

Campus Activewear | BUY

Ushering in new phase of Campus 2.0



We recently met the management of Campus Activewear, which said it is confident on regaining the lost growth momentum and is targeting mid teen's revenue growth and 15-17% margins over the medium term led by multiple initiatives it has taken over the past 18 months like (1) Plugging product portfolio gap, (2) curated marketing to improve brand image, (3) centralised planning and supply chain management, (4) shift towards a more market place model vs. outright earlier and (5) unlocking new channels of growth. We build in revenue/PAT (Pre-AS 116) CAGR of ~14%/32% over FY24-27 as we believe a combination of these measures coupled with BIS implementation should help lift revenue growth once the demand environment improves. In addition, a combination of low base, cost-efficiency measures and upfront investments in marketing and manpower should lead to higher growth in profits. We cut our EPS estimates by 1-4% over FY25-27E baking in margin pressure due to some front-loading of cost, benefits of which will be seen in future. We maintain BUY with a revised TP of INR 350 (from INR 340) based on 50x P/E as we roll over our target multiple to Mar'27.

- Key challenges encountered:** In the last 18 months, Campus faced challenges such as (i) distributor consolidation, (ii) channel conflicts pertaining to pricing and lack of coordination amongst SBUs, (iii) multiple top-level exits, (iv) large number of designs resulting in poor inventory management, (v) higher % of outright sales vs. market place, resulting in lower control over pricing and inventory, (vi) late entry in sneakers category.
- Many steps taken to revive growth and profitability** like (i) Centralised planning for all channels, resulting in coordinated ordering and fulfilment; this will also lower finished good inventory and eliminate pricing conflict among channels (ii) completion of distributor consolidation and focus on driving higher throughput per retailer, (iii) de-cluttering inventory from 1,300 styles to only 500 now (200 core styles/ 300 new launches) with 150 separate designs for each channel (iv) reducing outright sales to 20% vs. 80% earlier, improving pricing and inventory control, (v) addition of sneakers category 18 months ago; aims to increase the share to double digits (7-8% now) with upcoming sneaker plant in Mar'25, (vi) focus on increasing share of high-growth women's category and (vii) increasing penetration in the South (only 10% of revenue) through open footwear and gradually seeding in the closed footwear category.
- Realigned channel growth drivers:** **D2C Offline** – focus to drive aggressive growth and increase salience to 15% by FY27 (11% in FY24) led by EBO addition (largely franchise mode) and increasing the LFS counters (Reliance, Lifestyle, etc.). Primary role of the channel is to drive premiumisation and elevate consumer experience. **D2C Online** – cautious growth with focus on profitability; adding quick commerce platforms. It targets to maintain 80:20 market place: outright sale mix and expects ~35% contribution from the channel. Role will be to drive sneakers and women's portfolio. **Trade Distribution** – Will remain the cash cow; Campus is targeting 50% revenue salience by FY27 with focus on improving throughput/distributor and increasing geographical reach.

Financial Summary					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	14,701	14,359	15,898	18,576	21,363
Sales Growth (%)	23.8	-2.3	10.7	16.8	15.0
EBITDA	2,536	2,108	2,476	3,125	3,760
EBITDA Margin (%)	17.1	14.6	15.4	16.7	17.4
Adjusted Net Profit	1,171	894	1,271	1,698	2,117
Diluted EPS (INR)	3.8	2.9	4.2	5.6	6.9
Diluted EPS Growth (%)	7.8	-23.8	42.1	33.6	24.7
ROIC (%)	17.3	12.4	16.0	19.3	21.3
ROE (%)	23.9	14.9	17.8	19.7	20.1
P/E (x)	81.2	106.5	74.9	56.1	45.0
P/B (x)	17.2	14.6	12.3	10.1	8.2
EV/EBITDA (x)	38.8	45.9	38.7	30.4	25.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 02/Jan/2025

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	350
Upside/(Downside)	12.1%
Previous Price Target	340
Change	2.9%

Key Data – CAMPUS IN

Current Market Price	INR312
Market cap (bn)	INR95.3/US\$1.1
Free Float	26%
Shares in issue (mn)	305.3
Diluted share (mn)	305.3
3-mon avg daily val (mn)	INR285.8/US\$3.3
52-week range	372/213
Sensex/Nifty	79,944/24,189
INR/US\$	85.8

Price Performance

%	1M	6M	12M
Absolute	8.5	6.1	5.8
Relative*	8.9	5.4	-4.9

* To the BSE Sensex

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Pivoting towards high-growth sneakers and women's segments

- **Increasing salience of sneaker category** – Campus had a total addressable market of INR 220bn, which has increased by INR 10bn due to the introduction of sneaker products in its portfolio. The company is now launching new sneaker products with superior quality. This will help to drive higher realisation as MRP in the sneakers category is higher by ~INR 400 vs. average company MRP. ASP for the sneaker ranges from INR 1,299 to INR 3,500. The company started its sneaker category 12-18 months back and has increased the salience to 7-8% from 4% in FY24; it now targets to increase it to 20% over the next couple of years. The category has seen 70% YoY growth in H1.
- **Enhanced focus towards women segment** – Men/Women/Kids contribute 78%/14%/8% of overall revenue. The company aims to increase the share of women in overall revenue led by higher focus and offerings especially targeted at women. Increasing penetration in LFS counter and EBO addition will also lead to increase in salience of the women's segment as these channels have higher women contribution vs. MBOs.
- **Controlling width to drive higher efficiency and inventory control** – The Company earlier offered 1,300 styles with 3 colours and 6 sizes, which created complexity in terms of assortment and inventory management. It has now reduced styles to only 500. This de-cluttering of SKUs has helped the company to manage its finished good inventory efficiently.

Supply chain management and coordinated execution

- **Centralised planning and inter channel synergies** – Earlier, different channel heads had different strategies, which resulted in channel conflicts and poor coordination. Now, the process of planning and strategy formation is done differently for all the channels but is centralised at the business head level (headed by Uplaksh Tewary), which has reduced channel conflicts by offering different SKUs in different channels. The company has decided to offer ~150 different SKUs in its three channels. This also helps to drive inter-channel synergies as the product offered in different channels at different prices reduces channel conflicts.
- **WHS and RM efficiencies** – The Company is consolidating its three RM warehouses into one centralised warehouse, which is likely to improve the lead time by 5 days. It is also consolidating its two online warehouses into one facility with higher area to cater to demand over the next 2-3 years. With more scientific and analytic process of ordering, Campus has been able to reduce its inventory of finished goods by 20% and the management feels that there is still scope of some inventory reduction, which will be done in due course.
- **Capacity expansion** – The Company is enhancing its sole production capacity by installing two new EVA injection lines, this would result in increase in sole capacity by 15%. It is also setting up a plant for uppers for sneaker, which will increase upper capacity by 2.5mn pairs annually. With increase in production capacity, the difference in cost will not be material but it will help in timely launch of new products and improve its way of working.
- **Investment in automation** – The company is investing in automation with its initial focus on digitisation of the front end. It has implemented DMS software and QR-based scanning system, which helps it track retailer level demand for its products. Its own stores are enabled with the Genesis system, which is integrated to its ERP system. The company is in the process of implementing SAP software in 4QFY25. It has already implemented PeopleStrong (HR-related software) and is also exploring automation tools for order management and tracking the entire process of new product development from concept to commercialisation.

Redefining roles of the channel

- **D2C Offline** – The company is targeting aggressive growth in its D2C offline channel and is aiming for 15% salience of the D2C offline channel in overall revenue by FY27 vs. ~11% in FY24. The growth will be led by (i) increasing store reach (292 stores as of now), and (ii) offering products at LFS counters (already partnered with Reliance Footprint, and Lifestyle; trying to partner with other LFS partners also). Primary role of the channel will be to drive premiumisation and elevate consumer experience. The company currently has 50:50 mix between franchise and own stores. It targets to add majority of the new stores under the franchise model, which will be asset light and drive store expansion at a fast pace.
- **D2C online** – The company is adopting a cautious approach for growth in its online channel and the major focus will be on increasing profitability. It will leverage its market place expertise to drive growth in the segment. Earlier, 80% of its products in the online segment were sold on outright basis and only 20% of the products were sold in the market place, which led to higher discounting, channel conflicts and lower control on inventory. It has now pivoted itself to the market place channel (80% contribution), and only 20% is on outright basis. It targets to maintain the salience of D2C online channel at ~35% by FY27. The company has also started offering products on quick commerce platforms like Blinkit and is trying to list with other players too.
- **Trade distribution** – The company has consolidated its distributors from 425+ earlier to 300+ now. The focus, going ahead, will be to increase its retailer reach and throughput per retailer. It has deployed 170 FoS (feet on street) who are working on its rolls and additional 150 FoS from the distributor with the primary objective of increasing retail penetration, increasing sales/outlet and maintain channel hygiene. It targets to expand its regional presence by using analytical and tech support via MBOs with higher growth in other channels; the channel contribution is expected to be 50% by FY27.
- **Geographical expansion** – The company plans to improve its presence in the South and is working on multiple enablers including product and channel to gain its fair share in southern India.

Others

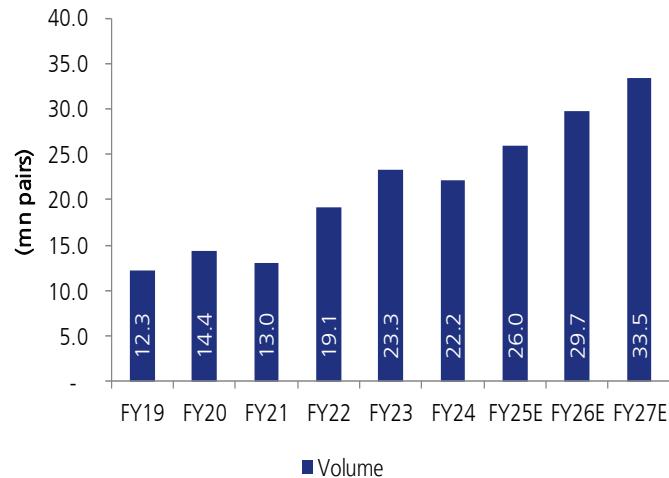
- **Profitability** – All the three channels are profitable for the company, and it expects gradual uptick in profitability. Majority of the upfront spending is done in terms of (i) marketing, (ii) capacity expansion, (iii) automation cost, and (iv) manpower hiring expense. The company has an employee base of ~1,000 employees, which the management feels is sufficient to clock a revenue of INR 40bn. It has already lifted gross margin to 52-53% (vs. 49-50% in the past), which, along with benefits from higher capacity utilisation, reduced upfront cost, and better operating leverage will lead to improvement in EBITDA margin.
- **Working capital** – The company has a core working capital cycle of 79 days in FY24, constituting 100 days of inventory, 30 days of debtors, and 50 days of creditors. Finished goods inventory constitute 20% of the overall inventory and the balance 80% is raw material only. Inventory days are expected to reduce down to 90 days in the next few years led by optimisation of RM inventory (100 days of inventory expected in FY25).
- **Marketing** – The company has heightened its focus on marketing and has increased its spends ~3x in FY24 vs. FY21. Segregated channel strategies, improved product quality and better marketing, as well as onboarding of actors Vicky Kaushal and Sonam Bajwa for brand endorsement have helped improve the company's brand image. Marketing strategies for different channels are set differently to target specific customers, which helps drive growth in all channels separately.

Exhibit 1. We cut our EPS estimates by 1-4% over FY25-27E primarily due to cut in margins on front loading of costs

	FY25E			FY26E			FY27E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenues (INR mn)	16,035	16,015	0.1	18,736	18,617	0.6	21,547	21,314	1.1
EBITDA (INR mn)	2,476	2,568	(3.6)	3,125	3,207	(2.5)	3,760	3,821	(1.6)
EBITDA (%)	15.4	16.0	-59 bps	16.7	17.2	-55 bps	17.4	17.9	-48 bps
PAT (INR mn)	1,271	1,330	(4.4)	1,698	1,757	(3.4)	2,117	2,151	(1.6)
EPS (INR)	4.2	4.4	(4.4)	5.6	5.8	(3.4)	6.9	7.0	(1.6)
Pre IND AS									
EBITDA (INR mn)	2,117	2,209	(4.2)	2,702	2,783	(2.9)	3,271	3,330	(1.8)
EBITDA (%)	13.2	13.8	-59 bps	14.4	15.0	-53 bps	15.2	15.6	-45 bps
PAT (INR mn)	1,270	1,329	(4.4)	1,707	1,765	(3.3)	2,144	2,175	(1.4)
EPS (INR)	4.2	4.4	(4.4)	5.6	5.8	(3.3)	7.0	7.1	(1.4)
Volume (mn Pair)	26,008	25,978	0.1	29,713	29,512	0.7	33,462	33,068	1.2
ASP (INR)	611	611	0.0	625	625	(0.0)	638	639	(0.1)

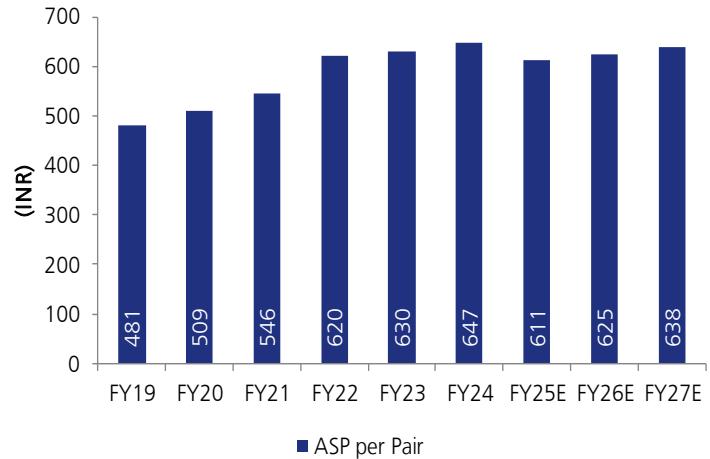
Source: Company, JM Financial

Exhibit 2. 15% volume CAGR expected over FY24-27E



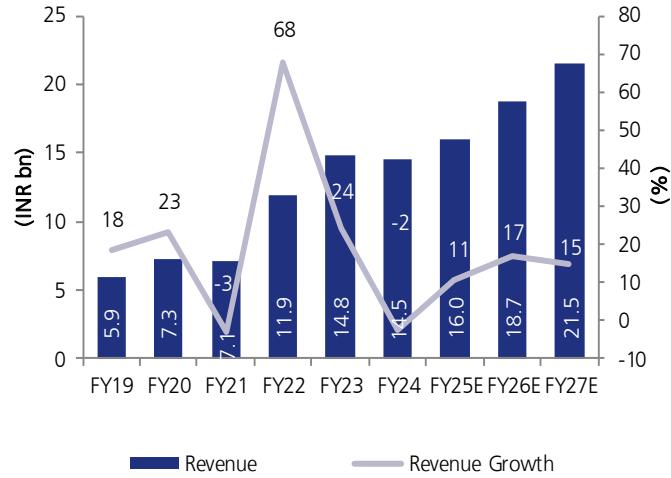
Source: Company, JM Financial

Exhibit 3. ASP/pair to decline by 0.5% CAGR over FY24-27E



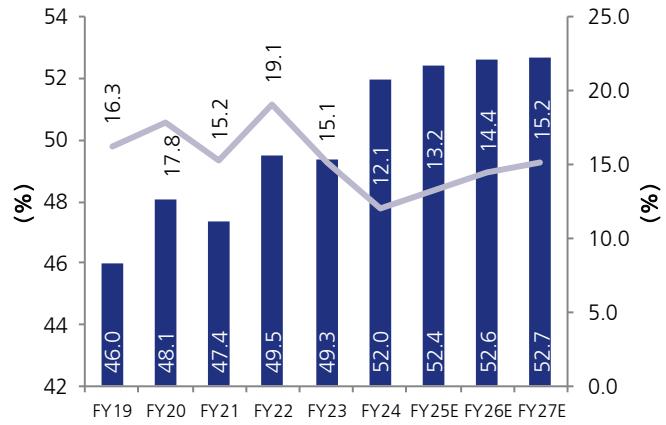
Source: Company, JM Financial

Exhibit 4. Revenue CAGR of 14% likely over FY24-27E



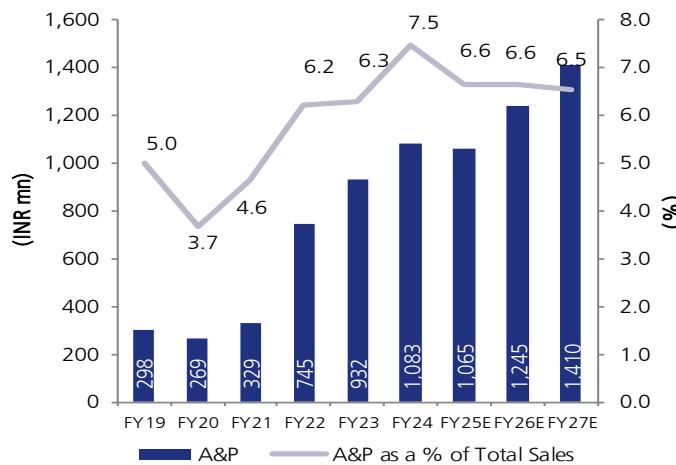
Source: Company, JM Financial

Exhibit 5. Gradual margin improvement expected over FY24-27E



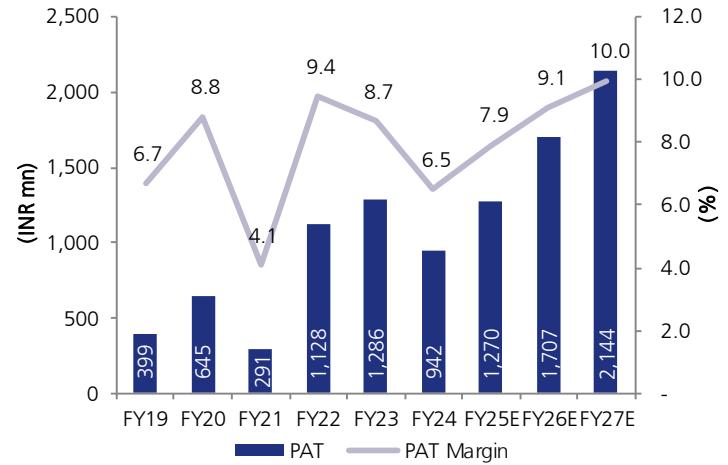
Source: Company, JM Financial

Exhibit 6. A&P expense has gone up ~3x from FY21 to FY24



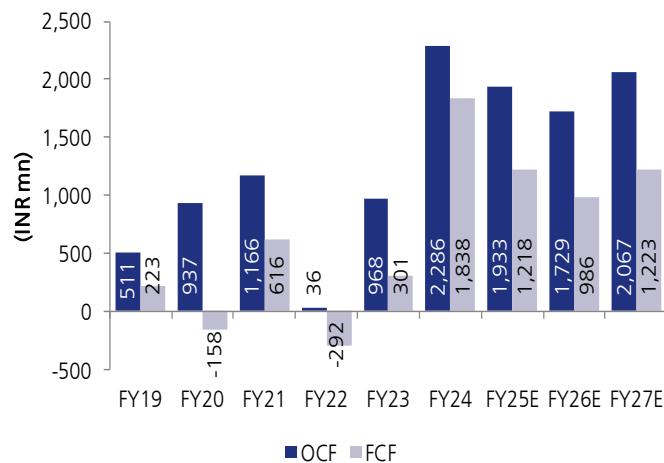
Source: Company, JM Financial

Exhibit 7. PAT CAGR of 32% expected over FY24-27E



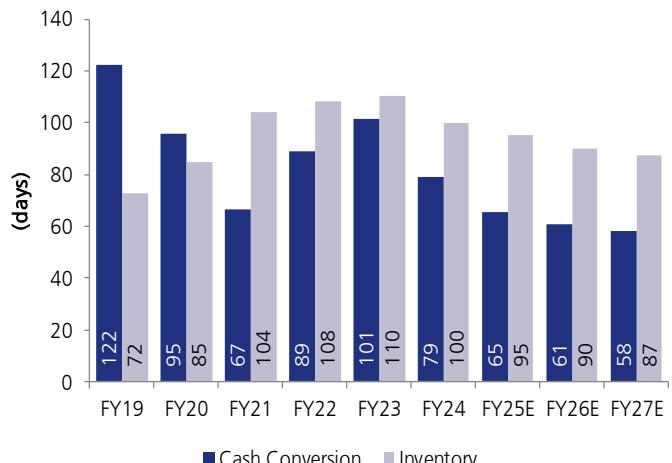
Source: Company, JM Financial

Exhibit 8. Cumulative OCF/FCF of INR 5.7bn/3.4bn over FY24-27E



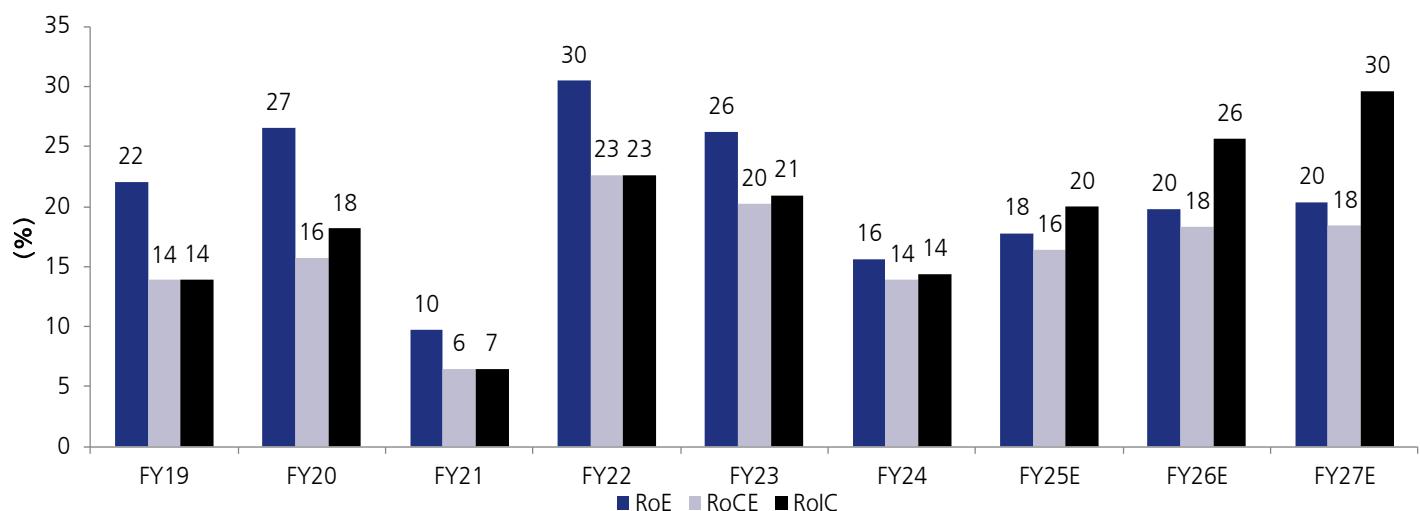
Source: Company, JM Financial

Exhibit 9. Cash conversion days to improve over FY24-27E



Source: Company, JM Financial

Exhibit 10. Return ratios are expected to improve led by improvement in margins



Source: Company, JM Financial

Exhibit 11. Trade distribution ~50% share; D2C saliency rising

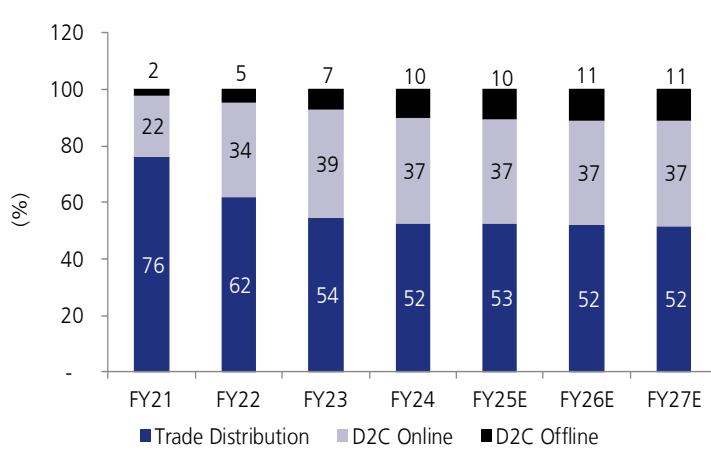
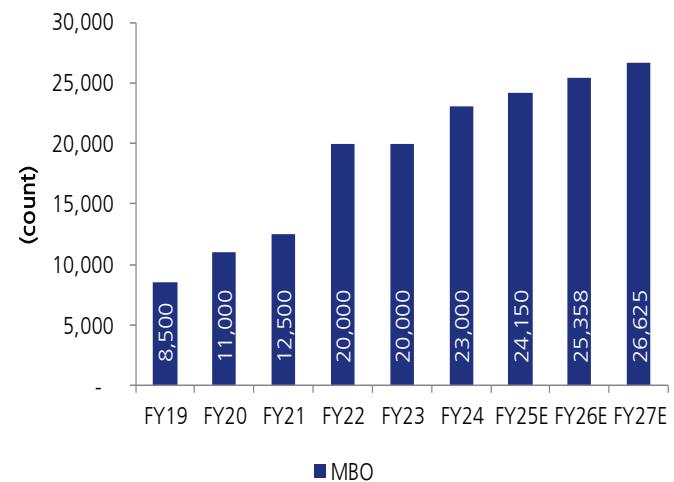


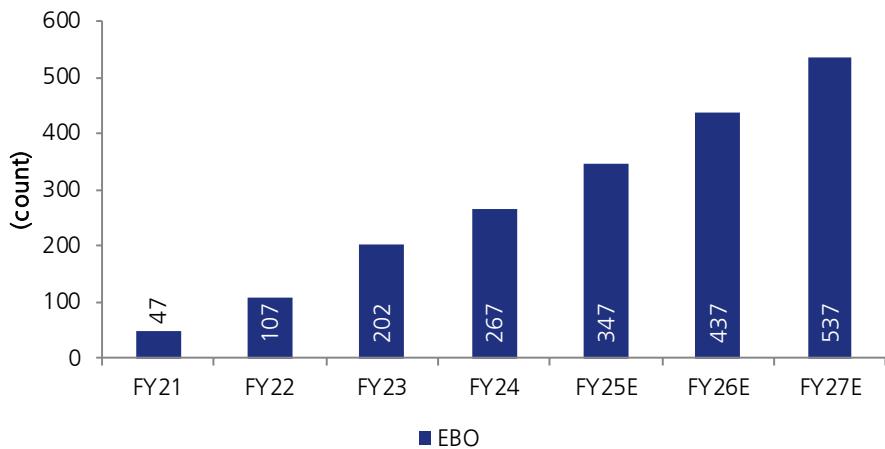
Exhibit 12. Campus reaches 23k outlets; robust expansion over FY19



Source: Company, JM Financial

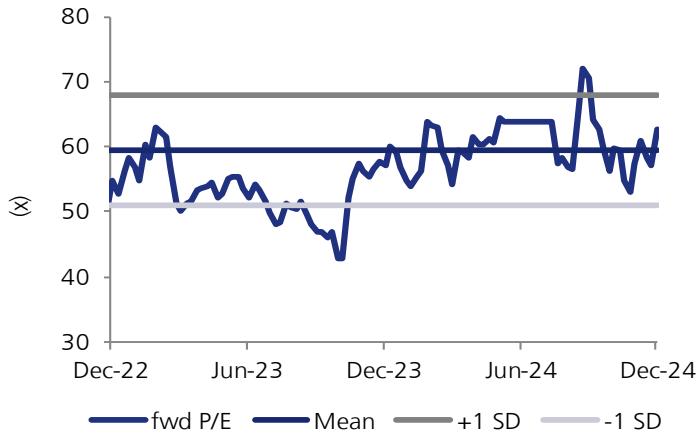
Source: Company, JM Financial

Exhibit 13. EBO count increased ~2.5x over FY22-24



Source: Company, JM Financial

Exhibit 14. 1 year forward P/E (x)



Source: Bloomberg

Exhibit 15. 1 year Forward EV/EBITDA (x)



Source: Bloomberg

Financial Tables (Consolidated)

Income Statement						Balance Sheet					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	14,701	14,359	15,898	18,576	21,363	Shareholders' Fund	5,521	6,517	7,758	9,456	11,573
Sales Growth	23.8%	-2.3%	10.7%	16.8%	15.0%	Share Capital	1,523	1,526	1,526	1,526	1,526
Other Operating Income	142	124	137	160	184	Reserves & Surplus	3,998	4,990	6,231	7,930	10,047
Total Revenue	14,843	14,483	16,035	18,736	21,547	Lease Liabilities	1,542	1,535	1,894	2,294	2,740
Cost of Goods Sold/Op. Exp	7,520	6,955	7,631	8,879	10,190	Minority Interest	0	0	0	0	0
Personnel Cost	802	1,015	1,240	1,430	1,634	Total Loans	1,808	243	0	0	0
Other Expenses	3,985	4,405	4,688	5,301	5,963	Def. Tax Liab. / Assets (-)	-239	-311	-311	-311	-311
EBITDA	2,536	2,108	2,476	3,125	3,760	Total - Equity & Liab.	8,632	7,984	9,341	11,440	14,002
EBITDA Margin	17.1%	14.6%	15.4%	16.7%	17.4%	Net Fixed Assets	2,270	2,302	2,500	2,651	2,827
EBITDA Growth	4.8%	-16.9%	17.5%	26.2%	20.3%	Gross Fixed Assets	3,606	3,882	4,597	5,340	6,184
Depn. & Amort.	710	721	718	837	960	Less: Depn. & Amort.	1,375	1,781	2,298	2,889	3,558
EBIT	1,825	1,387	1,758	2,288	2,800	Capital WIP	38	201	201	201	201
Other Income	28	45	120	182	272	ROU Assets	1,501	1,437	1,792	2,178	2,591
Finance Cost	287	232	171	191	229	Investments	0	0	0	0	0
PBT before Excep. & Forex	1,566	1,200	1,706	2,279	2,842	Current Assets	7,750	6,917	8,375	10,479	13,024
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	Inventories	4,490	3,963	4,181	4,622	5,165
PBT	1,566	1,200	1,706	2,279	2,842	Sundry Debtors	1,766	1,183	1,307	1,527	1,756
Taxes	395	306	435	581	725	Cash & Bank Balances	240	248	1,304	2,472	3,967
Extraordinary Inc./Loss(-)	0	0	0	0	0	Loans & Advances	251	582	628	743	855
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	Other Current Assets	1,003	941	954	1,115	1,282
Reported Net Profit	1,171	894	1,271	1,698	2,117	Current Liab. & Prov.	2,888	2,672	3,325	3,869	4,440
Adjusted Net Profit	1,171	894	1,271	1,698	2,117	Current Liabilities	2,144	2,002	2,613	3,041	3,490
Net Margin	7.9%	6.2%	7.9%	9.1%	9.8%	Provisions & Others	744	670	712	828	950
Diluted Share Cap. (mn)	304.7	305.3	305.3	305.3	305.3	Net Current Assets	4,862	4,245	5,049	6,610	8,584
Diluted EPS (INR)	3.8	2.9	4.2	5.6	6.9	Total - Assets	8,632	7,984	9,341	11,440	14,002
Diluted EPS Growth	7.8%	-23.8%	42.1%	33.6%	24.7%						
Total Dividend + Tax	0	0	0	0	0						
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0						

Source: Company, JM Financial

Cash Flow Statement					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	1,566	1,200	1,706	2,279	2,842
Depn. & Amort.	710	721	718	837	960
Net Interest Exp. / Inc. (-)	259	187	51	9	-43
Inc (-) / Dec in WCap.	-954	560	275	-407	-494
Others	207	327	0	0	0
Taxes Paid	-525	-350	-458	-567	-710
Operating Cash Flow	1,265	2,645	2,293	2,151	2,556
Capex	-667	-447	-715	-743	-844
Free Cash Flow	598	2,198	1,577	1,408	1,712
Inc (-) / Dec in Investments	-33	-356	0	0	0
Others	3	58	120	182	272
Investing Cash Flow	-697	-745	-596	-561	-572
Inc / Dec (-) in Capital	38	98	-30	0	0
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	65	-1,565	-243	0	0
Others	-434	-458	-368	-423	-489
Financing Cash Flow	-331	-1,925	-641	-423	-489
Inc / Dec (-) in Cash	236	-25	1,056	1,168	1,495
Opening Cash Balance	3	273	248	1,304	2,472
Closing Cash Balance	240	248	1,304	2,472	3,967

Source: Company, JM Financial

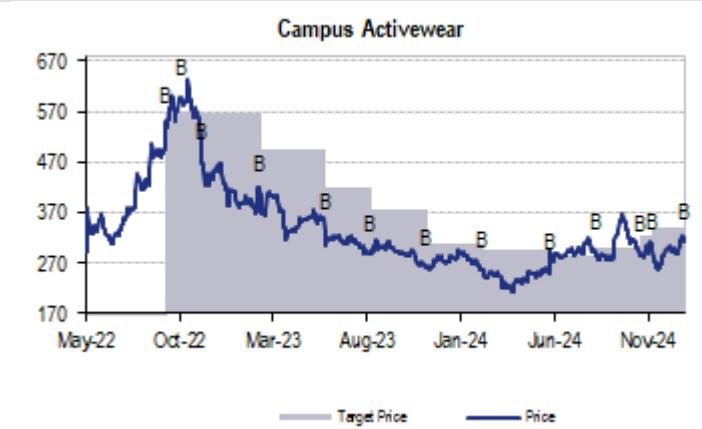
Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	7.9%	6.2%	7.9%	9.1%	9.8%
Asset Turnover (x)	1.8	1.7	1.8	1.7	1.6
Leverage Factor (x)	1.6	1.4	1.3	1.2	1.2
RoE	23.9%	14.9%	17.8%	19.7%	20.1%
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	18.1	21.3	25.4	31.0	37.9
ROIC	17.3%	12.4%	16.0%	19.3%	21.3%
ROE	23.9%	14.9%	17.8%	19.7%	20.1%
Net Debt/Equity (x)	0.6	0.2	0.1	0.0	-0.1
P/E (x)	81.2	106.5	74.9	56.1	45.0
P/B (x)	17.2	14.6	12.3	10.1	8.2
EV/EBITDA (x)	38.8	45.9	38.7	30.4	25.0
EV/Sales (x)	6.6	6.7	6.0	5.1	4.4
Debtor days	43	30	30	30	30
Inventory days	110	100	95	90	87
Creditor days	53	50	59	59	59

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
12-Sep-22	Buy	570	
7-Oct-22	Buy	570	0.0
11-Nov-22	Buy	565	-0.9
14-Feb-23	Buy	495	-12.4
30-May-23	Buy	420	-15.2
11-Aug-23	Buy	375	-10.7
10-Nov-23	Buy	310	-17.3
10-Feb-24	Buy	295	-4.8
28-May-24	Buy	285	-3.4
12-Aug-24	Buy	300	5.3
22-Oct-24	Buy	325	8.3
12-Nov-24	Buy	340	4.6
2-Jan-25	Buy	355	4.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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