



“Rupa & Company Limited Q2 & H1 FY2023 Earnings
Conference Call”

November 14, 2022



**MANAGEMENT: MR. VIKASH AGARWAL – WHOLE-TIME DIRECTOR,
RUPA & COMPANY LIMITED
MR. SUMIT KHOWALA – CFO, RUPA & COMPANY
LIMITED**

MODERATOR: MR. NACHIKET KALE –ORIENT CAPITAL



*Rupa & Company Limited
November 14, 2022*

Moderator: Ladies and gentlemen, Good day and welcome to Q2 and H1 FY 23 Earnings Conference Call Rupa & Company Limited hosted by Orient Capital. 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. Nachiket Kale from Orient Capital. Thank you and over to you sir.

Nachiket Kale: Hi, good evening, everyone. Thanks for joining us on the call today. We are joined by the management of Rupa & Company Limited represented by Mr. Vikash Agarwal – Whole-Time Director and Mr. Sumit Khowala – Chief Financial Officer.

Before we begin, I just like to give a small disclaimer that this conference call may contain forward-looking statements which are based on the beliefs, and opinions as on date of this call. These statements are not the guarantees of future performance and involve risks which are unforeseen and difficult to predict. A detailed disclaimer has been added to the reference presentation which was uploaded on the exchange. I hope everyone had a chance to go through it. With this I would now like to handle the call to Mr. Vikash Agarwal. Can you please take over sir?

Vikash Agarwal: Thank you Nachiket. Good evening and welcome everybody and thank you for being with us today. Well, we did not had a great Q2, a bit disappointing rather, as we faced multiple headwinds this quarter. H1 Financial Year 2023 has been one of the most challenging period for Rupa as well as hosiery industry at large, sharp volatility in yarn prices, rising inflation and overall weak sentiment result in calibrating price of finished goods by elevating the pressure on channel partners and therefore impacting our realization. However, with the stabilization of yarn prices, we expect the volatility to take backseat and confidence coming back to the market. Once the stability would set, we anticipate growth and margin trajectory to get enhanced in the coming quarters.

Now talking about business. Our expansion strategy continues in our quest to strengthen our retail footprint nationwide. We are now planning to open stores in high footfall areas. Recently we inaugurated our flagship store in up market Camac Street, Calcutta and we are going with our EBO plans more aggressively. Our modern trade business will continue to deliver double digit growth.

Our modern trade business witnessed a growth fraction and stood at 1.2x of H1. We are also seeing good traction in export business, which stood at 1.7x of H1 FY22.. Export in the modern trade business contributed together around 10% of total revenue of H1 FY23. This growth is increasing as our strategy to focus on these channels is bearing fruit.

On the flip side, some of the big markets and our big markets of big state, saw slower growth in sales. Consequently, there is a sales de-growth in quarter 2 due to decreasing contribution from



Rupa & Company Limited
November 14, 2022

our some major states. However, as I mentioned in our previous quarters concall that in order to course correct the near-term macro headwinds we do not compromise on our trade policy and indulge in aggressive pitching of sales in view of long term perspective. Going forward, we are confident of emerging from these near-term challenges stronger than before. Over the years, we have learned that good decisions taken during bad times lead to lasting long-term advantage.

With a deliberate effort to increase productivity across business units while maintaining a vigilant check on cost involved. We hope to bounce back and resume our growth trajectory in the coming quarter.

With this I hand over the phone to Mr. Khowala to update on the quarterly performance.

Sumit Khowala: Thank you Vikas sir and good afternoon to all the participants. I will now share some key financial highlights.

The revenue from operations for the quarter ending September 2022 is 286 crores down by 22% compared to the corresponding quarter last year and up by 33% from Quarter 1 FY 23. The gross margin for the quarter is 30% vis-a-vis 35.5%.

The EBITDA margin stood at 10.2% as compared to 19.4% over the same period last year and has registered a rise of 160 basis points from 8.6% in quarter 1 FY23. The decline in EBITDA margin was majorly attributed to the volatile raw material prices, which has impacted the gross margin, as well as the significant increase in marketing expenses. Also the contribution to sales from our high margin products such as thermal and Athleisure, was much lower compared to the last year. PAT is at 16.9 crores is down here year-on-year, but it is higher by 25% from 12.5 crores in Quarter 1 FY23. For H1 FY23, revenue stood at 500 crores, is down by 14.6% year-on-year. Gross margin stands at 33.2% versus 36.7%. EBITDA is lowered from 130 crores in H1 FY22 to 48 crores in H1 FY23.

As on 30th September, the Company's working capital cycle stood at 223 days. However, the company expects to moderate its working capital cycle in quarters to come. We may now proceed to question and answer session.

Moderator: Thank you very much. We will now begin with Question & Answer session. The first question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Good evening sir, I just have a couple of questions. Could you help by quantifying the number for the marketing expense this quarter?

Sumit Khowala: The advertisement spend is around 37 crores, which is approximately 7.5% of the revenue.

Shikha Mehta: That is for the half year, right?

Sumit Khowala: Yes.



Rupa & Company Limited
November 14, 2022

- Shikha Mehta:** Sir the last quarter we said our expense was higher around 20 crore due to the Lalsingh Chadha promotion and this quarter, so the balance figure would be around 17 crores. So, are we expecting to maintain this run rate or should this taper in the future? How should one look at this?
- Vikash Agarwal:** Probably we should stick to same around 7%.
- Shikha Mehta:** 7% run rate. Okay, and sir could you also get volume and price data, and give us some data on how much the growth has happened in volume.
- Sumit Khowala:** Our overall price growth is around 4 to 5% and rest is volume,
- Shikha Mehta:** Okay, so we have taken a 4 to 5% price hike this quarter.
- Vikash Agarwal:** Yes.
- Shikha Mehta:** Alright sir. Sir any update on the CEO. It has been around 8 months and we still have not made any announcement.
- Vikash Agarwal:** CEO we have met around 8-10 candidates, but still, we are not very sure about the CEO yet, we are still to finalize the candidate now. But still, we are meeting people and all but we are not any confident on any particular CV yet, but the process is on.
- Shikha Mehta:** So, do we have any sort of timelines in mind anything any update.
- Vikash Agarwal:** Learning from our past experiences, we do not want to set a timeline and just want to do a real job. We are looking aggressively at the same time, but until and unless we do not have a suitable candidate who can do justice we don't want to repeat our past learning.
- Shikha Mehta:** Sir last quarter on the concall we gave a target of 15% growth for FY23 which will now be difficult to maintain. Sir do we have any sort of guidance.
- Vikash Agarwal:** Too early to comment on that because they're falling raw material price and has a very adverse effect on our trade to the dealers and all but at the same time the silver lining is with our dealers in all the and there is hardly any stock with them. So, once the yarn prices stabilizes and once we have proper season, I am sure quarter 4 will have good traction from the market. Quarter 3 we are just worried about the thermal season. Winters are not so strong as desired. So, if the winter are strong we are quite confident Q3 should be strong as well as Q4 should equally be good. Only for Q3 a lot will depend upon the season. So, thermal and our Athleisure largely will depend upon the winters where our gross margins are quite high, margins are quite high.
- Shikha Mehta:** Right and sir could you give us some how much growth we had in the premium segment and how much growth we had in the Athleisure segment.



Rupa & Company Limited
November 14, 2022

Vikash Agarwal: As you are seeing overall the growth is in negative. So, even in Women and Athleisure there is a negative growth only. Athleisure there is more than double digit negative growth.

Moderator: Thank you. We will take the next question from the line of Darshil Jhaveri from Crown Capitals. Please go ahead.

Darshil Jhaveri: Hi Sir. Thank you for taking my question, I just also wanted to ask about how do we see our H2 panning out? Our H1 performance has not been as what we wanted it to be so H2 what uptick do we see even 1-1/2 month has passed in quarter 3. So, how are things panning out? Some color on that would be

Vikash Agarwal: As we just mentioned the silver lining with the whole processes as stock with our dealers, with our distributors that they are sitting on a very thin stock. Q4, we are sure we will do quite well. Q3 we are just worried about the thermal about the winter season. If winters are strong, Q3 should do quite well.

Darshil Jhaveri: And rather than just the short-term outlook in the medium term, we are growing aggressively on marketing and everything. So, could we have some color on what is our plan to grow about in maybe FY25 or something, some long-term vision that we want to be able to maintain our previous thing about 15% growth and higher margins? So, can we expect FY24 to normalize with stable yarn prices or something, some color would be very helpful.

Vikash Agarwal: Like our projection for growth a year-on-year is always 15% but this year just because of the steep fall in prices, even we are disappointed with the demand and all, but I am sure with the yarn prices are stable now it should not go down further. The thing should pick up from here.

Darshil Jhaveri: Okay, so, one more question. In the last concall, we mentioned that our credit policy has led to some adverse things. So, with that now normalize or how is that finding out, throw some color on that.

Vikash Agarwal: We are working on that and we are looking for something channel financing route and all just to strengthen our dealers more with the credit policy and all and so we are working for a structure. So, probably we will be able to fix it and implement it in the market soon. So, that will take care of the future plans and the growth plans.

Moderator: Thank you. The next question is from the line of the Dipanshu from Shivansh Holdings.

Dipanshu: Yes, I wanted to ask you, if you can update or give us some guidance on the way that distribution channels have played out how much contribution we are taking from each of the distribution channels and which are the key segments on where we think that are falling out of modern trade and e-commerce and our own brand out there. How do we see the rollout of the new outlets and how do we see them contributing in the second half.



Rupa & Company Limited
November 14, 2022

Sumit Khowala: Major portion of distribution belongs to general trade and approximately 87-88% comes from general trade business. Our modern trade contributes some 5% and overseas business contributes around 5%.

Dipanshu: Sir do we see our e-commerce and modern trade segments starting to yield some results.

Vikash Agarwal: I think it is already growing in double digit so we are quite hopeful for them and the contribution to overall businesses increasing only.

Moderator: Thank you. The next question is from the line of Anika Mittal from Nvest Research, please go ahead.

Anika Mittal: Sir, can you provide some insights regarding the industry, in your con-calls you have guided about significant price volatility on the raw material side, because of which there were disruption in the supply side also. So, how we are seeing the overall outlook of the interest rate, both from the raw material side as well as the from demand side in the coming two quarter.

Sumit Khowala: As I said, the yarn prices look stabilized now and it should rather pick up from these levels, we are quite hopeful and as the prices are stable once it start picking up demands will also pick up.

Moderator: The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just have a couple more follow up question. So, currently, the company has run 24 EBOs and plans to add another 50 in FY23. So, at what level would we be happy with how many EBOs and how much are we looking to invest in this segment?

Vikash Agarwal: I think we should end the year with at least 40 EBOs and going forward we are quite happy with whatever results we have from our EBO so we are focusing on modern trade EBOs and this is contributing roughly around 10% of the total top line. So, we are quite hopeful for the same.

Shikha Mehta: Sir these are all franchise driven?

Vikash Agarwal: Yes mostly franchise driven other than one and a few flagship stores is mostly franchise driven.

Shikha Mehta: And sir could you help me understand the economics on this and what kind of IRR do we generate on the EBO.

Sumit Khowala: Basically, it is owned franchisee operated. So, means we have what we do is outright sale to the franchisee, so even a 1,00,000 to 1,25,000 sales to a small EBO per month is a breakeven to them.

Vikash Agarwal: We do not have any loss of profit in the books in all it is their ROI and all, for us it's normal sales. If the margins are same what we do GT or EBO.



Rupa & Company Limited
November 14, 2022

Shikha Mehta: And sir, could you help me with a split between our sales in the urban areas and rural areas and sales trend in both?

Vikash Agarwal: Around 40% in the urban areas and 60% in the rural. You can say 50-50 roughly.

Shikha Mehta: Okay, and are we seeing good demand in the rural areas or it hasn't been at...

Vikash Agarwal: Probably this quarter in the rural area the demand is a bit short from previous years, but what is the reason because the falling yarn prices that is the reason that we are unable to ascertain yet?

Shikha Mehta: And sir Q3 are we seeing any recovery or not yet?

Vikash Agarwal: Q3 recovery is there, of course, but the performance will actually depend upon the winters because it is a more of a thermal season. So Inner wear is recovering, but a large will depend upon thermal wear sales.

Shikha Mehta: And sir X factor areas have also seen some amount of de-growth. So, could you throw some light on what are we expecting for the year and for FY24?

Sumit Khowala: We have projected a growth of around 40% for the year end and we are continuously focusing there and doing aggressive marketing in that State. So, we are hopeful that we will achieve that target.

Shikha Mehta: And sir one last question from my end. If I could just feature it in last quarter you said some states that is UP, Maharashtra, Rajasthan saw lesser growth due to tightening credit policies. Sir this is just 15 to 17% of our turnover. So, could you help me understand why our topline had almost halved from Q4 to Q1 and now even in Q2 ?

Vikash Agarwal: Largely because of the falling yarn prices hope you understand. Because prices are correcting, the dealers are in hope prices will further correct, but we had steep fall in prices. We do not think even the trade understand the prices should not fall further beyond these levels. So, from November-December usually the trend is January is a peak demand time for yarn and all. Whether it is domestic or export, things should start picking up from these levels. So, by November-December, we will know what yarn prices. What is the worst. Worst should be over by end of November-December.

Moderator: The next question is from the line of Yash Agarwal, an individual investor. Please go ahead.

Yash Agarwal: Good Evening Sir. I have a few couple of questions to ask. The first one is your guidance on the marketing expense for the full year FY23. Second is sir could you throw some light on the working capital days that is your debtors, receivable days, payable days or inventory days?

Sumit Khowala: Our total marketing spend would be around 7 to 8% of the total revenue. This is the marketing guidance for the year and our working total working capital days is around 223 days out of which



*Rupa & Company Limited
November 14, 2022*

the inventory days is around 160 days, receivable days is around 95 days and payable days is around 40 days.

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

Sumit Khowala: Thank you all. Thank you for joining us. In case you have any questions and further queries you can connect with Mr. Nachiket Kale and Mr. Rajesh Agarwal, our IR partners from Orient Capital. Thank you. Thank you for joining us.

Moderator: Thank you. Ladies and gentlemen on behalf of Rupa & Company Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines