

Rupa & Company (RUPACO)

₹ 320

High gross margins offset weak sales growth

- On a standalone basis, Rupa reported flattish revenue growth at ₹ 247.6 crore (I-direct estimate: ₹ 276 crore) despite Q2FY18 being a low base quarter. Oban Fashion's [which licensees Fruit of the Loom (FOL) and FCUK brands] reported revenues worth ₹ 10 crore in Q2FY19 vs. ₹ 2 crore in Q2FY18
- Despite a decline in revenues, EBITDA margins improved significantly by 430 bps YoY to 19.7% (highest ever EBITDA margins) vs. I-direct estimate of 14.4%. The beat was mainly on account of a significant increase in gross margins by 509 bps YoY to 38.6%. Subsequently, absolute EBITDA increased 27% YoY to ₹ 48.8 crore (I-direct estimate: ₹ 40.0 crore)
- Negative impact of increase in finance cost (up 88% YoY to ₹ 3.9 crore) was completely negated by higher other income (up 40% YoY to ₹ 1.7 crore) and decline in depreciation cost (down 11% YoY to ₹ 3.3 crore). Resultant PAT grew 30% YoY to ₹ 28.1 crore (I-direct estimate: ₹ 22.9 crore)

Soft revenue growth for H1FY19

H1FY19 has turned out to be a subdued period for Rupa especially on the topline front with revenues (standalone) growing only 4.7% YoY to ₹ 431.0 crore. The management indicated that lower offtake was mainly on account of dealers demanding higher credit period (Rupa had already increased its debtor days by ~40 days to 110 days in FY18). The company has refrained from further extending the credit period to its dealers in order not to further stretch the working capital cycle. Factoring in the H1FY19 performance, we revise our revenues estimate downwards for FY19, FY20E. Despite moderate revenue growth, EBITDA margins improved significantly by 230 bps YoY to 16.2%. The delta was mainly derived from gross margin expansion. We now model sales, PAT CAGR of 10% and 15%, respectively, in FY18-20E.

Fruit of the Loom to pick up pace in FY19E

Rupa has gradually shifted from mass segment products to premium segment via strategic tie-ups with various foreign brands. In addition to existing licensed brand of FCUK, it recently entered into a license agreement with Fruit of the Loom Inc, to sell innerwear, outerwear products in their brand name. For H1FY19, its premium brands (FCUK & FOL) reported revenues worth ₹ 26 crore while the management expects to achieve a turnover of ₹ 70 crore from brands with break even at the EBITDA level by FY19E.

Long term story remains intact, maintain BUY!

The H1FY19 balance sheet witnessed some deterioration with substantial increase in inventory and spike in debt by ~85 crore to ₹ 200 crore (D/E: 0.4x). The management expects debt levels to remain elevated with pressure on working capital to persist in the near term. With the Indian innerwear market still dominated by unorganised players (50% market share), we expect Rupa to be a beneficiary of the recent GST rollout given its strong brand legacy and robust distribution network. Factoring in the performance of H1FY19, we revise our estimates downwards and expect sales and PAT CAGR of 10% and 14%, respectively, in FY18-20E. Subsequently, we lower our target MCap/sales multiple to 2.0x FY20E revenue vs. 2.5x earlier. With the recent stock correction, we maintain **BUY** with a revised target price of ₹ 370.

Rating matrix	
Rating	Buy
Target (₹)	370
Target Period	12-18 months
Potential Upside	15%

What's changed?	
Target	Changed from ₹ 470 to ₹ 370
EPS FY19E	Unchanged
EPS FY20E	Changed from ₹ 15.9 to ₹ 14.2
Rating	Unchanged

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	247.6	248.2	-0.3	183.5	35.0
EBITDA	48.8	38.3	27.4	20.9	133.5
EBITDA (%)	19.7	15.4	429 bps	11.4	832 bps
PAT	28.1	21.6	29.9	10.3	173.3

Key financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Net Sales	1,093	1,157	1,249	1,401
EBITDA	139	155	179	203
Net Profit	72	86	99	113
EPS (₹)	9.1	10.8	12.5	14.2

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	35.3	29.6	25.7	22.5
EV to EBITDA	18.8	17.1	15.1	13.2
Price to book	5.8	5.1	4.6	4.1
RONW (%)	16.4	17.3	17.9	18.4
ROCE (%)	23.6	22.7	23.1	24.4

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	2,548.1
Debt (FY18) (₹ Crore)	114.8
Cash (FY18) (₹ Crore)	8.3
EV (₹ Crore)	2,654.6
52 week H/L	512 / 246
Equity Capital (₹ Crore)	8.0
Face Value (₹)	1.0

Price performance				
	1M	3M	6M	12M
Rupa & Company	21.5	-15.7	-21.9	-22.3
Page Industries	-10.2	-22.7	10.5	12.1
Lovable Lingerie	0.7	-20.3	-35.4	-54.2

Research Analysts

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Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Revenue	247.6	276.1	248.2	-0.3	183.5	35.0	
Other Income	1.7	1.7	1.2	39.0	1.3	33.6	
Employee Expense	10.6	9.7	8.5	23.6	10.3	2.1	
Raw Material Expense	151.3	189.1	164.3	-7.9	108.9	39.0	
Other Expenses	36.9	37.5	37.1	-0.6	43.3	-14.9	
EBITDA	48.8	39.8	38.3	27.4	20.9	133.5	
EBITDA Margin (%)	19.7	14.4	15.4	429 bps	11.4	832 bps	Higher gross margins led to EBITDA margin expansion. Current margin not sustainable
Depreciation	3.3	3.3	3.7	-11.4	3.2	2.9	
Interest	3.9	2.9	2.1	87.7	3.0	33.0	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	43.3	35.3	33.8	28.3	16.0	170.0	
Tax Outgo	15.3	12.3	12.2	25.5	5.6	172.0	
PAT	28.1	22.9	21.6	29.9	10.4	168.9	Despite weak revenue growth, PAT grew strongly by 30%
Key Metrics							
Gross Margin (%)	38.9	31.5	33.8	505 bps	40.6	-176 bps	Gross margins expanded 505 bps YoY

Source: Company, ICICI Direct Research

Change in estimates

₹ Crore)	FY18E	FY19E			FY20E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,156.8	1,309.0	1,249.3	-4.6	1,521.3	1,401.3	-7.9
EBITDA	155.5	179.3	178.6	-0.4	220.6	203.2	-7.9
EBITDA Margin (%)	13.4	13.7	14.3	60 bps	14.5	14.5	0 bps
PAT	86.2	99.7	99.2	-0.5	126.4	113.4	-10.3
EPS (₹)	10.8	12.5	12.5	-0.3	15.9	14.2	-10.4

Source: Company, ICICI Direct Research

Company Analysis

House of brands with strong product portfolio spread across price points

Exhibit 1: Diversified portfolio of brands



Source: Company, ICICI Direct Research

Rupa has, over a period of time, constantly been reinventing itself and 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 diversified brands catering to various price segments. The 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

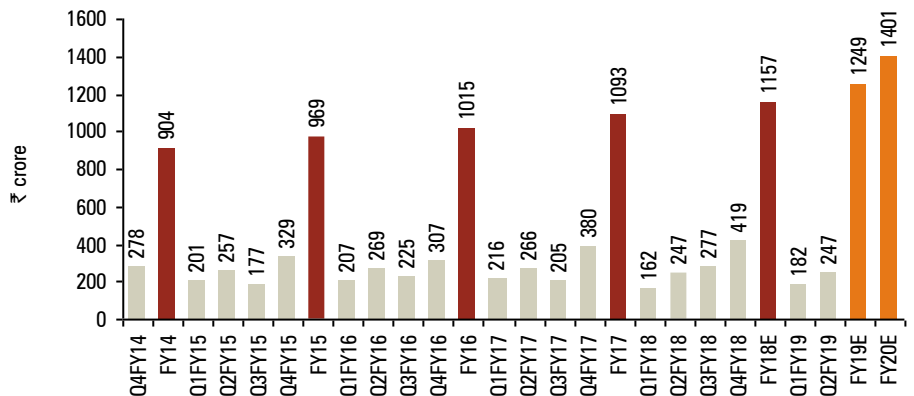
In the knitted garments and innerwear space, Rupa has one of the largest distribution networks, which comprises around 1000 dealers and 1,25,000 retailers. Enhanced focus on increasing presence in multi-brand outlets (MBOs) and large retail format stores (LRFs) would assist sales growth. The company is also looking to open Rupa exclusive brand outlets (currently 10 stores) through the franchisee route across India and expand its retail footprint.

Revenues expected to grow at a CAGR of 10% in FY18-20E

Rupa is strategically focusing on increasing the 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. Rupa’s product mix is mainly dominated by men’s segment contributing 87% of the revenues. The company is continuously striving to strengthen its female innerwear segment and is also open to grow in this segment through the inorganic route in the domestic market. The business opportunity in women’s innerwear is significant as it comprises 60% of total Indian innerwear market in value terms and is growing at a brisk pace of 15% compared to the average industry growth rate of 12%.

FY18 was a challenging period owing to GST transition impacting revenues negatively. Since MBOs are the largest distribution channel for Rupa, the quantum of the impact was significant. With normalcy settling in at a gradual pace, we expect revenues to increase to ₹ 1400 crore by FY20E, translating into CAGR of 10% in FY18-20E. The new brands are expected to add to incremental revenue growth.

Exhibit 2: Revenue growth trend



Source: Company, ICICI Direct Research

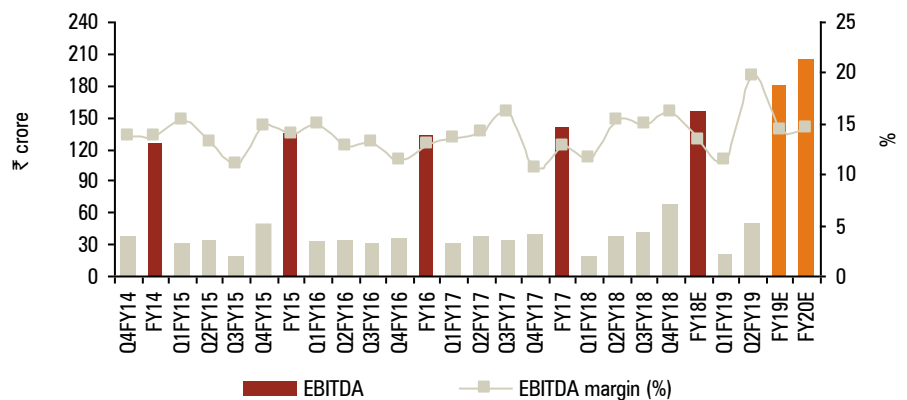
Better product mix expected to improve operating margins

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 its 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 at ~12.5-13.0%. A better product mix and higher focus on premiumisation of brands translated into 70 bps margin expansion YoY to 13.4% in FY18. Consequently, EBITDA for the year increased 12% YoY to ₹ 155.5 crore.

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 13.4% in FY18 to 14.5% in FY20E, translating into margin expansion of 110 bps.

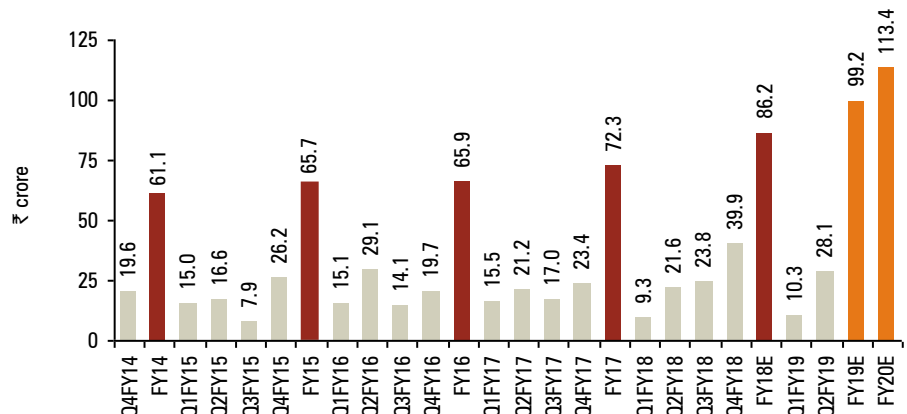
Consequently, we expect PAT to grow from ₹ 86 crore to ₹ 113 crore, translating to a CAGR of 15% for FY18-20E.

Exhibit 3: Margin to slowly inch up, going ahead



Source: Company, ICICI Direct Research

Exhibit 4: PAT growth to improve, going forward



Source: Company, ICICI Direct Research

Valuation

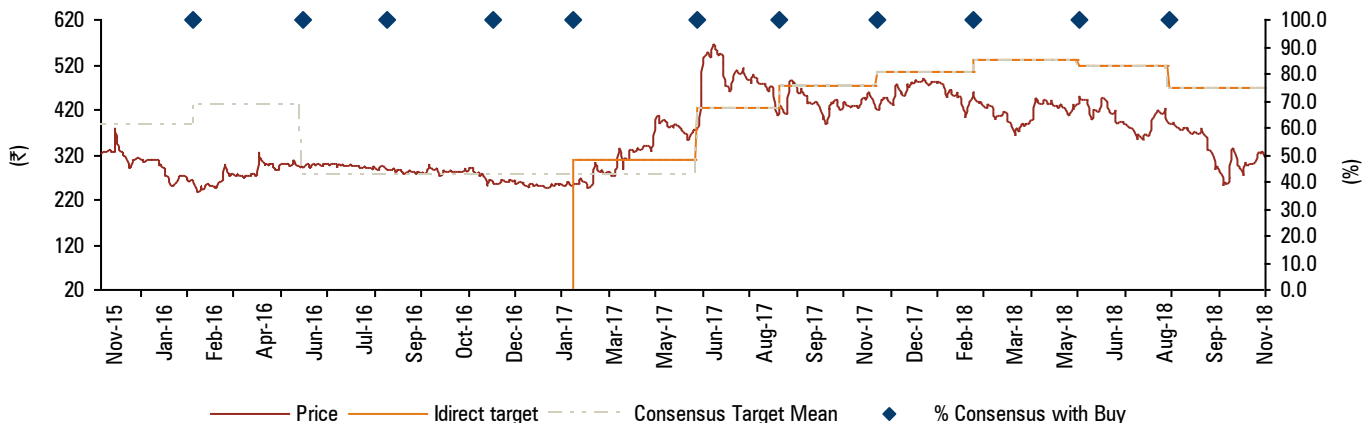
The H1FY19 balance sheet witnessed some deterioration with substantial increase in inventory and spike in debt by ~₹ 85 crore to ₹ 200 crore (D/E: 0.4x). The management expects debt levels to remain elevated with pressure on working capital to persist in the near term. With the Indian innerwear market still dominated by unorganised players (50% market share), we expect Rupa to be a beneficiary of the recent GST rollout given its strong brand legacy and robust distribution network. Factoring in the performance of H1FY19, we revise our estimates downwards and expect sales and PAT CAGR of 10% and 14%, respectively, in FY18-20E. Subsequently, we lower our target MCap/sales multiple to 2.0x FY20E revenue vs. 2.5x earlier. With the recent stock correction, we maintain **BUY** rating with a revised target price of ₹ 370.

Exhibit 5: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1092.8	7.7	9.1	9.6	35.3	18.8	16.4	23.6
FY18E	1156.8	5.8	10.8	19.3	29.6	17.1	17.3	22.7
FY19E	1249.3	8.0	12.5	15.1	25.7	15.1	17.9	23.1
FY20E	1401.3	12.2	14.2	14.3	22.5	13.2	18.4	24.4

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct 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 'Femmorra'
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 'Torrindo'
Jan-17	Signs license agreement with Fruit of the Loom Inc

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Agarwal (Prahlad Rai)	30-Jun-18	24.72	19.65	16.76
2	Rajnish Enterprises, Ltd.	30-Jun-18	19.90	15.82	0.00
3	Ziyan Developers Pvt. Ltd.	30-Jun-18	10.88	8.65	0.00
4	Purvanchal Leasing, Ltd.	30-Jun-18	7.30	5.81	0.00
5	Girika Advisory Services L.L.P.	30-Jun-18	3.77	3.00	0.00
6	Lambodar Ferro Alloys, Ltd.	30-Jun-18	3.27	2.60	0.00
7	Satvichar Consultancy Services L.L.P.	30-Jun-18	2.32	1.85	0.00
8	Suvichar Advisors L.L.P.	30-Jun-18	2.30	1.83	0.00
9	Agarwal (Vikash)	30-Jun-18	2.21	1.76	0.00
10	Agarwal (Ravi)	30-Jun-18	2.19	1.74	0.00

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	73.3	73.3	73.3	73.3	73.3
FII	0.6	0.6	0.6	0.6	0.6
DII	0.0	0.0	0.0	0.0	0.0
Others	26.1	26.1	26.1	26.1	26.1

Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Agarwal (Prahlad Rai)	96.43	16.76			
WisdomTree Asset Management, Inc.	0.00	0.00			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total operating Income	1,092.8	1,156.8	1,249.3	1,401.3	
Growth (%)	7.7	5.8	8.0	12.2	
Raw Material Expenses	721.8	743.1	783.3	884.2	
Employee Expenses	38.2	46.7	50.0	54.7	
Manufacturing & Other expense	193.9	211.5	237.4	259.2	
Total Operating Expenditure	953.9	1,001.3	1,070.6	1,198.1	
EBITDA	138.9	155.5	178.6	203.2	
Growth (%)	5.2	11.9	14.9	13.7	
Depreciation	16.2	15.8	16.7	17.7	
EBIT	122.7	139.7	162.0	185.5	
Interest	10.6	8.1	11.9	11.7	
Other Income	2.6	2.5	4.7	3.1	
PBT	114.7	134.0	154.8	176.9	
Total Tax	42.4	47.8	55.5	63.4	
PAT	72.3	86.2	99.2	113.4	
Growth (%)	9.6	19.3	15.1	14.3	
EPS (₹)	9.1	10.8	12.5	14.2	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
PAT	72.3	86.2	99.2	113.4	
Add: Depreciation	16.2	15.8	16.7	17.7	
(Inc)/dec in Current Assets	(21.8)	(186.1)	(84.2)	(80.0)	
Inc/(dec) in CL and Provisions	21.1	98.0	(8.2)	19.9	
Others					
CF from operating activities	87.8	14.0	23.5	71.0	
(Inc)/dec in Investments	-	1.1	(0.0)	(0.0)	
(Inc)/dec in Fixed Assets	(27.2)	(13.5)	(17.1)	(17.9)	
(Inc)/dec in CWIP	6.5	(8.5)	2.5	2.0	
Others	-	-	-	-	
CF from investing activities	(20.8)	(20.9)	(14.7)	(15.9)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	(62.7)	34.4	34.4	(3.0)	
Others	(0.4)	(32.3)	(43.1)	(49.2)	
CF from financing activities	(63.1)	2.1	(8.7)	(52.2)	
Net Cash flow	3.9	(4.8)	0.2	2.9	
Opening Cash	9.3	13.1	8.3	8.5	
Closing Cash	13.1	8.3	8.5	11.4	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity Capital	8.0	8.0	8.0	8.0	
Reserve and Surplus	431.7	491.2	545.2	606.9	
Total Shareholders funds	439.7	499.2	553.2	614.9	
Total Debt	80.4	114.8	149.2	146.2	
Deferred Tax Liability	14.5	8.9	11.1	13.6	
Other Long-term Liabilities	-	-	-	-	
Total Liabilities	534.6	622.9	713.5	774.7	
Assets					
Gross Block	262.3	275.8	293.0	310.8	
Less: Accu Depreciation	93.1	108.8	125.5	143.3	
Net Block	169.3	167.0	167.4	167.6	
Capital WIP	-	8.5	6.0	4.0	
Intangible Assets under-dev	-	-	-	-	
Total Fixed Assets	169.3	175.5	173.4	171.6	
Investments	1.2	0.1	0.1	0.2	
Inventory	294.9	331.8	393.6	422.3	
Debtors	210.8	351.4	376.5	422.3	
Loans and Advances	21.7	4.4	4.4	4.9	
Other Current Assets	1.9	27.7	25.0	30.0	
Cash	13.1	8.3	8.5	11.4	
Total Current Assets	542.3	723.6	808.0	890.9	
Current Liabilities	168.0	271.9	262.4	281.6	
Provisions	10.2	4.4	5.6	6.3	
Total Current Liabilities	178.2	276.2	268.0	287.9	
Net Current Assets	364.1	447.3	540.0	603.0	
Others Non-current Assets	-	-	-	-	
Application of Funds	534.6	622.9	713.5	774.7	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
EPS	9.1	10.8	12.5	14.2	
Cash EPS	11.1	12.8	14.6	16.5	
BV	55.2	62.7	69.5	77.2	
DPS	0.0	3.0	4.7	5.4	
Cash Per Share	1.7	1.0	1.1	1.4	
Operating Ratios					
EBITDA Margin (%)	12.7	13.4	14.3	14.5	
PBT Margin (%)	10.5	11.6	12.4	12.6	
PAT Margin (%)	6.6	7.5	7.9	8.1	
Inventory days	98.5	104.7	115.0	110.0	
Debtor days	70.4	110.9	110.0	110.0	
Creditor days	33.6	52.1	46.0	46.0	
Return Ratios (%)					
RoE	16.4	17.3	17.9	18.4	
RoCE	23.6	22.7	23.1	24.4	
RoIC	24.3	23.4	23.5	24.9	
Valuation Ratios (x)					
P/E	35.3	29.6	25.7	22.5	
EV / EBITDA	18.8	17.1	15.1	13.2	
EV / Net Sales	2.4	2.3	2.2	1.9	
Market Cap / Sales	2.3	2.2	2.0	1.8	
Price to Book Value	5.8	5.1	4.6	4.1	
Solvency Ratios					
Debt/EBITDA	0.6	0.7	0.8	0.7	
Debt / Equity	0.2	0.2	0.3	0.2	
Current Ratio	3.0	2.6	3.0	3.1	
Quick Ratio	1.4	1.4	1.5	1.6	

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Apparel)

Sector / Company	CMP		Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Kewal Kiran Cloth.	1315	1140	Hold	1618	59.4	67.4	71.2	22.1	19.5	18.5	15.6	13.7	13.1	20.6	21.7	21.5	18.3	19.2	19.0
Page Industries	25720	27200	Hold	28687	311.1	400.7	495.1	82.7	64.2	52.0	53.0	42.8	34.9	57.2	59.0	60.1	41.0	43.3	43.8
Rupa & Co	320	370	Buy	2548	10.8	12.5	14.2	29.6	25.7	22.5	17.1	15.1	13.2	22.7	23.1	24.4	17.3	17.9	18.4
Vardhman Textiles	1077	1220	Hold	6182	103.1	120.7	135.3	10.4	8.9	8.0	8.9	7.0	6.3	10.2	12.7	13.1	11.7	12.6	12.8
Arvind Ltd	314	450	Buy	8150	12.0	13.7	19.2	26.2	22.9	16.3	11.9	10.6	8.8	8.8	9.6	11.2	8.2	8.6	10.9

Source: Company, ICICI Direct Research

RATING RATIONALE

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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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