



# Raymond

## Good quarter

### EBITDA margin beats estimates

Raymond (RW IN) consolidated revenue at INR 16.0bn grew by 2.7% YoY, lower than our expectations of INR 16.9bn. EBITDA margin expanded 200bp YoY to 8.6% (vs our estimate of 7.4%) on higher margin in its key business, branded textiles & apparels. Textiles margin expanded 160bp YoY to 16.3% and apparels margin expanded 172bp YoY to 3.3%. Segment-wise, branded textiles & apparels revenue grew by 2.8% YoY (apparels saw revenue growth of 13.2% YoY). Non-core businesses, tools & hardware and auto components, which contribute to 9.0% of overall posted revenue growth of 11% YoY and EBITDA growth of 110% YoY (tools & hardware EBITDA grew by 166.7% YoY).

### Management strategy to boost margin, keep profit intact

The company added 86 stores during H1FY18 (vs 35 store additions in H1FY17) of which ~68% stores were opened through the franchise route, in line with management's asset-light network expansion. Management has guided to open 60 new stores in Q3FY18, of which 45 will be mini-TRS stores opened in Tier 3, 4 & 5 towns. Management says the asset-light network expansion strategy will continue and be a future driver for margin expansion. Ad spends will continue to be ~4-5% of revenue, which will optimize with revenue growth. We expect a revenue CAGR of 10.0% and margin gains of 220bp over FY17-19E. We believe revenue growth will be led by product innovations, brand extensions and channel expansion through MBO and EBO.

### Valuation: revise to Accumulate with a TP of INR 996

We revise our rating to **Accumulate** from Buy with an unchanged target price of INR 996 based on 9.9x FY19E EV/EBITDA. While we remain positive on the business outlook, the recent stock run-up offers limited upside potential. We also believe land parcel development will be the key trigger. This coupled with an expected improvement in gross margin and benefits of scale with operating leverage on discretionary marketing expenses would drive up EBITDA in FY19.

## Rating: Accumulate

Target Price: INR 996

Upside: 12%

CMP: INR 887 (as on 25 October 2017)

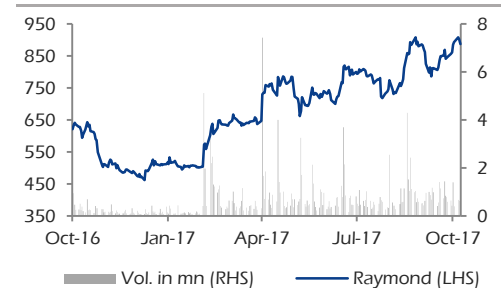
### Key data

Bloomberg/Reuters Code	RW IN/RVMD.BO
Current/Dil. Shares O/S (mn)	61/61
Mkt Cap (INR bn/USD mn)	54/838
Daily Volume (3M NSE Avg)	737,420
Face Value (INR)	10

1 USD = INR 65.0

Note: \* as on 25 October 2017; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Promoter	42.9	43.1	43.1	43.4
Institutional Investors	22.5	24.4	27.8	29.6
Other Investors	10.6	11.2	8.3	6.2
General Public	24.0	21.4	20.8	20.8

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	2.5	10.4	17.6
Raymond	9.9	16.4	41.3
Aditya Birla Fashion & Retail	(15.1)	(12.6)	(7.9)
Arvind	9.4	(1.7)	(0.4)
Kewal Kiran Clothing	5.9	5.9	0.6

Source: Bloomberg

(INR mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	Variance (%)
Net Sales	15,955	15,536	2.7	11,969	33.3	16,950	(5.9)
EBITDA	1,373	1,027	33.7	384	257.5	1,253	9.5
EBITDA Margins (%)	8.6%	6.6%	2.0	3.2%	5.4	7.4%	16.4
Interest	457	457	0.1	435	5.2	446	2.5
Other Income	209	304	(31.0)	430	(51.3)	263	(20.3)
PBT	914	490	86.6	(53)	(1,838.0)	584	56.5
Tax	292	179	62.9	(6)	NA	175	66.5
Effective Tax Rate (%)	31.9%	36.6%	(13)	11.6%	175.2	-30.0%	(206.4)
Net Income	622	311	100.2	(59)	(1,160.3)	409	52.2
EPS (INR)	9.8	4.1	139.8	(1.2)	(927.1)	6.7	46.5

### 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	64.2	16.3
FY17	53,913	4.1	3,172	5.9	761	(48.0)	4.2	4.4	4.5	213.2	21.3
FY18E	58,708	8.9	4,086	7.0	1,318	73.2	21.5	7.4	7.0	41.3	16.5
FY19E	65,387	11.4	5,316	8.1	1,903	44.4	31.0	10.0	9.2	28.6	12.7

Note: pricing as on 25 October 2017; Source: Company, Elara Securities Estimate

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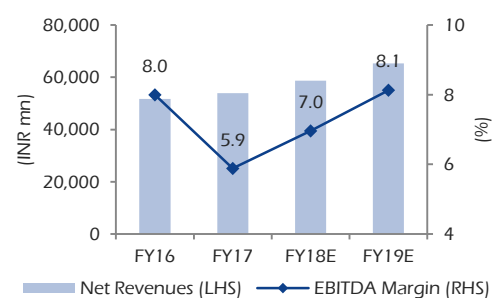
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY16	FY17	FY18E	FY19E
Net Revenues	51,768	53,913	58,708	65,387
<b>EBITDA</b>	<b>4,140</b>	<b>3,172</b>	<b>4,086</b>	<b>5,316</b>
Less :- Depreciation & Amortization	1,589	1,569	1,558	1,890
<b>EBIT</b>	<b>2,551</b>	<b>1,603</b>	<b>2,528</b>	<b>3,426</b>
Less:- Interest Expenses	1,897	1,780	1,772	1,928
Add:- Non operating Income	923	1,056	1,218	1,220
Exceptional Items	(352)	(101)	0	0
<b>PBT</b>	<b>1,929</b>	<b>979</b>	<b>1,974</b>	<b>2,719</b>
Less :- Taxes	465	218	656	816
<b>PAT</b>	<b>1,464</b>	<b>761</b>	<b>1,318</b>	<b>1,903</b>
Balance Sheet (INR mn)	FY16	FY17	FY18E	FY19E
Share Capital	1,262	1,307	1,307	1,307
Reserves	16,110	16,117	17,006	18,479
Borrowings	17,442	17,674	17,774	17,274
Long Term Liabilities and Provision	512	545	564	628
Deferred Tax Liability	169	147	147	147
<b>Total Liabilities</b>	<b>35,494</b>	<b>35,791</b>	<b>36,798</b>	<b>37,836</b>
Gross Block	13,314	14,814	18,314	19,814
Less:- Accumulated Depreciation	1,566	3,127	4,696	6,586
Net Block	11,748	11,687	13,618	13,228
Add:- Capital work in progress	2,401	4,122	4,122	4,122
Long Term Loans and Advances	3,244	3,711	3,873	4,313
Deferred Tax Assets	770	864	864	864
Investments	6,093	6,405	6,405	6,405
Net Working Capital	11,239	9,002	7,917	8,904
<b>Total Assets</b>	<b>35,494</b>	<b>35,791</b>	<b>36,798</b>	<b>37,836</b>
Cash Flow Statement (INR mn)	FY16	FY17	FY18E	FY19E
Cash profit adjusted for non cash items	3,661	2,805	3,430	4,501
Add/Less : Working Capital Changes	(489)	638	1,935	(1,085)
Operating Cash Flow	3,172	3,443	5,365	3,416
Less:- Capex	(2,222)	(2,779)	(3,489)	(1,500)
Free Cash Flow	950	664	1,876	1,916
Financing Cash Flow	(1,179)	(1,216)	(2,102)	(2,857)
Investing Cash Flow	(2,108)	(2,196)	(2,271)	(280)
Foreign Exchange Effect	0	0	0	0
<b>Net change in Cash</b>	<b>(115)</b>	<b>31</b>	<b>992</b>	<b>279</b>
Ratio Analysis	FY16	FY17	FY18E	FY19E
Income Statement Ratios (%)				
Revenue Growth	(2.9)	4.1	8.9	11.4
EBITDA Growth	(3.0)	(23.4)	28.8	30.1
PAT Growth	33.7	(48.0)	73.2	44.4
EBITDA Margin	8.0	5.9	7.0	8.1
Net Margin	2.8	1.4	2.2	2.9
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.7	0.8	0.7	0.6
ROE (%)	8.7	4.4	7.4	10.0
ROCE (%)	7.4	4.5	7.0	9.2
ROIC (%)	9.1	5.6	8.9	11.8
Per Share data & Valuation Ratios				
Diluted EPS (INR)	13.8	4.2	21.5	31.0
EPS Growth (%)	(24.8)	(69.9)	416.1	44.4
DPS (INR)	3.0	4.0	6.0	6.0
P/E (x)	64.2	213.2	41.3	28.6
EV/EBITDA (x)	16.3	21.3	16.5	12.7
EV/Sales (x)	1.3	1.3	1.2	1.0
Price/Book (x)	3.1	3.1	3.0	2.8
Dividend Yield (%)	0.3	0.5	0.7	0.7

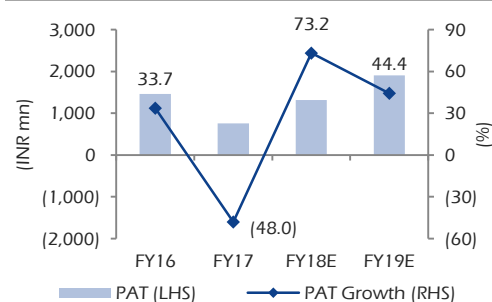
Note: pricing as on 25 October 2017; Source: Company, Elara Securities Estimate

## Revenue &amp; EBITDA margin trend



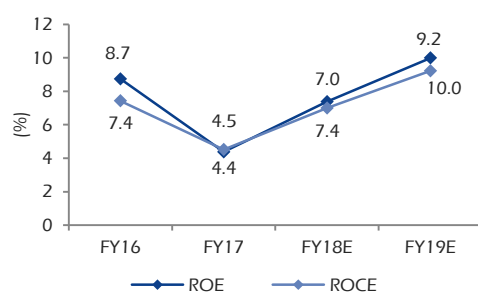
Source: Company, Elara Securities Estimate

## PAT growth trend



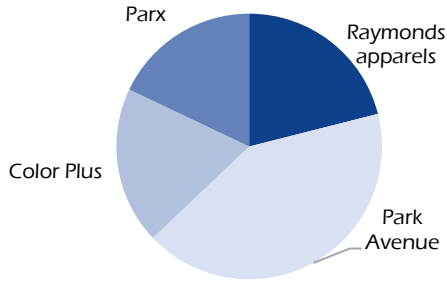
Source: Company, Elara Securities Estimate

## Return ratios



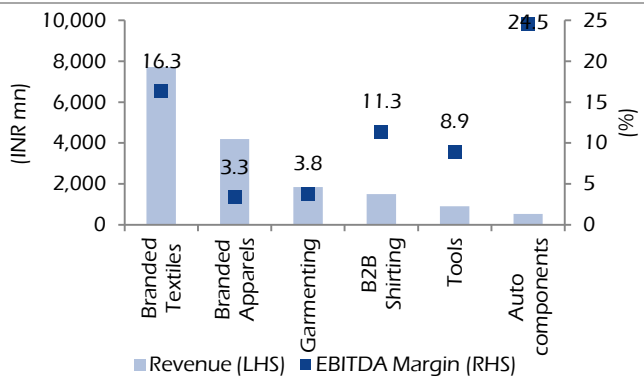
Source: Company, Elara Securities Estimate

Exhibit 1: Q2FY18 - apparels sales pie



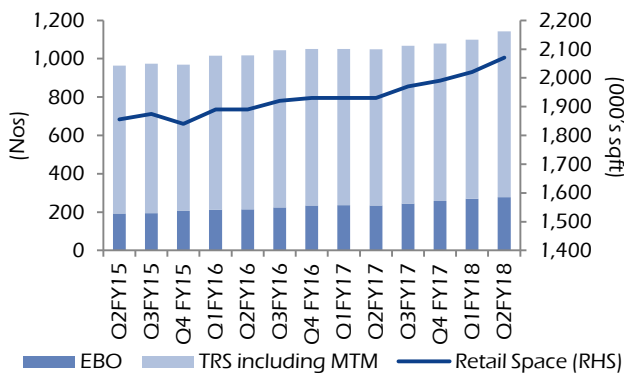
Source: Company, Elara Securities Research

Exhibit 2: Q2FY18 segment-wise revenue and EBITDA margin accretion



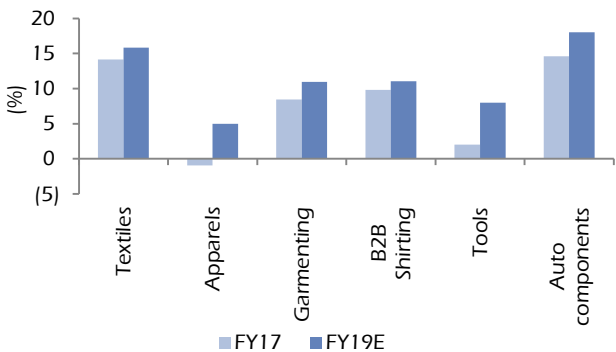
Source: Company, Elara Securities Research

Exhibit 3: Growth in the distribution network



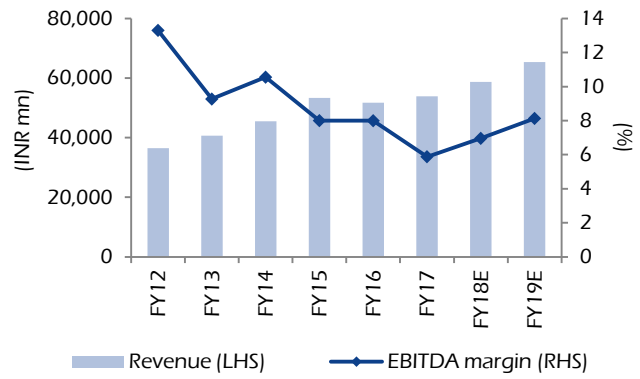
Source: Company, Elara Securities Research

Exhibit 4: EBITDA margin improvement potential



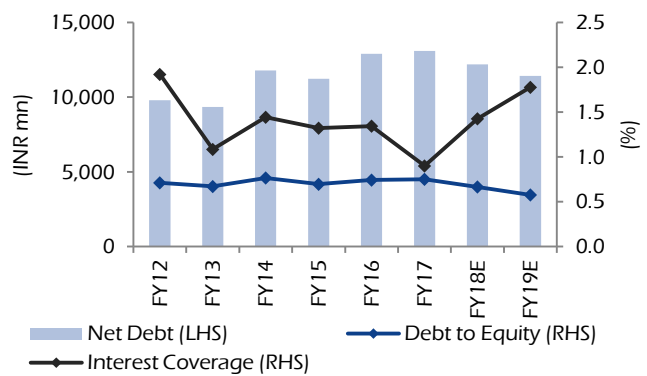
Source: Company, Elara Securities Estimate

Exhibit 5: Revenue and margin on an uptrend



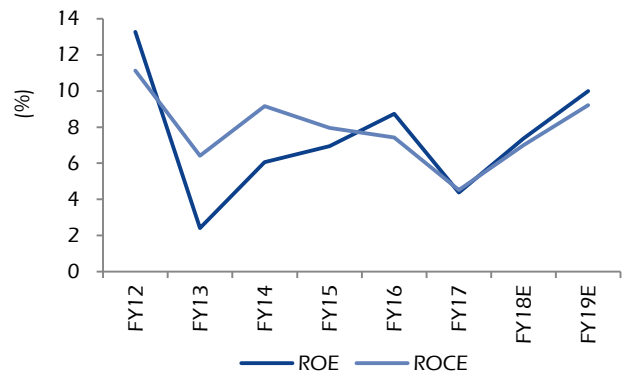
Source: Company, Elara Securities Estimate

Exhibit 6: Improving leverage position



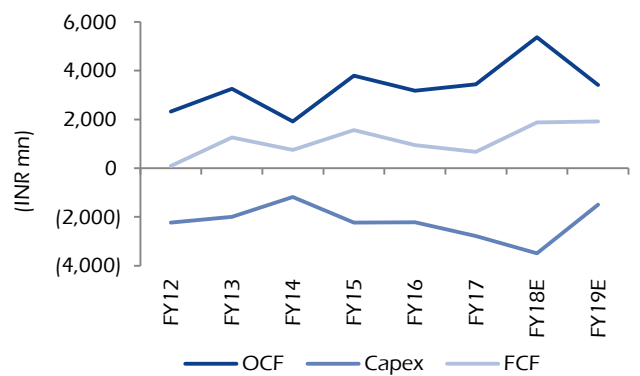
Source: Company, Elara Securities Estimate

Exhibit 7: Focus on improving return ratios

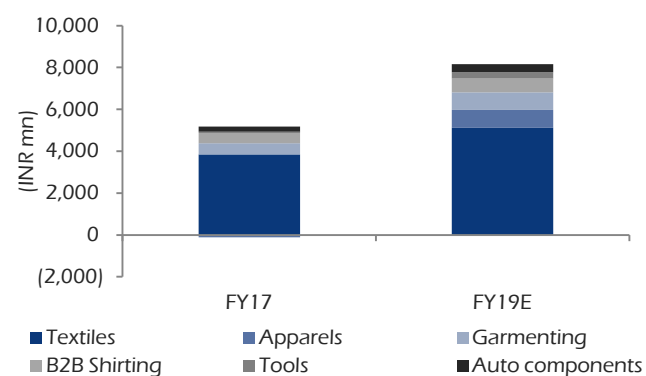


Source: Company, Elara Securities Estimate

Exhibit 8: FCF to turn positive



Source: Company, Elara Securities Estimate

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

Source: Company, Elara Securities Estimate

**Exhibit 12: Valuation summary**

(INR mn)	FY19E
EBITDA	5,316
Multiple (x)	9.9
Enterprise value	52,583
Net debt	11,425
Market cap	41,159
No of shares (mn)	61
<b>TP (INR)</b>	<b>671</b>
Land sale (INR)	326
<b>Total value (INR)</b>	<b>996</b>
CMP (INR)	887
<b>Upside (%)</b>	<b>12</b>

Note: pricing as 25 October 2017; Source: Elara Securities Estimate

**Exhibit 10: Change in estimates**

(INR mn)	Previous		Revised		Variance (%)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	60,608	67,507	58,708	65,387	(3.1)	(3.0)
EBITDA	4,078	5,405	4,086	5,316	0.2	(1.6)
PAT	806	1,233	1,318	1,903	63.5	54.4
EPS (INR)	13	20	21.5	31.0	65.4	55.0
<b>Rating</b>		<b>Buy</b>		<b>Accumulate</b>		

Source: Elara Securities Estimate

**Exhibit 11: SOTP valuation**

Segments (INR mn)	FY19E EBITDA	Multiple (x)	FY19E Valuation
Textiles	5,108	12.0	61,301
Apparels	858	11.0	9,439
Garment	848	5.0	4,238
Shirting	664	4.0	2,657
Tools and hardware	303	4.0	1,212
Auto components	385	5.0	1,927
<b>Total</b>	<b>8,167</b>	<b>9.9</b>	<b>80,773</b>
Elimination	2,850	9.9	28,190
<b>SOTP</b>	<b>5,316</b>	<b>9.9</b>	<b>52,583</b>
Debt			17,274
Cash			5,849
Net debt			11,425
Shareholder value			41,159
No of shares			61
<b>TP (INR)</b>			<b>671</b>
Land sale (INR)			326
<b>Total value</b>			<b>996</b>
CMP (INR)			887
<b>Upside (%)</b>			<b>12</b>

Note: pricing as on 25 October 2017; Source: Elara Securities Estimate

**Exhibit 13: Revenue segments**

(INR mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Branded textiles</b>	<b>16,834</b>	<b>18,771</b>	<b>20,560</b>	<b>25,446</b>	<b>27,020</b>	<b>27,144</b>	<b>29,337</b>	<b>32,270</b>
<i>Growth (%)</i>	21.9	11.5	9.5	23.8	6.2	0.5	8.1	10.0
<i>% of gross</i>	43.6	43.1	42.5	45.3	49.5	48.1	47.2	46.6
<b>Branded apparels</b>	<b>8,677</b>	<b>8,295</b>	<b>8,750</b>	<b>10,110</b>	<b>11,185</b>	<b>12,703</b>	<b>14,923</b>	<b>17,161</b>
<i>Growth (%)</i>	19.5	(4.4)	5.5	15.5	10.6	13.6	17.5	15.0
<i>% of gross</i>	22.5	19.1	18.1	18.0	20.5	22.5	24.0	24.8
<b>Garmenting</b>	<b>1,856</b>	<b>3,141</b>	<b>4,191</b>	<b>5,330</b>	<b>5,933</b>	<b>6,389</b>	<b>6,718</b>	<b>7,726</b>
<i>Growth (%)</i>	29.2	69.2	33.4	27.2	11.3	7.7	5.2	15.0
<i>% of gross</i>	4.8	7.2	8.7	9.5	10.9	11.3	10.8	11.2
<b>Denim - joint venture</b>	<b>8,071</b>	<b>8,504</b>	<b>9,540</b>	<b>9,630</b>	<b>9,130</b>	-	-	-
<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
<b>Shirting</b>	<b>2,290</b>	<b>2,969</b>	<b>3,370</b>	<b>3,930</b>	<b>4,671</b>	<b>5,001</b>	<b>5,476</b>	<b>6,024</b>
<i>Growth (%)</i>	8.1	29.7	13.5	16.6	18.9	7.0	9.5	10.0
<i>% of gross</i>	5.9	6.8	7.0	7.0	8.6	8.9	8.8	8.7
<b>Tools &amp; hardware</b>	<b>3,246</b>	<b>3,855</b>	<b>4,300</b>	<b>4,210</b>	<b>3,943</b>	<b>3,501</b>	<b>3,641</b>	<b>3,787</b>
<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	5.9	5.5
<b>Auto components</b>	<b>1,663</b>	<b>2,249</b>	<b>2,430</b>	<b>2,340</b>	<b>1,760</b>	<b>1,643</b>	<b>1,946</b>	<b>2,141</b>
<i>Growth (%)</i>	0.2	0.4	0.1	(0.0)	(0.2)	(0.1)	0.2	0.1
<i>% of gross</i>	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
<b>Gross revenue</b>	<b>38,602</b>	<b>43,532</b>	<b>48,371</b>	<b>56,181</b>	<b>54,553</b>	<b>56,459</b>	<b>62,120</b>	<b>69,188</b>
Inter segment	(1,515)	(2,128)	(2,434)	(2,435)	(2,785)	(2,545)	(2,801)	(3,119)
<i>as a % of gross</i>	(3.9)	(4.9)	(5.0)	(4.3)	(5.1)	(4.5)	(4.5)	(4.5)
<b>Total revenue</b>	<b>37,087</b>	<b>41,404</b>	<b>45,937</b>	<b>53,745</b>	<b>51,768</b>	<b>53,913</b>	<b>59,320</b>	<b>66,069</b>
<i>Growth (%)</i>	21.0	11.6	10.9	17.0	(3.7)	4.1	10.0	11.4

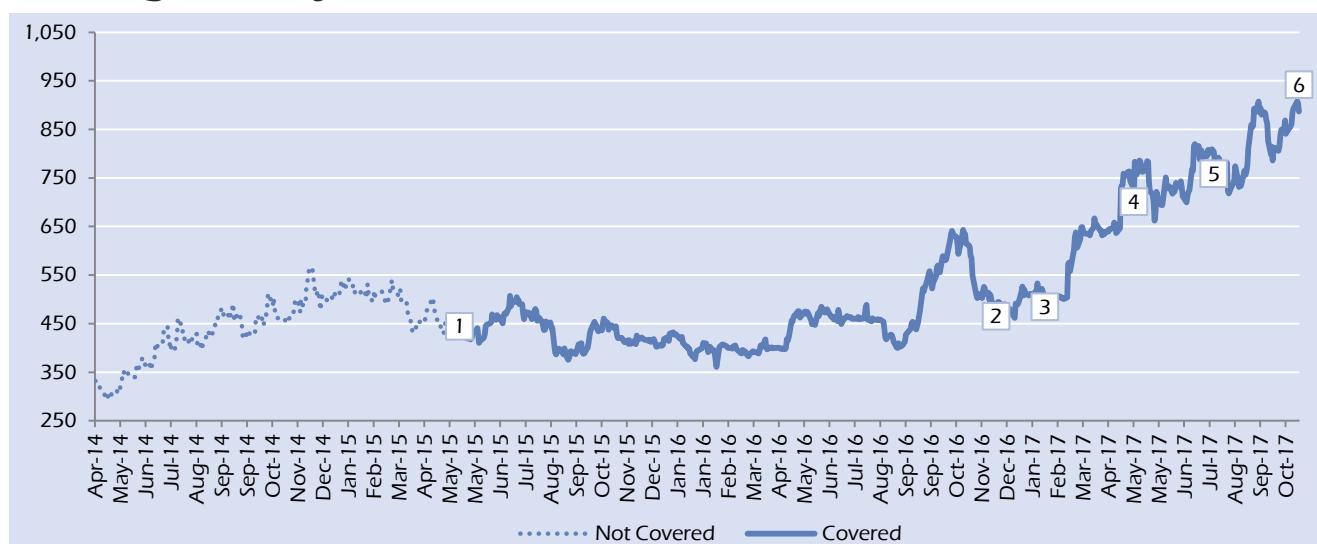
Source: Company, Elara Securities Estimate

**Exhibit 14: EBITDA segments**

(INR mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Branded textiles</b>	<b>4,040</b>	<b>3,500</b>	<b>4,110</b>	<b>4,470</b>	<b>4,670</b>	<b>3,840</b>	<b>4,293</b>	<b>5,108</b>
<i>Margin (%)</i>	24.0	18.6	20.0	17.6	17.3	14.1	14.6	15.8
<b>Branded apparels</b>	<b>790</b>	<b>110</b>	<b>290</b>	<b>120</b>	<b>220</b>	<b>(120)</b>	<b>274</b>	<b>858</b>
<i>Margin (%)</i>	9.1	1.3	3.3	1.2	2.0	(0.9)	1.8	5.0
<b>Garmenting</b>	<b>240</b>	<b>490</b>	<b>560</b>	<b>520</b>	<b>490</b>	<b>540</b>	<b>504</b>	<b>848</b>
<i>Margin (%)</i>	12.9	15.6	13.4	9.8	8.3	8.5	7.5	11.0
<b>Denim - joint venture</b>	<b>800</b>	<b>1,040</b>	<b>920</b>	<b>930</b>	<b>980</b>	-	-	-
<i>Margin (%)</i>	5.1	12.2	9.6	9.7	10.7	0.0	0.0	0.0
<b>Shirting</b>	<b>300</b>	<b>310</b>	<b>360</b>	<b>470</b>	<b>440</b>	<b>490</b>	<b>584</b>	<b>664</b>
<i>Margin (%)</i>	13.1	10.4	10.7	12.0	9.4	9.8	10.7	11.0
<b>Tools &amp; hardware</b>	<b>310</b>	<b>420</b>	<b>450</b>	<b>210</b>	<b>180</b>	<b>70</b>	<b>271</b>	<b>303</b>
<i>Margin (%)</i>	9.6	10.9	10.5	5.0	4.6	2.0	7.5	8.0
<b>Auto components</b>	<b>260</b>	<b>270</b>	<b>270</b>	<b>70</b>	<b>50</b>	<b>240</b>	<b>350</b>	<b>385</b>
<i>Margin (%)</i>	15.6	12.0	11.1	3.0	2.8	14.6	18.0	18.0
<b>Total</b>	<b>6,340</b>	<b>5,620</b>	<b>6,500</b>	<b>6,325</b>	<b>6,540</b>	<b>5,060</b>	<b>6,277</b>	<b>8,167</b>
<b>Gross EBITDA growth (%)</b>	48.3	(11.4)	15.7	(2.7)	3.4	(22.6)	24.1	30.1
EBITDA margin (on gross) (%)	16.4	12.9	13.4	11.9	12.7	9.0	10.1	11.8
<b>Elimination</b>	<b>1,495</b>	<b>1,848</b>	<b>1,700</b>	<b>2,057</b>	<b>2,400</b>	<b>1,889</b>	<b>2,191</b>	<b>2,850</b>
<i>as a % of EBITDA</i>	23.6	32.9	26.2	32.5	36.7	37.3	34.9	34.9
<i>as a % of revenue elimination</i>	(98.7)	(86.8)	(69.9)	(84.5)	(86.2)	(74.2)	(78.2)	(91.4)
<b>EBITDA</b>	<b>4,845</b>	<b>3,772</b>	<b>4,800</b>	<b>4,268</b>	<b>4,140</b>	<b>3,172</b>	<b>4,086</b>	<b>5,316</b>

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
5	26-July-2017	Buy	INR 996	INR 804
6	25-Oct-2017	Accumulate	INR 996	INR 887

## Guide to Research Rating

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



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