RUPA & COMPANY LIMITED

Date: November 14, 2023

National Stock Exchange of India Limited
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Plot No. C/1, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street
Mumbai - 400 001

Ref: NSE Symbol- RUPA / BSE Scrip Code- 533552

Sub: Transcript of the Earning Call held on November 07, 2023

Dear Sir/ Madam,

In continuation to our letter dated November 02, 2023 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Earning Call held on November 07, 2023, to discuss the Unaudited (Standalone and Consolidated) Financial Results of the Company for the quarter and half year ended September 30, 2023.

The same will also be made available on the Company's website at https://rupa.co.in/con-call-transcripts-audio/.

Kindly take the same on record.

Thanking you.

Yours faithfully,
For Rupa & Company Limited
MANISH AGARWAL
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Date: 2023.11.14 12:05:21 +05'30'
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CIN No.: L17299WB1985PLC038517

"Rupa & Company Limited
Q2 & H1 FY24 Earnings Conference Call"
November 07, 2023

MANAGEMENT: **MR. VIKASH AGARWAL–WHOLE TIME DIRECTOR – RUPA & COMPANY LIMITED**
MR. SUMIT KHOWALA – CHIEF FINANCIAL OFFICER – RUPA & COMPANY LIMITED

MODERATOR: **MR. SUMEET KHAITAN– ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY24 Earnings Conference Call of 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded.

I now hand the conference over to Mr. Sumeet Khaitan from Orient Capital. Thank you, and over to you, Mr. Khaitan.

Sumeet Khaitan: Thank you, Arshiya. Good afternoon, 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'd just like to give a small disclaimer that this conference call may contain certain forward-looking statements, which are based on beliefs and opinions as on date of this call. These statements are not the guarantees of the 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 hand over the call to the management for their opening remarks. Over to you, sir.

Vikash Agarwal: Good afternoon, ladies and gentlemen. Vikash Agarwal here. On behalf of Rupa & Company Limited, I would like to extend a very warm welcome to all of you who have joined us for this results con call. We appreciate your time and interest in our company's performance. And I hope that everyone had an opportunity to go through the financial results and investor presentation, which have been uploaded on the stock exchange.

Our revenues in quarter two stood at INR302 crores, representing a growth of 6% on a year-on-year basis. Our sales volume experienced a robust double-digit growth this quarter, a 15% growth in quarter two and a 10% growth for the first half of financial year 24. The segment-wise growth in year-on-year terms, quantity-wise, premium 22%, mid-premium 20%, economy 9%. Geography-wise, Hindi Heartland showed an impressive quantitative growth of 27% in H1. Modern Trade contributed INR28 crores to our revenue in H1 financial year 24. Revenue contribution from Modern Trade stood at 5% in first half year.

Owing to multiple factors leading to disturbance in global markets, demand for exports faced a distinct challenge. However, in a significant development, we inaugurated a dedicated export unit during this quarter, enhancing our manufacturing capabilities and expanding our revenue potential. We have also made addition to our senior management team, and we are happy to announce the appointment of Group Chief Digital and IT Officer, which allows us to capture a great opportunity in digital and online space.

Going forward, as per our earlier guidelines of 18% to 20% CAGR growth year-on-year basis, we are working on same. Quantity wise, of course, we are achieving the same. We'll be doing better. In terms of value, a lot will depend upon the raw material prices.

As per our potential financial practices, we'll continue to holistically focus on our margins while achieving the fourth set targets. And we envisage an EBITDA margin of 11% to 12% on an annual basis for the current year. We are focused and navigating the market with determination to place ourselves in an advantageous position to exploit the rise in demand in coming quarters. Yarn spreads have presently stabilized but may soften further.

We are closely monitoring the challenging business dynamics and are taking active steps based on prevailing and near future expectations. We are committed to enhancing our product mix and our strategy is built on optimizing processes, controlling expenses and capturing growth opportunities to strengthen shareholder value. We look forward to our continued support as we navigate the road ahead together.

With that, I would now conclude my speech and wish you all a very happy and prosperous Diwali. I would like to hand over the floor to our CFO, Mr. Sumit Khowala, about the financial performance of our company. Over to you, Sumitji.

Sumit Khowala: Thank you, Vikash, sir. Hello, everyone, and thank you for joining us for our quarter two and H1 FY24 earnings call. I will provide a brief overview of our financial performance for the quarter as well as first half of FY24.

On quarterly performance, revenue from operations for quarter two FY24 stood at INR302 crores, grew by 6% year-on-year. The EBITDA for the quarter stood at INR32 crores as compared to INR29 crores same period last year, registering a growth of 11% year-on-year.

Operating EBITDA margin for the quarter stood at 10.7% for the quarter, up by 50 basis points year-on-year. The net profit for the quarter stood at INR21 crores against INR17 crores in quarter two FY23, which grew by 22% year-on-year. PAT margin for the quarter stood at 6.8%, up by 90 basis points year-on-year.

Now coming to the half yearly performance. Our revenue from operations for H1 FY24 stood at INR498 crores against INR500 crores in H1 FY23, down by 0.4% year-on-year. EBITDA stood at INR44 crores, de-grew by 8% year-on-year, and EBITDA margins for H1 FY24 stood at 8.8%, down by 70 basis points year-on-year. PAT for H1 FY24 stood at INR25 crores as against INR29 crores same period last year, de-grew by 15% year-on-year. PAT margin stood at 5%, down by 90 basis points year-on-year.

Cash generated from operations stands at INR91 crore positive, which has been majorly utilized in reducing the debt. Our net debt stands on September 23 is INR62 crores versus INR134 crores in March 23. In addition, our diligent approach to the working capital management has led to decreased from INR788 crores in March 23 to INR743 crores in September 23, indicating our commitment to efficient resource management.

Now I'll open question-and-answer session for our esteemed investors.

Moderator: Thank you, sir. The first question is from the line of Ms. Sonali Shah from SK Advisors. Please go ahead ma'am.

Sonali Shah: Good afternoon, sir. I have like few questions. Sir, what going ahead, like what are our expansion plans for the EBO stores?

Vikash Agarwal: EBO stores, we are targeting another 10 stores for the current year, but a lot will depend upon the current sentiment of the market and all. So we are holding any further immediate, but coming quarters, we'll probably look for another five, seven stores.

Sonali Shah: Okay, sir. And sir, could you just throw some light on the sales split in the rural areas and urban areas as well as the trends in the sales for both these areas?

Sumit Khowala: Rural India contributes approximately 55% of the total sales and urban India contributes 45% of the sales.

Moderator: The next question is from the line of Mr. Varun Mishra, an individual investor.

Varun Mishra: Actually, I had a couple of questions. Like, firstly, I wanted to know, are we planning to do any capex guidance for FY24 or 25?

Vikash Agarwal: Capex, what we do year-on-year basis to support the business is around INR25 crores to INR30 crores. So that will continue.

Varun Mishra: Okay. So can we expect -- any growth is expected in this number?

Vikash Agarwal: Yes. As we said, like export unit also we have inaugurated this year. So currently, export is a little soft, but in coming quarters, we are quite hopeful that should do well.

Varun Mishra: Okay. So my next question was like, how is the demand shaping up for thermal wear segment, like what has been the current order book for this quarter two?

Vikash Agarwal: Quarter two, it was quite good. But quarter three, as we are seeing the season, a lot will depend upon the season. Quarter two has been good. So quarter three, we are hopeful. So next 10, 15 days are quite crucial. So a lot will depend on the weather.

Varun Mishra: Okay. My last question is, our exports have been muted for this quarter. When can we expect this to normalize?

Vikash Agarwal: Normalize, we are not sure we are expecting to do well in coming -- not in quarter three, but from quarter four onwards, once the global economy revises Europe and all, that should pick up from quarter four. That is our understanding. But in the immediate term, we seeing yarn prices going soft because there is dullness in exports.

Moderator: The next question is from the line of Mr. Pretesh Jain from PJ Investments.

Pretesh Jain: Congratulations on a good set of number. Sir, my first question is, what will be our branding and advertising cost for the H2 and going ahead?

Vikash Agarwal: Year-on-year basis, 7%, so we will stick to 7%.

Pretesh Jain: And can you shed some light on the performance of our subsidiaries, Rupa Bangladesh, Rupa Fashion, Euro Fashion, Oban and so on?

Sumit Khowala: Currently, we have five subsidiaries, Oban Fashion, Imoogi, Euro, Rupa Fashion and Bangladesh. Out of three, Oban, Imoogi and Euro, both are EBITDA and PAT positive, but Rupa Fashion and Rupa Bangladesh has negligible losses.

Pretesh Jain: Okay. So the follow-up on that is, which of them are PAT positive?

Vikash Agarwal: Oban, Imoogi and Euro are PAT positive.

Moderator: Next question is from the line of Ms. Anushka Chitnis from Arihant Capital Market Limited.

Anushka Chitnis: Congratulations on a good set of numbers. I have one question, in that considering the reduction in net debt and working capital has also been reduced, what's your ideal leverage that's being targeted for FY24?

Sumit Khowala: We have target to reduce our working capital days to around 220- 225 days from March, which was 270 days.

Moderator: The next question is from the line of with Ms. Forum from Abacus.

Foram: Happy Diwali. A few questions from my end. Have we taken any price hikes in the month of October?

Vikash Agarwal: Price hikes, we have taken initially in October month, but as for competition, we have withdrawn that towards the end of the month. So the price hike was taken, but we didn't stick in the market. We have to withdraw it. So current year, we have not taken any price hikes. But that's due. I think in coming quarters, we have to take one. A lot will depend on the yarn price. So let's see what happens next month.

Foram: Got it, sir. And sir, for full year, what would be our revenue guidance?

Vikash Agarwal: Revenue guidance, ma'am, as earlier committed 18% to 20% is our target. So quantity-wise, of course, we'll do better. Volume-wise -- value-wise, a lot will depend on the yarn prices. We might do better and vice versa depending -- raw material price will play a major role.

Foram: Okay. And sir, for first half, if you could quantify how much we have generated from contract manufacturing? We have been doing contract manufacturing for Reliance and private label for Amazon, etcetera. So just want to understand how much revenue has been generated from there.

Sumit Khowala: For the first half, we have generated revenue from contract manufacturing is around INR4.5 crores.

Foram: INR4.5 crores?

Vikash Agarwal: It is INR4.5 crores, but with the setting up of a new unit, the coming quarters should do quite well..

Foram: Okay. And sir, what is the capacity of the export unit? And how much incremental revenue can be generated from this unit?

Vikash Agarwal: Around 40,000 to 50,000 pieces per day, which would help us to increase the revenue of around INR100 crores plus with the 80% to 90% capacity.

Foram: And sir, current capacity would be how much, capacity utilization?

Vikash Agarwal: We have just commissioned the unit, ma'am. So it will start now.

Foram: And sir, have we hired any expert to look after the product mix of the EBOs?

Vikash Agarwal: For the export -- for the EBOs, yes, we recently hired an EBO manager, just focusing on EBO. We had a Modern Trade head, but somebody to focus on the EBO, we hired somebody last month.

Foram: Okay. Got it. And sir, can you quantify like in quarter two Thermal wear sales, how much would that be?

Sumit Khowala: Quarter two or quarter one, ma'am? Quarter two sale is around INR30 crores, and it contributes around 7% of the total revenue.

Foram: INR30 crores, okay, sir. And we were holding like Thermal inventory worth INR70 crores as on March. So I think part of that has been exhausted now?

Vikash Agarwal: Yes.

Moderator: The next question is from the line of Ms. Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: Sir, I would like to understand the demand trends that are shaping in the mass segment as well as in the premium segment. How it has been in the quarter and how it has been for the October month?

Vikash Agarwal: Segment wise -- quantity wise, I have mentioned, like in economy, we did a growth of 9% in quarter two. In mid-premium, we did a growth of 20%, and premium, we did a growth of 22%. And half yearly wise, economy we did 11, mid-premium 12% and premium was flat.

Prerna Jhunjhunwala: Sir, I was just asking on a qualitative basis, how is the filler in the market on demand perspective, not the quantitative wise? Whether you think this 20%, 22% is a good number or bad number? Or it could have been better, given that there has been demand constraint in the past one, two quarters?

Vikash Agarwal: I wouldn't say it can't better -- it would have been better. But because of the yarn prices became, our future looks a little soft in coming quarters. So the demand is not as it should have been. We could have done better. So definitely coming quarters, things should be better.

Prerna Jhunjhunwala: Sir, this is valid across mass as well as mid-premium and premium categories. You're not seeing any green shoots anywhere?

Vikash Agarwal: No, no. Across all categories, a lot will depend upon the...

Prerna Jhunjhunwala: And how has been the pujo sales as per your understanding, the festival season...

Vikash Agarwal: It has been decent ma'am.

Prerna Jhunjhunwala: Okay. Okay. And how is the traction on the sportswear athleisure category for macroman, macrowomen segment?

Vikash Agarwal: It has been decent. We won't say it has been great, but it has been decent.

Prerna Jhunjhunwala: Okay. Okay. And sir, do you think the 18% to 20% growth guidance that you have given, is it achievable, given 15% growth in Q2? Or we still have to try harder to achieve 18% to 20%?

Vikash Agarwal: Like I mentioned, ma.am, value-wise, a lot will depend upon the yarn prices, but volume-wise, of course, we'll do better. And a lot will depend upon the raw material prices. If raw material prices firms up, then value-wise also, we should do better. But quantity-wise, it's quite achievable.

Prerna Jhunjhunwala: Okay. And sir, what are your plans to increase the distribution network in terms of distributors and EBO outlets?

Vikash Agarwal: That's a regular process, ma'am. And we have started retail tie up program, a loyalty program, which is happening, and we are gradually trying to expand into other cities and other towns. So that is happening. So we are trying with that three cities. It has some initial starting hiccups. We are working on that. Once the same is sorted, we'll expand it here gradually.

Moderator: The next question is from the line of Mr. Rehan from Equitree Capital.

Rehan: Congrats on a great set of numbers. I had a couple of questions. First would be, sir, which product do you see generating the most significant volume growth for you all? Or which segment do you all see the same, if you could share some light on that?

Vikash Agarwal: We see opportunity across all the segments, whether it is economy, mid-premium or premium. Economy, we recently endorsed with Ranbir Kapoor. So India, as a country, there's a huge potential economy. Although our base is big in economy, but we still see a big opportunity there. Mid-premium, we are not -- we don't have such huge numbers. So definitely, premium, equal opportunities there to grow 20% at least. So we see opportunity across all the categories, across all the segments. As a part of overall economy, we are still very small in numbers. So opportunity-wise, we don't see a challenge anywhere.

Rehan: Can you share a split on like the segments that you have, which is economy, mid-premium, etcetera, premium? Can you share the split of revenue on that, if you have the data with you?

Sumit Khowala: Split of revenue, Economy segment contributes around 32%; mid-premium contributes around 58%; premium segment contributes around 10%.

Rehan: Okay. And we used to do earlier about 15%, 18% EBITDA margins, do you see the coming years that we would revive those levels again?

Vikash Agarwal: We would love to see that. I mean, yes, it all depends -- a lot will depend upon the yarn prices. So once yarn prices are decreased from and the trade has more confidence about the stability and about that going on to yarn prices, yes. So currently, we are taking a hit because of earlier inventory also. But as you see in current quarter, our margins have been 11% -- 10%, 10.5%. And on a yearly basis in the next two quarters, it will do well. So year average would be around 11% to 12% and in coming years, it should definitely do well.

Rehan: Okay. Once again squeezing on last question. The women part of your segment would -- like your revenue segment would be about 11%, 12%, right? Do you see any significant growth in that part going forward?

Sumit Khowala: Yes. I mean women segment has a great opportunity in times to come. Currently, we are contributing -- our total revenue constitutes around 11%. In future, we are hopeful that it contributes around 20% in next two, three years down the line.

Moderator: The next question is from the line of Mr. Ketan Athavale from RoboCapital.

Ketan Athavale: Thank you for the opportunity sir. I wanted to know about the improvement in margin that we have had recently. So can you throw a bit light on that? And can you please provide guidance for FY25 and 26 margin guidance?

Sumit Khowala: In current year margin guidance is around 11% to 12%. Definitely, we'll improve going forward for 25, 26, every year around 1%, 1.5%.

Ketan Athavale: Okay. And what will be the major reasons for margin improvement, which we have recently seen and which we will experience going ahead?

Sumit Khowala: It would be, I mean, contribution to gross margins as well as we'll control the ad spend and other operational overheads, which would lead to improve the margins in coming years.

Moderator: The next question is from the line of Mr. Rahul Jain from Credence Wealth.

Rahul Jain: Thanks for the opportunity. Congratulations on a good set of numbers, sir. First of all, our gross margins have fallen this quarter...

Rahul Jain: Our gross margins have fallen in this current quarter.

Sumit Khowala: It is because of the change of mix. I mean economy...

Rahul Jain: So sir, the gross margins have fallen in the current quarter by almost 5%, 6%. And our EBITDA margin has moved up again to double-digit margins after three, four – three quarters. Is it fair to assume, first of all, this EBITDA margin growth has been primarily led due to advertisement expenses falling back to 6%, 7%?

Sumit Khowala: Yes.

Rahul Jain: So how do we see the gross margin movement going ahead?

Sumit Khowala: I mean the gross -- the reason for decline in gross margin is basically the change of mix. In terms of volume, the Economy segment contributes around 45% to this quarter. So going forward, it would be rationalized and the contribution from premium and mid-premium segment, will increase and gross margins will improve thereon.

Rahul Jain: Sure. And sir, you mentioned that demand is soft and also the price hike, which you took in October first week due to the soft demand that has been reversed now. So how do we see this? And at the same time, you are projecting around 18%, 20% revenue growth for FY24, which would mean that in the second half, you need to grow by almost 30%, 35% over the previous year's second half. So what gives you confidence that we can deliver that kind of 18% to 20% revenue growth?

Vikash Agarwal: So as mentioned in earlier talks also, quantity-wise it's quite achievable. A lot will depend upon the yarn prices. If yarn prices firms up, that's quite achievable. But if yarn prices become soft and the reason to withdraw that price hike was expectation of soft yarn prices. So a lot will depend upon the yarn price.

Rahul Jain: So basically, sir, that means if the yarn prices continue to remain at the current level, so then in spite of the volume growth, since the prices are down by around 8% to 10%, we may not be able to deliver that kind of growth?

Vikash Agarwal: You mean to say 18% to 20% growth with the current yarn prices?

Rahul Jain: Yes, sales value growth.

Vikash Agarwal: No, that's achievable.

Rahul Jain: You're saying at current yarn prices, sales value growth of 18% is achievable.

Vikash Agarwal: Yes.

Rahul Jain: Fair enough. And sir, with regards to the longer-term question...

Vikash Agarwal: We have invested a lot in the brand and all. We have invested a lot in the economy brand. We never used to have a brand ambassador. So brand ambassador is there. That should give us a big support. And for other brands also, we are resting heavily on marketing. And on top of that, we have set up a new export unit, which would help us in contract manufacturing also. So coming quarters, we are quite hopeful and we are on the job.

Rahul Jain: But sir, the exports is still a very small figure compared to our overall top line....

Vikash Agarwal: But contract manufacturing, you can scale up. Once you have that unit with you, that scaling up is easier then.

Rahul Jain: Sure. And sir, a slightly longer-term question in terms of your presentation where you have mentioned the x-factor areas will go up almost 3x in four years. So we are talking about taking that business from around INR180 crores, INR200 crores, close to INR600 crores plus. And overall, you have given a guidance that in three years, you will be reaching INR2,000 crores. So what are the step one, step two, step three, step four strategies, which have been put in place? And if you could tell those categories more in quantitative terms to achieve this kind of number going ahead?

Vikash Agarwal: It will be difficult to share it on the phone numbers -- on the con call, but if we have a detailed presentation, we can share it in further detail. But step one, step two, step three is logically the same. We have to increase the distribution network. As mentioned earlier also, we have to do retail tie ups. So we have launched a retail tie-up scheme also. So we have taken various efforts, various strategies are there, how fast and how quick we implement it, all depends upon that. So we are working on the same.

Rahul Jain: Sure. So last question. On the pricing front, pricing has been an issue for almost three...

Vikash Agarwal: To tell about the three years in step one, step two, step three is a little difficult, sir.

Rahul Jain: Sure. Got it, sir. And sir, with regards to the pricing pressures, which the industry has been going for almost three, four quarters now and earlier, it was -- of course, one year back, it was more due to the cotton prices and then yarn prices are not going up. But is it like this competitive pressure in the industry overall has changed in the last one or two years, whereby it is difficult for organized players like us -- or I should say, the branded players like us, apart from the other three or four large brands, we are finding it difficult to push pricing growth.

Vikash Agarwal: I think after a huge yarn price hike and everything during COVID times, our company has done outstanding. So a lot of what I feel balancing factor is still happening because the athleisure demand was quite high that time, yarn prices were quite high. So everything has softened at that time, that balancing is happening. So probably by this quarter or this year, that balancing things should be happening and it should phase out.

And from next year onwards, things would be stable. Trade also is stable. They are aware about yarn prices won't fall. We have seen yarn prices fall up 30%, which historically, we have never seen. So such things never happened before historically, neither trade has seen that, neither we have -- the industry has seen that. But I think the worst has happened, and things should be stable. Once things are stable, we look forward to a normal growth and normal operations again.

Moderator: The next question is from the line of Mr. Ankur Kumar from Alpha Capital. Ladies and gentlemen, this would be the last question of the session.

Ankur Kumar: Congratulations for a good set of numbers. My question, sir, is on the EBITDA margin. So first half, we are like close to 9%, second quarter is 10.7%, and you are saying that 11% to 12% for the full year. So to reach 11% to 12% for the full year, I think we need second half to be like 13%, 14% type EBITDA. So are you confident on achieving that kind of number?

Vikash Agarwal: Yes, we are quite hopeful with that.

Ankur Kumar: And sir, what would be the reason? Is it like thermal will have higher margins? Or is it like cotton prices have come down, so we expect the margin improvement, sir?

Vikash Agarwal: A lot will happen because of the stock cost averaging out and premiumization is also one factor. Thermal should do well compared to last year. Athleisure should do well. The outerwear we are focusing on and a few new ranges we have launched last year where margins are better. So those things together should help us to achieve those kind of numbers.

Moderator: Thank you. I would now like to hand the conference over to Mr. Sumeet Khaitan for closing comments.

Sumeet Khaitan: Thank you, everyone, for connecting on the call today. I would also like to thank the management for sparing the time and answering all the queries today. We are Orient Capital, Investor Relations advisor to Rupa & Company Limited. For any queries, please feel free to reach out to us. Thank you, everyone, and have a nice day.

Vikash Agarwal: Thank you, everybody, and wishing you all a very happy and prosperous Diwali again.

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