

<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR1,077
<b>Target Price</b>	: INR1,200
<b>Potential Return</b>	: 11%

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Market data	
Sensex	: 36,050
Sector	: Retail
Market Cap (INRbn)	: 66.0
Market Cap (USDbn)	: 1.036
O/S Shares (m)	: 61.4
52-wk HI/LO (INR)	: 1142/492
Avg Daily Vol ('000)	: 426
Bloomberg	: RWIN

Source: Bloomberg

Valuation			
	FY18e	FY19e	FY20e
EPS (INR)	18.3	27.3	36.8
P/E	58.8	39.5	29.3
P/BV	3.7	3.4	3.0
EV/EBITDA	18.8	14.7	12.1
Dividend Yield (%)	0.3	0.3	0.3

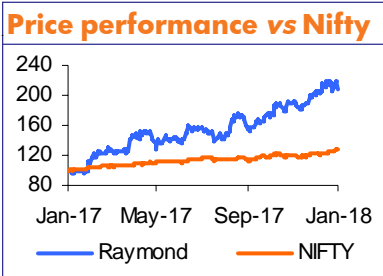
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	4	21	33	109
Relative	(2)	11	19	60

Source: Bloomberg

Shareholding pattern	
Promoters	: 43%
Public	: 57%
Others	: 0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

3QFY18 RESULT REVIEW

# Raymond Limited

## Broad-based growth across categories

Raymond's (RW) consolidated revenue in Q3FY18 grew 14%YoY to INR14.8bn (excluding GST impact the growth was 18%YoY), aided partly by a favorable base. EBITDA margin expanded 230bps to 6.8% with EBITDA growth of 74%YoY to INR1.02bn. This was aided by 26%YoY decline in A&SP spends and operational efficiencies.

Additionally, we introduce FY20E estimates at INR36.8 and expect the company to deliver revenue and EBITDA CAGR of 15% and 21% respectively during FY18-20. The management maintained its guidance of achieving high single digit EBITDA margin by FY20E.

In Q4, management expects high single digit revenue growth and improvement in EBITDA margin on a QoQ basis. We believe that increased focus on improving operational efficiency, building strong franchise-based distribution network, and enhancing product portfolio are likely to spur growth ahead. Maintain BUY with FY20E target price (based on sum-of-the-parts valuation) of INR1,200.

### Strong broad-based growth across segments

Branded textiles grew 18%YoY on a like-to-like basis (reported growth of 14%YoY), aided by wedding season demand and recovery in the wholesale channel. Branded apparel business grew 16%YoY on a like-to-like basis, with YTD growth of 25% in Raymond RTW and 33% in the Parx brand. Robust growth of 26% YoY in garmenting division was led by exports growth in North America. Further, segments like tool & hardware and auto components reported strong double-digit growth of 34% and 33% respectively.

### Favorable base and operating efficiencies drive margin expansion

EBITDA margin expanded 230bps to 6.8%, aided by lower ad spends and operational efficiencies. All segments reported healthy margin expansion except for the garmenting business, which was impacted by lower realization in exports and initial investment in Ethiopian operations. Branded textiles margins expanded 230bps, driven by sales growth and reduction in discretionary expense. However, EBITDA growth in branded apparel was impacted by down trading and heavy discounting on account of an early end of season sale (EOSS). Engineering division reported a healthy improvement in EBITDA margin, led by the turnaround strategy of building operational efficiency and product rationalization.

### Focus on building distribution network continues

RW added 34 stores (including 17 mini-TRS and 11 EBO stores) and closed 15 stores, taking the total count to 1161 stores. Of the new ones added, ~70% are franchised stores. Further, it completed renovation at eight stores and 33 stores are currently under renovation.

### Salient conference call highlights

In Q4FY18, management expects trade channels to retain normalcy. In the beginning of January 2018, consumer sentiments have been relatively muted. However, it gradually picked up with the continuation of the EOSS period. Additionally, with the return of the wedding season from mid-January, trade channels are expected to witness further recovery. Management expects high single digit revenue growth and expansion in EBITDA margin on a QoQ basis. Management has maintained its guidance of a high single digit revenue growth and EBITDA margin expansion of 100-150bps YoY for FY18.

Capex guidance for Q4FY18 is around INR900m - INR1bn, of which INR200m will be towards new retail stores and renovation, INR50m towards Amravati plant, INR200m in the Ethiopian plant and balance INR450m-500m will be towards maintenance capex. For the full year FY18, the company has guided for a capex of INR3.7bn to INR4.0bn.

During Q4FY18, the company is expected to add around 75 stores, including around 40 mini stores. The majority of the new stores will be based on the franchisee model.

The company has witnessed inflation in wool prices while cotton prices have softened. Management expects to mitigate the impact of higher wool prices through efficient procurement combined with hedging in the short to medium term. The company procures about 80-90% of its wool requirement from Australia, while the rest is procured from South Africa and Ukraine. In Australia, the company procures wool from 4-5 vendors, with whom it has longstanding associations.

Raymond expects continued improvement in EBITDA margin of the branded textiles business. As per the management, it is well-positioned to achieve the EBITDA margin of around 18% by FY20 (up from the current level of 14-15%).

Overall the net working capital (NWC) days have dropped during Q4FY18 to 102 days from 107. Management expects further improvement in the NWC cycle, going ahead.

The company plans a refreshed identity of Park Avenue in the next three months. It plans to expand the casual wear and accessories offerings under the Park Avenue brand. Currently, Park Avenue derives major revenue from formal wear.

### Outlook and valuation

On the back of improving margins and focus on improving operational efficiency, we maintain our BUY recommendation on RW with an SOTP-based target price of INR1,200.

### Quarterly Financials

(INRm)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
<b>Net Sales</b>	<b>14,842</b>	<b>13,069</b>	<b>13.6</b>	<b>15,955</b>	<b>(7.0)</b>
Other Op. Income	-	-	-	-	-
<b>Total Revenue</b>	<b>14,842</b>	<b>13,069</b>	<b>13.6</b>	<b>15,955</b>	<b>(7.0)</b>
RM/Purchased Goods Cost	6,346	5,354	18.5	7,420	(14.5)
<b>Gross Profit</b>	<b>8,496</b>	<b>7,715</b>	<b>10.1</b>	<b>8,535</b>	<b>(0.4)</b>
Gross Margin (%)	57.2	59.0	(179)	53.5	375
Operating Expenses	7,481	7,131	4.9	7,162	4.5
<b>EBITDA</b>	<b>1,015</b>	<b>585</b>	<b>73.7</b>	<b>1,373</b>	<b>(26.0)</b>
EBITDA Margin (%)	6.8	4.5	237	8.6	(176)
Depreciation	430	389	10.6	386	11.4
Other Income	293	238	23.3	209	40.0
Interest Expense	457	453	0.9	457	0.0
Exceptional Items	-	(39)	-	155	(100.0)
<b>Profit Before Tax</b>	<b>422</b>	<b>(58)</b>	<b>-</b>	<b>895</b>	<b>(52.9)</b>
Tax Expense	127	3	4,006.5	237	(46.2)
<b>Net Profit</b>	<b>294</b>	<b>(61)</b>	<b>-</b>	<b>658</b>	<b>(55.2)</b>
Share of Associates	13	(86)	(115)	(35)	(137)
Minority interest	(19)	(12)	63	(23)	-
<b>Reported PAT</b>	<b>288</b>	<b>(158)</b>	<b>-</b>	<b>600</b>	<b>(51.9)</b>
<b>Adjusted PAT</b>	<b>288</b>	<b>(120)</b>	<b>-</b>	<b>445</b>	<b>(35.2)</b>
EPS (INR)	4.7	(2.0)	(340.5)	7.2	(35.2)

Source: Company, Antique

**Segment Revenue**

(INRm)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Branded Textiles	7,684	6,754	13.8	7,722	(0.5)
Branded Apparel	3,318	3,098	7.1	4,193	(20.9)
Garmenting	1,625	1,288	26.2	1,843	(11.8)
High-Value Shirting	1,493	1,312	13.9	1,498	(0.3)
Tools & Hardware	977	787	24.1	904	8.1
Auto Components	492	383	28.7	527	(6.6)
Miscellaneous	16	26	(39.6)	9	76.4
<b>Total</b>	<b>15,606</b>	<b>13,647</b>	<b>14.4</b>	<b>16,695</b>	<b>(6.5)</b>
Intersegment	763	578		741	
<b>Total Revenue</b>	<b>14,842</b>	<b>13,069</b>	<b>13.6</b>	<b>15,955</b>	<b>(7.0)</b>

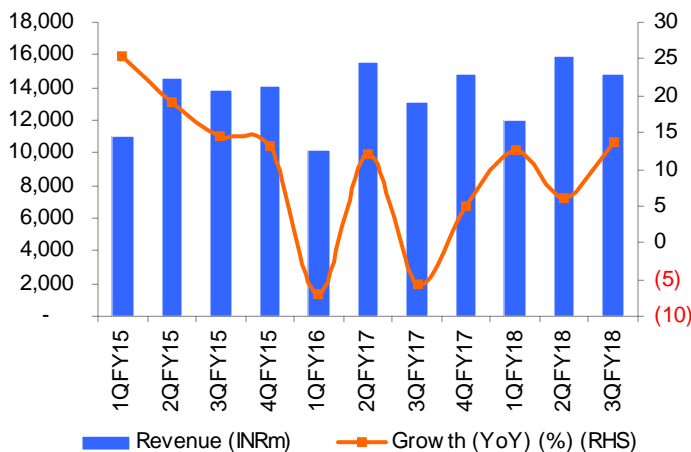
Source: Company, Antique

**Segment EBITDA Margin**

(INRm)	Q3FY18	Q3FY17	YoY (bp)	Q2FY18	QoQ (bp)
Branded Textiles	15.3	13.0	230	16.4	(110)
Branded Apparel	0.2	0.1	10	3.2	(300)
Garmenting	4.1	7.4	(330)	3.6	50
High-Value Shirting	10.7	10.3	40	11.4	(70)
Tools & Hardware	10.1	(0.7)	1,080	9.0	110
Auto Components	24.4	11.5	1,290	25.5	(110)

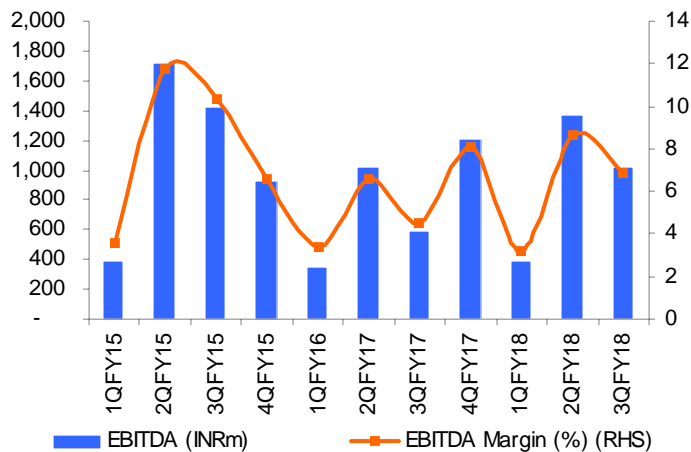
Source: Company, Antique

**Consolidated Revenue Trend**



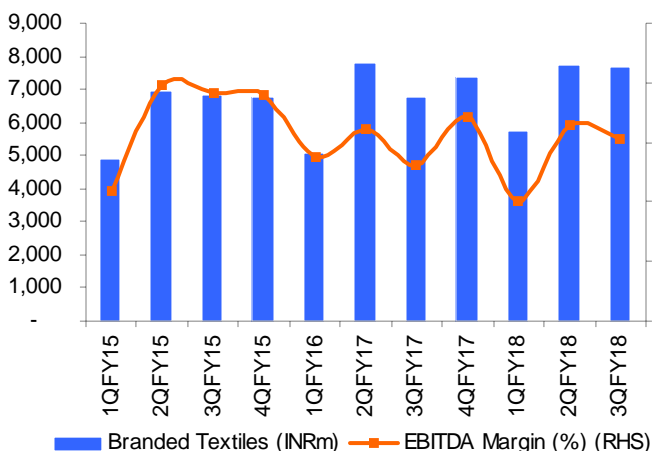
Source: Company, Antique

**Consolidated EBITDA Trend**



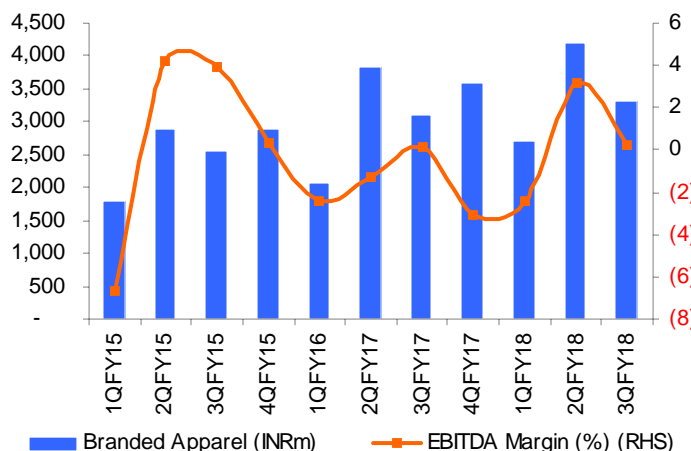
Source: Company, Antique

**Branded Textiles Performance Trend**



Source: Company, Antique

**Branded Apparel Performance Trend**



Source: Company, Antique

**SOTP Valuation**

<b>(FY20E)</b>	<b>EBITDA (INRm)</b>	<b>Multiple (x)</b>	<b>EV (INRm)</b>
Branded Textiles	6,864	15.0	102,964
Branded Apparel	305	11.0	3,350
Cotton Shirting Fabric	897	8.0	7,173
Garmenting	574	8.0	4,592
Tools & Hardware	382	8.0	3,054
Auto Components	639	10.0	6,389
<b>Total</b>	<b>9,660</b>	<b>13.2</b>	<b>127,522</b>
Elimination	3,284	13.2	43,358
<b>Segment EV</b>	<b>6,376</b>	<b>13.2</b>	<b>84,165</b>
Cash & Investments			6,654
JV/Associates (RW Share)			926
<b>Total Debt</b>			<b>17,898</b>
<b>Intrinsic Market Cap</b>			<b>73,847</b>
Outstanding Shares (mn)			61.4
<b>Fair Value Per Share (INR)</b>			<b>1,200</b>

Source: Company, Antiqua

## Financials

### Profit and loss account (INRm)

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
<b>Net Revenue</b>	<b>51,406</b>	<b>53,533</b>	<b>59,871</b>	<b>68,934</b>	<b>79,522</b>
Op. Expenses	47,534	50,485	55,546	63,628	73,146
<b>EBITDA</b>	<b>3,872</b>	<b>3,048</b>	<b>4,325</b>	<b>5,306</b>	<b>6,376</b>
Depreciation	1,589	1,569	1,733	1,911	2,139
<b>EBIT</b>	<b>2,283</b>	<b>1,479</b>	<b>2,592</b>	<b>3,395</b>	<b>4,236</b>
Other income	1,190	1,179	1,197	1,241	1,352
Interest Exp.	1,897	1,780	1,881	1,867	1,932
Extra Ordinary Items-gain/(loss)	(352)	(101)	-	-	-
<b>Reported PBT</b>	<b>1,224</b>	<b>778</b>	<b>1,909</b>	<b>2,769</b>	<b>3,656</b>
Tax	465	218	611	914	1,207
<b>Reported PAT</b>	<b>759</b>	<b>559</b>	<b>1,298</b>	<b>1,855</b>	<b>2,450</b>
Minority Int./Profit (Loss) From Asso.	(103)	214	173	182	191
<b>Net Profit</b>	<b>862</b>	<b>345</b>	<b>1,125</b>	<b>1,674</b>	<b>2,259</b>
<b>Adjusted PAT</b>	<b>1,215</b>	<b>446</b>	<b>1,125</b>	<b>1,674</b>	<b>2,259</b>
<b>Adjusted EPS (INR)</b>	<b>19.8</b>	<b>7.3</b>	<b>18.3</b>	<b>27.3</b>	<b>36.8</b>

### Balance sheet (INRm)

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Share Capital	614	614	614	614	614
Reserves & Surplus	16,110	16,117	17,293	19,032	21,370
<b>Networth</b>	<b>16,723</b>	<b>16,731</b>	<b>17,907</b>	<b>19,646</b>	<b>21,984</b>
Debt	20,627	21,398	20,398	18,898	17,898
Minority Interest	648	693	767	845	926
Net deferred Tax liabilities	(601)	(717)	(717)	(717)	(717)
<b>Capital Employed</b>	<b>37,398</b>	<b>38,105</b>	<b>38,355</b>	<b>38,671</b>	<b>40,091</b>
Gross Fixed Assets	13,199	14,699	17,699	18,699	20,199
Accumulated Depreciation	1,569	3,127	4,860	6,771	8,911
Capital work in progress	2,403	4,121	2,000	500	500
Net Fixed Assets	14,033	15,693	14,838	12,428	11,788
Goodwill	115	115	115	115	115
Investments	2,457	2,523	2,523	2,523	2,523
Non Current Investments	2,457	2,523	2,523	2,523	2,523
<b>Current Assets, Loans &amp; Adv.</b>	<b>31,841</b>	<b>33,327</b>	<b>35,916</b>	<b>40,919</b>	<b>45,202</b>
Inventory	11,732	12,887	13,779	15,109	17,647
Debtors	10,448	10,507	11,154	12,276	13,072
Cash & Bank balance	4,737	4,664	5,089	6,748	6,654
Loans & advances and others	4,923	5,270	5,894	6,786	7,829
<b>Current Liabilities &amp; Prov.</b>	<b>11,049</b>	<b>13,554</b>	<b>15,038</b>	<b>17,314</b>	<b>19,538</b>
Liabilities	10,588	12,964	14,378	16,555	18,662
Provisions	461	590	660	760	876
<b>Net Current Assets</b>	<b>20,792</b>	<b>19,773</b>	<b>20,878</b>	<b>23,605</b>	<b>25,664</b>
<b>Application of Funds</b>	<b>37,398</b>	<b>38,105</b>	<b>38,355</b>	<b>38,671</b>	<b>40,091</b>

### Per share data

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
No. of shares (m)	61.4	61.4	61.4	61.4	61.4
Diluted no. of shares (m)	61.4	61.4	61.4	61.4	61.4
BVPS (INR)	272.5	272.6	291.7	320.1	358.2
CEPS (INR)	38.3	34.7	49.4	61.4	74.8
DPS (INR)	3.0	1.3	3.0	3.0	3.0

### Margins (%)

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
EBITDA Margin(%)	7.5	5.7	7.2	7.7	8.0
EBIT Margin(%)	4.4	2.8	4.3	4.9	5.3
PAT Margin(%)	2.3	0.8	1.8	2.4	2.8

Source: Company, Antique

### Key assumptions

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Branded Textiles growth YoY %	6.2	0.5	12.0	12.0	12.0
Branded Apparel growth YoY %	10.6	13.6	11.0	20.0	20.0
Branded Textile EBITDA margins (%)	17.3	14.1	15.5	17.0	18.0
Branded Apparel EBITDA margins (%)	2.0	(0.9)	0.8	1.2	1.5
Ad spends (%) to sales	4.2	4.4	4.6	5.5	5.5

### Cash flow statement (INRm)

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
<b>PBT</b>	<b>1,224</b>	<b>778</b>	<b>1,909</b>	<b>2,769</b>	<b>3,656</b>
Depreciation & amortisation	1,589	1,569	1,733	1,911	2,139
Interest expense	1,897	1,780	1,881	1,867	1,932
(Inc)/Dec in working capital	(707)	945	(679)	(1,068)	(2,153)
Tax paid	(465)	(218)	(611)	(914)	(1,207)
Less: Interest/Div. Income Received	(1,190)	(1,179)	(1,197)	(1,241)	(1,352)
Other operating Cash Flow	823				
<b>CF from operating activities</b>	<b>3,172</b>	<b>3,674</b>	<b>3,035</b>	<b>3,324</b>	<b>3,016</b>
Capital expenditure	(928)	218	(5,121)	(2,500)	(1,500)
Inc/(Dec) in investments	(469)	(66)	-	-	-
Add: Interest/Div. Income Received	1,190	1,179	1,197	1,241	1,352
<b>CF from investing activities</b>	<b>(207)</b>	<b>1,332</b>	<b>(3,924)</b>	<b>(1,259)</b>	<b>(148)</b>
Inc/(Dec) in debt	1,084	771	(1,000)	(1,500)	(1,000)
Dividend Paid	(1,190)	(1,179)	(1,197)	(1,241)	(1,352)
Others	(2,664)	(4,671)	3,512	2,335	(610)
<b>CF from financing activities</b>	<b>(2,770)</b>	<b>(5,079)</b>	<b>1,314</b>	<b>(406)</b>	<b>(2,962)</b>
<b>Net cash flow</b>	<b>195</b>	<b>(74)</b>	<b>426</b>	<b>1,659</b>	<b>(95)</b>
Opening balance	4,542	4,737	4,664	5,089	6,748
<b>Closing balance</b>	<b>4,737</b>	<b>4,664</b>	<b>5,089</b>	<b>6,748</b>	<b>6,654</b>

### Growth indicators (%)

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Revenue(%)	-3.6	4.1	11.8	15.1	15.4
EBITDA(%)	-9.3	-21.3	41.9	22.7	20.2
Adj PAT(%)	7.7	-63.3	152.4	48.8	35.0
Adj EPS(%)	7.7	-63.3	152.4	48.8	35.0

### Valuation (x)

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
P/E	54.4	148.3	58.8	39.5	29.3
P/BV	4.0	4.0	3.7	3.4	3.0
EV/EBITDA	21.2	27.2	18.8	14.7	12.1
EV/Sales	1.6	1.5	1.4	1.1	1.0
Dividend Yield (%)	0.3	0.1	0.3	0.3	0.3

### Financial ratios

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
RoE (%)	7.4	2.7	6.5	8.9	10.9
RoCE (%)	9.5	7.0	9.9	12.0	14.2
Asset/T.O (x)	1.5	1.5	1.7	1.9	2.2
Net Debt/Equity (x)	1.0	1.0	0.9	0.6	0.5
EBIT/Interest (x)	1.8	1.5	2.0	2.5	2.9

Source: Company Antique

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