

## Results Review

# Raymond Ltd

Bloomberg Code: RW IN

India Research - Stock Broking

**BUY**

## Good Quarter and on Track to Meet Management Guidance

**Continuing to perform well under the “Re imagined strategy”:** Raymond's efforts in transforming the company, increasing product offerings, expanding throughout the country via the asset light model and efforts to improve efficiency are bearing fruits. Consolidated revenues grew 14% YoY, and on like to like basis, (excluding GST impact) revenues grew 18% YoY. Better product mix and cost efficiencies led to EBITDA growth by 59%, and margins improving by 240bps YoY in the same period. The overall 9MFY18 performance has been more or less in line with expectations. With support from wedding season and further stabilization of trade channels expected, we marginally revise our estimates upwards.

**Extending reach at minimal costs:** Nearly 70% of the overall store expansions are through the franchisee model. The mini TRS shops (Rs. 80-90lakh annualized revenue is expected) in the tier 3, 4 and 5 cities, completely through franchisee model, thus, enabling the company to extend reach at minimal costs. In the quarter, Raymond added net of 19 stores (including mini TRS), taking total store count to 1,161. Raymond plans to add a further 75 stores (includes ~40 mini TRS) in the fourth quarter. As a result, capex will mainly be limited to maintenance, new store openings and store renovations, and thus, we expect cash flow to improve significantly in the coming fiscals.

**Channel sales on recovery path:** Aided by increased penetration and recovery in channel sales post GST- stabilization, textiles and apparels revenue grew by 18% and 16%. Apparels channel sales (like to like) continues to recover, and on YTD basis, all formats grew in the region of 11% to 15%, except MBO's which grew 32%YoY. Channel sales are expected to hit normalcy in the quarter, in line with the onset of the wedding season, and growth momentum is expected to continue.

## Valuation and Risks

Given the company's efforts to re-energizing the brand and with increased focus on retail penetration and garnering positive results, we expect continued performance in line with management guidance. Going forward, more information on the utilization of the 120 acre land in Thane will be a key positive catalyst. We value the stock at 27x on FY20E EPS of Rs. 41 (at a premium on increasing growth prospects coupled with possibilities of approvals for land monetization), and arrive at a target price of Rs. 1,109, implying an upside of 15% and recommend “BUY”. Key risks are significant increase in raw material prices, any slowdown in demand, and delayed monetization of land bank.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	51768	53913	60998	67693	73014
EBITDA	3873	3048	4095	5066	6442
EBITDA Margin (%)	7.5	5.7	6.7	7.5	8.8
Net Profit	855	300	1140	1769	2517
EPS (Rs.)	13.9	4.9	18.6	28.9	41.1
RoE (%)	5.2	1.8	6.6	9.6	12.5
PE (x)*	9.3	16.5	14.7	11.9	9.4

Source: Company, Karvy Research, \*Represents multiples for FY16 & FY17 are based on historic market price

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### Recommendation (Rs.)

CMP (as on Feb 09, 2018)	966
Target Price	1109
Previous Target Price	935
Upside (%)	15

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	60067 / 935
52-wk High/Low (Rs.)	1142 / 492
3M Avg. daily value	0.7
Beta (x)	0.7
Sensex/Nifty	34006/10455
O/S Shares(mn)	61.4
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

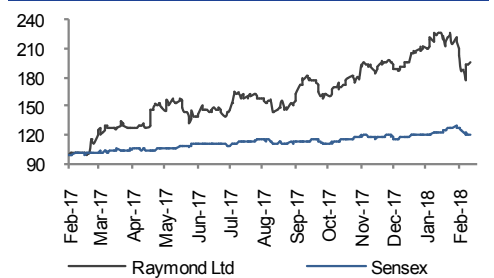
Promoters	43.3
FIIIs	10.2
DIIIs	19.5
Others	27.0

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(13)	3	36	92
Relative to Sensex	(12)	0	24	59

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↑ 3.2	↑ 4.4
EBITDA (%)	↓ (2.8)	↓ (1.0)
PAT (%)	↑ 4.6	↑ 5.0

Source: Karvy Research

### Analyst Contact

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### Focus to be on improving profitability:

On the back of continued good performance across segments (Textile and non textile), we marginally revise our estimates positively. With increased penetration and with well established brands across the segments, we expect overall revenue to grow by 12% CAGR over FY17-FY19E. Margins should also see further uptick on improved utilization levels of the Amravati and Ethiopia plants and lesser ad spends going forward (compared to ad spends in the aggressive expansion phase in recent fiscals). We factor in overall margin improvement of 180bps by FY19E.

Working capital days has improved by 5 days YoY to 102days. Additionally, asset light model ensures protection of cash flows and we expect net debt to EBITDA improve to 2.4x by FY19E vs current 4x.

#### Exhibit 2: Q3FY18

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	9MFY18	9MFY17	YoY (%)
Turnover	14842	15955	(7.0)	13069	13.6	42766	39177	9.2
Expenditure	13827	14582	(5.2)	12485	10.8	39993	37256	7.3
EBITDA	1015	1373	(26.0)	584	73.8	2772	1921	44.3
Depreciation	430	386	11.4	389	10.6	1195	1082	10.4
Interest	457	457	0.0	453	0.9	1349	1363	(1.0)
Other Income	293	209	40.0	238	22.9	932	858	8.7
PB exceptional items	422	739	(43.0)	(19)	-	1161	334	247.5
Share of profit /exceptional items	13	175	-	(125)	-	135	(252)	-
PBT	434	914	(52.5)	(144)	-	1296	82	1,470.9
Tax	(127)	(292)	(56.4)	(3)	-	(425)	(119)	-
PAT	307	622	(50.7)	(147)	-	871	(37)	-
Profit excluding minority interest	288	599	(51.9)	(157)	-	815	(74)	-
EBITDA Margin (%)	6.8	8.6	(176) bps	4.5	237 bps	6.5	4.9	158 bps
Net Profit Margin (%)	2.1	3.9	18 bps	(1.1)	-	2.0	(0.1)	-

Source: Company, Karvy Research

#### Exhibit 3: Key business Areas

YE Mar (Rs. Mn)	Q3FY18	Q3FY17	YoY %	9MFY18	9MFY17	YoY (%)
<b>Segment-wise Revenue</b>						
Branded textiles	7684	6754	13.8	21129	19773	6.9
Branded apparels	3318	3098	7.1	10210	9106	12.1
<b>Segment-wise EBIT</b>						
Branded textiles	994	712	39.5	2502	2102	19.0
Branded apparels	(41)	(41)	-	(58)	(138)	-
<b>Segment-wise EBIT Margin (%)</b>						
Branded textiles	12.9	10.5	239 bps	11.8	10.6	121 bps
Branded apparels	(1.2)	(1.3)	-	(0.6)	(1.5)	-

Source: Company, Karvy Research

## Key Takeaways of Conference Call

### Expansion to continue as per earlier guidance:

- Over 9MFY18, Raymond Ltd. has added a net of 81 stores, including 53 mini TRS stores (800 to 900sq ft stores). It further plans to add another 75 stores (including ~ 40 mini TRS shops). Management is well on course with their guidance to add 300 mini TRS stores by mid CY19.
- With most of the store additions (~70%) through the franchisee model, the capex will be limited and will be more focused towards renovation of stores and maintenance.
- For Q4FY18, total capex guidance stands at Rs. 90 - Rs. 100 Crore, of which, Rs. 45 - Rs. 55 Crore is expected to be for maintenance capex, while new stores and renovation are expected at around Rs. 20 Crores.

### Apparel segment remains key growth driver:

- From near flattish margins for the apparel segment as of 9MFY17, despite end of season sale and other disruptions, the margins have improved 100bps for the segment in the 9MFY18.
- Buoyed by the continued growth in the segment, management expects to clock high single digit margins in the segment in the next 8 quarters.

### Non Core business in a good way:

- The tools and hardware segment grew 24% to Rs. 98 crores, driven by increase in volumes across geographies.
- Auto component sales also improved 29%YoY to Rs. 49 Crores, driven by increased demand. Moreover, for the auto segment, the EBITDA margins improved to 24.4% from 11.5% in Q3FY18 on account of higher realization from exports and non-auto segment.

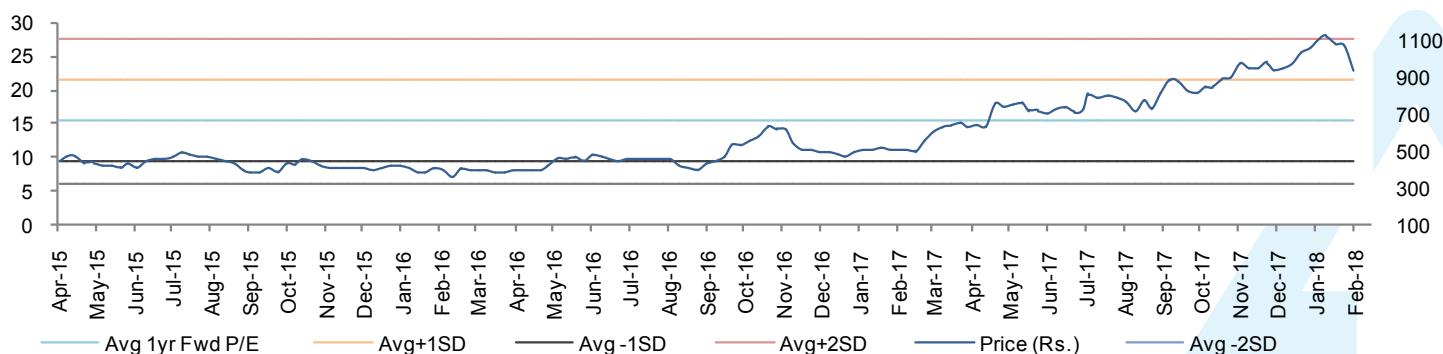
### Our View:

The good brand recognition and the asset light strategy adopted for penetration into the lower tiers in the domestic market should aid in growing presence and garner faster domestic growth. The company is now also more competitive in US and the European markets as a result of manufacturing benefits in Ethiopia. Buoyed by the wedding season in the domestic and improving performance of various segments (core and non core), we marginally revise our estimates upwards. Going forward, more information on the utilization of land bank can be a further growth trigger. We value the stock at 27x on FY20E EPS of Rs. 41, and arrive at a target price of Rs. 1109, implying an upside of 15% and recommend **BUY**.

**Exhibit 4: Change in Earnings Estimates**

YE Mar (Rs. Mn)	FY18E			FY19E			FY20E	Comments
	Old	New	% Change	Old	New	% Change	Introducing	
Net Sales	59109	60998	3.2	64823	67693	4.4	73014	Increasing demand and improving performance of apparel segment
EBITDA	4213	4095	(2.8)	5118	5066	(1.0)	6442	
EBITDA Margin (%)	7.1	6.7	(41) bps	7.9	7.5	(41) bps	8.8	End of season sales impacted margins in recent quarters
PAT	1090	1140	4.6	1685	1769	5.0	2517	
EPS (Rs.)	17.8	18.6	4.6	27.5	28.9	5.0	41.1	

Source: Karvy Research

**Exhibit 5: PE Band**


Source: BSE, Karvy Research

## Financials

### Exhibit 6: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	51768	53913	60998	67693	73014
Growth (%)	(3.7)	4.1	13.1	11.0	7.9
Operating Expenses	25942	27290	30499	33846	35777
EBITDA	3873	3048	4095	5066	6442
Growth (%)	(9.3)	(21.3)	34.4	23.7	27.2
Depreciation & Amortization	1589	1569	1862	2010	2169
Other income	934	819	1220	1354	1460
EBIT	3217	2299	3453	4410	5733
Interest Expenses	1897	1780	1749	1766	1971
PBT	1320	519	1704	2645	3763
Tax	465	218	478	742	1056
Adjusted PAT	855	300	1140	1769	2517
Growth (%)	(24.2)	(64.9)	279.6	55.2	42.3

Source: Company, Karvy Research

### Exhibit 7: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Cash & Cash Equivalents	322	303	507	877	2013
Trade receivables	10448	10507	11219	12149	12255
Inventory	11732	12886	13184	14635	15371
Loans & Advances	41	52	57	62	69
Investments	4074	4323	4880	5415	5841
Net Block	11608	11687	13051	14088	15204
Other assets	10821	12617	11731	12352	13673
<b>Total Assets</b>	<b>49046</b>	<b>52375</b>	<b>54629</b>	<b>59579</b>	<b>64426</b>
Current Liabilities	13261	16142	18101	20358	21641
Debt	17442	17674	17490	18584	19709
Other Liabilities	1621	1828	1374	1522	1900
<b>Total Liabilities</b>	<b>32324</b>	<b>35644</b>	<b>36965</b>	<b>40465</b>	<b>43249</b>
Shareholders Capital	613	614	613	613	613
Reserves & Surplus	16109	16117	17051	18501	20564
<b>Total Networth</b>	<b>16722</b>	<b>16731</b>	<b>17664</b>	<b>19114</b>	<b>21177</b>
<b>Total Networth &amp; Liabilities</b>	<b>49046</b>	<b>52375</b>	<b>54629</b>	<b>59579</b>	<b>64426</b>

Source: Company, Karvy Research

**Exhibit 8: Cash Flow Statement**

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT	1320	519	1704	2645	3763
Depreciation	1589	1569	1862	2010	2169
Net Interest Expense	1285	1067	529	412	511
Tax Paid	(492)	(350)	(478)	(742)	(1056)
Inc/dec in Net WC	(489)	638	(1091)	(1195)	(228)
Others	(42)	0	0	(1799)	(2317)
<b>Cash flow from operating activities</b>	<b>3172</b>	<b>3443</b>	<b>2526</b>	<b>1330</b>	<b>2841</b>
Inc/dec in capital expenditure	(2222)	(2779)	(1365)	(1036)	(1116)
Others	114	583	663	818	1035
<b>Cash flow from investing activities</b>	<b>(2108)</b>	<b>(2196)</b>	<b>(701)</b>	<b>(218)</b>	<b>(82)</b>
Inc/dec in borrowings	339	(2453)	(184)	1095	1124
Dividend paid	(221)	(219)	(206)	(320)	(455)
Interest paid	(1875)	(1979)	(1749)	(1766)	(1971)
Others	577	3385	519	248	(322)
<b>Cash flow from financing activities</b>	<b>(1179)</b>	<b>(1266)</b>	<b>(1620)</b>	<b>(742)</b>	<b>(1623)</b>
Net change in cash	(115)	(19)	204	370	1136

Source: Company, Karvy Research

**Exhibit 9: Key Ratios**

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	7.5	5.7	6.7	7.5	8.8
EBIT Margin (%)	6.2	4.3	5.7	6.5	7.9
Net Profit Margin (%)	1.7	0.6	1.9	2.6	3.4
Dividend Payout Ratio (%)	21.5	25.5	14.0	14.0	14.0
Net Debt/Equity (x)	0.7	0.7	0.7	0.6	0.5
RoE (%)	5.2	1.8	6.6	9.6	12.5
RoCE (%)	7.3	5.1	5.0	7.0	9.5

Source: Company, Karvy Research

**Exhibit 10: Valuation Parameters**

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EPS (Rs.)	13.9	4.9	18.6	28.9	41.1
DPS (Rs.)	3.6	1.9	3.4	5.2	7.4
BVPS (Rs.)	272.8	272.9	288.2	311.8	345.5
PE (x)*	29.1	129.3	51.8	33.4	23.5
P/BV (x)*	1.5	2.3	3.3	3.1	2.8
EV/EBITDA (x)*	9.3	16.5	14.7	11.9	9.4
EV/Sales (x)*	0.7	0.9	1.0	0.9	0.8

Source: Company, Karvy Research, \*Represents multiples for FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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