

Raymond

Refer to important disclosures at the end of this report

Sustained margin traction remains the key

- Revenue ahead of expectations, but miss on margins; Consolidated revenues grew by 14% yoy to Rs 14.8bn. EBITDA margins improved by 240bps to 6.8%. APAT at Rs 288mn, versus a loss in the base quarter
- Branded textiles grew by 14% yoy at Rs7.7bn on the back of a 16% growth in suiting and a 28% growth in shirting. Apparel revenues stood at Rs 3.3bn, up 7% yoy
- Raymond has maintained their guidance of high single digit revenue growth and double digit EBITDA growth for FY18E. We expect Raymond to clock an 11.5% CAGR during FY17-20E. EBITDA margin during FY18E are expected to revive following an adverse FY17 to 7.1%, up 140bps yoy
- Lower depreciation estimates has resulted in an EPS increase of 0.2%/2.4% in FY19E/20E. We maintain our BUY rating with TP of Rs 1,260 (FY20E SoTP)

Revenues ahead of expectations; but miss on margins

Early onset of the festive season was offset by the wedding season and advancement of the end-of-season sale (EOSS) which helped boost the revenue growth. Key highlights: 1) consolidated revenue at Rs14.8bn grew by 14% yoy (+18% adjusted for GST), led by a 14% yoy growth in the textiles business and a favourable base. EBITDA margin improved by 240bps yoy to 6.8%, lower than our expectation of 8%. Margin expansion was aided by operating leverage in the textile business and improved cost control. Consequently, EBITDA was at Rs 1bn, up 74% yoy. APAT at Rs 288mn, versus a loss in the base quarter.

Company maintains guidance for FY18

While sales during the first few weeks of January have been subdued due to weak consumer sentiments, the company has witnessed an uptick in demand buoyed by the wedding season and a favourable winter season. Raymond has maintained their guidance of high single digit revenue growth and double digit EBITDA growth for FY18E. We expect Raymond to clock an 11.5% CAGR during FY17-20E. EBITDA margin during FY18E are expected to revive following an adverse FY17 to 7.1%, up 140bps yoy.

Margin traction remains the key

While Raymond's margins during the quarter were lower than our estimates, we continue to remain enthused by the yoy EBITDA margin expansion momentum that the company has sustained. We believe that cost control coupled with operating leverage will help sustain margin expansion. Lower depreciation estimates has resulted in an EPS increase of 0.2%/2.4% in FY19E/20E. We maintain our BUY rating with TP of Rs 1,260 (FY20E SoTP).

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	51,406	53,533	58,770	66,401	74,261
EBITDA	3,872	3,048	4,150	5,679	6,785
EBITDA Margin (%)	7.5	5.7	7.1	8.6	9.1
APAT	1,200	356	961	1,877	2,557
EPS (Rs)	19.6	5.8	15.7	30.6	41.7
EPS (% chg)	6.4	(70.4)	170.3	95.3	36.2
ROE (%)	7.5	2.1	5.6	10.1	12.5
P/E (x)	55.0	185.5	68.6	35.1	25.8
EV/EBITDA (x)	21.2	27.2	20.1	14.6	12.2
P/BV (x)	3.9	3.9	3.7	3.4	3.0

Source: Company, Emkay Research

CMP	Target Price
Rs 1,075 as of (January 25, 2018)	Rs 1,260 (▲) 12 months
Rating	Upside
BUY (■)	17.2 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	0.2/2.4
Target Price change (%)	19.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	15.7	30.6
Consensus	19.8	32.8
Mean Consensus TP (12M)	Rs 1,049	

Stock Details

Bloomberg Code	RW IN
Face Value (Rs)	10
Shares outstanding (mn)	61
52 Week H/L	1,142 / 492
M Cap (Rs bn/USD bn)	66 / 1.04
Daily Avg Volume (nos.)	684,073
Daily Avg Turnover (US\$ mn)	10.7

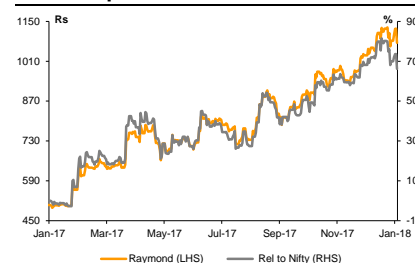
Shareholding Pattern Dec '17

Promoters	42.8%
FIIIs	11.3%
DIIIs	17.7%
Public and Others	28.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	21	33	109
Rel. to Nifty (1)	13	20	62	

Relative price chart



Source: Bloomberg

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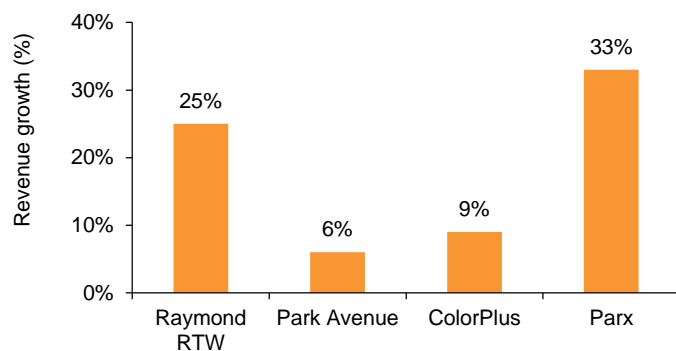
Wedding season drives textiles sales

Textile revenues were up by 14% yoy at Rs7.7bn on the back of a 16% growth in suiting and a 28% growth in shirting yoy. Adjusted for GST the like-to-like growth in the textile business stood at 18%. Recovery in the wholesale channel post GST implementation and demand due to the wedding season helped shore up the overall textile growth. The textile EBITDA margins improved by 230bps yoy to 15.4% led by operating efficiencies and operating leverage. Textile EBITDA stood at Rs 1.2bn, up 34% yoy.

Early onset of EOSS boosts branded apparel demand

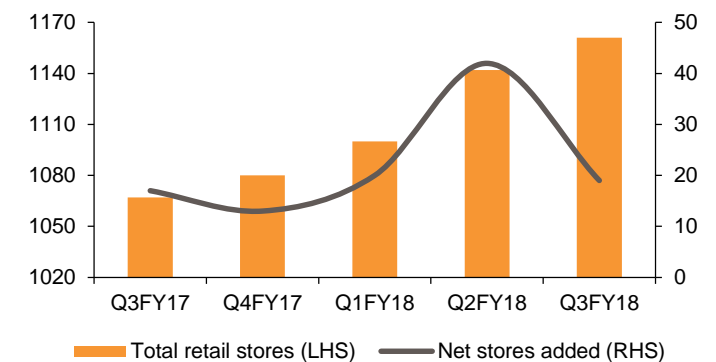
Branded Apparel revenue grew by 7% yoy to Rs 3.3bn. Adjusted for GST, the like-to-like growth stood at 16%, led by new stores added and early EOSS. Raymond added a net 19 stores during the quarter, including 17 mini TRS. Of the new stores, c.70% were on the franchise route. During the quarter, Raymond completed the renovation of 8 stores, while currently 33 stores are under renovation. EBITDA margin expansion was stunted to 20bps yoy at 0.3% on account of some down trading and heavy discounts during the EOSS. EBITDA stood at Rs 10mn, up 2.5x yoy.

Exhibit 1: Brand-wise growth 9MFY18



Source: Company, Emkay Research

Exhibit 2: Total number of stores



Source: Company, Emkay Research

Strong revenue growth in the B2B segments

High value cotton shirting (HVCS) grew by 14% yoy to Rs 1.5bn, led by a better offtake by customers. Lower raw material costs and improved product mix aided in 80bps EBITDA margin expansion to 10.7%. Exports growth in North America helped boost garmenting sales by 26% to Rs 1.6bn. However, adverse currency movement and initial set-up costs in the Ethiopia plant impacted the profitability with EBITDA margins declining by 270bps yoy to 4.3%. Garmenting EBITDA stood at Rs 70mn.

Operating efficiencies continue to drive profitability in the engineering business

Auto Components business reported a robust 29% revenue growth to Rs 492mn on account of increased demand in the automobile segment. Higher realization from exports help propel the EBITDA margins by 1390bps to 24.4%. Growth in Asian and African markets helped drive the Tools and Hardware sales, growing by 24% yoy to Rs 977mn. Cost optimization and product rationalisation resulted in 1150bps expansion in EBITDA margins to 10.2%.

Other earnings call highlights

- Raymond has opened 53 mini-TRS (The Raymond Shop) over FY18 so far. These mini-TRS focus on tier 2/3/4/5 towns and cities
- In a pursuit to enhance the tailoring ecosystem, the company has opened 20 franchise tailoring hubs till date. They target opening 5 more in Q4FY18.
- While woolen prices have witnessed a sharp increase in recent weeks, the company is confident on limiting the impact on margins via product innovation, smart procurement strategy (a mix of portfolio buying, spot buying and hedging) and leveraging existing relations with key suppliers.
- Apparel volume growth stood at 17% during Q3FY18
- Company has guided for a capital expenditure of Rs 3.7-4bn in FY18E

Exhibit 3: 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%	13.0%	18.0%	18.0%

Source: Company, Emkay Research

Exhibit 4: Revision in earnings estimates

Y/E, Mar (Rs. mn)	FY18E			FY19E			FY20E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	58714	58,770	0.1	66094	66,401	0.5	73961	74,261	0.4
EBITDA	4199	4,150	-1.2	5678	5,679	0.0	6671	6,785	1.7
EBITDA Margin (%)	7.2	7.1	-10 bps	8.6	8.6	0 bps	9.0	9.0	0 bps
APAT	941	961	2.2	1874	1,877	0.2	2497	2,557	2.4
EPS	15.3	15.7	2.2	30.5	30.6	0.2	40.7	41.7	2.4

Source: Emkay Research

Exhibit 5: Valuation SoTP - FY20E

FY20E	Methodology	EBITDA	Book Value	Multiple	Value
Textiles	EV/EBITDA	5990		12	71875
Apparels	EV/EBITDA	1099		18	19786
Garmenting	EV/EBITDA	661		8	5288
HVCS	EV/EBITDA	837		8	5066
T&H	EV/EBITDA	429		5	1929
Auto Components	EV/EBITDA	597		5	2685
Elimination	EV/EBITDA	-2827		5	-14134
Denim	P/BV		375	1	375
FMCG	P/BV		886	1	886
Enterprise Value (Rs mn)					92496
Net Debt (Rs mn)					16598
Market Cap (Rs mn)					77160
Shares outstanding (mn)					61
Per share value (Rs)					1260

Source: Emkay Research

Exhibit 6: Quarterly summary - Consolidated

Y/E, Mar (Rs. m)	Q3FY17	Q2FY18	Q3FY18	YoY (%)	QoQ (%)	9MFY18	9MFY17	Gr (%)
Revenue	13,069	15,955	14,842	13.6	-7.0	42,766	39,177	9.2
Expenditure	12,485	14,582	13,827	10.8	-5.2	39,993	37,256	7.3
Consumption of RM	5,354	7,420	6,346	18.5	-14.5	18,662	17,127	9.0
as % of sales	41.0%	46.5%	42.8%			43.6%	43.7%	
Employee Cost	1,944	2,089	2,095	7.8	0.3	6,185	5,767	7.2
as % of sales	14.9%	13.1%	14.1%			14.5%	14.7%	
Manufacturing Cost	1,800	1,838	2,092	16.2	13.8	5,850	5,286	10.7
as % of sales	13.8%	11.5%	14.1%			13.7%	13.5%	
Other expenditure	3,387	3,236	3,294	-2.8	1.8	9,297	9,076	2.4
as % of sales	25.9%	20.3%	22.2%			21.7%	23.2%	
EBITDA	584	1,373	1,015	73.8	-26.0	2,772	1,921	44.3
Depreciation	389	386	430	10.6	11.4	1,195	1,082	10.4
EBIT	195	987	586	199.6	-40.7	1,577	839	88.1
Other Income	238	209	293	22.9	40.0	932	858	8.7
Interest	453	457	457	0.9	0.0	1,349	1,363	-1.0
PBT	-19	739	422	-2285.0	-43.0	1,161	334	247.6
Total Tax	3	292	127	4006.5	-56.4	425	119	256.4
Adjusted PAT	-22	448	294	-1414.3	-34.2	736	215	242.7
(Profit)/loss from JV's/Ass/MI	97.5	57.7	6.0	-93.8	-89.6	130.0	198.3	-34.4
APAT after MI	-120	390	288	-340.5	-26.0	606	16	3593.9
Extra ordinary items	39	-210	0	-100.0	-	-209.5	90.7	-331.0
Reported PAT	-158	599	288	-282.1	-51.9	815	-74	-1197.3
Adjusted EPS	-2.0	6.4	4.7	-340.5	-26.0	9.9	0.3	3593.9
Margins (%)								
				(bps)	(bps)			(bps)
EBIDTA	4.5	8.6	6.8	240	-180	6.5	4.9	160
EBIT	1.5	6.2	3.9	250	-220	3.7	2.1	150
EBT	-0.1	4.6	2.8	300	-180	2.7	0.9	190
PAT	-0.9	2.4	1.9	290	-50	1.4	0.0	140
Effective Tax rate	-16.1	39.5	30.2	4,620	-930	36.6	35.7	90

Source: Company, Emkay Research

Exhibit 7: Segmental performance - Consolidated

Quarterly Summary - Consolidated	Q3FY17	Q2FY18	Q3FY18	YoY (%)	QoQ (%)	9MFY18	9MFY17	Gr (%)
Segment Revenues								
Textiles	6,754	7,722	7,684	13.8	-0.5	21129	19773	6.9
High value cotton shirting	1,312	1,498	1,493	13.9	-0.3	4302	3940	9.2
Apparels	3,098	4,193	3,318	7.1	-20.9	10210	9106	12.1
Garmenting	1,288	1,843	1,625	26.2	-11.8	4903	4546	
Tools and Hardware	787	904	977	24.1	8.1	2752	2576	
Auto Components	383	527	492	28.6	-6.6	1556	1230	
Others	26	9	16	-39.6	76.4	45	45	
Inter Segment	-578	-741	-763			-2132	-2080	
Total	13,069	15,955	14,842	13.6	-7.0	42,766	39,137	9.3
Segment EBIT								
Textiles	712	1,104	994	39.5	-10.0	2502	2102	19.0
High value cotton shirting	60	92	90	50.8	-2.0	238	207	15.1
Apparels	-41	90	-41	-0.2	-145.1	-58	-138	(57.6)
Garmenting	63	31	26	-58.4	-13.7	112	317	(64.8)
Tools and Hardware	-22	59	82	-464.7	37.8	184	-1	(20,588.9)
Auto Components	26	110	91	251.4	-17.1	283	123	
Others	-111	-81	-74	-33.6	-9.3	-242	-277	(12.6)
Inter Segment	1	12	-25			-3	-61	

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	51,406	53,533	58,770	66,401	74,261
Expenditure	47,534	50,485	54,620	60,722	67,476
EBITDA	3,872	3,048	4,150	5,679	6,785
Depreciation	1,589	1,569	1,725	1,965	2,113
EBIT	2,283	1,479	2,425	3,714	4,672
Other Income	1,190	1,179	1,152	1,267	1,323
Interest expenses	1,897	1,780	1,770	1,770	1,729
PBT	1,576	878	1,807	3,211	4,267
Tax	465	218	596	1,060	1,408
Extraordinary Items	(352)	(101)	210	0	0
Minority Int./Income from Assoc.	96	(259)	(200)	(220)	(242)
Reported Net Income	848	255	1,171	1,877	2,557
Adjusted PAT	1,200	356	961	1,877	2,557

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	17,069	18,727	21,065
Net worth	16,723	16,731	17,683	19,341	21,679
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	39,106	40,819	42,716
Net block	11,630	11,572	13,547	13,083	12,470
Investment	6,093	6,405	6,405	6,405	6,405
Current Assets	28,206	29,445	31,540	35,500	39,685
Cash & bank balance	903	697	30	390	418
Other Current Assets	4,467	4,622	5,265	5,821	6,511
Current liabilities & Provision	11,049	13,554	13,272	15,056	16,730
Net current assets	17,156	15,892	18,268	20,445	22,955
Misc. exp	0	0	0	0	0
Total Assets	37,398	38,105	39,106	40,819	42,716

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	386	(301)	655	1,944	2,944
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,169)	942	(3,043)	(1,817)	(2,482)
Operating Cashflow	3,172	3,443	3,242	2,299	2,490
Capital expenditure	(921)	(3,229)	(3,700)	(1,500)	(1,500)
Free Cash Flow	2,251	214	(458)	799	990
Investments	(1,824)	(312)	0	0	0
Other Investing Cash Flow	(554)	165	(350)	0	0
Investing Cashflow	(2,108)	(2,196)	(2,548)	(233)	(177)
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)	408	64	(55)
Financing Cashflow	(1,179)	(1,216)	(1,362)	(1,706)	(2,284)
Net chg in cash	(115)	31	(667)	360	28
Opening cash position	437	322	697	30	390
Closing cash position	903	697	30	390	418

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	7.5	5.7	7.1	8.6	9.1
EBIT Margin	4.4	2.8	4.1	5.6	6.3
Effective Tax Rate	29.5	24.9	33.0	33.0	33.0
Net Margin	2.2	1.2	2.1	3.2	3.8
ROCE	9.6	7.0	9.3	12.5	14.4
ROE	7.5	2.1	5.6	10.1	12.5
RoIC	8.2	5.4	8.3	11.4	13.7

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	19.6	5.8	15.7	30.6	41.7
CEPS	45.4	31.4	43.8	62.6	76.1
BVPS	272.5	272.6	288.1	315.1	353.2
DPS	3.6	3.6	3.6	3.6	3.6

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	55.0	185.5	68.6	35.1	25.8
P/CEPS	23.6	34.3	24.6	17.2	14.1
P/BV	3.9	3.9	3.7	3.4	3.0
EV / Sales	1.6	1.6	1.4	1.3	1.1
EV / EBITDA	21.2	27.2	20.1	14.6	12.2
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	1.0	1.0	1.0	0.9	0.8
Net Debt/EBIDTA	4.2	5.5	4.2	3.0	2.4
Working Cap Cycle (days)	115.4	103.6	113.3	110.2	110.8

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	6.7	4.2	9.8	13.0	11.9
EBITDA	(9.3)	(21.3)	36.2	36.8	19.5
EBIT	(13.8)	(35.2)	64.0	53.1	25.8
PAT	(24.8)	(69.9)	358.9	60.3	36.2

Quarterly (Rs mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Revenue	13,069	14,736	11,969	15,955	14,842
EBITDA	584	1,127	384	1,373	1,015
EBITDA Margin (%)	4.5	7.6	3.2	8.6	6.8
PAT	(158)	329	(73)	599	288
EPS (Rs)	(2.6)	5.4	(1.2)	9.8	4.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Promoters	42.4	42.5	42.6	42.8	42.8
FIs	8.7	8.9	9.0	9.2	11.3
DIs	13.5	15.1	18.4	20.0	17.7
Public and Others	35.5	33.5	30.0	28.0	28.3

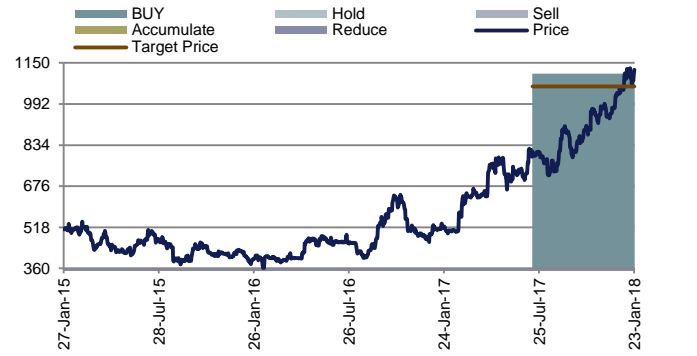
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Oct-17	887	1,059	12m	Buy	Sameep Kasbekar
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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