



“Rupa & Company Limited
Q2 FY'22 Earnings Conference Call”

November 2, 2021



Management: Mr. Dinesh Lodha – CEO, Rupa & Company Limited

Moderator: Mr. Deven Dhruva, Orient Capital



*Rupa & Company Limited
November 2, 2021*

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'22 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' a on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dinesh Lodha, CEO of Rupa & Company. Thank you and over to you, sir.

Dinesh K Lodha: Thank you, and hello, and good afternoon, everyone. First and foremost, I hope you are all keeping safe and healthy during this time.

Despite the challenges faced during the first half of the year, the company has remained resilient and revenue has grown by 14% to Rs.586 crores and EBITDA and PAT had increased by 11% and 22% respectively on the back of improved operating efficiency and cost reduction strategies adopted by the company. We have seen improved traction during the festive season, and we expect a much better second half, in fact, Q3 is looking very upbeat where we are looking to grow again by 18%-20%.

Our products are well accepted among the customers. In line with the evolving customer preference and market demand, the company introduced new varieties in sub-brand. This product has the latest fabric innovation, cutting edge production technique and advanced design elements to give the finest experience of style and comfort to the end user.

The product which we launched last quarter which is the Color Drawer has again seen a very good traction and we are seeing that give us a great result in the coming quarter.

The company is looking to expand its footprint across the entire country. We are looking to penetrate the new markets and appointed a new distributor and we started seeing a very good result from Q2 and we are expecting that new markets we will see a solid growth in the second half too.

We are seeing a good increase in terms of the branding activity both on TV as well as print media and we are expecting our marketing cost which is right now at 4% will be back to a 5%-6% in the second half.

Export is a great avenue for us. Export in the last few quarters have increased steadily. Exports have grown to Rs.14 crores in the first half. We expect the business to come back to normalcy and overall, we feel that export can be doubled this year which we expected earlier in '23. So again, exports has been great for us and we are expecting that to continue in the second half also.

Modern trade is again showing good growth and eCommerce as well as large stores have been doing well. We have opened about 17 EBOs by now and we are expecting by the year end 35



EBOs. I think we have targeted earlier that 150 EBOs in the next two years' time, we are on the plan and we are looking forward to doing that.

On the working capital, we have seen a slight increase on the overall working number of days from earlier 165 to 179-days but I think the major concern is where we are seeing the inventory which has gone up. And there are two reasons which are showing up there; one is volume which we expected 11-12% this quarter which has grown 5-6% and the second is the price rise of the raw materials, both have impacted the inventory. We feel by Q3, we should be back to a number of days of 160 or below 160 which is what we are targeting right now. And overall by the year end we should be ending at 150 or below which is a 10% reduction of working capital days.

Coming to financials, our company reported as I said strong growth in the quarter and half yearly. Revenue of Q2 FY'22 stood at Rs.368 crores versus Rs.304 crores, registering a growth of 21% on a year-on-year basis. We have also seen, as I said good traction in the festive season which is showing great momentum right now for Q3. EBITDA has grown about 8%, standing at Rs.71 crores compared to Rs.66 crores in Q2 last year. Our EBITDA margin stood at 19.4%. PAT which has moved to Rs.53 crores from Rs.45 crores which is a growth of 17%, margin is 14.4%.

Revenue for the first half is Rs.586 crores which is against Rs.513 crores with a 14% growth. EBITDA growth is 11% and margin is 19.4% on EBITDA. PAT again moved to Rs.80 crores which is a growth of 22% margin and the first half was 14%.

So, overall, the momentum is solid right now. We do have some challenges in the first quarter as you have seen particularly in a premium brand like M Series and Bumchums where we have some supply concern. But Q2 looks upward and Q3 is again looking very bright right now with the momentum that we are seeing in the festive season.

Overall, as I said, momentum is set and we look forward to much, much bigger numbers in Q3 and Q4. Overall, just to give a final touch, which we have expected earlier to 15-16% growth in a year, we are expecting now to grow at 17%, 18% on yearly basis and we are expecting our EBITDA margin which is we have said 1% lower than last year both EBITDA and PAT now we are expecting that both these will be in line of percentage of last year or little better.

Thank you and let's open for questions.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Dhruv Kashyap from Mart. Please go ahead.

Dhruv Kashyap:

My first question sir is that correct me if I am wrong in the last five or ten years ago, not very distant past but in the sort of medium past, there was a time when Lux and Rupa were almost neck-to-neck. In the last few quarters and years, it's looking like now they are tracking to almost double of Rupa. If you see this quarter numbers, I think they did in the top line of Rs.620 crores versus we did about Rs.330, they did a profit of about Rs.100 crores, we did about Rs.55 crores,



*Rupa & Company Limited
November 2, 2021*

last year they did Rs.275 crores, we did Rs.175 crores of PAT. So, would you be able to shed some light on what is it that they are doing so right and what is it that we can also try and do to catch up?

Dinesh K Lodha:

I think four, five years as you mentioned, Lyra and GenX both are separate P&L and that has been merged actually from the last year. Just take the '18-19 numbers also, where you just go below, you will always have the gap there at that time also. It's not that it has changed in the last three, four years. Yes, definitely, that is an area where we are feeling that clearly on women's side, I think there is a gap right now which we are building on in terms of our Softline brand right now which we are seeing there is a huge opportunity uptick. On export also, we are seeing a lot of traction where we feel there is a great opportunity, though this year we are doubling the number but that's not good enough. Again, internally we want to grow 5x in next two years' time and we are working towards that. There are two, three major regions where we are seeing and we are aware of those regions. We are working towards that. I think the major three, four things which we know, we can clearly see the export, women segment, these are two big gaps right now, where we are trying to make sure that we are building our strategy and the team in place very fast.

Dhruv Kashyap:

My second question sir is that in terms of product portfolio, we have a very strong portfolio in innerwear and undergarments both for kids, gentlemen and women. We also have a significant inroads in Athleisure and if I am not mistaken we have defined it as sort of casual and Athleisure, so we are also doing outerwear in line with casual like it could be bermuda or t-shirts or shorts, etc., My question to you was that is there anything else that we are missing in terms of these spaces that we could capture? For example, as a very layman if I was to ask you, if I go to innerwear store, I tend to buy my innerwear my socks and my handkerchiefs together. So, are there spaces like handkerchiefs, are there spaces like casualwear for kids or men or women, outerwear, is there a space in ethnic wear for Indian men or women, are there spaces that we believe we can capture with our brand being able to extend there or do you think you covered all basis in terms of product category?

Dinesh K Lodha:

I think as you rightly said, clearly, we are seeing Athleisure is a huge opportunity though if you remember last year we have grown more than 50% but the opportunity is huge, and this year we struggle in first quarter because of supply chain issue in Tirupur but now we are looking forward to grow this again 30% this year. Same with the kids line; kids are just 4% of our number. Now this is an opportunity where it can be grown to 10%. So, we are working on a new segment of our product portfolio. But definitely there is an opportunity on women's Athleisure and the kids segment. I think we are working to grow both on the product portfolio plus so in terms of building the right team in the region. Beyond that as I said, last time our six strategy which we have talked about, clearly, the expansion of market in new areas is a huge market where we feel that we can penetrate more and we are seeing that traction very much there and we will be seeing that helping us to grow in a long-term basis. This year as we said we should be seeing a solid momentum in those markets to get us to 18%, 19% growth is what we are looking for. But your suggestion is right, I think those areas are there where we are working on.



Dhruv Kashyap: My last question sir is that given that there is a lot of buoyancy in exports and the number of markets that you have identified be at the US, Russia, the gulf countries, Singapore, Asia Pacific, there are so many countries which are white spaces, isn't a 12 or 13 crores export number going to 25 crores fairly small number in terms of top line coming from so many countries?

Dinesh K Lodha: I just said that right, that doubling is not good enough for us and we are looking to have a 5x number in two to three years' time, so, to make it to Rs.100 crores number from Rs.20 crores, I think that is where we are gunning for in next two, two and a half years. So you rightly said the growth percentage maybe looking good, but these are opportunities which can grow in x-factor and not the percentage. So, I think we are working on that. That's why this is doubling this year but the work that we are doing right now on a long-term basis which we are expecting is that it should be Rs.100 crores plus in next two to three years' time which is a 5x from now.

Moderator: The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: My question is on brand building. You said your expenses will go up by 1% or 2% but your guidance on EBITDA margin remains the same. Just want to understand math, what will lead to this improvement effectively?

Dinesh K Lodha: It will be more on operational efficiency as I said in the next two quarters we are again looking to grow at 18%, 20% and that will give us operational efficiency and it will help us overall in terms of EBITDA margin. So clearly, those are already part of the factors where we had said that our advertisement cost will move to 5.5-6% but we will remain on the EBITDA or the PAT basis because of the volume drop.

Vibha Batra: So that means your growth in the second half will be significantly higher than the first half?

Dinesh K Lodha: Yes.

Vibha Batra: In terms of value addition, if I were to see the segments that you talk about, the women segment, export, Athleisure and your normal segment, is there a scope that in the presentation if you can give segment wise revenue and EBITDA margins so that we know the direction in which the company is going?

Dinesh K Lodha: Women segment has clearly as I said in this first half; we have seen a volume growth as well as the value growth on 15%, 20%, but on a Q2 FY'22 basis, it was 30% and on a first half basis it was 18%, 20%. Where we are seeing some challenge as I said in Q1 we are seeing a challenge in the premium segment, MSeries, where we have a supply chain issue and that is the region on a first half basis that number is negative or 10% but we are expecting because those are a supply chain issue but we are seeing that jumping in the second half to give us a 15%, 20% growth momentum that we are looking for in a premium segment. As far as overall concerned, our percentage of the economy remains about 25-30% mid-premium, premium, gross margin remain same on economy about 20%, 25%, mid-premium is 25-30% and premium giving us 40%, 45%.



So that's a mix we have on the margin part. As far as percentage in terms of overall number is concerned, I think that also is very much there; the women segment is right now 12% of our number, men is about 83% and kids is 4%. It's pretty much aligned with what we have. In fact last year, not a major change besides as I told you only change which we are seeing right now is the first quarter where we are seeing a premium has dipped because of supply chain issue which has recovered this quarter and overall in the year I think it will become 10% of our number.

- Vibha Batra:** What is the EBITDA margin in the premium segment?
- Dinesh K Lodha:** EBITDA will be similar; percentage wise it will go down to that percentage, so we don't have at this point of time an EBITDA margin, but overall I am seeing the EBITDA has been what we have talked about, EBITDA at a level of 21.8% on Q2 basis and on first half basis 20%.
- Vibha Batra:** Is the EBITDA margin in premium the same as the other segments?
- Dinesh K Lodha:** 19.4%, yes.
- Vibha Batra:** Why do you call it premium then, is it just the pricing, your EBITDA margin is coming in all the products?
- Dinesh K Lodha:** No, I am talking about overall EBITDA of the company. As I said, the gross margin is higher in premium and accordingly the EBITDA margin is also higher in the premium.
- Vibha Batra:** So do you think the share of this premium will go up over the next two to three years?
- Dinesh K Lodha:** Absolutely, both MSeries and other brands we are clearly seeing traction. Just in the first quarter, Karnataka has long lockdown and that has impacted our supply chain Bangalore, that has impacted the Q1 number and we are seeing a huge drop in the number in Q1 in the premium segment but Q2 FY'22 has a solid growth in the premium segment and that is the reason I am saying the Q2 momentum will carry forward in Q3, Q4 to give us the result what we are looking in a premium.
- Vibha Batra:** Over the next two to three years what can one expect from the top line and what kind of EBITDA margin do you expect?
- Dinesh K Lodha:** We are expecting about 15-20% in growth and we are looking for an EBITDA of 1% improvement year-after-year.
- Vibha Batra:** And that will be purely because of scale?
- Dinesh K Lodha:** Yes, largely on scale.
- Vibha Batra:** Through the eCommerce versus physical retail chain, where are the margins better?



- Dinesh K Lodha:** It is pretty similar actually with the mix also.
- Vibha Batra:** What is the share of eCommerce in your overall sale?
- Dinesh K Lodha:** Our modern trade is right now 4% of our number which used to be 2-3% but it will move to 5-6% as we move forward because of the improvement that we are seeing.
- Moderator:** The next question is from the line of Surabhi Saraogi from SMIFS Capital Markets. Please go ahead.
- Surabhi Saraogi:** Sir, my question is that on a year-on-year basis, your revenues and EBITDA have increased, but your EBITDA margin has reduced. So can you explain the reason behind that?
- Dinesh K Lodha:** EBITDA margin is reduced because of different cost in overall, on a first half basis has gone up from 15 percentage basis also and absolute number also, it has gone up by 5.6% on that and also employee cost also has gone up because as you remember last year the increment has been given and also we added resources. Both these are accounting for about 1.3% which is impacting the EBITDA.
- Surabhi Saraogi:** And sir my other question is can you repeat your growth guidance for the second half and for the full financial year '23?
- Dinesh K Lodha:** We have said earlier 15-16%, now we are looking to grow at 17-18% on yearly basis and also EBITDA which we said 1%, 1.5% drop from the last year percentage, now we are looking to have last year's EBITDA percentage.
- Surabhi Saraogi:** This guidance is for the full financial year?
- Dinesh K Lodha:** That's right.
- Moderator:** The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.
- Ankit Kedia:** Sir, just wanted to understand how the volume and pricing in the quarter were? Given that the Tirupur association has increased the cost by 25% per piece on garment manufacturing, how do you look at the raw material pressure going forward?
- Dinesh K Lodha:** As you rightly said, the raw material pressure is there and we are expecting one more price hike soon as far as the market is concerned but we need to see how the market behaves and accordingly we will take a call. As far as volume and price is concerned, we have seen volume growth of 5.5%, price rise given a 15-16%, getting us a 21% growth on a quarter basis. So clearly, it is more right now on the price which is helping us to grow but in Q3 and Q4, we are expecting volume to grow at much higher rate and giving us much higher overall growth numbers in Q3 and Q4.



Ankit Kedia: Sir, given that Athleisure pressure is there and we have not taken a price increase yet for the incremental Athleisure, do you think it would be tough for you to maintain current level gross margins or you think from a Q4 onwards there could be some impact of that?

Dinesh K Lodha: We have raised the price and we are expecting one more rise in the price soon. But if this continues to rise then there may be pressure in Q4 onwards. At this point in time, we are sitting in the inventory which is 500-plus crores and that has old prices a lot. So having said that, if the price rise continues to be there, then definitely there can be impact on the margin percentage, but at this point of time we don't see that, we are able to pass on most of the things but let's see how it goes.

Ankit Kedia: For Q3 since you are guiding for higher growth numbers, how has been the buying for the winter in the thermal wear because by now all the supplies would have happened at the distributors and at the retail counters. So if you can just throw some light on that?

Dinesh K Lodha: So Q2 FY'22 we have grown in thermal wear by 24% but on a yearly basis we are expecting 30% growth in thermal wear. If you remember last year also we have grown over 25%. So year-after-year we are expecting this year to be 30%-plus. And we have built our plan like that and that is one of the reasons the inventory has been built up.

Ankit Kedia: Sir, my last question is on the geography expansion with the primary and distributor reach. So if you can just help us understand from a distribution point of view, what is the OPEX cost we are looking at when you are entering a new geography in terms of manpower, in terms of distribution strength? And when would the revenue increase come in the system from the new geography or is this typically immediate?

Dinesh K Lodha: I think some of the markets started already giving good results, but the other markets will be starting to give results in the second half and from the expansion of whatever a new geography you are talking, we are expecting that geography to give us a 50% growth though the base is still low, which is at 14-15% of the revenue, but that will help us overall growth by 18%-19%

Ankit Kedia: Only one small suggestion. In your presentation, sir, some of your peers are exclusively calling out volume and value data in the three categories. I would appreciate it if you can do the same in your presentation it will help us analyze the company better.

Dinesh K Lodha: Sure, we will take your suggestion.

Moderator: The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: When I see you and your peers, all are adopting or going on the same strategy of opening up EBOs, focusing on eCommerce, focusing on premium segments, celebrity endorsement with 6-7% of ad spends, so what differentiates Rupa, your company and the strategy compared to peers or is it becoming a same flooded space where everyone is adopting the same strategy?



*Rupa & Company Limited
November 2, 2021*

Dinesh K Lodha: I think each area we have our own factor like in case of advertisement there is a lot of focus on TV ads, we have the huge expansion happening on social media, clearly, we are seeing the mobile is a new TV and we are spending a lot there. Also, we are expanding our ads a lot on ground advertisement both in marketing as well as doing a retail meet. So there is definitely more presence at the local ground level we are doing besides the TV ad which we normally used to do. So that is one which we are doing on a marketing side clearly differentiating plus shop-n-shop model and in multiple places where we are spending right now, we are experiencing that. As far as revenue and the business is concerned, clearly, one of the big things that we are doing is a geographical reach. I think the states which we have right now of 14-15% contribution of our revenue we are trying to have those markets to grow at 40-50% this year against the normal growth of 8-9% in other areas so that the blending will give us 17-18% number. So that is definitely one area. The second as I said our product portfolio wise clearly we are spending aggressively on the women segment and Athleisure. I think we have an edge on the Athleisure right now and we are clearly going to be aggressive there in terms of giving outerwear solutions to the customers on a completeness whether day wearing or night wearing, both I think we are working right now. So that will be giving us an edge in the market. So clearly I think there are three, four areas where we are seeing beside the premium where we have in-house premium brand which is more than Rs.100 crores now, I think that is again an edge which we have we are planning to expand rapidly though we have significant challenges in Q1 as I said due to temporary supply chain issue and that impacted our overall number on YTD basis. But we have overcome all these things and we will be seeing Q3, Q4 upward and a solid trend.

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

Dhiral Shah: Sir, what is the volume and value growth for H1?

Dinesh K Lodha: For H1 volume is flat; 14% growth is primarily coming on the price rise only, but as I said, we are looking to Q3 with the volume growth of 10-11% and value at 20%-plus. So, clearly, we should be able to overcome the situation. We do have some issues as I said in Q1 where we have almost negative volume growth which is impacting the first half number and there are some parts which are reflecting because of the supply chain issue that we faced in Q1. But on a yearly basis, we are clearly seeing 8-10% momentum.

Dhiral Shah: But sir, have we lost some market share because if I see the revenue growth of the other companies, our revenue growth is much lower.

Dinesh K Lodha: You are right, right now. The only thing is you should see also is the background of that we have grown 35% last year and where competition has not grown that much. So you may have to analyze that also. But having said that, we are looking at 18-19% against our 15-16% overall growth, and on an EBITDA basis also, we are seeing improvement as well. So temporary, yes, for some part maybe just if you see standalone, but if you are seeing last year's growth and this year's growth, you will see that's not the case. But we are aware that there are some areas where we have not done well and we are expecting that turnaround in Q3, Q4.



Dhiral Shah: Sir, when you talked about newer geographies if you can explain in detail which are the newer geographies where we are targeting 40-50% kind of a growth? How many distributors have you added in that region particularly?

Dinesh K Lodha: We are seeing a growth opportunity which we are working on right now in MP, Chhattisgarh, we are looking western MP, pockets of Maharashtra areas, West Bengal, some of the south areas where we have negligible presence. We have already added more than 65-70 distributors in the last six months' time and we have built a solid team in most of the places. As I said, the second quarter has started showing results and in Q3, Q4 we are heavily seeing 40-50% overall growth in those markets.

Dhiral Shah: This quarter particularly our subcontracting cost was much higher as compared to revenue growth?

Dinesh K Lodha: That is more related to inventory, right, the inventory has gone up in higher numbers and accordingly it moves always.

Dhiral Shah: What was the ad spend in H1? What is the full year guidance for ad spend?

Dinesh K Lodha: Ad spend right now is about 3.5% of our number but overall it will go up to 5.5-6% in full year FY'22.

Dhiral Shah: What was Athleisure growth and women's wear growth in H1?

Dinesh K Lodha: Women, as I said we have a growth of 18-20%. Value wise we have grown 20% on the women side. But in the Athleisure first half we are seeing some drop in number because as I said first quarter has a huge impact on the supply chain that impacted the overall number. On a Q2 basis, I think Athleisure has grown 22%. But on the first half basis it has degrown because of the first quarter challenge in the supply chain.

Dhiral Shah: In the press release you talked about cost reduction strategy. So if you can highlight some thoughts on that?

Dinesh K Lodha: It is more to do with the operating efficiency and also some of the stuff which we have now in-house, whether it is a cutting and all which we used to outsource now, is now completely in-house. Those are the extras which we are already doing and as we go forward, we are also looking forward to stitching and all to do in-house to improve on the cost side.

Moderator: The next question is from the line of Rajiv Bharati from DAM Capital. Please go ahead.

Rajiv Bharati: Sir, my question is on the pricing in online and brick-and-mortar. Is the pricing the same, are you able to control the pricing on both these ends? And the extension of this are the gross margin same on both these channels?



Dinesh K Lodha: I think prices are very similar and also we have a clear understanding with these all eCommerce players that they cannot play on price. So we have a clear understanding that they will not be dropping the price because that will have a clash with the GT. We are also adopting a strategy to build some new product portfolios just dedicated to this segment. That will help us also to get into more aggressive manners in those segments. But to your question, yes, margins are pretty similar.

Rajiv Bharati: So, my understanding is that on the online side, your gross margin is 37% and you are saying the EBITDA margin is the same. If your EBITDA margin is 20% online as well, then the remaining 16% is the platform fee what you are paying for...?

Dinesh K Lodha: Gross margin as I said direct cost will be a little lower, but the gross margin will have a lower percentage by 1% or 2% but that will be offset by the higher cost in terms of marketing what we do along with all eCommerce players. Net-net at EBITDA level will remain the same.

Rajiv Bharati: I want to understand the cost from gross margin to EBITDA.

Dinesh K Lodha: 4% is our manpower cost which will be the same in the coming year also.

Rajiv Bharati: In this case, let's say doing something on a popular eCom channel, so the platform fees would be of what order?

Dinesh K Lodha: We don't do any S1 order, it's all on an outright basis everything works.

Rajiv Bharati: Has there been any progress on simplifying the company structure related to the party?

Dinesh K Lodha: Yes, it is a continuous effort and we are bringing that down except that stitching unit and labors, some of the things which we have, but most of the things we are slowly and slowly coming down further, because we really need to have those levers and all which is not everything on our book, but as a company, we have decided to bring it down further and every quarter we see that going forward.

Rajiv Bharati: As you said that in H1 almost entire growth is price-led. So, what position is due to mix change in this or the entire thing is basically price?

Dinesh K Lodha: Mix is also there but a major portion is part of the pricing. As I said, some mix problem is there in Q1, right, where premium has gone down because of the supply chain issue, Athleisure going down, but now again in Q2 if I see it is across the segment where we are seeing growth is coming in that sense.

Rajiv Bharati: You said that you have spent 3.5% in H1 on ads and then you want to scale that number to 5.5%, 6% in the remaining second half. Has historically the ad expense been skewed in terms of H2 being much heavier than H1 barring that you had...?



Dinesh K Lodha: If I see fiscal '21 it is similar but in some part it depends on when you start some of the marketing activities. We are aggressively building our thermal wear campaign with Ranveer Singh onboard and we are also aggressively planning for Q4 right now. So both these will be there, but some skewed is there, I will not say that entirely the percentage remains same but normally first half is 4%, 4.5% and second half normally is 6%, 7%, this year will be little down where our first half is 3.5%, but second half will be little higher.

Rajiv Bharati: You are insourcing some of the activities which you used to outsource. But as the portfolio moves on the premium side, shouldn't pure play outsourcing work better in the sense if you are insourcing? I thought that works more if you are working on a mass channel but if you are looking towards a premiumization of your portfolio, outsourcing ...?

Dinesh K Lodha: Depending on things like FCUK and FOTL, we continue to do outsourcing, but on MSeries, which is all inbuilt, because we want to make sure everything is completely tested in-house. We always take a call based on cost benefit and quality and also capability on the market side where we have like take example Bangalore how things are or Faridabad or Ghaziabad. So depending on the place we mix and match there.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Sir, my question is around the women wear category. So, firstly how do you compare your product offering in this category versus players like Go Colors?

Dinesh K Lodha: We have the similar product in that sense leggings and all plus we have extra products like bra and all, but they are largely on EVO model as well as large formats where we are still a big play on the JP. But we are spending now in eCommerce and large format also. But there is a huge opportunity. As we have said, we are still growing this right now at 20%, 30%, does not give us much bigger growth, we are looking this to grow at 50% by this year end and we are working towards that and that still will be small because from 72 crores base to move into 100 crores base may give us a growth but still it's very early because we know our competition is much higher and we see there is a huge opportunity to grow and internally we are also putting together our strategy to expand all the three segments whether it is GT or eCommerce or EVO and clearly that should be our game plan as we go forward.

Devanshu Bansal: Currently sir, what would be the concentration in terms of rural versus urban for this category?

Dinesh K Lodha: 45% from rural and 55% from urban is what we are seeing right now.

Devanshu Bansal: Secondly, what is the distribution reach that is currently there for women wear, Athleisure and kids wear versus 1.25 lakhs overall?



- Dinesh K Lodha:** There are a lot of common play but women right now out of 1.25 lakhs it is very difficult to say exactly how many shops will be there, but as far as distribution network is concerned, we are expanding rapidly in terms of women focused distributors and that is where a strategy which we are playing because common play a lot of time your main products getting sold and the focus remain on the main products which is easy to sell. So we are creating a dedicated line of distributors to go out which is focusing only on women and kids.
- Moderator:** The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.
- Chirag Lodaya:** Sir, my first question was, what is the price increase we have taken over the last 12-months?
- Dinesh K Lodha:** About 18% to 20% has been the price rise in the last one year.
- Chirag Lodaya:** What is the further price increase you are contemplating with yarn prices moving up further?
- Dinesh K Lodha:** I think we are expecting a price rise by 3-4% anytime.
- Chirag Lodaya:** What was the volume growth in FY'21?
- Dinesh K Lodha:** We have grown 33% in value and 23%, 24% in volume.
- Moderator:** The next question is from the line of Perna Jhunjhunwala from B&K Securities. Please go ahead.
- P Jhunjhunwala:** Just wanted to understand your CAPEX plan for the next three to five years?
- Dinesh K Lodha:** Right now on average we do about 20-30 crores on a CAPEX every year which is normally on our warehousing and all the new packaging and other stuff. But as we go forward next year CAPEX maybe Rs.50 crores plus. This year I think it will be about Rs.20, 30 crores only. But next year we are looking for some in-house activity as I said earlier and those activities will lead to some CAPEX but still will be lower only.
- P Jhunjhunwala:** If every year will be 20-30 crores, 50 crores will be over and above that or...?
- Dinesh K Lodha:** That's our plan right now but it's too early to comment completely because the discussion is on.
- P Jhunjhunwala:** Could you please highlight your plans for FCUK and Fruit of the Loom. As you highlighted that you will be increasing your distribution network, apart from that what are the strategies that would drive the growth in this super premium and premium segment? And where do you see three to five years down the line on this portfolio?
- Dinesh K Lodha:** We are spending big time on eCommerce right now on both FOTL, FCUK. On a GT, we will continue to focus in terms of creating new outfits, but our focus also becomes very high right



*Rupa & Company Limited
November 2, 2021*

now on the eCommerce platform where we are seeing good traction, and we are expecting this growth to be 20%-plus year-after-year at this point of time.

P Jhunjhunwala: Where do you see three to five years down the line?

Dinesh K Lodha: On a CAGR basis it will be 20%-plus.

Moderator: The next question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.

Praveen Sahay: As in the last 12-months you have taken a price hike because of the raw material prices were on the higher side, further you are guiding for some more price hikes, in the past also you have done, the question is if the yarn prices or the raw material prices will go down will you take the price back or how feasible to do that or how you actually go ahead?

Dinesh K Lodha: It not only depends on only us, it depends on industry also. You watch how the industry behaves. But we don't see right now price getting down at this point in time for at least for next six to nine months, either the price will be stable or go up, we don't see a huge drop right now, but it will be stable back to what we had just two months back. Currently, whatever price rise you are seeing, we may get back to what we have seen in Q1. But as far as price drop is concerned, as we go forward, we don't know what exactly will be, but it all depends on how the overall industry does and we have to just be a part of that.

Praveen Sahay: In the last five or seven years, have you taken price corrections at the end product as well?

Dinesh K Lodha: In the past, definitely there must have been some correction but not in the last two, three years we don't see that.

Moderator: The next question is from the line of **Sonal Minhas** from Prescient Capital. Please go ahead.

Sonal Minhas: Sir, I wanted to understand your working capital cycle and steps taken by the company and if you could give near term guidance and a little longer-term guidance that will be helpful?

Dinesh K Lodha: Working capital base is 179-days, last quarter was 182-days and a yearend we are at 165-days. We are expecting working capital by the year-end move to 150, 150-plus, a reduction of 10% that is the original target we have and we should be nearby that. Right now we have built up some stock that I just said earlier the stocks have gone up because of two reasons; one is volume what we expected to grow at 11%, 12% in Q2, we have grown 5.5% to 6%, so that has impacted and second is price rise. But we are expecting this to go down as we build in Q4, in Q3, you will have thermal wear which will go down further, but on a long-term basis, we want it to go down to 120-days.

Sonal Minhas: Just want to understand, what are we doing operationally to get the working capital days down?



*Rupa & Company Limited
November 2, 2021*

Dinesh K Lodha: There are two, three things we are doing; one, the planning side we are working right now in SAP HANA, the latest on what we have. So we are building those things to automate the complete planning schedule as far as the inventory is concerned. Second, as I said, currently thermal wear and all has built up which will be also going on automatically as the Q3 goes up because that's how liquidation will happen. On the debtor side, we are working also with the banking side where we have a requirement of credit. I think we are now taking a tie up with the banking to really give credit to the distributors where they need without recourse to us. So those are the things we are working out. In terms of both AR and inventory so that it helps us overall by bringing down the number of days.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Dinesh Lodha for closing comments.

Dinesh K Lodha: Thank you again and wish you all a very Happy Diwali. And once again I hope we are able to answer all your queries. In case you have any further details or queries, you may please contact Mr. Deven Dhruva from the Orient Capital, our investor relations partner. Again, wish you all a very happy Diwali and look forward to a brighter Q3. Thank you.

Moderator: On behalf of Rupa & Co. Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.