

Rupa & Co

Viewpoint

Good brands + strong distribution reach < Valuation

CMP: Rs152

We attended the analyst meet of Rupa & Co (Rupa). We present below the key takeaways from the meet. Amongst the listed innerwear players we continue to like Page Industries.

Present in fast growing underpenetrated men's innerwear segment

India's domestic branded innerwear market is currently valued at Rs13,000 crore (*CRISIL estimate*) of which men's innerwear segment is worth close to Rs5500 crore. The men's segment has grown at a compounded annual growth rate (CAGR) of 12.7% over the last four years and is expected to grow at 17.3% for the next three years. Further, the penetration of brands is abysmally low in India, providing huge opportunity for branded players to encash on the strong consumer wave.

Largest men's innerwear company with bouquet of brands

Rupa is the largest men's innerwear player by volume (in FY2011, it sold 168 million pieces). It has presence across the value chain with products in categories ranging from basic to mid premium, premium and super premium (entered into the last category recently). Its flagship

brands *Rupa*, *Frontline*, *Jon* and *Air* are in the basic and mid premium categories while brands like *Euro*, *Macro Man* and *Macro Man M Series* target the premium and super premium categories.

Strong distribution reach—deep and wide

The company sells its products through multi-brand outlets, hosiery stores and national chain stores. It does not have any exclusive outlets at present. It has an enviable distribution network, serving one lakh retail outlets through a strong network of 950 distributors.

All set to focus on high-end premium and super premium category

Amongst the three listed innerwear players, Rupa earns relatively lower operating profit margin (OPM) in the band of 10-11% vs 18-19% enjoyed by the peers Page Industries and Lovable Lingerie. This is largely due to the fact that the company is present in mainly mass and basic segments because of which it has to compete with unbranded/regional players. Its margins are therefore low. In an effort to enhance its margins, productivity and move up the value chain the company is now focusing on the premium

Business comparison

Particulars	Page Industries	Lovable Lingerie	Rupa & Co
Brands	Jockey	Daisy Dee, Lovable	Rupa: Frontline, Thermocot, Rupa Macro Man, Macro Man M Series, Euro and Bumchums
Brand status	Exclusive licensee; pays royalty @ 5% sales	Owned	Owned
Positioning	Premium to mid premium	Premium	Largely basic and mid premium (80%)
Category	Largely men's (85% share), ventured into women's in 2005	Women	Largely men's; >98%, entered the women's segment recently
Market share	25%	30%	-
Competitors	Hanes, Chromosome, Fruit of the loom	Triumph, Enamour, Amante	VIP, Amul, Lux and regional players in basic; Jockey in premium
Channel mix	MBOs, EBOs, Hosiery, and national chain stores	MBOs, EBOs, national chain stores	MBO's, hosiery, national chain stores
Distributors	400	100	950
Retail reach	20,000	8,500	100,000
EBOs	72	-	-

and super-premium brands like *Macro Man*, *Macro Man M Series* and *Euro*.

Raw material sensitivity high: Its basic products constitute around 40% of its overall top line. Thus Rupa's margins and volumes are most sensitive to the vagaries of the raw material prices (cotton yarn), as the brands/products compete with the regional/unbranded players. Thus any sharp movement leads to a constant revision in the price of the final product and in the margin.

We prefer Page Industries: Amongst the listed innerwear players, we continue to be bullish on Page Industries, given its superior growth levels, brand equity strength (which is creating strong entry barrier for new players), enviable margins, return ratios (best in the industry, averaging 45-48%), and proactive management approach (*it has now entered the swimwear and sportswear categories by bagging the exclusive Speedo licence for Indian operations*).

Financial comparison

Particulars	Page	Lovable	Rupa
Top line FY11	492	104	639
Sales CAGR (FY08-11) (%)	36.7	20.1	22.2
Operating profit (FY11)	93.0	19.5	66.8
Operating profit CAGR (FY08-11) (%)	36.1	38	31.2
Operating profit margin (%)	19.1	18.70	10.5
Net profit (Rs cr)	58.6	14.1	32
Net profit CAGR (FY08-11) (%)	34.9	53.1	40.0
Debt equity	0.9	-	1.1
RoCE (%)	47	22	22
RoE (%)	52.7	17	22
Market cap	2,827.0	749	1264
PER (x)	48.3	53.1	39.5
EV (x)	2,942.2	749	1282
EV/EBITDA (x)	31.6	38.4	19.2
No of pieces sold (mn pcs)	62.7	8.7	168
Realisation per piece	78.4	119.6	38.0
Profit per piece	9.3	16.2	1.9

The author doesn't hold any investment in any of the companies mentioned in the article.

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