

31st May 2023

CMP – ₹257/-

View – Accumulate

Q4FY23: Stress to continue in H1FY24 due to high cost inventory

- Revenue from operations declined 11% YoY and sequentially grew 73% from ₹235Cr to ₹406Cr
- Gross margin for Q4FY23 declined by 109 bps YoY to 23.4% due to higher input cost
- EBITDA margin for Q4FY23 declined to ~6.7% vs ~16.2% YoY on account of lower gross margins, and higher advertisement expenditure
- PAT declined by 62% YoY to ₹19Cr. The reason for declining PAT is basically the impact in gross margin as well as the increase in ad spends.

Important Statistics

M.CAP (₹ Cr)	₹2,089
52 Week H/L (₹)	₹399/₹197
NSE Code	RUPA
BSE Code	533552

Shareholding pattern (%) Mar'23

Promoter	73.28
Institutions	04.77
Public & Others	21.95

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. 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** – Spend on marketing in the FY23 is at 7% of the top line was much higher compared to 4.2% 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.
- **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
- **Export** – Exports stood at ₹41Cr and continues to deliver robust YoY growth with 25% uptick over last year, contributing ~4% 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.


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- Additionally, company is also setting up a cutting unit with a capex of around ₹19Cr. The same is also expected to commission in FY24.
- **Net Debt** – The net working capital deployed in the business has reduced from ₹910Cr to ₹789Cr in FY23. Consequently, significantly improved cash flow operations, from net outgo ₹116Cr in FY22 to positive cash inflow of ₹185Cr. 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 ₹231Cr in FY22 to ₹134Cr as of March 31, 2022
- **EBOs/Modern Trade** – The total count of exclusive brand outlet (EBO) stores stands at 28 stores for FY23 and management is planning to roll out 150+ EBOs in the next year. Modern trade & e-commerce registered a robust 32% growth and contributed ~5% to overall revenue.

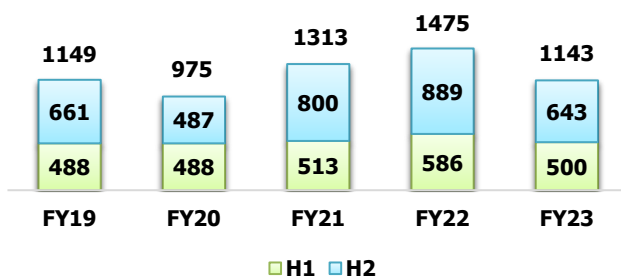
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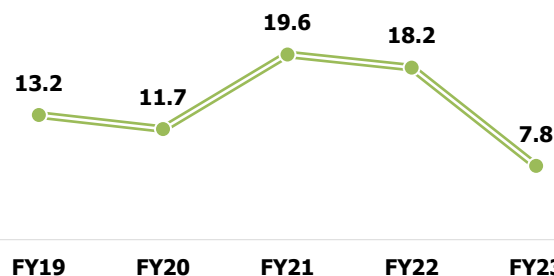
View – Accumulate

Story in charts

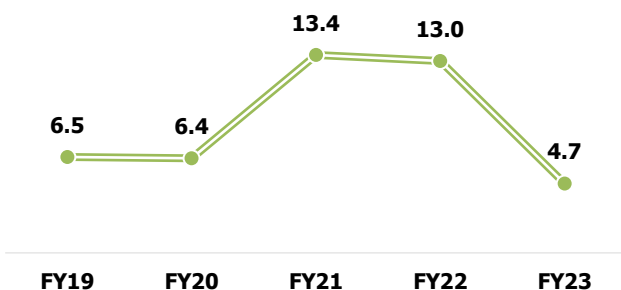
Revenue (₹ Cr)



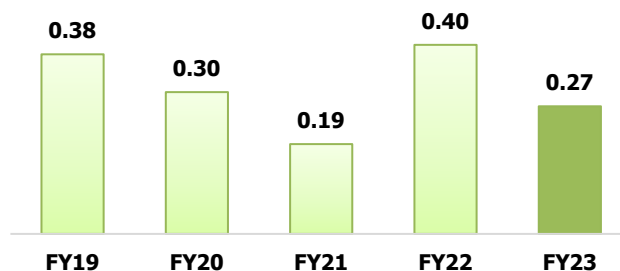
EBITDA MARGIN (%)



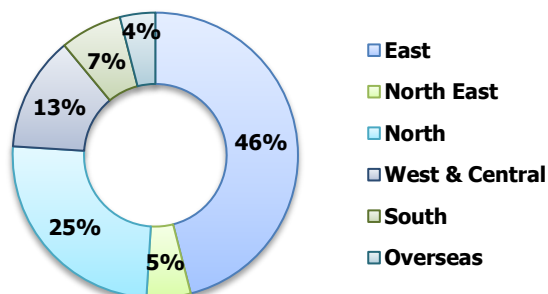
PAT MARGIN (%)



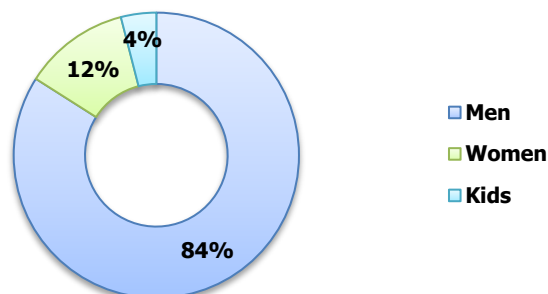
Debt to Equity



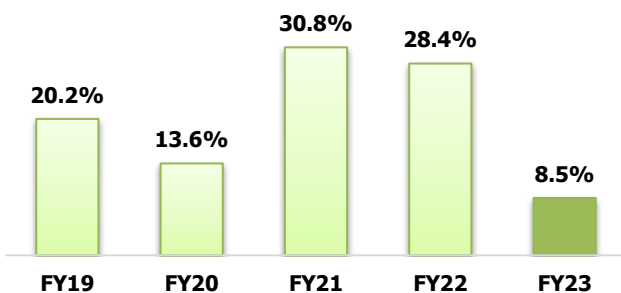
Region-wise Revenue Split



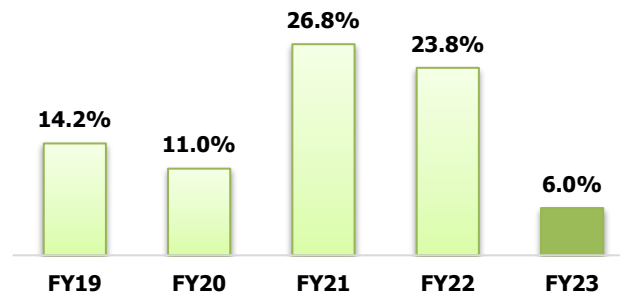
Gender-wise Revenue Split



ROCE (%)



ROE (%)



Source: Company, Way2Wealth

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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 be stabilized and trade should also be confident by H2FY24.

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 ₹257 it is trading at 37.8x times P/E to its FY23 EPS of ₹6.8. Consumer demand sentiments remain weak over the short term but long term trajectory remains strong and hence we advise investors to Accumulate this business.

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View – Accumulate

Quarterly Performance

(₹ Cr)

	Q4FY23	Q4FY22	VAR	Q3FY23	VAR	FY23	FY22	VAR
Net Sales	405.6	454.7	-10.81%	234.7	72.8%	1,137.3	1,468.9	-22.58%
Other Operating Income	1.2	1.9	-34.2%	1.3	-3.1%	5.8	6.3	-7.8%
Other Income	4.8	3.6	34.2%	2.6	84.2%	16.2	10.8	49.9%
TOTAL INCOME	411.6	460.2	-10.6%	238.6	72.5%	1,159.2	1,486.0	-22.0%
Cost Of Materials Consumed	118.9	230.7	-48.5%	74.9	58.8%	503.3	770.1	-34.7%
Purchase of stock in trade	5.0	17.3	-71.0%	7.1	-29.1%	23.6	46.2	-48.9%
Stock Adjustment	134.4	(38.9)	-445.8%	51.8	159.4%	79.3	(182.6)	-143.5%
<i>RMC as a %age of sales</i>	<i>63.5%</i>	<i>45.8%</i>		<i>56.7%</i>		<i>53.0%</i>	<i>43.0%</i>	
Employee Benefit Expenses	12.6	21.6	-41.7%	13.9	-9.4%	58.4	68.1	-14.3%
<i>EPC as a %age of sales</i>	<i>3.1%</i>	<i>4.7%</i>		<i>5.9%</i>		<i>5.1%</i>	<i>4.6%</i>	
Subcontracting / Jobbing	53.4	90.8	-41.2%	36.8	44.9%	210.4	327.4	-35.8%
<i>Subcontracting/jobbing Expenses as a %age of sales</i>	<i>13.1%</i>	<i>19.9%</i>		<i>15.6%</i>		<i>18.4%</i>	<i>22.2%</i>	
Other Expenses	55.2	61.1	-9.8%	37.2	48.3%	178.8	177.7	0.6%
<i>Other Expenses as a %age of sales</i>	<i>13.6%</i>	<i>13.4%</i>		<i>15.8%</i>		<i>15.6%</i>	<i>12.0%</i>	
TOTAL EXPENDITURE	379.4	382.7	-0.8%	221.7	71.1%	1,053.7	1,207.0	-12.7%
EBIDTA	27.4	73.9	-63.0%	14.3	91.6%	89.3	268.3	-66.7%
<i>EBIDTA Margins %</i>	<i>6.7%</i>	<i>16.2%</i>		<i>6.1%</i>		<i>7.8%</i>	<i>18.2%</i>	
Finance Costs	4.8	5.9	-19.2%	6.0	-20.6%	23.0	18.4	25.0%
PBDT	27.4	71.6	-61.7%	10.9	151.4%	82.5	260.6	-68.3%
Depreciation	3.3	3.4	-2.4%	3.3	-0.9%	13.3	13.9	-4.5%
PBT	24.1	68.2	-64.7%	7.6	217.8%	69.2	246.7	-71.9%
Tax	5.2	18.9	-72.5%	2.0	155.4%	15.5	54.9	-71.7%
<i>Tax Rate</i>	<i>21.6%</i>	<i>27.7%</i>		<i>26.9%</i>		<i>22.4%</i>	<i>22.2%</i>	
Reported Profit After Tax	18.9	49.3	-61.7%	5.6	240.7%	53.7	191.9	-72.0%
<i>PATM %</i>	<i>4.6%</i>	<i>10.8%</i>		<i>2.4%</i>		<i>4.7%</i>	<i>13.0%</i>	
Other Comprehensive Income (Net of tax)- net credit / (charge)	(0.1)	0.1		0.0		(0.0)	0.1	
Total Comprehensive Income (13+14)	18.9	49.4	-61.8%	5.6	237.4%	53.7	192.0	-72.0%
Basic:								
EPS	2.4	6.2	-61.7%	0.7	240.7%	6.8	24.1	-72.0%
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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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
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