

Raymond

Reco: Hold

Stock Update

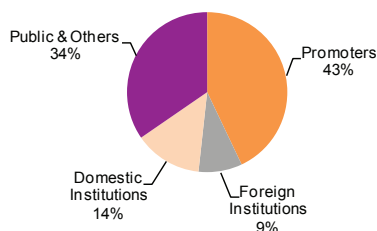
Mixed performance; Maintain Hold with revised price target of Rs550

CMP: Rs505

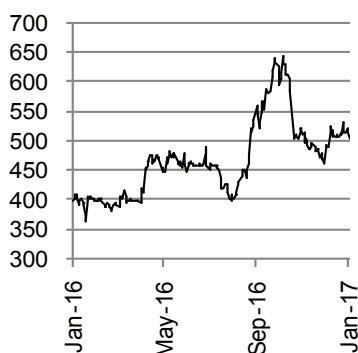
Company details

Price target:	Rs550
Market cap:	Rs3,100 cr
52-week high/low:	Rs654/351
NSE volume: (No of shares)	22.7 lakh
BSE code:	500330
NSE code:	RAYMOND
Sharekhan code:	RAYMOND
Free float: (No of shares)	3.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.0	-18.0	12.9	30.6
Relative to Sensex	2.5	-16.9	14.0	13.7

Key points

- Demonetisation affects performance in Q3FY2017:** Raymond posted a subdued performance in Q3FY2017, with revenue declining by 5.6% YoY to Rs1,306.9 crore against our expectation of Rs1,389.2 crore, mainly due to lower revenue in all its segments (barring Branded Apparels). The Textile and Tools & Hardware segments' revenue contracted due to lower volumes in the domestic market, as the government's demonetisation move affected consumer demand. In spite of gross margins being stable, the spike in the Employee Cost and Other Expenditure led to a 49.7% YoY decline in the operating profit to Rs58.5 crore, with the Operating Profit Margin (OPM) falling by ~390BPS YoY to 4.5%. Due to the lower operating profit, Raymond reported a net loss of Rs14.7 crore as against a net profit of Rs39.1 crore in Q3FY2016. At the adjusted level, the loss for Q3FY2017 came in at Rs3.5 crore compared to an adjusted net profit of Rs36.3 crore in Q3FY2016.
- Core Textile and Garments volumes decline substantially; Branded Apparel posts moderate revenue growth:** Raymond's Branded Textiles business revenue fell by 11% YoY to Rs657.7 crore due to a substantial decline in sales. Volumes for this segment shrank by 35.2% YoY in November and by another 16% YoY in December, primarily due to weakness in Wholesale and MBO channels. Volumes also got impacted on account of curtailed wedding expenditures due to the cash crunch triggered by demonetisation. The EBIT margin of this segment came in lower at 11.8%, down by ~470BPS due to a steep fall in volumes. The Branded Apparels business' revenue grew by 6.5% YoY to Rs329.5 crore due to slowdown in demand in the traditional channels. The Garmenting segment's revenue declined by 12% YoY to ~Rs129 crore due to deferral of orders to the next quarter. This segment's margin expanded by ~215BPS YoY to 4.9% due to a better product mix and cost savings. The Tools & Hardware segment's volumes were affected by demonetisation in the domestic market and lower exports (due to continued slowdown in the African markets).
- Maintained Hold with revised price target of Rs550:** We have reduced our FY2017/FY2018/FY2019 revenue and PAT estimates to factor in the dismal performance in Q3FY2017. We expect recovery to take some more time, considering the slowdown in the overall discretionary consumer spending. The company is focusing on strengthening brands, product innovation and expansion of distribution network (through an asset-light model), and turning around its non-textile businesses. However, the result of these initiatives would take time to reflect in the operational performance. Therefore, in view of the near-term headwinds, we maintain our 'Hold' recommendation on the stock with a revised price target of Rs550 and advise investors to avoid taking fresh positions in the stock at the lower levels.

Results (consolidated)

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	Rs cr QoQ (%)
Total revenue	1,306.9	1,384.2	(5.6)	1,553.6	(15.9)
Total expenditure	1,248.5	1,268.0	(1.5)	1,450.9	(14.0)
Operating profit	58.5	116.2	(49.7)	102.7	(43.0)
Other income	23.8	19.8	20.2	30.4	(21.7)
Depreciation	38.9	38.7	0.5	33.2	17.2
Interest cost	45.3	47.9	(5.4)	45.7	(0.7)
PBT (before exceptional item)	(1.9)	49.4	(103.9)	54.2	-
Tax	1.6	13.0	(87.6)	19.7	(91.8)
Adjusted PAT excluding SoA	(3.5)	36.3	(109.8)	34.5	(110.3)
Exceptional item	(2.5)	(1.9)		(3.4)	
Share of profit from associates (SoA)	(8.6)	4.7		(4.5)	
Reported PAT	(14.7)	39.1		26.6	
EPS (Rs)	(0.6)	5.9	(109.8)	5.6	(110.3)
GPM (%)	59.0	58.1	96BPS	52.2	588BPS
OPM (%)	4.5	8.4	(392)BPS	6.6	(213)BPS

Valuations (consolidated) (Rs cr)

Particulars	FY15	FY16	FY17E*	FY18E*	FY19E*
Total revenue	5,352	5,621	5,286	5,590	6,289
EBITDA margin (%)	9.8	9.7	8.7	9.0	9.5
Reported PAT	112.8	92.0	69.5	93.6	150.6
EPS (Rs)	18.4	15.0	11.3	15.2	24.5
P/E (x)	27.4	33.6	44.5	33.1	20.5
EV/EBITDA (x)	8.2	8.1	9.4	8.6	7.2
RoCE (%)	11.0	10.9	8.6	8.2	10.1
RoE (%)	7.7	7.9	5.5	5.2	7.7

Note: *As per new accounting standards

Segmental performance**Textile business (Rs cr)**

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Net sales	657.7	737.9	(10.9)	778.9	(15.6)
EBIT	77.5	121.5	(36.3)	110.9	(30.1)
EBIT (%)	11.8	16.5	(469)BPS	14.2	(246)BPS

Branded Apparels business (Rs cr)

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Net sales	329.5	309.4	6.5	383.3	(14.1)
EBIT	(9.8)	(8.5)	-	(7.6)	-
EBIT (%)	(3.0)	(2.8)	-	(2.0)	-

Garment business (Rs cr)

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Net Sales	128.8	146.0	(11.8)	185.6	(30.6)
EBIT	6.3	4.0	57.7	15.8	(59.8)
EBIT (%)	4.9	2.8	217BPS	8.5	(358)BPS

Denim & Shirting business (Rs cr)

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Net sales	131.2	118.7	10.5	147.8	(11.3)
EBIT	6.0	3.6	65.7	8.8	(32.0)
EBIT (%)	4.5	3.0	151BPS	5.9	(138)BPS

Tools & Hardware business (Rs cr)

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Net sales	78.7	97.6	(19.3)	87.8	(10.3)
EBIT	(2.2)	4.0	-	0.9	-
EBIT (%)	(2.8)	4.1	-	1.0	-

Auto Component business (Rs cr)

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Net sales	38.3	29.2	31.2	41.5	(7.7)
EBIT	2.6	(1.2)	-	5.1	(48.7)
EBIT (%)	6.8	(4.0)	-	12.2	(541)BPS

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