

# Initiating Coverage Rupa & Company Ltd.

28-December-2020





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Branded Apparels	Rs. 240	Buy at LTP and add on dips to Rs.217-221 band	Rs. 265	Rs. 295	2 quarters

HDFC Scrip Code	Rupa
BSE Code	533552
NSE Code	RUPA
Bloomberg	LUX IN
CMP Dec 24, 2020	240
Equity Capital (Rscr)	8
Face Value (Re)	1
Equity Share O/S (cr)	8
Market Cap (Rscrs)	1890
Book Value (Rs)	73
Avg. 52 Wk Volumes	57,350
52 Week High	268
52 Week Low	100

Share holding Pattern % (June, 2020)	
Promoters	73.28
Institutions	0
Non Institutions	26.72
Total	100.0

## Fundamental Research Analyst

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### Our Take:

Rupa & Co. for more than 5 decades, is a house-hold branded inner-wear player in India. It has been operating an asset-light business model with a strong focus on constantly creating and nurturing its brands under flagship brand “Rupa”, comprising of 18 sub-brands (Frontline, Macroman, Euro, Softline, Jon, Bumchums, Torrido, Thermocot etc). From being present in the mass and economy segments, the Company has also strategically marked its presence across mid-premium to super premium brands. It has a Pan-India footprint spread across 125,000 retailers through 1000 dealers.

Going forward, the company’s key pillars for growth include -1) Constant focus on asset-light business model with expansion through franchise based EBOs (Exclusive Brand Outlet). It plans to open 50 such stores. 2) Enriching its product portfolio with scale up of super-premium licensed brands like “FCUK” and “Fruit of the Loom” 3) Continued endeavor to improve its brand equity with ~6-7% investments behind A&P. Over FY12-20, the company has invested ~Rs. 650Cr in brand promotion activities which accounts for ~7.5% of cumulative revenues. 4) Reinvent its business model with higher pie of revenues from digital channel. In order to accomplish this, it has tied up with leading online marketplace operators like Amazon, Flipkart etc.

### Valuations & Recommendation:

Post the Covid-19 pandemic, we believe, low ticket sized branded knitted-wear as a category is all set to go through a structural shift. Rupa’s inherent advantage of strong equity coupled with last mile reach through its robust distribution network developed over last 5 decades makes it a clear beneficiary of consumers shifting towards affordable branded quality products. Margins which are on the uptrend and working capital situation that has improved in FY21 may deteriorate in FY22, but still be better than that in the past. We expect, the company to record a Revenue and PAT of 10% and 29% CAGR over FY20-23E. Higher PAT growth is likely to be mainly on the back of favorable base, cost rationalization measures and constant debt reduction.

The stock is currently trading at valuation of 15x FY22E earnings. We feel the base case fair value of the stock is Rs 265 (17.5x FY22E) and bull case fair value is Rs 295 (19.5x FY22E) over the next two quarters. Investors can buy the stock at LTP and add on dips in the Rs.217-221 band (14.5x FY22E EPS).

## Financial Summary

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	303.5	287.9	5.4	209.6	44.8	1,148.7	974.6	1,164.7	1,217.1	1,284.0
EBITDA	66.1	41.5	59.2	36.3	82.0	997.6	113.7	203.8	187.4	205.4
Depreciation	3.8	4.9	-23.4	3.8	-0.8	15.0	18.5	19.3	20.4	21.5
Other Income	2.1	3.0	-30.0	0.3	740.0	2.0	7.4	4.7	4.9	5.1
Interest Cost	2.8	4.5	-36.8	4.2	-32.5	18.6	18.6	13.6	11.4	9.2
Tax	16.2	3.2	412.3	8.0	102.5	45.3	22.1	43.9	40.1	45.0
PAT	45.4	32.0	42.0	20.6	120.6	74.2	61.9	131.7	120.4	134.9
Diluted EPS (Rs)	5.7	4.0	42.5	2.6	119.2	9.3	7.8	16.5	15.1	16.9
RoE						14%	11%	21%	16%	16%
P/E (x)						25	30	14	15	14
EV/EBITDA						13.4	17.6	9.4	9.9	8.4

(Source: Company, HDFC Sec)

## Q2FY21 Result Review

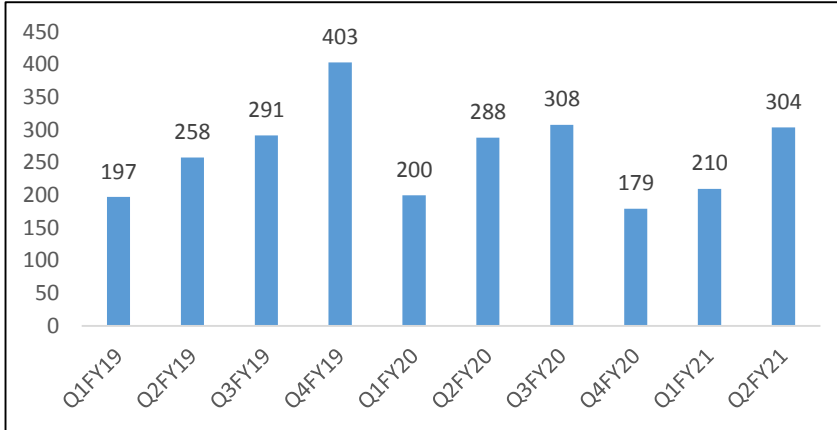
- Despite the Covid-19 slowdown, Rupa & Co. had been able to achieve normalcy which was clearly evident from steady performance reported in Q2FY21. In Q2FY21 revenues stood at Rs 303Cr which grew by 5.4%/45% on YoY/QoQ basis. Better growth was mainly driven by pent-up demand post lockdown.
- EBITDA for the quarter grew by 59%/82% on YoY/QoQ basis. Consequently, margins expanded by 740bps YoY to 21.8%. This is one of the best operating performance exhibited by the company mainly driven by cost rationalization.
- PAT for the quarter stood at Rs. 45.4Cr up 42%/ 120% on YoY/QoQ basis.

## Recent Triggers

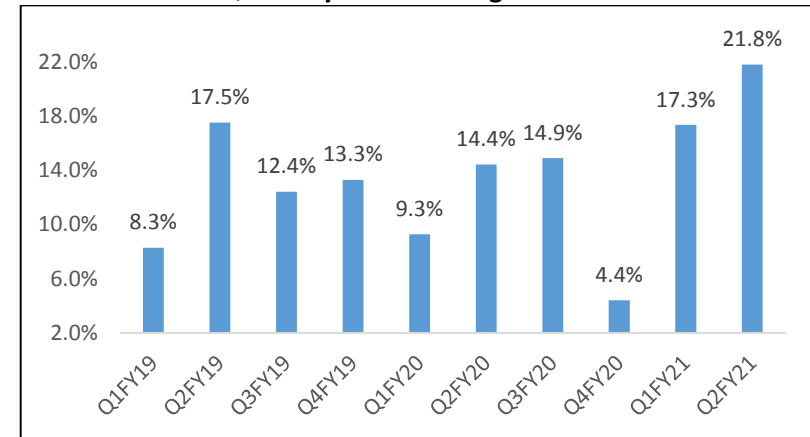
### **Resurgence in demand for basic essentials coupled with best ever margin driven by cost rationalization**

Rupa has a strong foothold in economy and mid-market branded innerwear segment which are considered to be bare essentials in nature. Branded Innerwear as a category being low ticket size had a limited impact on account of Covid-19 related slowdown. Post easing of restrictions on lockdown, there was a strong pent-up demand across innerwear categories which was a big positive for large organized and Pan-India branded players. Inner-wear as an industry, historically has been highly capital intensive in nature; however post Covid-19 induced restrictions it had temporarily turned into sellers-market mainly due to supply shortage. Large organized players with Pan-India reach and strong balance sheet back-up were in a sweet spot as they had the ability to continue business as usual which was mainly driven by their strong control over supply chain and brand patronage. Rupa with its strong brand recall, deeper penetration and last mile connectivity with presence across 1.25lk+ retail outlets across India is relatively better placed. Despite the pandemic, India rural economy has been fairly insulated and continues to be buoyant with 2<sup>nd</sup> consecutive year of bumper harvest. Rupa has a larger exposure to economy and mid-market segment which caters to price conscious Indian middle-class which is largely placed in rural India.

#### Quarterly Revenue growth Trend



#### Quarterly EBITDA Margin Trend



(Source: Company, HDFC sec)

## Long Term Triggers

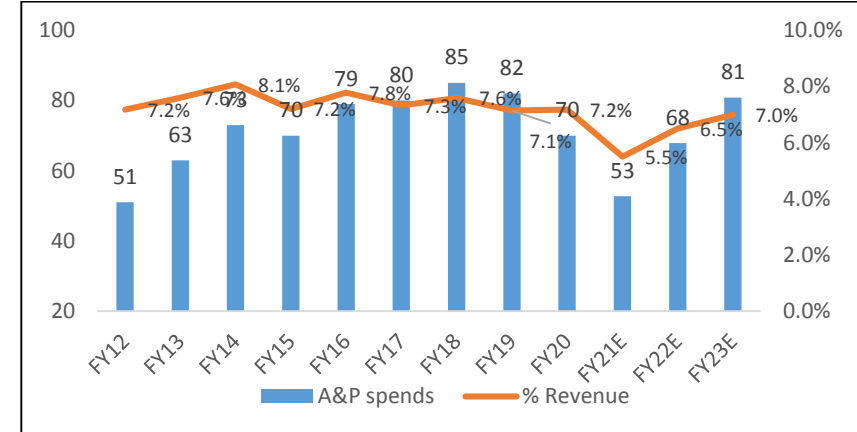
### House of Brands catering to both Classes and Masses

Rupa has been constantly investing aggressively behind brand promotion activities. In last 8 years it has spent ~Rs 650Cr behind A&P activities (~7.5% of cumulative FY12-20 revenues). Of its brands, it seems that Jon, Frontline, Macroman – M series and Thermocott would be clicking >Rs.100 Cr sales per annum.

### Brand-Portfolio



### A&P spends (% Revenue trend)



### New products targeting aspirational urban audience through licenced international brands- “FCUK” and “Fruit of the Loom (FOTL)”

In the world of hyper-innovation and constant change, Rupa has been continuously testing waters with newer opportunities beyond its core business (economy and mid-market range of products) which can drive its future growth. In order to meet the growing requirement of aspirational urban populace, Rupa had launched a whole range of globally competitive designer premium innerwear and athleisure wear products through its wholly owned subsidiary Oban Fashions (now in the process of merging the holding company, listed entity Rupa & Co).

The merger is likely to enable consolidation of similar premium businesses and carry on the same more efficiently and effectively. In long term, synergies are expected to bring cost savings in the marketing, selling and distribution expenses as well as give benefits of the economies of scale for the Company.

It had acquired exclusive license from French Connection Limited for “FCUK” and Berkshire Hathway owned “Fruit of the loom” to develop, manufacture, market and sell their innerwear and related products in India. FOTL has one of the widest and the best-selling products range globally. Rupa had launched FOTL products in India in Dec, 2017. As on FY20, both these brands together comprised of Rs 33Cr contributing ~3.4% of Rupa net revenues. Going forward, we expect a significant multi-fold growth from both these brands over next 3-5 years.

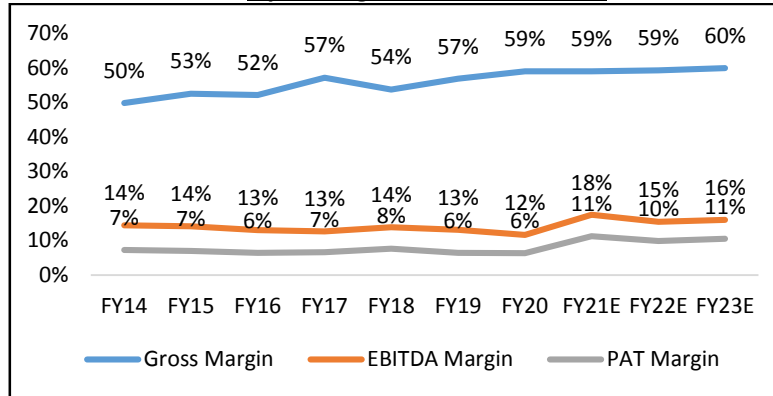
### **Size does matter-“Big becoming bigger” theme likely to gain traction like never before**

Overall innerwear industry estimated to be ~Rs 28,000 Cr on FY20 while the size of Athleisure segment even a larger opportunity. Right from demonetization to GST and now post pandemic, we expect, strong consolidation across the branded knitted-wear industry. Larger players with strong supply chain, brand recall and distribution network will have very strong edge over regional companies with fragile balance sheet and limited reach. There has also been a huge shift from need-driven to aspiration driven buying across consumer facing categories which includes intimate & leisure wear.

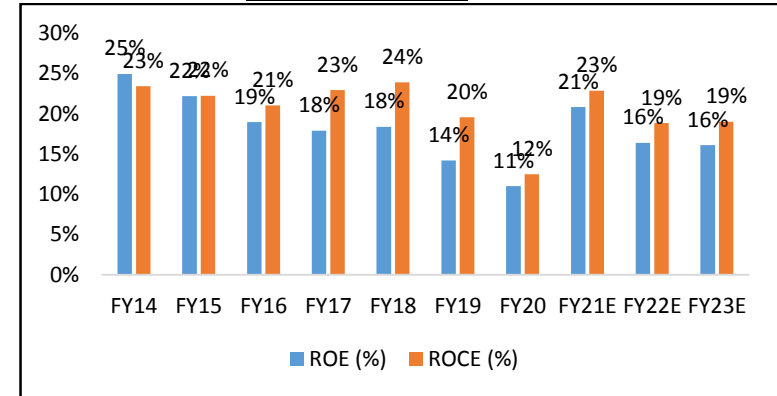
### **Key Financial Summary**

- Rupa has delivered a stable Revenue CAGR of 6% over FY10-20 (FY20 revenues declined by 15% due to Covid lockdown) aided by its consistent focus on aggressive brand promotion and deeper penetration across India. Along with this, it has been constantly enriching its product portfolio by new product launches and thereby scaling-up its high margin value-add segment. Going forward, despite the economic slowdown related challenges, we expect the company to report a revenue CAGR of 10% over FY20-23E.
- Its EBITDA and PAT grew by CAGR 10% and 10.5% respectively over FY10-20. Despite aggressive investments in brand building (8-Yr A&P sends of ~Rs 653Cr) and employee expenses which increased from 1% of revenues in FY12 to 6.7% of revenues in FY20, operating margins of the company have been improving due to better product mix and positive operating leverage driven by strong volume uptick. Going forward, we expect its operational performance to improve with EBITDA and PAT likely to grow at CAGR 21% and 29% respectively over FY20-23E.
- Textile and Apparels is a highly competitive and working capital intensive business. Its cash conversion for last 6-years has been on a higher side compared to its listed peers (6-Yr Avg 167 days). However, at Net D/E level, it has improved to 0.3x as on FY20 from 0.6x in FY14. Higher working capital along with comparatively lower margins has impacted its return ratios and free cash flow generation.

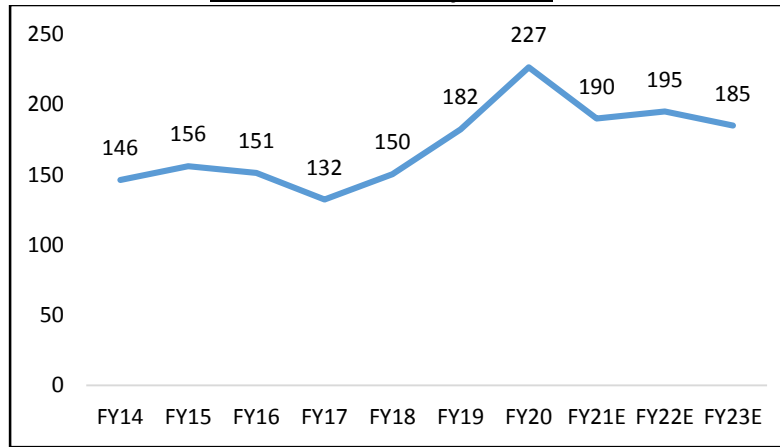
### Operating Performance trend



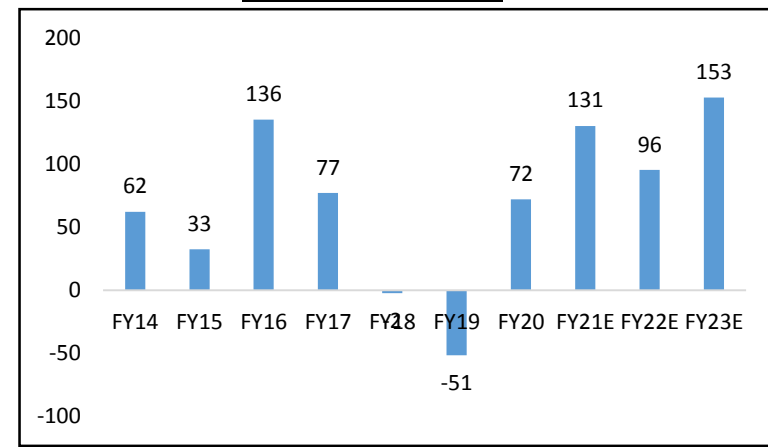
### Return ratio trend



### Cash conversion Days trend



### Free Cash Flow Trend



(Source: Company, HDFC sec)



## What could go wrong?

- **Sharp rise in Competition Intensity**  
Resurgence of stiff competition intensity from regional players and higher competition from large organized retailers getting in the innerwear segment can impact growth. As of now large organized retailers have restricted their presence only in the premium segment, in case if they enter in mid and mass market segment through their retail network and e-com with adoption of aggressive pricing and discounting, it can create disruption in marketplace.
- **Inability to consistently expand in the premium and women's wear segment**  
Premium inner-wear, women's brasserie and leisure wear are key focus categories for Rupa & Co. In last few years both these segments have become more crowded and there's a need to further product and SKU expansion which can drive future growth. Rupa has also been in a nascent stage of scaling its women's brasserie through brand "Softline" and expanding casual wear segment through brand FUCK & "Fruit of the Loom". In case if the scaleup of new products becomes a highly elongated tedious task there can be impact on earnings growth momentum.
- **High input cost pressure**  
Mass market innerwear as a category is highly sensitive to pricing and any elongated phase of higher cotton prices resulting in price hikes can possibly impact growth for larger branded innerwear players.
- **Cash conversion cycle is long**  
The industry is characterized by high working capital requirements – both in terms of debtors and inventories. Rupa also had 121 days of debtors as on FY20 and 159 days of inventory (partially due to Covid lockdown towards the end of March 2020). This may come down over the next few years due to rationalization of inventories and quicker collection from debtors.
- **FY22 may be a year of degrowth in PAT**  
In FY21, due to drastic cut in Advertising and marketing costs, the OPM and PATM of the entire industry will be the best in many years. However these expenses will have to restart in FY22 leading to a possible fall in PAT in FY22. Also debtors and inventory situation which may have become better in FY21 due to shortage of stocks may once again deteriorate in FY22 in case the companies start to offer better terms to lure away retailers.



## Company Profile:

Rupa & Co. Industries has been a leading branded innerwear and knitted-wear company in India. Over the years, Rupa has built a strong portfolio of brands in the economy and mid-premium segment. The company is present across the entire value chain in the knitted garment space offering a gamut of products from innerwear to fashion wear. The Company operates through its state-of-the-art manufacturing facilities in West Bengal, Tamil Nadu, Karnataka and Uttar Pradesh. Some of the major brands include Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline etc.

## Peer Comparison

	Mcap	Revenue				EBITDA Margin				PAT				ROE			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Lux Ind	4,040	1,206	1,212	1,358	1,487	15%	15%	16%	15%	122	143	151	169	27%	26%	23%	22%
Rupa	1,910	975	1,165	1,217	1,284	12%	18%	15%	16%	62	132	120	135	11%	21%	16%	16%
Dollar Ind	1,280	969	959	1,045	1,155	11%	15%	14%	14%	61	85	92	103	13%	15%	15%	15%
Page Ind	30,640	2,945	2,678	3,396	3,820	18%	18%	21%	21%	343	290	469	540	43%	32%	45%	43%

	P/B				P/E			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Lux Ind	8	7	6	5	34	29	28	25
Rupa	3	3	2	2	30	14	15	14
Dollar Ind	3	2	2	2	20	15	14	12
Page Ind	37	33	27	23	89	108	67	56

Source: Bloomberg Consensus, HDFC \* Lux Industries projections are on standalone basis

## Financials

### Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>1148.7</b>	<b>974.6</b>	<b>1164.7</b>	<b>1217.1</b>	<b>1284.0</b>
Growth (%)	2.5%	-15.1%	19.5%	4.5%	5.5%
Operating Expenses	997.6	860.9	960.9	1029.7	1078.6
<b>EBITDA</b>	<b>151.1</b>	<b>113.7</b>	<b>203.8</b>	<b>187.4</b>	<b>205.4</b>
Growth (%)	-3%	-25%	79%	-8%	10%
<b>EBITDA Margin (%)</b>	<b>13.2</b>	<b>11.7</b>	<b>17.5</b>	<b>15.4</b>	<b>16.0</b>
Depreciation	15.0	18.5	19.3	20.4	21.5
<b>EBIT</b>	<b>136.0</b>	<b>95.2</b>	<b>184.5</b>	<b>167.0</b>	<b>183.9</b>
Other Income	2.0	7.4	4.7	4.9	5.1
Interest expenses	18.6	18.6	13.6	11.4	9.2
<b>PBT</b>	<b>119.5</b>	<b>84.0</b>	<b>175.6</b>	<b>160.5</b>	<b>179.9</b>
Tax	45.3	22.1	43.9	40.1	45.0
<b>RPAT</b>	<b>74.2</b>	<b>61.9</b>	<b>131.7</b>	<b>120.4</b>	<b>134.9</b>
APAT	<b>74.2</b>	<b>61.9</b>	<b>131.7</b>	<b>120.4</b>	<b>134.9</b>
Growth (%)	-14%	-17%	113%	-9%	12%
EPS	9.3	7.8	16.5	15.1	16.9

### Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
<b>SOURCE OF FUNDS</b>					
Share Capital	8.0	8.0	8.0	8.0	8.0
Reserves	544.7	578.0	685.7	782.2	893.3
<b>Shareholders' Funds</b>	<b>552.6</b>	<b>585.9</b>	<b>693.7</b>	<b>790.2</b>	<b>901.2</b>
Total Debt	210.5	179.1	154.1	129.1	104.1
Net Deferred Taxes	2.5	3.7	4.4	5.3	6.4
Other Liabilities	1.4	4.0	4.8	5.7	6.9
Minority Interest					
<b>Total Source of Funds</b>	<b>759</b>	<b>765</b>	<b>849</b>	<b>922</b>	<b>1011</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	181.5	185.3	181.0	175.5	169.0
CWIP	3.0	6.4	6.4	6.4	6.4
Other Non-Current Assets	10.9	22.9	34.9	36.5	38.5
<b>Total Non-Current Assets</b>	<b>195.4</b>	<b>214.6</b>	<b>222.3</b>	<b>218.4</b>	<b>213.9</b>
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	382.3	467.3	446.7	466.8	457.3
Trade Receivables	396.5	251.3	319.1	333.5	351.8
Cash & Equivalents	7.6	1.7	59.4	95.0	190.2
Other Current Assets	34.6	57.5	69.9	73.0	77.0
<b>Total Current Assets</b>	<b>821.0</b>	<b>777.8</b>	<b>895.1</b>	<b>968.4</b>	<b>1076.4</b>
Trade Payables	149.0	138.0	159.5	150.1	158.3
Other Current Liab & Provisions	97.9	86.4	104.8	109.5	115.6
<b>Total Current Liabilities</b>	<b>246.9</b>	<b>224.4</b>	<b>264.4</b>	<b>259.6</b>	<b>273.9</b>
Net Current Assets	574.1	553.4	630.8	708.8	802.5
<b>Total Application of Funds</b>	<b>759</b>	<b>765</b>	<b>849</b>	<b>922</b>	<b>1011</b>

## Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	119.5	84.0	175.6	160.5	179.9
Non-operating & EO items	0.0	-4.0	0.0	0.0	0.0
Interest Expenses	17.5	17.4	13.6	11.4	9.2
Depreciation	15.0	18.5	19.3	20.4	21.5
Working Capital Change	-118.5	18.8	-19.0	-41.6	2.4
Tax Paid	-60.6	-44.3	-43.9	-40.1	-45.0
<b>OPERATING CASH FLOW ( a )</b>	<b>-27.0</b>	<b>90.5</b>	<b>145.6</b>	<b>110.6</b>	<b>168.0</b>
Capex	-24.5	-18.1	-15.0	-15.0	-15.0
Free Cash Flow	-51.5	72.3	130.6	95.6	153.0
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	5.0	2.0	-12.0	-1.6	-2.0
<b>INVESTING CASH FLOW ( b )</b>	<b>-19.5</b>	<b>-16.1</b>	<b>-27.0</b>	<b>-16.6</b>	<b>-17.0</b>
Debt Issuance / (Repaid)	94.9	-34.8	25.0	25.0	25.0
Interest Expenses	-18.5	-17.6	-13.6	-11.4	-9.2
FCFE	24.9	20.0	142.0	109.2	168.8
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Others	-28.8	-28.8	-47.4	-48.2	-47.8
<b>FINANCING CASH FLOW ( c )</b>	<b>47.6</b>	<b>-81.1</b>	<b>-35.9</b>	<b>-34.5</b>	<b>-31.9</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>1.1</b>	<b>-6.8</b>	<b>82.6</b>	<b>59.5</b>	<b>119.0</b>

## Key Ratios

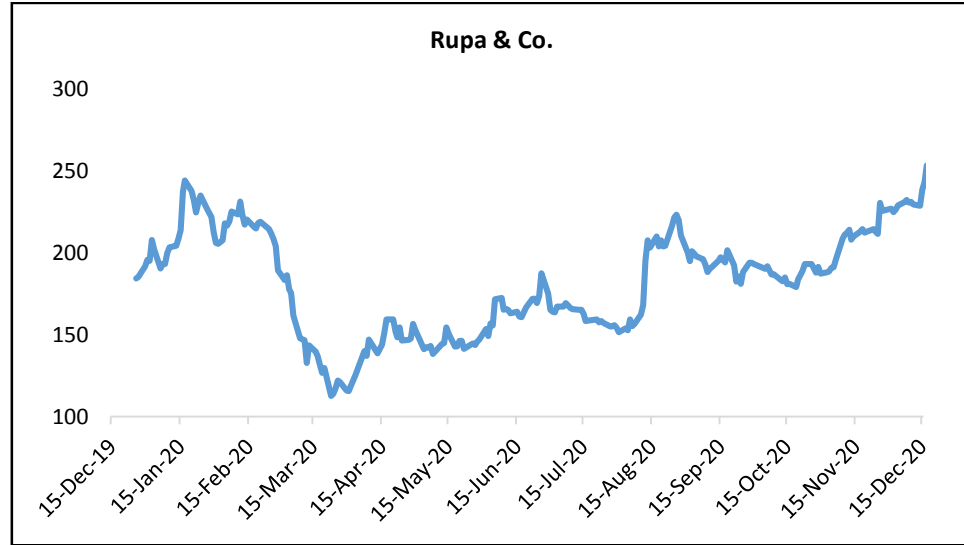
(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	13.2%	11.7%	17.5%	15.4%	16.0%
EBIT Margin	11.8%	9.8%	15.8%	13.7%	14.3%
APAT Margin	6.5%	6.4%	11.3%	9.9%	10.5%
RoE	14%	11%	21%	16%	16%
RoCE	20%	12%	23%	19%	19%
<b>Solvency Ratio</b>					
Net Debt/EBITDA (x)	1.3	1.6	0.5	0.2	-0.4
Net D/E	0.4	0.3	0.1	0.0	-0.1
<b>PER SHARE DATA</b>					
EPS	9.3	7.8	16.5	15.1	16.9
CEPS	11.2	10.1	19.0	17.7	19.7
Dividend	3.0	3.0	3.0	3.0	3.0
BVPS	68	73	86	98	112
<b>Turnover Ratios (days)</b>					
Debtor days	119	121	100	100	100
Inventory days	113	159	140	140	130
Creditors days	50	54	50	45	45
<b>VALUATION</b>					
P/E	25	30	14	15	14
P/BV	3	3	3	2	2
EV/EBITDA	13	18	9	10	8
EV / Revenues	2	2	2	2	1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout	32%	39%	18%	20%	18%

(Source: Company, HDFC sec)

# Rupa & Company Ltd.



One Year Stock Price Chart



(Source: Company, HDFC sec)

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