

Rupa & Company (RUPACO)

₹ 377

Enhanced product portfolio to spur revenue growth

- Rupa & Company's Q4FY17 results were above our estimates on revenue, net profit front though EBITDA margins were below our estimate. Decline in depreciation, interest cost boosted PAT growth
- Rupa reported a healthy topline growth of 23.9% YoY to ₹ 381.8 crore vs. estimated ₹ 330.4 crore
- Reported EBITDA came in at ₹ 40.3 crore (I-direct estimate: ₹ 38.8 crore), up 13.7% YoY. EBITDA margins contracted 90 bps YoY to 10.6% (I-direct estimate of 11.7%) on account of an increase in employee expense (up 49% YoY) and other expense (up 30% YoY)
- Reduction in debt (down 44% YoY) resulted in a decline in interest costs (down 53% YoY). In addition to the same, decline in depreciation cost (down 19% YoY), boosted PAT growth by 19.4% YoY to ₹ 23.5 crore (I-direct estimate: ₹ 20 crore). Rupa is revamping its brand identity as a fashion brand

Tie-ups with various foreign brands to enhance margins

Rupa has been constantly focusing on foraying into premium brands to enhance its operating margins. In addition to existing licensed brand of FCUK, Rupa recently entered into a license agreement with Fruit of the Loom Inc, a unit of Berkshire Hathaway, to manufacture, distribute and sell innerwear and outerwear products under their brand name. The price points for the brand would be in the range of ₹ 150-400 per piece and would be positioned as a 'value premium' brand. We believe premiumisation of brands will improve margin profile, since premium brands command higher margin than mass segment products (~ 5% higher). FOTL brand is expected to be launched by Q3FY18.

Looking to capture opportunity in women's & children segment

The company is focusing on enhancing its product offering in the children and women's segment with the introduction of new products and brands. It recently launched women's wear under the brand "Bumchum Women", which has a range of active wear, leisure wear and loungewear. The company is also looking to foray into the women's lingerie segment and is looking for a tie-up for the same. Both the children and women's segment have a lower presence of organised players and, hence, provide a huge opportunity for the company.

Product portfolio enhancement, premiumisation augur well...

The Indian innerwear market is shifting from a price sensitive market to a fashion quotient market. Subsequently, Rupa has gradually shifted from mass segment products to the premium segment with strategic tie-ups with various foreign brands. Despite demonetisation woes, Rupa ended FY17 on a strong note by reporting robust revenue growth of 23% in Q4FY17 (highest in last four quarters) and 7.7% for FY17. Owing to momentum in revenue growth and change in product mix (higher share of premium products), we have revised our estimates upwards for FY18E & FY19E. We expect revenues to grow at a CAGR of 11.5% to ₹ 1359.3 crore for FY17-19E, with an increase in EBITDA margin from 12.7% in FY17 to 14.6% in FY19E, translating into a margin expansion of 190 bps. The stock is currently trading at a market cap/sales multiple of 2.5x, 2.2x of FY18E, FY19E, respectively. Rupa's enhanced product portfolio would spur revenue growth. The gradual shift from mass segment products to higher margin premium segment products prompts us to give a **BUY** rating, with target price of ₹ 425 (2.5X FY19E market cap/sales).

Rating matrix		
Rating	:	Buy
Target	:	₹ 425
Target Period	:	12-18 months
Potential Upside	:	13%

What's changed?	
Target	Changed from ₹ 310 to ₹ 425
EPS FY18E	Changed from ₹ 10.4 to ₹ 12.0
EPS FY19E	Changed from ₹ 11.9 to ₹ 14.2
Rating	Unchanged

Quarterly performance				
	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Revenue	381.8	308.3	23.9	82.1
EBITDA	40.3	35.5	13.7	20.9
EBITDA (%)	10.6	11.5	-95 bps	-534 bps
PAT	23.5	19.7	19.4	38.3

Key financials				
(₹ crore)	FY16	FY17E	FY18E	FY19E
Net Sales	1,015	1,093	1,216	1,359
EBITDA	132	139	170	198
Net Profit	66	72	96	113
EPS (₹)	8.3	9.1	12.0	14.2

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	45.5	41.6	31.3	26.6
EV to EBITDA	23.7	22.1	18.1	15.6
Price to book	8.2	6.8	6.0	5.2
RONW (%)	17.9	16.4	19.2	19.5
ROCE (%)	22.9	23.6	25.3	25.2

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	3,002.0
Debt (FY17) (₹ Crore)	80.4
Cash (FY17) (₹ Crore)	13.2
EV (₹ Crore)	3,069.2
52 week H/L	384 / 132
Equity Capital (₹ Crore)	8.0
Face Value (₹)	1.0

Price performance				
	1M	3M	6M	12M
Rupa & Company	-4.7	31.9	44.9	26.5
Page Industries	-1.5	0.0	12.6	6.2
Lovable Lingerie	-7.2	1.0	-0.7	-0.8

Research Analysts	
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Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Revenue	381.8	330.4	308.3	23.9	209.6	82.1	Revenues grew 23.9% YoY to ₹ 381 crore
Other Income	0.9	0.8	2.7	-68.6	1.1	-19.5	
Employee Expense	10.2	8.6	6.9	48.9	8.6	18.2	
Raw Material Expense	261.0	228.7	211.6	23.3	131.7	98.1	
Other Expenses	70.4	54.3	54.3	29.5	36.0	95.7	
EBITDA	40.3	38.8	35.5	13.7	33.3	20.9	EBITDA grew 13.7% YoY driven by strong revenue growth
EBITDA Margin (%)	10.6	11.7	11.5	-95 bps	15.9	-534 bps	EBITDA margins contracted 95 bps YoY on account of increase in employee expense
Depreciation	3.8	3.9	4.7	-19.1	3.8	-0.7	
Interest	1.7	4.6	3.5	-52.6	3.1	-47.0	Interest expenses declined 52.6% YoY
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	35.7	31.0	30.0	19.0	27.5	30.1	
Tax Outgo	12.2	11.0	10.3	18.2	9.8	24.2	
PAT	23.5	20.0	19.7	19.4	17.6	33.4	PAT rises 19.4% on account of decline in interest and depreciation cost
Key Metrics							
Gross Margin (%)	31.7	30.8	31.3	31 bps	37.2	-551 bps	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	1,120.4	1,216.5	8.6	1,232.0	1,359.3	10.3
EBITDA	156.9	170.3	8.5	179.9	198.5	10.3
EBITDA Margin (%)	14.0	14.0	0 bps	14.6	14.6	0 bps
PAT	82.7	95.8	15.8	94.9	113.0	19.1
EPS (₹)	10.4	12.0	15.7	11.9	14.2	19.3

Source: Company, ICICIdirect.com Research

Company Analysis

House of brands with strong product portfolio spread across price points

Exhibit 1: Diversified portfolio of brands



Source: Company, ICICIdirect.com Research

Rupa has over a period of time constantly been reinventing itself. It has evolved from a men's innerwear player to a leading brand catering to the entire gamut of knitted garments. Rupa's product portfolio comprises thermal wear, knitted innerwear & casual wear for men, women and kids that cater to all age groups across varied socio economic segments. Rupa, with over 18 brands and 8000 SKUs, has a strong brand recall. It has diverse brands catering to various price segments. Basic segment consists of *Frontline*, *Euro* and *Bumchums* while the premium segment consists of *Macroman*. Rupa has also entered the super premium segment by recently acquiring the India license for 'FCUK' brand of premium innerwear from French Connection and 'Fruit of the Loom' brand. Also, it has been aggressively focusing on its in-house premium (M-series) brands, which offer higher operating margins.

Strong distribution network

In the knitted garments and innerwear space, Rupa has one of the largest distribution networks, which comprise around 1000 dealers and 1,18,000 retailers. Enhanced focus on increasing presence in multi-brand outlets (MBOs) and large retail format stores (LRFs) would assist sales growth. The company is also looking to open Rupa exclusive brand outlets through the franchisee route across India and expand its retail footprint.

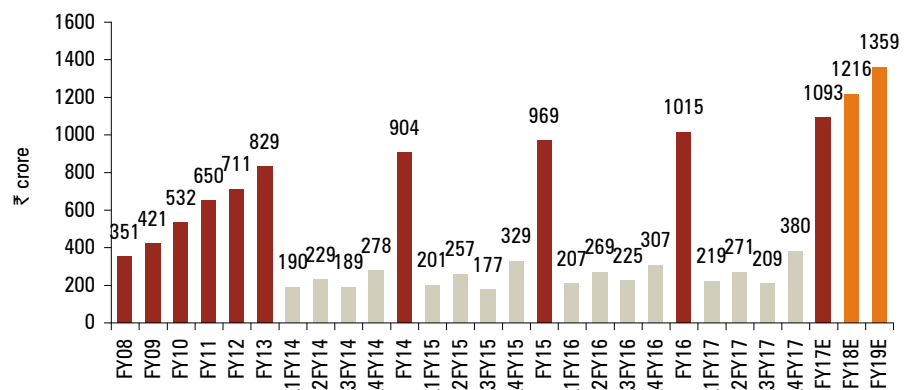
Normalcy post demonetisation visible in Q4FY17...

Rupa had seen high revenue growth in FY07-10 at a CAGR of 21%. The company's market share in the super premium category increased from 5% in FY10 to 10% in FY15. Over FY07-11, Rupa's revenue growth was driven by a balanced mix of volume and realisation growth. Volumes grew at 6.7% CAGR while realisation grew at 7.6% CAGR. In FY11-15, there was a slowdown in volume growth. It grew at 0.3% CAGR whereas realisation remained strong at a CAGR of 8.7%. The super premium category has grown at a CAGR of 16% in FY11-15 while the other category has grown at a CAGR of 17% over the same period.

Rupa is strategically focusing on increasing share of the super premium category. The company is focusing on enhancing its product offering in the children and women's segment with the introduction of new products and brands.

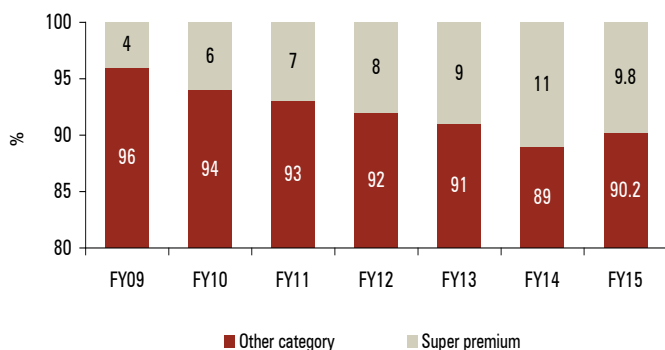
FY17 turned out to be a challenging year for the company owing to sluggish consumer sentiments and adverse impact of demonetisation disrupting the trade distribution channels. However, Rupa undertook various initiatives to revive declining sales growth, which led to a healthy topline growth of 23.9% YoY in Q4FY17 (up 82% sequentially) and 7.7% YoY revenue growth for FY17. We believe that normalcy post demonetisation has set in completely and expect the momentum in revenue growth to sustain. We expect revenues to grow at a CAGR of 11.5% to ₹ 1359.3 crore.

Exhibit 2: Revenue growth trend



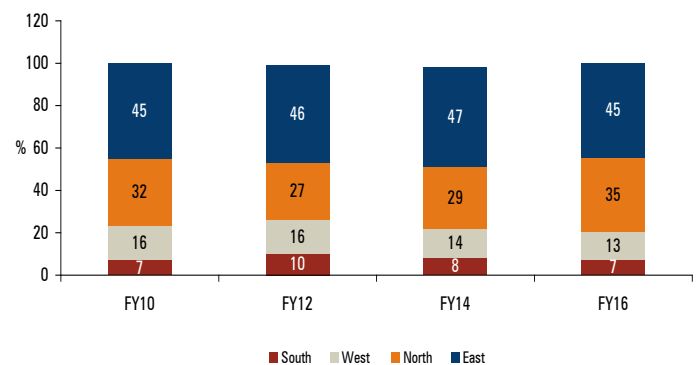
Source: Company, ICICIdirect.com Research

Exhibit 3: Rising share of super-premium category



Source: Company, ICICIdirect.com, Research

Exhibit 4: Zonal sales mix

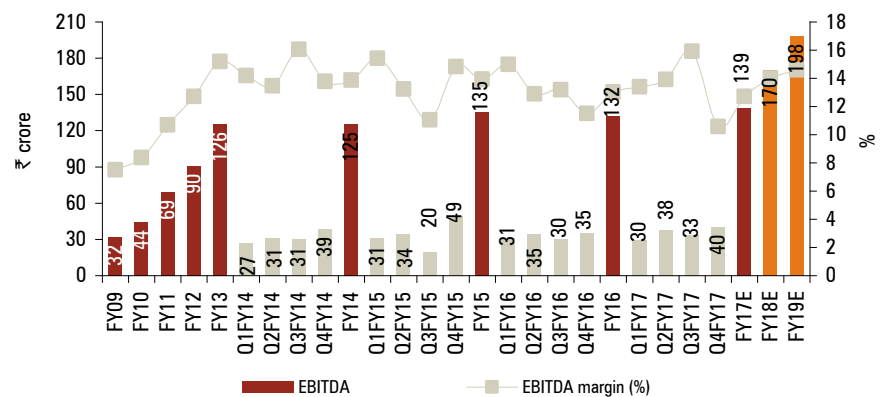


Source: Company, ICICIdirect.com, Research

Better product mix expected to improve operating margins

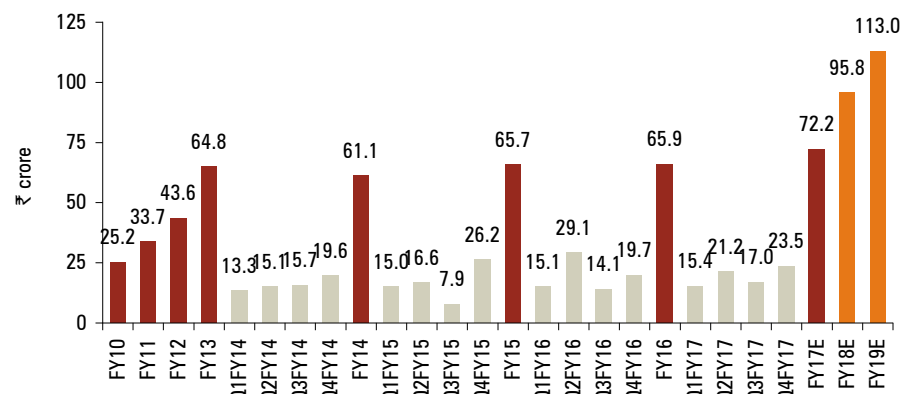
Over the years, Rupa has transformed itself from a commodity centric product company to a brand led market positioning company. This has enabled it to register strong growth in EBITDA margin. The EBITDA margin improved from 8.2% in FY07 to 15.2% in FY13, which has been its peak EBITDA margin. However, from FY14 onwards, EBITDA margins remained in the range of ~13%. Going forward, on account of a better product mix and higher focus on increasing the share of high margin premium products, we expect EBITDA margins to improve from 12.7% in FY17 to 14.6% in FY19E, translating into margin expansion of 190 bps. Consequently, we expect PAT to grow from ₹ 72.3 crore to ₹ 113.0 crore, translating into a CAGR of 25.1% for FY17-19E.

Exhibit 5: Margin to slowly inch up, going ahead



Source: Company, ICICIdirect.com Research

Exhibit 6: PAT growth to improve, going forward



Source: Company, ICICIdirect.com Research

Valuation

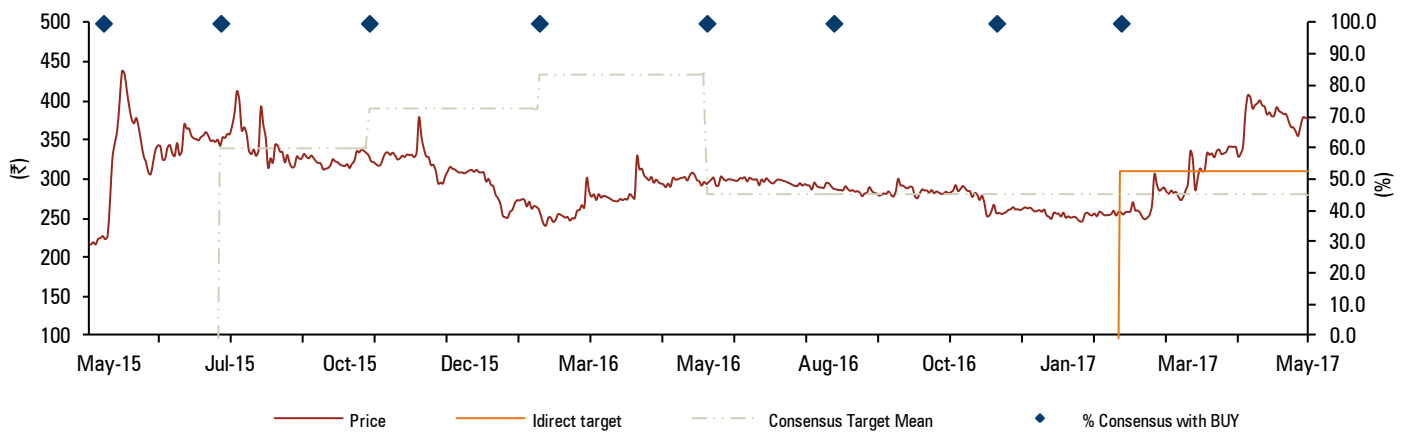
The Indian innerwear market is shifting from a price sensitive market to a fashion quotient market. Subsequently, Rupa has gradually shifted from mass segment products to the premium segment with strategic tie-ups with various foreign brands. Despite demonetisation woes, Rupa ended FY17 on a strong note by reporting robust revenue growth of 23% in Q4FY17 (highest in the last four quarters) and 7.7% for FY17. Owing to momentum in revenue growth and change in product mix (higher share of premium products), we have revised our estimates upwards for FY18E and FY19E. We expect revenues to grow at a CAGR of 11.5% to ₹ 1359.3 crore with an increase in EBITDA margin from 12.7% in FY17 to 14.6% in FY19E, translating into a margin expansion of 190 bps. The stock currently trades at a market cap/sales multiple of 2.5x and 2.2x of FY18E and FY19E, respectively. Rupa's enhanced product portfolio would spur revenue growth. The gradual shift from mass segment products to higher margin premium segment products prompts us to give a **BUY** rating, with target price of ₹ 425 (2.5X FY19E market cap/sales).

Exhibit 7: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	1014.8	4.7	8.3	0.3	45.5	23.7	17.9	22.9
FY17E	1092.8	7.7	9.1	9.6	41.6	22.1	16.4	23.6
FY18E	1216.5	11.3	12.0	32.6	31.3	18.1	19.2	25.3
FY19E	1359.3	11.7	14.2	18.0	26.6	15.6	19.5	25.2

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Dec-11	During the year, the company launches a premium brand 'Air' and kids apparel brand 'Imoogi'
Mar-12	Revenues increase 14.0% YoY to ₹ 215.9 crore, operating margin expanded 180 bps YoY to 11.7% leading to PAT growth of 52.9% YoY (₹ 13.6 crore)
Jun-12	Q1FY13 revenues increase 45.4% YoY to ₹ 174.5 crore and PAT grew 58.3% YoY to ₹ 11.2 crore
Sep-12	During the year, Rupa forays into manufacturing of jeans under the brand 'Euro Jeans' and leggings for women under the brand 'Femmora'
Mar-13	Despite 16.2% YoY revenue growth to ₹ 250.9 crore. PAT increases 65.4% YoY to ₹ 22.5 crore led by 490 bps expansion in operating margin to 16.6%
Nov-13	During the year, the company launches a thermal wear brand, Macrowoman, Torrido
Nov-15	Rupa launches new campaign for premium range thermal brand 'Torrido'
Jan-17	Signs license agreement with Fruit of the Loom Inc

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Rajnish Enterprises, Ltd.	31-Mar-17	19.89	15.82	0.00
2	Karuna Impex Enterprises, Ltd.	31-Dec-16	10.88	8.65	0.00
3	MLD Commercial Pvt. Ltd.	31-Mar-17	10.88	8.65	8.65
4	Purvanchal Leasing, Ltd.	31-Mar-17	7.303	5.81	0.00
5	Shri Krishna Creative Ideas, L.L.P.	31-Dec-16	3.772	3.00	0.00
6	Girika Advisory Services L.L.P.	31-Mar-17	3.772	3.00	3.00
7	Agarwal (Prahlad Rai)	17-May-17	3.752	2.98	-16.73
8	Lambodar Ferro Alloys, Ltd.	31-Mar-17	3.269	2.60	0.00
9	Standard Textile Pvt. Ltd.	31-Dec-16	2.321	1.85	0.00
10	Satvichar Consultancy Services L.L.P.	31-Mar-17	2.321	1.85	1.85

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	74.9	74.9	74.9	74.9	73.3
FII	-	-	-	-	0.8
DII	0.0	0.0	0.0	0.0	0.0
Others	25.1	25.1	25.1	25.1	25.9

Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
MLD Commercial Pvt. Ltd.	43.58	8.65	Agarwal (Prahlad Rai)	-94.7	-16.7
Girika Advisory Services L.L.P.	15.11	3.00			
Satvichar Consultancy Services L.L.P.	9.30	1.85			
Suvichar Advisors L.L.P.	9.22	1.83			

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Total operating Income	1,014.8	1,092.8	1,216.5	1,359.3
Growth (%)	4.7	7.7	11.3	11.7
Raw Material Expenses	485.5	497.7	585.1	640.2
Employee Expenses	29.7	38.2	29.2	34.0
Manufacturing & Other expense	367.6	418.0	431.9	486.6
Total Operating Expenditure	882.8	953.9	1,046.2	1,160.8
EBITDA	132.1	138.9	170.3	198.5
Growth (%)	(2.2)	5.1	22.6	16.5
Depreciation	15.2	16.2	18.9	19.0
EBIT	116.8	122.7	151.4	179.4
Interest	18.8	10.6	5.4	6.9
Other Income	3.8	2.5	3.6	4.1
PBT	101.8	114.6	149.7	176.6
Total Tax	35.9	42.4	53.9	63.6
PAT	65.9	72.3	95.8	113.0
Growth (%)	0.3	9.6	32.6	18.0
EPS (₹)	8.3	9.1	12.0	14.2

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit before Tax	101.8	114.6	149.7	176.6
Add: Depreciation	15.2	16.2	18.9	19.0
(Inc)/dec in Current Assets	67.5	(26.0)	(57.6)	(76.1)
Inc/(dec) in CL and Provisions	35.0	10.8	(24.4)	(23.7)
Taxes Paid	(35.9)	(42.4)	(53.9)	(63.6)
Others	15.0	8.0	2.8	3.8
CF from operating activities	198.6	81.4	35.5	36.1
(Inc)/dec in Investments	2.9	-	(3.0)	-
(Inc)/dec in Fixed Assets	(44.7)	(20.6)	(41.6)	(27.1)
Others	-	-	-	-
CF from investing activities	(41.8)	(20.6)	(44.6)	(27.1)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(69.1)	(62.7)	18.3	33.7
Dividend paid & dividend tax	(19.3)	(21.1)	(28.0)	(33.1)
Others	(64.6)	27.0	27.1	10.7
CF from financing activities	(152.9)	(56.8)	17.5	11.4
Net Cash flow	3.9	3.9	8.3	20.4
Opening Cash	5.4	9.3	13.2	21.5
Closing Cash	9.3	13.2	21.5	41.9

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	8.0	8.0	8.0	8.0
Reserve and Surplus	359.5	431.7	491.5	571.5
Total Shareholders funds	367.4	439.7	499.5	579.5
Total Debt	143.1	80.4	98.7	132.5
Deferred Tax Liability	15.0	14.5	16.6	19.1
Other Long-term Liabilities	-	-	-	-
Total Liabilities	525.5	534.6	614.8	731.0
Assets				
Net Block	158.3	169.3	193.2	208.0
Capital WIP	6.5	-	11.3	4.5
Total Fixed Assets	164.7	169.3	204.5	212.6
Investments	1.2	1.2	4.2	4.2
Inventory	302.0	294.9	330.0	376.1
Debtors	172.5	207.6	200.0	223.4
Loans and Advances	26.7	24.6	54.7	61.2
Other Current Assets	6.2	1.9	-	-
Cash	9.3	13.2	21.5	41.9
Total Current Assets	516.6	542.2	606.2	702.6
Current Liabilities	152.0	167.9	166.6	149.0
Provisions	5.2	10.2	33.4	39.4
Total Current Liabilities	157.1	178.1	200.0	188.4
Net Current Assets	359.5	364.1	406.1	514.2
Others Non-current Assets	-	-	-	-
Application of Funds	525.5	534.6	614.8	731.0

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
EPS	8.3	9.1	12.0	14.2
Cash EPS	10.2	11.1	14.4	16.6
BV	46.1	55.2	62.7	72.8
DPS	2.1	2.3	3.0	3.5
Cash Per Share	1.2	1.7	2.7	5.3
Operating Ratios				
EBITDA Margin (%)	13.0	12.7	14.0	14.6
PBT Margin (%)	10.0	10.5	12.3	13.0
PAT Margin (%)	6.5	6.6	7.9	8.3
Inventory days	119.2	99.7	99.0	101.0
Debtor days	63.9	63.5	60.0	60.0
Creditor days	40.4	36.8	50.0	40.0
Return Ratios (%)				
RoE	17.9	16.4	19.2	19.5
RoCE	22.9	23.6	25.3	25.2
RoIC	23.7	24.3	27.0	27.1
Valuation Ratios (x)				
P/E	45.5	41.6	31.3	26.6
EV / EBITDA	23.7	22.1	18.1	15.6
EV / Net Sales	3.1	2.8	2.5	2.3
Market Cap / Sales	3.0	2.7	2.5	2.2
Price to Book Value	8.2	6.8	6.0	5.2
Solvency Ratios				
Debt/EBITDA	1.1	0.6	0.6	0.7
Debt / Equity	0.4	0.2	0.2	0.2
Current Ratio	3.3	3.0	3.0	3.7
Quick Ratio	1.4	1.4	1.4	1.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Apparel)

Sector / Company			CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
			(₹)	TP(₹)	Rating	(₹ Cr)	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E		
Kewal Kiran Clothing	1692	1844	Hold	2131	55.1	69.2	65.9	32.1	25.6	26.8	21.0	21.7	18.5	30.5	23.8	29.9	22.7	23.8	23.0				
Page Industries	14330	12500	Sell	15983.5	208.5	238.7	296.6	68.7	60.0	48.3	42.6	38.8	31.0	61.0	53.0	59.1	46.0	40.0	44.5				
Rupa & Company	377	425	Buy	2860	8.3	9.1	12.0	45.5	41.6	31.3	23.7	22.1	18.1	22.9	23.6	25.3	17.9	16.4	19.2				
Vardhman Textiles (MAH)	1310	1240	Hold	7206	100.9	179.0	107.6	13.0	7.3	12.2	8.3	7.3	6.9	14.1	14.5	14.3	15.4	23.0	13.1				
Arvind Ltd (ARVMIL)	373	480	Buy	9676	12.3	12.4	17.5	33.2	32.4	22.9	14.5	13.9	11.5	11.6	10.1	12.9	11.9	9.0	12.6				

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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