India Equity Research | Retail
July 11, 2017
Initiating Coverage

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Raymond

Re-imagining the Complete Man

CMP	Target Price
Rs 789 as of (July 11, 2017)	Rs 1,059 12 months
Rating	Upside
BUY	34.2 %

- Raymond Ltd is a leading player in India's Fabrics industry with a vast retail footprint, world-class manufacturing facilities and a strong brand recall. Innovation, product extension and new launches are key growth drivers in the Textile business
- Clear brand positioning, asset light network expansion, enhanced retail experience, and omnichannel initiatives will drive Raymond's Apparel business higher at a 17% CAGR during FY17-19E. We expect consolidated revenue to grow at an 11% CAGR FY17-19E
- Completion of the investment phase, operating leverage in the Apparel business, and operating efficiencies across businesses are expected to boost EBITDA margins to 8.6% in FY19E
- Strong cash flow generation ability of the Textile business, bright growth prospects of the Apparel business, and turn-around/value-unlocking opportunities in the non-core businesses are likely to propel overall profitability and return ratio uptick. We initiate coverage with a BUY rating and price target of Rs 1,059/share

Leading player in B2C fabrics; Brand equity creates significant pull

Backed by a legacy of over nine decades, Raymond has established itself as the leading B2C player in India's Fabrics industry. Its strong brand equity and continuous innovation (eg. techno series) has helped the company sustain growth momentum. Branded textiles is a cash cow, generating a cumulative operating cash flow of Rs 13bn over the past 5 years.

Strong thrust on Apparels business is key growth engine

The Apparels business has been identified as the key growth driver for future. Sharper focus via higher ad spends has resulted in an average growth of more than 15% over the past nine quarters. We believe that i) clear brand positioning and brand extensions, ii) asset light network expansion, iii) enhanced retail experience, and iv) omnichannel initiative, and will drive apparel revenues CAGR of 17% over FY17-19E.

Operating leverage and efficiencies to drive EBITDA margins

EBITDA margins declined sharply to 5.7% in FY17 (from 7.5% in FY16), impacted by demonetisation resulting in an elongated EOSS, and rising input costs. We expect EBITDA margins to claw back to 8.6% in FY19E on the back of completion of investment in brands, operating leverage in the Apparels business and operating efficiencies across businesses.

Re-imagining the Complete Man; Initiate with BUY

Strong cash flow generation ability of the Textiles business, bright growth prospects of the Apparel business and turnaround/value-unlocking opportunities in the non-core businesses are likely to drive overall profitability and return ratio uptick. We value Raymond on SoTP basis and initiate coverage with a BUY rating and price target of Rs 1,059/share.

Financial Snapshot (Consolidated)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	53,326	51,406	53,533	58,731	65,915
EBITDA	4,268	3,872	3,048	4,203	5,666
EBITDA Margin (%)	8.0	7.5	5.7	7.2	8.6
APAT	1,128	1,200	356	889	1,812
EPS (Rs)	18.4	19.6	5.8	14.5	29.5
EPS (% chg)	(21.1)	6.4	(70.4)	149.9	103.9
ROE (%)	7.5	7.5	2.1	5.2	10.0
P/E (x)	42.9	40.3	136.1	54.5	26.7
EV/EBITDA (x)	14.7	16.7	21.4	15.6	11.5
P/BV (x)	3.1	2.9	2.9	2.8	2.5

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NA

Emkay vs Consensus		
EPS Estimates		
	FY18E	**FY19E**
Emkay	14.5	29.5
Consensus	18.9	31.5
Mean Consensus TP (12M)		Rs 832

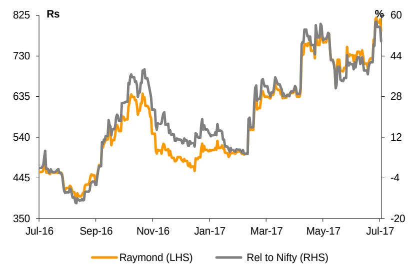
Stock Details	
Bloomberg Code	RW IN
Face Value (Rs)	10
Shares outstanding (mn)	61
52 Week H/L	840 / 398
M Cap (Rs bn/USD bn)	48 / 0.75
Daily Avg Volume (nos.)	957,518
Daily Avg Turnover (US$ mn)	11.0

Shareholding Pattern Mar '17	
Promoters	42.5%
FIIs	8.9%
DIIs	15.1%
Public and Others	33.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	20	54	71
Rel. to Nifty	6	12	32	49

Relative price chart



Source: Bloomberg

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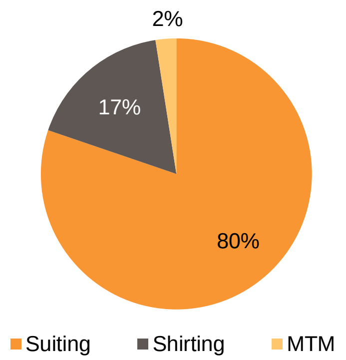
Raymond – a leading fabric brand

- Branded Textiles is the flagship business of Raymond's and contributes c.50% to its consolidated revenue
- The division consists of Suiting Fabrics, Shirting Fabrics and MTM business. Suiting segment contributes c.80% to Branded Textiles sales
- Raymond has built a strong brand in the Fabrics segment, which creates a significant pull. Despite a growing shift to readymade garments, Raymond's Textile business has reported a steady 10% CAGR over FY13-17
- The Textiles business has a vast retail presence with over 20,000 touchpoints. MBOs/Wholesale constitute 50% of the channel mix and 22% of fabrics sold via The Raymond Shop (TRS)
- MTM is a modern version of bespoke clothing, which allows customisation in fabrics, fits, colours, styles etc.
- Over the past 5 years, Textiles has delivered a cumulative operating cash flow of Rs13bn (Emkay estimates). The division reported ROCE of 25% in FY17
- We expect the Textile business to grow at a 8% CAGR during FY17-19E to Rs 32bn, led by increased innovation, product extensions, wider array of services and network expansion

Branded Textiles is the flagship business of the Raymond group, contributing c.50% to consolidated revenue (FY17). Branded Textiles primarily consists of Suiting (fabric for suits and trousers), Shirting and MTM businesses. The Suiting segment overshadows Shirting and MTM, contributing c.80% of the total Textile revenue. The Textiles division largely caters to the domestic B2C market with a small presence in the exports market.

Exhibit 1: Suiting dominates textile business with 80% share



Source: Company, Emkay Research

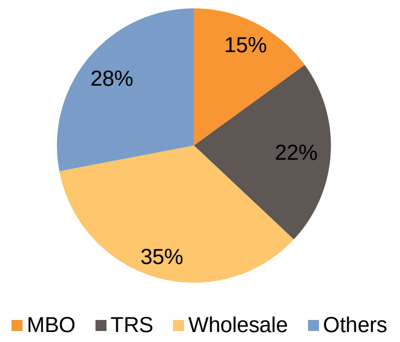
Strong brand equity still creates a significant pull

Over the past nine decades, Raymond has built a powerful flagship brand in the Branded Fabrics segment, which has consistently scored high on the Brand Trust rankings in India. It is one of the few brands in the country that has a near 100% consumer awareness. The Raymond brand has also been awarded The Most Trusted Brand in Clothes and Apparel category in 2016 by Business World, cementing its position as one of India's leading brand in Fabrics. Raymond fabrics is available in different colours and patterns across various price points, capturing a large ambit of customers.

Vast retail presence a key strength

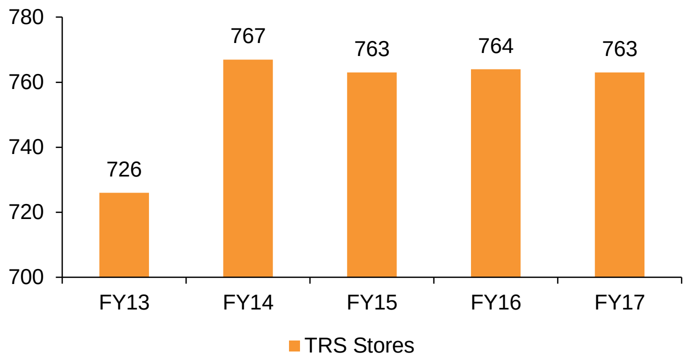
Raymond has over 20,000 retail touchpoints in more than 600 cities and towns, giving the company an unparalleled retail penetration. Given the greater preference of Fabrics and Ready-to-Stitch (RTS) apparels in tier 2/3 cities, c.50% of Raymond's fabrics are sold through traditional channels (MBOs and Wholesale). In modern retail, Raymond sells its fabrics through TRS, contributing 22% to the sales mix.

Exhibit 2: Raymond textiles channel mix



Source: Company, Emkay Research

Exhibit 3: TRS store count has been stable over last 4 years



Source: Company, Emkay Research

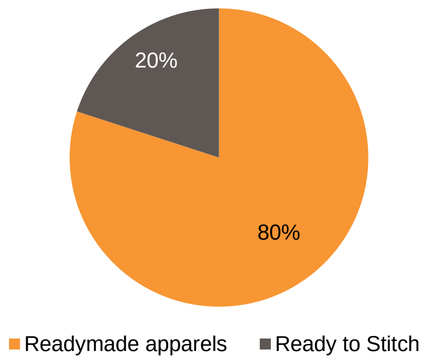
As of FY17, Raymond has a network of 763 TRS stores (including 49 overseas stores), of which more than 90% are run on a franchisee model. While Raymond has seen strong traction in fabric sales through TRS, customers who purchase fabric from non-TRS channels tend to get the garments stitched outside the Raymond network. The company aims to increase overall tailoring capacity and skills of the tailors. Over the next few years, Raymond intends to increase the tailor ecosystem by 4x-5x (from 8,000) and set up processing hubs (via franchise) in various cities and providing training to them.

Consumer preference impacting RTS market

Over the past two decades, there has been a change in the Indian consumers' preference from fabrics to readymade garments largely in the metros and bigger cities. However, in smaller towns and cities, there is still a strong preference for fabrics.

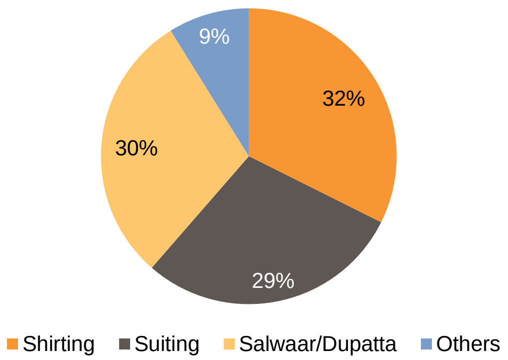
Industry data estimates the size of the RTS market at US$6bn, contributing c.10% to the overall Apparels sector. Despite headwinds, demand for RTS is still high in smaller towns and cities where consumers are yet to shift to readymade garments, and is expected to grow at 5.5%. The key drivers for the RTS market include i) growing plus-sized population with limited options in the readymade apparel segment, ii) continued acceptance of fabrics as gifting options for occasions such as weddings, birthdays etc, and iii) increasing consumption in tier 2/3 cities.

Exhibit 4: Readymade apparels contribute 80% to overall market



Source: Industry, Emkay Research

Exhibit 5: Top 3 categories contribute 91% to RTS market



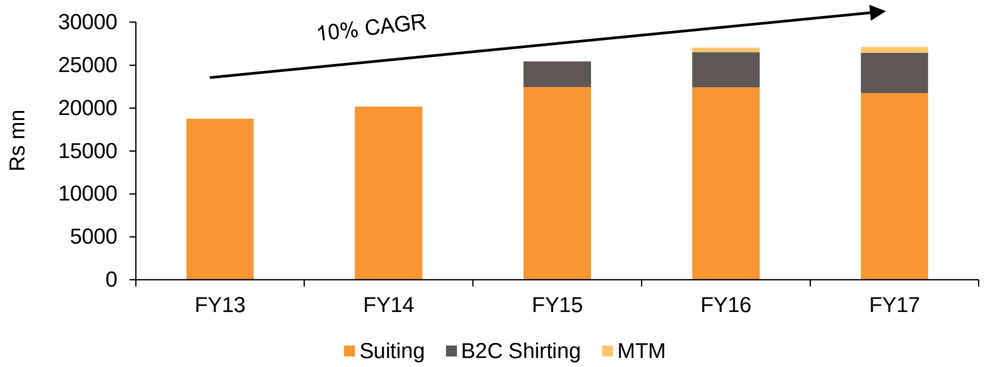
Source: Industry, Emkay Research

The aforementioned changing preference among consumers has resulted in Raymond's Fabrics growth rates tapering down to 6-7% during FY12-14.

Growth boosted by shirting business

Raymond has successfully boosted growth in the Textiles segment with the addition of the B2C Shirting business in FY15. Consequently, the Textiles business has reported a 10% CAGR for FY13-FY17 to Rs 27bn.

Exhibit 6: The B2C shirting segment has helped boost textile revenue growth



Source: Company, Emkay Research

Made-to-measure – a premium bespoke offering

In spite of the growing acceptance of readymade apparels, there is still a large consumer base in India that desires perfection in fitness, quality and style and therefore stick to RTS method. This demand has been met by upscale niche tailors and companies such as Raymond offering MTM. The bespoke luxury market size is currently pegged at c.Rs50bn and has been historically growing at 15-20% CAGR. The growth in the bespoke market has been propelled by higher disposable income, especially among the HNIs in the country, and their varying fashion needs.

MTM is a premium offering by Raymond, targeting the luxury segment of the RTS. MTM is a modern version of bespoke clothing, which allows for customisation in fabrics, fits, colours, styles etc. Raymond has emerged as a leading player in the very niche MTM market, clocking revenue of Rs 670mn in FY17. MTM is available across 60 standalone stores as well as select TRS outlets. Competitors include Arvind Creyate, TailorMan, Bombay Shirt Company and SS Homme.

Manufacturing facilities

While the company currently has a Suiting capacity (finishing) of 38mn meters per annum, a large portion of their production is outsourced with total annual sales volumes of 56mn meters for Suiting. Including Shirting, the overall sales volume in the Textile division is c.75mn meters. Raymond has a leadership position in India in the Worsted Suiting Fabrics segment. Raymond has world-class manufacturing facilities in Chhindwara (MP), in Vapi (Gujarat) and in Jalgaon (Maharashtra).

Expect Textiles business to grow at 8% CAGR during FY17-19E

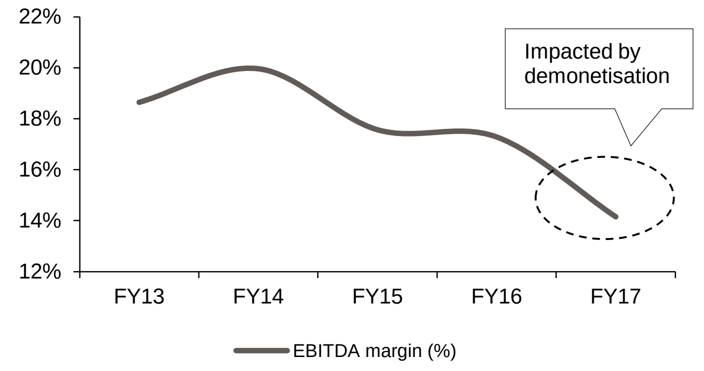
Raymond intends to sustain the growth momentum in the Textiles business through continuous innovation (new products/ranges), product extensions, new launches and asset light network expansion.

- **Product innovation**: The Company has recently launched an innovative fabrics series (Techno series) wherein, Technosmart has already reported sales of 1mn meters and Rs 1bn in the first year of launch. The company has launched Techno-stretch fabrics in FY18 and will launch more innovative products going ahead.
- **Product extension**: Raymond has also extended its product portfolio by partnering with Khadi and Village Industries Commission (KVIC) and launching a branded khadi label under the Raymond brand.
- **New services**: Raymond has piloted online tailoring services in Mumbai and is looking to launch it across major metros. The company is also expanding the tailoring eco-system by increasing the capacity by promoting opening of franchise hubs, and upgrading skills of the tailors.
- **Asset light expansion**: The company remains focused on driving network expansion via franchise TRS stores, mini TRS and wholesale/MBO network, limiting incremental capital expenditure.

Margins have been subdued in the recent past

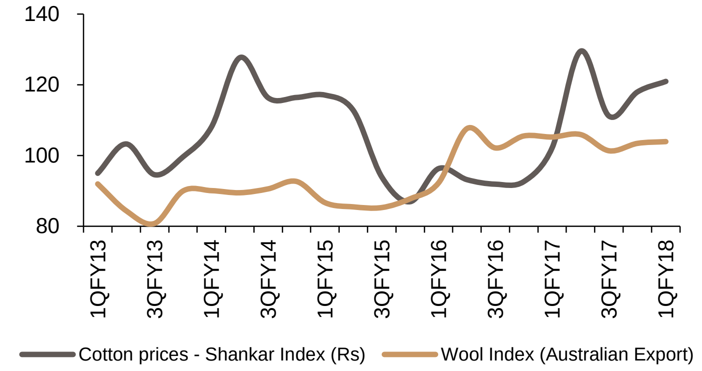
Textiles business EBITDA margins have historically ranged between 18% and 20%. Margins have been impacted since FY15 due to changing mix and rising input costs. Shirting fabrics and MTM command lower margins than the Suiting business which has affected the overall product mix. Cotton and Woollen prices have crept up in the recent past, putting further pressure on margins. FY17, in particular was impacted due to demonetisation in Q3FY17. Product innovations, and overall scale is expected to boost margins in the near term.

Exhibit 7: Margins have been under pressure in the recent past…



Source: Company, Emkay Research

Exhibit 8: …partially due to rising input costs

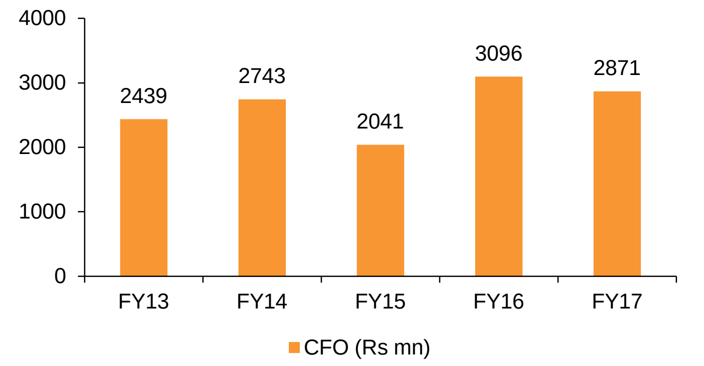


Source: Industry, Australian Bureau of Statistics, Emkay Research

Steady business with high cash flow generation

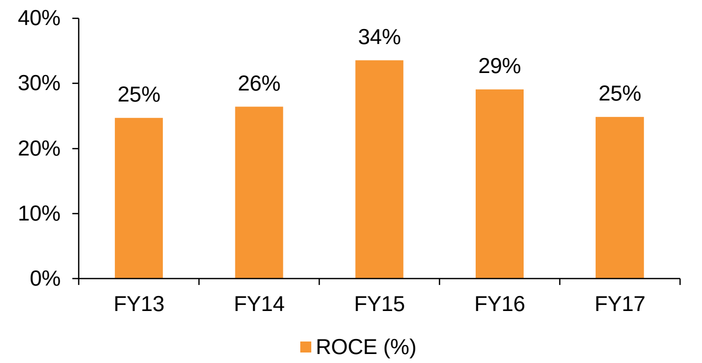
Stable growth, robust profitability and a controlled working capital cycle have transformed the Textiles business into a cash cow. Over the past five years, the division has delivered a cumulative operating cash flow of Rs 13bn (Emkay estimates). Limited capital expenditure going ahead allows the free cash flow from Textiles business to be reinvested in other businesses such as Branded Apparels to drive future growth. A depreciated asset base has propelled the ROCE of this business into double digits (25% in FY17). We believe that improved profitability will not only drive the CFO but also the ROCE profile of the Textiles business.

Exhibit 9: Textile business has consistently generated ample CFO



Source: Company, Emkay Research

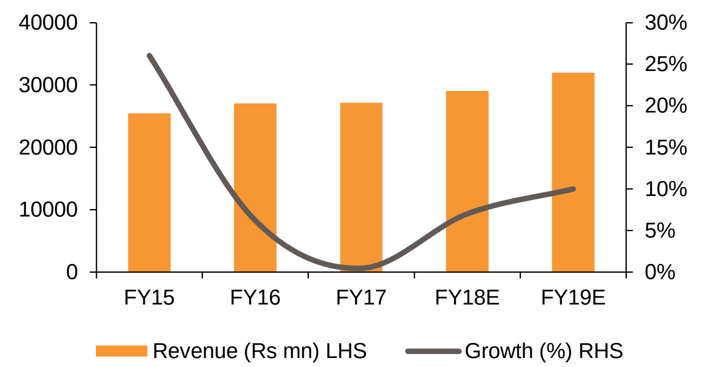
Exhibit 10: Double digit ROCE's in the textile business



Source: Company, Emkay Research

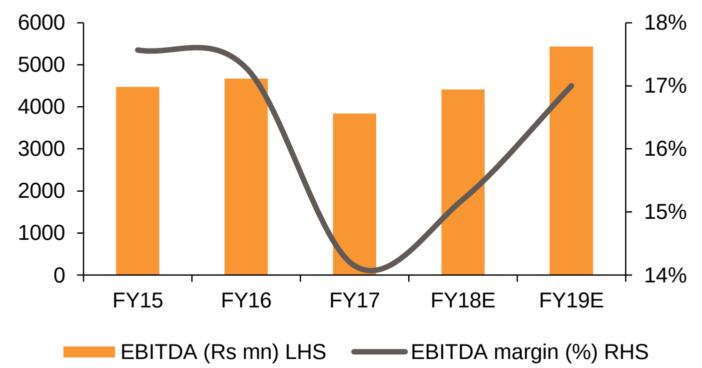
We expect the Textiles business to grow at a steady 8% CAGR during FY17-19E to Rs32bn, led by increased innovation in fabrics, product extensions, wider array of services and network expansion (including MBOs, Wholesale, mini-TRS), especially in semi-urban and rural India. As the businesses (Shirting and MTM) scale up, operating leverage will result in an EBITDA margin expansion of 290bps over FY17-19E to 17% in FY19E.

Exhibit 11: Expect revenues to grow at 8% CAGR over FY17-19E



Source: Company, Emkay Research

Exhibit 12: Expect EBITDA margins to revive to 17% in FY19E



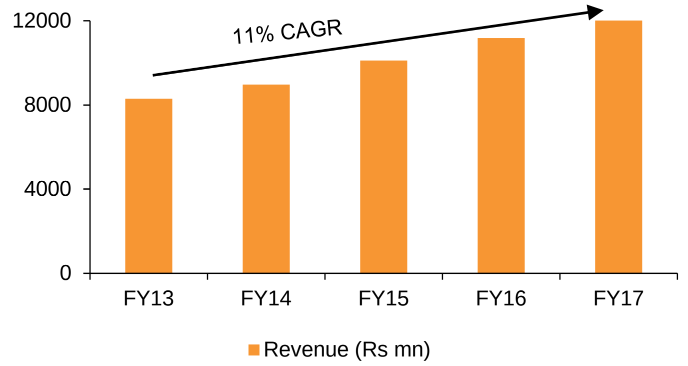
Source: Company, Emkay Research

Branded Apparels – the growth engine

- Raymond's Branded Apparels segment consists of four brands, namely, Raymond Ready-to-Wear (RTW), Park Avenue, Parx and ColorPlus
- Branded Apparels contributed c.24% to consolidated revenue in FY17 and has been growing at CAGR of 11% during FY13-17
- Raymond has a retail footprint of 1080 stores, covering 1.99mn sqft. 60% of sales are via TRS and Exclusive Brand Outlets (EBOs)
- Over the past two years, TRS stores have undergone renovation. Newly renovated stores have reported SSG of c.20%
- We believe that i) a strong brand recall, ii) clear positioning, iii) complete wardrobe and services, iv) exposure to fast fashion, v) enhanced retail experience, vi) increased omni-channel presence and vii) asset light network expansion are likely to drive growth by 17% CAGR over FY17-19E to Rs17.4bn

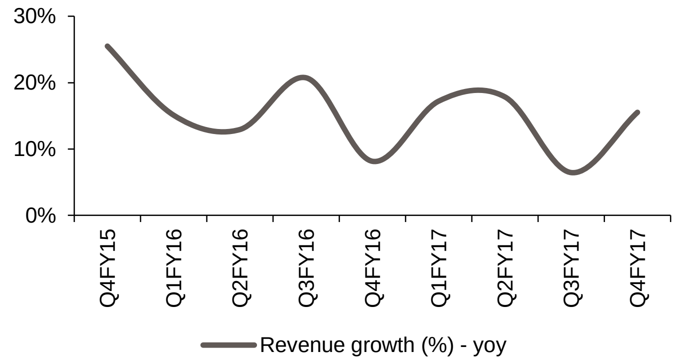
The Branded Apparels segment contributed c.24% to consolidated revenues as of FY17. This division has grown at a steady 11% CAGR over FY13-17 to Rs 13bn. However, following greater impetus on the division via aggressive ad spends (7.5%-8% of divisional sales), the average growth rates over the last nine quarters have been in excess of 15%.

Exhibit 13: Apparel revenue growth steady at 11% CAGR FY13-17



Source: Company, Emkay Research

Exhibit 14: Average growth rate above 15% over past 9 quarters



Source: Company, Emkay Research

Over the past few years, Raymond consolidated the loyalty programmes for all its apparel brands, resulting in a total member base of 4.5mn for Raymond Rewards. Since the relaunch of the loyalty programme, the store visits increased by 24%, and repeat sales by 55% due to re-activation of a large number of customers. The loyalty members contribute c.63% to overall sales and the average transaction value of a loyalty member is c.60% higher than a non-member.

In order to benefit from the e-commerce boom, Raymond not only sells its brands through third party websites such as Amazon and Flipkart, but also runs its own e-commerce website RaymondNext.com. E-commerce accounts for a low single digit of apparel sales. Raymond has also set up a Digital Customer Centre (DCC) to create new ways to engage customers online via social media and online marketing initiatives. The DCC also manages all the customer data, and uses analytics to enhance the customer shopping experience.

Uncluttered brand positioning helps avoid cannibalisation

Raymond's Branded Apparels division consists of four readymade apparel brands, namely Raymond RTW, Park Avenue, Parx and ColorPlus. The aim of this division is to capture the entire wallet share of consumers with regard to pricing and fashion sensibility. The brands have been re-vitalised and re-aligned to transform their positioning from "My Father's Brand" tag to a more contemporary/youth-focused brands.

Fashion sensibility ranges between i) Classic– where the fashion and style do not change to a large degree through the years, ii) Contemporary – these styles are in vogue and differ with changing fashion over time, iii) Edgy – it is similar to fast fashion wherein the change in fashion and styles are more rapid.

Exhibit 15: Raymond brand positioning

Brand	Size (Rs mn)	Positioning	Price points (Rs)	Fashion sensibility
Raymond Ready-to-Wear	2250	Bridge to Luxury	2000+	Classic
Park Avenue	5930	Premium	1500+	Contemporary
ColorPlus	2750	Premium	1700+	Classic/Contemporary
Parx	1730	Value to Premium	1000+	Edgy

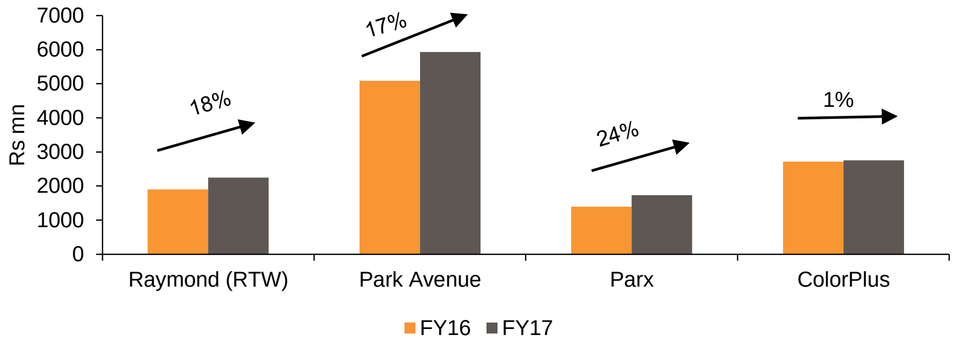
Source: Company, Emkay Research

Raymond's apparel brands are chiefly menswear brands, but Park Avenue has been extended to womenswear too. Given the overall slowdown in the men's formalwear category, Raymond intends to become a full wardrobe solution provider.

Raymond is planning to expand offerings into ceremonial (ethnic wear) in RTW. For ColorPlus, the company is planning to introduce extensions in Formalwear. The overall strategy in the Branded Apparel segment is to have a full wardrobe offerings, but to avoid cannibalisation via appropriate brand positioning.

The growth in the Branded Apparels business in FY17 was impacted by a weak Q3FY17, owing to demonetisation in November 2016. However, despite a challenging business environment, 3 of the 4 brands reported a strong double-digit growth in FY17, with only ColorPlus reporting a muted growth.

Exhibit 16: Growth in individual brands

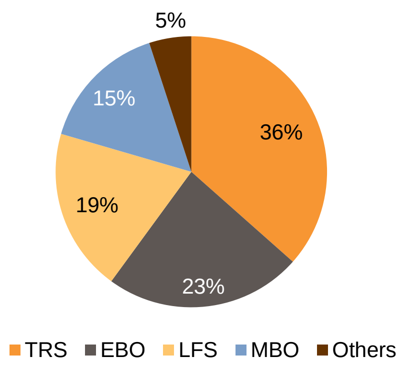


Source: Company, Emkay Research

Renovations help boost SSG

Raymond has a retail footprint of 1,080 stores, covering 1.99mn sqft as of FY17. Raymond's Branded Apparels products are primarily sold through TRS and EBOs. These channels contribute c.60% to overall sales.

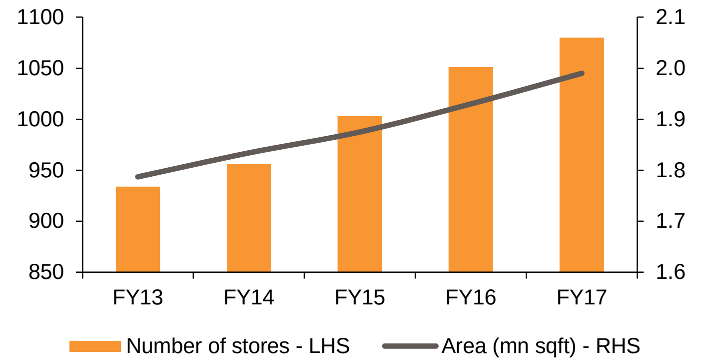
Exhibit 17: Branded Apparel channel mix



Source: Company, Emkay Research

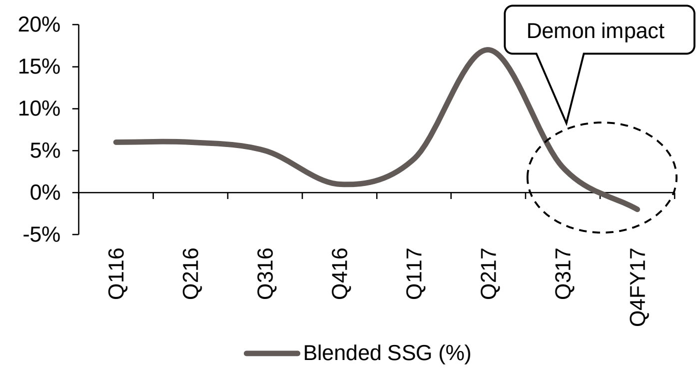
Over the past two years, TRS stores have undergone renovation. While renovation costs are borne by the franchisee, Raymond provides support with regard to interest subsidy. Newly renovated stores have reported SSG of c.20%, helping to boost an otherwise tepid overall SSG for the company. Overall SSG was impacted by demonetisation in H2FY17.

Exhibit 18: Added c.40 stores (net addition) each year



Source: Company, Emkay Research

Exhibit 19: SSG impacted by demonetisation in H2FY17



Source: Company, Emkay Research

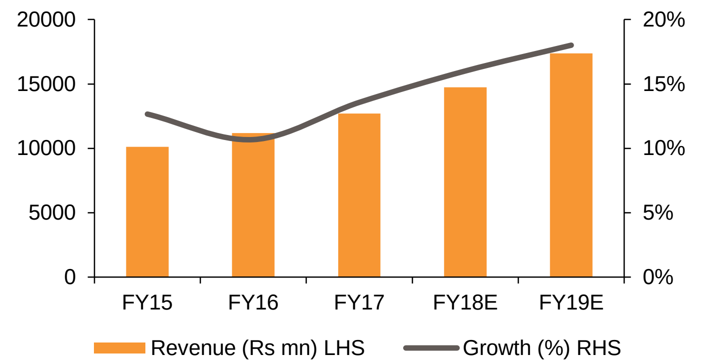
Over the past 3 years, Raymond has on an average added 40 stores each year (net addition). Going forward, the focus will be on deepening penetration via EBOs, LFS, and Mini-TRS.

Raymond has re-defined the retail format by opening their "Store of the Future" in Indira Nagar, Bangalore. The new store format allows Raymond to showcase its RTW apparels as well as its MTM offerings. Currently, there are 28 operational stores based on the "Store of the Future" design. The company is also planning to launch its omni-channel initiative in the near future, allowing consumers to seamlessly move between browsing through the merchandise in the physical store and the digital store.

Branded Apparels – the primary growth driver

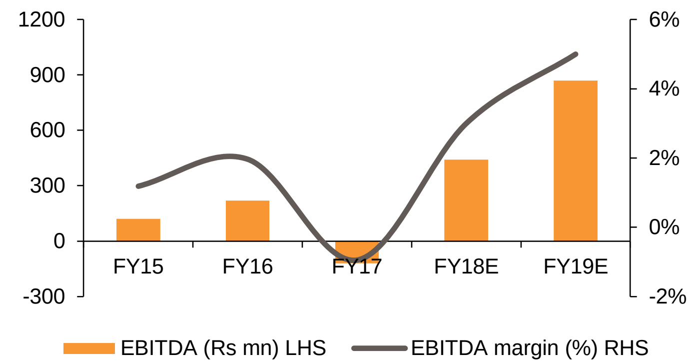
We believe that i) a strong brand recall, ii) strengthening of brands with clear positioning, iii) complete wardrobe and solutions under each brand, iv) exposure to fast fashion segment via Parx, v) enhanced retail experience via "Stores of the future", vi) wider omni-channel presence and vii) asset light network expansion are likely to drive the Branded Apparels CAGR of 17% over FY17-19E to Rs 17.4bn. The Branded Apparel business is likely to drive the growth of Raymond going forward, contributing c.26% to consolidated revenues by FY19E.

Exhibit 20: Expect revenues to clock 17% CAGR over FY17-19E



Source: Company, Company, Emkay Research

Exhibit 21: EBITDA margins expected to expand to 5% by FY19E



Source: Company, Company, Emkay Research

The Branded Apparels business' gross margins are in line with the domestic peers at c.50%. However, due to network expansion, elongated end-of-season-sale (EOSS) and investments in the branded business, the EBITDA margins remained muted at -0.9% as of FY17. We believe that controlled EOSS, asset light expansion and scaling up of brands (leading to operating leverage) will propel EBITDA margins to 5% by FY19E. We expect contribution to consolidated EBITDA from Branded Apparels to increase to 15% by FY19E.

B2B segments – Driven by capacity expansion

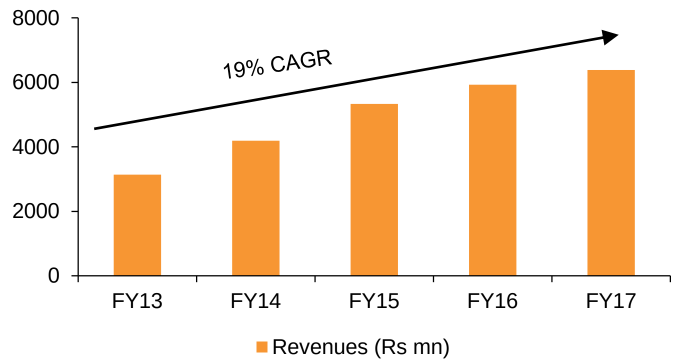
- Raymond is involved in three B2B businesses, namely, Garmenting, High Value Cotton Shirting (HVCS), and Denims
- Raymond has built its garment facilities in Bangalore and mainly manufactures high-end suits, jackets, trousers and shirts. We expect capacity expansion (Ethiopia) to boost sales CAGR to 12% CAGR over FY17-19E
- HVCS has a total Shirting capacity of 26mn meters with utilisation rate of c.90%. Product innovation, enhanced capacity and sustainable competitive advantage are likely to drive revenues CAGR of 15% during FY17-19E

Raymond is involved in three B2B businesses, namely, Garmenting, High Value Cotton Shirting (HVCS), and Denims. The garmenting and HVCS businesses contribute 12% and 9%, respectively to consolidated sales, while the denim business is a joint venture.

Garmenting boosted by Ethiopia expansion

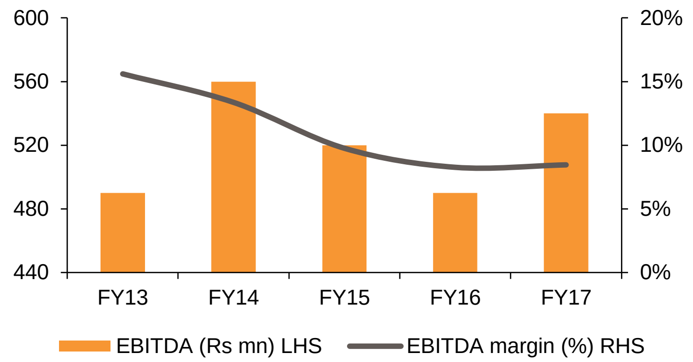
Raymond has built its garmenting facilities in Bangalore and mainly manufactures high-end suits, jackets, trousers and shirts. The garmenting business is chiefly a white label integrated supplier to leading international brands. It is the only Indian manufacturer with the capabilities to craft full canvas premium jackets. It has a current capacity of 7mn pieces (including 1.2mn pieces capacity that was added in FY16) with utilisation rate of c.76% in FY17. This business reported revenue of Rs 6.4bn in FY17 and has been growing at a CAGR of 19% over FY13-17. Around 80% of the garments are exported to regions such as North America, Europe and Japan. Much of the domestic garments (c20% of overall capacity) are used in Raymond's own brands.

Exhibit 22: Revenues have grown at 19% CAGR



Source: Company, Emkay Research

Exhibit 23: Margins impacted by lower capacity utilisation



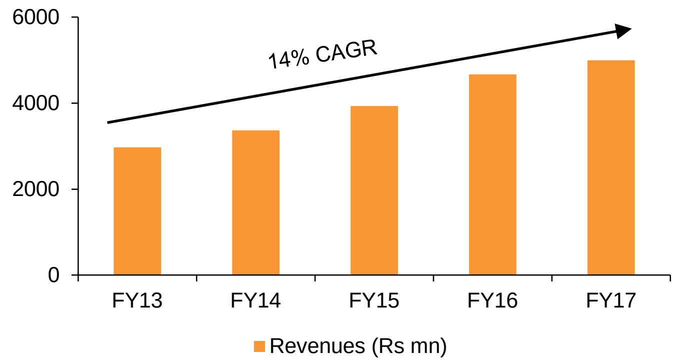
Source: Company, Emkay Research

The company has recently commenced operations in its Ethiopia facility (June 2017), having a total capacity of 2.6mn pieces for a capital expenditure of Rs 1.2bn. The facility is expected to reach optimal utilisation levels over FY18E. Setting up a greenfield garmenting facility in Ethiopia has enormous cost advantages vis-à-vis India with respect to i) lower labour costs, ii) lower power costs, iii) land and building provided by Ethiopian government, cutting capital expenditure, iv) transportation time/costs to Europe and US is reduced, and v) exports from Ethiopia have no duty to Europe and USA. We expect capacity expansion to boost sales CAGR to 12% CAGR during FY17-19E.

Linen expansion in Amravati to boost HVCS sales

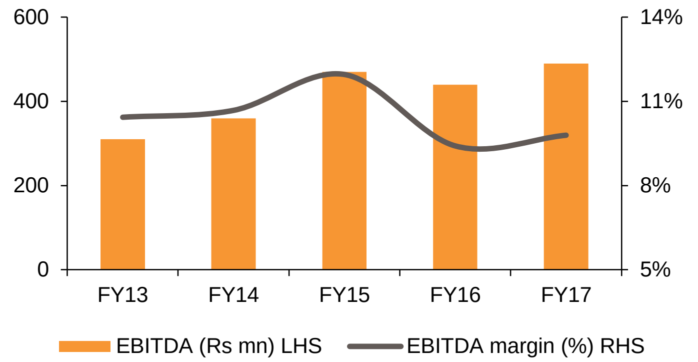
HVCS is housed in Raymond Luxury Cotton Ltd, with a total shirting capacity of 26mn meters and utilisation of c.90% in Kolhapur, Maharashtra. The unit manufactures high-value cotton and linen Shirting and Bottom Weight Fabrics for leading domestic and international brands. HVCS business reported revenue of Rs 5bn in FY17. Due to the proximity of the Kolhapur unit to the weaving cluster, the division has a rather distinct flexibility in production along with a cost advantage versus other players.

Exhibit 24: HVCS sales have grown at 14% CAGR



Source: Company, Emkay Research

Exhibit 25: EBITDA margins have ranged from 9% to 12%



Source: Company, Emkay Research

The company is in the process of setting up a linen plant of 4mn meters capacity in Amravati for a total capex of c.Rs 2bn. The linen plant is expected to commence operations from Q4FY18. Product innovation, increased capacity and sustainable competitive advantage are likely to drive revenue CAGR of 15% during FY17-19E.

Denim business at steady state

Raymond's Denim division is run as a JV with UCO of Belgium and has a total capacity of 47mn meters (having added c.9mn meters in FY16). It has manufacturing facilities in Yavatmal, Maharashtra and in Romania. Nearly half of the revenues are derived from exports and the clients include leading international denim brands. The Denims business reported revenue of Rs8.8bn in FY17. The company believes that improved productivity, reduction in wastage, new product launches and higher nominations from international brands, especially in USA and Europe are key growth drivers.

Engineering business – Focus on sustained profitability

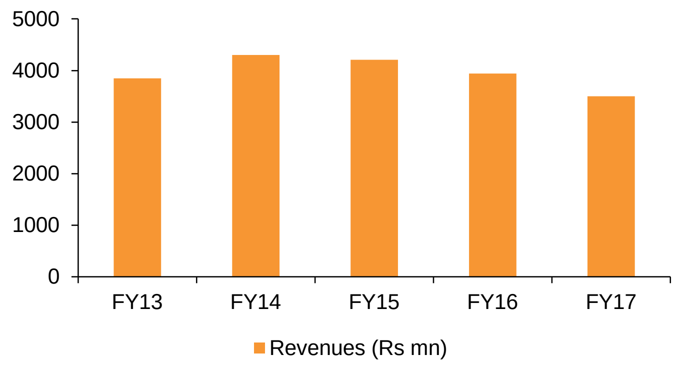
- Raymond's engineering business consists of Tools & Hardware, and Auto Components
- Over the past 3 years, T&H has seen a decline in revenues largely due to global slowdown in industrial activity. We expect the company to accelerate turnaround via product range rationalisation and grow by 3% CAGR over FY17-19E
- Auto Components division is focused on expanding the global flexplates division, improve realisations of low-margin products, and increase market share in bearings and ring gears in global OEMs. We expect sales CAGR of 5% during FY17-19E

Tools & Hardware, and Auto Components are part of the Engineering division of Raymond and contribute 7% and 3%, respectively to the overall sales.

Tools & Hardware turnaround in progress

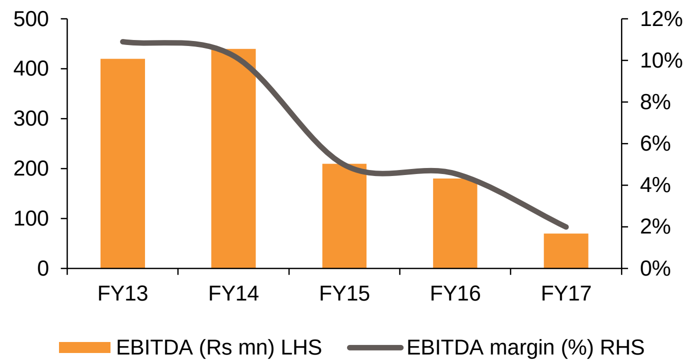
The Tools & Hardware (T&H) business consists of manufacturing Steel Files and Cutting Tools, as well as marketing of Hand & Power Tools. The Raymond Group has a c.65% market share in Steel Files in India with a total capacity of 74mn pieces of Files and 21mn pieces of Drills per annum. Over the past 3 years, T&H has seen a decline in revenue largely due to a global slowdown in industrial activity (especially Latin American markets). The business reported sales of Rs 3.5bn in FY17. We expect a turnaround in the business through product range rationalisation, realignment of manufacturing capacities and strengthening of domestic and export partnerships resulting in a 3% CAGR over FY17-19E.

Exhibit 26: Revenues have declined during FY13-17…



Source: Company, Emkay Research

Exhibit 27: … which has impacted EBITDA margins

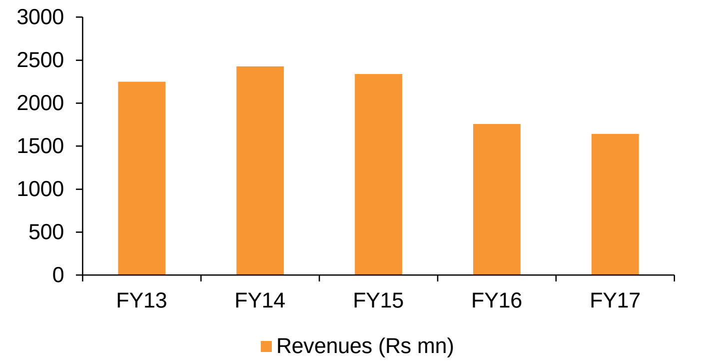


Source: Company, Emkay Research

Auto Components business improved profitability after sale of forging business

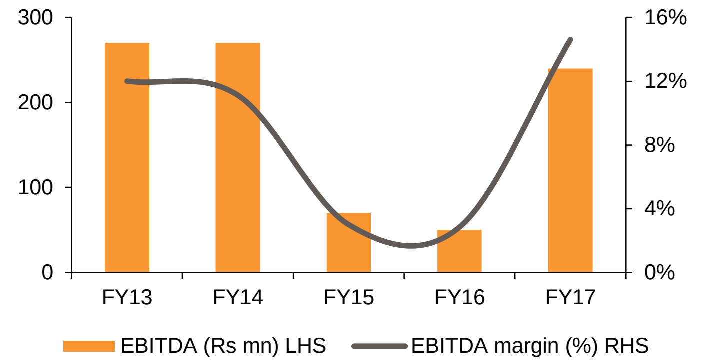
The Auto Components (AC) division comprises manufacturing of Ring Gears, Flexplates and Water Pump Bearings, catering to a host of industries such as Automobiles, Industrial and Power generators, Agriculture and Marine. With manufacturing facilities in Nashik, Maharashtra, the division has capacities of 4.8mn pieces of Ring Gears, 0.4mn pieces of Flexplates and 5mn pieces of Shaft Bearings. The disposal of the Forgings business, focus on controlling costs, and improving quality and delivery has helped propel the profitability of the business. In FY17, the Auto Components business reported revenue of Rs1.6bn and a healthy EBITDA margin of 14.6%.

Exhibit 28: AC growth impacted by sale of forging in FY16



Source: Company, Emkay Research

Exhibit 29: Margins boosted by focus on cost control and quality



Source: Company, Emkay Research

The company is focusing on profitable growth by expanding the global Flexplates division, improving the realisations of low-margin products, and increasing the market share of Bearings and Ring Gears among global OEMs. We expect the Auto Components business to ramp up sales CAGR to 5% during FY17-19E, led by a growing international business. The company has marquee clients such as BMW, Honda, and Volkswagen etc.

Associates tapping into FMCG business

The Raymond Group is involved in the fast moving consumer goods (FMCG) business via its two associate companies, namely, JK Helene Curtis and JK Ansell. These associate companies allows Raymond to enhance their product offerings, especially in the Male Grooming (Park Avenue and KamaSutra), Home Care (Premium brand) and Sexual Wellness (KamaSutra) segments. The FMCG brands have a strong retail presence through 0.25mn retail stores and 90,000 pharmacies in India.

JK Ansell is a leading provider of sexual wellness and men's grooming products under the brands KamaSutra and KS respectively. It has a manufacturing plant in Aurangabad, Maharashtra with a capacity of 400mn pieces a year.

Through JK Helene, the company offers products such as Deodorants, Shampoos, Room Fresheners, Perfumes, Fragrances and a range of Body Care and Men's grooming products under brands such as Park Avenue and Premium. The company plans to broaden its FMCG product portfolio via innovation, especially in the Men's Grooming space (Soaps, Talc, Eau de Cologne etc).

Growing awareness for male grooming across India, innovative products, improved packaging & marketing and higher proportion of non-deodorant products (Soaps, Talc, Shampoos, Room Fresheners and Eau de Cologne) are the likely drivers for the FMCG business going ahead.

Exhibit 30: KamaSutra is a well-established condom brand

Source: Company, Emkay Research

Exhibit 31: KS Deo caters to men's grooming

Source: Company, Emkay Research

Exhibit 32: Park Avenue has launched a Beer Shampoo for men

Source: Company, Emkay Research

Exhibit 33: Premium Room freshener

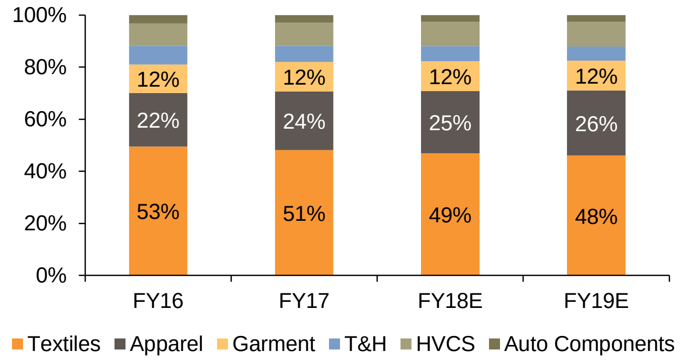
Source: Company, Emkay Research

Financial analysis

Improved share of apparels to drive CAGR by 11% over FY17-19E

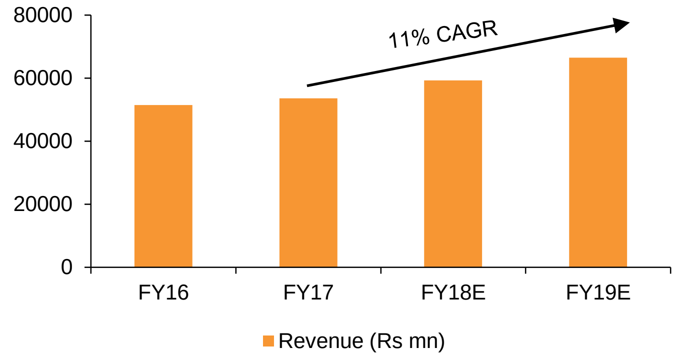
We believe that i) a strong brand recall, ii) strengthening of apparel brands with clear positioning, iii) complete wardrobe and services solutions, iv) exposure to fast fashion segment via Parx, v) enhanced retail experience via "Stores of the Future", and vi) increased omni-channel presence are likely to result in an increased share of apparels in the overall revenue mix. We expect the apparel business to drive consolidated revenue CAGR of 11% over FY17-19E to Rs 66bn.

Exhibit 34: We expect share of apparels to increase…



Source: Company, Emkay Research

Exhibit 35: …resulting in 11% revenue CAGR during FY17-19E

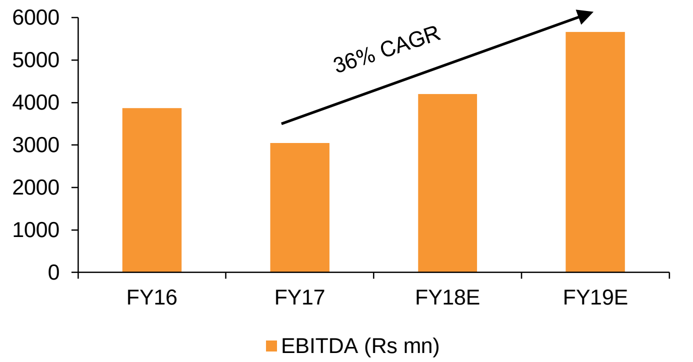


Source: Company, Emkay Research

Improved profitability and operating leverage to drive EBITDA margins

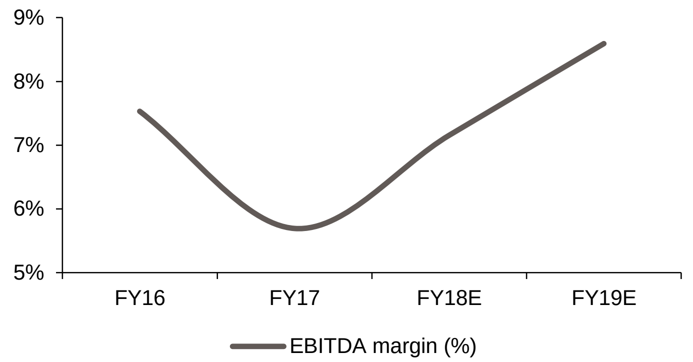
EBITDA margins declined sharply to 5.7% in FY17 from 7.5% in FY16, impacted by demonetisation, rising input costs, elongated EOSS and investment in brands. We expect EBITDA margins to claw back to 8.6% in FY19E on the back of improved profitability/efficiencies across various businesses, and operating leverage in the apparel business.

Exhibit 36: EBITDA to grow by 36% CAGR during FY17-19E



Source: Company, Emkay Research

Exhibit 37: EBITDA margins to improve to 8.6% in FY19E

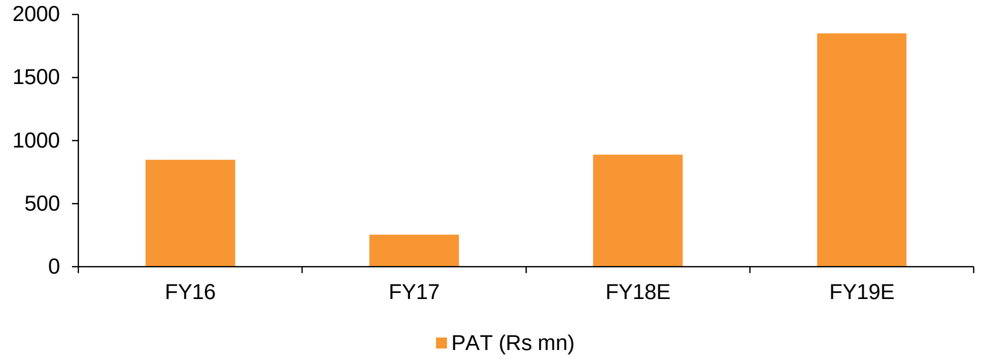


Source: Company, Emkay Research

Improved profitability and lower interest burden to drive profit growth

Improved profitability (EBITDA margins expected to improve by 290bps over FY17-19E is expected to drive PAT growth. We expect profit to increase by 7.1x over FY17-19E to Rs1.8bn.

Exhibit 38: Profits expected to grow by 7.1x over FY17-19E

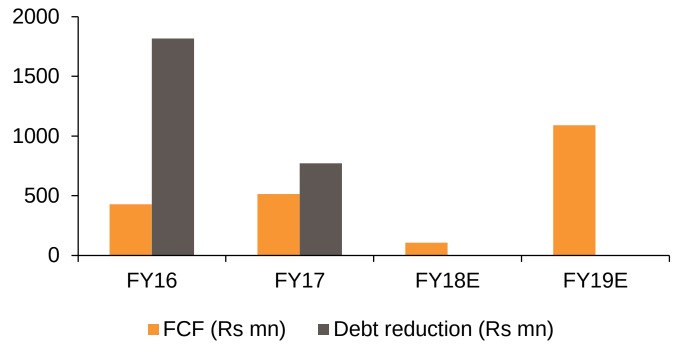


Source: Company, Emkay Research

We expect an uptick in FCF and return ratios due to improved profitability

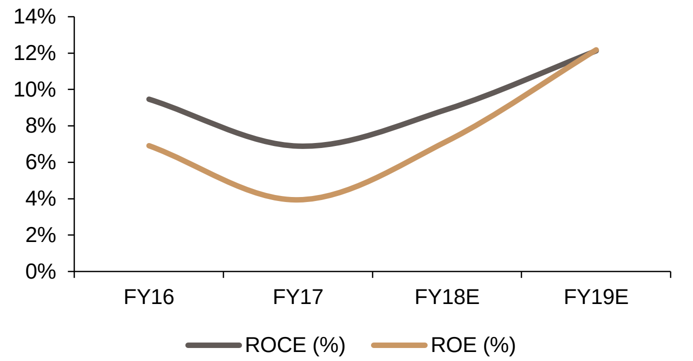
Steady free cash flow (FCF) improvement is expected post FY18E, after the completion of the capex in garmenting and linen facilities. We expect consolidated debt to remain steady at Rs 21bn in FY19E. We expect Raymond to report double-digit return ratios by FY19E.

Exhibit 39: FCF to improve post FY18E



Source: Company, Emkay Research

Exhibit 40: Return ratios have bottomed out in FY17



Source: Company, Emkay Research

Valuation and risks

Due to the various businesses housed in Raymond, we have valued the company using a sum of the parts (SoTP) methodology.

We assign Branded Textiles 12x FY19E EV/EBITDA multiple, 20% premium to its peers and assign 18x FY19E EV/EBITDA multiple to the Branded Apparels businesses, in line with its peers. Capacity addition and improved utilisations are likely to drive overall growth and margin improvement in Garmenting and HVCS businesses. We assign both these divisions 8x FY19E EV/EBITDA multiple each. We expect a steady turn around in the T&H and Auto Components businesses and assign 5x FY19E EV/EBITDA multiple each. We have valued the Denim and FMCG businesses on 1x trailing book value basis.

We have not accounted for the land bank in Thane, Maharashtra of 140 acres valued at c.Rs 20bn. We believe that value unlocking in the land bank as well as non-core assets (T&H and Auto Components) will result in a reduction in consolidated debt going forward.

We Initiate Coverage on Raymond with a **BUY** rating and a target price of Rs 1059/share.

Exhibit 41: Raymond SoTP Valuation

FY19E	Methodology	EBITDA	Book Value	Multiple	Value
Textiles	EV/EBITDA	5431		12	65174
Apparels	EV/EBITDA	869		18	15648
Garmenting	EV/EBITDA	756		8	6050
HVCS	EV/EBITDA	694		8	4205
T&H	EV/EBITDA	167		5	752
Auto Components	EV/EBITDA	271		5	1220
Elimination	EV/EBITDA	-2524		5	-12619
Denim	P/BV		375	1	375
FMCG	P/BV		886	1	886
Enterprise Value (Rs mn)					80430
Net Debt (Rs mn)					16660
Market Cap (Rs mn)					65031
Shares outstanding (mn)					61
Per share value (Rs)					**1059**
CMP (Rs)					**789**
% upside from CMP					**34.3%**

Source: Emkay Research

Risks

- Further acceleration in shift from RTS to readymade apparels, especially in smaller towns and cities.
- Increased competition in the Branded Apparel space.
- Lack of quality retail space resulting in slowdown in network expansion.

Company and management background

Based in Mumbai, Raymond Ltd is a leading textile player (with leadership position in the Worsted Fabric segment in India). The company is also present in the rapidly growing Branded Apparel space via its four brands, namely, Raymond RTW, Park Avenue, Parx and ColorPlus. Additionally, Raymond is involved in the businesses of Engineering and FMCG.

Key management

- **Mr Sanjay Bahl, Group CFO**: Mr Bahl is a qualified Chartered Accountant and has over 25 years of experience. He has been previously associated with companies such as Hindustan Unilever, Saint Gobain and Landmark Group. He has been with Raymond since 2015.
- **Mr Sanjay Behl, CEO Lifestyle Business**: Mr Behl joined Raymond in 2013 with over 23 years' experience in sales, brand, marketing and business leadership. He has been previously associated with Hindustan Unilever, Nokia and Reliance Communications. Mr Behl holds a B.Pharm from IIT-BHU and MMS from Mumbai University
- **Mr Pankaj Madan, President Corporate Services**: Mr Madan joined Raymond in 2017 and has over 25 years' experience across finance and strategy. He was previously associated with Indigo Airlines, Bharti Walmart, Cargill Thailand and Telstra Singapore. He is a qualified Chartered Accountant with an LLB degree. He also holds an MBA degree from Deakin University.
- **Mr Sudhanshu Pokhriyal, President Suiting:** He has over 19 years' experience in sales, marketing and general management. Mr Pokhriyal joined Raymond in 2015 and has been previously associated with Asian Paints, Coca-Cola, and SC Johnson
- **Mr Gaurav Mahajan, President Group Apparel:** With over 23 years' experience in organised retail, Mr Mahajan joined Raymond in 2015. He joined after a 20-year stint at the Tata Group, where he was among the founding members of Trent Ltd.
- **Mr SK Gupta, President Corporate and Shirting Business:** A textile industry veteran, Mr Gupta has four decades of experience and re-joined Raymond in 2009.
- **Mr Ram Natarajan, CEO Auto Components:** Mr Ram has over 36 years' experience in manufacturing, business planning and greenfield projects. He has previously worked with Sunbeam Auto Ltd, Sundaram Clayton, TVS Group, General Motors India etc.
- **Mr Ganesh Kumar, CEO Tools and Hardware:** Mr Kumar joined Raymond in 2016 with over 20 years of experience in business transformation. He has been previously associated with Arysta LifeScience, Eicher Tractors, Mosiac and Monsanto.
- **Mr Arvind Mathur, CEO Denim:** Mr Mathur holds an engineering degree from BHU and an MBA from IIM Bangalore. He has over 25 years' experience in strategy and execution.
- **Mr Giriraj Bagri, CEO FMCG:** Mr Bagri joined Raymond in 2016 and has over 20 years' experience in sales, marketing and general management. He has previously worked with ITC, Castrol India and Colgate.
- **Mr Abhishek Kapoor, CEO Realty:** Mr Kapoor joined Raymond in 2015, with over 20 years' experience. He has previously worked with Rustomjee and CB Richard Ellis.

Advisory Board

In addition to the key management and Board of Directors, Raymond has established an Advisory Board with experts from various fields to help provide an independent point of view and formulate the group's strategic plans for the coming years.

The members of the advisory board include:

- **Mr Ravi Venkatesan, Chairman of Bank of Baroda, former Microsoft India Chairman**
- **Mr Rajeev Bakshi, former PepsiCo India Chairman**
- **Mr BS Nagesh, former CEO of Shoppers Stop**
- **Mr Mihir Doshi, MD and Country CEO, Credit Suisse**
- **Mr Manish Chokani, Senior Advisor at TPG Global, & Director at Enam Holding**

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	**53,326**	**51,406**	**53,533**	**58,731**	**65,915**
Expenditure	**49,058**	**47,534**	**50,485**	**54,528**	**60,250**
EBITDA	**4,268**	**3,872**	**3,048**	**4,203**	**5,666**
Depreciation	1,619	1,589	1,569	1,926	2,086
EBIT	**2,649**	**2,283**	**1,479**	**2,277**	**3,579**
Other Income	952	1,190	1,179	1,229	1,284
Interest expenses	2,004	1,897	1,780	1,770	1,770
PBT	**1,597**	**1,576**	**878**	**1,736**	**3,093**
Tax	439	465	218	512	913
Extraordinary Items	0	(352)	(101)	0	0
Minority Int./Income from Assoc.	0	96	(259)	(285)	(314)
Reported Net Income	**1,128**	**848**	**255**	**889**	**1,812**
Adjusted PAT	**1,128**	**1,200**	**356**	**889**	**1,812**

Balance Sheet

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	614	614	614	614	614
Reserves & surplus	14,800	16,110	16,117	16,787	18,380
Net worth	**15,414**	**16,723**	**16,731**	**17,401**	**18,994**
Minority Interest	**725**	**648**	**693**	**743**	**797**
Loan Funds	**18,810**	**20,627**	**21,398**	**21,398**	**21,398**
Net deferred tax liability	59	(601)	(717)	(717)	(717)
Total Liabilities	**35,008**	**37,398**	**38,105**	**38,824**	**40,472**
Net block	**12,744**	**11,630**	**11,572**	**12,995**	**12,409**
Investment	**4,270**	**6,093**	**6,405**	**6,405**	**6,405**
Current Assets	**27,527**	**28,206**	**29,445**	**31,787**	**35,710**
Cash & bank balance	1,293	903	697	298	856
Other Current Assets	1,740	4,467	4,622	5,262	5,779
Current liabilities & Provision	**11,491**	**11,049**	**13,554**	**13,250**	**14,939**
Net current assets	**16,036**	**17,156**	**15,892**	**18,537**	**20,771**
Misc. exp	0	0	0	0	0
Total Assets	**35,008**	**37,398**	**38,105**	**38,824**	**40,472**

Cash Flow

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
PBT (Ex-Other income) (NI+Dep)	**645**	**386**	**(301)**	**506**	**1,809**
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(572)	(2,169)	942	(3,045)	(1,676)
Operating Cashflow	**3,801**	**3,172**	**3,443**	**3,455**	**2,591**
Capital expenditure	(2,017)	(921)	(3,229)	(3,350)	(1,500)
Free Cash Flow	**1,783**	**2,251**	**214**	**105**	**1,091**
Investments	877	(1,824)	(312)	0	0
Other Investing Cash Flow	(1,210)	(554)	165	0	0
Investing Cashflow	**(1,399)**	**(2,108)**	**(2,196)**	**(2,121)**	**(216)**
Equity Capital Raised	(114)	22	0	0	0
Loans Taken / (Repaid)	(196)	1,817	771	0	0
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(186)	(1,122)	(207)	37	(47)
Financing Cashflow	**(2,499)**	**(1,179)**	**(1,216)**	**(1,734)**	**(1,817)**
Net chg in cash	**(97)**	**(115)**	**31**	**(399)**	**558**
Opening cash position	493	437	322	697	298
Closing cash position	**1,293**	**903**	**697**	**298**	**856**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin	8.0	7.5	5.7	7.2	8.6
EBIT Margin	5.0	4.4	2.8	3.9	5.4
Effective Tax Rate	27.5	29.5	24.9	29.5	29.5
Net Margin	2.2	2.2	1.2	2.1	3.3
ROCE	10.4	9.6	7.0	9.1	12.3
ROE	7.5	7.5	2.1	5.2	10.0
RoIC	9.8	8.2	5.4	7.8	11.3

Per Share Data (Rs)	FY15	FY16	FY17	FY18E	FY19E
EPS	18.4	19.6	5.8	14.5	29.5
CEPS	44.7	45.4	31.4	45.9	63.5
BVPS	251.1	272.5	272.6	283.5	309.4
DPS	2.3	3.6	3.6	3.6	3.6

Valuations (x)	FY15	FY16	FY17	FY18E	FY19E
PER	42.9	40.3	136.1	54.5	26.7
P/CEPS	17.6	17.4	25.2	17.2	12.4
P/BV	3.1	2.9	2.9	2.8	2.5
EV / Sales	1.3	1.3	1.2	1.1	1.0
EV / EBITDA	14.7	16.7	21.4	15.6	11.5
Dividend Yield (%)	0.3	0.5	0.5	0.5	0.5

Gearing Ratio (x)	FY15	FY16	FY17	FY18E	FY19E
Net Debt/ Equity	0.9	1.0	1.0	1.0	0.9
Net Debt/EBIDTA	3.4	4.2	5.5	4.1	2.9
Working Cap Cycle (days)	100.9	115.4	103.6	113.4	110.3

Growth (%)	FY15	FY16	FY17	FY18E	FY19E
Revenue	21.4	6.7	4.2	9.7	12.3
EBITDA	(11.1)	(9.3)	(21.3)	37.9	34.8
EBIT	(6.8)	(13.8)	(35.2)	53.9	57.2
PAT	4.8	(24.8)	(69.9)	248.4	103.9

Shareholding Pattern (%)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoters	41.7	41.9	42.4	42.4	42.5
FIIs	7.8	7.6	8.3	8.7	8.9
DIIs	12.4	12.3	13.2	13.5	15.1
Public and Others	38.2	38.3	36.1	35.5	33.5

Source: Capitaline

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.

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