

## Rupa & Company (RUPACO)

**₹ 320**

### Tepid topline growth...

- Rupa reported a subdued set of Q3FY19 numbers wherein numbers were below our estimates across all our parameters
- Revenues for the quarter grew marginally by 2.1% YoY to ₹ 283.0 crore (I-direct estimate: ₹ 302.3 crore). Oban Fashion's [which licensees Fruit of the Loom (FOL) and FCUK brands] reported revenues worth ~₹ 14 crore in Q3FY19
- Gross margins improved 108 bps YoY to 33.3%. However, owing to negative operating leverage (employee and other expenses up 62 bps and 40 bps, respectively), EBITDA margins came in flattish at 14.9%. Subsequently, absolute EBITDA increased only 2% YoY to ₹ 42.3 crore (I-direct estimate: ₹ 46.7 crore)
- A substantial increase in finance cost (up 140% YoY to ₹ 5.1 crore) negatively impacted PAT growth. Resultant PAT declined 5.4% YoY to ₹ 22.6 crore (I-direct estimate: ₹ 26.4 crore)

### Revenue trajectory decelerates in YTDFY19; Q4FY19 to be critical

The revenue trajectory for 9MFY19 has been unimpressive with topline growth of ~4% YoY to ₹ 715 crore. The management indicated that lower offtake was mainly due to dealers demanding a 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. By and large, the fourth quarter has been a critical one for Rupa, since ~38% of revenues are derived from Q4. With aggressive promotional offers and discounts, the management expects to achieve revenue growth of ~15% in Q4FY19E. Factoring in the YTDFY19 performance, we revise our revenues estimate downwards for FY19, FY20E.

### Fruit of the Loom to break even at EBITDA level in Q4FY19E

Rupa has gradually shifted from mass segment products to the premium segment via strategic tie-ups with various foreign brands. In addition to the 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 9MFY19, its premium brands (FCUK & FOL) reported revenues worth ₹ 40 crore while the management expects to achieve a turnover of ~₹ 65 crore from licensed brands with break even at the EBITDA level by FY19E.

### Sluggish revenue growth a concern; recommend HOLD

Despite moderate revenue growth in YTDFY19, the company witnessed a healthy EBITDA margin expansion of ~140 bps YoY. The delta was mainly derived from gross margin expansion and cost efficiency measures. The balance sheet has witnessed deterioration with a spike in short-term borrowings 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. Subsequently, we expect RoCE to be range bound at 22-23% for FY19, FY20E. Factoring in the 9MFY19 performance, we revise our estimates downwards and expect sales and PAT CAGR of 8% and 11%, respectively, in FY18-20E. A revival in revenue remains critical for a re-rating of the stock. We have a **HOLD** rating on the stock with a revised target price of ₹ 340 (2.0x FY20E MCap/sales).

Rating matrix	
Rating	: Hold
Target (₹)	: 340
Target Period	: 12-18 months
Potential Upside	: 6%

What's changed?	
Target	Changed from ₹ 370 to ₹ 340
EPS FY19E	Changed from ₹ 12.5 to ₹ 11.7
EPS FY20E	Changed from ₹ 14.2 to ₹ 13.4
Rating	Changed from Buy to Hold

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	283.7	278.0	2.1	247.6	14.6
EBITDA	42.3	41.3	2.3	48.8	-13.5
EBITDA (%)	14.9	14.9	3 bps	19.7	-483 bps
PAT	22.6	23.8	(5.4)	28.1	-19.7

Key financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Net Sales	1,093	1,157	1,217	1,351
EBITDA	139	155	174	196
Net Profit	72	86	93	107
EPS (₹)	9.1	10.8	11.7	13.4

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	35.3	29.6	27.3	23.9
EV to EBITDA	18.8	17.1	15.6	13.7
Price to book	5.8	5.1	4.6	4.1
RONW (%)	16.4	17.3	16.7	17.0
ROCE (%)	23.6	22.7	21.6	22.8

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	-5.1	8.0	-19.5	-24.2
Page Industries	3.0	-20.2	-22.0	14.4
Lovable Lingerie	-20.2	-18.7	-32.5	-58.5

Research Analysts	
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### Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	283.7	295.3	278.0	2.1	247.6	14.6	YTD FY19 revenue growth: 4% YoY
Other Income	1.1	0.9	0.7	61.1	1.1	6.7	
Employee Expense	11.2	10.9	9.8	13.5	10.6	5.7	
Raw Material Expense	188.8	197.6	187.9	0.5	151.3	24.8	
Other Expenses	41.5	41.3	38.9	6.6	36.9	12.4	
EBITDA	42.3	45.5	41.3	2.3	48.8	-13.5	
EBITDA Margin (%)	14.9	15.4	14.9	3 bps	19.7	-483 bps	Negative operating leverage leads to flattish EBITDA margin YoY
Depreciation	3.3	3.5	3.5	-4.9	3.3	0.9	
Interest	5.1	3.2	2.1	140.3	3.9	28.7	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	35.0	39.6	36.4	-3.9	42.7	-18.0	
Tax Outgo	12.5	13.9	12.6	-1.1	15.3	-18.4	
PAT	22.6	25.7	23.8	-5.4	27.4	-17.8	Substantial increase in finance cost impacts PAT negatively

### Key Metrics

Gross Margin (%)	33.4	33.1	32.4	105 bps	38.9	-544 bps	Gross margins expand 108 bps YoY
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Source: Company, ICICI Direct Research

### Change in estimates

(` Crore)	FY18E	FY19E			FY20E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,156.8	1,249.3	1,217.1	-2.6	1,401.3	1,350.7	-3.6
EBITDA	155.5	178.6	174.0	-2.6	203.2	195.9	-3.6
EBITDA Margin (%)	13.4	14.3	14.3	0 bps	14.5	14.5	0 bps
PAT	86.2	99.2	93.4	-5.8	113.4	106.7	-5.9
EPS (`)	10.8	12.5	11.7	-5.8	14.2	13.4	-5.9

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

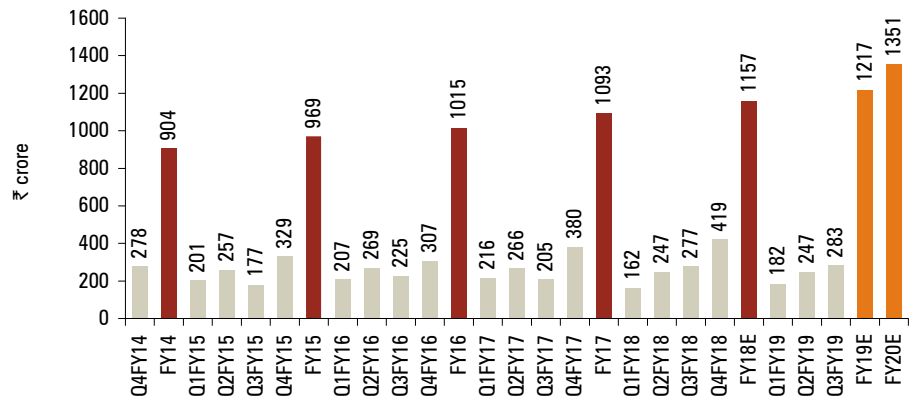
In the knitted garments and innerwear space, Rupa has one of the largest distribution networks, which comprises around 1000 dealers and 1,25,000 retailers. Enhanced focus on increasing presence in multi-brand outlets (MBOs) and large retail format stores (LRFs) would assist sales growth. The company 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 CAGR of 8% 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 the 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 the 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/YTD19 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 ₹ 1351 crore by FY20E, translating into CAGR of 8% in FY18-20E. The new brands are expected to add to incremental revenue growth.

**Exhibit 2: Revenue growth trend**



Source: Company, ICICI Direct Research

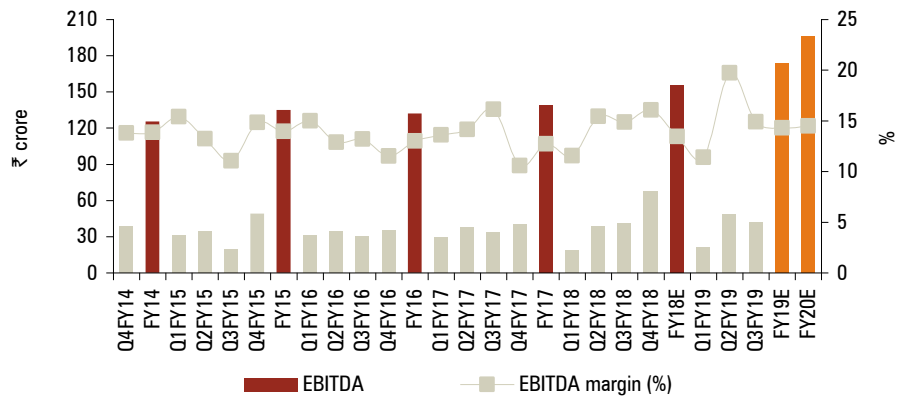
### Better product mix expected to improve operating margins

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.

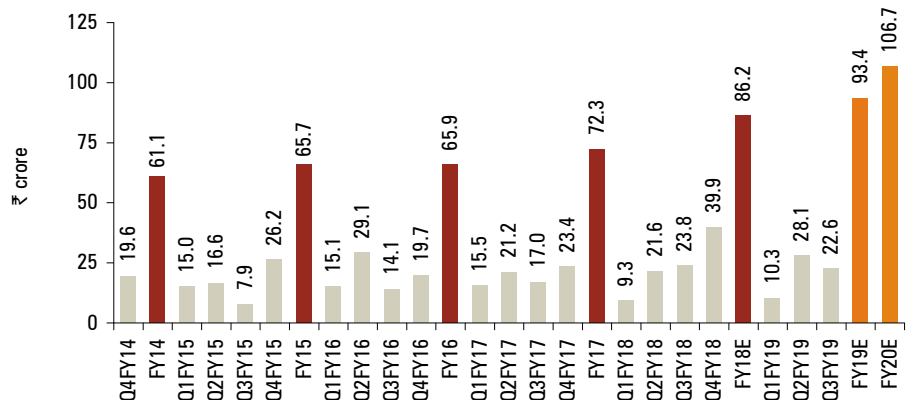
Consequently, we expect PAT to grow from ₹ 86 crore to ₹ 106.7 crore, translating to a CAGR of 11% for FY18-20E.

**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

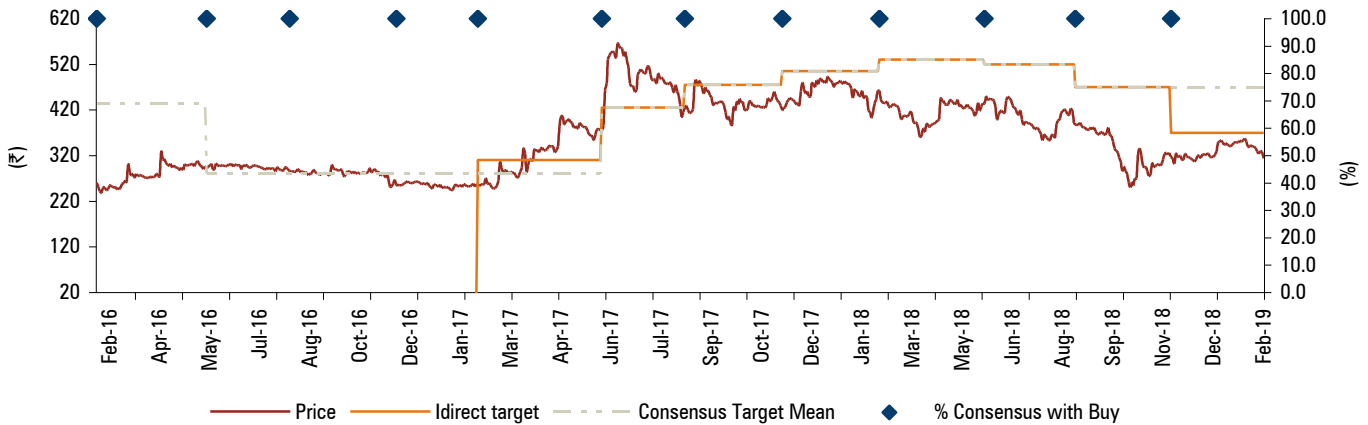
Despite moderate revenue growth in YTD FY19, the company witnessed healthy EBITDA margin expansion of ~140 bps YoY. The delta was mainly derived from gross margin expansion and cost efficiency measures. The balance sheet has witnessed a deterioration with a spike in short-term borrowings by ~₹ 85 crore 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. Subsequently, we expect RoCE to be range bound at 22-23% for FY19, FY20E. Factoring in the 9MFY19 performance, we revise our estimates downwards and expect sales and PAT CAGR of 8% and 11%, respectively, in FY18-20E. A revival in revenue remains critical for a re-rating of the stock. We have a **HOLD** rating on the stock with a revised target price of ₹ 340 (2.0x FY20E MCap/sales).

**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	1217.1	5.2	11.7	8.3	27.3	15.6	16.7	21.6
FY20E	1350.7	11.0	13.4	14.2	23.9	13.7	17.0	22.8

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 'Torrido'
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)	31-Dec-18	24.72	19.65	0.00
2	Rajnish Enterprises, Ltd.	31-Dec-18	19.90	15.82	0.00
3	Ziyan Developers Pvt. Ltd.	31-Dec-18	10.88	8.65	0.00
4	Purvanchal Leasing, Ltd.	31-Dec-18	7.30	5.81	0.00
5	Girika Advisory Services L.L.P.	31-Dec-18	3.77	3.00	0.00
6	Lambodar Ferro Alloys, Ltd.	31-Dec-18	3.27	2.60	0.00
7	Satvichar Consultancy Services L.L.P.	31-Dec-18	2.32	1.85	0.00
8	Suvichar Advisors L.L.P.	31-Dec-18	2.30	1.83	0.00
9	Agarwal (Vikash)	31-Dec-18	2.21	1.76	0.00
10	Agarwal (Ravi)	31-Dec-18	2.19	1.74	0.00

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	73.3	73.3	73.3	73.3	73.3
FII	0.6	0.6	0.6	0.6	0.7
DII	0.0	0.0	0.0	0.0	0.0
Others	26.1	26.1	26.1	26.1	26.0

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total operating Income	1,092.8	1,156.8	1,217.1	1,350.7	
Growth (%)	7.7	5.8	5.2	11.0	
Raw Material Expenses	721.8	743.1	763.1	852.3	
Employee Expenses	38.2	46.7	48.7	52.7	
Manufacturing & Other expense	193.9	211.5	231.2	249.9	
Total Operating Expenditure	953.9	1,001.3	1,043.0	1,154.8	
EBITDA	138.9	155.5	174.0	195.9	
Growth (%)	5.2	11.9	12.0	12.5	
Depreciation	16.2	15.8	15.2	16.5	
EBIT	122.7	139.7	158.8	179.4	
Interest	10.6	8.1	17.8	16.0	
Other Income	2.6	2.5	4.6	3.0	
PBT	114.7	134.0	145.6	166.3	
Total Tax	42.4	47.8	52.2	59.7	
PAT	72.3	86.2	93.4	106.7	
Growth (%)	9.6	19.3	8.3	14.2	
EPS (₹)	9.1	10.8	11.7	13.4	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
PAT	72.3	86.2	93.4	106.7	
Add: Depreciation	16.2	15.8	15.2	16.5	
(Inc)/dec in Current Assets	(21.8)	(186.1)	(104.3)	(66.3)	
Inc/(dec) in CL and Provisions	21.1	98.0	(12.6)	17.6	
Others	-	-	-	-	
CF from operating activities	87.8	14.0	(8.3)	74.4	
(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	63.1	(17.8)	
Others	(0.4)	(32.3)	(31.6)	(36.1)	
CF from financing activities	(63.1)	2.1	31.5	(53.9)	
Net Cash flow	3.9	(4.8)	8.6	4.6	
Opening Cash	9.3	13.1	8.3	16.9	
Closing Cash	13.1	8.3	16.9	21.6	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
<b>Liabilities</b>					
Equity Capital	8.0	8.0	8.0	8.0	
Reserve and Surplus	431.7	491.2	551.0	619.3	
Total Shareholders funds	439.7	499.2	559.0	627.3	
Total Debt	80.4	114.8	177.9	160.1	
Deferred Tax Liability	14.5	8.9	10.9	13.3	
Other Long-term Liabilities	-	-	-	-	
Total Liabilities	534.6	622.9	747.9	800.7	
<b>Assets</b>					
Gross Block	262.3	275.8	293.0	310.8	
Less: Accu Depreciation	93.1	108.8	124.1	140.5	
Net Block	169.3	167.0	168.9	170.3	
Capital WIP	-	8.5	6.0	4.0	
Intangible Assets under-dev	-	-	-	-	
Total Fixed Assets	169.3	175.5	174.9	174.3	
Investments	1.2	0.1	0.1	0.2	
Inventory	294.9	331.8	400.1	429.3	
Debtors	210.8	351.4	390.1	421.9	
Loans and Advances	21.7	4.4	4.3	4.7	
Other Current Assets	1.9	27.7	25.0	30.0	
Cash	13.1	8.3	16.9	21.6	
Total Current Assets	542.3	723.6	836.5	907.4	
Current Liabilities	168.0	271.9	258.4	275.2	
Provisions	10.2	4.4	5.2	6.0	
Total Current Liabilities	178.2	276.2	263.6	281.2	
Net Current Assets	364.1	447.3	572.8	626.2	
Others Non-current Assets	-	-	-	-	
Application of Funds	534.6	622.9	747.9	800.7	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
<b>Per share data (₹)</b>					
EPS	9.1	10.8	11.7	13.4	
Cash EPS	11.1	12.8	13.6	15.5	
BV	55.2	62.7	70.2	78.8	
DPS	0.0	3.0	3.5	4.0	
Cash Per Share	1.7	1.0	2.1	2.7	
<b>Operating Ratios</b>					
EBITDA Margin (%)	12.7	13.4	14.3	14.5	
PBT Margin (%)	10.5	11.6	12.0	12.3	
PAT Margin (%)	6.6	7.5	7.7	7.9	
Inventory days	98.5	104.7	120.0	116.0	
Debtor days	70.4	110.9	117.0	114.0	
Creditor days	33.6	52.1	46.0	46.0	
<b>Return Ratios (%)</b>					
RoE	16.4	17.3	16.7	17.0	
RoCE	23.6	22.7	21.6	22.8	
RoIC	24.3	23.4	22.2	23.6	
<b>Valuation Ratios (x)</b>					
P/E	35.3	29.6	27.3	23.9	
EV / EBITDA	18.8	17.1	15.6	13.7	
EV / Net Sales	2.4	2.3	2.2	2.0	
Market Cap / Sales	2.3	2.2	2.1	1.9	
Price to Book Value	5.8	5.1	4.6	4.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.6	0.7	1.0	0.8	
Debt / Equity	0.2	0.2	0.3	0.3	
Current Ratio	3.0	2.6	3.2	3.2	
Quick Ratio	1.4	1.4	1.7	1.7	

Source: Company, ICICI Direct Research



### ICICI Direct Research coverage universe (Apparel)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Kewal Kiran Cloth.	1210	1160	Hold	1491	59.4	66.3	72.2	20.4	18.2	16.8	15.0	13.3	12.5	20.6	20.7	21.4	18.3	19.0	19.3
Page Industries (PAGIND)	23813	27200	Hold	26511	311.1	400.7	495.1	76.5	59.4	48.1	53.0	42.8	34.9	57.2	59.0	60.1	41.0	43.3	43.8
Rupa & Co	320	340	Buy	2700	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	1050	1200	Hold	6144	103.1	120.7	135.3	10.2	8.7	7.8	8.9	7.0	6.3	10.2	12.7	13.1	11.7	12.6	12.8

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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## ANALYST CERTIFICATION

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