# "Rupa & Company Limited Q3 FY2021 Earnings Conference Call"

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**<u>MANAGEMENT</u>**

1. **Mr. Vikash Agarwal – Promoter, Rupa & Company Limited**
2. **Mr. Dinesh Kumar Lodha – CEO, Rupa & Company Limited**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Rupa & Company Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dinesh Kumar Lodha, CEO of Rupa & Company Limited. Thank you and over to you Sir!

**Dinesh Kumar Lodha**: Hello and good afternoon everyone. First and foremost, I hope you are keeping great and healthy. Today on the call I am joined by our promoter, Mr. Vikash Agarwal and Orient Capital, our investor relation partner. We had uploaded our investor release and result highlights on the stock exchange and company website. I hope everybody had an opportunity to go through the same. Since we are doing the quarterly earning call for the first, I would like to share a brief overview of our company, its journey so far and growth strategy going forward, which will be followed by operations and financial performance of the quarter and nine months ended fiscal year 2021. Post that we will open the floor for question and answer.

Rupa, today is one of the leading knitwear brand in India covering the entire range of knitted garments from inner wear to casual wear. Started as a dream in the far-sighted mindscape of three men, Rupa has evolved to become the frontrunner in India and a leading player in global markets with a far-reaching footprints and millions of satisfied customers. This is because Rupa believes staying ahead not just in terms of volumes, but also in technology and product innovations. In line with the evolving customer preference and market demands, Rupa periodically introduces new variety of products in each of the sub-brands. These products have the latest fabric innovations, cutting-edge production techniques and advanced design elements to give the finest experience of style and comfort to the end-user.

Rupa has unparalleled product portfolio of inner wear, thermal wear, casual, athleisure and we time to time change our products based on the requirement and evolvement in the market. We have multiple brands across all the five type segments, whether it be knit segment, premium and super-premium segment and also across men, women and kids. We have four state of art manufacturing facility, one in Domjur, Tirpur, Bangalore and Ghaziabad with the capacity of 7 lakh finished products per day. Quality and innovation, we feel proud of and we keep investing on the same year to year. Inner wear thermals and hosiery products are made from superior and natural fabrics.

Coming to distribution, the company had pan India presence with over 400 dealers and over 1,25,000 retail touch points. Rupa enjoys very strong position in East of India and has gained significant presence in the North followed by the Western India. Rupa is increasing its footprint in South India and plans to expand and improve markets are going ahead. Our strategy is to foray in new markets by appointing new distributors and business experience team and further expanding our sales in existing market. Rupa exports in multiple countries and recently we started our business in Russia, Nigeria and other countries. We are continuously investing in brand development and invested more than Rs.1,000 Crores on brand development last decade. The company has a strong brand recall value. The company is planning to scale up a high margin revenue business to include the brand like FCUK, Fruit of the Loom and M-series. The reason is to occupy the consumer mindscape in this category where the aspirational India consumer can show off his style quotient and discerning taste. Our aim is to make premium inner wear based on comfort accessible to the consumer.

The company is also reinforcing high growth segment that is athleisure, women’s wear and thermal wear segment. Export is muted this year, but we are expecting this to double in the next two years’ time. The company had good presence in modern trade having presence in more than 150 stores more on the LFS segment, our strategy is to increase brand footprint across all brands creating a special product line more relevant to modern trade and improve on time and serviceability. Future plan is to have presence in more than 300 counters in the next two years. I am happy to say that company has also started opening EBOs and we not only have 11 EBOs in place, but we are expecting to be 25 by the year end. We are expecting 150 EBOs in next two years time. Rupa is present across all e-commerce site and future plan is to enhance brand visibility and through the inflow increasing online projects.

Now coming to financials numbers. Our company has reported a strong growth for the quarter and nine months ended December 31, 2020.

Revenue for Q3 FY2021 stood at Rs.346 Crores versus Rs.308 Crores registering a growth of 12% on year-on-year basis, EBITDA has been strong with growth of 40% stood at Rs.64 Crores as compared to Rs.46 Crores in Q3 of FY2020. We have seen an improvement of 370-basis point in our EBITDA margin due to change of product mix, improved operating efficiency and cost of reduction. Our EBITDA margin for the quarter stood at 18.6% as compared to 14.9 for the previous Q3 FY2020.

Profit after tax for the quarter stood at Rs.43 Crores versus Rs.29 Crores in the same quarter last year, PAT margin quarter stood at 12.6% showing improvement of 330-basis points compared to 9.3% last year the same quarter.

Coming to nine months performance, our revenue stood at Rs.859 Crores versus Rs.795 Crores registering a growth of 8% EBITDA for nine months stood at Rs.167 Crores as compared to Rs.106 Crores in last year the same time registered a 57% year-on-year growth. EBITDA margin also had a healthy improvement of 610-basis points which stood at 19.4 versus 15.3% last year.

Profit after tax for the nine months stood at Rs, 109 crore compared to Rs.66 Crores last year the same time recording a growth of 65%, PAT margin stood at 12.7% a stellar improvement of 440-basis point as compared to 8.3% in the last year. With this we will open the floor for question and answers.

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shalini from Goldman Sachs. Please go ahead.

**Shalini**: Good evening everybody. I had two questions. One is what the reason for the change in the EBITDA margin, basically EBITDA margins have gone up because of the change in the product mix, so if you could just talk about that that is question number one.

**Dinesh Kumar Lodha**: I think the high margin product mix like thermal, we had seen improvement growth of 25% plus, which again give us almost 10% to 15% extra margin in compared to normal versus average margin, same way with the outer wear which is Bumchum, we have seen almost growth of 50% plus till now again a very stellar performance with the mix of higher margin product like outer wear, premium segment like M Series where we are seeing a huge growth against last year, we had growth about 30% plus against last year and thermal again 25%, so these are the mix which is the high margin product is helping us to decide that as you know some of the margin improvement has happened because of some of the cost part, but product mix is also helping to some extent.

**Shalini**: If you could speak about athleisure, how much are you growing there and the sense I get is that probably you are not growing as much as the market because lot of players in the market has grown at 15%, 20%, so if you could just speak about your growth in the athleisure market?

**Dinesh Kumar Lodha**: Just to give you on a Bumchum, which is our main outer wear brand, used normally to Rs.70 Crores and this year we are expecting to cross Rs.100 Crores so you can understand not 15%, 20% I am talking 40% plus growth here, so clearly I think we are taking lead and taking share in our outer wear, it is a mix of athleisure and casual wear growth.

**Shalini**: Okay and Sir, when you are saying premium I am assuming you are talking about FCUK and Fruit of the Loom, so if you could talk about how these two brands have grown?

**Dinesh Kumar Lodha**: When we say premium, our inhouse premium which is our own brand called M3 that is one of the Macroman M3 that has the huge growth this year, so that is the main growth in Indian from the premium target beside that FCUK and FOTL also has growth, but I think an FCUK and FOTL, our whole idea this year was to really come back on the profitability path more than growth, so what we have seen both these brands we used to have EBITDA Rs.10 Crores loss and we are expecting this to be positive EBITDA this year, so there is a huge turnaround of the business from the profitability point of view and business is very stable now to take the next jump in terms of growth mode. As I said M3 we have seen a growth almost 30% to 35% this year against last year and also in the past trend I think we have seen a growth in the M3 segment.

**Shalini**: My last question, we have seen a huge jump in EBITDA margins in these nine months, for jump in the quarter gone by I think the EBITDA margins are probably closed to 16% if I am not mistaken whatever it is there has been a huge jump, so what kind of margins should one expect going into FY2022?

**Dinesh Kumar Lodha**: Traditionally if you have seen our numbers used to do 13%, 14% and this year we will be ending somewhere between 18% plus, which is a significant growth of 4% to 5%. We expect actually EBITDA margin to remain may be 1% here and there, but we should be like 17% EBITDA margin as a sustainable basis going forward, 17% plus.

**Shalini**: Thank you Sir. All the best.

**Moderator**: Thank you. The next question is from the line of Dhruv Kashyap from Edelweiss. Please go ahead.

**Dhruv Kashyap:** Thanks for the opportunity and good afternoon to both the gentleman and congratulations on a stellar job that you guys at Rupa have been doing in the last few years. I have three questions. The first is would you be able to share a bit of color on how the industry players stack up in terms of Jockey, Rupa, Lux, etc., etc., in terms of national sort of value and volume market shares and also if you could give some sort of regional flavor, rural and urban mix?

**Dinesh Kumar Lodha:** So I think I will give you first the rural and the urban mix. The rural and urban, we have 60:40 sort of mix and what we are seeing this year just to give a snap shot of this year because we are reviewing this year. I think what we are seeing that the first two quarters after the lock down opened, we are seeing the rural has come back very strongly after the lock down opening up. Whereas the urban has started showing results from the last quarter, the quarter, which just went by. So we are seeing now the growth coming from across both the segments, but the first two quarters, which is till September we are seeing the rural something which is sailing up the port. As far as competition is concerned, this year clearly Jockey has been leading. Overall they are leading the market, but they have a huge degrowth in the first half where we have a pretty large growth as far as number is concerned. Lux and Dollar both first nine months I will say that they are either negative or almost on the last year number and those numbers are already visible, already reported, so I will not be commenting more on that. We may be as I said, we will expecting a pretty solid growth as well as solid growth on EBITDA this year. We will be almost doubling our PAT. So that is the way I see right now in the industry. So I think Jockey may have sales coming back in terms of growth path.

**Dhruv Kashyap:** Sir more in term of like AC Nielsen reports in the FMCG segment would you be able to share some color on market shares or size of which player what is the position on each of them ranked in the market and some color because we really do not have access to that information?

**Vikas Agarwal:** There is no published data frankly or a brand label, but the major five to six players what we have some data, which has been listed and which has been there in the market, Jockey is leading the show and Lux and we will be almost there together very near to that number at a market share of 14% to 15% and the Dollar is a little bit below that and then Amul and others will be very similar. I mean all the companies are very near by number except Jockey, but we are expecting to take lead in the industry as we go forward.

**Dhruv Kashyap:** Sir just to clarify Sir before I move to my second question. Your are saying that number one is clearly Jockey and number two and three keeps changing between Lux and Rupa?

**Vikas Agarwal:** Yes.

**Dhruv Kashyap:** And regional wise Sir where are the opportunities for Rupa? I am guessing you must be extremely fortified in the East, but about North, West and South in terms of opportunity?

**Vikas Agarwal:** So again we have a very strong presence in North in UP or Delhi, we have very strong presence, but within that there may be a space where we are focusing right now where we may be not be doing that great. So again in the West we are doing very well in Maharashtra and Gujarat and Rajasthan again we are doing pretty well, but within those states also there are states where we have to do more and that is something we are focusing on. South is the one area where have not done well in the past. We are doing pretty good in Karnataka, but besides Karnataka I think we have a challenge, which is where we are working right now.

**Dhruv Kashyap:** Sir my second question is that is there any benefit to your industry through the performance link in PLI exports scheme?

**Vikas Agarwal:** At the moment nothing, but for man made fibers and all if we get into that and if there is a clearance on ST agreements, we might get into that, but at the moment nothing.

**Dhruv Kashyap:** So that means Agarwal Sir currently none of your products would qualify as in your current portfolio that is?

**Vikas Agarwal:** Clearly PLI scheme says irrespective of whatever turnover, which we have in textile, which has to be above Rs.100 Crores and if you add on to any of those credits to qualify for PLI scheme, which is man made fibers and technical apparels to qualify for the PLI scheme. So once we get into that space, we are qualified for PLI scheme.

**Dhruv Kashyap:** Great. My last question Sir is that given that this has been a difficult year, there was a lock down and then things started to come back, ecommerce came back and then people started visiting stores. How are you seeing demand now especially with the winters having passed and since you have a significant play in the winter category as well how do you see the demand progressing from let us say the start of last year to now the start of this year?

**Vikas Agarwal:** The demand will be definitely there. Definitely after pandemic we all understand we are after food and medicines, we had to use grocery on an everyday basis and with lifestyle change, we understand the casual wear and regional wear apparels turned into a big trend now and this can be sustained because of change in lifestyle, but I think this demand is sustainable and with the government trust on agriculture and on the rural areas, the demand will keep growing.

**Dhruv Kashyap:** Are you seeing that currently in the last few quarters numbers?

**Vikas Agarwal:** Sorry.

**Dhruv Kashyap:** Are you seeing that in the last few quarters numbers in terms of demand progressively picking up?

**Vikas Agarwal:** December was a bit low, but January again it is picking up well.

**Dhruv Kashyap:** It is picking up well okay. Sir thank you so much and all the very best Sir. Your guys are doing a great job. Thank you very much.

**Moderator**: Thank you. The next question is from the line of Pankaj Jain from Mahaveer Investment. Please go ahead.

**Pankaj Jain:** Thank you for this opportunity. Sir I would like to know what is the current working capital usage for the business as on nine months and what are the debtor days?

**Vikas Agarwal:** Your voice is not clear, but I suppose you are taking about working capital right?

**Pankaj Jain:** Yes?

**Dinesh Kumar Lodha:** I think working capital we are seeing a significant improvement. If you see the numbers, we have working capital of 204 days last year in the same time. Now we are over 171 days. Our target is to move to 150 and below and that is where it will be and we are working towards that. We are working on towards that. So clearly we are moving toward makings significant down from the past.

**Pankaj Jain:** Sir and a couple of more. What would be our targets for export business and how do we plan to grow that business and what would be the targets going forward?

**Dinesh Kumar Lodha:** The export this year is muted in that sense. We may not be growing in export that much this year, but we are expecting 40% to 50% jump next year because we acquired couple of big customers this year, which should be starting showing results next year. As I said earlier, I think we are expecting doubling down export numbers though it is still a very small number in overall scenario, but we are expecting to double down on export number.

**Pankaj Jain:** Sir last question from my end would be Sir since this is now pandemic time and the only challenge is taking phase so what would be our ecommerce strategy and how are we planning to get some shares from the ecommerce business selling somewhere on websites, or apps or through shopping channels?

**Dinesh Kumar Lodha:** We have presence across all the top sites whether it is Amazon or Flipkart or Myntra and we have seen almost doubling down this year. We will be double the number of ecommerce what we have last year, but again it is still a pretty early stage from where we can see the growth and we are expecting this growth to continue going forward and give us incremental growth. As far as our website, we are also working on that to bring more share to our own site, but we have a large presence on all the top sites where we are focusing more.

**Pankaj Jain:** That is it from my side. If I have any more questions, I will get back in the queue. Thank you.

**Moderator**: Thank you. The next question is from the line of Anuj Sehgal from Manas Asian Equities Value Fund. Please go ahead.

**Anuj Sehgal:** Thank you. I had a few questions. My first question is can you share the average ASP of your inner ware, athleisure ware and outer ware and secondly in terms of your channel mix between the multibrand outlets, ecommerce and modern trade can you share what percentage of sales do you get from each segment and each channel and how has the growth been across these three channels year to date for this fiscal year and then lastly you know you did mention that so your growth of course has been much stronger. What has been the main driver of this growth relative your peers so far this year? Thank you.

**Dinesh Kumar Lodha:** I think ASP. You have so many questions. I hope I remember all, but let me try to answer. As far as ASP is concerned this is very broad actually. The average is not going to make any sense because you start at 350 a box and move up to Rs.2000 a box, but just to answer to you on an average, it will be between Rs.600 to Rs.700 as far as the ASP is concerned working there and on the premium segment, it will go up to Rs.2000. So again it is a broad range where we play and a super premium and premium it goes for Rs.3000 also. This is a different category different ASP will be there.

**Anuj Sehgal:** Just to clear by category if you can give some sense? For example inner wear what is the range? What is the range for outerwear and what is the range for your thermal?

**Dinesh Kumar Lodha:** Thermal ASP on terms of I will say the retail price. The retail price will be in the range of Rs.300 to Rs.400 per piece I will say. That is the range and it goes up to some of the range may be Rs.600, but more Rs.300 to Rs.400. As far as inner wear is concerned, per piece it will start from Rs.70 to Rs.80 and move up to Rs.400. Outer wear starting range will be about Rs.700 to Rs.800. It will go up to Rs.2500 to Rs.3000.

**Anuj Sehgal:** Understood that is very clear. Sir my other question was on the channels between modern trade, multibrand outlets, exclusive brand outlets and online what is the mix of your sales and which channels has sort of driven the growth this year so far?

**Dinesh Kumar Lodha:** The channel, this will be broad actually for most of the companies, but for us ecommerce, we will be doubling this year as I mentioned earlier and though the modern trade as a segment is still very early stage from an overall growth perspective, we are seeing some downfall in LFS because of the first two quarters, but Q3 LFS has turn around and we are seeing Q4 again a big number on LFS. As far as modern trade, which is a compromise, which has ecommerce, LFS, and EBOs. All together I think Q4 onwards will see growth across all the three segments, but because the first two quarters has LFS downfall because of the lock down and could not open complete market, ecommerce had led the show with a growth of 100%.

**Anuj Sehgal:** What is the mix of your sales across these channels?

**Dinesh Kumar Lodha:** Mix when you say mix...

**Anuj Sehgal:** What percentage of your turnover comes from different brands?

**Dinesh Kumar Lodha:** Modern trade is the overall number is just at 3% to 3.5% right now and so may be at 4%, but we are expecting this to touch 10% in the next few years time and that is our focus area. Within that space, ecommerce will be about 70% and that will gradually generate revenue. Most of the business is exported and general trade. General trade is the major part of our business.

**Anuj Sehgal:** Basically just to be clear general trade is about 96% of the business and 4% is the modern trade plus exclusive brand outlets and online of which 70% is online right now?

**Dinesh Kumar Lodha:** So 4% modern trade, 2% export and then 94% will be GT. That is the split.

**Anuj Sehgal:** The growth largely just for this year again has been essentially as you said modern trade was slow and even LFS was slow so it is online, which has doubled, but it is still a small percentage, but bulk of the growth has basically come from the general trade this year?

**Vikas Agarwal:** Absolutely, but at the same time by the next couple of year like 10% should come from the modern business and another 4% to 5% will contribute to our export at least.

**Dinesh Kumar Lodha:** The key strategy which we mentioned earlier in our presentation also. We are expecting modern trade to contribute 10% of our numbers from what we have right now in the next years two years time, two to three years time. The same with export, we will be doubling the number. Those contributions will go up to 13% to 14% from what we have right now.

**Anuj Sehgal:** Then lastly in terms of your growth for this year so far, you have grown better than the industry and some of your peers so what has driven that? Have you gained market share or is it a function of lot of new product launches can you just give us some sense of what has driven that growth?

**Dinesh Kumar Lodha:** I think it is a mix of all. At the launches also some shift from unorganized to organized as well and of course online and ecommerce is there and market share is also we have penetrated deep also. That is also there.

**Anuj Sehgal:** Sorry just the last question so the growth that you have seen would you have a sense of whether this also the growth that you are retailers have seen or there could be some level of inventory build in the channel?

**Vikas Agarwal:** Inventory is actually light in the channel because in pandemic the supply was very bad. So across all the channels whether it was retailer or dealer, they sold off all their old inventories also. The channel is light now than what was in the past.

**Anuj Sehgal:** That is helpful. Thank you very much.

**Moderator**: Thank you. The next question is from the line of Nilesh Doshi from Green Lantern Capital. Please go ahead.

**Nilesh Doshi:** Sir a couple of questions from my side. First is on this growth what we have seen in the last nine months and you did elude that there is some shift from unorganized to organized so the question is that is it because of COVID and lock down this unorganized sector was not able to come back for manufacturing in terms of their working capital, their raw material requirement, etc. As thing normalize and when they come back, do we see a degrwoth for us or we do not see this kind of a growth going forward?

**Dinesh Kumar Lodha:** It is not a significant move from unorganized to organized because of COVID. There will be some extend in the initial first one month or two months, but after that everybody will catch up. So I do not do see that will be the reason for not growing. As I said, we are looking at growth of 13% to 15% even next year with our growth strategy. So I do not see that as a challenge. In fact to some extent in the initial part of the lock down opening there may be some shift happened, but I think that has been caught up in the Q2 to Q3.

**Vikash Agarwal:** At the same time the way Indian companies are growing, there will be a general shift from unorganized to organized, which will be forever and that will be very big definitely big.

**Nilesh Doshi:** So when we say unorganized to organized shift yes everyone has come under GST structure, but going forward is the brand going to play a differentiation or still the pricing point is going to be because invariably I have seen that there is no pull for the brand in inner wears and outer wears, I think most of the time the retailers display all the products and then location wise, there could be a different product selling so how do we see?

**Vikas Agarwal:** Of course there is always a pull for the brand and as we have all the segments, we have a bottom of the segment also like we have economy segment also so that is also there. We play across all the segments. That helps us to work in different locations.

**Nilesh Doshi:** Sir how big would be the unorganized market today?

**Vikas Agarwal:** It is very difficult to comment, but at least 40% to 50%.

**Nilesh Doshi:** Recently we have seen a spike in yarn prices and obviously leading to the product price increase so how do we see in terms or how quickly we change our pricing structure and ensure that we maintain our margins?

**Vikas Agarwal:** It works well for us. In the season trend, our dealers pick up more stock and we easily transfer those prices to the market and they took at least three to four price hikes in the last one to one and a half years.

**Nilesh Doshi:** But our model, we are a very light manufacturing model right?

**Vikas Agarwal:** Yes.

**Nilesh Doshi:** So we completely outsource the products?

**Vikas Agarwal:** We do not outsource the products. We buy our own yarn. We do our own knitting and all. Only the stitching part is largely outsourced. With our own workers who are with us for the last 40 to 50 years and we keep a big one. Otherwise we will like more than 30,000 to 40,000 labor in one umbrella which is not practical.

**Nilesh Doshi:** The last is on the export. We are exporting our own brands.

**Vikas Agarwal:** Under our own brand only largely, but in the coming times, we might consider other brands also.

**Nilesh Doshi:** Sir thank you. I will come back in the queue.

**Moderator**: Thank you. The next question is from the line of Ridhima Chandak from Roha Asset Managers. Please go ahead.

**Ridhima Chandak:** Thank you for the opportunity Sir. Sir my question is on our total volume so what is the total volume in the Q3 versus last year Q3 FY2020 and nine month volume?

**Dinesh Kumar Lodha:** On the 12 months Q4 and full year, basically I said we will be growing at a volume against last year. Volume will be grown over 37% and even in 2018 to 2019 basis, we will be growing about 14% on full year basis. Till now our growth is very similar to that. It will not be very big change. So pretty much growth both on a value and volume.

**Ridhima Chandak:** Sir any specific number if you want to quantify?

**Dinesh Kumar Lodha:** As I said till nine months, it will be growing at 11%.

**Ridhima Chandak:** And you said like you have done the specific means in terms of lap pieces?

**Dinesh Kumar Lodha:** It is 1.32 Crores is what the volume that we have.

**Ridhima Chandak:** Okay and same period last year?

**Dinesh Kumar Lodha:** 1.7% to 1.78%.

**Ridhima Chandak:** The other question is on the costing parts so our advertisements expense at the end of FY2020 was 7% approx and in nine months advertisement expense dropped down to 4% whereas it was 6% in nine months FY2020? Also in the other cost side, it has dropped down very significantly from 16% odd to now 11% in the nine months, so going forward what would be the run rate in terms of advertisement and other expenses?

**Dinesh Kumar Lodha:** We will be ending this year on a total year basis, we will be ending at 4.6% to 4.7% and we are expecting this to be around 6% to 6.2% as we go forward. Because the reason is two things. I think we are using social media large this year and we have a seen a huge impact on that and that actually has a high impact with the lower cost in that sense. So the traditionally it was more on the TV and papers, which we are now using social media also. It is a big area for our advertisement, which is helping us. To reach more younger generation as well as also on the cross sided. As advertisement, we will be at around 6% going forward. This quarter will be definitely higher advertisement, which already the factors in and we have talked about it.

**Ridhima Chandak:** You mean Q3?

**Dinesh Kumar Lodha:** Q4. Q3 is higher than the last Q2. Q4 will be around the same level.

**Ridhima Chandak:** Thank you.

**Moderator**: Thank you. The next question is from the line of Avishek from Individual Investor. Please go ahead.

**Avishek:** This is Avishek. First of all many congratulations for a stellar performance in Q3 as well. Just one small question. On the yarn prices, I could not follow what exactly you said on the yarn prices because I have been reading a lot in the newspaper that yarn prices over the last three to four months have continuously gone up and if I am not wrong, it has gone up by almost 20% to 25%. Basically my question is that if 20% to 25% of yarn price increases happen will that impact start showing in the quarter to come or what exactly is our steps that we are taking to ensure that impact is not there in our EBITDA margins?

**Dinesh Kumar Lodha:** So just to inform you we have raised our price by now and we are expecting one more price hike in the next 10 to 15 days time. So that has been already covered through our price rise and already passed on to the distributor as well as the retail channel. We do not see that impacting us as far as profitability is concerned because we have taken decision immediately seeing the prices and those have been passed along. So there is a three price hike actually in the last two months almost. That actually helped us. If we do price raise, which will make dealers to take more stocks liquidating the whole inventory so that actually helps the market to grow.

**Avishek:** Okay one more question how has been the working capital and the cash flow position during Q3?

**Dinesh Kumar Lodha:** I talked about working capital just some time back. Our number of days actually it is from 204 the same time last year, it has moved to 171 days and I said we are targeting to achieve 150 days and below as we go forward so there is a significant improvement on working capital as well as on the cash overall from the shares accretion, we have generated this year so far for the December quarter, we have generated Rs.117 Crores. From operating activities it is Rs.95 Crores. So there is a significant cash generation happened in the last quarter and likely we have generated some accretion almost of Rs.200 Crores and that is why we are net right now. We have the cash positive. We do not have net borrowing right now.

**Avishek:** Thank you so much Sir and good luck for the coming quarters.

**Moderator**: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

**Dhiral Shah:** Good afternoon Sir. Coagulations for the great set of numbers and thank you for organizing this con-call. Sir my question is what is the current capacity utilization?

**Dinesh Kumar Lodha:** Right now we are utilizing about 75% to 80% I will say. We still have 20% capacity, which we can use and always we want to keep some capacity to take the growth and momentum jumps sometime. So that is the way it is right now, but as we go forward we look for an extension as we go forward, but right now there is no plan.

**Dhiral Shah:** Second thing Sir you talked about improvement in the working capital side so which category you are focusing on, on inventory, receivable days or payable days Sir to bring down this to 150 days?

**Dinesh Kumar Lodha:** That will be through inventory though receivables also will be going down, but inventory we are right now moved from 145 to 125. We intend to go below 90 days as we go forward. So that will be significant challenge, which we are taking on ourselves to move forward.

**Dhiral Shah:** Great Sir and lastly what is your pricing difference between the unorganized as well as the organized segment the category in which we are present?

**Dinesh Kumar Lodha:** It is very difficult to say, but there will be 50% almost a difference sometimes. It is very difficult to say what type. Each packet has a different unorganized player, but it can vary between 20% to 50% depending on the market and the type of product.

**Dhiral Shah:** Thank you Sir. That is it from my side.

**Moderator**: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital Advisors LLP. Please go ahead.

**Anish Jobalia:** Good evening Sir and thank you for the opportunity. Sir I just wanted to check with you Sir. You mentioned about the EBO strategy wherein you have some 15 EBO outlets and you will end up with 25, which is expected to ramp up to 150 so just wanted to understand this strategy a bit better and what kind of growth can this contribute to our overall top line and also if you could share a bit about who is leading this initiative because what I am coming from is that also a challenge to create profitability from an EBO ventures and also is working capital more intensive so overall how are you fitting this piece into your overall strategy?

**Dinesh Kumar Lodha:** Thank you for the question. I think the first one I just want to mention here that our EBO is franchise on franchise operate. So we do not keep inventory ourselves, it is all owned by the franchise. From the point of working capital there is no an impact, it will directly move to them. As far as our model is concerned, we are focusing lot on tier2 and tier3 to start with and our viability is below Rs.2 lakh per month sales, which is a significant differentiation in terms of the way we have built up the whole EBO plan and that is where we are seeing most of the EBO which has opened have started doing and we have tested this model now. The idea was to take this model and we have tested that in smaller cities that are doing pretty well. So we see a significant opportunity to get into tier2 and tier3, it both helps from business point of view and branch point of view and clearly we are seeing that going forward we will be going very aggressively on that. This will be still pretty small in terms of continuation because we are expecting Rs.1.5 lakh to Rs.2 lakh per month so that is something will give us a Rs.20 lakh revenue so Rs.20 lakh it will maximum 2% right now even we open the EBO, but this will be a going forward. It is not a one time. It is a going forward can be a big significant play.

**Anish Jobalia:** But just to understand your thought process in terms of how it can actually help our current business? What are you actually looking to do? I understood that you are looking to hinterland but overall how does it help our business? Does it propel our growth of our current business or may improve the visibility of our product?

**Dinesh Kumar Lodha:** I think our business outer wear in an overall scenario it is just 10% to 12% as of now. When it comes to EPO outer wear plays significant 70% of the sale and that helped us a lot to area where they are focusing and you know one of the strategies we have is part of it is to focus on the outer wear segment and that is something we will be making a different game changer because that has a huge play of outer wear. Both on ecommerce as well as what we are seeing on the EPO there is a huge play on the outer wear. From the overall strategy it is really good fit that we are looking for and also it has a high margin generator business in the sense that outer wear always contribute more margin and it gives visibility to the brand also.

**Anish Jobalia:** Thanks for taking my questions.

**Moderator**: Thank you. The next question is from the line of Hussain Kagzi from Ambit Asset Management. Please go ahead.

**Hussain Kagzi:** Thank you. I just had one question, which was with regards to your manufacturing? You said some of it is outsourced as it is given to some of your old workers? Can you just explain like how it works and how much the overall are manufacturing will be the outsourced just wanted to understand better on that? Thank you.

**Dinesh Kumar Lodha:** As we said earlier, we buy yarn. We do our own knitting. Only the stitching part is outsourced. You have to employ thousands of labours, so directly or indirectly we employ around 40,000 to 50,000 laborers. Only the job work part we outsource only the stitching part. The rest is all inhouse. All well controlled and well managed by our quality team.

**Hussain Kagzi:** That is it from my side. Thank you.

**Moderator**: Thank you. The next question is from the line of James an Individual Investor. Please go ahead.

**James:** Thank you for the opportunity. I just had one question. So would you be able to sub divide the revenue growth in terms of the growth in volume and the growth in prices given that we have seen price hikes twice or thrice over the past two years?

**Dinesh Kumar Lodha:** As I said price rise has happened more on the last two months so from the volume and price, there will be a gap of 1% or 2% on a varied basis, but it is not a significant change between price and value because the price will remain same almost for up to November I will say. So to that extent 1% or 2% at best.

**James:** Got it. Thank you.

**Moderator**: Thank you. The next question is from the line of Nilesh Doshi from Green Lantern Capital. Please go ahead.

**Nilesh Doshi:** Sir you did mention that there is a opportunity for you in the outer wear segment so can you help me understand what kind of products still we do not have in the portfolio of outer wear and what we want to add? What is the competition in that area versus also the opportunity size?

**Dinesh Kumar Lodha:** I think there are always the products are there in the segment, but there are opportunities within the segment. Take example athleisure, we have a lot of products, but within that space there is a lot of new products space opening up. Same way is with the sports. There are lots of new products we are launching. Even our premium brand where we are launching new products in athleisure as well as on the sports side. So in the winter again outer wear becomes more significant with the jackets, which is not there earlier and we have launched now hoodies. Some of the these we are launching Bumchums brand and also on the premium side Macroman brand where we are launching the hoodies and others. I do not want to give precise each segment how much, but across these two to three brands, which is where we play on the outer wear, we are seeing a significant room in terms of getting into new products and the growth because it is very stage of where we are right now on outer wear, which is just a 10% to 12% of our number and we feel this can be 20% range on our overall number in the future. New products new fabric is new and yarn also so in cotton, we are using man made fibers also like polyester and that is also helping us.

**Nilesh Doshi:** So it would be like not just natural fiber base, but also mixed or those kind of things?

**Vikas Agarwal:** Cotton the mix is important for these categories.

**Nilesh Doshi:** Sir how big that market size would be in India and at what rate? I am sure it is growing faster than the other inner wears?

**Vikas Agarwal:** For us it is not significant at the moment. These man made fibers we are using 15% of our portfolio, but as the lifestyle is changing, the market trend is changing, but we might double from what we started in yarns and fibers.

**Nilesh Doshi:** These would be typically what price point because you see especially in the upper middle class and that area normally we see the branded products like most of the international branded products in that area so how do we are going to place ourselves and it will be sold in our brands? How again the pricing point and the structure would be?

**Vikas Agarwal:** Our price point starts from say Rs.500, which goes about Rs.3000. So the demand is everywhere as well as rural so hat significant change is there for the demand of these products.

**Nilesh Doshi:** That is all from my side. Thank you so much.

**Moderator**: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Dinesh Kumar Lodha:** Thank you everyone for joining us. I hope we have been able to answer all the queries. In case you require any further details, you may please contact us or Oriental Capital our investor relationship partner. Again thank you and we look forward to quarter after quarter of this call. Thank you.

**Moderator:** Thank you. On behalf of Rupa & Company Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.