

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR458
Target Price	: INR605
Potential Return	: 32%

Sreekanth PVS

+91 22 4031 3394
sreekanth.pvs@antiquelimited.com

1QFY17 RESULT UPDATE

Raymond Limited

Modest performance in a seasonally weak quarter

Raymond posted consolidated revenue growth of 4% for 1QFY17 driven by 1% revenue decline in branded textiles and 17% revenue growth in branded apparel segments. For the quarter the company reported a revenue/EBITDA/loss of INR10.6bn/INR356mn/INR176mn respectively. We would like to highlight that for 1QFY17, the company again posted a healthy revenue performance in its branded apparel business. The company continues to invest in this business and expects industry level margins going ahead with increase in scale. We expect branded apparel segment to report ~4% margins in FY18e. We expect the company to report 26% earnings CAGR over FY16-18e driven by ~12% revenue CAGR and ~22% EBITDA CAGR over the same period. The company has been aggressive in brand building, renovating old stores and closing down non-profit stores. We feel that the company is on the right track with a clear strategy towards a profitable growth and the necessary steps required for executing the strategy are in place too. With the renewed focus on driving scale, operating efficiency and premiumisation in textile/ apparel/ retail businesses, we expect improvement in profitability of these businesses. We maintain our Buy rating with a target price of INR605 based on SoTP valuation. We value the company using SoTP methodology, where we assign 9x EV/EBITDA to the textiles business, 10x EV/EBITDA to the branded apparel business on a FY18e basis. At the current market price, the stock is trading at 7.9x/6.2x FY17/18e EV/ EBITDA, respectively.

Market data

Sensex	:	27,803
Sector	:	FMCG
Market Cap (INRbn)	:	28.1
Market Cap (USDbn)	:	0.419
O/S Shares (m)	:	61.4
52-wk HI/LO (INR)	:	495/350
Avg Daily Vol ('000)	:	268
Bloomberg	:	RW IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	20.7	23.0	32.9
P/E (x)	22.1	19.9	13.9
P/BV (x)	1.7	1.6	1.5
EV/EBITDA (x)	9.0	7.9	6.2
Dividend yield (%)	0.7	0.7	0.7

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(2)	15	16	(0)
Relative	(6)	7	2	2

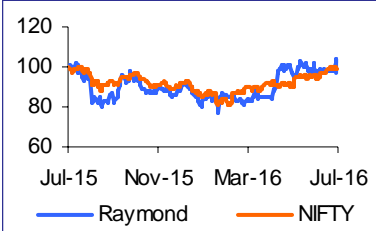
Source: Bloomberg

Shareholding pattern

Promoters	:	42%
Public	:	57%
Others	:	1%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg Indexed to 100

Key operating metrics and conference call takeaways

- **Branded textiles** revenue de-grew 1% to INR5,040mn, however shirting fabric grew 26% (volume growth at 40%) across business channels. EBITDA declined 13%, while margin declined 165bps to 12.1%. Adjusting for the one time cost of INR80mn, EBITDA margin was flat for the quarter.
- **Branded apparels** grew 17% to INR2420mn. Impressive growth from brands - **PA (17%), RPA (29%), MTM (19%), Parx (33%) and CP (4%)**. LFS & EBO sales for the quarter grew 17%.
- Margin for the quarter took a hit primarily due to lower gross margin on account of EOSS, higher cotton prices, and investments in e-commerce along with one time gain of INR 40mn towards sale of assets in 1QFY16. EBITDA margin for the quarter stood at (-6%).
- During the quarter the company added 20 new stores and closed 20 stores, while completed 8 stores renovation and 18 stores are under renovation.
- **Garmenting** business segment revenue grew 21% to INR1400mn (largely led by higher realizations). Margin came in at 9.1% as against 5.0% in 1QFY16 led by higher volumes and realizations.
- **Tools & Hardware** business revenue/EBITDA declined 13%/5%.
- **Auto components** business revenue declined 13%, however margin improved significantly higher at 14.0% due to higher off take in export market and operating efficiency.

Valuation

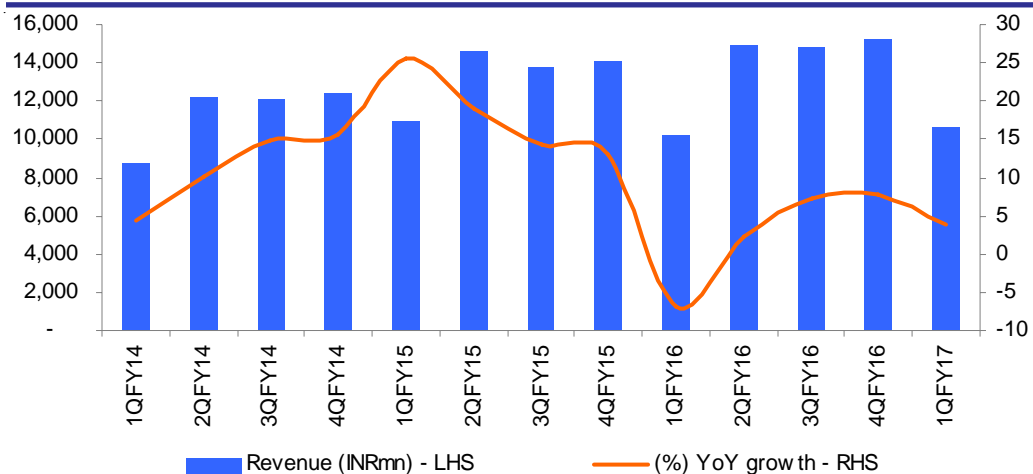
RW IN's focus in textile/apparel/retail businesses to drive significant improvement in overall performance of the company is something which we are enthused about and would be closely monitoring. We value the company using SoTP methodology, where we assign 9x EV/EBITDA to the textiles business, 10x EV/EBITDA to the branded apparel business on a FY18e basis. At the current market price, the stock is trading at 7.9x/6.2x FY17/18e EV/ EBITDA, respectively. We maintain our Buy rating with a target price of INR605 per share, implying an upside of 32% from the current levels. Key risks: 1) Persistent slowdown in demand environment, 2) delayed execution on store expansion and 3) awry input cost behavior.

1QFY17 result (Consolidated)

INRm	1QFY17	1QFY16	YoY (%)	4QFY16	QoQ (%)
Total Operating Income	10,619	10,213	4.0	15,220	-30.2
Cost of Raw material	4,346	4,036	7.7	6,598	-34.1
% of sales	40.9	39.5	140	43.3	(242)
Employees cost	1,801	1,621	11.1	1,826	-1.4
% of net sales	17.0	15.9	109	12.0	496
Manufacturing & operating costs	4,116	4,213	-2.3	5,231	(21)
% of net sales	38.8	41.2	(249)	34.4	439
EBITDA	356	343	3.9	1,566	(77)
EBITDA margin%	3.4	3.4	(0)	10.3	(693)
Other income	270	253	6.6	194	39
Interest	453	471	-3.8	417	8.5
Depreciation	362	351	3.1	441	-17.9
PBT	(189)	(226)	-16.5	902	-120.9
Tax	63	71	-10.8	326	-80.7
Tax rate (%)	(33.3)	(31.2)	(214)	36.2	(6,949)
PAT before exceptional items	(126)	(156)	-19.1	576	-121.9
Minority	(10)	(8)	22.9	(9.6)	6.3
Shares of Associates	(40)	24	-264.9	(3.9)	923.1
Reported PAT	(176)	(140)	26.0	562	-131.3
Adjusted PAT	(176)	(140)	26.0	562	-131.3
EPS	(2.9)	(2.3)	26.0	9.2	-131.3

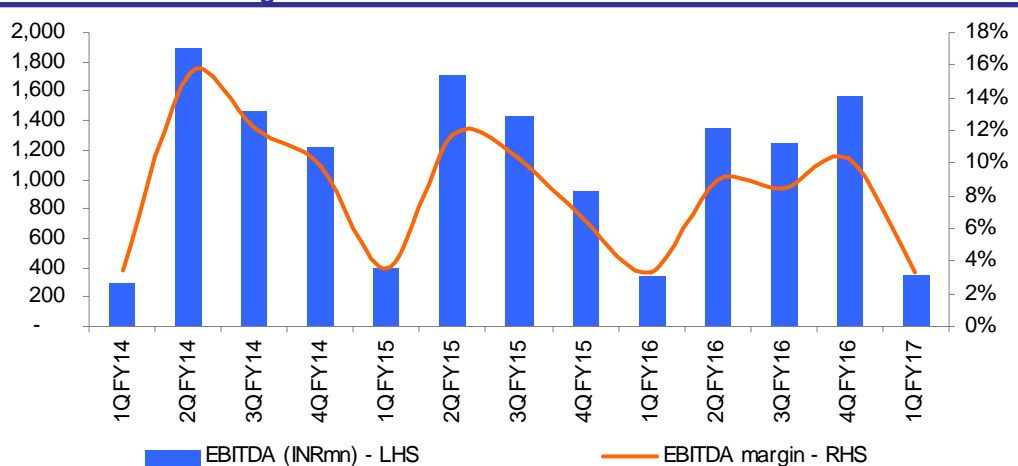
Source: Company, Antique

Revenue trend



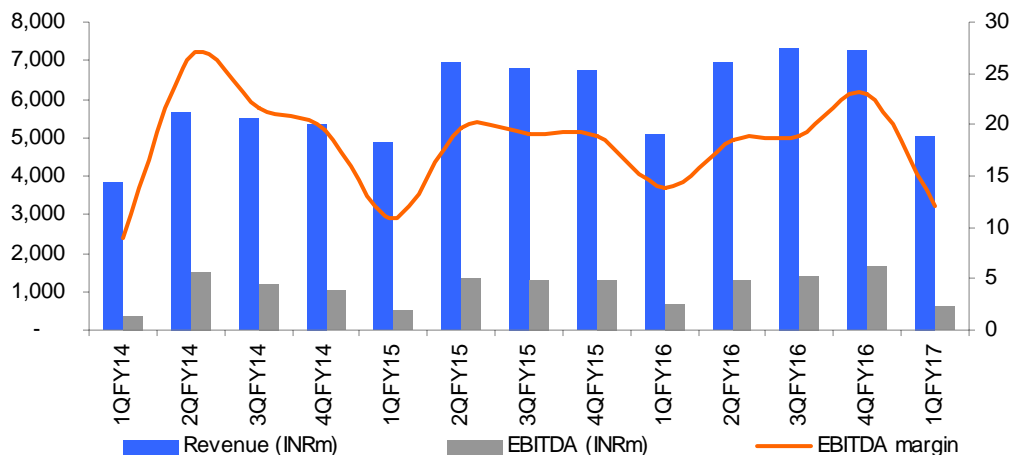
Source: Company, Antique

EBITDA and EBITDA margin trend



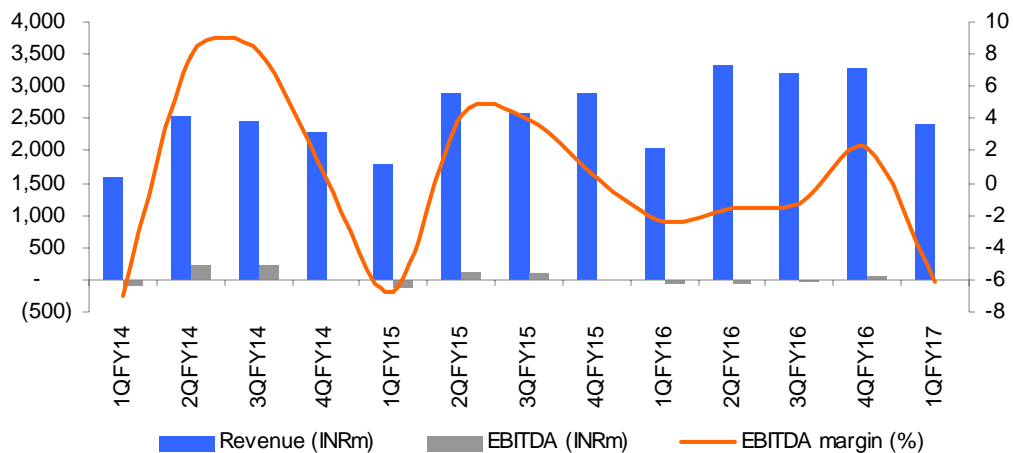
Source: Company, Antique

Textiles business trend



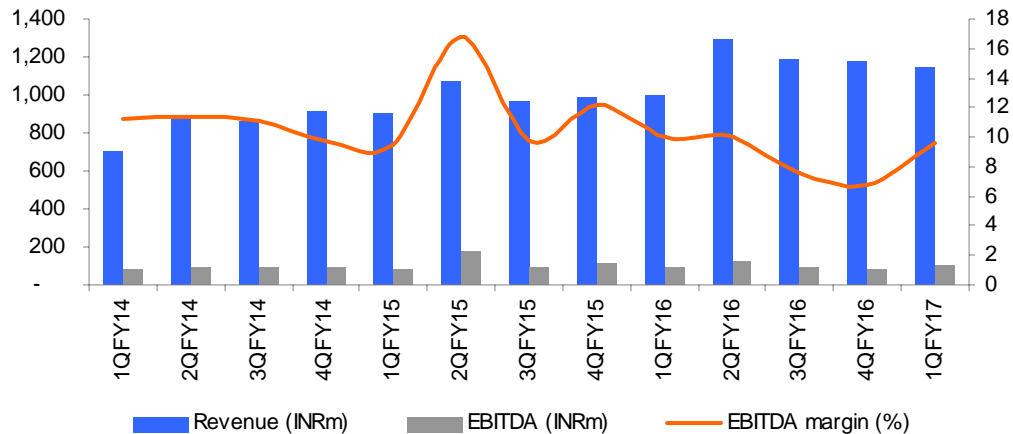
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Branded textiles continues to post healthy growth



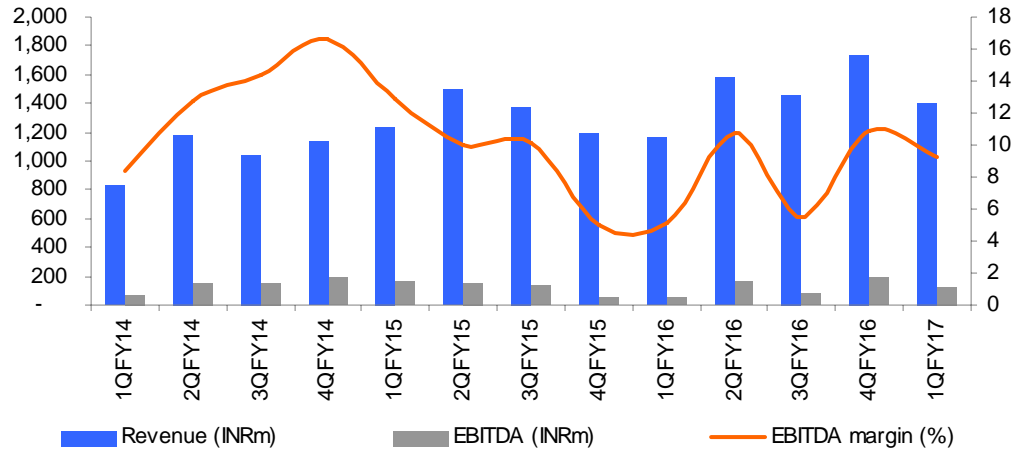
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High Cotton Shirting Fabric trend



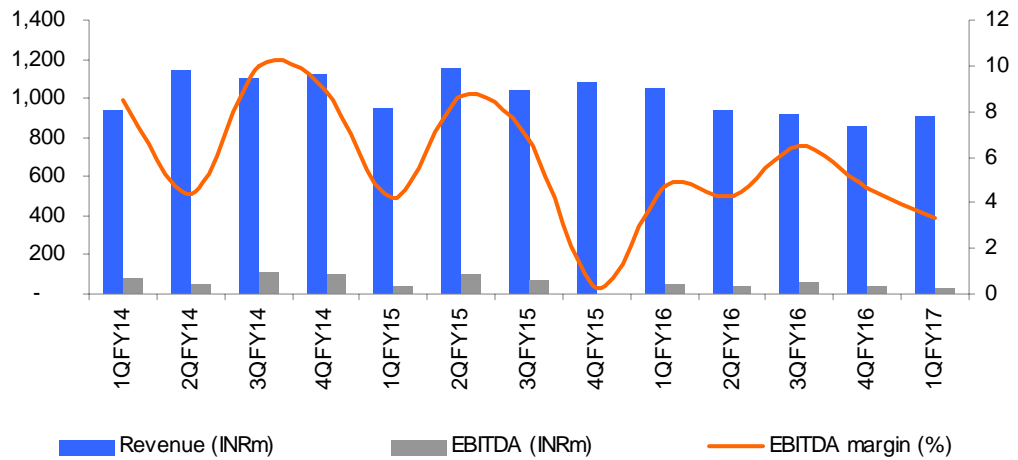
Source: Company, Antique

Garmenting business trend



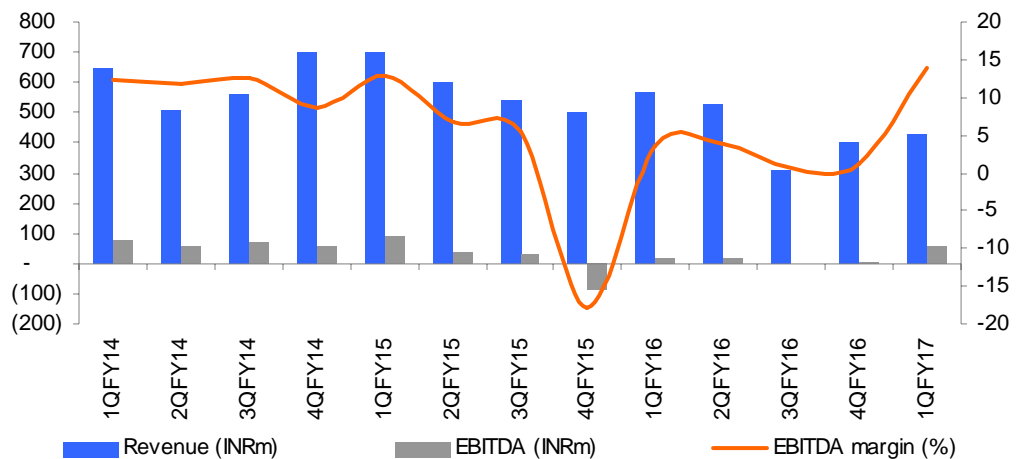
Source: Company, Antique

Tools & Hardware business trend



Source: Company, Antique

Auto components business trend



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
Revenues		45,480	53,326	55,947	62,324	70,713
Expenses		40,680	49,058	51,571	57,215	64,237
EBITDA		4,800	4,268	4,376	5,109	6,475
Depreciation & amortisation		1,958	1,619	1,643	1,759	1,889
EBIT		2,842	2,649	2,734	3,350	4,586
Interest expense		1,968	2,004	1,835	2,110	2,426
Other income		727	952	1,069	802	762
Profit before tax		1,600	1,597	1,969	2,043	2,922
Taxes incl deferred taxation		298	439	721	674	964
Profit after tax		1,303	1,158	1,247	1,368	1,958
Minority Interest		(26)	(68)	8	14	20
Reported PAT		1,076	1,128	921	1,410	2,016
Adjusted profit after tax		1,430	1,128	1,270	1,410	2,016
Reported EPS (INR)		23.3	18.4	20.7	23.0	32.9

Balance sheet (INRm)

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
Share Capital		614	614	614	614	614
Reserves & Surplus		14,047	14,800	15,700	16,820	18,517
Networth		14,661	15,414	16,314	17,434	19,131
Minority Interest		705	725	630	616	596
Debt		16,634	15,708	17,427	17,327	17,227
Capital Employed		32,000	31,847	34,370	35,377	36,955
Gross Fixed Assets		29,505	30,999	32,578	35,078	37,578
Accumulated Depreciation		(16,941)	(18,255)	(19,513)	(21,272)	(23,161)
Net Assets		12,564	12,744	13,065	13,806	14,417
Capital work in progress		1,740	1,958	2,500	2,500	2,500
Investments		5,147	4,270	5,024	5,024	5,024
Current Assets, Loans & Adv.		24,729	27,527	29,900	31,719	35,208
Inventory		10,925	11,578	12,660	13,319	14,336
Debtors		8,499	9,239	10,475	11,669	13,239
Cash & Bank balance		810	1,293	925	226	251
Loans & advances and others		4,495	5,418	5,840	6,506	7,382
Current Liabilities & Prov.		12,225	14,593	15,743	17,297	19,819
Creditors		5,930	7,022	7,573	8,196	9,493
Other liabilities & provisions		6,295	7,571	8,170	9,101	10,326
Net Current Assets		12,505	12,934	14,157	14,422	15,389
Deferred tax assets/(liabilities)		46	(59)	(375)	(375)	(375)
Application of Funds		32,000	31,847	34,370	35,377	36,955

Per share data

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
No. of shares (m)		61.4	61.4	61.4	61.4	61.4
BVPS (INR)		238.9	251.1	265.8	284.0	311.7
CEPS (INR)		55.2	44.7	47.4	51.6	63.6
DPS (INR)		2.0	3.0	3.0	3.0	3.0

Margins (%)

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
EBITDA		10.6	8.0	7.8	8.2	9.2
EBIT		6.2	5.0	4.9	5.4	6.5
PAT		3.1	2.1	2.3	2.3	2.9

Source: Company, Antique

Key assumptions

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
Branded Textiles growth YoY %		9.5	23.8	4.7	8.0	9.0
Branded Apparel growth YoY %		5.5	15.5	18.1	18.0	19.0
Branded Apparel EBITDA margins (%)		3.3	1.2	(0.6)	0.5	4.0
Ad spends (%)		3.1	4.3	4.9	4.8	4.6

Cash flow statement (INRm)

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
PBT		1,600	1,597	1,969	2,043	2,922
Depreciation & amortisation		1,958	1,619	1,643	1,759	1,889
Interest expense		1,968	2,004	1,835	2,110	2,426
(Inc)/Dec in working capital		(2,585)	(204)	(1,591)	(964)	(942)
Tax paid		(471)	(655)	(721)	(674)	(964)
Others		(294)	21	-	-	-
CF from operating activities		2,177	4,381	3,134	4,273	5,331
Capital expenditure		(1,176)	(2,238)	(2,333)	(2,500)	(2,500)
Inc/(Dec) in investments		(45)	(261)	-	-	-
Income from investments		675	1,101	-	-	-
CF from investing activities		(546)	(1,399)	(2,333)	(2,500)	(2,500)
Inc/(Dec) in debt		808	(225)	1,719	(100)	(100)
Dividends paid		(73)	(143)	(221)	(221)	(221)
Interest paid		(1,936)	(2,132)	(2,667)	(2,151)	(2,485)
CF from financing activities		(1,202)	(2,500)	(1,169)	(2,472)	(2,806)
Net cash flow		429	483	(368)	(698)	25
Opening balance		381	810	1,293	925	226
Closing balance		810	1,293	925	226	251

Growth indicators (%)

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
Revenue		11.8	17.3	4.9	11.4	13.5
EBITDA		30.3	(11.1)	2.5	16.7	26.7
PAT		147.9	4.8	(18.4)	53.1	43.1
EPS		147.9	(21.1)	12.6	11.0	43.1

Valuation (x)

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
PE		19.6	24.9	22.1	19.9	13.9
P/BV		1.9	1.8	1.7	1.6	1.5
EV/EBITDA		8.1	9.0	9.0	7.9	6.2
EV/Sales		0.9	0.7	0.7	0.6	0.6
Dividend Yield (%)		0.4	0.7	0.7	0.7	0.7

Financial ratios

Year-ended	March 31	FY14	FY15	FY16	FY17e	FY18e
RoE		9.2	7.7	7.9	8.1	10.7
RoCE		12.0	11.3	11.4	11.8	14.6
Debt/Equity (x)		1.1	1.0	1.1	1.0	0.9
EBIT/Interest (x)		1.4	1.3	1.5	1.6	1.9

Source: Company Antique

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20th Floor, A Wing, Naman Midtown
Senapati Bapat Marg, Elphinstone (West)
Mumbai 400013

Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445

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