RUPA & COMPANY LIMITED

Date: February 16, 2023

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
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 February 11, 2023**

Dear Sir/ Madam,

In continuation of our letter dated February 10, 2023 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Earning Call held on February 11, 2023, to discuss the Unaudited (Standalone and Consolidated) Financial Results of the Company for the quarter and nine months ended December 31, 2022. The same is also available on the website of the Company.

Kindly take the same on record.

Thanking you.

Yours faithfully,
**For Rupa & Company Limited**

MANISH AGARWAL
Digitally signed by MANISH AGARWAL
Date: 2023.02.16 17:57:12 +05'30'

**Manish Agarwal**
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CIN No.: L17299WB1985PLC038517

# "Rupa & Company Limited Q3 FY '23 Results Conference Call"

**February 11, 2023**

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

**MODERATOR:** **MR. NACHIKET KALE – ORIENT CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY'23 Earnings Conference Call of Rupa & Company Limited, organized by Orient Capital. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nachiket Kale. Thank you, and over to you, Mr. Kale.

**Nachiket Kale:** Yes. Good afternoon, everyone. Thank you 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.

A detailed presentation has been uploaded to the exchange yesterday. I hope everyone had a chance to go through it. I would now like to hand over the call to Vikashji. Over to you, sir.

**Vikash Agarwal:** Thank you, Nachiket, and good afternoon, everyone, and thank you for joining us today. Where historically, this is the most challenging quarter for us in the industry as we can all see. And the challenging environment in the textile industry has affected business adversely. The impact was seen across the spectrum starting from highest raw material prices in decades to high energy cost in manufacturing. These factors had a significant impact on our gross margin. Consequently, as prices escalated, there was dampening demand, which has led to a significant slowdown in sales.

Now with the steep correction in cotton prices and in the light of volatility in the market forces, we took proactive measures to support our trade partners and dealers by offering them extended credit grades as well as some extra schemes. These extra schemes and support resulted in stretched working capital cycles.

Talking about the business side, post-COVID, the gradual return to workplace and reducing work from home culture, stunted the growth of the Athleisure segment. Our high-margin products in winter and thermal wear witnessed slow demand. These were the major reasons for the downturn in the sales growth.

The spend on marketing in the first 9 months is at INR 53 crores being 7.2% of the top line was much higher compared to INR 33 crores, that is to say 3.3% of the top line incurred last year. The increased expenses, includes engaging top celebrities in our marketing campaigns. This increased spend will go a long way in connecting with our customers and potential target demography, thus strengthening our brand equity. And our company has a legacy of over 4 decades in building and growing demands a great brand popular among our customers.

Further, we are pleased to report that our exports continue to perform well and now contribute 5% to our revenue. We have registered an impressive 51% growth year-on-year with the revenue from INR 23 crores to INR 33 crores in exports. And based on the encouraging trajectory, we are commissioning a unit in West Bengal exclusively dedicated to the export division. Will incur a capex of about INR 18 crores, and the unit will be commissioned in the upcoming financial year.

Additionally, we are also setting up a cutting unit with a capex of around INR 23 crores. The same is also expected to commission in the next financial year. I'm also happy to announce a positive cash flow from operations net of taxes at INR 138 crores for this quarter. Despite facing multiple challenges and extending credit to our customers, our net debt has reduced from INR 275 crores at the end of quarter 2 financial '23 to INR 153 crores as of December 31, 2022. This improvement of INR 122 crores is a result of our focus on financial discipline and our commitment to managing our resources effectively.

Here, we would like to highlight, we have compromised on the top line on the primary sales, keeping interest of the long-term financial discipline of the company, which should pay off the company long term. And modern trade and e-commerce registered a robust growth of 35% and contributed 5.5% towards overall top line, and the business grew from INR 28 crores to INR 39 crores. And we are continually exploring new and innovative ways to reach our customers and provide them with the desired products and services, which include our opening of EBOs.

We expect consumer demand sentiments remain weak in the foreseeable future over the short term. Because of the ongoing global slowdown and rising inflation in the domestic market, we are having an adverse effect on consumer confidence, leading to lower spending. However, going forward in the medium term, we believe that the demand sentiments probably with a steep correction in yarn prices, and we feel yarn prices should be at bottom at these prices. We feel gradually there should be improvement in the demand and our strategic efforts are aimed at making the best of the opportunities in the future.

Now I request Mr. Sumit Khowala, our CFO, to give you an update on the financials, please.

**Sumit Khowala:** Thank you, Vikash sir. Good afternoon, everyone. I will now provide a brief update on the financial performance. The revenue from operations for the quarter 3 FY'23 is INR 236 crores, down by 46% compared to corresponding quarter last year. As mentioned by Vikash sir, the headwinds in the industry has affected our margins on account of lower volume off take at the dealer and distributor level, volatility in raw material prices and previously high stock inventory -- however, the gradual destocking of the high-cost inventory at channel level, we expect volumes to be up and thereby improving the margins.

Gross margin for the quarter is 27.7% vis-à-vis 32.9%. EBITDA margin stood at 6% in quarter 3 FY '23 as compared to 18.7% in quarter 3 FY '22. PAT is at INR 5.5 crores with a PAT margin of 2.3%. Coming to the 9-month results, for 9 months FY '23, revenue stood at INR 736 crores, is down by 28% year-on-year. Gross margin stands at 31.4% versus 35.1%. The EBITDA for the 9 months is INR 62 crores, and the EBITDA margin is 8.4%. PAT stands at INR 34.8 crores with a PAT margin of 4.7%. A multitude of factors have led to a slowdown in sales resulting in degrowth across key matrix. However, our prudent financial practice has ensured that we are able to free up working capital and cut down our net debt significantly.

Thank you for your attention. We are now happy to take questions you may have.

**Moderator:** We have the first question from the line of Abhijeet from Pi Asset Management.

**Abhijeet:** Sir, I have just one question. How do you see EBITDA margin shaping up in the coming quarters?

**Vikash Agarwal:** Very difficult to comment, but what we feel this quarter is the worst for the EBITDA margin. Going forward, and as summer season is also coming up and yarn prices are at steep, the export demand is also picking up, domestic demand should also pick up. So from these levels, the sales will do well and EBITDA margin should bounce back.

**Abhijeet:** So can we assume that raw material prices have bottomed out at these levels?

**Vikash Agarwal:** This is our thinking. This is what we think. Because the domestic market should do well now, export demand is also gradually opening up. So market should reverse from these levels now.

**Abhijeet:** And how is demand shaping up in the domestic market?

**Vikash Agarwal:** As I mentioned in my opening speech, it's quite weak, but market should be gradually opening up, the only silver lining with the trade, the stock levels are at the minimum level. So once the little market sentiments are better, and we have more summers in coming months in Feb, March, end of Feb and March, the market should bounce back.

**Moderator:** The next question is from the line of Shikha Mehta from Equitree Capital.

**Shikha Mehta:** I have a couple of questions. Can you elaborate more on the high-cost inventory issues, on our books currently, do we expect Q4 to still have some impact of the high cost inventory or has that eased out now in Q3?

**Sumit Khowala:** The impact of high cost inventory carried in hand is short term and a near-term phenomena maybe for a quarter or more. As the raw material prices stabilize, going forward, the cost of inventory versus price realized will of course correct itself, thereby regaining the gross margin to the normal level.

**Shikha Mehta:** But are we still carrying certain amount of high-cost inventory on our books?

**Sumit Khowala:** It's a mix of both high cost inventory as well as current production. So going forward, means it will average out...

**Shikha Mehta:** So Q4 should be much better than Q3 at least, right?

**Sumit Khowala:** Definitely. Yes.

**Shikha Mehta:** And sir, can you tell me how much our thermal sales were for Q3? And how we expect that to be in Q4 because the winter really came in, January. So can you elaborate on that?

**Sumit Khowala:** The total thermal sales for the 9 months is around INR 60 crores. And for the quarter, the thermal sales is around INR 26 crores.

**Vikash Agarwal:** But in January, whatever winter we have, it won't help us in primary sales, whatever will help that will probably help our retailer and dealers. But from the company level, post January, there's actually hardly any sales is there, but nobody wants to stock and take risk for a year. So that won't help on the manufacturing for us.

**Shikha Mehta:** And sir, could you also tell us a bit about the x-factor areas you have mentioned. We saw degrowth for the 9 months. So can you tell me how this is shaping up for Q4 and what you can expect in FY '24?

**Sumit Khowala:** There is a overall challenge with the sales in the industry, we expect that we grow up in these x-factor areas in the coming quarters. And we hope that the market will respond well.

**Shikha Mehta:** Do we expect it to be positive in Q4?

**Sumit Khowala:** Hopefully.

**Vikash Agarwal:** Of course, the only hope with the trade, stock levels are at minimum levels because in 9 months with the falling yarn prices, people have hardly taken any stock in all. So once we have a season time, which is Feb, March and April is the peak season time for inners, we are quite hopeful market should be respond better.

**Shikha Mehta:** And I have one last question on the ad spend side. I think it is around INR 20 crores in Q1, it was around INR 16 crores - 17 crores last quarter and this quarter would also be around INR 16 crores. So is this a run rate you're expecting going forward? Because I think in Q1, we had Laal Singh Chaddha, which is why our ad spend looks a little higher. And then we had Kiara Advani and that kind of stuff happening for us as well. So going forward, is INR 16 crores - 17 crores run rate, what we should look at or how should one look at this?

**Vikash Agarwal:** It will be quite high in quarter 4 because we are taking more celebrities for our economy brand also, we are in the verge of kind of finalizing the celebrity, which we haven't done in the past many years. So we are going all out and very aggressive in our marketing efforts and all. So our marketing spend would be around 6% - 7% of the top line in this quarter as well.

**Shikha Mehta:** Okay, 6% - 7% is the run rate we can look at going forward even for FY '24?

**Vikash Agarwal:** Yes, yes.

**Shikha Mehta:** And sir, just to understand right now as the demand is lacking, do you think it makes sense for us to be putting so much money on ad spends?

**Vikash Agarwal:** Demand is lagging, but we need to build up demand, or we need to build up marketing support, we need to go aggressive. So it's important for long term, that's equally important. In last quarter and last year, we have gone quite soft, but market should open up now.

**Shikha Mehta:** And what kind of growth are we looking at in FY '24 because if we look at FY '23 as an aberration, FY '24 should have much better growth, right?

**Vikash Agarwal:** Yes. Ideally it should have . You're talking about next year, right?

**Shikha Mehta:** Yes. Next year because FY '23 was almost like a washout year for us because of the high-cost inventory ...

**Vikash Agarwal:** The raw material prices should also be stabilized. So the trade should also be confident. So we are quite hopeful '24 should do well.

**Shikha Mehta:** Is there any number we're looking at percentage wise?

**Vikash Agarwal:** Internally, we always target for a 15%- 20% growth. But at the moment, we need to see how market behaves in quarter 4, then we'll be able to give a definite and a concrete working co-guidance for the next year.

**Moderator:** The next question is from the line of Rajeev Agarwal from GB Capital.

**Rajeev Agarwal:** So sir, I had a couple of questions. So one was with respect to the industry as a whole, like since we are seeing the peer results and the whole industry as a whole is struggling on two aspects, one is with respect to the growth and other is with respect to the margins. So I just wanted to understand like what strategic initiatives are we going to take that will enable us, you know to once again capture the growth once the industry recovers?

**Vikash Agarwal:** So one is the introduction of a few new product line introductions and going more aggressive in terms of marketing and increasing our sales efforts. These are the basic guidelines. And on top of that to secure our payment in our end to facilitate more to dealers, we are introducing some channel financing scheme also. So which should help our trade and should give more comfort level to our books. So these are few initiatives what we are taking.

**Rajeev Agarwal:** Okay. And the next question was with respect to the...

**Vikash Agarwal:** And this will be protecting more of the economy brand and our Jon brand will be promoting more, we'll do more marketing efforts for that. So these are the few.

**Rajeev Agarwal:** And the next question was with respect to the export business, which is doing well as per your commentary. So I noticed that we are setting up a dedicated unit for the same. So can you just explain what are the long-term plans and specific growth drivers that you see will help us with respect to the exports?

**Vikash Agarwal:** So export, we feel like year-on-year, 30% to 40% growth is quite achievable. So we see at least to export, we are targeting an export of around INR 100 crores in next 1 or 2 years. So it is quite mandatory for us to set up a unit which we are thinking from the long term. And as export response is good, we are quite hopeful and we are doing some contract manufacturing also for export. So export demand should do well.

**Moderator:** The next question is from the line of Sanjeev, an Individual Investor.

**Sanjeev:** So I don't have a specific question as if, just a suggestion. More in terms of the disclosures. So what I've observed over the times is that investor presentation from a disclosure perspective can be significantly improved. For example, in a quarter where our PAT is shrinking by 91% and EBITDA is shrinking by 82% year-on-year. There is not a single line of rationale or any commentary around why and what is really happening?

All we are provided quarter after quarter is the factual details like these are the brands, these are celebrities which we already know about. So we are just left to segment of imagination of our own, what would really be happening in the company. So I just request that the purpose of the investor presentation is really to enable us to ask the right question on the call, not just imagining things without a single line of commentary. That's just humble suggestion which you could think on your side.

**Vikash Agarwal:** That's a very good point. Thank you for your point. But if we can give you a bit of...

**Sumit Khowala:** Yes, the reason for declining PAT is basically the impact in gross margin as well as the increase in ad spend.

**Sanjeev:** Appreciate that, sir. My only request is that we should not wait for earnings calls to get some flavour on indication as in what sort...

**Vikash Agarwal:** We'll be sharing that...

**Sanjeev:** No line of disclosure, which is quite...

**Vikash Agarwal:** That we add a slide in the investor presentation, and we'll give the breakup where the margins are heading...

**Moderator:** The next question is from the line of Ravi Vooda, an individual Investor.

**Ravi Vooda:** Vikashji, with the trend of revenue going down in the industry report, do you think it is because of the comeback of unorganized sector is putting a dent in the market share of all listed players post COVID is done?

**Vikash Agarwal:** No, it's not because unorganized sector. I think it's largely because of the volatility of the yarn prices of the raw material prices. We have a steep correction throughout the year from March April because of that market sentiment has been quite bad at dealers and retailer level.

So once they are confident like there is no further volatility in yarn prices, and it is in upward trend, they will be more comfortable and they'll start stocking goods and all. And in the March April summer season coming up, it's mandatory for them also to stock up and do and meet up the demand.

**Ravi Vooda:** With respect to the new export oriented and manufacturing hub that we are planning, because of the new machinery, do you expect margins like 18% to 20% or better operational efficiencies? And can you also share like what kind of revenue are we expecting and when can we reach around 80% to 90% capacity utilization in this plant?

**Sumit Khowala:** Already we are running at around 70% capacity utilization and all putting up the export unit is for better quality and reduction in wastage will lead to the increase in margin. So going forward, we are very much positive on exports, and we expect that export to contribute at least 10% to 12% of our revenue in coming years.

**Vikash Agarwal:** So next year it is likely 80% to 90% of the capacity what you mentioned.

**Ravi Vooda:** For the new cutting plant that we are also putting it, do you think will it be lucrative to bring down the contract work that you pay to the vendor for such stitching, etc, inside the company, will that help us giving a better margin?

**Vikash Agarwal:** So this is what we are doing. We are shifting the cutting all everything inside so that we'll do 95% of the cutting internally now. And whatever the new capacity, what we are setting up is for the further expansion. So it is for the further and stitching unit is -- hosiery industry do more of job work, but internal stitching will do more of export and for our premium production on. So that's more economical to do more of job work, job workers are with us for more than 20, 25 years, and we keep upgrading them with latest machines and all. So that's the best way...

**Vikash Agarwal:** But increasing capacity stitching for the next year meeting up the increased demand in next coming years.

**Ravi Vooda:** Vikashji, so for these new reasons, do we get some kind of tax benefits or what is the effective tax rate that the company is looking from here on?

**Sumit Khowala:** So no as such tax benefit, installation of machinery previously, the central government announced a scheme of TUFS But from 1st April, they have withdrawn the same.

**Ravi Vooda:** Can you also share some developments in the online business that you are looking at because compared to other sites, it looks like we are growing a bit soft in the site.

**Vikash Agarwal:** You are not audible. Can you please speak a little more loud, please?

**Ravi Vooda:** Yes. Can you share some developments on your online business, we look to be a bit soft in the growth in this segment?

**Sumit Khowala:** The online sales is around 37% of the total modern trade sales, and we expect to grow the same...

**Vikash Agarwal:** Modern trade, e-commerce sale has been flat, what we are noticing in this year. So the innerwear trade is soft everywhere, whether it's online or offline. So there's a trend what we are seeing.

**Moderator:** The next question is from the line of Yash Agarwal, an Individual Investor.

**Yash Agarwal:** I have a quick couple of questions to ask. Can you elaborate your brand-wise sale like on the ladies segment, your Softlines, like on quarter 3 and 9 months?

**Sumit Khowala:** The Softline brand constitute the sales of around INR 11 crores in the last quarter. And for the 9 months, the Softline sale is around INR 35 crores.

**Yash Agarwal:** And sir, can you help out on the export sale on the 9-month basis?

**Sumit Khowala:** Export sale is around INR 33 crores for the 9 months basis

**Vikash Agarwal:** Versus ‘22.

**Yash Agarwal:** And sir, your working capital, that is the receivable days and inventory sir on a 9-month basis?

**Sumit Khowala:** Yes, the receivable days is around 110 days and inventory days is around 170 days.

**Yash Agarwal:** 170.

**Sumit Khowala:** Yes.

**Yash Agarwal:** And yes, sir, modern trade constitute around 5% of your top line.

**Sumit Khowala:** 5.5%, Yes.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Vikash Agarwal for closing comments. Over to you, sir.

**Vikash Agarwal:** Thank you so much for being with us. And we understand the results so far has not been quite favourable. But going forward, we are quite hopeful as we explained, and we are putting all our best efforts to give a good performance in coming quarters. Thank you so much again.

**Sumit Khowala:** In case you have any questions, you can connect with our IR partner, Mr. Nachiket Kale.

**Vikash Agarwal:** I will be happy to answer all your queries. Thank you so much.

**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.