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STOCK BROKING PVT. LTD.

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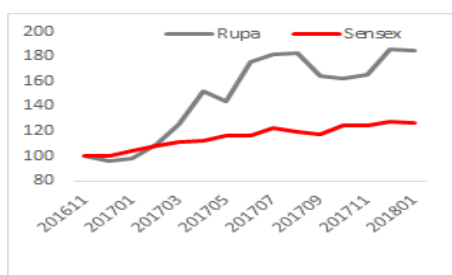
BUY

Current Price	481
52 Week Range	244-590
Target Price	612
Upside	27%

Key Share Data

Market Cap (Rs.bn)	38.7
Market Cap (US\$ mn)	595
No of o/s shares (mn)	79.5
Face Value	1
Monthly Avg. vol(BSE+NSE)000	239
BSE Code	533552
NSE Code	RUPA
Bloomberg	RUPA IN

Price performance



% Shareholding	Sep-17	Jun-17
Promoters	73.29	73.29
Institutions	0.6	0.4
Others	26.11	26.31
Total	100.0	100.0

Opportunity with an addressable market of Rs 253bn: India's innerwear market stood at ~Rs 253bn in 2016 which is expected to grow at CAGR of 13% and reach 595bn by 2023. Rupa being one of the largest player in the organised segment has 4.3% share with revenues of Rs 11bn in FY17.

50% industry un-organised, GST regime has indeed triggered the move from the unorganised to the organised: 50% of the Rs 253bn hosiery and knitwear market in India is unorganised sector, post GST regime they would face compliance issues. This opens scope for the formal sector to increase market share and consolidate.

Fruit of the Loom would help increase penetration in premium segment fulfilling the aspirational quotient with international brand; and going forward premiumization would drive margins: Rupa through its 100% subsidiary has recently acquired a license from "Fruit of the Loom" a wholly owned subsidiary of Berkshire Hathway to manufacture, distribute advertise and sell inner ware and outer ware products of fruit of the loom. We expect this development to be a key growth driver in the medium term for the company as there was no international brand besides Jockey present in India especially in the premium and mass premium segment. Rupa's tie up with FCUK too is a strategy to increase its presence in the super premium segment.

Rupa's contribution from Premium+Super Premium products has increased from ~9% to 10.6% between FY10 to FY17, with Fruit of the Loom the pace of premiumization would increase leading to better margins.

Strong Distribution Reach spread across 118000 outlets: One of the key parameters for the success of any consumer company is reach and Rupa with its 1000 dealers reaches 118000 outlets.

Wide product offering comprising innerwear, active wear and thermal wear for men, women and kids with 8000 SKU's and 18 sub-brands: RUPA manages a portfolio of 8000 stock keeping units (SKUs) comprising different range for kids, men and women with 10 successful brands and >100 registered trademarks.

Focused on standard products with high volumes and low inventory risks: 87% of Rupa's topline is through male innerwear segment catered through various sub-brands across various price points. Standard products (including premium) generate high volumes and have low inventory risks which do not go out of fashion as witnessed by the company during last 2 unforeseen events of GST and demonetization.

Efficient business model with no major capex for future growth: RUPA strategically outsources labour intensive processes in the entire value chain from the sourcing of raw material to delivery of its finished product, even in case of Fruit of the Loom the manufacturing is outsourced.

VALUATIONS:

At CMP of Rs 481 Rupa trades at 29x its FY19 E EPS of Rs 16.6 and 23.7x its FY20 E EPS of Rs 20.3. On EV/EBIDTA basis it trades at 17.7x FY19 and 14.6x FY20. (Peer Comparison pg -7)

Based on our weighted average target price methodology we recommend a BUY with a target price of Rs 612 i.e. an upside of 27%.

FINANCIALS Rs Mns

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY16	10,148.3	4.7	1,320.9	13.0	659.3	0.3	8.3	58.1	17.9	22.9
FY17E	10,927.5	7.7	1,388.5	12.7	722.5	9.6	9.1	53.0	16.4	23.6
FY18E	11,530.0	5.5	1,642.0	14.2	944.9	30.8	11.9	40.5	18.9	25.1
FY19E	14,426.4	25.1	2,202.3	15.3	1,320.8	39.8	16.6	29.0	22.5	30.0
FY20E	17,079.6	18.4	2,670.0	15.6	1,615.6	22.3	20.3	23.7	23.3	32.1



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Background

In 1968, promoters started the business as Binod Hosiery and launched the brand “Rupa”. The Company is engaged in the Manufacturing, Branding and Marketing of Men’s and Women’s Innerwear, Thermal wear and Casual wear for kids and all sections of the society, like, Economy, Mid-Premium, Premium and Super-Premium.

The company has over 18 sub-brands and 8000 SKUs (Stock Keeping Unit), having a strong brand recall. The Company has manufacturing facilities situated at Howrah Domjur, Tirupur, Bengaluru and Ghaziabad. The Company caters to all segment including men, women and kid segment with its wide bouquet of brands.

Business Segments:

87% of Rupa’s existing business is contributed by male innerwear segment catered through brands like Jon, Frontline, Macroman, Euro, FCUK and now Fruit of the Loom.

Women’s Wear: Rupa currently is catering to female innerwear space through its brands Jon, Softline and Macrowoman W Series. The business opportunity in women’s innerwear is huge, as it comprises 60% of the total Indian innerwear market in value terms and is growing at a brisk pace of 15%, as compared to the average industry growth rate of 12%. The segment has a lower presence of organized players hence, it provides a huge opportunity for the company.

Opportunity and Industry

Indian innerwear industry is almost 50% unorganized presenting a huge potential for organized players to gain market share in the Indian innerwear industry.

The Indian innerwear market is estimated to grow at 13% CAGR to reach Rs 595bn by 2023.

The Indian innerwear market is a classic glass half full. The Indian consumer spend on innerwear products is significantly lower than other Asian peers. This trend is visible across both men’s and women’s segments with gaps of over 90% against countries like Thailand and China.

The men’s innerwear market contributes 40% and is characterized by the presence of numerous Indian and international brands. The economy segment contributes around 56% in the men’s wear market, the mid-price segment 30% and the remaining 14% comes from premium and super-premium segments. Further, the premium and super-premium segments are expected to grow at a faster pace as the consumer seeks higher fashion orientation and higher comfort, as well as a strong brand name.

The women’s innerwear market, which is driven by value added innerwear products, contributes around 60% to the market and is growing at a faster rate of 15%. The market is largely dominated by mid-priced and economy segment contributing 80% of the market, while remaining comes from the premium and super-premium segments.

The trend towards western outfits, combined with the demand for occasion and outfit-based innerwear, is acting as a boost for the market. The demand for innerwear with higher functionality and greater comfort is rising fast.

50% industry un-organized, GST regime has indeed triggered the move from the unorganised to the organised.

Almost 50% of the Rs 25000 crore hosiery and knitwear market in India is controlled by the unorganised sector, which is finding the going tough in the GST regime due to compliance issues. This opens scope for the formal sector to increase consolidate. Introduction of E-way bill will further pluck out the loopholes and bring an end to GST avoidance.

Additionally, the input tax credit on service tax and excise duty would further push bottom-line.



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Strong Distribution Reach spread across 118000 outlets:

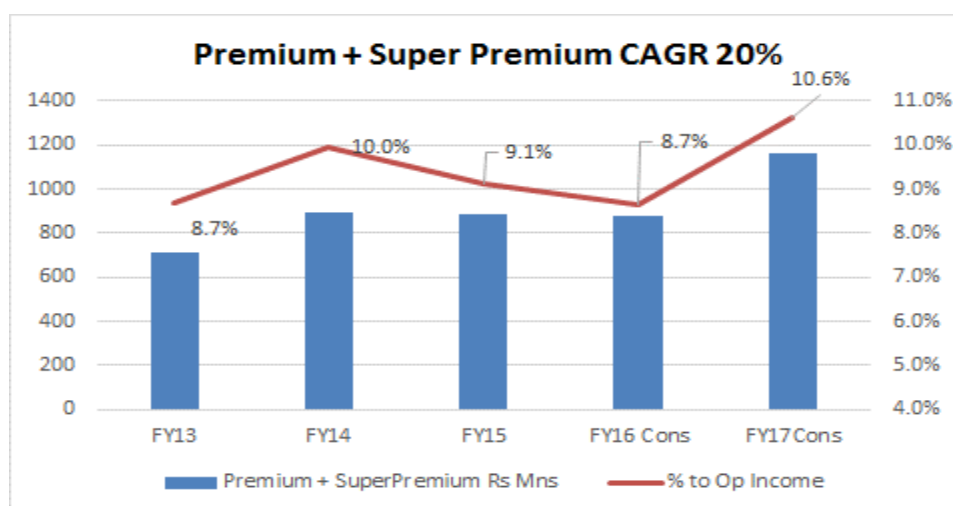
Rupa has a strong distribution networks of 118,000 retail outlets (as compared to 50000 outlets of Page Industries and 84000 outlets of Dollar) , 1000 dealers, 6 EBO's (exclusive business outlets), 4 central warehouses, 20 branches and 300 sales and marketing professional and also is available on various other e-commerce platforms. With efficient business model, the company manages 8000 SKU portfolio of different range for kids, men and women.

The company is planning to increase reach through presence in e-commerce, MBOs (Multi-Brand Outlets) and LFRs (Large Format Retail Stores). The Company is also looking forward to open Rupa EBOs through the franchisee route across India and expand its retail footprint.

Diversified Product Portfolio (including Inner – Wear, Active- Wear and Thermal) spread across price points ranging from economy to super-premium offered through 18 sub-brands of Rupa:

The Company caters to all segment including men, women and kid segment with its wide bouquet of brands. The various sub-brands of the Company includes, Frontline, Jon, Air, Macroman, Macroman M series, Macrowoman W series, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline, etc., catering to various segments, under its umbrella brand 'Rupa'.

Premiumization :



As shown above Rupa's Premium+Super Premium brands have been growing at a CAGR of 20% over FY13 and their contribution to operating Income has come up from 8.7% in FY10 to 10.6% in FY17, with addition of Fruit of the Loom we believe the contribution of "Premium and Super premium" brands would go up further.



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Fruit of the Loom the next big leap with a visibility of Rs 5bn opportunity and increase penetration in premium segment fulfilling the aspirational quotient with international brand:

Rupa & Company's Wholly Owned Subsidiary (WOS) has entered into exclusive licensing agreement with "Fruit of the Loom" (a WOS of Warren Buffett-owned Berkshire Hathaway) to manufacture, distribute, advertise and sell innerwear and outerwear products for men, boys, women, girls and toddler in India.

Fruit of the Loom was in India in 2009, but exited in 2012 as they were unable to manage back-end operational work due to lack of experience in Indian markets, however as far as dealers and customer satisfaction is concerned they left with no-complaints.

The brand has been launched recently, in a premium market. Rupa has already signed an exclusive one year online tie up with Amazon while they also have an instore tie up with The Central. Fruit of the loom is the second largest selling brand after Hanes in the world.

In India the younger consumers in the metros engage with brands primarily within the premium segment. The premium segment largely fuels the aspiration quotient which the company would fulfil with this international brand.

The product would directly be competing with Jockey. The company would be pricing the product similar to jockey and would enjoy similar margins.

This management vision is to take Fruit of the Loom brand to reach Rs 5bn in revenues in the next 4-5-year period, which would just be ~23% of Page Industries FY17 revenues of Rs 22bn.

FCUK to cater fashion to the fashion quotient market:

Indian innerwear market is shifting from a price sensitive market to a fashion quotient market Rupa through its subsidiary has also has acquired exclusive license from French Connection Limited to develop, manufacture, market and sell their innerwear and related products with the brand name 'FCUK' in India.

Consistency in Brand building efforts:

Rupa has been consistently investing ~8% of Sales between FY10 to FY17 in brand development to create a robust portfolio. One of the earliest to introduce celebrity endorsements. Celebrity Brand Ambassadors like Ranveer Singh for Frontline, Hrithik Roshan for the premium positioning of Macroman M. Series, Bipasa Basu for Softline. Company also sponsored Rajasthan Royals during the Indian Premiere League (IPL 6).

Efficient business model with no major capex for future growth:

Rupa intends to keep itself asset light by strategically outsourcing labour intensive work in manufacturing processes. The Company procures yarn, does dyeing in-house, carries out knitting process partly inhouse, design and cutting in-house and outsources stitching, which is labour intensive through job work (90% of job work). On the other hand, it utilizes its resources on key areas involving value addition, product differentiation, branding and distribution. Going forward, it intends to continue with asset light strategy. The Company does not have any major capex plan to achieve higher growth in future and would continue to follow the outsourcing model. It is keeping control on inventory through SAP which helps it to manage working capital in an efficient manner.



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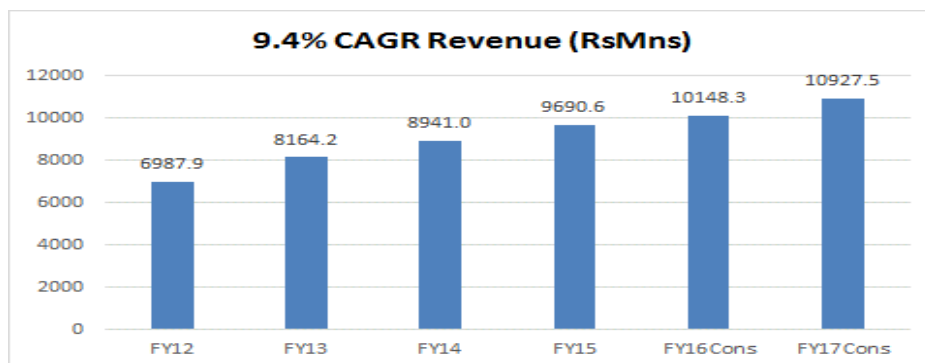
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Financials

Rupa & Company Ltd.'s Operating Income has been growing at a CAGR of 14% over the last decade and 9.4% in the past 5 year period. We believe GST introduction would act as an inflection point for the inner-wear industry as a whole, additionally inclusion of strong international brand "Fruit of the Loom" in Rupa's portfolio would further boost its topline.

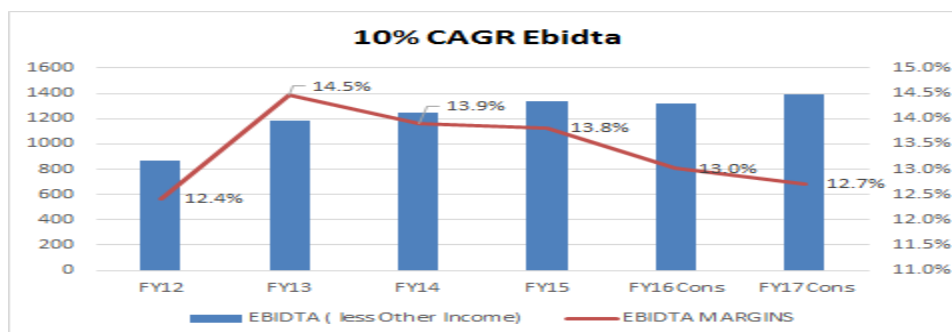
87% of Rupa's topline is through men's-wear where there has been a shift in consumer preference towards premium & super premium segment and economy segment is facing competition from un-organised players thus increasing premiumization with addition of Fruit of the Loom would improve sales going forward.

"Fruit of the Loom" has started sales since December-2017 and on a conservative basis we expect it to contribute ~1.6% of Operating Income in 1st year of operation i.e. FY18 and to reach 6% of Operating Revenues by 2020 with topline contribution of Rs 1008mn.



EBIDTA

Rupa's EBIDTA over the last decade has grown at CAGR of 19% (i.e. more than topline) and 10% over the past 5 years to Rs 1388.5mn in FY17, with peak margins of 14.5% in FY13. For H1FY18 despite of de-stocking and GST transition issues the company has been able to achieve margins of 13.9%. We believe with the focus on premiumization the company would be able to accelerate margins going ahead.





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Rupa's PAT has been growing at a CAGR of 11.7% higher than topline and EBIDTA as the company has been able to reduce interest cost to almost half at Rs 105mn in FY17 from Rs 211 mn in FY12.

Company's Debt to Equity ratio has come down from 0.9 in FY12 to 0.2 in FY17.

H1FY18: For H1FY18 Rupa's Standalone Net Sales declined by 15% YoY to Rs 4117.01mn on account of GST transition, EBIDTA margins were flat at 13.9% on a YoY basis. Interest cost declined further by 32.7% YoY to Rs 38.7mn. PAT declined by 15% to Rs 479.96mn.

The company has already witnessed uptake in demand in last month of Q3FY18 and is confident for making up for lower sale in H1FY18.



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Valuations Sheet

Particulars				EPS Rs		P/E		EBIDTA Rs Mns		EV/EBIDTA	
	CMP	IO. of Shares	I.Cap (Rs Mns)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Name of the Company											
Page Industries	25110	11.2	280074	296	373	84.8	67.3	5170	6590	53.7	42.2
Dollar Industries	462	54.2	25040	12.14	17.7	38.1	26.1	926	1210	29.4	22.5
Lux industries	1510	25.3	38132	27.35	30.1	55.2	50.2	1370	1510	30.0	27.2
Rupa Industries	481	79.63	38302	11.9	16.6	40.5	29.0	1642.0	2202.3	23.7	17.7
AVERAGE						54.7	43.1			34.2	27.4

(Based on Bloomberg Estimates)

EV/ EBIDTA Multiple FY19 E	23.0 (Considered lower than Average Peers)
EBIDTA FY19	2202.3
FY19 EV (Rs Mns)	50653
Debt FY19 (Rs Mns)	905
Cash FY19 (Rs Mns)	249.7
Market Cap (Rs Mns)	51308
Per Share (Rs)	644.3

Weighted Average Target Price	Multiple	Weight			Comment
		Target Price	Assigned	Price	
Target Price Using PE Multiple	35.0	580.5	50%	290	Average PE of peers for FY19 is 43x
EV/ EBIDTA	23.0	644.3	50%	322	Average EV/ EBIDTA multiple of peers for FY19 is 27.4x
Target Price				612	



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Outlook and Valuations:

Rupa being one of the largest India's knitted wear Company with strong bouquet of brands, comprehensive product portfolio, efficient business model and extensive distribution reach, positioned to benefit from the underpenetrated organized innerwear market.

GST introduction, exclusive license agreement with Fruit of the Loom are significant growth drivers for the company.

Going forward we believe that the company can achieve a topline CAGR of 16% between FY17 to FY20 on a conservative basis considering only 6% contribution from Fruit of the Loom by FY20 (which is expected to grow at 77.6% CAGR between FY18 to FY20 and achieve a topline of Rs 1008mn by FY20.

Page Industries (Jockey) over the last decade between FY07 to FY17 grew from Rs 1359.4mn to Rs 21301mn i.e. a CAGR of 32% Thus we believe the opportunity is much bigger with changing consumer preferences.

On EBIDTA levels with rise in share of premium products benefits of input credits we have assumed margins to improve to 15.6% by FY20 (peak of 14.5% achieved in FY13), thus EBIDTA would grow at a CAGR of 24% between the same period and PAT to grow at a CAGR of 31% to Rs 1615.6mn by FY20 with some more reduction in debt (as the company does not have any major capex).

Rupa's ROE and ROCE in FY17 stood at 16% and 24% respectively which is expected to improve to 23% and 32% by FY20 with Debt to Equity of 0.1.

Valuations

At CMP of Rs 481 Rupa trades at 29x its FY19 E EPS of Rs 16.6 and 23.7x its FY20 E EPS of Rs 20.3. On EV/EBIDTA basis it trades at 17.7x FY19 and 14.6x FY20.

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