Sector: Garments & Apparels **RESULT REVIEW Q3FY23** **Declared On: 10 Feb 2023**

Rupa & Company Limited

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs231	18.4	Buy	Rs288	24%

**as on 16th Feb, 2023*

About the Company:

Rupa & Company Limited is one of the leading and largest known knitwear brands in India with more than 5 decades of experience in the industry. In 1968, promoters started the business as Binod Hosiery and launched the brand Rupa which is derived from Bengali word *Rupo (silver)*. Since then, Rupa has successfully built an iconic brand of international stature for both the masses as well as the classes. Today, 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 is engaged in the manufacturing, branding and marketing of men's and women's innerwear, thermal wear and casual wear for kids while catering to all the sections of the society i.e. economy, mid-premium, premium and super premium. The various sub-brands include, Frontline, Jon, Air, Macroman, Macroman M-series (premium brand), Macrowoman W-series (premium brand), Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline, etc. The company has its state-of-the-art manufacturing facilities located at 4 locations i.e. Domjur (West Bengal), Tirupur (Tamil Nadu), Bengaluru (Karnataka) and Ghaziabad (NCR). Its sales offices are situated in West Bengal, Tamil Nadu, Karnataka, Uttar Pradesh, Bihar, Maharashtra and Delhi.

Results: Quick Glance:

- Net revenue for the quarter under review de-grew by 45.5% to Rs2360mn as compared to Rs4332mn in the same quarter last year
- The Ebitda margins for the quarter under review stood at 6.0% as compared to 18.7% in the corresponding quarter last year
- The company reported net profit of Rs55mn as compared to Rs583mn in the comparative quarter of the previous year
- EPS for the quarter under review came in at Rs0.69 as compared to Rs7.33 in the corresponding quarter last year

Conference Call Highlights:

- Q3FY23 by far has been the most challenging quarter for Rupa. Given the steep hike in the raw material prices and high energy costs, the gross margins were severely impacted; moreover low volume offtake by the dealers and distributors coupled with weak demand and sentiments impacted the overall topline. However, in the current scenario, with a steep correction in the cotton prices, the management has undertaken proactive steps to assist the dealers and distributors via extension of credit grants along with extra schemes which has currently resulted in slightly stretched working capital cycle. The industry headwinds impacted the margins as well as the volume offtake (at the dealer & distributor level). The Management is anticipating gradual de-stocking of high stock inventory and anticipates the volumes to increase. On account of fluctuations in yarn prices, the dealers and distributors were not in a position to stock fresh inventory; however, Jan-March is generally considered as the peak season which provides some cushion and optimism for the market sentiments to revive. The Management has indicated that the high cost inventory impact is a short term pain phenomena and is anticipated to continue for 1-2 quarters
- The company's prudent financial practice has enabled them to free up working capital in a significant manner. The receivable days stood at 100 while the inventory days at 170 days; marketing expenses/brand development costs in 9MFY23 were higher at Rs530mn v/s Rs340mn in 9MFY22; attributable to heavy investments in marketing by engaging celebrity brand ambassadors and running national campaigns. The marketing spends during the quarter under review stood at ~7.2% which was ~3.3% in corresponding period (Q3FY22). Going forward, the Management expects these spends to account for ~6-7% of the topline
- For 9MFY23, the region wise split stands as; East: 45%, North East: 3%, North: 25%, West & Central: 14%, South: 8%, Overseas: 5%. While the gender wise split stands as; Men: 84%, Women: 12% and Kids: 4%
- Exports continued to witness good traction; with 44% growth on a y-o-y basis (Rs330mn in Q3FY23 v/s Rs230mn in Q3FY22). Modern trade and e-commerce too witnessed an uptick of 35% and contributed ~5.5% to the overall revenues. E-commerce accounts for 37% of the overall modern trade sales. Softline sales for Q3FY23 stood at Rs110mn and Rs350mn in 9MFY23. X-Factor revenues reported a drop of ~29% in 9MFY23. Exports and the Govt. business grew by 51% and 14% respectively in 9MFY23. The company witnessed reduction in growth for the athleisure segment on account of reduced WFH; the high margin products in winter and thermal wear too witnessed a demand slowdown

Conference Call Highlights (contd.):

- The company continues its strategy for the exports market and anticipates the exports to contribute ~10-12% to the overall revenues in the near term
- The management expects to continue with its expansion strategy trend (for EBOs) and is planning to open more stores in high footfall areas like airports and railway stations in the near term. The current EBO count stands at 28.
- The company has incurred an investment of ~Rs180mn for the dedicated export unit at West Bengal with expected commissioning likely to happen in FY24E. Additionally, the company is also setting up a cutting unit with an investment to the tune of ~Rs190mn; anticipated to be commissioned in FY24E. The main vision is to have better quality produce, improved operations and waste reduction thereby improving the margins
- The net debt as on date stood at Rs1530mn from the earlier levels of Rs2750mn in Q2FY23. The company reported positive cash flow at ~Rs1380mn for the quarter under reference. At present, the company is running at ~70% capacity utilisation

Financials:

Performance (Q3FY23)									
Q3FY23 Result (Rs mn)	**Dec-22**	**Dec-21**	**y-o-y**	**Sept-22**	**q-o-q**	**9MFY23**	**9MFY22**	**y-o-y**	**FY23E**
Total Revenue	2360	4332	(45.5%)	2856	(17.4%)	7363	10187	(27.7%)	11088
EBITDA	143	809	(82.4%)	292	(51.2%)	620	1943	(68.1%)	1164
Other Income	26	29	(9.1%)	32	(17.9%)	114	72	57.7%	140
Interest	60	50	20.4%	65	(7.5%)	183	125	45.7%	241
Depreciation	33	36	(7.0%)	34	(1.2%)	100	105	(5.3%)	146
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	20	169	(87.9%)	57	(64.3%)	103	360	(71.4%)	229
Net Profit	**55**	**583**	**(90.5%)**	**169**	**(67.3%)**	**348**	**1425**	**(75.6%)**	**688**

Outlook and Recommendations:

The quarter under reference has been the most challenging both at the industry as well as the company level; multitude of factors have led to slowdown in sales resulting in de-growth across the key matrix. Due to volatility in the yarn prices, inflationary pressures, high energy costs, weak consumer sentiments impacted the overall topline. The effect of the industry headwinds has been well reflected even at the gross and ebitda margins for the quarter under reference. Apart from this, high margin products in winter and thermal wear (seasonality driven) too witnessed demand slowdown thus impacting volumes during the quarter. Rupa has a gamut of offerings under its radar across price segments with constant efforts and focus laid to strengthen the business model via the extensive distribution network. The expansion strategies in terms of EBO networks, doubling of store counts, focus on new emerging markets and high margin business would drive the growth for Rupa, however, execution of these ambitious plans is something that would be a wait and watch situation. Over the medium term, with raw material prices working in favour of the company, the domestic and exports demand is expected to pick up which would boost the sales and the operational efficiency. Introduction of new product line, aggressive ad and marketing spends to target potential customers, enhance brand equity, introduction of dealer led financial schemes are some of the key strategic initiatives that would enable the company to boost the volumes in the near term. However, given the overall week industry scenario and inability to sustain volumes, margins and profitability; we have slashed our estimates and target price to Rs288.

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Registered Office Address:

Progressive Share Brokers Pvt. Ltd,

122-124, Laxmi Plaza, Laxmi Indl Estate,

New Link Rd, Andheri West,

Mumbai—400053, Maharashtra

www.progressiveshares.com | Contact No.:022-40777500.

Compliance Officer:

Mr. Shyam Agrawal,

Email: compliance@progressiveshares.com,

Contact No.:022-40777500.