



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Rupa & Co Q4 FY22 consolidated revenues came in at ₹455 Cr, up 5.8% QoQ aided by price hikes undertaken during the quarter.
- PBIDT for Q4FY22 stood at 77.8 Cr, down % 17 YoY and 7% QoQ.
- PBIDTM for Q4FY22 came at 17%, down 400bps YoY and 200bps QoQ due to higher brand scaling and endorsements.
- PAT for Q4FY22 stood at ₹49 Cr, down 25% YoY and 15 % QoQ.

2. MANAGEMENT COMMENTARY:

- International business witnessing improved traction. Will foray in new markets of Africa, Middle East, and Bangladesh by appointing new distributors. Looking at contract manufacturing opportunities in export market.
- Targeting to drive direct sales through e-commerce and own website. Will be expanding (Exclusive Brand outlets) EBOs network and will roll out 150 more EBOs by FY25 including 50 stores in FY23.
- Change in the business model of Oban Fashion from Sale Or Return (SOR) basis to outright sales model.
- Focusing on increasing share in premium and super premium category apart from scaling up athleisure segment.
- Targeting to double current exports and tap new geographies in the next two years. Plan to launch flagship store and create small to mid-sized Franchisee Store model within the top 50 cities.
- Due to high raw material prices, guided for flat EBITDA Margin at 18% for FY23.

3. SEGMENTAL ANALYSIS:

- Q4 FY22 Gender wise Revenue Breakup: Men (84%), Women (12%), Kids (4%).
- Q4FY22 Geographical Revenue Breakup: East (42%), North (28%), West & Central (17%), South (8%), North East (3%), Overseas (2%).

4. CONCALL SUMMARY

- Scaling up high margin business and strengthening retail footprint worldwide. Plan to cross ₹ 200 crore of thermal wear revenue in the next two years.
- In the quarter under review, industry faced headwinds in form of a COVID wave coupled with rising raw material prices.
- Missed FY22 topline growth guidance of 18% due to policy changes taken in the last quarter. Price hike was taken but not everything was passed on.
- Maintained guidance of achieving 15-18% revenue growth over the next few years with volume growth at 8-10% and rest will be driven by price hikes and better mix.

5. OTHER DEVELOPMENTS:

- Mr. Dinesh Kumar Lodha and Mr. Ramesh Agarwal resigned from their respective positions of CEO and CFO, w.e.f. May 31, 2022.
- Reorganizing the distribution channel to Direct Distribution for premium and super premium product categories.
- Developing a robust tech-based warehouse infrastructure to support Pure Play Market Place business model.

6. VALUATION AND OUTLOOK:

Softness in demand and high raw material price pressure had impacted the growth and margins in Q4FY22. Management believes that demand side challenges will start subsiding from Q1FY23. Exit of two key management members is unlikely affect the company's business fundamentals. We initiate a "ACCUMULATE" rating on the stock and value the stock at 16x FY23E earnings to arrive at the target of ₹432.

RECOMMENDATION - ACCUMULATE

CMP – 380
TARGET – 432 (++)14%

Industry	Textile – Products
NSE CODE	RUPA
BSE CODE	533552
Market Cap (₹ Cr)	3016
Shares Outstanding (in Cr)	7.95
52 wk High/Low (₹)	586/345
P/E	15.7
P/BV	3.42
Face Value (₹)	1.00
Book Value (₹)	111
EPS (FY22) (₹)	24.1
Dividend Yield (%)	1.62
Debt / Equity	0.20
Interest Coverage	18.7

SHAREHOLDING PATTERN

	Mar 22	Dec 21	Sep 21
Promoters	73.28	73.28	73.28
MF/ DII	0.00	0.00	0.00
FII/FPI	1.46	2.51	2.90
Retail & Others	21.38	22.15	21.73
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

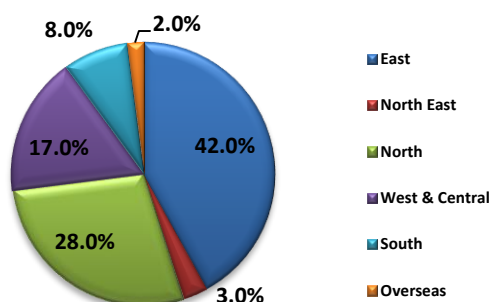
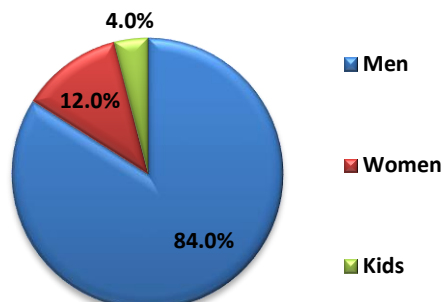
Y/E March	2022	2023E	2024E
Crore			
Sales	1474	1740	1998
Sales Gr. (%)	12.3	18	15
EBITDA	280	331	378
EBITDA %	18.2	19	18.9
PAT	192	215	267
EPS (₹)	24.1	27.0	33.6
EPS Gr. (%)	9.5	11.9	24.4
BV/Sh. (₹)	111	131	152
Ratios			
RoE (%)	23.8	25.0	29.3
RoCE (%)	23.7	24.7	28.0
Valuation			
P/E (x)	15.5	16	12.9
P/BV (x)	3.4	3.3	2.85
EV/EBITDA	2.1	1.0	0.7

Historical & Industrial Val Ratios

Historical P/E	21.37
Industry P/E	13.29
Historical P/B	4.65
Industry P/B	3.87



REVENUE SPLIT (Q4 FY22)

Regional Mix (Q4 FY22)

Gender Mix (Q4 FY22)


QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21			FY22				FY23	FY22	FY23E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E*		
Net sales	303	345	453	217	365	432	454	501	1474	1740
YoY change (%)	5.57	12.39	153.36	3.95	20.74	25.19	0.12	10.5	12.3	18
Total Expenditures	237	281	363	176	296	352	381	431	1206	1525
EBITDA	66	64	91	42	71	81	74	90	280	331
Margins (%)	22	19	20	19	19	19	16	18	19	19
Depreciation	4	3	3	3	4	4	3	3	14	15
Interest	3	4	3	3	4	5	6	6	19	17
Other income	2	2	3	2	2	3	4	4	11	14
PBT	62	59	88	37	66	75	68	77	247	285
Adjusted PAT	45	43	66	27	53	58	49	54	192	215
EPS in Rs	5.7	5.5	8.3	3.4	6.9	7.3	6.2	6.8	24.1	27.0
RM cost (% of sales)	40	47	47	34	39	48	46	48	42	42

Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- Innerwear, earlier depicted as a mere essential commodity, has transformed itself into a fashion statement in the past few years. This industry is expected to post a CAGR ~11% over the next decade to reach ~Rs. 89,700 crore by 2028 from ~Rs. 32,000 crore in 2018.
- Factors aiding in the growth of this industry include increasing disposable income levels, high purchasing power, emergence of purpose-specific innerwear (sporty, casual, and fashionable), and growth in penetration of organized retail among others.
- Women's innerwear segment, accounting ~66% of the total innerwear market, is expected to grow at a faster pace of 12.5% CAGR over 2018-2028, while the men's innerwear segment is expected to post a 7% CAGR during the same period.
- Athleisure, is another segment gaining traction as customers are getting comfortable with the idea of wearing premium and easy-to-wear casual wear along with the hybrid working model.

KEY PLAYERS in Small Cap IT Space



PEER PERFORMANCE

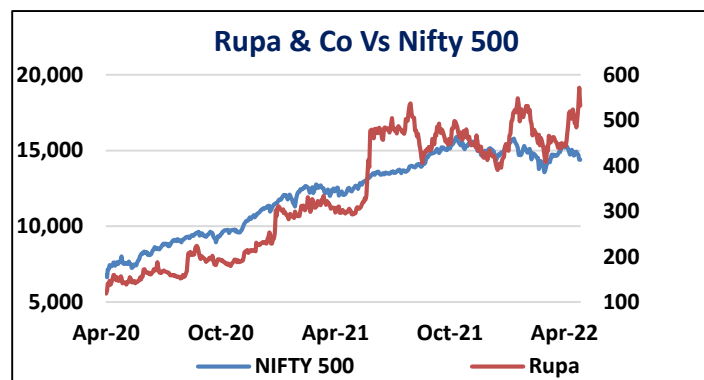
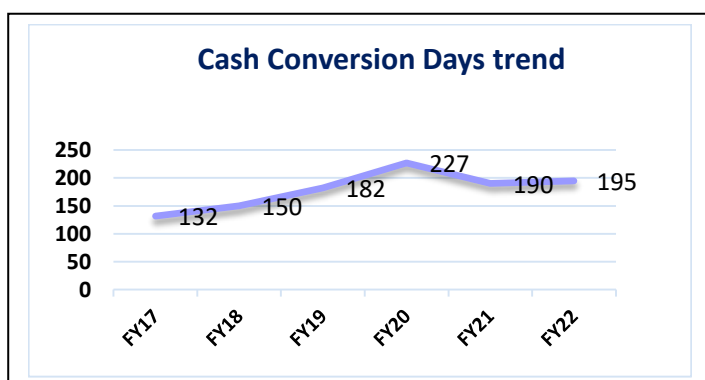
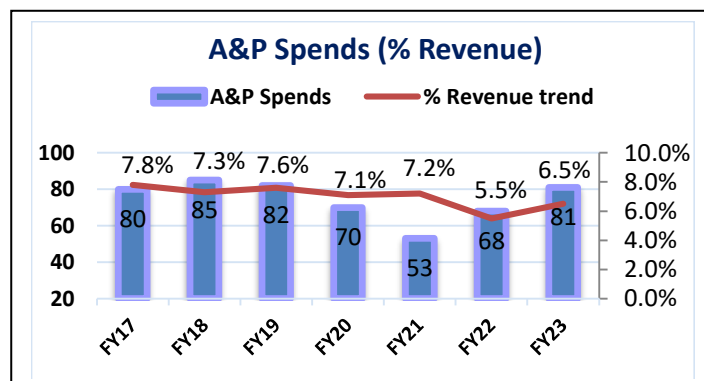
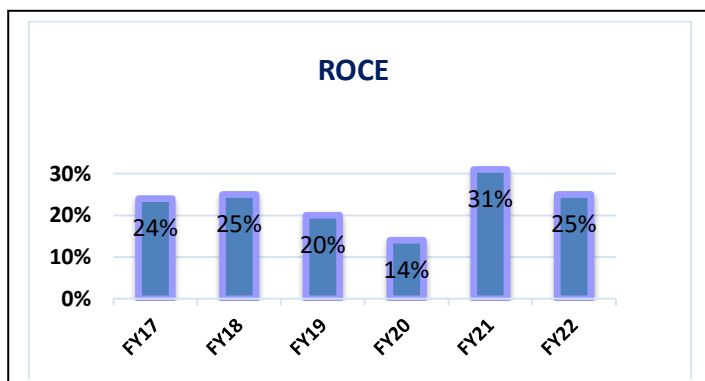
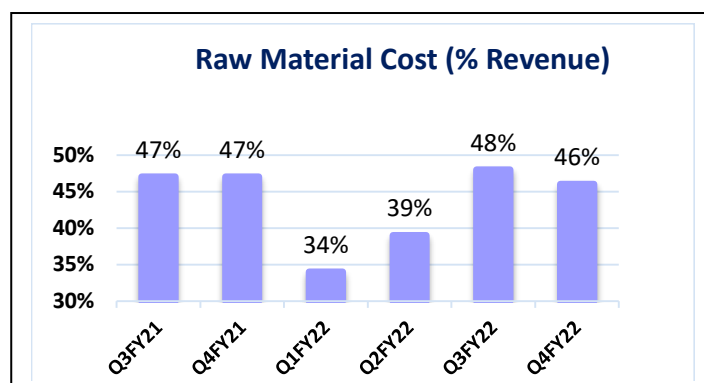
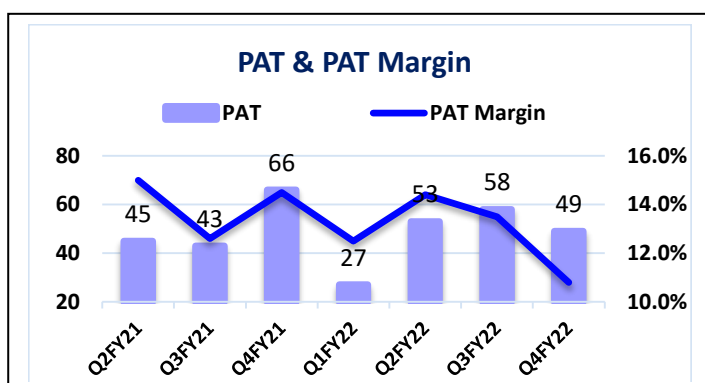
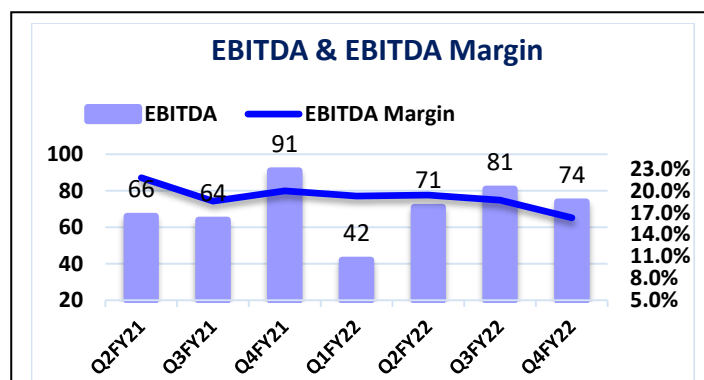
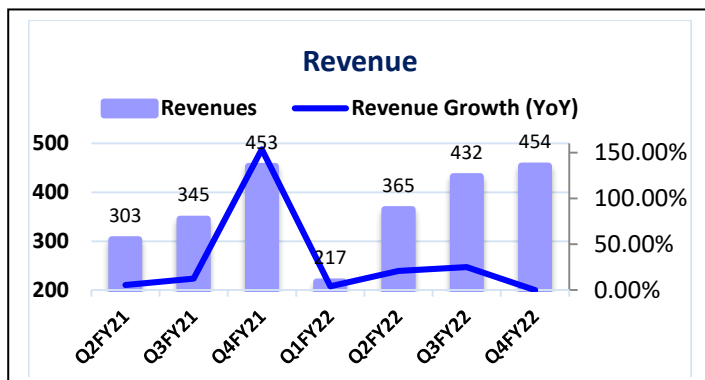
(₹ Cr)

Particulars	Dollar Industries Ltd.	Lux Industries Ltd.	V.I.P Industries Ltd.	Gokaldas Exports Ltd.	Pearl Global Industries Ltd.
Market Cap	2,640	6,517	7,821	2,670	899
EBITDA MARGIN %	20.1	22.3	14.0	12.1	6.7
PAT MARGIN %	13.3	15.8	5.2	6.5	2.5
ROCE %	26.6	36.4	12.8	18.8	11.4
ROE %	23.9	31.2	12.4	23.5	11.3
P/E TTM	18.1	18.0	117	22.8	14.3
P/B TTM	3.9	5.55	14.0	3.8	1.5
EV/EBITDA	12.8	12.9	44.8	13.2	8.0
Current Ratio	2.2	2.8	1.7	2.1	1.4
Dividend Yield %	0.5	0.6	0.5	-	1.2
Int Coverage	21.5	51.5	4.5	3.9	2.7
EPS TTM(₹)	25.7	126	4.7	19.8	31.5
3 Y Sales CAGR%	9	22	-10	15	16

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- The company revenue and PAT rose 12% and 10%, respectively in FY22.
- The growth was primarily driven by value as volume remained flat. Six key growth pillars will help the company achieve revenue and PAT CAGR of 16% and 18%, respectively, over FY22- FY24.
- The company has a market share of 16% in the domestic innerwear market in India. In order to maintain its strong position in the knitwear market, the company is focusing on improving its position in several categories such as athleisure, womenswear and is expanding its presence in low penetrated markets such as south India.
- Management believes that demand is expected to bounce back from Q1FY23.
- Management believes that exports would grow 5x over the next four years, thermal wear will be a Rs. 200 crore segment over the next two years, and women wear to grow at 25% p.a.
- With raw-material prices remaining high, management has guided for flat EBITDA margin at 18% in FY2023 and the same is expected to improve in the medium term to reach close to 20% due to improved mix.
- The company spent Rs. 62 crore on brand development in FY22. Further, the company plans to increase brand development expense to Rs. 90 crore in FY23. The management has indicated that advertisement expenses are expected to be at 5.5-6% of revenue in the coming years.
- Management mentioned that undertook calibrated price hike of 10% in FY2022. Further, another round of price increase of 4-5% is taken in Q1FY2023 to mitigate the impact of higher raw-material prices.
- The innerwear brand aims to increase its brand presence across more than 1,000 point of sales in the next two years. In case of modern trade, the company currently has store count of more than 150 stores and the company aims to double the store count in Regional Large Format Stores such as Pothy's, Lulu, Sarvana, Jayachandra, and Chennai Silks.

RISK / NEGATIVE FACTORS:

- Mr. Dinesh Kumar Lodha (CEO) and Mr. Ramesh Agarwal (CFO) have resigned from their respective positions.
- Volume declined by 10% in Q4, due emergence of the third Covid wave and change in the business model of Oban Fashion.
- Margins were impacted by higher advertisement spends and employee cost.

COMPANY RECAP

- Rupa is the leading knitwear brand in India with a diversified product portfolio covering the entire range of knitted garments from innerwear to casual wear. The company has a broad and unparalleled product portfolio of 18 sub brands of innerwear, thermal wear, and casual and athleisure wear.
- The company has a bouquet of brands across all price segments — economy, mid-premium, premium as well as super-premium across men, women, and kids.
- The company has four state-of-the-art manufacturing facilities in Domjur (West Bengal), Tirupur (Tamil Nadu), Bengaluru (Karnataka), and Ghaziabad (NCR) with a capacity of 7,00,000+ finished goods per day. The company has pan-India presence with over 1,500 dealers, 7000+ SKUs and over 1,50,000 retail outlets.
- Yarn dyeing capacity of 3 tons/day and Fabric dyeing capacity of 25 tons/day.
- Major revenue generating geographies are USA, Europe, Middle East, India and ANZ.
- The company has a strong position in Eastern India and has been gaining significant presence in the North followed by the West.
- The company targets 60% revenue growth in modern trade with 4x growth expected over the three years
- The management aims to drive sales through focus on e-commerce via partnerships with Amazon, Flipkart, and other online retailers, from own website, and focus on EBO expansion. The company is currently present on all e-commerce sites and the company plans to launch Rupa in the global online market of UAE via Amazon.
- Company has very experienced and skilled leadership team including Kunj Bihari Agarwala (MD), Dinesh Lodha (CEO), Prahlad Rai Agarwala (Chairman), Ghanshyam Prasad Agarwala (Vice -Chairman), Kundan Kumar Jha (Company Secretary), Ramesh Agarwal (CFO) etc.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	1,120.37	1,148.65	974.64	1,312.67	1,474.14	1,740.26	1,998.20
Growth YoY (%)	2.52	2.52	-15.15	34.68	12.30	18.05	14.82
Total Expenditure	964.90	997.58	860.90	1,055.33	1,206	1525.37	1655.25
(%) of sales	86.12	86.85	88.33	80.40	81.81	87.65	82.83
EBITDA	155.46	151.07	113.75	257.34	279.32	331.26	378.53
EBITDA Growth (%)	11.63	-3.09	-20.86	118.49	5.55	18.60	14.27
EBITDA Margin (%)	14.10	13.32	12.43	20.16	18.81	19.04	18.94
Depreciation	15.79	15.01	18.51	13.79	13.89	14.12	14.26
EBIT	142.13	138.03	102.60	250.84	265.43	321.63	381.39
EBIT Growth (%)	13.47	-2.88	-25.67	144.47	5.82	21.17	18.58
Net Interest Expenses	8.10	18.55	18.62	13.43	18.72	21.43	23.87
Other Income	2.45	1.98	7.37	7.29	10.78	13.26	15.32
Earnings before Taxes	134.03	119.48	83.98	237.41	242.30	300.20	357.52
EBT Margin (%)	11.96	10.40	8.62	18.09	16.44	17.25	18.47
Tax-Total	47.80	45.30	22.08	62.15	54.87	85.02	89.89
Rate of tax (%)	35.66	37.92	26.29	26.18	22.02	28.32	25.14
Net Profit	86.23	74.18	61.90	175.26	191.84	215.18	267.63
PAT Growth (%)	19.29	-13.98	-16.55	183.12	9.46	12.16	24.37
PAT Margin (%)	7.70	6.46	6.35	13.35	13.01	12.36	13.40
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	86.23	74.18	61.90	175.26	191.84	215.	267
EPS	10.84	9.33	7.78	22.04	24.12	27.0	33.6
EPS Growth (%)	19.29	-13.98	-16.55	183.12	9.43	10.7	24.4

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	8	8	8	8	8
Reserves	491	537	570	722	874
Net Worth	499	545	578	730	882
Borrowings	116	210	179	145	370
Other Liabilities	284	261	234	281	325
Total Liabilities & Equity	899	1,016	991	1,156	1,577
Fixed Assets	167	182	185	193	211
CWIP	8	3	6	19	26
Investments	-	-	-	-	-
Other Assets	724	832	799	944	1,340
Total Assets	899	1,016	991	1,156	1,577

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	7.70	6.46	6.35	13.35	12.92
EBITDA margin (%)	14.10	13.32	12.43	20.16	18.81
EBIT margin (%)	12.69	12.02	10.53	19.11	17.88
ROE (%)	18.37	14.21	11.03	26.81	23.8
ROCE (%)	24.97	20.15	13.57	30.74	25.00
Working Capital & liquidity ratios					
Payables (Days)	51.77	55.50	56.63	67.15	127.23
Inventory (Days)	102.08	113.46	159.09	119.27	180.27
Receivables (Days)	91.57	118.83	121.31	85.60	101.20
Current Ratio (x)	1.86	1.79	1.97	2.33	2.02
Valuations Ratios					
EV/sales (x)	2.74	2.56	1.13	1.88	2.24
EV/EBITDA (x)	19.44	19.19	9.12	9.35	11.4
P/E (x)	34.36	36.86	14.97	13.96	15.4
P/BV (x)	5.93	5.02	1.60	3.35	3.31
Dividend Yield (%)	0.81	0.87	2.57	1.62	0.82
Leverage Ratio					
Debt/Equity (x)	0.23	0.39	0.31	0.20	0.42

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	15	-27	90	211	-116
CF from Investing Activities (B)	-17	-20	-15	-137	-34
CF from Financing Activities (C)	-3	48	-81	-72	151
Net Cash Flow	-4.93	0.70	-5.93	2	1
Add: Opening Bal.	11	7	7	1	3
Closing Balance	7	7	1	3	4

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	$\geq 15\%$
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	$< -5\%$

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
1 June 2022	ACCUMULATE	432

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Name of the Research Analyst: AARUSHI LUNIA

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