India Equity Research | Retail
July 26, 2017
**Result Update**

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# Raymond

Refer to important disclosures at the end of this report

# Early EOSS boosts retail sales

| CMP | Target Price |
|---|---|
| Rs 807 as of (7/26/2017) | Rs 1,059 (■) 12 months |
| **Rating** | **Upside** |
| BUY (■) | 31.2 % |

- Strong revenue growth back by wedding demand and early EOSS. Consolidated revenue grew by 13% yoy to Rs11.9bn; EBITDA margin increased 30bps yoy to 3.2%; reported loss stood at Rs73mn versus loss of Rs165mn in Q1FY17.
- Textile revenue grew by 11% yoy, aided by Suitings, while Branded Apparels SSG came in at 20% yoy. Garmenting revenue grew by just 2% owing to INR appreciation. Engineering businesses reported a remarkable improvement in profitability.
- Raymond expects a minor disruption in trade channels due to GST, and maintains its overall guidance. We expect revenue CAGR of 11% over FY17-19E and EBITDA margin of 8.6% by FY19E.
- Sustained growth in Branded Apparel business resulting in improved profitability and consistent cash flow generation from the Textile business are key metrics to track. We maintain our BUY rating with a price target of Rs1,059.

## Advancing of EOSS and recovery in wholesale channel boost growth

Strong revenue growth back by wedding demand and early EOSS. Key highlights are: 1) consolidated revenue at Rs11.9bn grew by 13% yoy, led by a 17% yoy growth in the Branded Apparel business. EBITDA margin improved by 30bps yoy to 3.2% on the back of better contribution margin and reduced losses in the Branded Apparel business. The company reported a loss of Rs73mn versus a loss of Rs165mn in Q1FY17, aided by higher other income and lower interest cost.

## Expect minor disruption due to GST; Guidance maintained

Raymond expects minor disruptions in the trade channel owing to GST implementation, but the same is likely to normalize in H2FY18E. Re-stocking for the festive season along with asset light network expansion is expected to drive growth in the near term. We expect Raymond to clock an 11% CAGR during FY17-19E. EBITDA margin is expected to recover from the adverse impact of demonetization in FY17. We expect EBITDA margin to expand to 8.6% by FY19E.

## Sustaining growth momentum remains the key

Over the past 9-10 quarters, the Branded Apparel business has sustained a healthy growth momentum and is inching towards profitability. We believe that operating leverage across verticals should drive overall profitability. Steady cash from the Textiles business will help improve the free cash position. We maintain our estimates for FY18E/19E with a BUY rating and price target of Rs1,059.

### Financial Snapshot (Consolidated)

| (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Revenue | 53,326 | 51,406 | 53,533 | 58,731 | 65,915 |
| EBITDA | 4,268 | 3,872 | 3,048 | 4,203 | 5,666 |
| EBITDA Margin (%) | 8.0 | 7.5 | 5.7 | 7.2 | 8.6 |
| APAT | 1,128 | 1,200 | 356 | 889 | 1,812 |
| EPS (Rs) | 18.4 | 19.6 | 5.8 | 14.5 | 29.5 |
| EPS (% chg) | (21.1) | 6.4 | (70.4) | 149.9 | 103.9 |
| ROE (%) | 7.5 | 7.5 | 2.1 | 5.2 | 10.0 |
| P/E (x) | 43.9 | 41.3 | 139.2 | 55.7 | 27.3 |
| EV/EBITDA (x) | 15.0 | 16.9 | 21.8 | 15.9 | 11.7 |
| P/BV (x) | 3.2 | 3.0 | 3.0 | 2.8 | 2.6 |

*Source: Company, Emkay Research*

| **Change in Estimates** | |
|---|---|
| EPS Chg FY18E/FY19E (%) | NA |
| Target Price change (%) | NA |
| Target Period (Months) | 12 |
| Previous Reco | BUY |

**Emkay vs Consensus**

| EPS Estimates | FY18E | FY19E |
|---|---|---|
| Emkay | 14.5 | 29.5 |
| Consensus | 18.0 | 31.0 |
| Mean Consensus TP (12M) | | Rs 915 |

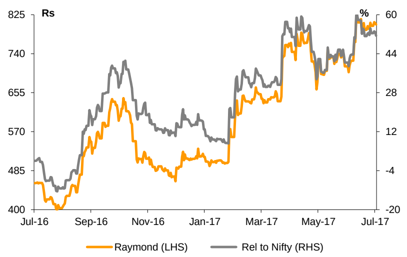
| **Stock Details** | |
|---|---|
| Bloomberg Code | RW IN |
| Face Value (Rs) | 10 |
| Shares outstanding (mn) | 61 |
| 52 Week H/L | 840 / 398 |
| M Cap (Rs bn/USD bn) | 50 / 0.77 |
| Daily Avg Volume (nos.) | 826,533 |
| Daily Avg Turnover (US$ mn) | 9.7 |

| **Shareholding Pattern Jun '17** | |
|---|---|
| Promoters | 42.6% |
| FIIs | 9.0% |
| DIIs | 18.4% |
| Public and Others | 30.0% |

**Price Performance**

| (%) | 1M | 3M | 6M | 12M |
|---|---|---|---|---|
| **Absolute** | 13 | 7 | 57 | 78 |
| **Rel. to Nifty** | 9 | - | 35 | 54 |

**Relative price chart**




*Source: Bloomberg*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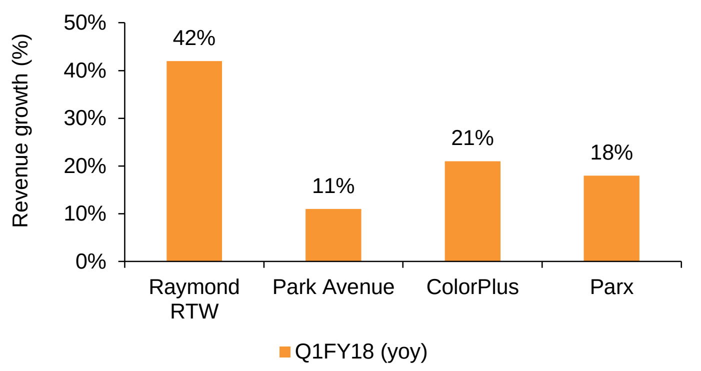
### Textiles business buoyed by robust volume growth in Suiting segment

Textile revenue grew by 11% yoy to Rs5.7bn on the back of a 10% volume growth in the Suitings segment, recovery in the wholesale channel and healthy wedding season. Shirting segment grew by 2% yoy (volume growth of 4% yoy), while MTM reported an SSG of 27% yoy. However, owing to change in the channel mix, higher advertising spends and garment exchange scheme, the EBITDA margin declined by 50bps to 10%. Textile EBITDA stood at Rs570mn, up 6% yoy.

### Early EOSS results in 20% retail SSG in Branded Apparel

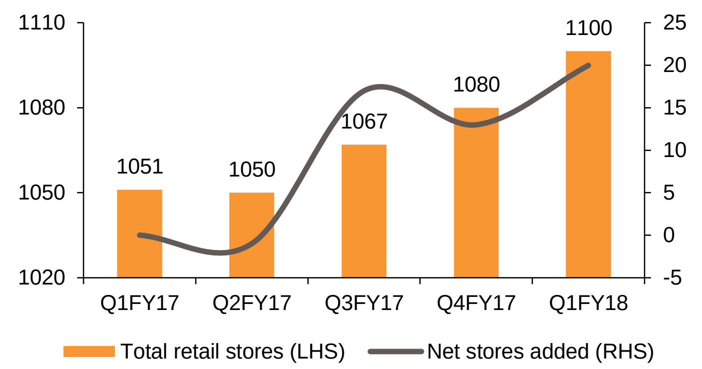
Branded Apparel revenue grew by 17% yoy, with an SSG of 20% yoy. Raymond added a net 20 stores during the quarter, while 9 stores were shut for renovation. The advancement of EOSS and a healthy wedding season were partially offset by dealer de-stocking ahead of GST roll-out. EOSS has resulted a 150bps decline in gross margin for the segment. Despite a decline in gross margins EBITDA losses narrowed to Rs70mn from Rs80mn in Q1FY17, supported by operating leverage and lower ad spend (down 40bos YoY). Raymond Ready-to-Wear segment outpaced the pack, growing by 42% yoy aided by network expansion, and expansion of product portfolio (leather and ethnic wear).

**Exhibit 1: Brand-wise growth in Q1FY18**




*Source: Company, Emkay Research*

**Exhibit 2: Total number of stores**




*Source: Company, Emkay Research*

### B2B segment performance mixed

High value cotton shirting (HVCS) witnessed a higher customer offtake, resulting in a 14% yoy growth at Rs1.3bn. Operating leverage and lower input costs helped boost HVCS EBITDA margin by 20bps yoy to 9.6%, while EBITDA grew by 17% yoy to Rs130mn. However, INR appreciation adversely impacted Garmenting revenue, which grew at a tepid pace of 2% yoy to Rs1.4bn. EBITDA margin in Garmenting declined by 300bps to 6.1%. We expect the Garmenting business to revive on the back of commencement of operations in Ethiopia.

### Operating efficiencies propel profitability of Engineering businesses

Tools & Hardware revenue declined by 4% yoy to Rs870mn, but EBITDA margin expanded by 360bps to 6.8% on account of operating efficiencies and optimisation of manufacturing costs. The Auto Component business grew by a robust 24% yoy to Rs537mn, with an EBITDA margin expansion of 470bps yoy to 19.5%. Higher demand in Commercial Vehicles segment in the US propelled revenue, and higher realisations helped in margin expansion.

### Other earnings call highlights

- The Ethiopia plant commenced in June and is running at a capacity of 500 suits a day. The facility is expected to ramp up to 4000 suits a day in a few quarters
- Raymond's Khadi products are expected to be available from H2FY18E
- The wholesale channel in branded textiles grew by 37% during the quarter
- Advertising spends in the apparel segment increased by 8% yoy to Rs140mn
- The increase in price of wool (+15%) was largely offset by currency movement

**Exhibit 3: Key Growth Assumptions**

| Key Growth Assumptions | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Textile revenue growth (%) | 26.1% | 6.2% | 0.5% | 7.0% | 10.0% |
| Apparels revenue growth (%) | 12.7% | 10.7% | 13.6% | 16.0% | 18.0% |

*Source: Company, Emkay Research*

**Exhibit 4: Quarterly summary - Consolidated**

| Y/E, Mar (Rs. m) | Q1FY17 | Q4FY17 | Q1FY18 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| **Revenue** | **10,574** | **14,736** | **11,969** | **13.2** | **-18.8** |
| **Expenditure** | **10,263** | **13,609** | **11,585** | **12.9** | **-14.9** |
| Consumption of RM | 4,346 | 6,447 | 4,897 | 12.7 | -24.1 |
| *as % of sales* | *41.1%* | *43.8%* | *40.9%* | | |
| Employee Cost | 1,801 | 1,768 | 2,001 | 11.1 | 13.2 |
| *as % of sales* | *17.0%* | *12.0%* | *16.7%* | | |
| Manufacturing Cost | 1,669 | 2,124 | 1,920 | 15.1 | -9.6 |
| *as % of sales* | *15.8%* | *14.4%* | *16.0%* | | |
| Other expenditure | 2,448 | 3,270 | 2,768 | 13.1 | -15.4 |
| *as % of sales* | *23.1%* | *22.2%* | *23.1%* | | |
| **EBITDA** | **311** | **1,127** | **384** | **23.5** | **-65.9** |
| Depreciation | 362 | 487 | 379 | 4.8 | -22.1 |
| **EBIT** | **-51** | **640** | **5** | | **-99.3** |
| Other Income | 315 | 322 | 430 | 36.3 | 33.7 |
| Interest | 453 | 418 | 435 | -4.0 | 4.0 |
| **PBT** | **-189** | **544** | **0** | | |
| Total Tax | -63 | 99 | 6 | | |
| **Adjusted PAT** | **-126** | **445** | **-6** | | |
| (Profit)/loss from JV's/Ass/MI | 40.0 | 105.5 | 66.3 | 65.8 | -37.2 |
| **APAT after MI** | **-166** | **340** | **-73** | | |
| Extra ordinary items | 0 | 10 | 0 | | - |
| **Reported PAT** | **-166** | **329** | **-73** | | |
| **Adjusted EPS** | **-2.7** | **5.5** | **-1.2** | | |
| | | | | | |
| **Margins (%)** | | | | **(bps)** | **(bps)** |
| EBIDTA | 2.9 | 7.6 | 3.2 | 30 | -440 |
| EBIT | -0.5 | 4.3 | 0.0 | 50 | -430 |
| EBT | -1.8 | 3.7 | 0.0 | 180 | -370 |
| PAT | -1.6 | 2.3 | -0.6 | 100 | -290 |
| Effective Tax rate | 33.3 | 18.2 | | | |

*Source: Company, Emkay Research*

**Exhibit 5: Segmental performance**

| Quarterly Summary - Consolidated | Q1FY17 | Q4FY17 | Q1FY18 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| **Segment Revenues** | | | | | |
| Textiles | 5,141 | 7,371 | 5,723 | 11.3 | -22.3 |
| High value cotton shirting | 1,150 | 1,061 | 1,311 | 14.0 | 23.6 |
| Apparels | 2,304 | 3,597 | 2,699 | 17.1 | -25.0 |
| Garmenting | 1,402 | 1,842 | 1,436 | 2.4 | -22.1 |
| Tools and Hardware | 911 | 925 | 871 | -4.4 | -5.9 |
| Auto Components | 433 | 413 | 537 | 24.0 | 30.1 |
| Others | 11 | 34 | 20 | 91.4 | -40.5 |
| Inter Segment | -779 | -506 | -628 | | |
| **Total** | **10,574** | **14,736** | **11,969** | **13.2** | **-18.8** |
| **Segment EBIT** | | | | | |
| Textiles | 383 | 1,028 | 405 | 5.6 | -60.6 |
| High value cotton shirting | 60 | 16 | 57 | -4.8 | 251.9 |
| Apparels | -137 | -152 | -108 | | |
| Garmenting | 96 | 86 | 55 | -43.0 | -36.8 |
| Tools and Hardware | 13 | 1 | 43 | 247.2 | 3000.0 |
| Auto Components | 47 | 37 | 82 | 75.6 | 120.4 |
| Others | -65 | -83 | -87 | | |
| Inter Segment | -40 | 45 | 11 | | |
| **PBT** | **355** | **979** | **458** | **28.8** | **-53.2** |
| | | | | | |
| **Segment Margins (%)** | | | | **(bps)** | **(bps)** |
| Textiles | 7.5 | 13.9 | 7.1 | -40 | -690 |
| High value cotton shirting | 5.2 | 1.5 | 4.3 | -90 | 280 |
| Apparels | -6.0 | -4.2 | -4.0 | 200 | 20 |
| Garmenting | 6.8 | 4.7 | 3.8 | -300 | -90 |
| Tools and Hardware | 1.4 | 0.2 | 5.0 | 360 | 480 |
| Auto Components | 10.8 | 9.0 | 15.3 | 450 | 630 |
| Others | -621.0 | -246.7 | -430.8 | | |

*Source: Company, Emkay Research*

## Key Financials (Consolidated)

### Income Statement

| Y/E Mar (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| **Revenue** | **53,326** | **51,406** | **53,533** | **58,731** | **65,915** |
| **Expenditure** | **49,058** | **47,534** | **50,485** | **54,528** | **60,250** |
| **EBITDA** | **4,268** | **3,872** | **3,048** | **4,203** | **5,666** |
| Depreciation | 1,619 | 1,589 | 1,569 | 1,926 | 2,086 |
| **EBIT** | **2,649** | **2,283** | **1,479** | **2,277** | **3,579** |
| Other Income | 952 | 1,190 | 1,179 | 1,229 | 1,284 |
| Interest expenses | 2,004 | 1,897 | 1,780 | 1,770 | 1,770 |
| **PBT** | **1,597** | **1,576** | **878** | **1,736** | **3,093** |
| Tax | 439 | 465 | 218 | 512 | 913 |
| Extraordinary Items | 0 | (352) | (101) | 0 | 0 |
| Minority Int./Income from Assoc. | 0 | 96 | (259) | (285) | (314) |
| **Reported Net Income** | **1,128** | **848** | **255** | **889** | **1,812** |
| **Adjusted PAT** | **1,128** | **1,200** | **356** | **889** | **1,812** |

### Balance Sheet

| Y/E Mar (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Equity share capital | 614 | 614 | 614 | 614 | 614 |
| Reserves & surplus | 14,800 | 16,110 | 16,117 | 16,787 | 18,380 |
| **Net worth** | **15,414** | **16,723** | **16,731** | **17,401** | **18,994** |
| **Minority Interest** | **725** | **648** | **693** | **743** | **797** |
| **Loan Funds** | **18,810** | **20,627** | **21,398** | **21,398** | **21,398** |
| Net deferred tax liability | 59 | (601) | (717) | (717) | (717) |
| **Total Liabilities** | **35,008** | **37,398** | **38,105** | **38,824** | **40,472** |
| **Net block** | **12,744** | **11,630** | **11,572** | **12,995** | **12,409** |
| **Investment** | **4,270** | **6,093** | **6,405** | **6,405** | **6,405** |
| **Current Assets** | **27,527** | **28,206** | **29,445** | **31,787** | **35,710** |
| Cash & bank balance | 1,293 | 903 | 697 | 298 | 856 |
| Other Current Assets | 1,740 | 4,467 | 4,622 | 5,262 | 5,779 |
| **Current liabilities & Provision** | **11,491** | **11,049** | **13,554** | **13,250** | **14,939** |
| **Net current assets** | **16,036** | **17,156** | **15,892** | **18,537** | **20,771** |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| **Total Assets** | **35,008** | **37,398** | **38,105** | **38,824** | **40,472** |

### Cash Flow

| Y/E Mar (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| **PBT (Ex-Other income) (NI+Dep)** | **645** | **386** | **(301)** | **506** | **1,809** |
| Other Non-Cash items | 0 | 0 | 0 | 0 | 0 |
| Chg in working cap | (572) | (2,169) | 942 | (3,045) | (1,676) |
| **Operating Cashflow** | **3,801** | **3,172** | **3,443** | **3,455** | **2,591** |
| Capital expenditure | (2,017) | (921) | (3,229) | (3,350) | (1,500) |
| **Free Cash Flow** | **1,783** | **2,251** | **214** | **105** | **1,091** |
| Investments | 877 | (1,824) | (312) | 0 | 0 |
| Other Investing Cash Flow | (1,210) | (554) | 165 | 0 | 0 |
| **Investing Cashflow** | **(1,399)** | **(2,108)** | **(2,196)** | **(2,121)** | **(216)** |
| Equity Capital Raised | (114) | 22 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | (196) | 1,817 | 771 | 0 | 0 |
| Dividend paid (incl tax) | 0 | 0 | 0 | 0 | 0 |
| Other Financing Cash Flow | (186) | (1,122) | (207) | 37 | (47) |
| **Financing Cashflow** | **(2,499)** | **(1,179)** | **(1,216)** | **(1,734)** | **(1,817)** |
| **Net chg in cash** | **(97)** | **(115)** | **31** | **(399)** | **558** |
| Opening cash position | 493 | 437 | 322 | 697 | 298 |
| **Closing cash position** | **1,293** | **903** | **697** | **298** | **856** |

*Source: Company, Emkay Research*

## Key Ratios

| Profitability (%) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| EBITDA Margin | 8.0 | 7.5 | 5.7 | 7.2 | 8.6 |
| EBIT Margin | 5.0 | 4.4 | 2.8 | 3.9 | 5.4 |
| Effective Tax Rate | 27.5 | 29.5 | 24.9 | 29.5 | 29.5 |
| Net Margin | 2.2 | 2.2 | 1.2 | 2.1 | 3.3 |
| ROCE | 10.4 | 9.6 | 7.0 | 9.1 | 12.3 |
| ROE | 7.5 | 7.5 | 2.1 | 5.2 | 10.0 |
| RoIC | 9.8 | 8.2 | 5.4 | 7.8 | 11.3 |

| Per Share Data (Rs) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| EPS | 18.4 | 19.6 | 5.8 | 14.5 | 29.5 |
| CEPS | 44.7 | 45.4 | 31.4 | 45.9 | 63.5 |
| BVPS | 251.1 | 272.5 | 272.6 | 283.5 | 309.4 |
| DPS | 2.3 | 3.6 | 3.6 | 3.6 | 3.6 |

| Valuations (x) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| PER | 43.9 | 41.3 | 139.2 | 55.7 | 27.3 |
| P/CEPS | 17.6 | 17.4 | 25.2 | 17.2 | 12.4 |
| P/BV | 3.2 | 3.0 | 3.0 | 2.8 | 2.6 |
| EV / Sales | 1.3 | 1.3 | 1.3 | 1.2 | 1.0 |
| EV / EBITDA | 15.0 | 16.9 | 21.8 | 15.9 | 11.7 |
| Dividend Yield (%) | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |

| Gearing Ratio (x) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Net Debt/ Equity | 0.9 | 1.0 | 1.0 | 1.0 | 0.9 |
| Net Debt/EBIDTA | 3.4 | 4.2 | 5.5 | 4.1 | 2.9 |
| Working Cap Cycle (days) | 100.9 | 115.4 | 103.6 | 113.4 | 110.3 |

| Growth (%) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Revenue | 21.4 | 6.7 | 4.2 | 9.7 | 12.3 |
| EBITDA | (11.1) | (9.3) | (21.3) | 37.9 | 34.8 |
| EBIT | (6.8) | (13.8) | (35.2) | 53.9 | 57.2 |
| PAT | 4.8 | (24.8) | (69.9) | 248.4 | 103.9 |

*Source: Company, Emkay Research*

| Shareholding Pattern (%) | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|---|---|---|---|---|---|
| Promoters | 41.9 | 42.4 | 42.4 | 42.5 | 42.6 |
| FIIs | 7.6 | 8.3 | 8.7 | 8.9 | 9.0 |
| DIIs | 12.3 | 13.2 | 13.5 | 15.1 | 18.4 |
| Public and Others | 38.3 | 36.1 | 35.5 | 33.5 | 30.0 |

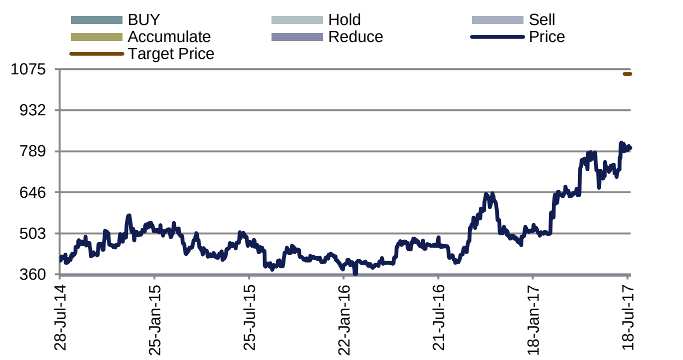
*Source: Capitaline*

**RECOMMENDATION HISTORY TABLE**

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|---|---|---|---|---|---|
| 12-Jul-17 | 803 | 1,059 | 12m | Buy | Sameep Kasbekar |

*Source: Company, Emkay Research*

**RECOMMENDATION HISTORY CHART**




*Source: Bloomberg, Company, Emkay Research*

## Emkay Rating Distribution

| | |
|---|---|
| BUY | Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months. |
| ACCUMULATE | Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months. |
| HOLD | Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months. |
| REDUCE | Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months. |
| SELL | The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months. |

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