

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR805
Target Price	: INR850
Potential Return	: 6%

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Market data	
Sensex	: 32,382
Sector	: Retail
Market Cap (INRbn)	: 49.3
Market Cap (USDbn)	: 0.767
O/S Shares (m)	: 61.4
52-wk HI/LO (INR)	: 840/398
Avg Daily Vol ('000)	: 595
Bloomberg	: RW IN

Source: Bloomberg

Valuation			
	FY17	FY18e	FY19e
EPS (INR)	7.3	21.0	39.2
PE (x)	99.9	34.5	18.5
P/BV (x)	2.7	2.5	2.2
EV/EBITDA (x)	18.5	11.9	8.5
Dividend Yield (%)	0.2	0.4	0.4

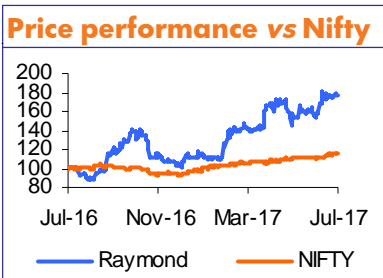
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	13	6	56	77
Relative	9	(1)	34	53

Source: Bloomberg

Shareholding pattern	
Promoters	: 43%
Public	: 57%
Others	: 0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

1QFY18 RESULT REVIEW

Raymond Limited

Strong growth in branded apparel space; margin across key segments impacted by short term hurdles

Raymond Ltd. (RW) 1QFY18 consolidated revenue came in at INR12bn, up 13.2% YoY, better than our expected growth of 8%, in a seasonally weak quarter impacted by GST transition. In terms of segments, the branded apparels, branded textiles, cotton shirting and auto components showed strong double digit growth, while the garmenting and tools & hardware segments disappointed in growth terms. Garmenting business growth at 2.4% YoY was muted, on back of a stronger local currency, implying higher single digit constant currency growth. Consolidated EBITDA improved ~20% YoY to INR426mn with EBITDA margin largely remaining flattish at ~3.5% YoY, despite the challenges faced in terms of adverse gross margin, higher discounts prior to GST transition and adverse currency. Auto comp segment reported strong growth of 24% YoY on account of higher sales to US CV markets and in turn improved EBITDA margin by 450bps to an impressive 18.5%.

We are keeping our FY18e/FY19e revenue and earnings estimates unchanged factoring in revenue CAGR of 11%, FY19e EBITDA margin at 9% and capex in FY18-19e combined at INR4bn resulting in earnings CAGR at 24%. However, we are factoring in Branded Apparel's EV/EBITDA multiple at 20x, branded textile at 10x and auto anc's segment at 10x. Although we ascribe zero valuation currently, potential monetization through the sale of B2B engineering businesses and real estate remain upside triggers for the stock as the management in the call also indicated the initiation of processes to monetize the land parcel soon.

Salient conference call highlights

- Brand Raymond is now at the 3rd position within its branded apparel portfolio in revenue terms and with focus on franchise based distribution build up, enhancing product portfolio along with strong double digit SSG for existing products, management is confident of seeing brand Raymond at 2nd spot in coming quarters.
- Expecting the impact of pre-buying prior to GST in June resulting in weaker retails in July to get balanced for the rest of quarter with early festive season this year. Looking forward to a mid to high single digit revenue growth in 2Q this year and maintained FY18e double revenue digit growth guidance. Total exclusive store count end of 1Q was at 1,100 with Park Avenue at 86, Color Plus at 136, Raymond ready to Wear at 34, Parx at 13, Raymond made to measure at 66 and rest Raymond outlets at 764. Management targeting an addition of 150 stores this fiscal with net additions in 1Q being at 20 stores. Every quarter management is targeting to renovate 10-15 stores in general to improve the SSG of these outlets from 20% levels presently. 45% of brand Raymond revenue is through the EBO route while that for CP is ~65%.
- Confident of ramping up margin in the branded apparel space to mid-single digit with channel mix and scale improvement down the line. Garmenting margin got impacted by adverse currency and will look at adequate measures to normalize that soon. Auto anc's margin improved substantially and is expected to sustain ahead.
- Capex this quarter was at ~INR1.2bn and is expected to remain the same in next quarter too. 50% of the capex is for Ethiopia/Amravati capex completion and rest for store renovation, store addition and product development. Cost of debt on blended basis is close to 7.6% now with short term WC debt coming at 8.5%.
- WC days came down this quarter by 32 days QoQ helping RW to fund capex despite this being a seasonally weak quarter, adding marginally to the net debt QoQ by INR500mn.
- Working towards initiating the monetisation process for the real estate piece and is set to announce key developments in coming months.

Outlook & Valuation

We maintain our BUY recommendation on RW with a SOTP based target price of INR850 from INR770 earlier. We have increased our target EV/EBITDA multiple for the auto anc's business from 6x to 10x on back of the strong growth and margin uptick shown this quarter, implying it to gradually getting ready for a divestment. Going by the recent re-rating of other auto anc's companies, EBITDA margin of ~18% and a 20% plus growth justifies this revised target multiple.

Quarterly Financials

(INRm)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	11,969	10,574	13.2	14,736	(18.8)
Other Op. Income	50	45	10.1	77	(34.9)
Total Revenue	12,019	10,619	13.2	14,813	(18.9)
RM/Purchased Goods Cost	4,896	4,346	12.7	6,447	(24.1)
Gross Profit	7,123	6,273	13.5	8,365	(14.9)
Gross Margin (%)	59.3	59.1	19	56.5	279
Operating Expenses	6,696	5,917	13.2	7,162	(6.5)
EBITDA	426	356	19.7	1,204	(64.6)
EBITDA Margin (%)	3.5	3.4	19	8.1	(458)
Depreciation	379	362	4.8	487	(22.1)
Other Income	380	270	40.8	245	55.3
Interest Expense	435	453	(4.0)	418	4.0
Exceptional Items	-	-		(10)	
Profit Before Tax	(7)	(189)	NM	534	NM
Tax Expense	(6)	63	NM	99	NM
Net Profit	(1)	(252)	NM	435	NM
Share of Associates	(53)	(30)		(98)	
Reported PAT	(54)	(282)	NM	337	NM
Adjusted PAT	(54)	(282)	NM	347	NM
EPS (INR)	(0.9)	(4.6)	NM	5.7	NM

Source: Company, Antique

Segment Revenue

(INRm)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Branded Textiles	5,723	5,041	13.5	7,371	(22.3)
Branded Apparel	2,699	2,420	11.5	3,597	(25.0)
Garmenting	1,436	1,402	2.4	1,842	(22.1)
High-Value Shirting	1,311	1,150	14.0	1,061	23.6
Tools & Hardware	871	911	(4.4)	925	(5.9)
Auto Components	537	433	24.0	413	30.1
Miscellaneous	20	11	91.4	34	(40.5)
Total	12,597	11,368	10.8	15,242	(17.4)
Intersegment	628	795		506	
Total Revenue	11,969	10,574	13.2	14,736	(18.8)

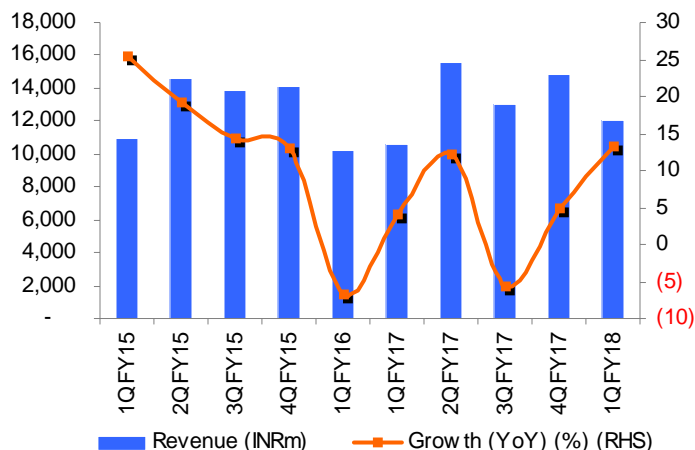
Source: Company, Antique

Segment EBITDA Margin

(INRm)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Branded Textiles	10.2	12.1	(191)	17.1	(691)
Branded Apparel	(5.1)	(6.2)	110	(3.1)	(204)
Garmenting	6.3	9.3	(304)	7.1	(82)
High-Value Shirting	9.9	9.6	35	9.4	48
Tools & Hardware	6.8	3.3	350	2.2	465
Auto Components	18.5	14.0	457	14.6	388

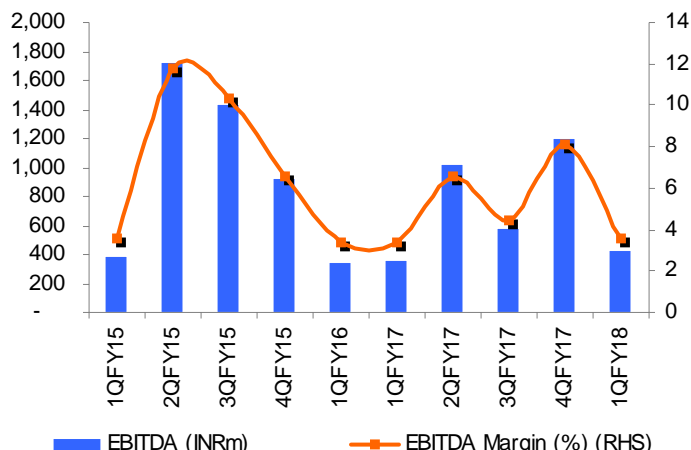
Source: Company, Antique

Consolidated Revenue Trend



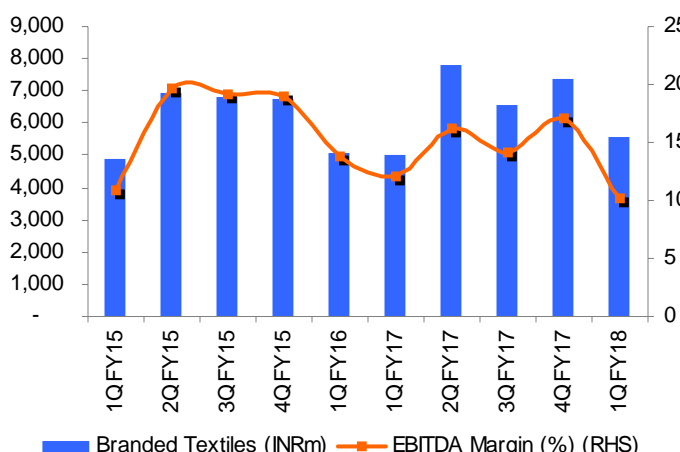
Source: Company, Antique

Consolidated EBITDA Trend



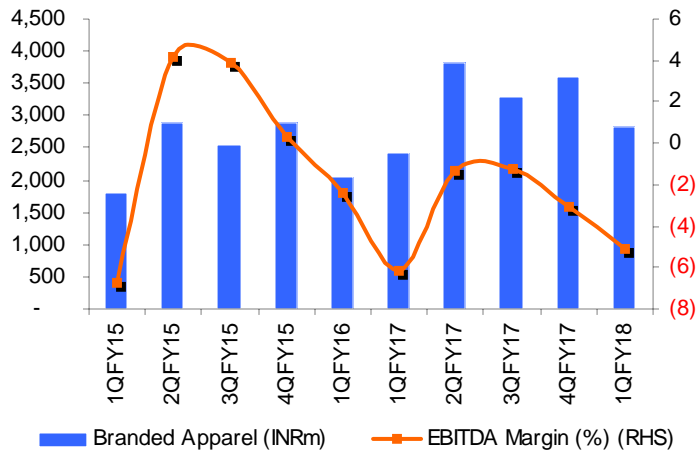
Source: Company, Antique

Branded Textiles Performance Trend



Source: Company, Antique

Branded Apparel Performance Trend



Source: Company, Antique

SOTP Valuation

(FY19E)	EBITDA (INRm)	Multiple (x)	EV (INRm)
Branded Textiles	6,118	10.0	61,182
Branded Apparel	1,259	20.0	25,181
Cotton Shirting Fabric	709	6.0	4,251
Garmenting	1,058	6.0	6,348
Tools & Hardware	163	8.0	1,307
Auto Components	355	10.0	3,549
Total	9,662	10.5	101,818
Elimination	3,285	10.5	34,618
Segment EV	6,377	10.5	67,200
Cash & Investments			4,756
JV/Associates (RW Share)			693
Total Debt			20,398
Intrinsic Market Cap			52,251
Outstanding Shares (mn)			61.4
Fair Value Per Share (INR)			850

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Revenue	53,326	51,406	53,533	60,773	70,801
Expenses	49,058	47,534	50,485	55,920	64,424
EBITDA	4,268	3,872	3,048	4,853	6,377
Depreciation & Amortisation	1,619	1,589	1,569	1,782	1,911
EBIT	2,649	2,283	1,479	3,071	4,466
Interest Expense	2,004	1,897	1,780	2,090	1,867
Other income	952	1,190	1,179	912	850
Profit before tax	1,597	1,576	878	1,893	3,449
Tax Expenses	439	465	218	606	1,104
Profit after tax	1,158	1,111	660	1,287	2,345
Extraordinary Items	0	(352)	(101)	-	-
M.I. / Share of Associate Profit	(31)	103	(214)	(40)	-
Reported PAT	1,128	862	345	1,247	2,345
Adjusted profit after tax	1,128	1,215	446	1,247	2,345
Adjusted EPS (INR)	18.4	19.8	7.3	20.3	38.2

Balance sheet (INRm)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Share Capital	614	614	614	614	614
Reserves & Surplus	15,328	16,110	16,117	17,223	19,348
Networth	15,942	16,723	16,731	17,837	19,962
Minority Interest	729	648	693	693	693
Debt	19,543	20,627	21,398	20,398	18,898
Capital Employed	36,214	37,999	38,822	38,928	39,552
Gross Fixed Assets	11,815	13,199	14,699	17,699	18,699
Accumulated Depreciation	-	(1,569)	(3,127)	(4,909)	(6,820)
Net Assets	11,815	11,630	11,572	12,790	11,879
Goodwill on consolidation	10	115	115	115	115
Capital work in progress	1,947	2,403	4,121	2,000	500
Non-Current Investments	1,989	2,457	2,523	2,523	2,523
Current Assets, Loans & Adv.	29,657	31,841	33,327	36,047	41,601
Inventory	10,762	11,732	12,887	13,986	15,518
Debtors	9,428	10,448	10,507	11,322	12,608
Cash & Current Investments	4,542	4,737	4,664	4,756	6,505
Loans & advances and others	4,924	4,923	5,270	5,983	6,970
Current Liabilities & Prov.	9,767	11,049	13,554	15,264	17,783
Creditors	5,072	5,888	7,734	8,658	10,087
Other liabilities & provisions	4,695	5,161	5,819	6,606	7,696
Net Current Assets	19,890	20,792	19,773	20,783	23,818
Deferred tax assets/(liabilities)	563	601	717	717	717
Application of Funds	36,214	37,999	38,822	38,928	39,552

Per share data

Year ended 31 Mar	2015	2016	2017	2018e	2019e
No. of shares (m)	61.4	61.4	61.4	61.4	61.4
BVPS (INR)	259.7	272.5	272.6	290.6	325.2
CEPS (INR)	44.7	45.7	32.8	49.3	69.3
DPS (INR)	3.0	3.0	1.3	3.0	3.0

Margins (%)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
EBITDA	8.0	7.5	5.7	8.0	9.0
EBIT	5.0	4.4	2.8	5.1	6.3
PAT	2.1	2.4	0.8	2.1	3.3

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Branded Textiles growth YoY %	23.8	6.2	0.5	12.0	15.0
Branded Apparel growth YoY %	15.5	10.6	13.6	18.0	20.0
Branded Apparel EBITDA margins (%)	1.2	2.0	(0.9)	3.5	7.0
Ad spends (%)	4.3	4.2	4.4	5.5	5.5

Cash flow statement (INRm)

Year ended 31 Mar	2015	2016	2017p	2018e	2019e
PBT	1,597	1,673	619	1,893	3,449
Depreciation & amortisation	1,619	1,589	1,569	1,782	1,911
Interest expense	2,004	1,897	1,780	2,090	1,867
(Inc)/Dec in working capital	(204)	(489)	638	(917)	(1,287)
Tax paid	(655)	(492)	(350)	(606)	(1,104)
Others	21	(832)	(990)	(912)	(850)
CF from operating activities	4,381	3,346	3,266	3,330	3,986
Capital expenditure	(2,238)	(2,222)	(2,779)	(3,000)	(1,000)
Inc/(Dec) in investments	(261)	(451)	(146)	-	-
Income from investments	1,101	566	729	912	850
CF from investing activities	(1,399)	(2,108)	(2,196)	(2,088)	(150)
Inc/(Dec) in debt	(225)	916	982	(1,000)	(1,500)
Dividend / Interest paid	(2,275)	(2,096)	(2,199)	(2,311)	(2,088)
Other Adjustments	(862)	(862)	-	40	-
CF from financing activities	(3,362)	(2,041)	(1,216)	(3,271)	(3,588)
Net cash flow	(379)	(803)	(146)	(2,029)	249
Opening balance	4,851	4,542	4,737	4,664	4,756
Closing balance	4,472	3,739	4,591	2,635	5,005

Growth indicators (%)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Revenue	17.3	(3.6)	4.1	13.5	16.5
EBITDA	(11.1)	(9.3)	(21.3)	59.2	31.4
PAT	4.8	(23.6)	(60.0)	261.3	88.1
EPS	(21.1)	7.7	(63.3)	179.8	88.1

Valuation (x)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
P/E	43.8	40.7	110.9	39.6	21.1
P/BV	3.1	3.0	3.0	2.8	2.5
EV/EBITDA	14.6	16.2	20.9	12.9	9.3
EV/Sales	1.2	1.2	1.2	1.0	0.8
Dividend Yield (%)	0.4	0.4	0.2	0.4	0.4

Financial ratios

Year ended 31 Mar	2015	2016	2017	2018e	2019e
RoE	7.6	6.8	3.9	7.4	12.4
RoCE	10.7	9.5	7.0	10.4	13.8
Debt/Equity (x)	1.2	1.2	1.3	1.1	0.9
EBIT/Interest (x)	1.3	1.2	0.8	1.5	2.4

Source: Company Antique

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