

Raymond

Refer to important disclosures at the end of this report

Revenue in-line, but beat on margins

CMP	Target Price
Rs 884 as of (October 25, 2017)	Rs 1,059 (■) 12 months
Rating	Upside
BUY (■)	19.8 %

- Revenue in-line, but beat on EBITDA margins; Consolidated revenue grew by 3% yoy to Rs 15.9bn. EBITDA margins improved by 200bps to 8.6% driven by operational efficiencies; APAT stood at Rs 390mn, up 29% yoy
- While branded apparels grew by 13%, weak exports and suiting sales impacted branded textiles revenues (-2% yoy). Garmenting sales (-1% yoy) were impacted by adverse currency movement and change in product mix
- Raymond has maintained their guidance and expects operating leverage to further propel the operating margins in H2FY18E. We expect a revenue CAGR of 11% over FY17-20E and EBITDA margins of 9% by FY20E
- Raymond's focus on driving operating efficiencies across business verticals has helped boost overall margins. We have upped our EPS estimates for FY18E/19E by 5.8%/3.4% on account of lower depreciation and introduce FY20E estimates. We maintain our BUY rating with target price of Rs 1,059

Revenue in-line; beat on margins

Advancement of end of season sale (EOSS) and GST related implementation issues impacted revenue growth, however, operating efficiencies drove operating margins. Key highlights: 1) consolidated revenue at Rs15.9bn grew by 3% yoy (+6% adjusted for GST), led by a 13% yoy growth in the Branded Apparel business. EBITDA margin improved by 200bps yoy to 8.6% on the back of better contribution margin and improved operating efficiencies. Consequently, EBITDA was at Rs 1.4bn, up 34% yoy. Lower other income and higher tax burden resulted in APAT of Rs390mn, up 29% yoy. RPAT at Rs 599mn, adjusted for VRS and compensation received towards acquisition of land by Thane Municipal Corporation.

Banking on favorable wedding season; Guidance maintained

While sales during the first few weeks of October have been impacted due to weak consumer sentiments and discounting by online players, the company is banking on uptick on account of the wedding season. Raymond has maintained their guidance of high single digit revenue growth and high double digit EBITDA growth for Q3FY18E. We expect Raymond to clock an 11% CAGR during FY17-20E. EBITDA margin is expected to recover from the adverse impact of demonetization in FY17. We expect EBITDA margin to expand to 9% by FY20E.

Sustained margin traction to drive profitability

Despite a tepid revenue growth, Raymond's focus on driving operating efficiencies across business verticals has helped boost overall margins. We believe that cost control coupled with operating leverage will help sustain margin expansion. We have upped our EPS estimates for FY18E/19E by 5.8%/3.4% on account of lower depreciation and introduce FY20E estimates. We maintain our BUY rating with target price of Rs 1,059.

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	51,406	53,533	58,714	66,094	73,961
EBITDA	3,872	3,048	4,199	5,678	6,671
EBITDA Margin (%)	7.5	5.7	7.2	8.6	9.0
APAT	1,200	356	941	1,874	2,497
EPS (Rs)	19.6	5.8	15.3	30.5	40.7
EPS (% chg)	6.4	(70.4)	164.4	99.3	33.2
ROE (%)	7.5	2.1	5.5	10.1	12.2
P/E (x)	45.2	152.5	57.7	28.9	21.7
EV/EBITDA (x)	18.2	23.3	17.0	12.5	10.5
P/BV (x)	3.2	3.2	3.1	2.8	2.5

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY18E/FY19E (%)	5.8/3.4
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	15.3	30.5
Consensus	16.6	28.7
Mean Consensus TP (12M)	Rs 968	

Stock Details

Bloomberg Code	RW IN
Face Value (Rs)	10
Shares outstanding (mn)	61
52 Week H/L	922 / 458
M Cap (Rs bn/USD bn)	54 / 0.83
Daily Avg Volume (nos.)	812,679
Daily Avg Turnover (US\$ mn)	10.4

Shareholding Pattern Sep '17

Promoters	42.8%
FIIIs	9.2%
DIIIs	20.0%
Public and Others	28.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	10	16	41
Rel. to Nifty	6	7	5	20

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs Estimates

(Rs mn)	Actual	Estimate	Consensus	% variation		Comment
				Emkay	Consensus	
Revenues	15,955	16,039	16,130	-0.5%	-1.1%	Revenues in-line with expectation
EBITDA	1,373	813	813	68.8%	68.9%	
EBITDA margin (%)	8.6%	5.1%	5.0%	3.5%	3.6%	Margins boosted by operating efficiencies
APAT	390	196	177	98.8%	120.3%	

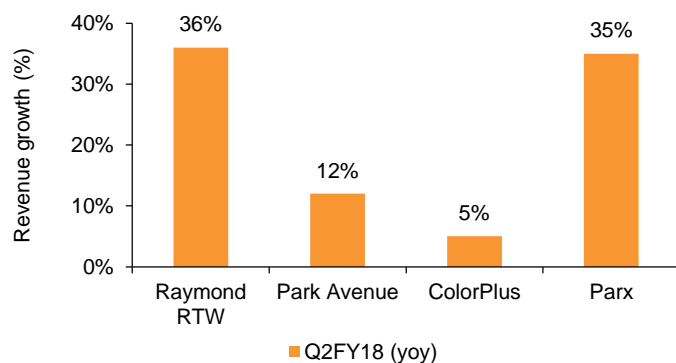
Source: Company, Emkay Research, Bloomberg

Suiting segment a drag on the textile business

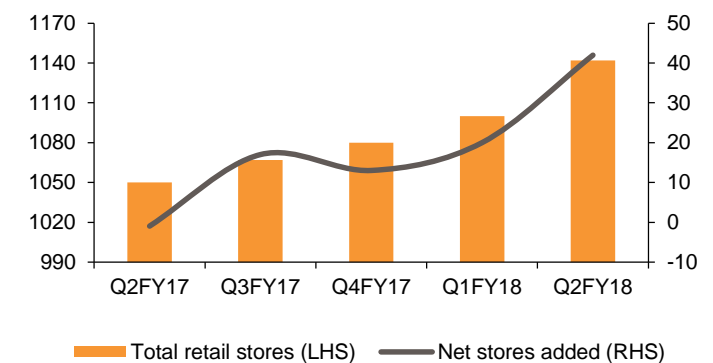
Textile revenue declined by 2% yoy to Rs7.7bn on the back of a 3% decline in the Suitings segment. Adjusted for GST the like-to-like growth in the textile business stood at 2%. The shirting segment grew by 22% led by 10% volume growth in the TRS and MBO channels. Weak export environment and lower offtake in the wholesale channel impacted suiting volumes (-5% yoy) during the quarter. Pent up demand and festive season helped boost Made-to-Measure sales by 22% yoy. The textile EBITDA margins improved by 160bps yoy to 16.3% led by operating efficiencies and improved mix (exports offer lower margins in suiting). Textile EBITDA stood at Rs 1.3bn, up 9% yoy.

Strong growth in branded apparels

Branded Apparel revenue grew by 13% yoy at Rs 4.2bn. Adjusted for GST, the like-to-like growth stood at 21%, led by a strong festive demand and new stores added. Raymond added a net 42 stores during the quarter. While 13 stores were renovated during Q2FY18, a further 44 stores are currently under renovation. Raymond Ready-to-Wear and Parx outpaced other brands growing by 36% and 35% yoy respectively. Strong operating leverage aided in 170bps EBITDA margin expansion to 3.3%. EBITDA grew by 2x yoy to Rs 140mn.

Exhibit 2: Brand-wise growth in Q2FY18

Source: Company, Emkay Research

Exhibit 3: Total number of stores

Source: Company, Emkay Research

B2B segments witness a slow down

High value cotton shirting (HVCS) grew by 1% yoy to Rs 1.5bn, impacted by weak consumer offtake due to GST. Lower raw material costs and improved product mix aided in 120bps EBITDA margin expansion to 11.3%. Adverse currency movement and change in product mix continued to impact the growth in the garmenting business. Garmenting revenues declined by 1% yoy to Rs 1.8bn. EBITDA margin in Garmenting declined by 640bps to 3.8%.

Operating efficiencies propel profitability of Engineering businesses

Auto Components business reported a robust 27% revenue growth to Rs 527mn on account of increased demand in the automobile segment. Higher realization from exports help propel the EBITDA margins by 780bps to 24.7%. Tools and Hardware bucked the trend growing by 3% yoy to Rs 904mn, led by better realizations in the domestic market and higher volume growth in exports. Cost optimization has resulted in a 540bps expansion in EBITDA margins to 8.9%.

Other earnings call highlights

- Raymond has acquired full control of the Kamasutra brand after buying out Ansell's stake. Going forward the company intends to expand and scale up its men's grooming offerings
- Average same-store sales growth (SSG) of stores post renovation have been to the upwards of 20%
- The company has offered VRS to the workers of one of their plants, in-line with their strategy of cost optimization and capacity rationalization. The benefits in EBITDA margins are expected to accrue in the coming quarters
- The capex outlay for Q3FY18E is expected to be c.Rs 1bn, with a store roll-out plan of 60 stores (of which 45-50 stores are expected to be in the mini-TRS format)
- Raymond has opened a Centre of Excellence to develop a well-trained tailoring ecosystem

Exhibit 4: Key growth assumptions

Key Growth Assumptions	FY16	FY17	FY18E	FY19E	FY20E
Textile revenue growth (%)	6.2%	0.5%	7.0%	10.0%	9.0%
Apparels revenue growth (%)	10.7%	13.6%	16.0%	18.0%	18.0%

Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

Y/E, Mar (Rs. mn)	FY18E			FY19E			FY20E
	Earlier	Revised	% Chg.	Earlier	Revised	% Chg.	Introduce
Revenues	58731	58,714	0.0	65915	66,094	0.0	73,961
EBITDA	4203	4,199	0.0	5666	5,678	0.0	6,671
EBITDA Margin (%)	7.2	7.2	0 bps	8.6	8.6	0 bps	9.0
APAT	889	941	5.8	1812	1,874	3.4	2,497
EPS	14.5	15.3	5.8	29.5	30.5	3.4	40.7

Source: Emkay Research

Exhibit 6: Quarterly summary - Consolidated

Y/E, Mar (Rs. m)	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	H1FY18	H1FY17	Gr (%)
Revenue	15,535	11,969	15,955	2.7	33.3	27,923	26,109	7.0
Expenditure	14,509	11,585	14,582	0.5	25.9	26,166	24,772	5.6
Consumption of RM	7,428	4,897	7,420	-0.1	51.5	12,316	11,773	4.6
as % of sales	47.8%	40.9%	46.5%			44.1%	45.1%	
Employee Cost	2,023	2,001	2,089	3.3	4.4	4,090	3,824	7.0
as % of sales	13.0%	16.7%	13.1%			14.6%	14.6%	
Manufacturing Cost	1,817	1,920	1,838	1.1	-4.3	3,757	3,486	7.8
as % of sales	11.7%	16.0%	11.5%			13.5%	13.4%	
Other expenditure	3,242	2,768	3,236	-0.2	16.9	6,003	5,689	5.5
as % of sales	20.9%	23.1%	20.3%			21.5%	21.8%	
EBITDA	1,026	384	1,373	33.8	257.5	1,757	1,337	31.4
Depreciation	332	379	386	16.4	1.7	765	694	10.3
EBIT	694	5	987	42.2	NA	992	643	54.2
Other Income	304	430	209	-31.2	-51.3	639	620	3.2
Interest	457	435	457	0.1	5.2	892	909	-2.0
PBT	542	0	739	36.4	NA	739	353	109.3
Total Tax	179	6	292	62.9	NA	298	116	156.4
Adjusted PAT	363	-6	448	23.3	NA	441	237	86.2
(Profit)/loss from JV's/Ass/MI	60.8	66.3	57.7	-5.1	NA	124.0	100.8	23.0
APAT after MI	302	-73	390	29.1	NA	317	136	132.9
Extra ordinary items	52	0	-210	NA	-	-210	52	-501.3
Reported PAT	250	-73	599	139.9	NA	527	84	526.5
Adjusted EPS	4.9	-1.2	6.4	29.1	NA	5.2	2.2	132.9
Margins (%)				(bps)	(bps)			(bps)
EBIDTA	6.6	3.2	8.6	200	540	6.3	5.1	120
EBIT	4.5	0.0	6.2	170	610	3.6	2.5	110
EBT	3.5	0.0	4.6	110	460	2.6	1.4	130
PAT	1.9	-0.6	2.4	50	300	1.1	0.5	60
Effective Tax rate	33.0	NA	39.5	640	NA	40.3	32.9	740

Source: Company, Emkay Research

Exhibit 7: Segmental performance - Consolidated

Quarterly Summary - Consolidated	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	H1FY18	H1FY17	Gr (%)
Segment Revenues								
Textiles	7,878	5,723	7,722	-2.0	34.9	13,446	13,019	3.3
High value cotton shirting	1,478	1,311	1,498	1.4	14.3	2,809	2,628	6.9
Apparels	3,704	2,699	4,193	13.2	55.3	6,892	6,008	14.7
Garmenting	1,856	1,436	1,843	-0.7	28.4	3,278	3,259	
Tools and Hardware	878	871	904	3.0	3.8	1,775	1,788	
Auto Components	415	537	527	27.1	-1.9	1,064	848	
Others	9	20	9	0.0	-55.7	29	19	
Inter Segment	-723	-628	-741			-1,369	-1,501	
Total	15,495	11,969	15,955	3.0	33.3	27,923	26,068	7.1
Segment EBIT								
Textiles	1,006	405	1,104	9.7	172.8	1,508	1,389	8.6
High value cotton shirting	88	57	92	4.6	60.5	149	147	0.7
Apparels	41	-108	90	121.9	-183.7	-18	-97	(81.8)
Garmenting	158	55	31	-80.6	-43.9	85	253	(66.4)
Tools and Hardware	9	43	59	558.9	36.6	103	22	377.7
Auto Components	51	82	110	117.4	33.6	192	97	
Others	-100	-87	-81	-18.9	-6.1	-168	-166	1.5
Inter Segment	-22	11	12			22	-62	
PBT	1,229	458	1,415	15.1	209.2	1,873	1,585	18.2
Segment Margins (%)								
				(bps)	(bps)			(bps)
Textiles	12.8	7.1	14.3	150	720	11.2	10.7	50
High value cotton shirting	5.9	4.3	6.1	20	180	5.3	5.6	-30
Apparels	1.1	-4.0	2.2	110	620	-0.3	-1.6	140
Garmenting	8.5	3.8	1.7	-680	-210	2.6	7.8	-520
Tools and Hardware	1.0	5.0	6.6	550	160	5.8	1.2	
Auto Components	12.2	15.3	20.8	870	550	18.0	11.5	

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	51,406	53,533	58,714	66,094	73,961
Expenditure	47,534	50,485	54,515	60,416	67,290
EBITDA	3,872	3,048	4,199	5,678	6,671
Depreciation	1,589	1,569	1,836	1,989	2,141
EBIT	2,283	1,479	2,363	3,690	4,530
Other Income	1,190	1,179	1,229	1,284	1,345
Interest expenses	1,897	1,780	1,770	1,770	1,729
PBT	1,576	878	1,822	3,204	4,146
Tax	465	218	547	961	1,244
Extraordinary Items	(352)	(101)	210	0	0
Minority Int./Income from Assoc.	96	(259)	(285)	(314)	(345)
Reported Net Income	848	255	1,150	1,874	2,497
Adjusted PAT	1,200	356	941	1,874	2,497

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	614	614	614	614	614
Reserves & surplus	16,110	16,117	17,048	18,703	20,981
Net worth	16,723	16,731	17,662	19,317	21,595
Minority Interest	648	693	743	797	857
Loan Funds	20,627	21,398	21,398	21,398	20,898
Net deferred tax liability	(601)	(717)	(717)	(717)	(717)
Total Liabilities	37,398	38,105	39,085	40,795	42,632
Net block	11,630	11,572	13,086	12,597	11,956
Investment	6,093	6,405	6,405	6,405	6,405
Current Assets	28,206	29,445	31,955	35,886	40,069
Cash & bank balance	903	697	475	938	961
Other Current Assets	4,467	4,622	5,260	5,795	6,484
Current liabilities & Provision	11,049	13,554	13,247	14,980	16,684
Net current assets	17,156	15,892	18,708	20,906	23,385
Misc. exp	0	0	0	0	0
Total Assets	37,398	38,105	39,085	40,795	42,632

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	386	(301)	592	1,919	2,801
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,169)	942	(3,039)	(1,735)	(2,455)
Operating Cashflow	3,172	3,443	3,423	2,496	2,587
Capital expenditure	(921)	(3,229)	(3,350)	(1,500)	(1,500)
Free Cash Flow	2,251	214	73	996	1,087
Investments	(1,824)	(312)	0	0	0
Other Investing Cash Flow	(554)	165	0	0	0
Investing Cashflow	(2,108)	(2,196)	(2,121)	(216)	(155)
Equity Capital Raised	22	0	0	0	0
Loans Taken / (Repaid)	1,817	771	0	0	(500)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(1,122)	(207)	246	(47)	(180)
Financing Cashflow	(1,179)	(1,216)	(1,524)	(1,817)	(2,409)
Net chg in cash	(115)	31	(222)	463	23
Opening cash position	437	322	697	475	938
Closing cash position	903	697	475	938	961

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	7.5	5.7	7.2	8.6	9.0
EBIT Margin	4.4	2.8	4.0	5.6	6.1
Effective Tax Rate	29.5	24.9	30.0	30.0	30.0
Net Margin	2.2	1.2	2.2	3.4	3.9
ROCE	9.6	7.0	9.3	12.5	14.1
ROE	7.5	2.1	5.5	10.1	12.2
RoIC	8.2	5.4	8.1	11.6	13.5

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	19.6	5.8	15.3	30.5	40.7
CEPS	45.4	31.4	45.2	62.9	75.6
BVPS	272.5	272.6	287.7	314.7	351.8
DPS	3.6	3.6	3.6	3.6	3.6

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	45.2	152.5	57.7	28.9	21.7
P/CEPS	19.5	28.3	19.6	14.1	11.7
P/BV	3.2	3.2	3.1	2.8	2.5
EV / Sales	1.4	1.3	1.2	1.1	1.0
EV / EBITDA	18.2	23.3	17.0	12.5	10.5
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	1.0	1.0	1.0	0.9	0.7
Net Debt/EBIDTA	4.2	5.5	4.1	2.9	2.4
Working Cap Cycle (days)	115.4	103.6	113.3	110.3	110.7

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	6.7	4.2	9.7	12.6	11.9
EBITDA	(9.3)	(21.3)	37.8	35.2	17.5
EBIT	(13.8)	(35.2)	59.7	56.2	22.8
PAT	(24.8)	(69.9)	350.7	63.0	33.2

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	15,535	13,069	14,736	11,969	15,955
EBITDA	1,026	585	1,127	384	1,373
EBITDA Margin (%)	6.6	4.5	7.6	3.2	8.6
PAT	250	(158)	329	(73)	599
EPS (Rs)	4.1	(2.6)	5.4	(1.2)	9.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoters	42.4	42.4	42.5	42.6	42.8
FIIIs	8.3	8.7	8.9	9.0	9.2
DIIs	13.2	13.5	15.1	18.4	20.0
Public and Others	36.1	35.5	33.5	30.0	28.0

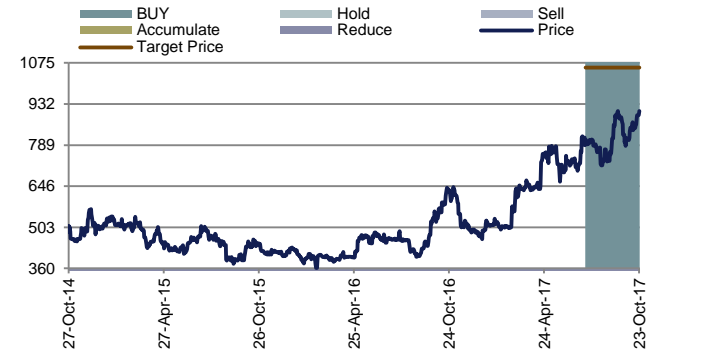
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
2-Aug-17	777	1,059	12m	Buy	Sameep Kasbekar
26-Jul-17	804	1,059	12m	Buy	Sameep Kasbekar
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.

Completed Date:

Dissemination Date:

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