

CMP (INR) (As on 01 st Feb. 2018)	1017.70
Target (INR)	1161.00
Upside(%)	14%
Recommendation	Buy

BSE Code	500330
NSE Code	RAYMOND
Reuters Ticker	RYMD.BO
Bloomberg Ticker	RW IN

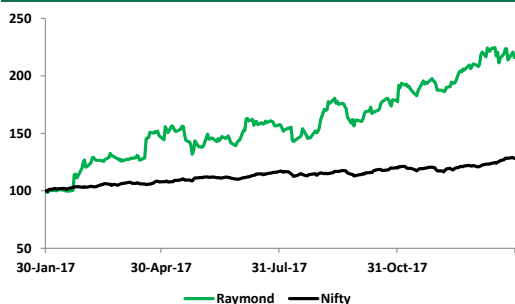
Stock Scan

Market cap (INR Cr.)	6672.07
Outstanding Shares (Cr.)	6.14
Face Value (INR)	10
Dividend Yield(%)	0.12
TTM P/E (x)	54.5
Industry P/E (x)	38.5
Debt/Equity (x)	1.28
Beta vs. Nifty	1.38
52 Week High/ Low (INR)	1141.95/492.35
Avg. Daily Vol. (NSE)/1yr	688780

Shareholding Pattern (%)

	Dec-2017	Sept-2017	June-2017
Promoters	43.34	43.36	43.12
Institutions	29.34	29.61	27.79
Non-Institution	27.32	27.03	29.09

Stock vs. Nifty (Relative Returns)



Company Overview

Raymond Ltd, incorporated in 1925, is one of the leading names in the fabric industry in India. It is a leading Indian Lifestyle, Textile and Branded Apparel Company, along with a minor interest in Engineering (Files, Power Tools, Auto-Components) and FMCG segments.

Q3 FY2018 result: Key Highlights

- Consolidated sales for the quarter ended December 31, 2017 stood at INR1484.24 Crores against INR1306.87 Crores, up by 13.6% over the same period last year
- Branded Textile was up 14% at INR768 Crores over previous year, driven by wedding season and recovery in wholesale channel
- Branded Apparel was up by 7% at INR332 crores led by wedding season and the early EOSS
- Garmenting sales stood at INR162 crores, up by 26% led by exports growth in North America
- Luxury Cotton Shirting Fabric sales was at INR149 crores, up by 14% on account of better offtake by the customers
- Tools & Hardware revenue was up by 24% to INR98 crores over previous year driven by better performance in domestic market and volume driven exports growth in Asian and African markets
- Auto Components sales was at INR49 crores, higher by increased demand from passenger & commercial vehicle segments and non-auto segment
- EBITDA for the quarter was at INR130.85 Crores against INR82.25 Crores, up by 59% over last year
- PAT stood at INR28.84 crores against loss of INR15.84 crores over the same period last year

Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	5176.8	5391.3	5966.6	6740.1	7715.1
Growth %	-2.92%	4.14%	10.67%	12.96%	14.47%
EBITDA	414.0	317.2	443.6	545.1	622.2
EBITDA Margin (%)	8.00%	5.88%	7.43%	8.09%	8.06%
Adj. Net Profit	75.9	55.9	137.8	198.9	246.3
Net Profit Margin (%)	1.63%	0.47%	2.32%	2.94%	3.18%
EPS	13.77	4.11	22.51	32.31	39.99
BVPS	272.46	272.58	290.59	315.79	347.78
P / E (x)	29.4	152.4	45.2	31.5	25.4
P / BV (x)	1.5	2.3	3.5	3.2	2.9
EV / EBITDA (x)	8.8	14.1	18.9	15.6	13.7
ROE (%)	4.65%	3.34%	7.97%	10.69%	12.09%

Financial Result for the quarter ended December 31, 2017 (Consolidated)

Particulars(In INR Crore)	Quarter Ended					Nine months for the period ended		
	Q3-Dec 17	Q3-Dec 16	YoY %	Q2-Sep 17	QoQ %	31.12.2017	31.12.2016	YoY %
Net Revenue	1,484.2	1,306.9	13.57%	1,595.5	-6.97%	4,276.6	3,917.7	9.16%
Other Income	29.3	23.8	22.94%	20.9	39.97%	93.2	85.8	8.66%
Revenue from Operations	1,513.6	1,330.7	13.74%	1,616.4	-6.36%	4,369.8	4,003.5	9.15%
Material Cost	304.0	237.3	28.12%	332.1	-8.46%	926.2	832.0	11.32%
Purchase of Finished Goods	433.7	321.6	34.86%	451.7	-3.98%	1,146.7	987.5	16.12%
Changes in Inventories	(103.1)	(23.5)	-339.66%	(41.8)	-146.59%	(206.6)	(106.7)	-93.64%
Manufacturing & Operating Costs	209.2	180.0	16.24%	183.8	13.85%	585.0	528.6	10.67%
Employee Benefits expense	209.5	194.4	7.79%	208.9	0.31%	618.5	576.7	7.24%
Other Expenses	329.4	338.7	-2.75%	323.6	1.80%	929.7	907.6	2.43%
Total Expenses	1,382.7	1,248.5	10.75%	1,458.2	-5.18%	3,999.3	3,725.6	7.35%
EBITDA	130.9	82.2	59.09%	158.2	-17.30%	370.5	277.9	33.31%
EBITDA Margin (%)	8.65	6.18	247 bps	9.79	(114 bps)	8.48	6.94	154 bps
Exceptional Items	-	(3.9)	100.00%	21.0	-100.00%	21.0	(9.1)	331.49%
Share in profit of Associates & JVs	1.3	(8.6)	114.77%	(3.5)	136.60%	(7.5)	(16.1)	53.76%
Depreciation & Amortization	43.0	38.9	10.58%	38.6	11.35%	119.5	108.2	10.42%
EBIT	89.2	30.9	188.14%	137.1	-34.98%	264.5	144.5	83.00%
EBIT Margin (%)	5.89	2.33	356 bps	8.548	(259 bps)	6.05	3.61	244 bps
Interest Cost	45.7	45.3	0.86%	45.7	0.02%	134.9	136.3	-1.03%
Profit Before Tax	43.4	(14.4)	402.09%	91.4	-52.48%	129.6	8.2	1470.91%
PBT Margin (%)	2.87	(1.08)	395 bps	5.66	(279 bps)	2.97	0.21	276 bps
Tax	12.7	0.3	4006.45%	29.2	-56.37%	42.5	11.9	256.50%
Profit After Tax	30.7	(14.7)	309.05%	62.2	-50.66%	87.1	(3.7)	2466.03%
Non-controlling Interest	1.9	1.2	62.61%	2.3	-72.78%	5.6	3.8	47.61%
Consolidated Net Profit	28.8	(15.8)	282.07%	59.9	-51.89%	81.5	(7.4)	1195.70%
Net Profit Margin (%)	1.91	(1.19)	310 bps	3.71	(180 bps)	1.87	(0.19)	206 bps
EPS (INR)	4.7	(2.6)		9.8		13.3	(1.2)	

Financial Result for the quarter ended December 31, 2017 (Segmentwise)

Particulars(In INR Crore)	Quarter Ended					Nine months for the period ended		
	Q3-Dec 17	Q3-Dec 16	YoY %	Q2-Sep 17	QoQ %	31.12.2017	31.12.2016	YoY %
Revenue								
Textile	768.4	675.4	13.76%	772.2	-0.50%	2,112.9	1,977.3	6.86%
Shirting	149.3	131.2	13.85%	149.8	-0.32%	430.2	394.0	9.20%
Apparel	331.8	309.8	7.12%	419.3	-20.85%	1,021.0	910.6	12.13%
Garmenting	162.5	128.8	26.20%	184.3	-11.83%	490.3	454.6	7.85%
Tools & Hardware	97.7	78.7	24.12%	90.4	8.13%	275.2	257.6	6.83%
Auto Components	49.2	38.3	28.68%	52.7	-6.60%	155.6	123.0	26.51%
Others	1.6	2.6	-39.62%	0.9	76.40%	4.5	4.5	-1.54%
Less: Inter Segment Revenue	(76.3)	(57.8)	-31.96%	(74.1)	-3.00%	(213.2)	(203.9)	-4.56%
Net Revenue from Operations	1,484.2	1,306.9	13.57%	1,595.5	-6.97%	4,276.6	3,917.7	9.16%
Segment results								
Textile	99.4	71.2	39.51%	110.4	-9.95%	250.2	210.2	19.04%
Shirting	9.0	6.0	50.76%	9.2	-1.97%	23.8	20.7	15.13%
Apparel	(4.1)	(4.1)	0.25%	9.0	-145.07%	(5.8)	(13.8)	57.60%
Garmenting	2.6	6.3	-58.36%	3.1	-13.73%	11.2	31.7	-64.80%
Tools & Hardware	8.2	(2.2)	464.73%	5.9	37.77%	18.4	(0.1)	20588.89%
Auto Components	9.1	2.6	251.35%	11.0	-17.12%	28.3	12.3	129.71%
Others	(7.4)	(11.1)	33.60%	(8.1)	9.35%	(24.2)	(27.6)	12.59%
Inter Segment (profit)/loss	(2.5)	0.1	-3657.14%	1.2	-314.66%	(0.3)	(6.2)	95.77%
Operating profit before Tax and Interest	114.3	68.8	66.26%	141.5	-19.23%	301.6	227.2	32.75%

Source: Company Data, SMIFS Research

Q3 FY18: Concall Highlights

There was stabilization of the trade channel post-GST, especially in the textile market

Average Same store sales growth has been consistently above 20% for the renovated stores

Net Debt-to-Equity stood at 1.1 vs 1.0 last year, whereas, Average Interest cost reduced by 90 bps to 7.6%

80%-90% of wool is procured from Australia, and the rest comes from New Zealand and South Africa

Business Highlights

- The demand offtake was relatively lower in the initial days of October, due to slowdown in consumption and continued deep discounting in the apparel category, however, the demand picked up in the wedding season during the mid of the quarter
- The quarter witnessed a growth across all segments, led by the asset-light franchise store expansion in core branded textile and branded apparel segments, followed by better performance by engineering businesses
- Store counts was at 1161 against 1142 over last quarter
- During the quarter, the company opened 34 stores, closed 15 stores, 8 stores were renovated and 33 stores are currently under renovation
- The Company is expecting around INR90 Lakhs of revenue from mini-TRS at an annualized rate
- Free cash flow during the quarter was positive at INR35 crores, whereas cash flow from operations for the year was at INR213 crores
- Gross debt stood at INR2428 crores as on 31st December versus INR2129 crores last year and the net debt was at INR1988 crores as on 31st December versus INR1660 crores last year, as debt levels increased, mainly due to the manufacturing CapEx in Ethiopia and Amravati plant
- A large portion of input cost is wool and cotton. The cotton prices have softened compared to last year. So that actually had a positive impact on the overall business on a QoQ basis. But woollen prices have gone up. The Company believes that with the level of product innovation, continued product innovation and ability to pass down the price, they should be able to part neutralize the increase in input cost of woollen.

Business initiatives undertaken during the quarter

- Amravati linen facility has been commissioned and is expected to produce 1,200 tons of world-class linen yarns and 4.8 million meters of linen and blended fabrics per annum
- The company is looking at 75% capacity utilization next year and at full capacity, it is expected to generate revenue of INR200-250 crores
- In line with stated asset light expansion approach in the core textile and apparel business, the Company opened 17 mini-TRS stores under the franchisee route in tier 3, 4 and 5 cities and overall opened 53 mini-TRS stores during the course of the year
- In line with stated strategy facilitating quality tailoring services, they opened 20 franchise-based tailoring hubs till date and is targeting to take the count to 25 by March end

Total CapEx is expected to be around INR370-400 crores for FY18

Revenue is expected to grow by high single-digit and EBITDA Margin to improve by 100-150 bps in FY18

Q3 FY18: Concall Highlights

CapEx

- CapEx spend was INR108 crores in the third quarter, mainly comprising of expenditure in Amravati linen plant, and Ethiopia plant and store renovation and roll out, with some CapEx going in for regular maintenance of plants
- CapEx guidance for the fourth quarter is in the range of INR90-100 crores
- The investment in retail, new stores and renovation is around INR20 crores, INR5 crores for the Amravati Plant, INR20 crore for the Ethiopian plant and remaining on maintenance CapEx

Outlook

- The Company is expecting the trade channels to come back to normalcy post -GST stabilization
- With the restarting of the wedding season from mid-January, the trade channels are expected to be in the growth phase
- For the next quarter, the company is expecting to grow on asset-light expansion model and will be adding 75 stores, including 40 mini-TRS stores. The majority of the stores will be based on a franchisee model.

Valuation

Based on the re-structuring exercises and better sales growth across all segments during the quarter, we are maintaining our Target Price of **INR1161 per share** as stated in our Initiating Coverage Report dated 05.01.2018.

For detailed report, please find the link below:

https://www.smifs.com/files/reports/636512089618607771_SMIFS%20Research_%20Initiating%20Coverage%20Report%20on%20Raymond%20Ltd..pdf

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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