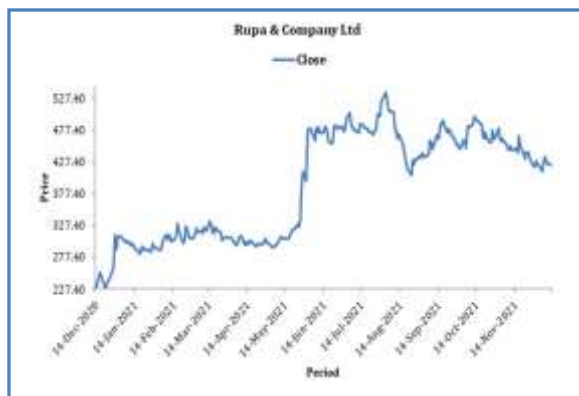


RUPA & COMPANY LTD.

Industry	Textile
No. of Shares (Crore)	7.95
Face value (Rs)	1.00
Mkt. Cap (Rs. Crore)	3,437.98
Price (06/01/2022)	432.45
Book Value (Rs)	96.83
P/BV	4.47
BSE Code	533552
NSE Code	RUPA
Bloomberg	RUPA:IN
Reuters	RUCL.BO
Avg. Weekly Volume (NSE)	5,30,700
52 W H/L (Rs)	550.00/279.00
Shareholding Pattern	%
Indian Promoters	73.28
Institutions	4.99
Non- Institutions	21.73
Total	100
(As on September 30, 2021)	
Recommendation	
BUY	


Company Background

Rupa & Company Limited is one of the leading and largest knitwear brand in India. The Company is present across the entire value chain in the knitted garment space offering a gamut of products from innerwear to fashion wear. It is engaged in the manufacturing, marketing, selling and distribution of men's and women's innerwear, thermal wear and fashion wear across economy, mid-premium, premium and super-premium categories. The Company operates through its state-of-the-art manufacturing facilities in West Bengal, Tamil Nadu, Karnataka and Uttar Pradesh. Its sales offices are situated in West Bengal, Tamil Nadu, Karnataka, Uttar Pradesh, Bihar, Maharashtra and Delhi. Some of the major brands include Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline, among others.

Investment Rationale

- Rupa is a knitwear Indian brand with 125,000+ Retail Outlets, 1200+ dealers, 7000+ SKUs, 18 sub-brands in its vested kitty fetching 700,000+ finished goods pieces per day with presence across major e-commerce platforms like Amazon, Flipkart, Snapdeal, Myntra etc.
- Rupa has an asset-light business model with a strong focus on constantly creating and nurturing its brands. The Company is utilizing its incumbent resources to focus more on value addition, product differentiation, branding and distribution. Also going forward it plans to expand through the franchise Exclusive Brand Outlets (EBOs) in order to remain asset light.
- It has been consistently and rigorously investing in brand building exercises through advertising & promotion activities. Company has spent over Rs.1000 crores on brand development in the last decade or so which translates to around ~7% of overall revenues.
- Rupa has a strong and robust value chain framework right from product design and development to distribution. The Company has a PAN-India as well as International presence with a large distribution network consisting of ~4 central warehouses & ~7 EBOs.
- In Q2FY22 Rupa's revenues stood at Rs.367.54 crores which grew by ~21% Y-o-Y. Company achieved consolidated net profit levels of Rs.53 crores thereby witnessing a reasonable growth of 17% Y-o-Y. Operating profit grew moderately to Rs.74 crores. EPS for the quarter stood at Rs.6.66 as against Rs.5.71 in Q2FY21.
- The license to manufacture, advertise and sell 'Fruit of the loom' products has favorably positioned Rupa amongst the premium and super premium brands. FCUK, another international licensed brand is all set to meet not only the basic innerwear necessities for the Generation Z but also fulfill their fashion quotient.
- Rupa aims to focus largely on their product portfolio, mainly the athleisure segment, to increase their market share. The demand for athleisure remains at unprecedented levels as people have become accustomed to wearing leisure clothes. On competition front, Rupa is well placed to compete with both organized and unorganized players.

Recommendation

Rupa is witnessing strong demand for its thermal wear range, besides, its bolstering distribution network and investments in brand building would enable it to capture the growth opportunity and reap benefits from the increased demand for its product categories. At the CMP Rs.432.45 the scrip is trading at ~15.44 times its FY23e earnings. Hence, we recommend a buy on the stock with a target price of Rs.614/- which implies a prospective & potential upside of ~41.98% with an investment horizon of 12-15 months.

Particulars (In Rs.Crs)	Q2FY22	Q2FY21	Var%	H1FY22	H1FY21	FY21	FY20
Net Sales	365.48	302.69	20.74	582.66	511.63	1,312.67	974.64
Operating Profit	73.64	68.22	7.95	117.79	104.80	264.63	121.12
Consolidated Net Profit	52.97	45.40	16.70	80.19	65.97	175.26	61.90
PBIDTM%	20.04	22.47	-10.85	20.12	20.43	20.16	12.43
PATM%	14.41	14.96	-3.63	13.70	12.86	13.35	6.35
EPS (Rs.)	6.66	5.71	16.70	10.08	8.30	22.04	7.78

*Source: Company, Ace Equity, AUM Research

Q2FY22 Earnings Key Updates

- In Q2FY22, the company attained a ~21% YoY growth in revenues to Rs.367.54 crores. It has seen an incremental traction during the festivities, and expects a much better growth for rest of the fiscal. Moreover, the company is also observing strong demand for its thermal wear range.
- Gross margin for Q2FY22 declined by ~15 bps YoY to 35.5% due to higher input cost pressure. A dip in operating margins to ~20.04% from ~22.47% last year is purely attributed to advertising-spend which is a temporary phenomenon and that will reverse itself by the end of the year.
- Consolidated net profit grew reasonably by ~17% to Rs.53 crores and EPS thereon for the quarter stood at Rs. 6.66 viz. a viz. Rs.5.71 last year.

Mgmt Guidance -

- Management is envisaging a volume growth of at least ~7-8% in ~FY22 as a whole and expects unified revenue to grow by ~18-20%. On the capex front management clearly stated that since all EBOs will be franchise-owned there will be no capex from the company.

Brand Performance -

- Brand **Jon** has done reasonably well. On the other hand, **thermal** as a brand has been displaying a Y-o-Y growth of 20-25% and the trend is likely to continue going forward as well.
- **Bumchums** has seen a growth of more than 70% underpinned by tremendous demand and it is inevitably expected to grow and propel going ahead too.
- Key global brands like **FCUK** and **FOTL** are likely to spread their wings as they promise and envisage huge growth opportunities and delta.

Brand Development -

- The company has envisaged to increase its spend in branding and advertisement cost to come back to normalcy i.e., ~6-7% of revenues in FY22 as compared ~4.2% in FY21 which in turn will bring better brand visibility and traction indeed.

Growth Prospects & Potential -

- The Indian innerwear industry is expected to grow at ~11% CAGR from ~Rs.39000 crore in ~FY20 to Rs.89,700 crore by ~FY28e with current share of organized players at ~40%.
- With increasing aspiration of customers and extended reach of branded players, share of organized players is expected to grow at a faster pace.
- As the hosiery industry continues to remain largely unorganized and heavily reliant on cash and credit, smaller players are still struggling to recover from the economic slump. These players have had to shut down their businesses owing to overstretched working capital and liquidity, as well as increasing raw material prices.
- Companies like Rupa that has a presence across price points can benefit from consumers shifting from unorganized to organized segment and register double digit revenue growth. The company has seen a significant improvement in profitability profile and augmentation of RoCE to ~25%+.

Other Intrinsic Updates –

- Gross margin for ~Q2FY22 declined by ~15 bps YoY to ~35.5% due to higher input cost pressure. EBITDA margin for ~Q2FY22 decreased by ~238 bps YoY to ~19.4%, due to normalization of the Selling, General & Administrative (SG&A) expenses.
- Rupa has been focusing on increasing sales volumes with changes in product mix. The company plans to increase its share in the premium and super premium category, enhance focus on women wear, casual wear, and thermal wear, and foray in newer markets with higher penetration in the existing markets.
- Gross Margin Contribution by Economy nudged ~20-25% whereas Mid-premium constituted about ~25-30%, although the Premium contributed the most i.e. ~40-45%.
- Thermal wear is expected to report a bolstered sales growth of ~30% YoY in ~FY22.
- During ~H1FY22, revenue volume in the women segment increased by ~18-20%. Currently this segment contributes ~12% to topline which the company plans to increase to ~17-18% going forward. It expects premium segment to grow by ~15-20% in ~H2FY22. Further the company is creating an exclusive distribution network for women segment.
- The company sees burgeoning opportunity in the athleisure segment which actually reported a ~50% YoY growth in FY21 on a low base. During Q1FY22 it faced challenges in this segment due to supply chain issues in Tripur but in ~FY22, athleisure segment is expected to report a sales growth of ~30% (YoY).
- Kidswear segment contributes ~3-4% of the total revenues in ~FY21. The company expects this segment to grow exponentially and contribution to increase to ~10% of sales, going forward.
- Export revenues for the quarter stood at Rs.9 crores & that of ~H1FY22 at Rs.14 crores. The company plans to grow its export business by ~5x in the next ~2-3 years and tap new geographies.
- Rupa took price hike of ~18-20% in the last ~12 months due to increase in yarn prices and it is expecting one more price hike of ~3-4% shortly, going forward.
- Its sheer strategy is to foraying in newer markets by appointing new distributors and building experienced team and dealers to further penetrate in the existing markets.
- The company is eyeing growth opportunities in MP, Chhattisgarh, western UP, some part of Maharashtra & West Bengal. It added ~70-75 distributors in the last ~6 months.
- It launched a new brand called *Frontline Colors* in Q1FY22, which had seen a good traction across India in Q2FY22.
- Q2FY22 hitherto, the company added ~17 EBOs and expects to add ~35 more EBOs in ~H2FY22. Furthermore, it is envisaging to roll out ~150 more EBOs in the next ~2 years.
- Rupa is endeavoring to expand its e-presence through their exclusive 'Rupa online store' and in partnership with key e-players like Amazon, Flipkart and Myntra.
- Morden trade contributes ~4% of its sales, going forward its share of overall sales expected to increase to ~5-6%.

- Rupa is among the largest knitwear brands in India that produces innerwear, casual wear, thermal wear and sleepwear for men, women and children. While Frontline is its flagship brand, Rupa also has others like Softline, Euro, Bumchums, Torrido, Thermocot, Macroman and Jon.
- Rupa enjoys very strong dominant position in the eastern India and has gained significant presence in the north followed by the Western India. The Strategy is to foray in newer markets by appointing new distributors and building experienced team and further penetrate in the existing markets.
- Rupa is increasing its footprints in South India and plans to expand and improve market share going ahead. It has a wide range of product portfolio which helps it to strategize the product offering suiting to the different consumer preferences of the respective states.
- **Fruit of the Loom** is positioned within the large, fast growing mass-premium category, providing significant room to create scaled-up brands, comparable to the value segment. The aim is to make premium innerwear accessible to the consumer based on comfort and preference of choices in order to bring on to the forefront customized and tailor made clothes.
- Given its super-premium positioning, distribution largely through its retail Multi Brand Outlets (MBO's) (very selectively present across premium retail locations) along with an aggressive ecommerce strategy to enhance brand visibility through increasing online presence. Company targets expansion into 30,000+ doors in the next 3-5 years.
- **Fcuk** is yet another compelling brand which is embarking upon a vision to occupy and capture y the white space in the category and consumer mindspace where the aspirational Indian consumer can show off his style quotient and discerning taste. Catering to this brand sensitive Indian youth, aspiring towards super-premium product categories is an astounding value proposition. Company is targeting 6,000-8,000 doors in the next 3-5 years.
- Exports: Rupa exports its products in Middle East Countries like UAE, Saudi Arabia, Kuwait, Iraq, etc. Myanmar, Ukraine, Algeria, Indonesia, Nigeria, Congo, Russia, USA and Singapore among others and it aims to strengthen its presence in the existing markets and introduce localized products as per the varied preferences of the consumers. With this company is planning to double its export revenues in FY22 from Rs.25 crores it attained in FY20.
- Working capital days have increased to ~179 days in ~Q2FY22 from ~165 days in Q2FY21, mainly due to increased inventories on account of increase in raw material stock as well increase in prices of yarn. Company is targeting to improve its working capital (WC) days to ~145-150 days from 165 days in FY21. Moreover, going ahead, substantial rise in collection efficiencies is ripped enough to keep working capital requirements under check.
- In line with evolving consumer preferences and market demands, the company has introduced new varieties in each sub-brand. These products have the latest fabric innovations, cutting-edge production techniques, and advanced design elements to give the finest experience of style and comfort to the end-user.
- Its sheer focus is to increase share in premium and super premium category, improve focus on women, casual, and thermal wear, and foray in newer markets with higher penetration in the existing markets. This would lead to increased investments in brand development across new geographies.
- In the wake of current and fragile economic environment, owing to disruption caused by second wave of CoVID-19 infections has once again resulted in dismantle of business as several states had announced restrictions. However, **company is fairly confident to start gaining traction in near as well as distant foreseeable future and therefore reaffirming and re-sounding its confidence to achieve and conquer incrementally higher than industry growth for FY22 & FY23.**

Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q2FY22	Q2FY21	Var%	H1FY22	H1FY21	Var%
Net Sales & Other Operating Income	367.54	303.53	21.09	585.50	513.08	14.12
Total Expenditure	296.23	237.41	24.78	472.06	410.63	14.96
PBIDT (Excl OI)	71.30	66.11	7.85	113.44	102.45	10.73
Other Income	2.33	2.10	11.04	4.35	2.35	85.15
Operating Profit	73.64	68.22	7.95	117.79	104.80	12.40
Interest	4.32	2.82	53.52	7.56	7.00	8.06
PBDT	69.31	65.40	5.99	110.23	97.80	12.71
Depreciation	3.55	3.77	-5.82	6.97	7.56	-7.81
Tax	12.79	16.24	-21.22	23.07	24.26	-4.92
Consolidated Net Profit	52.97	45.40	16.70	80.19	65.97	21.55
EPS (Rs.)	6.66	5.71	16.70	10.08	8.30	21.55

Income Statement (Value in Rs. Crs)				
Particulars	FY21	FY20	FY19	FY18
Net Sales & Other Operating Income	1312.67	974.64	1148.65	1120.37
Total Expenditure	1055.33	860.90	997.58	964.90
PBIDT (Excl OI)	257.34	113.75	151.07	155.46
Other Income	7.29	7.37	1.98	2.45
Operating Profit	264.63	121.12	153.04	157.92
Interest	13.43	18.62	18.55	8.10
PBDT	251.20	102.50	134.49	149.81
Depreciation	13.79	18.51	15.01	15.79
Provision for Tax	62.15	22.08	45.30	47.80
Consolidated Net Profit	175.26	61.90	74.18	86.23
EPS (Rs.)	22.04	7.78	9.33	10.84

*Source: Company, Ace Equity, AUM Research

Balance Sheet (Value in Rs. Crs)				
Particulars	FY21	FY20	FY19	FY18
EQUITY AND LIABILITIES				
Share Capital	7.96	7.96	7.96	7.96
Total Reserves	721.57	569.99	536.71	491.25
Shareholder's Funds	729.53	577.95	544.67	499.21
Secured Loans	13.54	10.90	8.13	0.00
Deferred Tax Assets / Liabilities	-1.05	-1.94	2.53	8.91
Other Long Term Liabilities	16.42	8.89	0.83	6.07
Long Term Provisions	0.45	0.68	0.58	0.36
Total Non-Current Liabilities	29.35	18.53	12.07	15.34
Trade Payables	162.61	134.75	148.92	165.09
Other Current Liabilities	84.18	89.40	100.51	84.35
Short Term Borrowings	126.38	165.09	199.82	114.79
Short Term Provisions	22.84	3.31	10.45	20.37
Total Current Liabilities	396.01	392.55	459.70	384.60
Total Liabilities	1154.89	989.03	1016.44	899.15
ASSETS				
Gross Block	265.82	250.06	227.88	198.95
Less: Accumulated Depreciation	72.75	64.75	46.35	31.96
Net Block	193.07	185.31	181.54	166.99
Capital Work in Progress	19.35	6.37	3.00	8.48
Intangible assets under development	0.03	0.03	0.03	0.02
Non-Current Investments	0.00	0.00	0.00	0.11
Long Term Loans & Advances	19.97	22.71	10.67	9.89
Other Non-Current Assets	1.52	0.19	0.19	0.17
Total Non-Current Assets	233.93	214.61	195.42	185.66
Inventories	390.58	467.31	382.29	331.81
Sundry Debtors	364.41	251.29	396.54	351.36
Cash and Bank	118.40	1.71	7.59	8.31
Other Current Assets	14.19	5.87	2.52	3.21
Short Term Loans and Advances	33.38	48.25	32.07	18.81
Total Current Assets	920.96	774.42	821.01	713.50
Net Current Assets (Including Current Investments)	524.95	381.88	361.31	328.90
Total Assets	1154.89	989.03	1016.44	899.15

*Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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