Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR602
Target Price	:	INR720
Potential Return	:	20%

Aasim Bharde, CFA
+91 22 4031 3429
aasim.bharde@antiquelimited.com

Basudeb Banerjee
+91 22 4031 3443
basudeb.banerjee@antiquelimited.com

Market data

Sensex	:	28,813
Sector	:	Retail
Market Cap (INRbn)	:	36.9
Market Cap (USDbn)	:	0.553
O/S Shares (m)	:	61.4
52-wk HI/LO (INR)	:	654/365
Avg Daily Vol ('000)	:	1,598
Bloomberg	:	RW IN

Source: Bloomberg

Valuation

	FY17e	FY18e	FY19e
EPS (INR)	10.6	25.9	42.1
PE (x)	56.9	23.3	14.3
P/BV (x)	2.2	2.0	1.8
EV/EBITDA (x)	14.2	9.8	7.5
Dividend Yield (%)	0.5	0.5	0.5

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	19	18	49	50
Relative	13	6	45	21

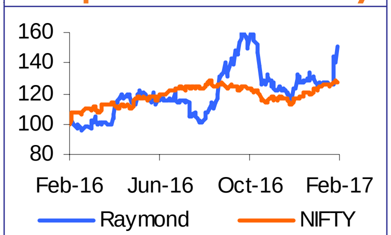
Source: Bloomberg

Shareholding pattern

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

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

COMPANY UPDATE

Raymond Limited

Transitioning to a trendy consumer-focused look!

We believe that Raymond Ltd. (RW) has laid the foundations for a profitable future powered by its focus zones - branded apparel and textiles. Its efforts to reinvent itself both from within as well as what it offers to customers, its strong brand equity, pan-India store network, robust back-end, etc. would help RW to post robust growth in the years ahead. We estimate RW to post revenue CAGR of ~14.6% in FY17E-19E, while posting ~4x earnings from its FY17E low during the same period. We recommend a BUY on RW with a SOTP target price of INR 720 (branded apparels - 15x FY19E EBITDA; branded textiles - 9x FY19E EBITDA; implied FY19E EV/EBITDA of 8.9x). Sale of non-core businesses and real estate monetization could be additional value unlockers during the period.

Investment Rationale

Renewed focus on consumer-facing businesses

RW has made its intentions clear that it would like to put its manufacturing mindset aside and focus more vigorously on its B2C businesses (Branded Apparel + Textiles). In this regard, the company has (i) concentrated its apparel portfolio around 4 key brands, (ii) reinvented its product offerings to appeal to today's consumer, (iii) reshuffled the entire top management and brought in more consumer-facing experienced talent onboard, (iv) established an empowered advisory board for strategic decision-making, (v) implemented a plan to renovate existing stores to improve customer experience, (vi) shut down non-profitable stores, and (vii) put in place an eCommerce/Omni-Retail strategy to cater to online customers. With these initiatives in place, we believe that RW is on the right track to capitalize on the immense opportunity available in the Indian Branded Apparels space.

Branded Apparels margin improvement to normalize earnings

Within RW's clothing business, Branded Apparels has remained a laggard over the last 3-4 years. With increasing scale in this business, we expect Branded Apparels margins to improve ~550 bps to 5.0% by FY19E. Double-digit margins in this business could be possible in the future on rising scale and decline in apparel A&P expenses (currently at 9-10% vs industry norm of 5-6%). As profitability improves, we expect this business to be the major catalyst driving earnings growth for RW in the years ahead.

Asset light expansion, capex cycle conclusion to boost RoCE/FCF

RW has plans to keep its store expansion asset light (unit additions through the franchisee route). In addition, the company's manufacturing capex cycle is expected to conclude by FY18E (with no major plans for the next 3-4 years). Any incremental capacity additions would be explored through the outsourcing route (low value-add work would be outsourced, freeing up capacity for high value-add work). As a result, we expect RW's RoCE to improve ~530 bps to 13.1% in FY16-19E. Lower future capex needs (along with increasing scale in the apparel business) would also lead to healthy FCF generation from FY18E onwards. Non-core business divestments (Auto/Tools) would ease profitability and return ratios further for the overall consolidated business. Real estate monetization could be the icing on the cake.

Valuations/Risks

We recommend a BUY on RW with a SOTP target price of INR 720 (branded apparels - 15x FY19E EBITDA; branded textiles - 9x FY19E EBITDA; implied FY19E EV/EBITDA of 8.9x. Key risks includes i) Increased competitive intensity could prolong Branded Apparels margin drag, ii) Delay in non-core business turnarounds/exits.

After the fitness regime, comes the makeover!

Trading away its traditional historical image for a more modern one

Since its inception in 1925, Raymond Ltd. (RW) has been more associated with fabrics (primarily suiting) vis-à-vis readymade apparel, in line with the historical preference of purchasing fabrics which would then be tailored into suits/shirts/trousers as per the customer's preferences. To cater to this demand, RW built a robust well-integrated fabric value chain complete with manufacturing facilities and end-consumer facing stores which were located not only in major cities but also smaller towns across India. Subsequently, RW established its own ready-made apparel brands like Park Avenue (in 1986), Parx (in 1999) and acquired ColorPlus (in 2002), but fabrics remained a dominant factor in the overall business of the company.

However, as time passed on, consumers' aspirations and tastes underwent a material change in favour of readymade apparel (over fabrics). As the average consumer age fell, the tailoring profession retreated in size (leading to higher stitching costs, especially for suits) and the availability of foreign brands became widespread in the Indian markets, the preference for readymade apparel (over fabrics) rose fast. From 30% in the mid-90s, the contribution of readymade apparel to the overall branded clothing market rose to 80% by 2015. During this period, as RW continued to build on its pole position in the Branded Textiles space, Branded Apparels remained a secondary business and as a result, other ready-made apparel brands surged ahead in the market. In addition, the tightening of consumer wallets in the immediate aftermath of the 2008-09 crisis and post 2012 (when consumer sentiment weakened), encouraged RW to take some major restructuring decisions to adapt itself to the new normal of the domestic textiles space.

Prior to Mr. Behl's Appointment (2009-11): Shedding the flab, becoming more nimble

RW reviewed its own businesses/processes and initiated a number of measures to plug in gaps in operating performance like cost cutting and operational efficiency, review of performance of brands under the company's stable, etc.

The most major initiative taken during this time was the shuttering of its labour-intensive Thane (Mumbai) manufacturing plant, which was shifted to more technologically-advanced Jalgaon (Maharashtra), and Vapi (Gujarat) plants.

Actions taken to rationalize costs and shore up operating performance

Business Segment	Action Taken	Concluded by
Apparel Brands	Discontinued all loss-making brands like GAS, Manzoni, Notting Hill, Zapp!	2011
Denim Manufacturing	Shut down unprofitable Denim plants in the US and Belgium	2009
Fabrics Manufacturing	Shifted cost-heavy Thane plant capacity to Jalgaon and Vapi	2010

Source: Company, Antique

Post Mr. Behl's Appointment (2013 onwards): Adopting a consumer-focused makeover

Recognizing the need to catch up fast with other organized branded apparel players like Arvind Brands and Madura Fashion & Retail (now merged into Aditya Birla Fashion & Retail), RW started to move away from a manufacturing-focused mindset to a more consumer-focused mindset. In 2013, RW appointed Mr. Sanjay Behl as the CEO of the company's Lifestyle Division (consisting of Branded Textiles, Branded Apparel, Garmenting, and Shirting), given his experience in consumer-focused areas (branding/marketing) in Nokia and Reliance ADAG group. In preparing the company to move away from its traditional manufacturing roots and transform into a more modern fashion/lifestyle company, Mr. Behl set in place the following measures:

- **Management Team / Staff Rationalization:** Close to a third of RW's top 75 managerial personnel were replaced by people with a more consumer-centric experience (external hires/internal promotions). The average age of the senior team also fell from 54 to 43.

- **Business Units:** Earlier, RW's business was divided into two verticals - Textiles and Apparel. Under Mr. Behl, the business moved away from broad product-centric verticals to customer-centric divisions like Shirting, Suiting, Apparel, Garmenting & Retail. Functions like Finance, IT, HR, eCommerce, and Marketing were unified for all segments.
- **Reduction of non-core textiles businesses:** RW has reduced focus on its low cost fabrics brand (Makers), and exited businesses like carpets, curtains, and upholstery.
- **Shuttering of unprofitable stores / manufacturing unit:** Close to 100 stores that were not meeting expected return metrics/pay back periods were shut down. Besides, ColorPlus' Chennai manufacturing plant was also shut down in FY14 and its production outsourced to third-party players.

Key Management Personnel

Name	Designation	Brief Profile
Sanjay Behl	CEO, Lifestyle Division	Appointed in July 2013. Has immense experience in the fields of marketing, branding, and sales. Was associated with HUL for 10 years, followed by 10 years in the telecom industry (Nokia, Reliance ADAG).
Sanjay Bahl	Group CFO	Joined in December 2015. Was previously part of Landmark Group (Dubai), Saint Gobain India and Hindustan Unilever.
Sudhanshu Pokhriyal	Head, Suiting Business	Part of the team since December 2015. Previous associations include SC Johnson, Hindustan Coca-Cola Beverages, and Asian Paints.
Gaurav Mahajan	Head, Apparel Business	Joined in January 2015. Previously associated with Trent Ltd. (Westside) as Chief Operating Officer
Giriraj Bagri	CEO, FMCG Business	Joined in May 2016. Earlier job assignments include ITC, Castrol, and Colgate-Palmolive.
Mohit Dhanjal	Head, Retail Operations	Joined in January 2015. Earlier associated with HUL, Tata Teleservices, and ITC Ltd.

Source: Company

Advisory Board: Bringing in external neutral expertise for growth

RW has also set up an Advisory Board consisting of members from various industries and with different scopes of expertise. The objective of this board is to get an independent point of view on decisions taken by the management team and guide it as it explores new business opportunities or review existing projects/decisions.

Advisory Board Members

Name	Details
Ravi Venkatesan	Chairman of Bank of Baroda. Former Chairman of Microsoft India.
Rajeev Bakshi	Ex. MD and VP at METRO Cash & Carry. Past associations include PepsiCo International and Mondelez (Cadbury)
B. S. Nagesh	Vice Chairman and Non-Executive Director of Shoppers' Stop. Founder of Trust for Retailers and Retail Associates of India (TRRAIN)
Mihir Doshi	MD and Country CEO, Credit Suisse (India). Previously associated with Morgan Stanley.
Richa Kar	Founder and CEO of Zivame.com (online lingerie retailer)
Manish Chokhani	Senior Advisor at TPG Global. Independent Director on boards of companies like Shoppers' Stop, Zee Entertainment Enterprises, Westlife Development, and Axis Capital.

Source: Company

Reinventing its core apparel and textiles businesses

Focus on Apparels business is increasing....

In its bid to become a top branded apparels player, RW is putting in place various initiatives to recharge its ready-made apparels business (consisting of its four Power Brands - Raymond Ready-To-Wear (RTW), Park Avenue, ColorPlus, and Parx).

- **Repositioning of brands:** RW's four Power Brands have been repositioned to target specific price-points. For example, RTW has been positioned as a Bridge to Luxury brand while Park Avenue has been positioned on the Premium side. Each brand would continue to cater to various occasions (Work, Sports, and Leisure) and provide a holistic choice of apparels to paying customers.

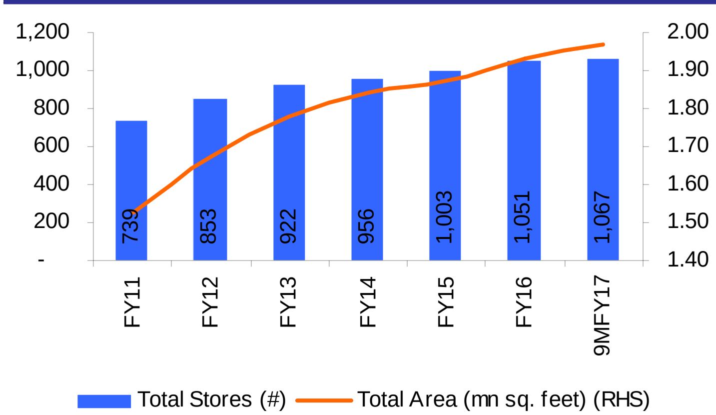
Focused brand positioning

Brand	Raymond	PARK AVENUE	ColorPlus SMART CASUALS	parx Live easy
Price Position	Bridge to Luxury	Premium	Premium	Semi-Premium / Bridge to Premium
Style	Classic	Contemporary	Classic to Contemporary	Edgy
FY16 Rev (INRm)	1,910	5,090	2,726	1,500

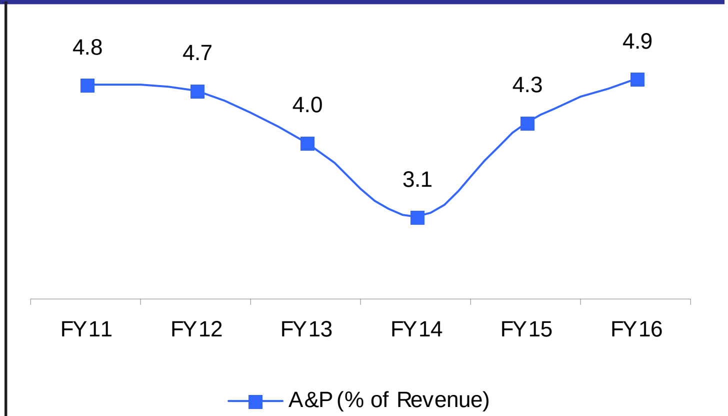
Source: Company, Antique

- **Store additions/closures:** RW has plans to increase its store network between its flagship format - 'The Raymond Store' (TRS) - as well as Exclusive Brand Outlets (EBO) for its power brands. For FY18E, the plan is to open ~80 stores. The store addition plan however would be asset-light as TRS additions would be mainly through the franchisee route while EBOs will be a combination of company-owned and franchisees. At the same time, RW is also evaluating the performance of its existing stores on various internal financial metrics. Over the past three years, the company has shut down close to 100 loss-making, non-strategic (tail) stores.
- **Remodeling existing stores:** RW is also renovating/remodeling its top performing TRS stores. In FY15, the company set a target of remodeling ~150 stores. As on date, 134 stores have already been renovated while remaining is expected to be concluded by March 2017. Renovated stores (where the customer experience is upgraded, besides the look & feel of the store) typically open at a higher sales run rate (vs non-renovated stores). In the past, renovated stores have shown 20%+ LTL sales growth. Better sales throughput also supports store-operating margins.
- **Increased promotions/marketing spends:** Given the intended thrust on its branded apparel business, RW expects its advertisement & promotion (A&P) expense to remain above average levels vis-à-vis the industry norm in the near-term. Currently, RW is spending ~9-10% of branded apparel revenue on A&P, versus the industry norm of ~5-6%.

Retail store network is expanding at a healthy pace



Overall A&P inching higher due to branded apparel focus



Source: Company, Antique

….while Fabrics business innovates to become more contemporary

While RW recognizes and pays heed to the industry shift in favour of readymade apparel, the company is in no mood to relinquish its commanding position in the suiting fabrics space (~60% market-share in the overall worsted wool suiting market valued at INR20-25bn.) Instead, RW is focusing on product innovations as well as improving in-store experience to make its fabrics line more relevant to today's consumer market.

- **Technosmart:** Launched in 4QFY16, this product line has new features like UV protection, wrinkle resistance, and smooth touch. The price range for this product is ~1.5x higher than the average suiting fabric price
- **Shirting Fabric:** To complement its suiting product, RW introduced shirting fabrics in 2015 across its channels (already #1 brand in this space). Although margin in this segment is lower compared to suiting, given the high unorganized market in this space, there is tremendous growth potential for organized players like RW. Also, compared to suiting (which is seasonal), shirting fabrics are in vogue all through the year.
- **Made-To-Measure (MTM):** RW has launched exclusive MTM stores (60 as of December 2016) through which it provides a niche tailoring/personalization experience for customers who are looking for bespoke suits/jackets/shirts. The stores also have staff to guide customers. Customers can personalize their made-to-fit products (cuffs, fit, collars, fabric-type and colour) which is then manufactured in RW's factories which the customer can pick-up from in-store.
- **Khadi Fabric/Apparel:** More recently, RW has partnered with Khadi and Village Industries Commission (KVIC) to retail the former's khadi products (both fabric and apparel) in KVIC's stores. About 200-300 designs will be offered in the initial stage. At a later stage, RW will retail these products at TRS stores as well.

Fabrics - Extending brand Raymond to Shirting and MTM premium offering

Brand	Raymond SINCE 1925	Raymond Made to Measure
Price Position	Premium	Premium
FY16 Rev (INRm)	Suiting: 22,150 Shirting: 4,500	500

Source: Company, Antique

Technosmart - Latest fabric product

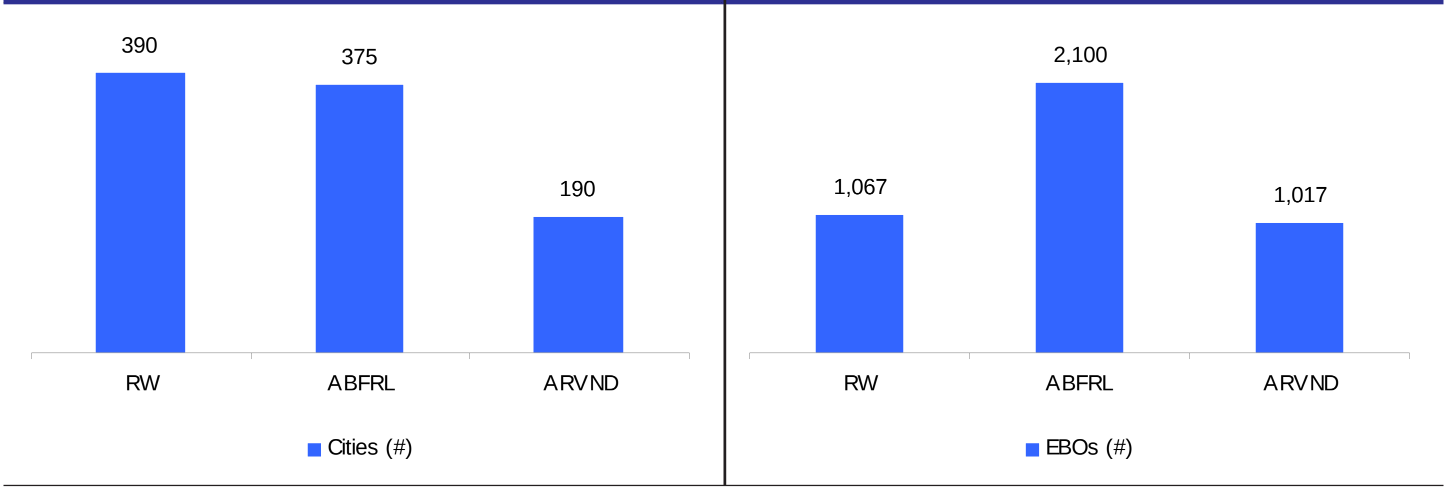
MTM In-Store Options for Bespoke Clothing

Source: Company, Media Reports, Antique

Robust, pan-India store network a key advantage

Although Aditya Birla Fashion & Retail (Madura F&R owned EBOs) leads the industry in terms of store count by a mile, RW's EBO + TRS stores are more widely spread out across the length and breadth of the country. Almost 90% of RW's TRS stores are present in Tier III/IV/V towns, some for more than a decade. Given such a widespread presence, RW not only enjoys first mover advantage in many such markets where there is pent-up latent demand for branded apparels, but such a network can also support the company's omni-retail future as it integrates the power of the internet to increase business across the country.

Key Branded Apparel Players Presence / Network



Source: Company, Antique

Note: Raymond's EBO count includes TRS stores

3-5 Year Targets - 15%+ company-wide RoCE; 2 brands in Top 5

Branded Apparels remains RW's main focus business for the next few years. Given its efforts and strategies that have been put in place in this space, the company is confident that it can easily beat the ~16% CAGR estimated growth rate for the organized apparel retail market (Source: Wazir Advisors). (RW clocked ~13% Branded Apparels revenue CAGR in FY13-16).

Over the next 3-5 years, the company aims to:

- Improve consolidated RoCE to 15%+ (from current ~9%), powered by improving profitability in the Branded Apparels business.
- Have at least 2 brands amongst the top 5 in the Indian organized ready-made apparels market.

Digital initiatives being placed to make RW future ready

Strengthening brand Raymond in the customer mindset

RW is also gearing up its technological back-end to mine its existing customer database, and study customer behavior so as to increase sales of brands (for which customers originally enrolled), as well as attempt to cross-sell products of other brands. Two initiatives rolled out by the company include:

- **Raymond Rewards - RW's Loyalty Program:** Like all other big brand players, RW too had launched loyalty programs for each brand under its portfolio. More recently, the company has unified all of its loyalty programs under one banner - Raymond Rewards. A common loyalty program would help RW retain a customer within its network while at the same time give the customer more occasion specific options to shop for. Currently 4.2 mn members are enrolled in Raymond Rewards (as of September 2016), who, besides being repeat customers, also spend ~65% more than non-members on average.
- **Customer analytics:** In addition to potential customer mining possible through enrolment in the loyalty program, the customer database can also be utilized to study potential shopping behaviours and accordingly send out targeted marketing or promotional offers to particular customers. Given that analytics has become an important aspect in capturing consumer wallet-share, staying ahead of the curve in this respect would only help RW in the days ahead.

All set to be a complete omni-retail player

Online storefronts up and running; Pricing however is 'regulated':

RW has made products from all its brands available for sale on its own website - Raymondnext.com (launched in late 2014), which is optimized for browsing through any available medium (tablet, PC, smartphone). The company has also tied up with mainstream eCommerce retailers (Myntra, Jabong, Amazon, etc.) to tap the online market. However, to safeguard the interests of its franchise partners as well as maintain brand value, RW tries to ensure that the price differential between SKUs available in online channels and brick & mortar stores is minimal.

Experimenting with online-only ranges; fabrics to follow soon:

To push acceptability of its online eCommerce business, RW is experimenting with exclusive product ranges which would be available only on its shopping website. The company recently launched one such range under its Parx brand.

Given the nature of Fabrics (intermediate product vis-à-vis readymade apparel), selling such products online has not picked up. In this regard, the company is experimenting with various ways to offer its fabrics line to online customers.

B2B: Garments to pick up pace in FY19E

Ethiopia plant to help improve Garment export business dynamics

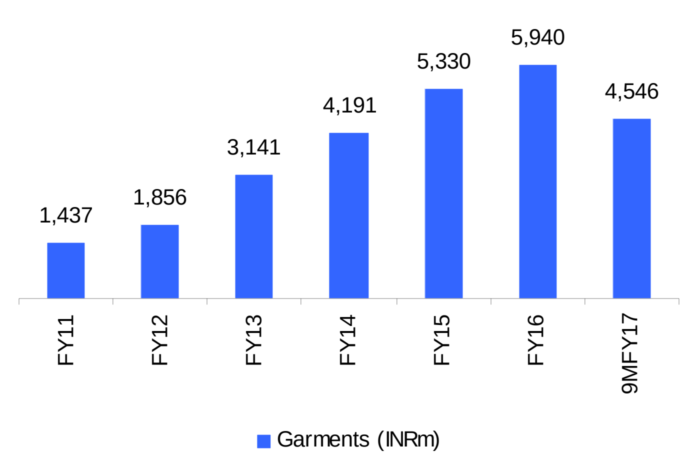
RW's garmenting business is primarily driven by exports (~80% of total revenue; rest is internally consumed). Given that the US and Europe are huge markets for garments, and India being a comparatively high-cost producer (vis-à-vis Bangladesh, Vietnam), the company has zeroed in on Ethiopia to set up a garment manufacturing facility.

RW is currently setting up a 2 mn units per annum capacity plant in Awasa, Ethiopia (the unit would be housed within RW's subsidiary - Silver Spark Apparel) and is expected to be commissioned in FY18E. There are some inherent advantages of setting up this garment facility in Ethiopia (budgeted capital expenditure estimated at ~INR1.2bn):

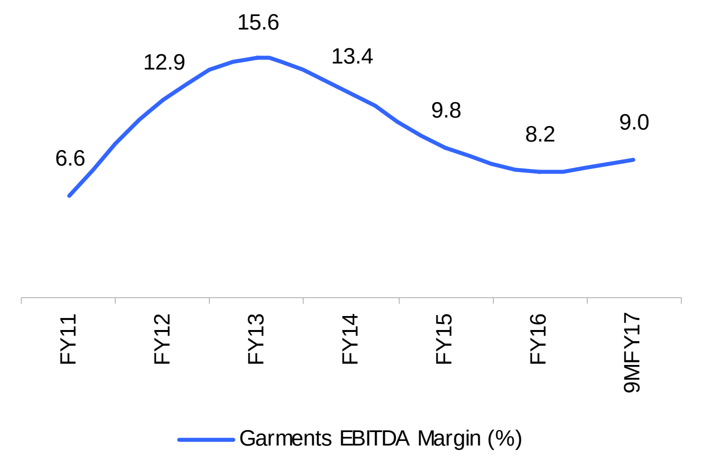
- Ethiopia has free trade agreements with the US and Europe. Exporting from Ethiopia to these countries would lead to import duty savings of 18% and 8-12% respectively (thus making products more price-competitive).
- Ethiopia Government is providing land on a long-term lease.
- Electricity/labour costs are 67%/50% cheaper versus India respectively.

RW's garmenting margins have fallen from its FY13 highs of ~16% to ~8% in FY16 due to increased competition from neighbouring garment manufacturing countries, as well as increased labour/electricity costs in India during this period. The Ethiopia plant would expand RW's garment capacity by ~30%, and given the potential cost benefits provided by the location (as well as recent increased compliance costs imposed on Bangladesh garment players from US/Europe customers), profitability of this segment should trend higher in the days ahead.

Local / global factors have slowed garments business…



…which are reflective in margins as well



Source: Company, Antique

Capex cycle almost over

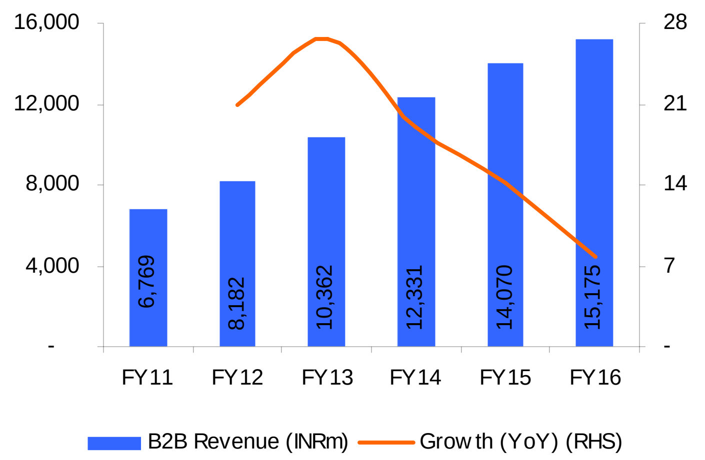
Barring the above mentioned garments capacity expansion, RW is setting up a 4 mn meter per annum Linen plant at Nandgaon Peth, Amravati (Maharashtra) with a budgeted capital expenditure of ~INR2.0bn. This expansion is expected to be concluded by FY18E. In addition, the company has recently scaled up its Kolhapur fabrics plant to 26 mn meters per annum (from 21 mn) and its denim production capacity to 56 mn meters per annum (from 48 mn).

No other capacity expansions have been planned for the near-term (next 3-4 years). Any incremental capacity requirements post ramping up of new capacities would be explored through the outsourcing route (wherein low-value added work would be outsourced, thus freeing up capacity for higher value-added production.)

Stable growth/steady margins expected

Given the increased focus on the B2C front, growth on the B2B front is expected to remain comparatively stable. However, growth should rebound from the FY16 level as incremental capacity additions in the Garments/Denim businesses ramp up, and through product innovations in the Denim Segment (retaining high value-added work in-house while outsourcing low value-added product manufacturing to third parties). Margins too are expected to stabilize at historical average levels.

B2B business growth has slowed down



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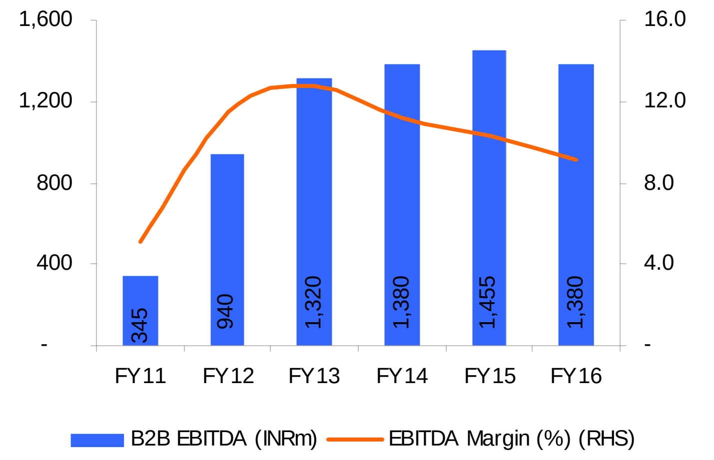


Source: Company, Antique

Note: Denim, Garments, and Cotton Shirting revenue used for computing B2B financials. From FY17 onwards, Denim numbers will no longer be consolidated in revenue due to compliance with Ind-AS rules on joint ventures

Non-textile businesses: Potential value unlockers

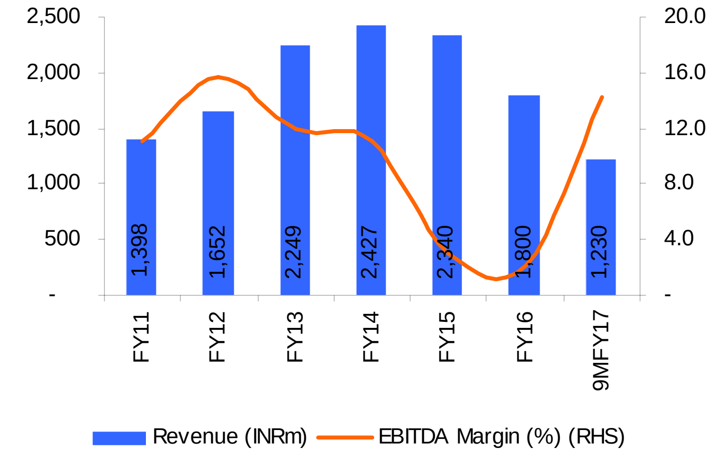
RW is on course to become a complete B2C branded apparels and fabrics player and would continue its thrust in the clothing space. As such, the company has identified its engineering businesses like Auto Components, and Tools & Hardware, as non-core in the overall scheme of things and would look to divest these ventures at an opportune time. In addition, the company is also exploring options to monetize its Thane Land Bank.

Auto Components/Tools - Turnaround work-in-progress stories!

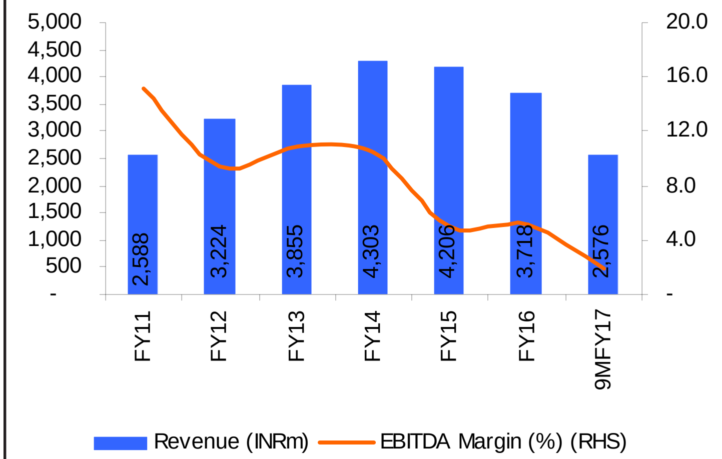
Although identified as non-core, RW does intend to turnaround these businesses so that their divestments can fetch a better value for the company. In the Auto Components segment (produces bearings, flex-plates and ring gears), RW plans to grow its market-share by signing up marquee OEM clients (recently signed an agreement with BMW AG). It has also sold its loss-making forging and pulley businesses earlier this year. As a result, the Auto segment's profitability decline has reversed in 1HFY17. The focus on improving profitability will continue in the meanwhile as the management explores exit options.

Similarly, profitability-improving initiatives are being worked upon in the company's tools & hardware business (largest global producer of industrial files (25-30% estimated global market-share; 70% market-share in India; also produces hand & power tools). The management expects the business to turnaround in the next 15-18 months, post which it would look to sell out this business as well.

Auto Components Revenue / EBITDA Margin Trend



Tools & Hardware Revenue / EBITDA Margin Trend



Source: Company, Antique
Note: RW disposed of the loss-making businesses like Forging in 1HFY17 from its Auto business

Real Estate - Land sale ruled out; development an option

Ever since the company shifted its high-cost Thane production plant to Vapi, and Jalgaon (in 2010), the company holds nearly 125 acres of land bank at this location. The company has been evaluating various options to monetize this real estate including:

- Land sale
- Property development (either self or strategic partnership with a realty developer)

In our recent interaction, the management appears to be warming up to the idea of developing the land instead of selling it outright. The management has set up a team within the company (headed by Abhishek Kapoor, CEO of Real Estate Division) to explore options of developing the real estate land parcel.

Although we haven't considered land monetization in our valuation, we feel that the idea of developing the land (either on its own or by signing in a real-estate partner) may be a lucrative plan in the long-run. The land is located on the Eastern Express Highway on the outskirts of Mumbai, is close to two famous malls (with marquee brands), and a reputed school and hospital and is also well connected to Mumbai, its satellite towns, as well as Pune. Once RW gets the requisite clearances from the authorities to develop this land, it would be easier for the company to rope in a partner as well. Given that land costs are high in Mumbai (and its neighbouring areas) and can constitute a significant portion of the total real estate project cost, RW could be in a position to earn higher than normal profits from this venture, whenever it fructifies (as land cost, a sunk cost, is nominal for the company).

Financial Analysis

Clothing-focused businesses to power revenue growth ahead

We expect RW's revenue performance to be powered by its core textiles/retail businesses in the days ahead.

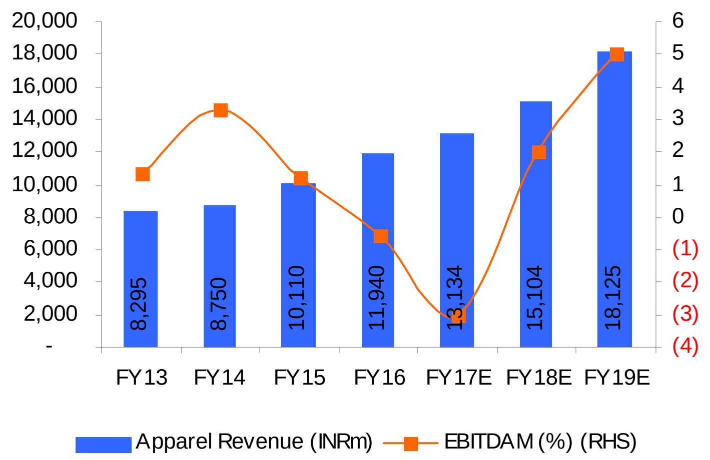
B2C: Time for action!

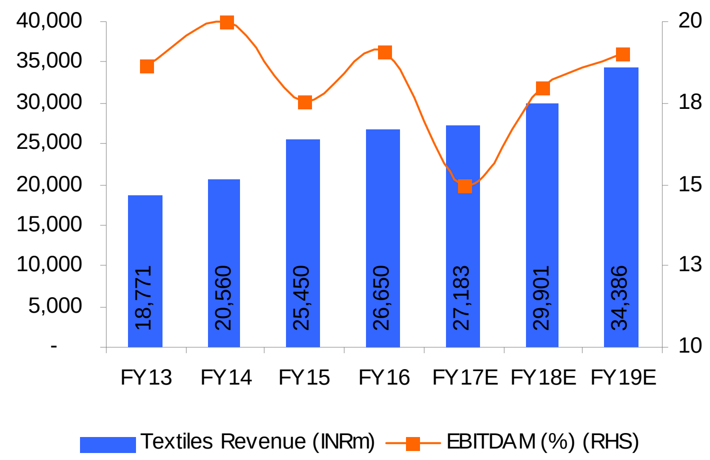
RW is redefining its product portfolio to make it a one-stop-shop for customers with diverse tastes and preferences. The company's pan-India reach, especially in Tier III/IV markets where it has an established brand presence and minimal direct competition from other branded players, is an added competitive advantage that the company can leverage as it meets pent-up consumer demand in such markets.

However, demonetization of old INR500/1,000 currency notes (effective November 9, 2016) would derail growth for FY17E, especially in its non-metro markets (where Wholesale/MBO trade is large and where cash payments were the norm). Although RW has made multiple payment options available at its stores (card POS, e-wallets, etc.), we believe that sales will resume its upward trajectory only once the liquidity situation normalizes by mid 4QFY17E.

We estimate RW's 'Branded Apparels' segment to grow ~14.9% p.a. in the FY16-19E period (~17.5% in FY17E-19E) as we expect its initiatives to push this segment to fructify in the near future. In the 'Branded Textiles' space, we expect ~8.9% CAGR in the FY16-19E period (~12.5% in FY17E-19E) as it reinvents this space to make it more acceptable to today's consumer base.

We expect RW's B2C businesses to power growth in the years ahead…





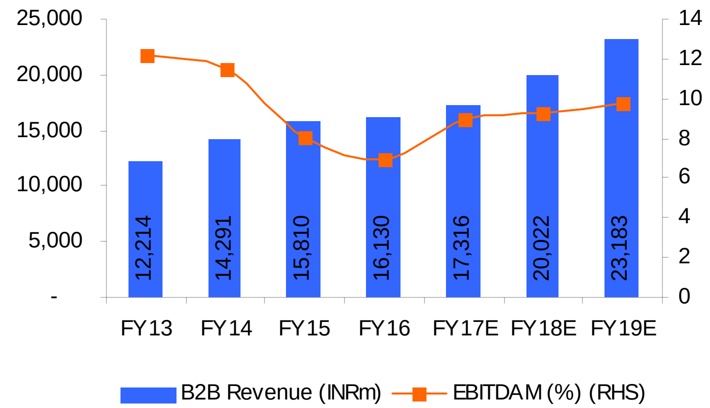
Source: Company, Antique

B2B: Steady US/Euro Zone economy, Ethiopia plant to drive growth

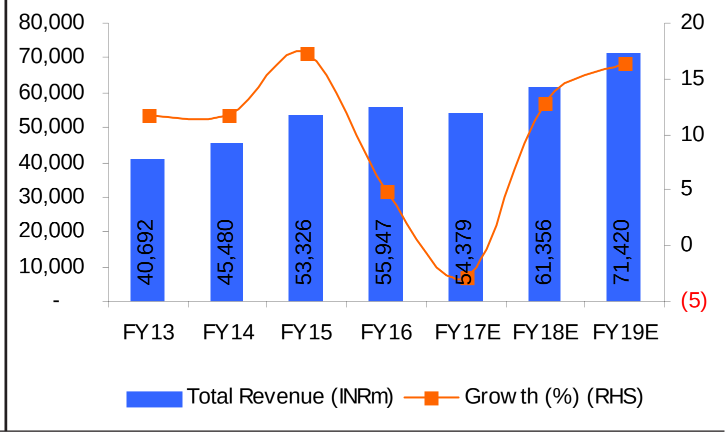
On the B2B front, we expect growth to be driven primarily by RW's Garments segment (~80% production is exported to markets in the US and Europe) as its end-demand economies are expected to grow steady over the next 1-2 years. The company's new garments plant in Ethiopia would be commissioned in FY18E, which would further give a fillip to growth as this country has free trade agreements with the US, Europe, and Japan. Given these growth drivers, we estimate RW's Garments business to deliver ~18.8% CAGR in the FY16-19E period.

Within the non-core businesses, we expect the Auto Components business to register a decline in revenue growth for FY17E (loss-making forging business was hived off in November 2015; ~22% of segment revenue) before posting ~15% CAGR in the FY17E-19E period on a low base. We expect its Tools/Hardware business to post 2% CAGR in the FY16-19E period.

Ethiopia plant to support B2B revenue from FY19E



~15% revenue CAGR expected in FY17E-19E



Note: B2B revenue excludes Denim business

Note: Denim JV revenue is not consolidated from FY17E (Ind-AS rule)

Source: Company, Antique

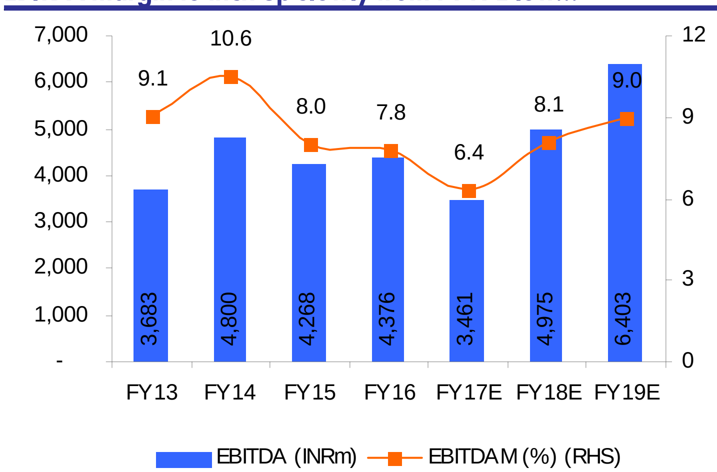
Overall, we build in ~14.6% consolidated revenue CAGR for the FY17E-19E period (excluding Denim JV revenue as the same would no longer be consolidated in compliance with Ind-AS accounting regulations). Hiving off of non-core businesses like Auto Components and Tools/ Hardware could lead to higher overall revenue growth in the future as the business morphs into a pure textiles/branded apparels play.

Increasing scale in Branded Apparels business to pull up margins

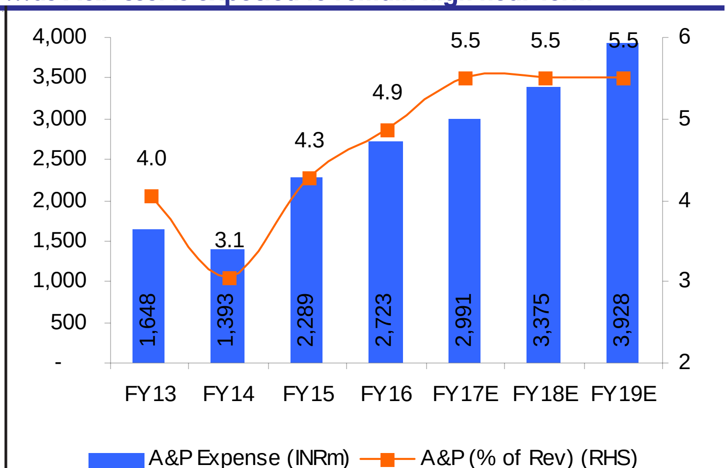
Improving top-line growth in both textiles/branded apparels businesses should pull up EBITDA margins going ahead. Margin expansion is expected to be far higher in the Branded Apparels space (+560 bps in FY16-19E; +800 bps in FY17E-19E) vs the Branded Textiles space (flat in FY16-19E; +400 bps in FY17E-19E), given that the focus is more on growth vs margins. An increase in scale in this business would provide operating leverage benefits for the company and pull margins to ~5% by FY19E. However, with the focus on growth expected to continue for the next 3-4 years, steady-state margin levels (estimated at mid-teen levels) are not expected in the near-term.

For the overall consolidated business, we expect steady margin improvement to ~9.0% by FY19E (+110 bps in FY16-19E; +260 bps in FY17E-19E) as A&P expenses (primarily in Branded Apparel) would continue to remain high in line with the company's focus on increasing its branded business revenue. However, improving operating profitability should seep into bottom-line growth as well, with corresponding improvement in return ratios. We build in FY17E-19E earnings CAGR of ~100% (given the low base in FY17E), largely driven by margin expansion in the Branded Apparels business. Sale/divestment of non-core businesses would be an additional kicker to profitability.

EBITDA margin to inch up slowly from FY17E low...

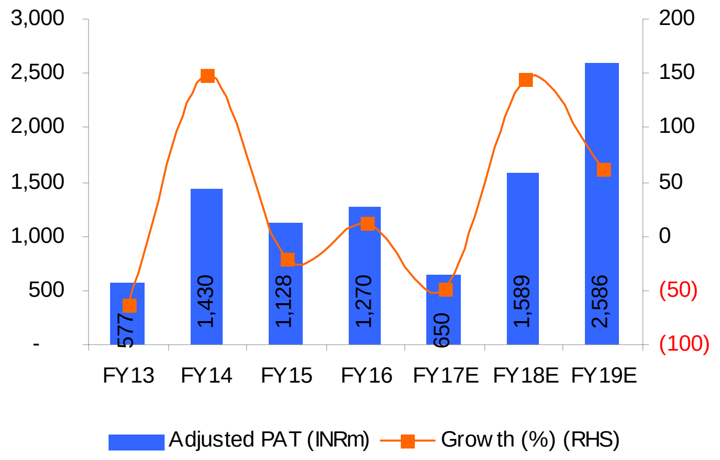


...as A&P cost is expected to remain high near-term

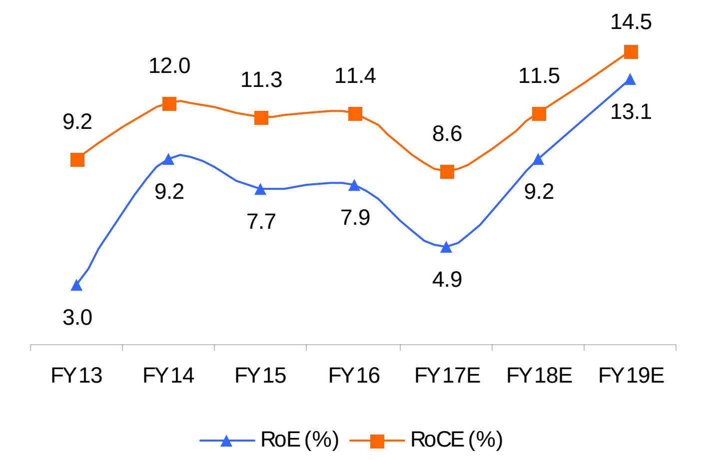


Source: Company, Antique

Expect profit volatility to reduce in the years ahead...



...with corresponding improvement in return ratios



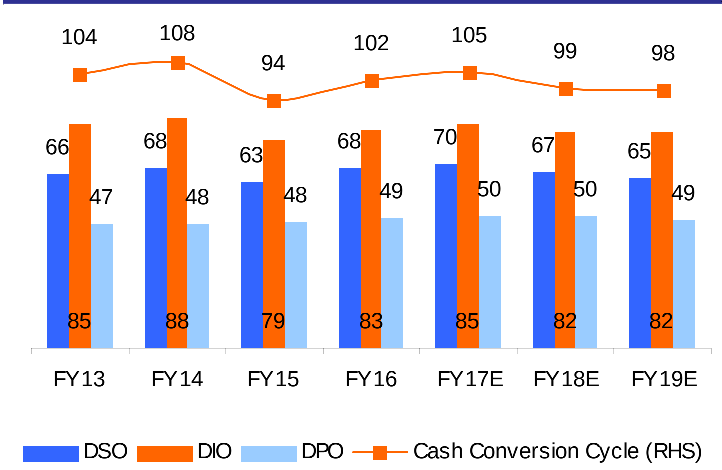
Source: Company, Antique

Balance sheet strength to improve in tandem with profitability

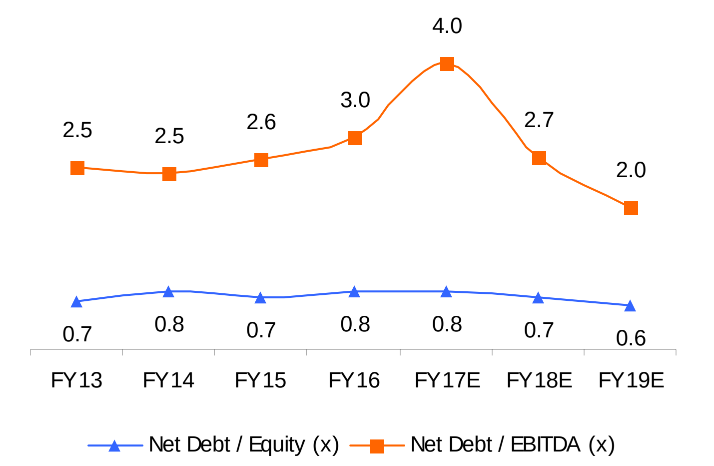
We don't expect a drastic improvement in RW's working capital situation, given its increased focus to push B2C business as any reduction in receivable days would be negated by increased inventory days. However, improving profitability should ease the company's debt ratios.

Barring its plans of setting up the Amravati Linen Plant and the Ethiopia Garments Plant (expected to be commissioned by end FY18E), future capital expenditure plans would be restricted to new store additions. Given its clear focus on expanding its B2C business, we expect RW to take its store network count to ~1,500 (from 1,067 currently) over the next 4 years. While the goal would be to prefer the asset-light expansion route (through the franchisee mode), we believe that company-owned company-operated expansion (especially for EBOs) would play an important role in near-term retail store expansion. We expect RW to generate sufficient cash flow to finance its capital expenditure needs as well as produce healthy free cash flow in the coming years.

WC situation to remain steady at current levels

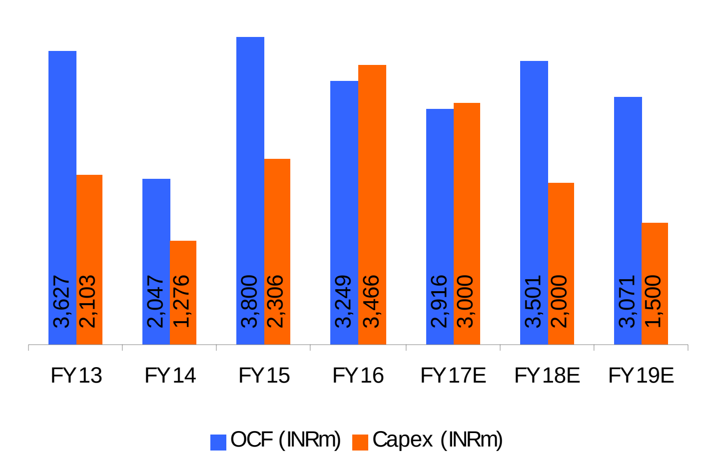


Improving profitability would ease debt ratios

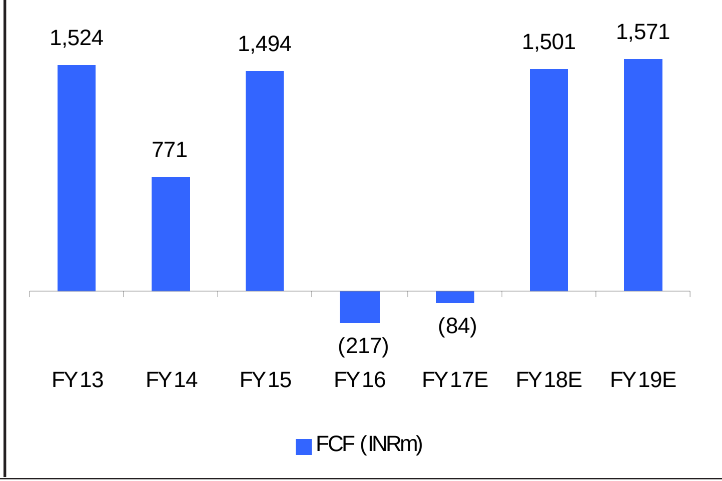


Source: Company, Antique

Healthy internal accruals to cover capex spends...



...leaving behind sufficient free cash as well!



Source: Company, Antique

Improving profitability and asset turns would support return on equity!

RoE -DuPont Analysis	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
PAT Margin (%)	1.0	2.9	2.2	2.2	1.5	2.7	3.6
Asset Turnover (x)	1.5	1.5	1.7	1.7	1.6	1.7	1.9
Leverage (x)	2.0	2.1	2.1	2.1	2.1	2.0	1.9
RoE (%)	**3.0**	**9.2**	**7.7**	**7.9**	**4.9**	**9.2**	**13.1**

Source: Company, Antique

Outlook & Valuation

RW is slowly but surely letting go of its old fabric-stitching image and transforming itself into a trendier ready-made apparel player. Since 2013, the company is hard at work to increase exposure to the lucrative branded apparels market. Credible steps like management rejig (moving from a manufacturing mindset towards a more consumer mindset), increased store roll-out and brand spending, and moving towards an omni-retail model would go a long way in establishing RW as a strong player in the Indian Branded Apparels market.

At the same time, the company is also reinventing its legacy fabrics business model (which still remains its main cash cow), through innovative product offerings and improved store experience, to make it more relevant to young consumers. Besides, RW's well-integrated textile value chain, and its pan-India store network (with first mover advantage in many Tier III/IV markets), place the company in a sweet spot to capitalize on the immense growth opportunities that are up for grabs for apparel players.

SOTP Valuation; Implied 8.9x FY19E EV/EBITDA valuation

Given the myriad of businesses within the company (B2C and B2B in the textiles space, non-textile businesses), we believe that valuing each business separately would be more appropriate to capture the intrinsic value of the company. We detail our valuation assumptions in the table below:

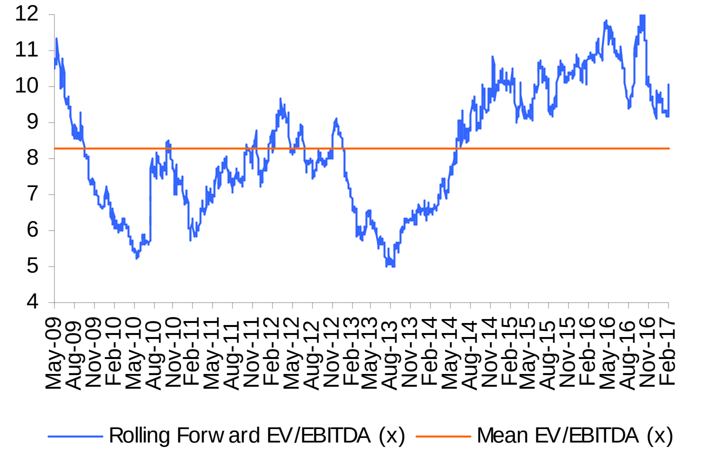
SOTP Valuation (FY19E)

	EBITDA (INRm)	Multiple (x)	EV (INRm)
Branded Textiles	6,533	9.0	58,801
Branded Apparel	906	15.0	13,594
Cotton Shirting Fabric	771	6.0	4,626
Garmenting	996	6.0	5,979
Tools & Hardware	159	5.0	794
Auto Components	336	8.0	2,685
Total	**9,702**	**8.9**	**86,479**
Elimination	3,299	8.9	29,403
Segment EV	**6,403**	**8.9**	**57,076**
Cash & Investments			3,130
JV/Associates (RW Share)			629
Total Debt			16,927
Intrinsic Market Cap			**43,909**
Outstanding Shares (mn)			61.4
Fair Value Per Share (INR)			**720**

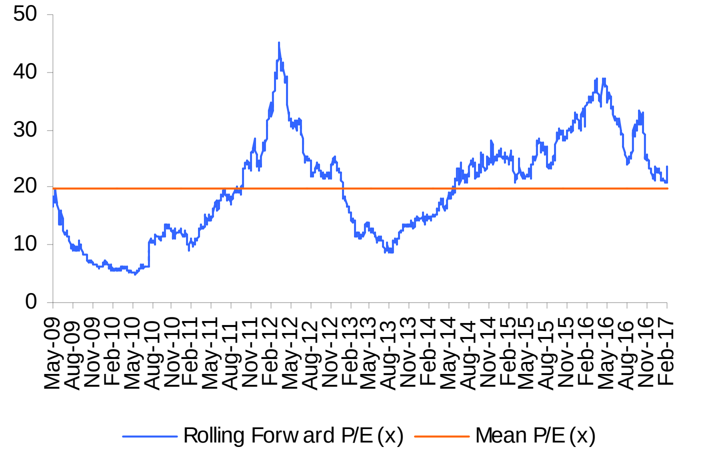
Source: Company, Antique

Increasing scale in the branded apparels business would provide most of the fuel required in our earnings CAGR estimate of ~27% in the FY16-19E period (~4x EPS expected in FY17E-19E, given the low base in FY17E). Capacity ramp-up in the Garments division would also support growth in that segment. Our SOTP target price of INR 720 (~20% upside) implies ~8.9x FY19E EV/EBITDA. We recommend a BUY on RW.

1-Year Forward EV/EBITDA Chart



1-Year Forward P/E Chart



Source: Bloomberg, Antique

Peer Comparison

Company	Market Cap (USDm)	EPS CAGR (FY16-19E)	EV/EBITDA (x)		P/E (x)		RoE (%)	
			FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Raymond	**554**	**26.8**	**10.1**	**7.7**	**23.3**	**14.3**	**9.2**	**13.1**
Domestic Peers								
Arvind	1,455	22.9	10.0	8.2	18.8	14.4	13.8	16.2
ABFRL	1,812	NM	24.3	18.7	107.7	54.7	10.7	18.5
Kewal Kiran Clothing	321	16.8	16.1	13.0	25.4	19.8	25.2	29.5
Page Industries	2,367	21.6	30.1	24.3	46.7	37.7	45.8	47.3
International Peers								
Inditex (Spain)	99,449	12.5	14.9	13.1	25.8	23.0	27.9	28.7
H&M (Sweden)	38,545	11.0	8.6	7.7	17.1	15.5	33.0	32.9
Hugo Boss (Germany)	5,045	(10.1)	10.3	9.6	19.9	18.5	24.6	24.6
VF Corp. (US)	21,952	4.7	11.8	11.6	16.0	14.9	26.0	28.4
PVH Corp. (US)	7,258	5.0	8.5	7.6	12.6	11.2	11.2	12.5

Source: Bloomberg / Price Data as of February 27, 2017

Annexure 1

Subsidiaries/JV Information

Direct Subsidiaries

Name	Business Segment	Ownership (%)
Raymond Apparel Ltd.	Branded Apparel	100.00
Pashmina Holdings Ltd.	Branded Textiles	100.00
Everblue Apparel Ltd.	Garments	100.00
J. K. Files (India) Ltd.	Tools & Equipment	100.00
Silver Spark Apparel Ltd.	Garments	100.00
Celebrations Apparel Ltd.	Garments	100.00
Scissors Engineering Products Ltd.	Auto Components	100.00
Raymond Woollen Outerwear Ltd.	Branded Textiles	99.54
Raymond Luxury Cottons Ltd.	Branded Textiles	75.69
Jaykayorg AG (Switzerland)	Branded Textiles	100.00
Raymond (Europe) Ltd. (UK)	Garments	100.00

Step-Down Subsidiaries

Name	Business Segment	Ownership (%)	Held By
ColorPlus Fashions Ltd.	Branded Apparel	100.00	Raymond Apparel
Ring Plus Aqua Ltd.	Auto Components	89.07	Scissors Engg. Products
J. K. Talabot Ltd.	Tools & Equipment	90.00	J. K. Files (India)
Dress Master Apparel Pvt. Ltd.	Garments	100.00	Silver Spark Apparel
R&A Logistics Inc. (USA)	Auto Components	100.00	Ring Plus Aqua Ltd.

Joint Ventures / Jointly Controlled Entities

Name	Business Segment	Ownership (%)	Held By
Raymond UCO Denim Pvt. Ltd.	Denim	50.00	Raymond
Rose Engineered Products India Pvt. Ltd.	Auto Components	50.00	Scissors Engg. Products

Associates

Name	Business Segment	Ownership (%)	Held By
P. T. Jaykay Files (Indonesia)	Tools & Equipment	39.20	Raymond / Jaykayorg
J. K. Investo Trade Ltd.	Personal Products	47.66	Raymond
Radha Krishna Films Ltd.	N/A	25.38	Raymond

Source: Company, Antique

Annexure 2

Manufacturing Capacities

Current Manufacturing Capacities [Fabrics (mn meters per annum)]

Segment	Capacity
Worsted Suiting Fabric	**38.0**
- Chindwara (MP)	14.0
- Vapi (Gujarat)	14.0
- Jalgaon (Maharashtra)	10.0
Cotton Shirting Fabric	**26.0**
- Kolhapur (Maharashtra)	26.0
Woollen Fabric	**1.7**
- Jalgaon (Maharashtra)	1.7
Denim Fabric	**51.5**
- Yavatmal (Maharashtra)	44.5
- Giurgiu (Romania)	7.0

Source: Company, Antique

Current Manufacturing Capacities [Garments (mn pieces per annum)]

Segment	Capacity
Celebrations Apparel	**1.8**
- Shirting	1.8
Silver Spark Apparel	**1.8**
- Jackets	0.6
- Trousers	1.1
- Premium Jackets	0.1
Suiting Manufacturing	**1.7**
- Jackets	0.8
- Trousers	0.9

*All Garments Manufactured in Bengaluru currently
Source: Company, Antique

Planned Additions

Segment	Capacity	Capex (INRb)
Fabrics (mn meters p.a.)	**4.0**	
- Amravati, Maharashtra (Linen)	4.0	1.8
Garments (mn pieces p.a.)	**2.6**	
- Awasa, Ethiopia	2.6	1.2

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Revenue	**53,326**	**55,947**	**54,379**	**61,356**	**71,420**
Expenses	49,058	51,571	50,918	56,380	65,017
EBITDA	**4,268**	**4,376**	**3,461**	**4,975**	**6,403**
Depreciation & Amortisation	1,619	1,643	1,537	1,833	1,920
EBIT	**2,649**	**2,734**	**1,924**	**3,143**	**4,483**
Interest Expense	2,004	1,835	1,804	1,668	1,537
Other income	952	1,069	1,088	920	857
Profit before tax	**1,597**	**1,969**	**1,208**	**2,395**	**3,803**
Tax Expenses	439	721	399	766	1,217
Profit after tax	**1,158**	**1,247**	**810**	**1,629**	**2,586**
Extraordinary Items	0	(349)	(91)	-	-
M.I. / Share of Associate Profit	(31)	23	(160)	(40)	-
Reported PAT	**1,128**	**921**	**559**	**1,589**	**2,586**
Adjusted profit after tax	**1,128**	**1,270**	**650**	**1,589**	**2,586**
Adjusted EPS (INR)	**18.4**	**20.7**	**10.6**	**25.9**	**42.1**

Balance sheet (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Share Capital	614	614	614	614	614
Reserves & Surplus	14,800	15,700	16,448	17,896	20,261
Networth	**15,414**	**16,314**	**17,062**	**18,510**	**20,875**
Minority Interest	725	629	629	629	629
Debt	15,708	17,427	16,927	16,427	15,927
Capital Employed	**31,847**	**34,370**	**34,619**	**35,566**	**37,432**
Gross Fixed Assets	31,210	32,657	35,657	37,657	39,157
Accumulated Depreciation	(18,466)	(19,592)	(21,129)	(22,962)	(24,882)
Net Assets	12,744	13,065	14,528	14,695	14,275
Capital work in progress	1,958	2,500	2,500	2,500	2,500
Non-Current Investments	1,090	1,457	1,457	1,457	1,457
Current Assets, Loans & Adv.	**30,707**	**33,467**	**31,900**	**34,655**	**39,789**
Inventory	11,578	12,660	12,664	13,784	15,654
Debtors	9,239	10,475	10,429	11,263	12,719
Cash & Current Investments	4,472	4,491	3,130	3,203	3,961
Loans & advances and others	5,418	5,840	5,677	6,405	7,456
Current Liabilities & Prov.	**14,593**	**15,743**	**15,390**	**17,365**	**20,213**
Creditors	7,022	7,573	7,449	8,405	9,784
Other liabilities & provisions	7,571	8,170	7,941	8,960	10,430
Net Current Assets	**16,114**	**17,724**	**16,509**	**17,290**	**19,575**
Deferred tax assets/(liabilities)	(59)	(375)	(375)	(375)	(375)
Application of Funds	**31,847**	**34,370**	**34,619**	**35,566**	**37,432**

Per share data

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
No. of shares (m)	61.4	61.4	61.4	61.4	61.4
BVPS (INR)	251.1	265.8	278.0	301.6	340.1
CEPS (INR)	44.7	47.4	35.6	55.7	73.4
DPS (INR)	3.0	3.0	3.0	3.0	3.0

Margins (%)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
EBITDA	8.0	7.8	6.4	8.1	9.0
EBIT	5.0	4.9	3.5	5.1	6.3
PAT	2.1	2.3	1.2	2.6	3.6

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Branded Textiles growth YoY %	23.8	4.7	2.0	10.0	15.0
Branded Apparel growth YoY %	15.5	18.1	10.0	15.0	20.0
Branded Apparel EBITDA margins (%)	1.2	(0.6)	(3.0)	2.0	5.0
Ad spends (%)	4.9	5.5	5.5	5.5	5.5

Cash flow statement (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
PBT	**1,597**	**1,968**	**1,208**	**2,395**	**3,803**
Depreciation & amortisation	1,619	1,643	1,537	1,833	1,920
Interest expense	2,004	1,834	1,804	1,668	1,537
(Inc)/Dec in working capital	(204)	(932)	(147)	(708)	(1,528)
Tax paid	(655)	(592)	(399)	(766)	(1,217)
Others	21	(672)	(1,088)	(920)	(857)
CF from operating activities	**4,381**	**3,249**	**2,916**	**3,501**	**3,658**
Capital expenditure	(2,238)	(2,892)	(3,000)	(2,000)	(1,500)
Inc/(Dec) in investments	(261)	(402)	-	-	-
Income from investments	1,101	294	1,088	920	857
CF from investing activities	**(1,399)**	**(2,999)**	**(1,912)**	**(1,080)**	**(643)**
Inc/(Dec) in debt	(225)	1,828	(500)	(500)	(500)
Dividend / Interest paid	(2,275)	(2,119)	(2,025)	(1,889)	(1,758)
Other Adjustments	(862)	61	160	40	-
CF from financing activities	**(3,362)**	**(230)**	**(2,365)**	**(2,349)**	**(2,258)**
Net cash flow	**(379)**	**19**	**(1,361)**	**73**	**757**
Opening balance	4,851	4,472	4,491	3,130	3,203
Closing balance	**4,472**	**4,492**	**3,130**	**3,203**	**3,961**

Growth indicators (%)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Revenue	17.3	4.9	(2.8)	12.8	16.4
EBITDA	(11.1)	2.5	(20.9)	43.7	28.7
PAT	4.8	(18.4)	(39.3)	184.2	62.8
EPS	(21.1)	12.6	(48.9)	144.6	62.8

Valuation (x)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
P/E	32.8	29.1	56.9	23.3	14.3
P/BV	2.4	2.3	2.2	2.0	1.8
EV/EBITDA	11.0	11.1	14.2	9.8	7.5
EV/Sales	0.9	0.9	0.9	0.8	0.7
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5

Financial ratios

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
RoE	7.7	7.9	4.9	9.2	13.1
RoCE	11.3	11.4	8.6	11.5	14.5
Debt/Equity (x)	1.0	1.1	1.0	0.9	0.8
EBIT/Interest (x)	1.3	1.5	1.1	1.9	2.9

Source: Company Antique

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Antique Stock Broking Limited
20th Floor, A Wing, Naman Midtown
Senapati Bapat Marg, Elphinstone (West)
Mumbai 400013
Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445
www.antiquelimited.com