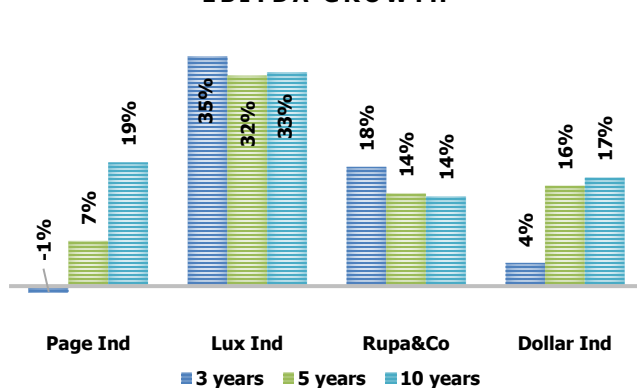
- **Guidance for FY23:** Revenue at 17%-20% & EBITDA margin in the range of 18%-20%
- With marketing expenses going back to +5% this year and increased employee costs, the management guides that similar margins can be expected for FY22 due to volume growth and increased operational efficiency.
- Expect ~30%-35% YoY growth in the woman's wear segment going forward. For 9MFY22, it grew 17%-18%
- Expect robust growth rate in athleisure segment; witnessed 28% growth in 9MFY22
- Expects export sales to ~₹400mn in FY22E and plans to increase the exports sales by ~5x in the next 3 years.
- High potential focused market (TN, AP, HP, Kerala, WB, UP etc.) grew 36% YoY, expecting 50% growth from these markets
- Working capital days 168 v/s 179 days QoQ. Targeting 150 days by end of FY22
- Plans to launch some specific products for the e-commerce channels & expects this channel to contribute ~10%-11% of sales in the next 3-4 years. (current: 5%-6%)

Peer Comparison

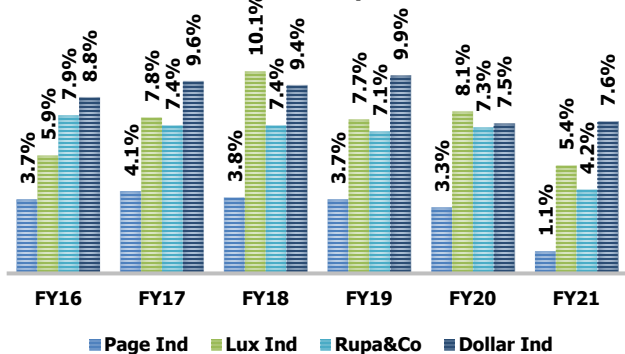
SALES GROWTH



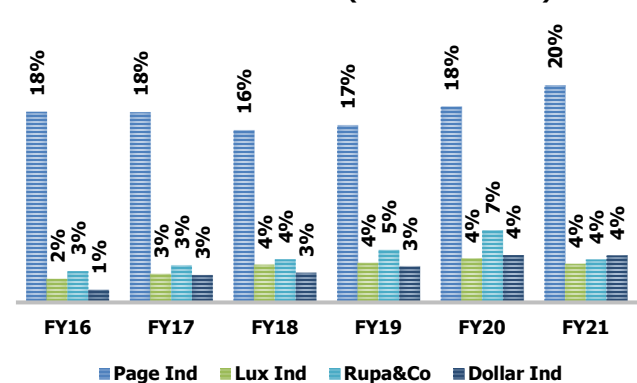
EBITDA GROWTH



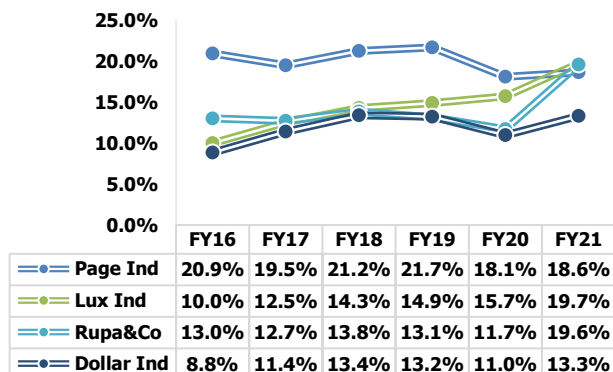
ADVT&SALES PROMOTION (% OF SALES)



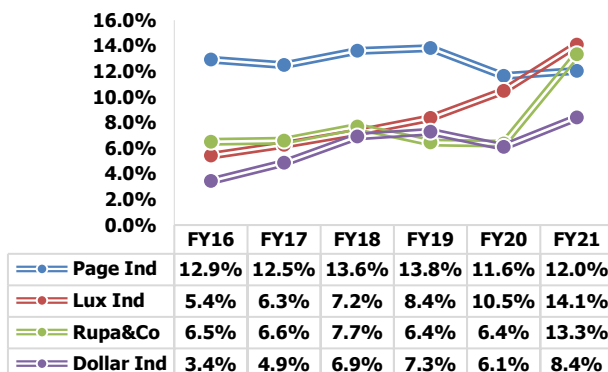
EMPLOYEE COST (% OF SALES)



EBITDA %



PAT %



Return Ratio	ROE	ROCE	D/E
Rupa & Company	23%	31%	0.2
Page Ind	38%	49%	0.1
Lux Industries	27%	36%	0.1
Dollar Ind	16%	23%	0.2

Valuation	PE	M-cap/Sales	EV/EBITDA
Rupa & Company	17.6	2.8	9.3
Page Ind	103.3	16.8	61.2
Lux Industries	19.9	3.7	13.7
Dollar Ind	25.0	3.1	9.9

Source: Company, Way2Wealth

Risk

- Slowdown in the economy
- Inflationary raw material prices
- The company and industry has high working capital requirements. However, management targets working capital days of 150 for FY22
- Geopolitical tension may have impact on the exports targets

View

Rupa & Company Limited, one of the leading and largest knitwear brand in India, engaged in the manufacturing, marketing, selling and distribution of men's and women's innerwear, thermal wear and fashion wear. The company has delivered robust Sales/EBITDA/PAT CAGR of 5%/14%/22% over FY16-21.

Over the last few years Rupa has shifted its focus more towards premium and semi-premium brands which resulted in an improvement in margins and growth profile. Recent merger with subsidiary The Oban Fashion would strengthen Rupa's position in the market in terms of consolidation of similar premium businesses to execute more efficiently and effectively.

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

At the current price of ₹441 it is trading at 16.8x times P/E to its TTM EPS of ₹26.3. We remain positive on Rupa & Company Ltd from long term perspective and advise investors to buy on dips this business.

28th March 2022

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View – Buy on Dips

Financial Statement

Particulars	(₹ Cr)		
	FY20	FY21	9MFY22
Sales	975	1,313	1,019
Gross Profit	575	960	594
Gross Margin	59.0%	73.1%	58.3%
EBITDA	114	257	195
EBITDA Margin	11.7%	19.6%	19.1%
Depreciation	18.51	13.79	10.54
EBIT	102.86	250.49	191.35
Interest	18.62	13.79	12.5
Other Income	7.37	7.28	7.22
Profit before tax	84.24	236.70	178.85
Tax	22.07	60.45	35.95
Tax rate	26.2%	25.5%	20.1%
PAT	62	176	143
PAT Margin	6.4%	13.4%	14.0%
EPS	7.8	22.1	18.0

Source: Company Data, Way2Wealth

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Disclosure of Interest Statement Rupa & Company Ltd. as on March 28th, 2022

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

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