

Raymond

Weak results but hold promise

EBITDA miss on low volume

Raymond (RW IN) consolidated revenue at INR 14.8bn YoY rose by a mere 5%, lower than our expectations of INR 16.8bn while EBITDA margin contracted by 240bp. Segment-wise, branded apparels grew by 16% to INR 3.6bn, bouncing back to pre-demonetization growth levels. With the wholesale channel yet to operate at normal levels, textiles saw flat revenue YoY at INR 7.4bn. Non-core business (tools & auto components) grew by 4%, led by 11% growth in the auto components business. EBITDA margin contracted to 8.2%, led by lower textiles margin by 4% due to lower suiting sales and branded apparels EBITDA margin shrank 3.1% (vs 3.5% in Q4FY16). Revenue growth in branded apparels was because of higher discounts and extended end-of-season sales, thereby affecting margin.

Management strategy to push revenue growth intact

The company is focusing on product innovations and initiatives supported by franchise sales and retail expansion through mini TRS stores in Tier 3 & 4 regions to drive textiles growth over FY17-18. We expect branded apparels EBITDA margin to improve to 6% in FY18E and 7% in FY19E driven by lower advertisement spending and lower discount sales, leading to higher gross margin. We expect a 13% revenue CAGR over FY17-19E, with a 310bp EBITDA margin gain.

Valuation: retain Buy with a new TP of INR 894

We reiterate our **Buy** rating with a new target price of INR 894 from INR 612 based on 7.5x FY19E EV/EBITDA. With the run-up in the share price post demonetization, we believe the land parcel development will be a key trigger along with expected improvement in gross margin and scale benefits with operating leverage on discretionary marketing expenses, thereby leading to a likely boost in EBITDA over FY18-19. We assign a value of INR 20bn with INR 160mn per acre at a 50% discount, which derives a value of INR 326 per share.

Rating: Buy

Target Price: INR 894

Upside: 23%

CMP: INR 726 (as on 2 May 2017)

Key data

Bloomberg/Reuters Code	RW IN/RMYD.BO
Current/Dil. Shares O/S (mn)	61/61
Mkt Cap (INR bn/USD mn)	45/694
Daily Volume (3M NSE Avg)	663,290
Face Value (INR)	10

1 USD = INR 64.2

Note: * as on 2 May 2017; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Promoter	42.4	43.0	42.9	43.1
Institutional Investors	20.1	21.8	22.5	24.4
Other Investors	12.9	11.6	10.6	11.2
General Public	24.7	23.6	24.0	21.4

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	6.3	7.3	16.8
Raymond	43.1	15.2	59.2
Aditya Birla Fashion & Retail	16.6	9.1	19.4
Arvind	8.6	(0.5)	42.8
Kewal Kiran Clothing	1.7	(5.1)	0.0

Source: Bloomberg

(INR mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Q4FY17E	Variance (%)
Net Sales	14,813	14,123	4.9	13,069	13.3	16,869	(12.2)
EBITDA	1,204	1,481	(18.7)	585	105.9	1,208	(0.3)
EBITDA Margins (%)	8.1	10.5	(2.4)	4.5	3.7	7.2	13.5
Depreciation	487	483	0.8	389	25.2	619	(21.4)
Interest	418	439	(4.7)	453	(7.8)	498	(16.1)
Other Income	245	250	(2.2)	238	2.9	267	(8.3)
Exceptional Items	(10)	(3)	(96.4)	(39)	(73.8)	-	-
PBT	534	813	(34.3)	19	2,681.2	357	49.4
Tax	(99)	(249)	(60.3)	(3)	NA	12	(961.5)
Effective Tax Rate (%)	(18.6)	(30.7)	(40)	(16.1)	14.9	3.2	(676.5)
Net Income	435	564	(22.8)	22	1,850.2	369	17.9
Minority Interest	(98)	(14)	581.3	(86)	14.1	(86)	14.1
Net Income after minority	337	549	(38.7)	(64)	(628.7)	283	19.1
NPM (%)	2.9	4.0	(26.4)	0.2	1,620.7	2.2	34.3
EPS (INR)	5.5	10.6	(48.2)	(2.6)	(312.7)	4.2	29.6

Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	EPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March											
FY16	51,768	(2.9)	4,140	8.0	1,464	33.7	13.8	8.7	7.4	52.5	13.5
FY17	53,913	4.1	3,172	5.9	761	(48.0)	4.2	4.4	4.5	174.5	17.6
FY18E	61,357	13.8	5,076	8.3	1,297	70.5	21.1	7.3	9.5	34.4	11.0
FY19E	68,395	11.5	6,196	9.1	1,737	33.9	28.3	9.2	12.2	25.7	9.0

Note: pricing as on 2 May 2017; Source: Company, Elara Securities Estimate

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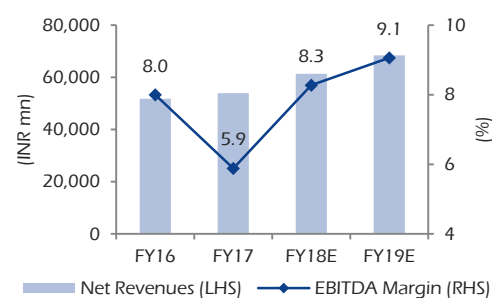
Elara Securities (India) Private Limited

Financials (YE March)

Income Statement (INR mn)	FY16	FY17	FY18E	FY19E
Net Revenues	51,768	53,913	61,357	68,395
EBITDA	4,140	3,172	5,076	6,196
Less :- Depreciation & Amortization	1,589	1,569	1,664	1,752
EBIT	2,551	1,603	3,411	4,444
Less:- Interest Expenses	1,897	1,780	1,917	2,031
Add:- Non operating Income	923	1,056	1,218	1,220
Exceptional Items	(352)	(101)	0	0
PBT	1,929	979	2,713	3,633
Less :- Taxes	465	218	1,416	1,896
PAT	1,464	761	1,297	1,737
Balance Sheet (INR mn)	FY16	FY17	FY18E	FY19E
Share Capital	1,262	1,307	1,307	1,307
Reserves	16,110	16,117	16,984	18,291
Borrowings	17,442	17,674	17,174	16,674
Long Term Liabilities and Provision	512	545	590	657
Deferred Tax Liability	170	147	147	147
Total Liabilities	35,494	35,791	36,202	37,077
Gross Block	32,657	35,157	37,507	38,507
Less:- Accumulated Depreciation	20,909	23,470	24,165	25,917
Net Block	11,748	11,687	13,342	12,590
Add:- Capital work in progress	2,401	4,122	4,122	4,122
Long Term Loans and Advances	3,244	3,711	4,047	4,512
Deferred Tax Assets	770	864	864	864
Investments	6,093	6,405	6,405	6,405
Net Working Capital	11,239	9,002	7,422	8,585
Total Assets	35,494	35,791	36,202	37,077
Cash Flow Statement (INR mn)	FY16	FY17	FY18E	FY19E
Cash profit adjusted for non cash items	4,181	2,477	3,660	4,299
Add/Less : Working Capital Changes	(932)	1,597	1,504	(1,143)
Operating Cash Flow	3,249	4,074	5,164	3,156
Less:- Capex	(2,892)	(3,229)	(3,319)	(1,000)
Free Cash Flow	358	846	1,845	2,156
Financing Cash Flow	(291)	(1,835)	(2,846)	(2,961)
Investing Cash Flow	(2,999)	(2,419)	(2,101)	220
Foreign Exchange Effect	6	0	0	0
Net change in Cash	(36)	(179)	216	416
Ratio Analysis	FY16	FY17	FY18E	FY19E
Income Statement Ratios (%)				
Revenue Growth	(2.9)	4.1	13.8	11.5
EBITDA Growth	(3.0)	(23.4)	60.0	22.1
PAT Growth	33.7	(48.0)	70.5	33.9
EBITDA Margin	8.0	5.9	8.3	9.1
Net Margin	2.8	1.4	2.1	2.5
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.7	0.8	0.7	0.6
ROE (%)	8.7	4.4	7.3	9.2
ROCE (%)	7.4	4.5	9.5	12.2
ROIC (%)	9.1	5.6	11.9	15.3
Per Share data & Valuation Ratios				
Diluted EPS (INR)	13.8	4.2	21.1	28.3
EPS Growth (%)	(24.8)	(69.9)	407.8	33.9
DPS (INR)	3.0	4.0	6.0	6.0
P/E (x)	52.5	174.5	34.4	25.7
EV/EBITDA (x)	13.5	17.6	11.0	9.0
EV/Sales (x)	1.1	1.0	0.9	0.8
Price/Book (x)	2.6	2.6	2.4	2.3
Dividend Yield (%)	0.4	0.6	0.8	0.8

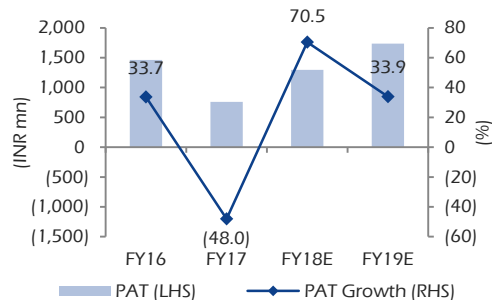
Note: pricing as on 2 May 2017; Source: Company, Elara Securities Estimate

Revenue & EBITDA margin trend



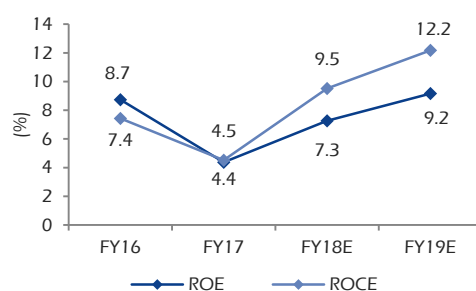
Source: Company, Elara Securities Estimate

PAT growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Raymond conference call highlights

Q4FY17 performance

- Change in *Made to Measure (MTM)* reporting was reported as part of branded apparels; Now, this has shifted as part of branded textiles
- Branded textiles EBITDA margin declined from 17.1% vs 21.4% on account of lower sales in the suiting business
- MTM revenue was at INR 190mn, up by 38% YoY, registering LTL growth of 7% YoY. MTM revenue for FY17 was at INR 630mn, up by 33% YoY
- Branded apparels channel growth was as follows: EBO 7% YoY, LFS 31% YoY, TRS 4% YoY and MBO 24% YoY
- Branded apparels EBITDA margin contracted due to one-time inventory provisioning (resulted from lower offtake in Q3FY17, but doesn't imply a loss as there are a lot of trade opportunities), higher EOSS sales, and higher LFS channel sales
- The denim business slowed largely due to higher cotton prices, which prevailed mostly throughout the year
- Gross margin decreased by 300bp QoQ to 43%, due to lower gross margin in branded textiles and apparels, higher wool prices, adverse currency rates, and higher EOSS (gross margin was marginally lower by 50bp YoY)
- The company's discounted sales as a % went up to 47% vs normal 30-32% discount sales in Q4
- Continued cost saving initiative started in Q3FY17 to cut discretionary spending and reduced cost by INR 280mn QoQ
- In FY17, the company generated operational cashflows of INR 3,070mn vs INR 1,450mn in FY16. Improvement catalyzed by better management of channel partner payments, maximization of vendor trade financing and inventory management.
- Gross debt stood at INR 21.4bn in FY17 vs INR 20.6bn in FY16

- Reduction in average interest cost by 70bp to 8.3%
- Real estate team is engaged in ensuring all regulatory approvals are in place and evaluating feasibility options for land development
- Capex spend was INR 1,700mn in Q4, higher than initially guided INR 1,460mn
- Capex spend was INR 3,220mn in FY17, comprising the Ethiopia plant worth INR 300mn, the Amravati plant worth INR 1000mn, and the rest towards store renovation, roll out and maintenance

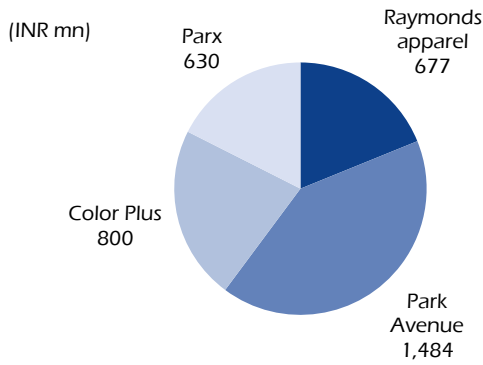
Revenues segment outlook

- The company is expecting positive revenue traction in FY18 with the wholesale channel coming back to normalcy by H1FY18
- Branded apparels margin expansion (single digits in the next 4-6 quarters) to be driven by improvement in discounts and reduction in A&P spending by 1%
- There has been a slowdown in standalone MTM store. The company plans to capitalize on the footfalls coming into *The Raymond Store* by including MTM as part of its offerings
- Wool prices to continue price growth of 8-10% but this will be offset by INR appreciation
- The Amravati plant will have capacity of 3.2mn mtrs of linen yarn: spinning and weaving (can go up to 4mn m). The linen plant is expected to generate INR 1,500-2,000mn in revenue.
- The Ethiopia and Amravati plants are expected to become operational by H2FY18, but they will have higher cost than margin initially

Capex

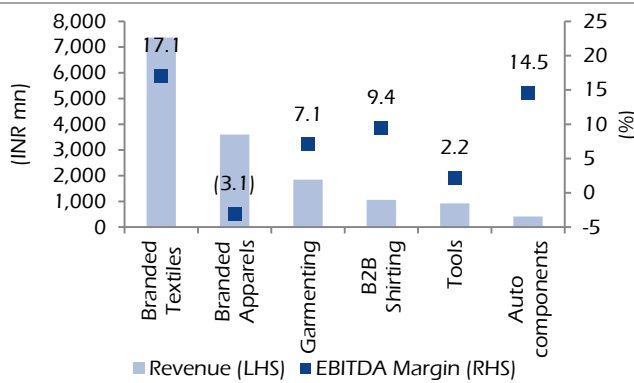
- Capex guidance of INR 3,350mn in FY18 split between investments in the Amravati & Ethiopia plant, new retail new stores and maintenance
- The company has no capacity addition plans post FY18 and intends to grow asset light for future capacity additions. Maintenance and store rollout capex to be at ~INR 700-900mn in FY19

Exhibit 1: Q4FY17 - apparels sales pie



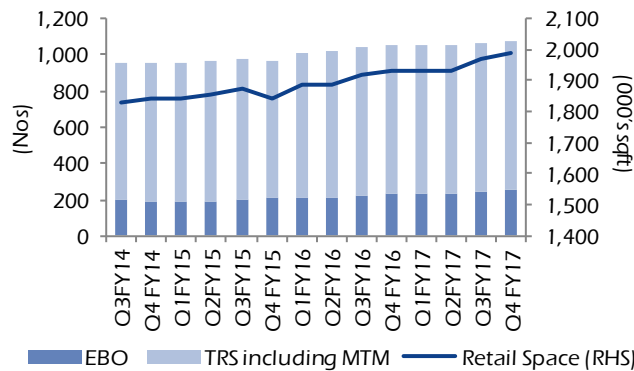
Source: Company, Elara Securities Research

Exhibit 2: Q4FY17 segment-wise revenue and EBITDA margin accretion



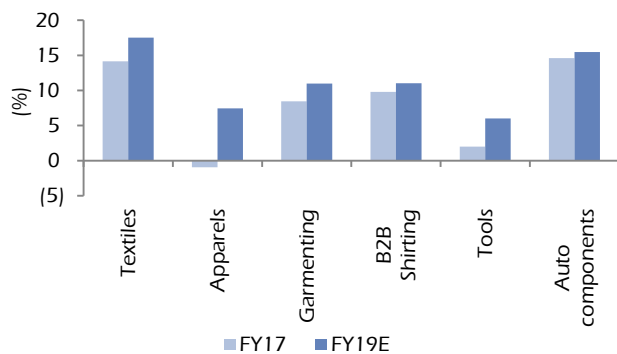
Source: Company, Elara Securities Research

Exhibit 3: Growth in distribution network



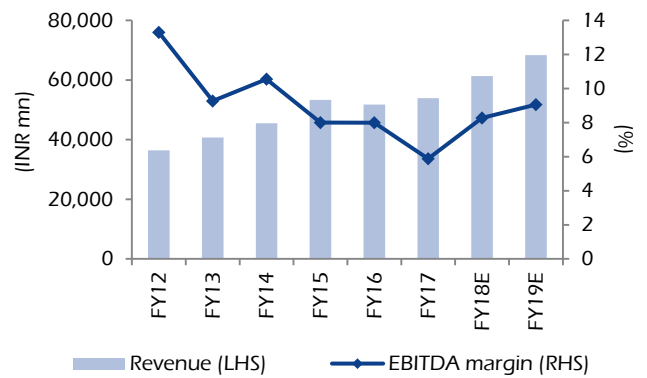
Source: Company, Elara Securities Research

Exhibit 4: EBITDA margin improvement potential



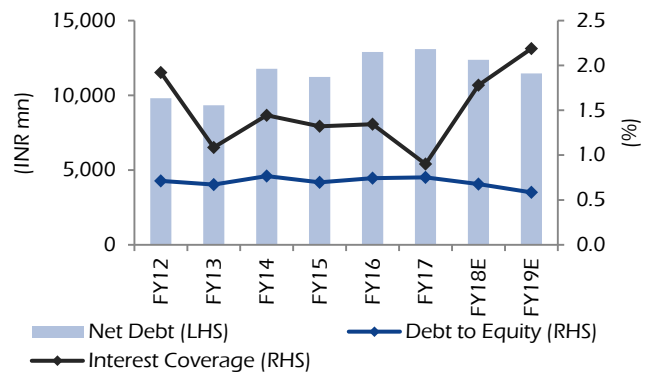
Source: Company, Elara Securities Estimate

Exhibit 5: Revenue and margin on an uptrend



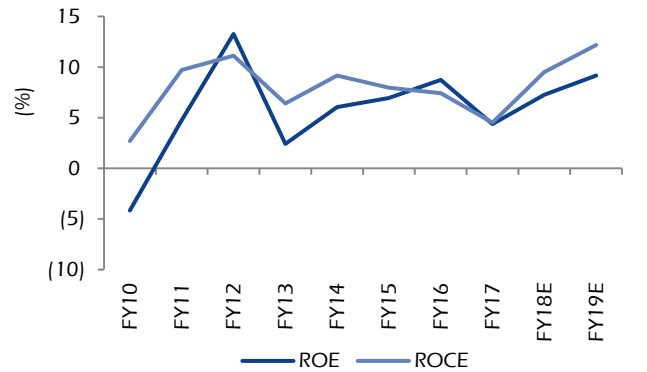
Source: Company, Elara Securities Estimate

Exhibit 6: improving leverage position



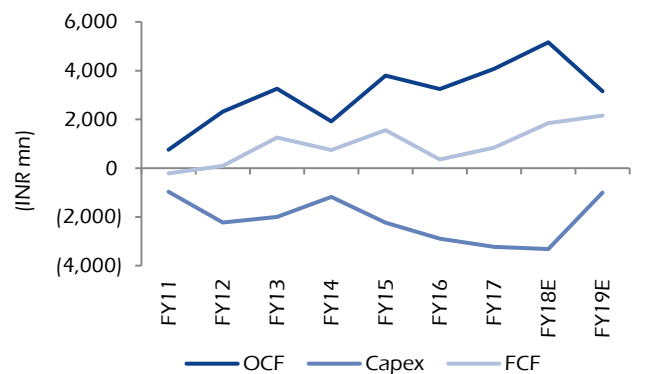
Source: Company, Elara Securities Estimate

Exhibit 7: focus on improving return ratios



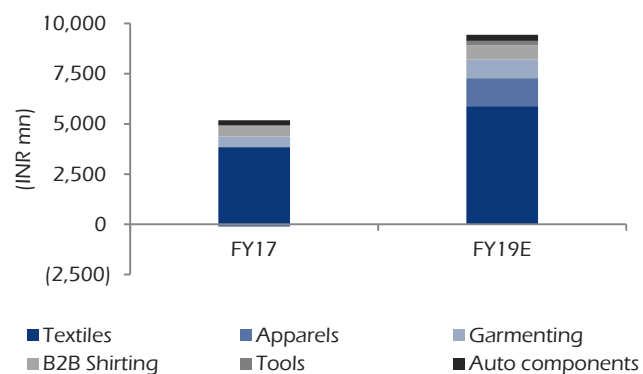
Source: Company, Elara Securities Estimate

Exhibit 8: FCF to turn positive



Source: Company, Elara Securities Estimate

Exhibit 9: EBITDA mix to be strongly contributed by textiles and apparels businesses



Source: Company, Elara Securities Estimate

Exhibit 12: Valuation summary

Particulars (INR mn)	FY19E
EBITDA	6,196
Multiple (x)	7.5
Enterprise value	46,327
Net debt	11,463
Market cap	34,864
No of shares (mn)	61
TP (INR)	568
CMP (INR)	726
Downside (%)	(21.8)
Land Sale	326
Total value	894
Upside (%)	23.1

Note: pricing as 2 May 2017; Source: Elara Securities Estimate

Exhibit 10: Change in estimates

(INR mn)	Previous			Revised			Variance (%)		
	FY17E	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Revenue	58,339	67,662	74,877	53,913	61,357	68,395	(7.6)	(9.3)	(8.7)
EBITDA	3,783	5,194	6,222	3,172	5,076	6,196	(16.2)	(2.3)	(0.4)
PAT	966	1,656	2,142	301	1,297	1,737	(68.9)	(21.7)	(18.9)
EPS (INR)	16.1	27.3	35.3	4	21	28	(74.2)	(22.6)	(19.9)
TP (INR)			612			894*			46.1

*Including land value, source: Company, Elara Securities Estimate

Exhibit 11: SOTP valuation

Segments (INR mn)	FY19E EBITDA	Multiple (x)	FY19E Valuation
Textile	5,883	8.0	47,067
Apparel	1,392	11.0	15,315
Garment	927	5.0	4,635
Denim and Shirting	1,195	4.0	4,780
Tools and Hardware	227	4.0	909
Auto Components	299	5.0	1,495
Total	9,924	7.5	74,201
Elimination	3,728	7.5	27,874
SOTP	6,196	7.5	46,327
Average Multiple (%)	22	(100)	7.5
Debt			16,674
Cash			5,211
Net Debt			11,463
Shareholder Value			34,864
No of Shares			61
TP			568
Land Sale			326
Total Value			894
Upside (%)			23

Note: pricing as on 2 May 2017; Source: Company, Elara Securities Estimate

Exhibit 13: Revenue segments

(INR mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Branded textiles	16,834	18,771	20,560	25,446	27,020	27,144	30,535	33,588
<i>Growth (%)</i>	21.9	11.5	9.5	23.8	6.2	0.5	12.5	10.0
<i>% of gross</i>	43.6	43.1	42.5	45.3	49.5	48.1	46.7	46.1
Branded apparels	8,677	8,295	8,750	10,110	11,185	12,703	16,238	18,674
<i>Growth (%)</i>	19.5	(4.4)	5.5	15.5	10.6	13.6	27.8	15.0
<i>% of gross</i>	22.5	19.1	18.1	18.0	20.5	22.5	24.9	25.6
Garmenting	1,856	3,141	4,191	5,330	5,933	6,389	7,347	8,449
<i>Growth (%)</i>	29.2	69.2	33.4	27.2	11.3	7.7	15.0	15.0
<i>% of gross</i>	4.8	7.2	8.7	9.5	10.9	11.3	11.2	11.6
Denim - joint venture	8,071	8,504	9,540	9,630	9,130	-	-	-
<i>Growth (%)</i>	25.6	5.4	12.2	0.9	(5.2)	10.0	10.0	10.0
<i>% of gross</i>	20.9	19.5	19.7	17.1	16.7	0.0	0.0	0.0
Shirting	2,290	2,969	3,370	3,930	4,671	5,001	5,812	6,394
<i>Growth (%)</i>	8.1	29.7	13.5	16.6	18.9	7.0	16.2	10.0
<i>% of gross</i>	5.9	6.8	7.0	7.0	8.6	8.9	8.9	8.8
Tools & hardware	3,246	3,855	4,300	4,210	3,943	3,501	3,641	3,787
<i>Growth (%)</i>	25.4	18.8	11.5	(2.1)	(6.3)	(11.2)	4.0	4.0
<i>% of gross</i>	8.4	8.9	8.9	7.5	7.2	6.2	5.6	5.2
Auto components	1,663	2,249	2,430	2,340	1,760	1,643	1,758	1,934
<i>Growth (%)</i>	0.2	0.4	0.1	(0.0)	(0.2)	(0.1)	0.1	0.1
<i>% of gross</i>	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Gross revenue	38,602	43,532	48,371	56,181	54,553	56,459	65,331	72,825
Inter segment	(1,515)	(2,128)	(2,434)	(2,435)	(2,785)	(2,545)	(3,335)	(3,717)
<i>as a % of gross</i>	(3.9)	(4.9)	(5.0)	(4.3)	(5.1)	(5.1)	(5.1)	(5.1)
Total revenue	37,087	41,404	45,937	53,745	51,768	53,913	61,996	69,108
<i>Growth (%)</i>	283.3	280.3	267.4	280.1	269.2	4.1	15.0	11.5

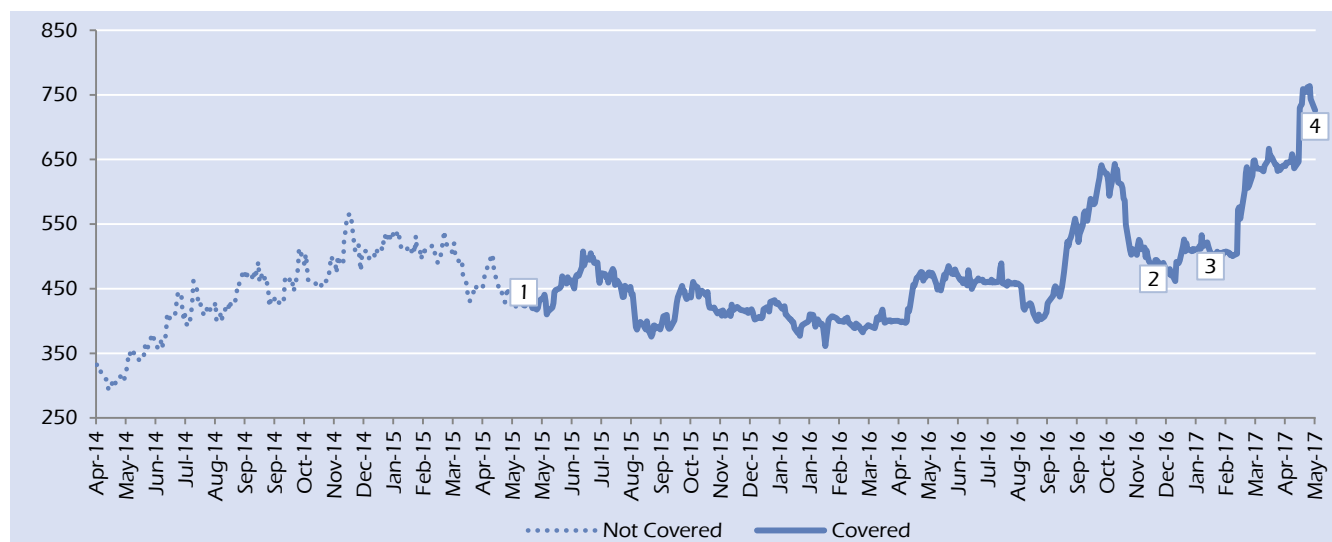
Source: Company, Elara Securities Estimate

Exhibit 14: EBITDA segments

(INR mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Branded textiles	4,040	3,500	4,110	4,470	4,670	3,840	4,886	5,883
<i>Margin (%)</i>	24.0	18.6	20.0	17.6	17.3	14.1	16.0	17.5
Branded apparels	790	110	290	120	220	(120)	974	1,392
<i>Margin (%)</i>	9.1	1.3	3.3	1.2	2.0	(0.9)	6.0	7.5
Garmenting	240	490	560	520	490	540	735	927
<i>Margin (%)</i>	12.9	15.6	13.4	9.8	8.3	8.5	10.0	11.0
Denim - joint venture	800	1,040	920	930	980	980	980	980
<i>Margin (%)</i>	5.1	12.2	9.6	9.7	10.7	0.0	0.0	0.0
Shirting	300	310	360	470	440	490	581	705
<i>Margin (%)</i>	13.1	10.4	10.7	12.0	9.4	9.8	10.0	11.0
Tools & hardware	310	420	450	210	180	70	218	227
<i>Margin (%)</i>	9.6	10.9	10.5	5.0	4.6	2.0	6.0	6.0
Auto components	260	270	270	70	50	240	264	299
<i>Margin (%)</i>	15.6	12.0	11.1	3.0	2.8	14.6	15.0	15.5
Total	6,340	5,620	6,500	6,325	6,540	5,550	8,148	9,924
Gross EBITDA growth (%)	48.3	(11.4)	15.7	(2.7)	3.4	(15.1)	46.8	21.8
EBITDA margin (on gross) (%)	16.4	12.9	13.4	11.9	12.7	9.8	12.5	13.6
Elimination	1,495	1,848	1,700	2,057	2,400	2,379	3,072	3,728
as a % of EBITDA	23.6	32.9	26.2	32.5	36.7	42.9	37.7	37.6
as a % of revenue elimination	(98.7)	(86.8)	(69.9)	(84.5)	(86.2)	(93.4)	(92.1)	(100.3)
EBITDA	4,845	3,772	4,800	4,268	4,140	3,172	5,076	6,196

Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	15-May-2015	Buy	INR 583	INR 424
2	6-Dec-2016	Buy	INR 625	INR 485
3	27-Jan-2017	Buy	INR 612	INR 505
4	2-May-2017	Buy	INR 894	INR 726

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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