

Strong profitability, strengthened b/s augur well...

Rupa and Company reported a strong FY21 performance in a tough business environment. The company showed agility in rejigging both its product portfolio and distribution strategies to benefit from the changing consumption pattern and stress faced by smaller unorganised players. Rupa reported strong consolidated revenue, profitability for Q4FY21 aided by a weak base, to some extent. Revenue for Q4FY21 grew 153% YoY to ₹ 454 crore (Q4FY20: ₹ 179 crore; YoY down ~ 55%). Gross margin expanded 247 bps YoY to 35.7%. Also, positive operating leverage owing to lower employee & other expense (as percentage of sales) enabled EBITDA margin expansion by 1556 bps YoY to 20%, EBITDA of ₹ 90.6 crore (Q4FY20: ₹ 7.9 crore). Hence, PAT was at ₹ 65.9 crore vs. loss of ₹ 4.3 crore in Q4FY20.

Focus on newer products, markets to aid revenue growth

FY21 has been a good year for Rupa with highest ever revenue and net profit with revenue growth of 35% to ₹ 1313 crore and net profit of ₹ 175 crore. To cater to latest customer demands, the company has added newer varieties under its existing brands. Also, it is focussing on enhancing its distribution reach both in existing and newer markets by appointing new distributors to garner a higher share of consumer demand for its product categories. Rupa is planning to enhance its share of revenue of premium/super premium products. Also, it is planning to increase focus on casual wear, women and thermal wear categories to further broad base its product portfolio. To enhance its brand presence, the spend on advertisement is expected to be back to the normal range of ~6-7% in FY22 (FY21: 4.2%).

Better working capital management aids b/s improvement...

In FY20, the company's cash conversion cycle was significantly higher than peers at ~217 days. Rupa is shifting towards direct distribution channels for some of its products. The focus of the management on better inventory management with mapping of both primary/secondary sales has yielded positive results with inventory days reducing from 175 days in FY20 to 109 days in FY21. Improved working capital management has enabled the company to reduce net debt to ₹ 22 crore in FY21 from ₹ 174 crore in FY20.

Valuation & Outlook

The Indian innerwear industry is expected to grow at 11% CAGR from ~₹ 39000 crore in FY20 to ₹ 89700 crore in FY28 with current share of organised players at ~ 40%. With increasing aspiration of customers and extended reach of branded players, share of organised players is expected to grow at a faster pace. Companies like Rupa that have a presence across price points can benefit from consumers shifting from unorganised to organised and register sustained double digit revenue growth. The company has seen a significant improvement in profitability profile and augmentation of RoCE to ~25%+ warranting a re-rating in valuation multiple. We expect revenue, earnings CAGR of 14%, 9%, respectively, in FY21-23E. Owing to its strong performance and improved industry outlook, we revise our rating from REDUCE to BUY with a target price of ₹ 575 (22.0x FY23E earnings).



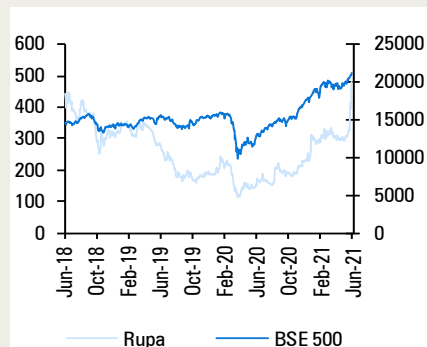
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	3,702.8
Debt (FY21) (₹ Crore)	139.9
Cash (FY21) (₹ Crore)	118.4
EV (₹ Crore)	3,724.3
52 week H/L	507 / 150
Equity Capital (₹ Crore)	8.0
Face Value (₹)	1.0

Key Risks

- Extension of lockdown restrictions leading to store closures negatively impacting store footfalls resulting in lower revenues.
- Any significant increase in raw material cost can negatively impacted the margins

Price Performance



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Key Financial Summary

(₹ Crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	974.6	1,312.7	1,509.6	1,690.7	13.5%
EBITDA	113.7	257.4	271.7	307.7	9.3%
PAT	61.9	175.3	184.4	209.4	9.3%
EPS (₹)	7.8	22.0	23.2	26.3	
P/E (x)	59.8	21.1	20.1	17.7	
EV/Sales (x)	4.0	2.8	2.5	2.2	
EV/EBITDA (x)	34.1	14.5	13.8	12.1	
RoCE (%)	12.6	28.0	25.0	24.6	
RoE (%)	10.7	24.0	21.5	20.8	

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating income	975	1,313	1,510	1,691
Growth (%)	6.0	5.3	15.0	12.0
Raw Material Expenses	631.4	853.3	981.2	1,099.0
Employee Expenses	65.7	52.7	70.9	77.8
Manufacturing & Other expens	163.8	149.3	185.7	206.3
Total Operating Expenditure	860.9	1,055.3	1,237.8	1,383.0
EBITDA	113.7	257.4	271.7	307.7
Growth (%)	(24.7)	126.3	5.6	13.2
Depreciation	18.5	13.8	19.2	21.0
EBIT	95.2	243.6	252.5	286.8
Interest	18.6	13.4	13.5	14.4
Other Income	7.4	7.3	7.5	7.6
PBT	84.0	237.4	246.6	279.9
Total Tax	22.1	62.2	62.1	70.5
PAT	61.9	175.3	184.4	209.4
Growth (%)	(16.6)	183.1	5.2	13.5
EPS (₹)	7.8	22.0	23.2	26.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
PAT	61.9	175.3	184.4	209.4
Add: Depreciation	18.5	13.8	19.2	21.0
(Inc)/dec in Current Assets	36.7	(25.7)	(192.8)	(114.8)
Inc/(dec) in CL and Provisions	(18.9)	44.0	105.6	23.2
Others				
CF from operating activities	98.2	207.4	116.5	138.7
(Inc)/dec in Investments	(0.0)	(0.0)	(0.0)	(0.0)
(Inc)/dec in Fixed Assets	(22.3)	(21.6)	(35.0)	(35.0)
(Inc)/dec in CWIP	(3.4)	(13.0)	9.4	(10.0)
Others	(1.2)	0.3	5.4	(5.0)
CF from investing activities	(26.9)	(34.2)	(20.2)	(50.0)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(32.0)	(36.1)	9.8	10.5
Others	(45.3)	(20.4)	(126.7)	(63.9)
CF from financing activities	(77.3)	(56.5)	(116.9)	(53.4)
Net Cash flow	(5.9)	116.7	(20.5)	35.3
Opening Cash	7.6	1.7	118.4	97.9
Closing Cash	1.7	118.4	97.9	133.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	8.0	8.0	8.0	8.0
Reserve and Surplus	570.0	721.6	850.7	997.3
Total Shareholders funds	578.0	729.5	858.6	1,005.2
Total Debt	176.0	139.9	149.7	160.2
Deferred Tax Liability	(12.1)	(10.9)	(7.5)	(3.5)
Other Long-term Liabilities	92.7	94.8	20.0	15.0
Total Liabilities	835	953	1,021	1,177
Assets				
Gross Block	327.7	349.2	384.2	419.2
Less: Accu Depreciation	142.4	156.2	175.4	196.3
Net Block	185.3	193.0	208.8	222.9
Capital WIP	6.4	19.4	10.0	20.0
Intangible Assets under-dev	-	-	-	-
Total Fixed Assets	191.7	212.4	218.8	242.9
Investments	0.0	0.0	0.0	0.0
Inventory	467.3	390.6	496.3	555.9
Debtors	251.3	364.4	454.9	509.5
Loans and Advances	5.5	5.3	5.3	5.9
Other Current Assets	54.0	43.5	40.0	40.0
Cash	1.7	118.4	97.9	133.2
Total Current Assets	779.8	922.1	1,094.4	1,244.5
Current Liabilities	143.7	168.4	291.1	313.4
Provisions	4.0	23.3	6.2	7.1
Total Current Liabilities	147.7	191.7	297.3	320.5
Net Current Assets	632.1	730.4	797.1	924.0
Others Non-current Assets	10.7	10.4	5.0	10.0
Application of Funds	835	953	1,021	1,177

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.8	22.0	23.2	26.3
Cash EPS	10.1	23.7	25.6	28.9
BV	72.6	91.6	107.8	126.2
DPS	3.6	3.1	6.9	7.9
Cash Per Share	0.2	14.9	12.3	16.7
Operating Ratios				
EBITDA Margin (%)	11.7	19.6	18.0	18.2
PBT Margin (%)	8.6	18.1	16.3	16.6
PAT Margin (%)	6.4	13.4	12.2	12.4
Inventory days	175.0	108.6	120.0	120.0
Debtor days	94.1	101.3	110.0	110.0
Creditor days	51.7	45.2	45.0	45.0
Return Ratios (%)				
RoE	10.7	24.0	21.5	20.8
RoCE	12.6	28.0	25.0	24.6
RoIC	12.8	33.3	28.0	28.3
Valuation Ratios (x)				
P/E	59.8	21.1	20.1	17.7
EV / EBITDA	34.1	14.5	13.8	12.1
EV / Net Sales	4.0	2.8	2.5	2.2
Market Cap / Sales	3.8	2.8	2.5	2.2
Price to Book Value	6.4	5.1	4.3	3.7
Solvency Ratios				
Debt/EBITDA	1.5	0.5	0.6	0.5
Debt / Equity	0.3	0.2	0.2	0.2
Current Ratio	5.3	4.8	3.7	3.9
Quick Ratio	2.1	2.8	2.0	2.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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