



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

Company details

Market cap:	Rs. 3,448 cr
52-week high/low:	Rs. 561 / 288
NSE volume: (No of shares)	5.0 lakh
BSE code:	533552
NSE code:	RUPA
Free float: (No of shares)	2.1 cr

Shareholding (%)

Promoters	73.3
FII	2.9
DII	2.1
Others	21.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16.1	1.9	-3.0	33.5
Relative to Sensex	-12.0	7.6	1.9	25.3

Sharekhan Research, Bloomberg

Rupa & Company

Right fit for portfolio

Consumer Discretionary

Sharekhan code: RUPA

Reco/View: Positive

CMP: Rs. 434

Upside potential: 27%

Summary

- We initiate a viewpoint coverage on Rupa & Company (Rupa) with a Positive view, expecting an upside of 27% in the next 12 months. Reinforcing growth levers and attractive valuation (post a 23% correction from highs) at 14.1x/11.7x its FY2023E/24E EPS makes it a good pick in the knitted garments space.
- A diversified product portfolio, expansion in distribution reach, scaling up of womenswear & thermal wear and focus on exports will help Rupa's revenues clock a CAGR of ~18% over FY2021-24.
- Focus on increasing share in premium/super-premium categories and an integrated & efficient manufacturing process would help EBITDA margins to stay at 19-20% in the coming years.
- Higher EBITDA margins, improved working capital and an asset-light model would help RoCE to improve to 30% by FY2024; Dividend payout would remain consistent at 20-25%.

Rupa & Company (Rupa) is the leading knitwear brand in India with diversified product portfolio from innerwear to casual wear. The company has a market share of 16% in the Indian domestic innerwear market. To maintain its strong positioning in the knitwear market, the company is focusing on improving its position in categories such as athleisure, womenswear & thermal wear and expanding presence in low-penetrated markets such as South & West India. It registered a stellar performance in FY2021 with revenues growing by 35% (led by strong double-digit volume growth and a better product mix) and EBITDA margins improving to 19.6% (from mere 11.7% in FY2020). With focus on growth strategies, the company is targeting to achieve consistent revenue growth of 18-20% over the next 2-3 years. Rupa's focus on scaling up its presence in premium categories and integrated business model would help margins stay high at 19-20% in the coming years.

- Strong growth levers to drive 18% revenue growth over FY21-24:** Diversified product portfolio (men, women & kids wear), improving penetration in high potential areas (X-factor areas, modern trade and export markets) and strong distribution reach (125,000+ retail outlets) will help to achieve a strong double-digit revenue CAGR of 18% over FY2021-24. The company is strengthening its growth by scaling up presence in the thermal wear category (plan to cross over Rs. 200 crore revenue over next two years), womenswear category (to grow by over 25%), athleisure category (to grow in high teens) and exports (to grow 5x over next five years). This will help the company to achieve growth in the high-teens in the medium to long term.
- Premiumisation strategy would help EBITDA margins to remain at 19-20%:** Rupa's EBITDA margins improved to 19.6% in FY2021, up from level of 12-14% achieved over FY2017-20. Strong focus on improving mix through a wider presence in the premium categories, efficient business model and expanding distribution reach through direct distribution aided the company to post strong improvement in the margins. Despite sharp increase in the input prices, the company is confident of maintain the EBITDA margins at 19-20% in the near term. Further, consistent double-digit volume growth and a better product mix would help in gradual improvement in the EBITDA margins in the medium term.
- Lean balance sheet; strong return profile with consistent dividend payouts:** Digitalisation of back-end operations, simplification of distribution reach and improving inventory levels with support to distributors and direct interaction with retailers aided the company to reduce its working capital to 179 days in FY2021 from 195 days in FY2019. The company expects further reduction in the working capital through better inventory management in the coming years. Debt on books reduced by Rs. 68 crore over FY2019-21; Debt:equity stood at 0.3x. With asset light model (no major capex ahead), and stable working capital, RoCE is expected to improve to 30% by FY2024. The company has been paying a consistent dividend with average dividend payout over FY2018-21 standing at 30%. We expect the consistent dividend payout strategy to continue in the coming years.

Our Call

View: Initiate viewpoint with a potential upside of 27% - The Indian innerwear industry is expected to grow at CAGR of 11% reaching close to Rs. 90,000 crore by FY2028 with a large scope for organised players (currently ~40% of market) to grow faster on back of superior product portfolio, strong branding strategy and expansion in distribution reach. Strong industrial dynamics and reinforced growth strategies will help Rupa achieve a strong earnings CAGR of 19% over FY2021-24. The stock has corrected by 23% from its recent high and is currently trading at an attractive valuation of 14.1x/11.7x its FY2023E/24E earnings. Thus in view of strong earnings visibility and attractive valuation, we initiate viewpoint coverage on the stock with a potential upside of 27% in the next twelve months.

Key Risks

Covid related lockdowns and inability to grow faster in new high growth categories would act as a key risk to our earnings estimates.

Valuation (Consolidated)

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,313	1,567	1,806	2,133
OPM (%)	19.6	19.0	19.2	19.5
Adjusted PAT	175	206	245	296
% Y-o-Y growth	183.1	17.6	18.7	21.1
Adjusted EPS (Rs.)	22.0	25.9	30.7	37.2
P/E (x)	19.7	16.8	14.1	11.7
P/B (x)	4.7	3.9	3.2	2.6
EV/EBITDA (x)	13.8	11.7	10.0	8.2
RoNW (%)	26.8	25.5	24.9	24.9
RoCE (%)	27.4	28.4	29.1	29.8

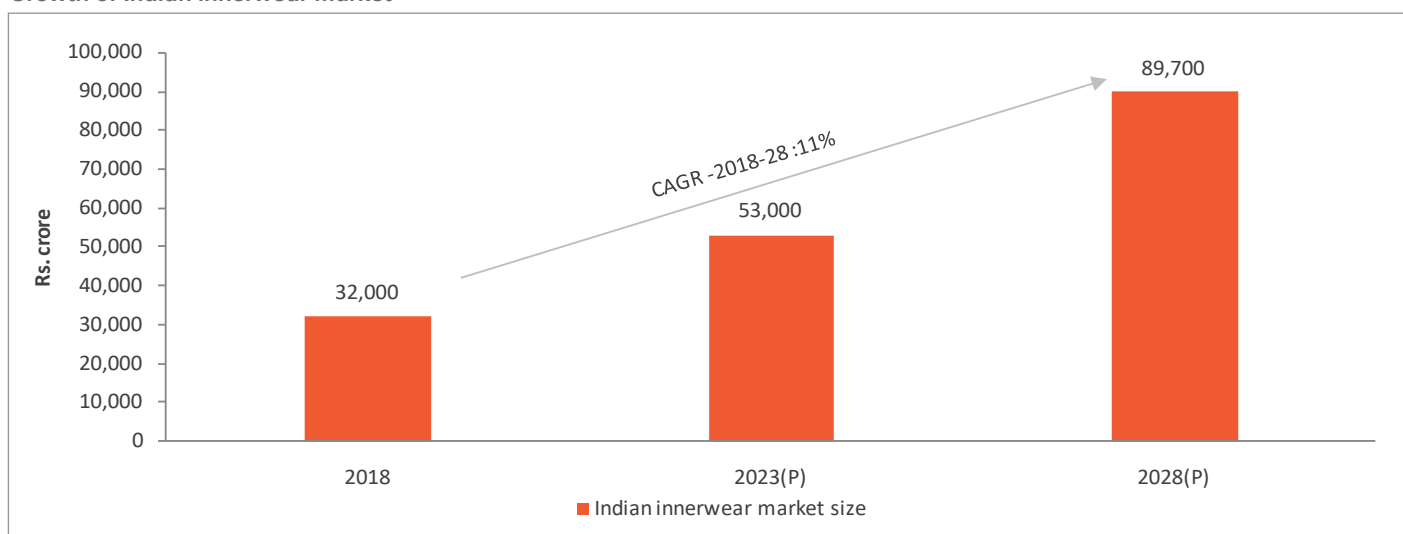
Source: Company; Sharekhan estimates

The Indian innerwear industry is expected to report a CAGR of 11% over 2018 to 2028 led by a 12.5% CAGR in women's wear segment and a 7% CAGR in men's wear segment during the same period. Emergence of new categories, a large shift of consumers to branded products and rising trend of online purchases will be key growth drivers for growth in the innerwear industry. Athleisure and kids wear segments are also expected to clock healthy growth in the coming years.

Indian innerwear market to clock 11% CAGR over 2018-2028

The Indian innerwear market was valued at ~Rs. 32,000 crore in 2018 and is expected to post ~11% CAGR over the next decade to reach ~Rs. 89,700 crore by 2028E. Women's innerwear segment accounts for ~66% of the total innerwear market while the men's innerwear contributes the remaining ~34%.

Growth of Indian innerwear market



Source: Company, Sharekhan Research

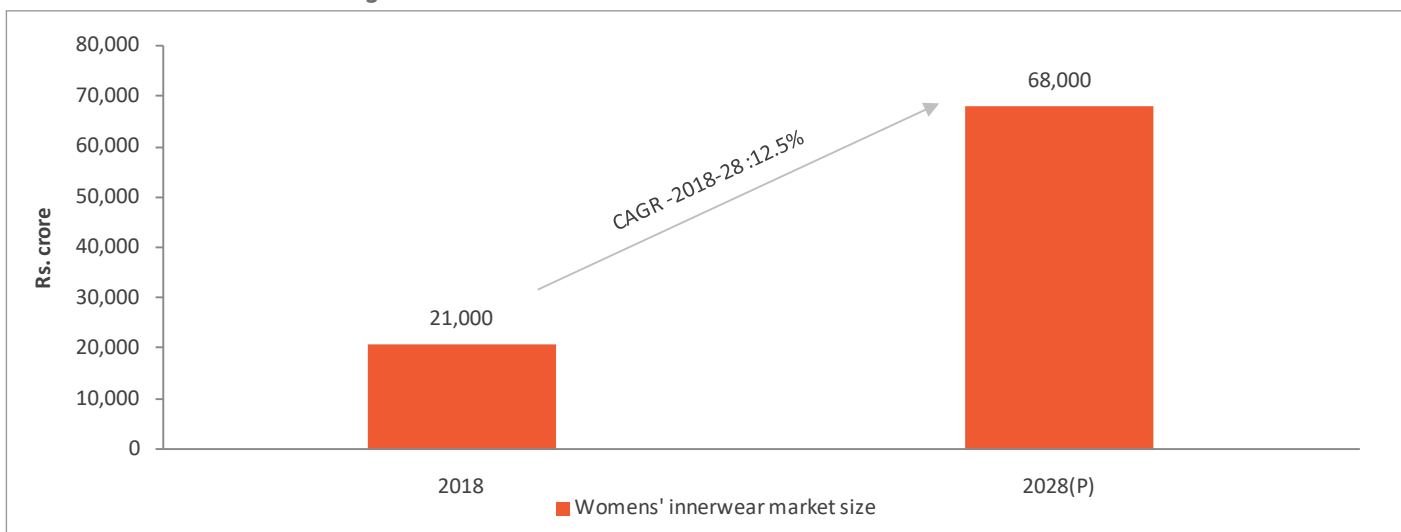
Innerwear, earlier depicted as a mere essential, has transformed itself into a fashion statement in the last few years. The innerwear segment is now expected to gain fresh traction. Most major brands across the men's and women's segments are expanding their portfolio. Growing popularity of comfort wear among the young Indian population in recent years has prompted many companies to expand their knitwear range. Along with the domestic market, exports also offer huge opportunities for growth for Indian knitwear makers as the global apparel brands seek to look for alternate suppliers. Due to the sizable domestic market and huge export opportunities, phenomenal growth is expected in the knitwear segment. With the current geo-political situation, supply chain disruption and uncertainties over investments in neighboring countries, India is certain to regain its pole position in the knitwear industry.

The innerwear market is classified into five categories: low, economy, midmarket, premium, and super-premium. Most Indian brands are largely in the mid-to economy segment, catering to the masses. There are more than one lakh MBOs (multi-brand outlets) across India, which account for over ~60% of the total sales of undergarments, while the rest takes place through modern trade formats like malls or online portals. Growth in the innerwear market is expected to be driven by broad based consumer trends in the form of rising discretionary spends, a growing number of mid-high-income household and increasing urbanization. Innerwear has progressed from being just a functional category to making a bold fashion statement. It is a welcome shift from being a price-sensitive category to a brand sensitive category. Indian consumer spends on innerwear products is significantly lower than other Asian peers. This suggests that there is significant room for growth, driven by rising per capita spend on such products.

Women's innerwear segment to grow faster at 12.5% CAGR over 2018-28

Women's innerwear, which accounts for ~66% of the total innerwear market and accounts for ~15% of the women's apparel market is poised to grow at an impressive growth rate of ~12.5% over the next decade to reach ~Rs. 68,000 crore by 2028 from the market size of ~Rs. 21,000 crore in 2018.

Growth of women's innerwear segment



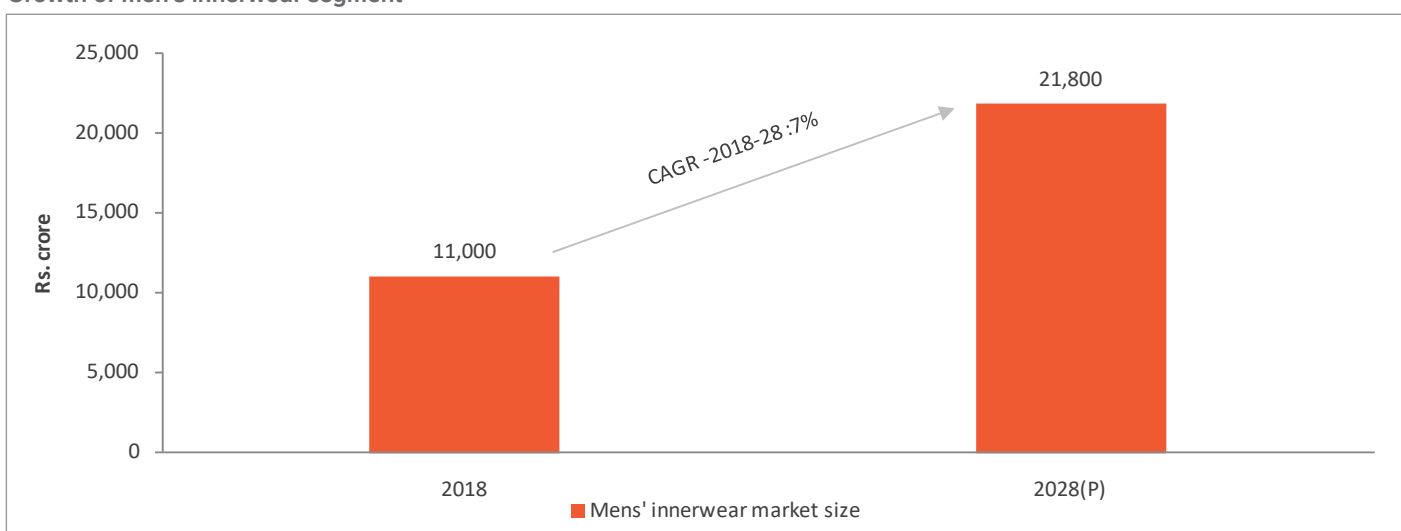
Source: Company, Sharekhan Research

Branded innerwear forms 38- 42% of the women's innerwear market and this share is expected to grow to ~45-48% by 2023. Product categories in women's innerwear include brassieres, camisoles, panties, tees, nighties, shorts, etc with brassieres and panties contributing 85% of the total women's innerwear segment. During FY15-20, the women's innerwear segment grew at 14%, outperforming the overall innerwear and men's innerwear segment's growth. While all segments contributed to this growth, leaders were medium, premium and super premium categories. While this can be broadly attributed to the advent of multinational brands and growth of organised retail, a host of other variables like growing number of working women, changing fashion trends, increased awareness about better fits, quality, brands, colors, styling, increasing per capita disposable income, rising level of information and media exposure have also given the industry an edge. The trend is not restricted to just metros but can be witnessed spreading in Tier-I, II and III cities.

Men's innerwear segment to grow at a rate of 7% CAGR over 2018-28

The men's innerwear market was valued at Rs. 11,000 crore in 2018 and is expected to grow at a CAGR of 7% over the next decade to reach Rs. 21,800 crore by 2028. Product categories in men's innerwear include briefs, trunks, vests, boxer shorts among others. The market has historically been highly fragmented and unorganised. Even now, it is dominated by numerous small-scale players that cater to ~60- 65% of the total demand. However, the market segment is evolving and is gradually moving towards organized retail. Indian innerwear market has witnessed a changing trend in the past with more and more people opting for better quality branded products. The men's innerwear segment has a very high branded proportion accounting for ~61% of total market size.

Growth of men's innerwear segment



Source: Company, Sharekhan Research

Athleisure segment gaining traction

Casualisation as a trend has been gaining traction in terms of athleisure, comfort wear, t-shirts, shorts and sportswear. Customers are getting comfortable with the idea of wearing premium and easy-to-wear, casual wear, which is well-represented by athleisure category. In the athleisure segment, style quotient is not critical but comfort is, similar to innerwear purchases. India's athleisure market is growing at 18-20% currently and the current market size is estimated at Rs. 54,000 crore. Of this, the men's wear segment accounted for 8-10% growth and women's and children's segments at 11-15%. This trend of athleisure, majorly driven by millennials, is expected to expand reach beyond Urban India to Tier-II and Tier-III regions. While the scenario appears muted following the pandemic, the fundamental strength of the athleisure segment is expected to become pronounced when consumer sentiment revives.

Kidswear to clock a CAGR of 8.5% in the next five years

The kids wear market in India is estimated at Rs. 81,900 crore and expected to grow at a CAGR of ~8.5% in the next 5 years. With a booming population of children in India and owing to distinct factors like the growing trend of nuclear family system, increased spending on children, greater brand awareness among kids, and better focus on this segment by organised players, the kids-wear industry is poised to grow in the coming years. Albeit largely unorganized today, this segment is closely following suit the men's and women's segment to become the next organized sector play for innerwear industry.

Factors driving growth of Indian innerwear market

- a) **Rapid urbanisation, rur-banization & changing demographics:** India is seeing a rapid growth in urban population as well as increase in the number of towns and cities on its path of transforming from a developing nation to a developed one. While on one hand masses are shifting base to cities and metros for better opportunities, on the other hand rural population is also becoming infused with urban patterns and culture which is referred to as Rurbanization. In addition, demographics of the country is changing with increase in working age population, male-female ratio, increasing female literacy rates, changing birth and death rates, etc.
- b) **Evolving consumer profiles:** The sudden mushrooming growth rate of the innerwear segment stems from the ever-changing consumer profiles. New age consumers are well-educated, fashion and quality conscious, well-dressed with better spending capacity owing to higher disposable incomes combined with a sense of clarity of their needs, wants and desires. Consumer's segment is mainly from the aspirational working class and upper class with currency they are willing to spend. Being associated with distinguished brand names and need for sense of belonging to the upper segments of the society is what shapes the consumers' needs for such items. Further, the customer also has been aware of the functional properties of usage of good quality innerwear for support and protection of the body.
- c) **Rising population of working women:** The number of working women has escalated tremendously in the last few years due to growing awareness as a society which is taking steps in higher education and working opportunities for women. The taste and style of working women are ever evolving coupled with freedom to spend higher.
- d) **Growth of organised and online retail:** Retailing is one of the important sectors of the Indian economy contributing to 20% of the GDP of the country. Indian retail market is among the top five retail markets in the world and is expected to touch \$2 trillion by 2025. Emerging organized retail is beneficial for manufacturers looking to invest in this sector. Online retail is on a high growth trajectory on account of the digital revolution going on in the country. India is expected to become the fastest growing e-commerce market with robust investment as its backbone.
- e) **Emerging categories:** Indian consumers are becoming increasingly aware of the kind of ensemble they want for any occasion or purpose. This has led to increase in demand in special categories within intimate wear such as shapewear, sleepwear, swimwear, athleisure etc. Among these, the sleepwear category has already seen growth in both branded and unbranded segments. However, other categories such as shapewear and swimwear still present many possibilities.

Rupa & Company (Rupa) is the leading knitwear brand in India with diversified product portfolio from innerwear to casual wear. The company is focusing on improving its position in premium categories such as athleisure, womenswear & thermal wear and expanding presence in low penetrated markets. A diversified product portfolio, expansion in distribution reach, scaling up of womenswear and thermal wear and focus on exports will help Rupa's revenues to grow at CAGR of ~18% over FY2021-24. The company's focus on increasing share in premium/super-premium categories and integrated & efficient manufacturing process would help EBITDA margins to stay at 19-20% in the coming years.

♦ **Diversified product portfolio with focus on brand building and reinforcing the high growth segments:**

The company has a wide range of products covering an entire boutique of knitted garments, including innerwear, casual wear, thermal wear and fashion wear for all users (men, women and kids) across price segments (economy to super premium) with over 18,000 SKU's across over 18 brands. The company's products include vests, briefs and lingerie under innerwear, vests and lowers under thermal wear and leggings, socks, t-shirts, bermudas, athleisure and winter fashion under casual wear. Due to a diversified product portfolio, the company is in a better position to serve vast number of customers with varied preferences. In terms of contribution to revenue, women wear contributes 11-12%, menswear contributes 82-83% and kidswear contributes ~5%. In terms of segments, economy is 30-31%, mid premium and premium is ~60% and premium is 8-9%. Rupa is focusing to increase market share and make presence in the mid-premium and super premium categories.

Diverse set of product offerings



Source: Company presentation

Rupa's home-grown brands majorly cater to the economy-premium segment while the global brands help the company establish brand recognition in the premium/super-premium segment. The company is making luxury accessible by bringing global brands for India's aspirational consumers. The global brands also bring with itself global expertise in improving in other areas such as manufacturing processes, designing capabilities and logistics management, etc.

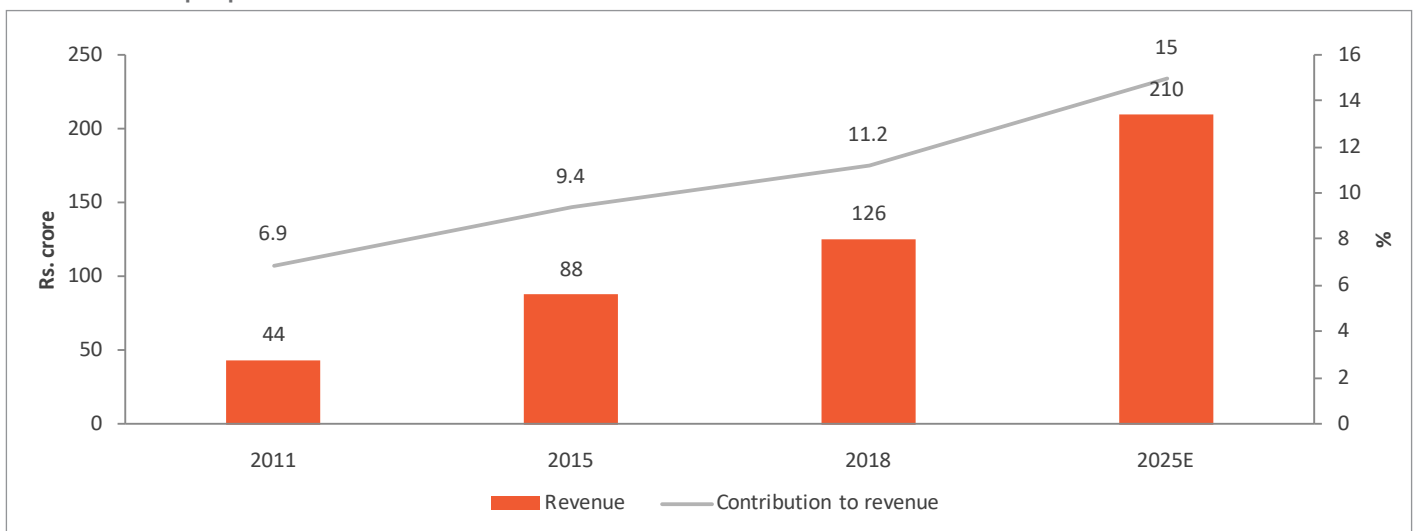
Global brands for aspirational desi consumers

FCUK (globally known premium apparel brand)	Fruit of the Loom (well-known and largest international innerwear brands)
<ul style="list-style-type: none"> • Exclusive license to develop, manufacture, market and sell innerwear and related products • More than 30 distribution points at pan India level • Available on Amazon, Myntra, Paytm, Flipkart and other E-commerce portals 	<ul style="list-style-type: none"> • Exclusive license to manufacture, distribute, advertise and sell innerwear and outerwear products • More than 60 distribution points at pan India level • Exclusive tie up with Amazon and Central

Source: Company; Sharekhan Research

The FCUK brand is positioned as a super-premium brand whereas the Fruit of the Loom brand is positioned as premium. Premium and super-premium brands are margin accretive and thus the company aims to scale up its revenue from these brands which will help to improve the overall profitability of the company.

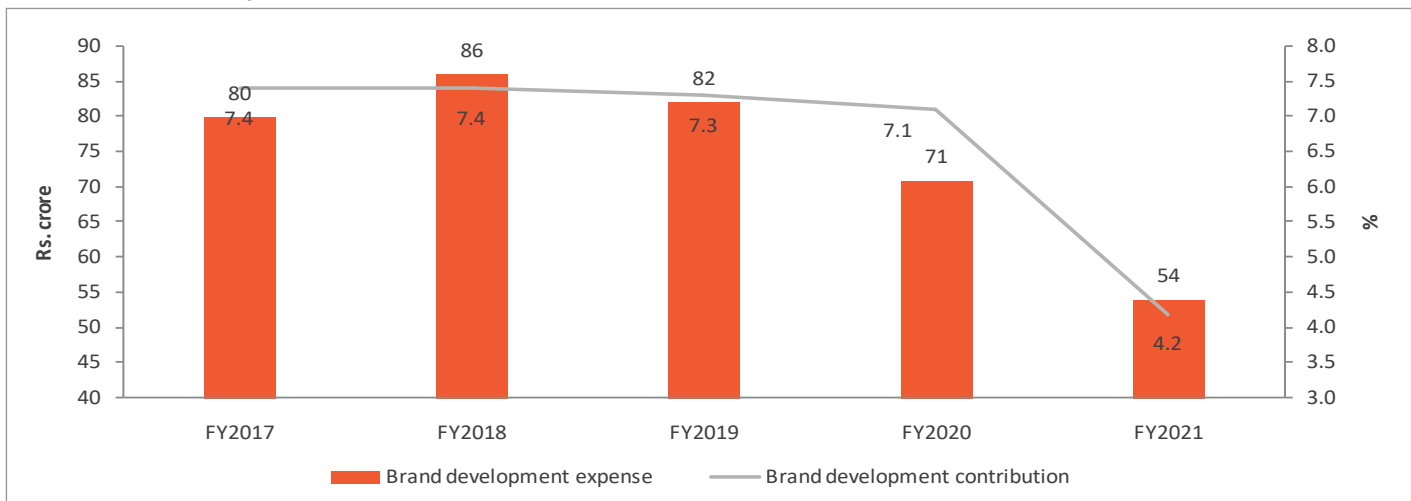
Premium and super-premium revenue trend



Source: Company; Sharekhan Research

Rupa continues to invest behind brand building to support market growth initiatives in core categories and expansion into adjacent categories. The company has spent over Rs. 1,000 crore on brand development in the last decade. Over the years, the company has consistently invested 6-8% of its revenue towards brand promotional expenses, which reduced to 4.2% during FY2021 due to COVID-19 pandemic. However, the company expects to regain the same level of brand expenses during FY2021-22 as normalcy regains. The company is seeing good traction on social media and thus intends to spend on advertising through this medium more aggressively. The company is also onboarding celebrities as brand ambassadors, which will further boost brand image.

Trend in brand development investment



Source: Company, Sharekhan Research

Rupa plans to reinforce the high growth segments of athleisure, womenswear and thermal wear through in-licensing or inorganic brand associations as well through organic growth. The health and lifestyle focused active wear registered a CAGR of 13% since 2011 and the company aims to benefit from the high growth potential in this segment. Leggings under the brands - 'Softline' and 'Femmora' – that have significant growth and are widely accepted by the consumers. The company plans to scout for opportunities in women's wear to develop brand capabilities, manufacturing ability or distributional reach. The company has a wide range of products under the thermal wear and plans to cross Rs. 200 crores of thermal wear revenue in the next two years.

Category and product wise comparison with other brands

Brand	Product	Price / Price Range		
Mid-Premium Segment		Rupa Frontline	VIP	
	Vest	125-311	237-297	
	Pack of 2	363	117-249	
	Trunks	129-226	246-334	
	Briefs	137-191		
		Softline		
	Brassieres	150-375		
Premium Segment	Panties	78-262		
		Macroman	Jockey	Van Heusen
	Vest	215-478	229-597	400-999
	Thermals	529-709	599-669	529-729
	Briefs	144-340	169-579	229-999
	Trunks	230-500	259-598	279-999
	Boxers	225-259	254-528	499-1158
	Tshirts	499-1279	499-799	400-800
	Shorts	240-989	399-799	400-800
		Rupa	Jockey	Van Heusen
	Bermudas	445-569	649-999	729-1299
	Capri	559-629	649-999	689-1299
	Tshirts	359-505		
		Macrowoman	Jockey (Woman)	
	Brassieres	299-855	399-899	
	Panty	195-495	199-597	
	Thermals	385-589	399-599	

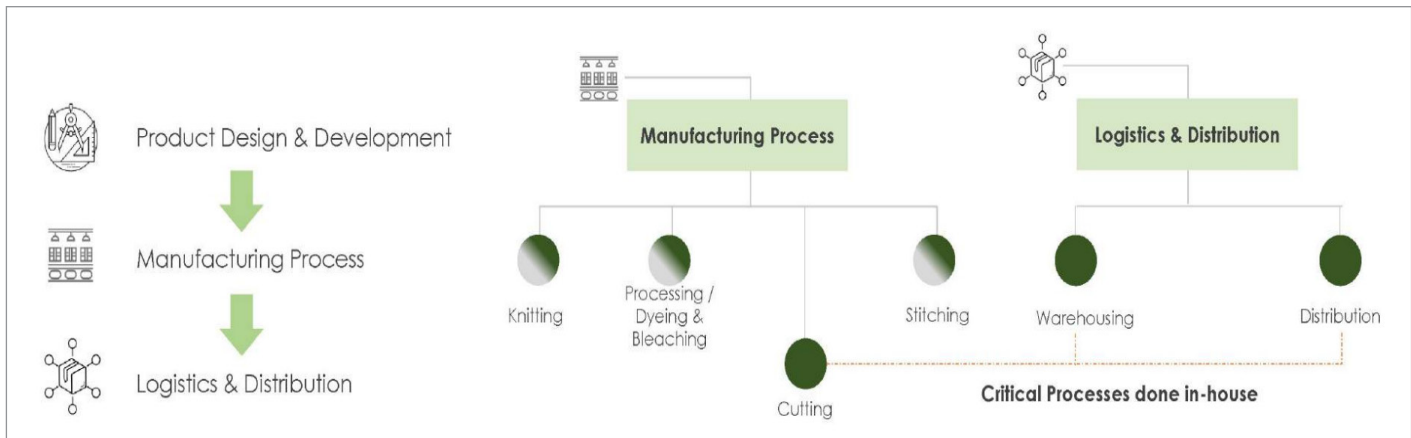
Category and product wise comparison with other brands

Brand	Product	Price / Price Range		
		FCUK	Jockey	Van Heusen
Super Premium Segment	Briefs	329-1199		229-999
	Trunks	299-1199		279-999
	Vest	469-999	897-2093	600-999
	Tshirts	800-3000	800-2499	800-2999
	Shorts	500-2000	800-1999	800-2999
	Thermals		999-1199	1049-1379
	Briefs (packs of 2-6)		738-1614	
	Trunks (packs of 2-6)		659-1794	
	Boxers (pack of 3-4)		609-1056	
			Jockey (Woman)	
	Brassieres		900-1617	
	Panty (pack of 2-4)		600-1434	
	Thermals		600-949	

Source: Sharekhan Research

- ♦ **Integrated & efficient business model:** The company has an integrated and efficient manufacturing process. Critical processes (cutting, warehousing and distribution) are done in-house while the labour intensive processes are outsourced. This helps Rupa keep its asset and employee base light, maintain a high quality of output and reduce costs and improve efficiency. The company invests extensively in manufacturing integration and scale and has four state of the art manufacturing facilities in West Bengal, Tamil Nadu, Karnataka and Uttar Pradesh (NCR) with 25 tonnes/day dyeing capacity, 3 tonnes/day yarn dyeing capacity and over 7 lakh finished goods pieces capacity per day. The company undertakes up-gradation and replacement of old machinery as and when required. The company continues its investment in R&D to produce environment-friendly clothes and minimize carbon footprints.

Integrated business model

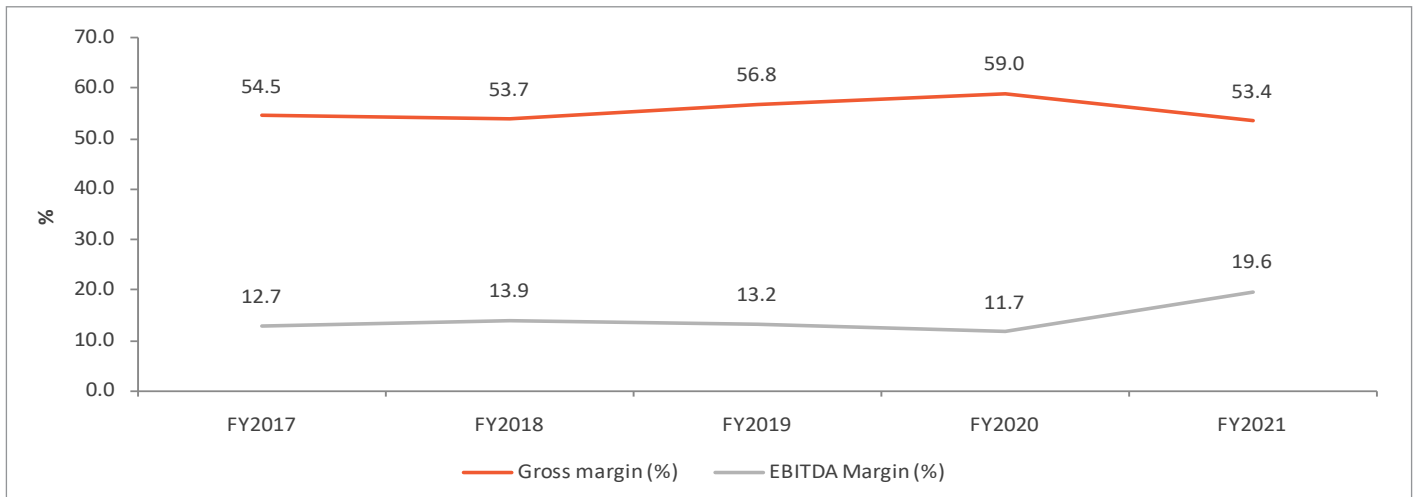


Source: Company presentation

The company achieves its quality commitment through single-minded focus on innovation and research, continuous upgrading of machinery, stringent quality control measures, and international-standard production norms. Rupa is one of the few companies in the industry to adopt intensive quality checks at all levels, from project planning, design and documentation, to execution and supervision. The company's dyeing unit is supported by an advanced in-house R&D unit, which continually strives to bring cutting-edge technology and know-how to production processes.

Rupa has laid a broader focus on process discipline, cost effective production process, meeting the quality standards and 'right time-right place' product availability approach. Rupa also has a well-equipped IT system to ensure real time information is available through faster and efficient transmission of data, which has helped the company to achieve optimal capacity utilisation as well as maintain lower costs. This has subsequently led to maintenance of healthy margins.

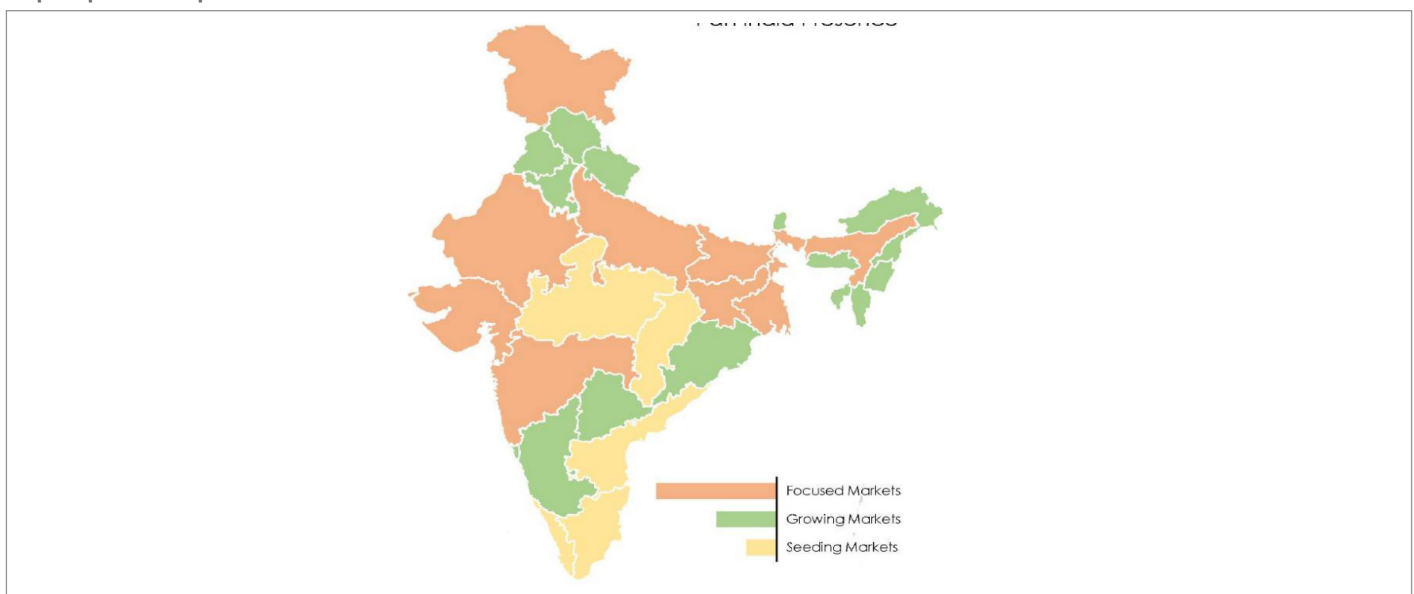
Trend in Gross margin and EBITDA margin



Source: Company, Sharekhan Research

- ♦ **Expanding footprints through 'phy-digital' strategy:** Rupa enjoys very strong position in East India and has gained significant presence in the North followed by West India. The company is increasing its footprints in South India and plans to expand and improve market share going ahead. In North, the company has strong presence in Rajasthan and Delhi. In Maharashtra, it has strong hold in Mumbai-Pune and in South, it is strong in Karnataka & Telangana. The company's network currently comprises of over 1,200 dealers and over 1.25 lakh retail outlets along with 17 exclusive branded outlets (EBOs) selling over 7,000 SKUs. Rupa's strategy is to foray in newer markets by appointing new distributors and building experienced team and further penetrate in the existing markets. The company 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.

Rupa's pan-India presence



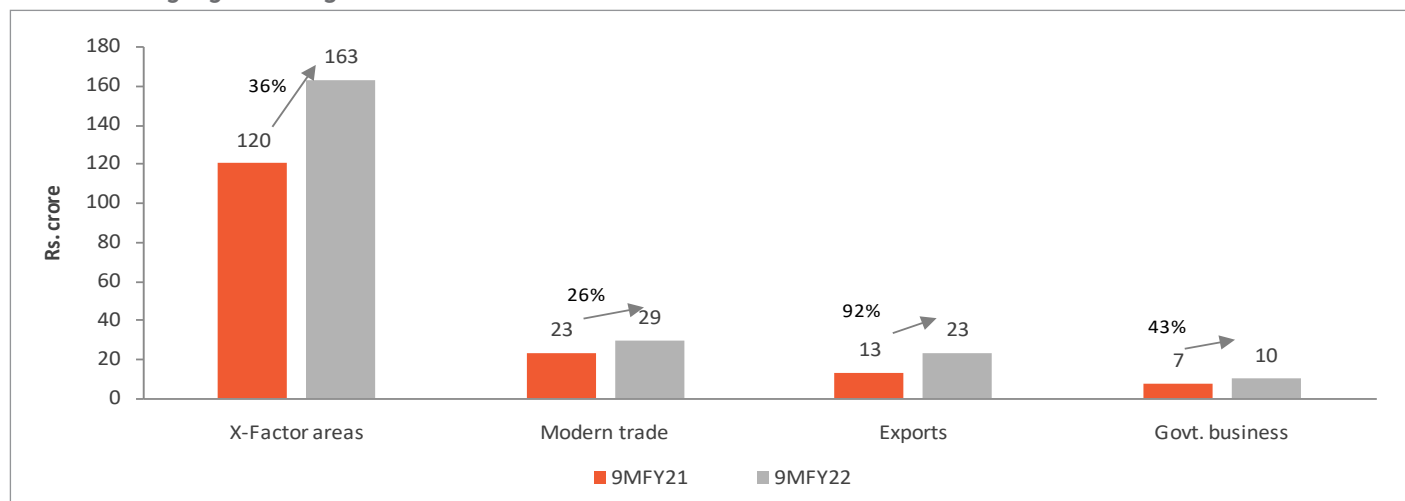
Source: Company Presentation

The company is scaling partnerships with retail chains and E-commerce players to increase its reach and relevance to both urban and semi urban populace, especially among the millennials. The company has undertaken initiatives like joint brand promotions with retail chains as well as strengthened online visibility to increase sales through this channel. Going forward, the company plans to establish franchise business model within the top 50 cities in India.

Revenues across channels has improved y-o-y in 9MFY2022. The company has strong foothold in the states of West Bengal, Maharashtra [Ex Mumbai Pune], Gujarat, MP, Chattisgarh, Western UP, Uttarakhand, Haryana, HP, Punjab, Tamil Nadu, Andhra Pradesh & Kerala (x-factor areas). The plans to focus on building a complete

eco system of team marketing, retail & distribution network in its x-factor areas and aims to grow revenue by 3x in 4 years. For its modern trade channel, the focus will be on e-commerce via partnerships with Amazon, Flipkart and drive direct sales through own website. The company plans to focus on select LFS play and focus on EBO expansion to achieve 4x growth in modern trade in 3 years. The company's international business is seeing substantially improved traction and it aims to grow its export revenues by 5x in 3 years. Government business through Canteen Stores Department (CSD) & Central Police Canteen (CPC) offers great opportunity for growth. The company expects that introduction of new products will drive volume and aims for a 5x growth in three years in this channel.

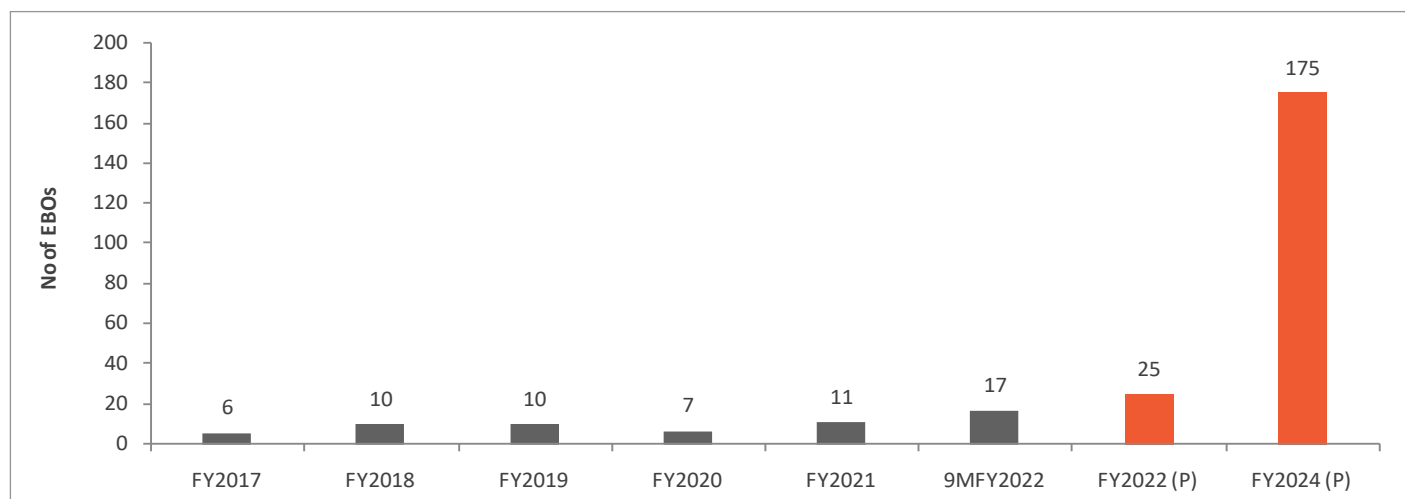
Channel-wise y-o-y revenue growth



Source: Company, Sharekhan Research

Rupa plans to undertake prudent investments in different modern retail formats and e-commerce to drive business forward. The company has over 150 stores in modern trade and the company's products are available in stores such as Lifestyle, Pantaloons, Walmart, Central, etc. The company aims to increase its brand footprints across all brands creating special product line more relevant for modern trade and to have presence through 300 counters in the next 2 years. Rupa currently has 17 EBOs and it aims to invest in key enablers like store design, branding, IT, marketing and training. The company plans to add 7-10 stores in next 1 quarter and roll out 150 more EBOs in the next 2 years. Rupa is also planning to establish a franchise model within top 50 cities. The company is present on all e-commerce sites and it aims to enhance brand visibility through increasing online presence. The company is also planning to move from wholesale distribution channel to a direct distribution channel for some products, which will help in better control over prices, better inventory management, improving inventory turnover and increased sales through increasing presence.

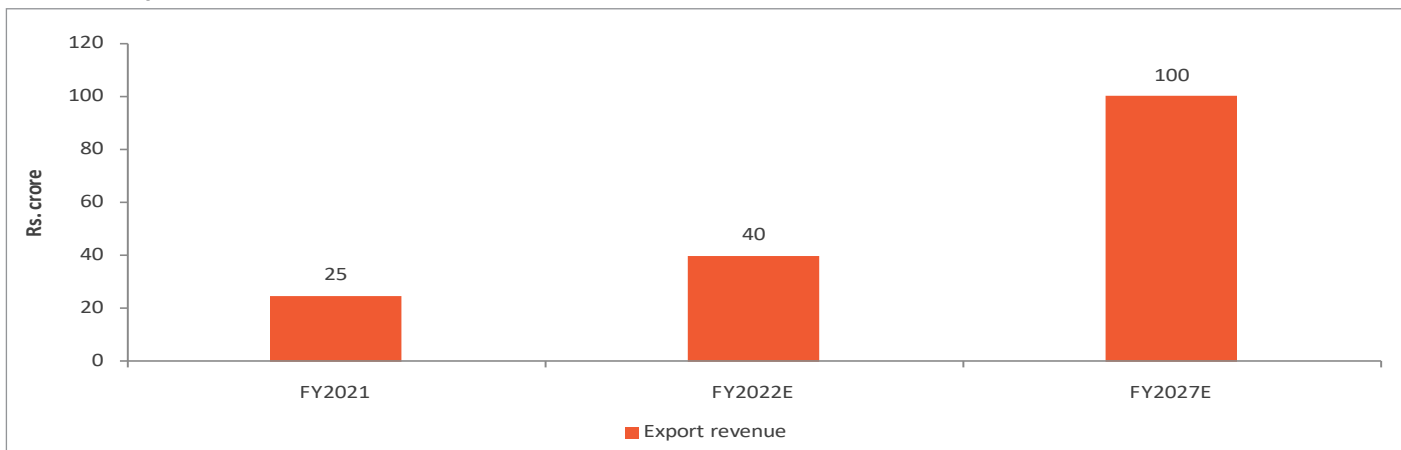
Growth in EBO Network



Source: Company, Sharekhan Research

- ♦ **Focus on digitisation and IT:** Rupa aims to achieve digitalisation of sales & distribution through implementation of core enterprise solution with SAP F&VB S4 HANA. It also plans to upgrade its channels and revamp sales system through revamp of B2C sales channel Rupa online store and dealer management system (DMS) and mobile sales force automation to increase secondary sales. It further plans to implement SAP analytics on S4-HANA, which will aid in decision-making. Implementation of SAP S4 (HANA) in fashion procurement has led to increased efficiency in supply chain of the company. The company undertakes fashion demand planning through dealer contracts, order planning and forecasting. All these steps have helped to increase sales, helped decision-making and boosted efficiency.
- ♦ **Exports to grow 4-5x over the next four-five years:** Exports offer huge opportunities for growth for Indian knitwear makers such as Rupa as the global apparel brands seek to look for alternate suppliers. The company currently exports its products to UAE, Saudi Arabia, Kuwait, Iraq, Myanmar, Ukraine, Algeria, Indonesia, Nigeria, Congo, USA, Singapore, Russia, among others and plans to expand its presence in new countries in middle east, Africa and Russia. The company's strategy is to foray in newer markets by appointing new distributors and building experienced team and further penetrate in the existing markets. Strategy is to foray in newer markets by appointing new distributors and building experienced team and further penetrate in the existing markets. The company is currently generating around Rs. 20-25 crore revenues from exports markets in FY2021 (to touch around Rs. 40 crore by FY2022) and targets it to increase to Rs. 100 crore over the next four-five years.

Growth in exports

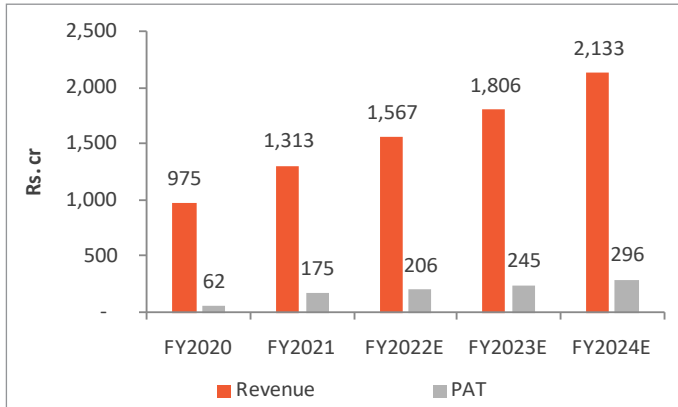


Source: Company, Sharekhan Research

- ♦ **Strong growth levers to drive 18% revenue growth over FY21-24:** Diversified product portfolio (men, women & kids wear), improving penetration in high potential areas (X-factor areas, modern trade and export markets) and strong distribution reach (over 125,000 retail outlets) will help to achieve strong double-digit revenue growth of 18% CAGR over FY2021-24. The company is strengthening its growth by scaling up presence in thermal wear category (plan to cross over Rs. 200 crore revenue over next two years), womenswear category (to grow by over 25%), athleisure category (to grow in high teens) and exports (to grow 5x over next five years). This will help the company to achieve high teens growth in the medium to long term.
- ♦ **Premiumisation strategy would help EBITDA margins to remain at 19-20%:** Rupa's EBITDA margins improved to 19.6% in FY2021, up from level of 12-14% achieved over FY2017-20. Strong focus on improving mix through increased presence in the premium categories, efficient business model and expanding distribution reach through direct distribution helped the company to post strong improvement in the margins. Despite sharp increase in the input prices, the company is confident of maintain the EBITDA margins at around 19-20% in the near term. Further consistent double digit volume growth and better mix would help in gradual improvement in EBITDA margins in the medium term.
- ♦ **Lean balance sheet; strong return profile with consistent dividend payout:** Digitalisation of back-end operations, simplification of distribution reach and improving inventory levels with support to distributors and direct interaction with retailers aided the company to reduce its working capital to 179 days in FY2021 from 195 days in FY2019. The company expects further reduction in the working capital through better inventory management in the coming years. Debt on books reduced by Rs. 68 crore over FY2019-21; Debt:equity ratio stood at 0.3x. With an asset light model (no major capex ahead) and stable working capital, RoCE of the company is expected to improve to 30% by FY2024. The company has been paying consistent dividend with average dividend payout over FY2018-21 standing at 30%. We expect the consistent dividend payout strategy to continue in the coming years.

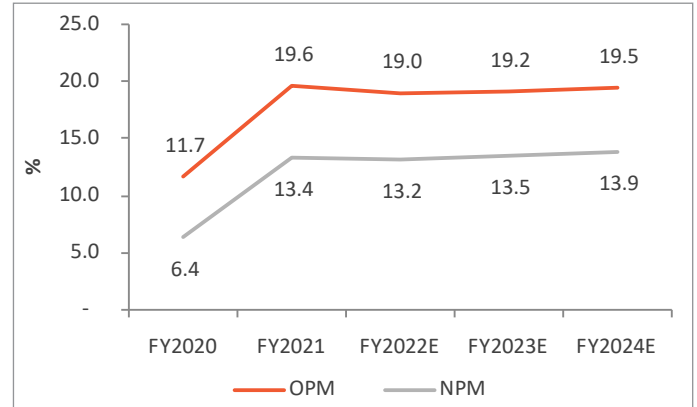
Financials in charts

Trend in revenue and PAT



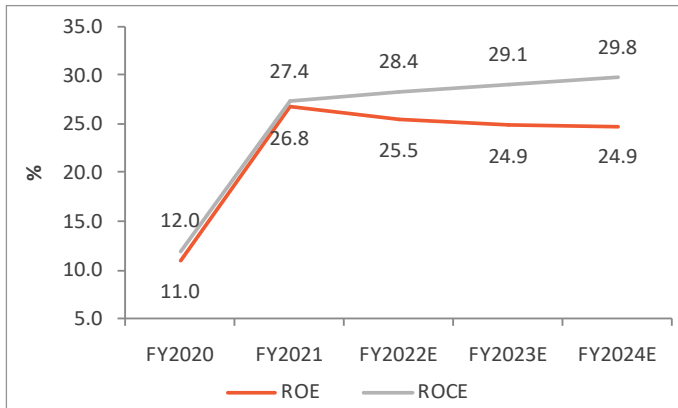
Source: Company, Sharekhan Research

Margins to remain stable



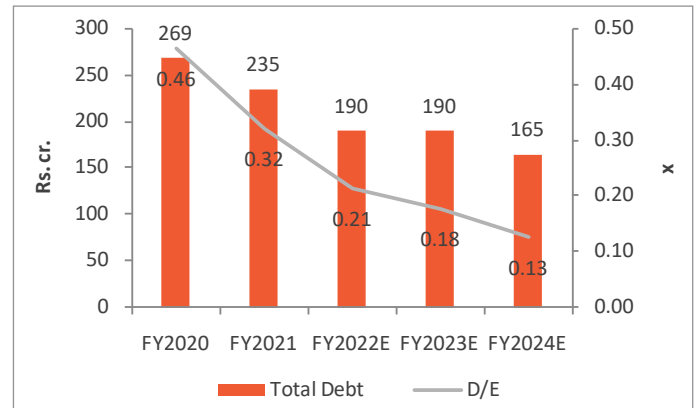
Source: Company, Sharekhan Research

Return ratios to remain firm



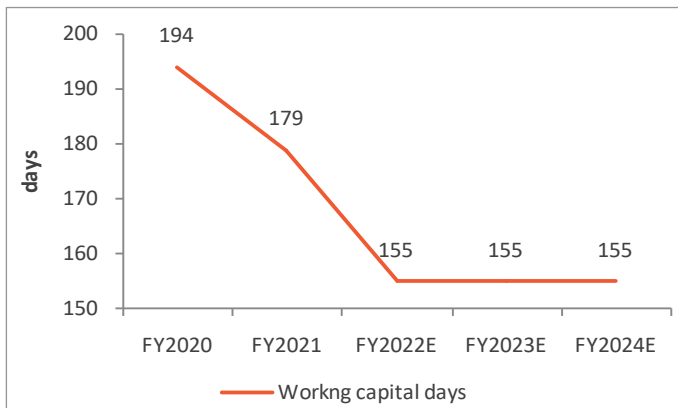
Source: Company, Sharekhan Research

Debt position to get better



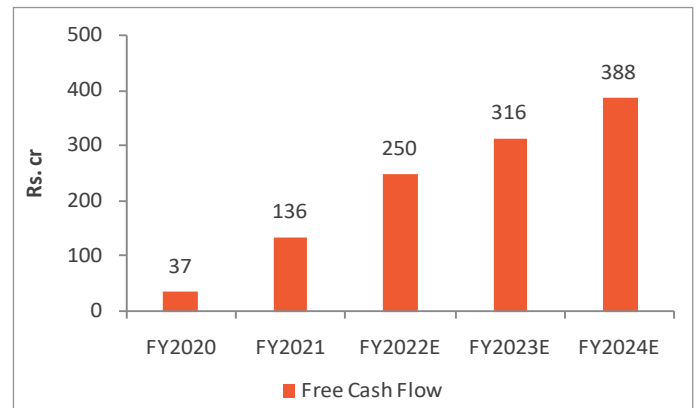
Source: Company, Sharekhan Research

Working capital days to remain constant at current level



Source: Company, Sharekhan Research

Trend in Free Cash Flow



Source: Company, Sharekhan Research

Outlook and Valuation

Strong industrial dynamics and reinforced growth strategies will help Rupa achieve a strong earning CAGR of 19% over FY2021-24. The stock has corrected by 23% from its recent highs and is currently trading at attractive valuation of 14.5x/11.9x its FY2023E/24E earnings making it a good pick in the knitted garments space.

■ Sector view - Innerwear market gaining traction on the back of multiple drivers

Innerwear, which was earlier depicted as a mere essential commodity has transformed itself into a fashion statement in the last few years. It is expected to clock an ~11% CAGR over the next decade to reach ~Rs. 89,700 crore by 2028E from ~Rs. 32,000 crore in 2018. Growth in this industry will be aided by factors like emergence of purpose-specific innerwear (sporty, casual, fashionable), increasing income levels and high spending power, growth in penetration of organized retail among others. Women's innerwear segment, which accounts for ~66% of the total innerwear market, is expected to grow at faster pace of 12.5% CAGR over 2018-28 while the men's innerwear segment is expected to grow at a rate of 7% CAGR during the same period. Another segment, which is gaining traction, is athleisure as customers are getting comfortable with the idea of wearing premium and easy-to-wear, casual wear.

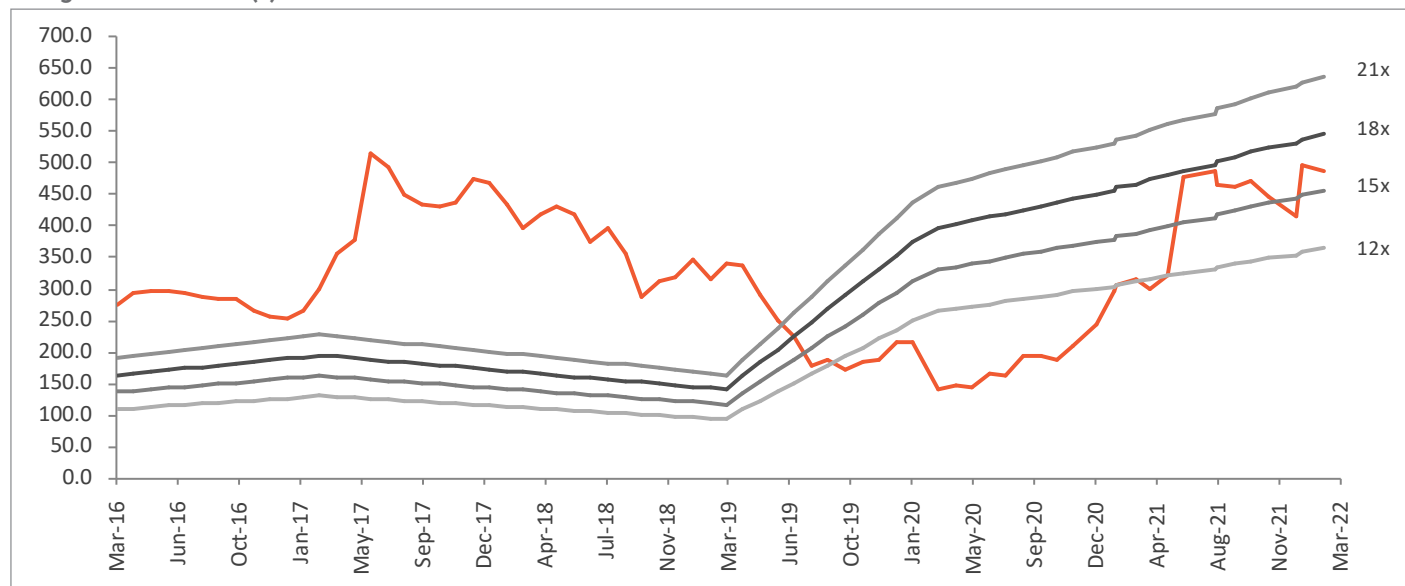
■ Company outlook - growth momentum to sustain by focusing on key levers

The company registered a stellar performance in FY2021 with revenues growing by 35% (led by strong volume growth and better product mix) and EBITDA margins improving to 19.6% (from mere 11.7% in FY2020). Diversified product portfolio (men, women & kids wear), improving penetration in high potential areas (X-factor areas, modern trade and export markets) and strong distribution reach (125,000+ retail outlets) will help to achieve strong double-digit revenue growth of 18% CAGR over FY2021-24. Focus on scaling up presence in the premium categories and integrated business model would help margins to remain high at 19-20% in the coming years. Higher EBITDA margins, improved working capital and asset-light model would help RoCE to improve to 30% by FY2024; Dividend payout would remain consistent at 20-25%.

■ Valuation - Initiate viewpoint with Positive view and potential upside of 27%

The innerwear industry is expected to grow at CAGR of 11% reaching close to Rs. 90,000 crore by FY2028 with large scope for organise players (currently ~40% of market) to grow faster on back of its superior product portfolio, strong branding strategy and expansion in distribution reach. Strong industrial dynamics and reinforced growth strategies will help Rupa to achieve strong earning CAGR of 19% over FY2021-24. The stock has corrected by 23% from its recent high and is currently trading at attractive valuation of 14.1x/11.7x its FY2023E/24E earnings. Thus in view of strong earnings visibility and attractive valuation, we initiate viewpoint coverage on the stock with a potential upside of 27% over the next twelve months.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Page Industries	-	78.5	65.7	84.1	52.0	42.7	37.3	51.4	47.8
Dollar Industries	21.2	27.5	32.6	10.3	12.9	10.7	18.6	22.3	24.5
Rupa	19.7	16.8	14.1	13.8	11.7	10.0	27.4	28.4	29.1

Source: Company, Sharekhan estimates

About company

Rupa, today is one of the leading knitwear brand in India, covering the entire range of knitted garments from innerwear to casual wear. Rupa has a broad & unparalleled product portfolio of innerwear, thermal wear, and casual and athleisure wear. The company has a bouquet of brands across all price segments — economy, mid-premium, premium as well as the super-premium across men, women, and kids. The company has four state of the art manufacturing facilities in Domjur (West Bengal), Tirupur (Tamil Nadu), Bengaluru (Karnataka) and Ghaziabad (NCR) with a capacity of 7,00,000 finished goods per day. The company has pan-India presence with over 1,200 dealers and over 1,25,000 retail touchpoints.

Investment theme

Rupa & Company (Rupa) is the leading knitwear brand in India with diversified product portfolio from innerwear to casual wear. The company has market share of 16% in the domestic innerwear market in India. To maintain its strong positioning in the knitwear market, the company is focusing on improving its position in categories such as athleisure, womenswear & thermal wear and expanding presence in low penetrated markets such as South & West India. Strong focus on improving mix through increased presence in the premium categories, efficient business model and expanding distribution reach through direct distribution aided the company to post strong improvement in the margins.

Key Risks

- ♦ **Volatility in the raw material prices:** Cotton yarn and fabric accounts for approximately, 70% of the total raw material cost. Any inability to pass on the impact of rise in raw material prices may negatively affect earnings.
- ♦ **Entry of Foreign Players:** With markets being global and digital, it is becoming easier for foreign brands to penetrate into Indian domestic markets thus, creating stiff competition for the existing players in the organized sector.
- ♦ **Changing customer's behavior and spending capacity:** Rapid change in the customers' preferences is a risk as it may lead to loss of business to its competitors. In addition, any downward deviation in economic growth will affect the consumers' discretionary spends, thereby, negatively affecting the earning potential of the company.

Additional Data

Key management personnel

Prahlad Rai Agarwala	Chairman
Ghanshyam Prasad Agarwala	Vice-Chairman
Kunj Bihari Agarwala	Managing Director
Dinesh Lodha	Chief Executive Officer
Kundan Kumar Jha	Company Secretary & Compliance Officer

Source: Company

Top 6 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ziyan Developers LLP	2.51
2	Abakkus Emerg Opp Fund	2.04
3	Grantham Mayo Van Otterloo & Co LLC	1.01
4	Matt Florita	0.65
5	MD Financial Management Inc	0.37
6	Acadian Asset Management LLC	0.07

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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