Raymond Ltd

Bloomberg Code: RW IN

India Research - Stock Broking

BUY

Moving Towards Increasing Profitability

Extending reach through asset light model: Raymond Ltd. has revamped 143 stores and added a net of 120 stores in the last 2 years. The main focus has been the addition of EBOs, mostly in the franchisee (nearly 75% additions) model, thus, enabling the company to extend its reach, particularly to the smaller cities, at lower costs. Currently, Raymond has a total of 1,080 stores spread across Tier I, II, III and IV cities in India.

Focus shifts to margin expansion: The company is setting up an additional plant in Amravati for linen (capacity of 4 Mn meters, at a capex of ~Rs. 2000 Mn), which is expected to be completed by Q4FY18E. Going forward, capex would be mostly focused on stores (additions and renovations). Additionally, in the apparels segment, ad spends should normalize to historic levels of ~6% vs elevated levels of 7.5-8.5% seen during the expansion phase. Recently commenced Ethiopia plant (for garmenting segment) will help improve operational efficiencies as power and labor costs are significantly lesser to that in India.

Clarity on utilization of land bank to open new growth levers: Raymond aims to utilize the land bank in Thane (125 acres) and is currently in the process of acquiring approvals for the same. Monetizing/utilization of this land bank has the potential to unlock significant value in the long term. However, as we look forward for management guidance regarding the utilization of land bank, we have not factored the same in our estimates. More clarity on this is expected in the coming quarters.

Valuation and Outlook

Going forward, supported by increased reach and improvement in operational efficiencies, we factor revenue and EBITDA growth of 9.7% and 29.6% respectively over FY17-19E. At CMP of Rs. 801 per share, we value the stock at 13.0x EV/EBITDA FY19E and recommend **"BUY"**, with a target price of Rs. 935 per share, with an upside potential of 17%.

Key Risks

- Volatility in price of raw materials.
- Delay in the implementation of the strategy for Thane land bank.
- Lower demand pick-up.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	53745	51768	53913	59109	64823
EBITDA	4268	3873	3048	4213	5118
EBITDA Margin (%)	7.9	7.5	5.7	7.1	7.9
Net Profit	1128	855	300	1090	1685
EPS (Rs.)	18.4	13.9	4.9	17.8	27.5
RoE (%)	7.4	5.2	1.8	6.3	9.2
EV/EBITDA (x)	8.0	8.2	15.1	13.4	11.0

*Source: Company, Karvy Research; *Represents multiples for FY15, FY16 & FY17 are based on historic market price*

Recommendation (Rs.)

CMP	801
Target Price	935
Upside (%)	17

Stock Information

Mkt Cap (Rs.mn/US$ mn)	49154 / 764
52-wk High/Low (Rs.)	840 / 398
3M Avg. daily volume (mn)	0.9
Beta (x)	0.9
Sensex/Nifty	32029 / 9915
O/S Shares(mn)	61.4
Face Value (Rs.)	10.0

Shareholding Pattern (%)

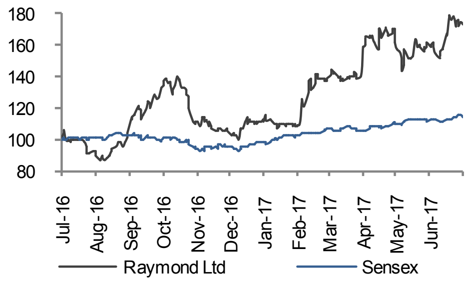
Promoters	43.1
FIIs	8.2
DIIs	19.6
Others	29.1

Stock Performance (%)

	1M	3M	6M	12M
Absolute	8	6	55	64
Relative to Sensex	5	(3)	31	42

Source: Bloomberg

Relative Performance*



*Source: Bloomberg; *Index 100*

Analyst Contact

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Company Financial Snapshot (Y/E Mar)

Profit & Loss (Rs. Mn)

	FY16	FY17	FY18E	FY19E
Net sales	51768	53913	59109	64823
Optg. Exp (Adj for OI)	47896	50865	54896	59705
EBITDA	3873	3048	4213	5118
Depreciation	1589	1569	1952	2107
Interest	1897	1780	1913	1943
Other Income	1190	1179	1182	1296
PBT	1320	519	1531	2364
Tax	465	218	430	663
Adj. PAT	855	300	1090	1685
Profit & Loss Ratios				
EBITDA margin (%)	7.5	5.7	7.1	7.9
Net margin (%)	1.7	0.6	1.8	2.6
P/E (x)	29.1	129.3	45.0	29.1
EV/EBITDA (x)	8.2	15.1	13.4	11.0
Dividend yield (%)	0.9	0.3	0.4	0.6

Source: Company, Karvy Research

Company Background

Raymond Ltd., incorporated in 1925, is one of the largest textile and apparel companies in India. The company is headed by Mr. Gautam Hari Singhania, Chairman & Managing Director. With a capacity of 38 Mn meters in wool & wool-blended fabrics, Raymond commands over 60% market share in worsted suiting in India. Other segments in its textile business include Apparel (brands such as Park Avenue, Parx, Colorplus), Garmenting division (Suits, Jackets & Shirts) and Denim segment (through JVs). Raymond has a very wide reach for its domestic textile business spread across 600 cities through 160 wholesalers, 3,300 Multi Brand Outlets (MBOs), 800 Large Format Stores (LFS) and 1,080 The Raymond Shops (TRS)/Exclusive Brand Outlets (EBOs). It also exports (20% of revenues) to 55 countries including USA, Europe, Canada, Middle East and Japan. Recently, it commenced a plant in Ethiopia, at a capacity of 2.6 Mn pieces per annum to cater to the markets in Europe and USA for their garmenting business. The company's Engineering business includes manufacture of Files, auto components and marketing of tools.

Balance sheet (Rs. Mn)

	FY16	FY17	FY18E	FY19E
Total Assets	**49046**	**52349**	**55997**	**59942**
Net Fixed assets	11608	11530	13677	14769
Current assets	28597	29616	30802	33140
Other assets	8841	11203	11518	12034
Total Liabilities	**49046**	**52349**	**55997**	**59942**
Networth	16722	16730	17624	19004
Debt	17442	17674	19128	20454
Current Liabilities	13261	16142	17302	18402
Other liabilities	1621	1803	1944	2081
Balance Sheet Ratios				
RoE (%)	5.2	1.8	6.3	9.2
RoCE (%)	6.7	4.2	6.4	7.9
Net Debt/Equity (x)	0.4	0.4	0.5	0.5
Equity/Total Assets (x)	0.3	0.3	0.3	0.3
P/BV (x)	1.5	2.3	2.8	2.6

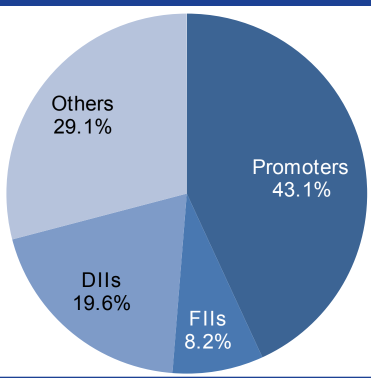
Source: Company, Karvy Research

Cash Flow (Rs. Mn)

	FY16	FY17	FY18E	FY19E
PBT	1320	519	1531	2364
Depreciation	1589	1569	1952	2107
Interest (net)	1285	1067	731	647
Tax	(492)	(350)	(430)	(663)
Changes in WC	(489)	638	(1395)	(1941)
Others	(42)	0	1322	782
CF from Operations	**3172**	**3443**	**3710**	**3295**
Capex	(2222)	(2779)	(3980)	(3214)
Others	114	583	777	839
CF from Investing	**(2108)**	**(2196)**	**(3203)**	**(2374)**
Change in Debt/Interest	339	(2453)	1465	1342
Dividends	(221)	(219)	(197)	(304)
Others	(1298)	1456	(1913)	(1943)
CF from Financing	**(1179)**	**(1216)**	**(644)**	**(906)**
Change in Cash	(115)	31	(137)	15

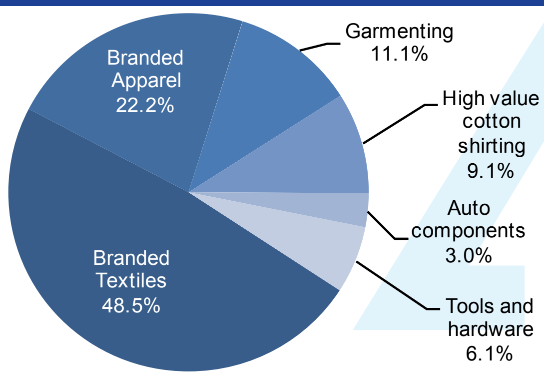
Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)



Source: BSE, Karvy Research

Exhibit 3: Segmental Revenue breakup (FY17)



Source: Company, Karvy Research

Increasing presence through the an asset light model

Raymond, one of the most reputed textile brands in the country, is in the process of revamping its stores, and increasing their presence further into Tier III & IV cities.

In the last two years, the number of stores has risen to 1080, from 960 in FY15 (TRS and EBOs). Currently, over 70% of stores are through the franchisee model, which has helped the company increasing its footprints across the country, without extensive capex. Going forward, the company plans to add 300 Mini-TRS in the next 2 years.

Exhibit 4: Details of net store additions over the last few years are given below

	FY13	FY14	FY15	FY16	FY17
TRS (The Raymond Shops including MTM*)	685	724	754	816	823
EBOs (Exclusive Brand Outlets)	208	189	206	235	257
Total	**893**	**913**	**960**	**1051**	**1080**

*Source: Company, Karvy Research, *MTM (Made-to-Measure)*

Additionally, up until Q4FY17, Raymond had renovated a total of 143 stores. The new stores are yielding good results and have witnessed like-to-like sales growth of over 20%. We expect focus to now shift towards increasing profitability. Increased penetration and improved performance from newly added stores will aid revenue and EBITDA growth of 9.7% and 29.6% over FY17-19E, and EBITDA margin improvement of 220bps.

Source: Company, Karvy Research

Garmenting segment to remain competitive

USA, Europe and Japan, which constitute 80% of the exports for the suiting, jackets and shirting business, has been facing stiff competition from lower priced substitutes from China and Bangladesh. Raymond recently commenced a manufacturing unit in Ethiopia, particularly aimed at exporting to US and Europe. Ethiopia has a trade agreement that allows exemption of import duty to these two regions for a period of 10 years, and the company will be passing on the benefit to the customers, making the products of Raymond competitively priced. Additionally, the labor and fuel costs are also lower than in India (employee costs are half at $70 per month vs $130-135 per month in India, and cost of power at Rs.2/unit vs Rs. 7-8/unit in India), thus enabling the company to also improve on the margins for the segment.

Improving fundamentals

Raymond has expanded its capacity across the segments (Cotton Shirtings by 5 Mn meters and Denim by 8 Mn meters) in recent times and expects to complete capex of Amravati plant by Q4FY18E. Despite capacity and store additions, the fundamentals continue to be strong (net D/E of 0.4x). With no additional capex planned, and expected improvement in cash flow from FY19E onwards, it can lead to significant improvement in shareholder value in the long term.

New launches received well in the flagship textile business

Innovative product launches have been the main growth drivers for Raymond's flagship textile business and the recent launches of Technosmart and Made-to-Measure (earlier categorized in the branded apparel segment) have been received well. The aggrieves promotion of Made-to-Measure since FY15 has enabled revenues of Rs. 630 Mn in FY17, higher by 33.2% YoY. Technosmart (launched in Q3FY16) recently clocked revenue of Rs.1000 Mn. The pricing point of the textile segment is higher than the market by nearly 2 times and Technosmart is priced 1.5 times higher than the other Raymond brands (nearly 3.5 times higher than the market). The good response to these new brands bodes well for the company's textile segment. Management expects these 2 divisions, along with new launches in technoseries and innovations such as increasing the tailoring eco-system to be significant growth drivers in this segment.

Vote against JK house sale, a major win for shareholders

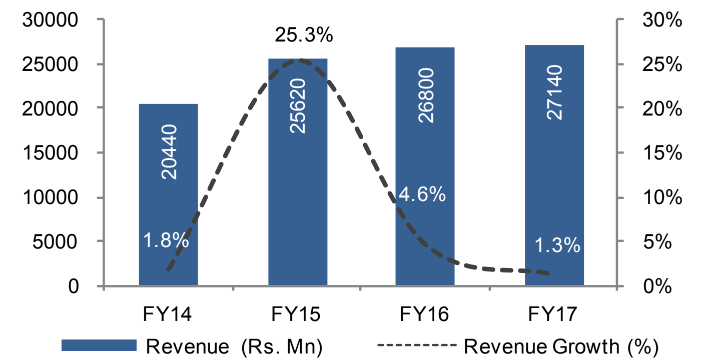
Shareholders of Raymond (with an overwhelming majority of 97.7% of the shares casted) recently voted against the sale of JK house to promoters and extended family at a substantial discount. The apartments were proposed to be sold at Rs. 9,200 per square foot, a fraction of the current market rates, to four Singhania family entities. It is important to note that promoters cannot vote on this resolution, as they are the interested parties to this transaction. Further, CMD of the company Mr Gautam Hari Singhania has expressly mentioned in his press release filed with stock exchanges that his personal opinion, "would be to vote against the resolution in interests of the shareholders and company".

Increasing product offerings in the branded textiles segment

Increase in consumer spending will have a positive impact on the branded textiles, which has been witnessing lower revenue growth of 4.6% and 1.3% in FY16 and FY17 vs 25.3% growth in FY15. The healthy growth in FY15 is as a result of addition of branded shirting starting that year (which now constitutes ~20% revenues from this segment). Wool prices have increased by 41.9% since FY15, and the increasing demand will enable the company to pass on the increase in raw material price to the end consumer. Suitings, which constitutes nearly 80% to the segment, has margins in the range of 20% and above and thus, the increase in demand for this segment, will be a key driver for overall improvement in profitability.

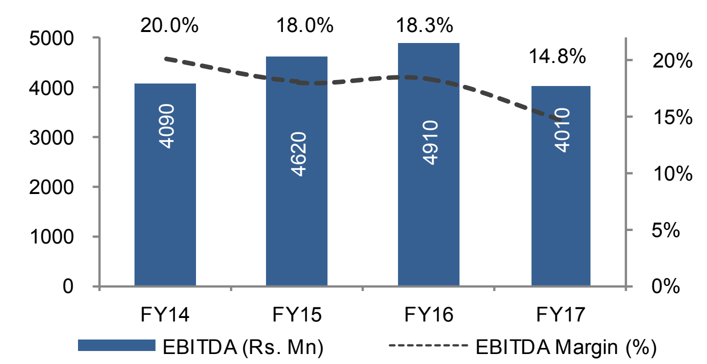
Despite good sales from the shirting segment, poor demand scenario led to tepid growth of just 3% CAGR over FY15-17 for this segment. However, recent additions, Made-to-Measure (shifted from branded apparels) and Technosmart are both witnessing good traction and bodes well for the overall textile business. The company plans to add more products in this segment over the coming quarters. We factor revenue growth of 5.0% CAGR over FY17-19E from this segment.

Exhibit 5: Revenue & Revenue Growth Trend



Source: Company, Karvy Research

Exhibit 6: EBITDA & EBITDA Margin Trend

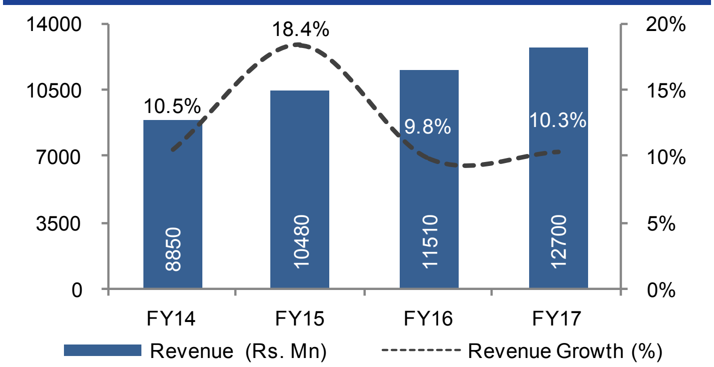


Source: Company, Karvy Research

Apparels: In the course of stabilization, turnaround expected in due course

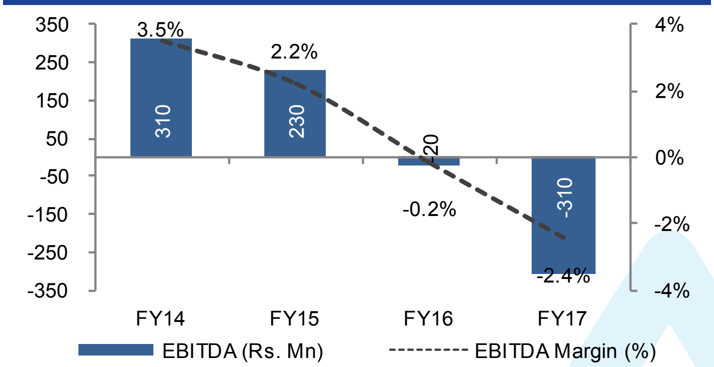
Raymond has added a net of 120 stores over FY16 and FY17 (with extensive focus on increasing EBOs - 51 of the total) thus, expanding their reach further in India, and building brand value. Over FY15-17, revenue grew by 10.1% CAGR, but the operating margins have declined 460bps to -2.4% FY17 in particular, was a tough year, as during the quarters of peak sales (Q2 and Q3 of FY17), demonetization led to lower demand and thus higher discounts in the fourth quarter (47% discount sales vs 30-32% in regular years). With breakeven of newly added stores and lower ad spends (back to historic range of ~6%), we expect significant improvement in contribution to the overall bottom-line, from this segment.

Exhibit 7: Revenue & Revenue Growth Trend



Source: Company, Karvy Research

Exhibit 8: EBITDA & EBITDA Margin Trend

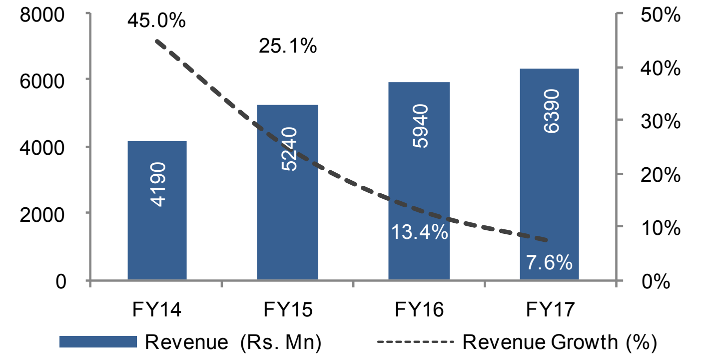


Source: Company, Karvy Research

Garmenting segment: Commencement of Ethiopia plant is a major boost

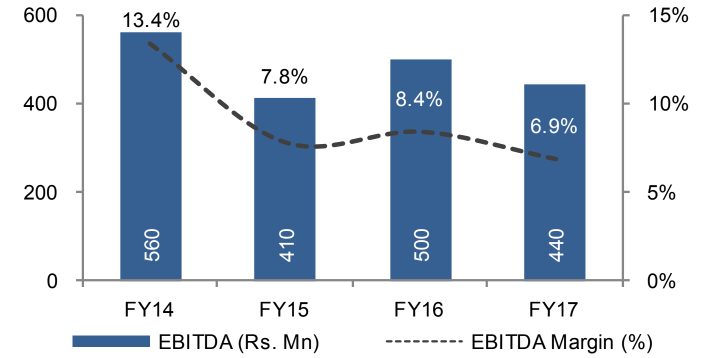
Exports to USA, Europe and Japan contribute 80% of the revenue of the garmenting division. This segment has been witnessing competition from China, for synthetic material, which offers a price point lower than that of Raymond. Recently, Raymond has commenced operations in Ethiopia, a country that is exempt from import duty in US and Europe. Additionally, the company will also benefit from lower operating costs via lower employee costs (at US$ 70/month vs US$130-135/month in India) and Power expenses (Rs. 2/unit in Ethiopia vs Rs. 7-8/unit in India). We expect margins to show significant improvement from second half of FY18E onwards on increased capacity utilization.

Exhibit 9: Revenue & Revenue Growth Trend



Source: Company, Karvy Research

Exhibit 10: EBITDA & EBITDA Margin Trend

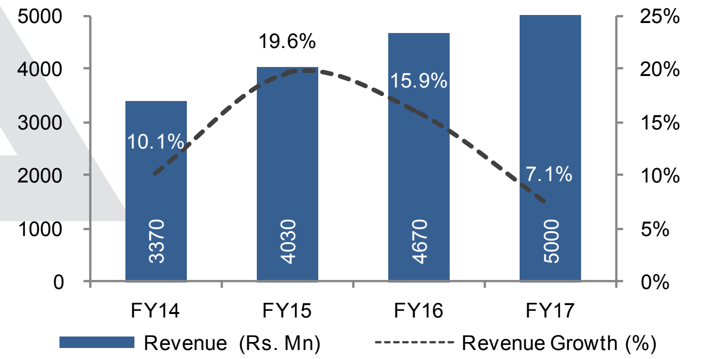


Source: Company, Karvy Research

High value cotton business

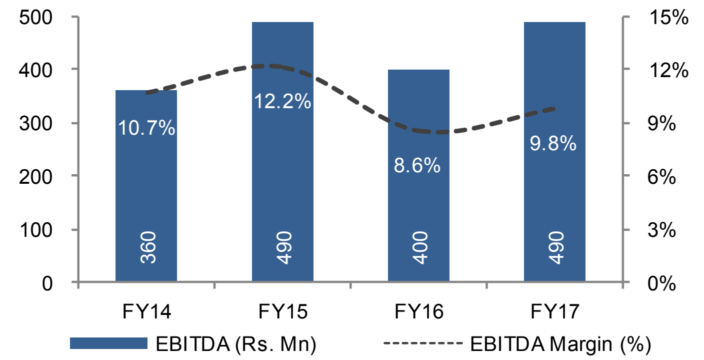
Through this segment, Raymond caters to Business to Business (B2B) customers for cotton shirting. The company is in the process of setting up a plant in Amravati for linen (4mn meters) at a cost of Rs. 2000 Mn, which is scheduled to commence operations in Q4FY18E. Current capacities stand at 26mn meters. Despite increase in cotton prices, operational efficiencies and good volumes helped more or less sustain growth in this segment (EBITDA margins improved by 160bps in FY17). Going forward, we expect demand growth to aid the company to offset increase in cotton prices. We factor revenue growth of 13.5% CAGR over FY17-19E. High value cotton accounts for 9.1% of the total revenues.

Exhibit 11: Revenue & Revenue Growth Trend



Source: Company, Karvy Research

Exhibit 12: EBITDA & EBITDA Margin Trend



Source: Company, Karvy Research

Engineering Segment

The company has presence in the Engineering segment through the auto components and Tools & Hardware division.

Auto Components

Auto components segment continues to maintain its good growth momentum and has seen improved profitability over the last few quarters, post the sale of forging business in FY16. The group's auto ancillary division includes manufacture of ring gears, Flex plates and shaft bearings. The company is looking to expand its reach across OEMs and has recently been nominated for global supply for BMW. Raymond currently supplies flexplates to the BMW plant in Germany; other clients of the company include Daimler Chrysler, Volkswagen and Toyota.

Tools & Hardware

JK files is one of the largest manufacturers of steel files in the world, and also has 65% market share in the domestic market. The segmental performance has improved significantly backed by improving operational efficiencies and increased exports. We expect the turnaround to continue post the restructuring.

Auto ancillaries and Engineering segments, combined, contributed 9.1% of the consolidated revenue as of FY17.

Exhibit 13: Business Assumptions

Y/E Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	Comments
Revenue	51768	53913	59109	64823	Backed by revival in the textile segment, and continued good growth in the branded apparels segment.
Revenue Growth (%)	(3.7)	4.1	9.6	9.7	
EBITDA	3873	3048	4213	5118	
EBITDA Margins (%)	7.5	5.7	7.1	7.9	EBITDA margins to improve 220bps on better operational efficiencies and increased sales from new stores.
PAT (normalized)	759	559	1090	1685	
Fully Diluted EPS (Rs.)	18.0	10.0	17.8	27.5	
Fully Diluted EPS Growth (%)	(24.2)	(44.3)	77.3	54.5	
Net CFO	3172	3443	3710	3295	
Capex	(2222)	(2779)	(3980)	(3214)	Capital expenditure from FY19E onwards is expected to be largely limited to addition of stores and renovations.
Debt	17442	17674	19128	20454	
Free Cash Flow	950	664	(269)	81	

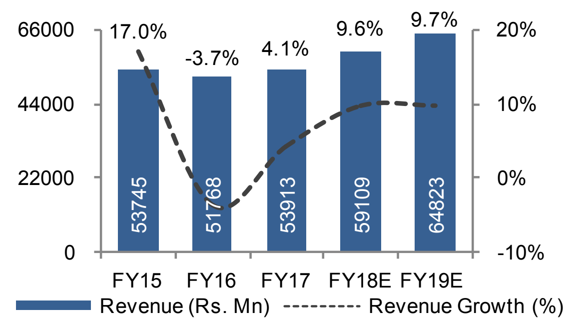
Source: Company, Karvy Research

Exhibit 14: Karvy vs Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs. Mn)				
FY18E	59109	59761	(1.1)	Positive on growth but conservative on outlook.
FY19E	64823	67215	(3.6)	
EBITDA (Rs. Mn)				
FY18E	4213	4697	(10.3)	Cautiously positive on EBITDA growth.
FY19E	5118	5930	(13.7)	
EPS (Rs.)				
FY18E	17.8	17.9	(0.6)	Cautiously positive on PAT growth.
FY19E	27.5	31.0	(11.3)	

Source: Bloomberg, Karvy Research

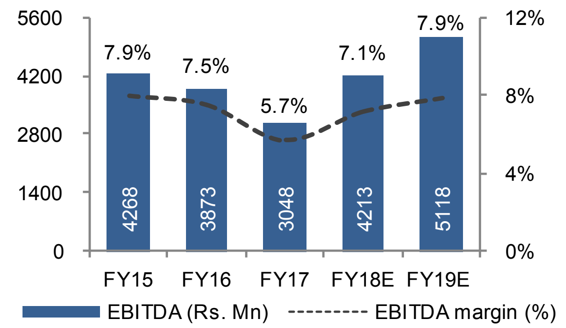
Exhibit 15: Revenue and Revenue growth



Source: Company, Karvy Research

Revenue growth was muted for the period FY15-17, on account of poor demand particularly for the textile segment. The company was not able to pass on the impact of raw material price increase completely to the customers on account of low demand. With increasing demand, and launch of new innovative products, we expect revenue to grow by 9.7% over FY17-19E.

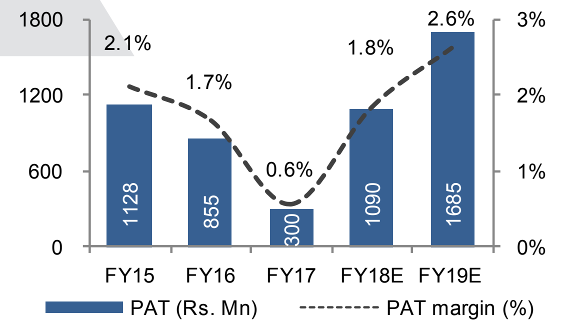
Exhibit 16: EBITDA and EBITDA margin



Source: Company, Karvy Research

Increased raw material prices, higher ad expenses had led to decline in EBITDA margins over FY15-17. We expect the ad expenses to stabilize and overall EBITDA margins to improve by 220bps to reach above 7% over FY17-19E.

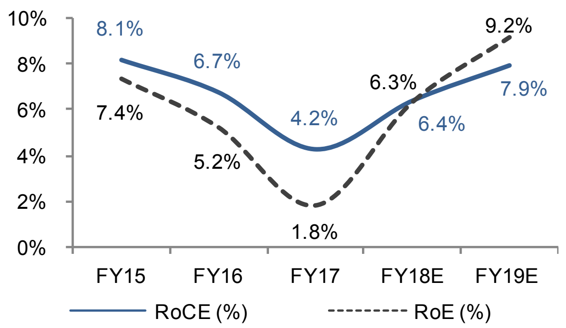
Exhibit 17: PAT and PAT margin



Source: Company, Karvy Research

We expect the improvement in EBITDA margins to trickle down further to the PAT level and factor PAT margin improvement by 200bps over FY17-FY19E.

Exhibit 18: RoCE & RoE (%)



Source: Company, Karvy Research

Demand pick up, asset light model and improved operational efficiencies should result in significant improvement in return ratios over FY17-19E.

Exhibit 19: Company Snapshot (Ratings)

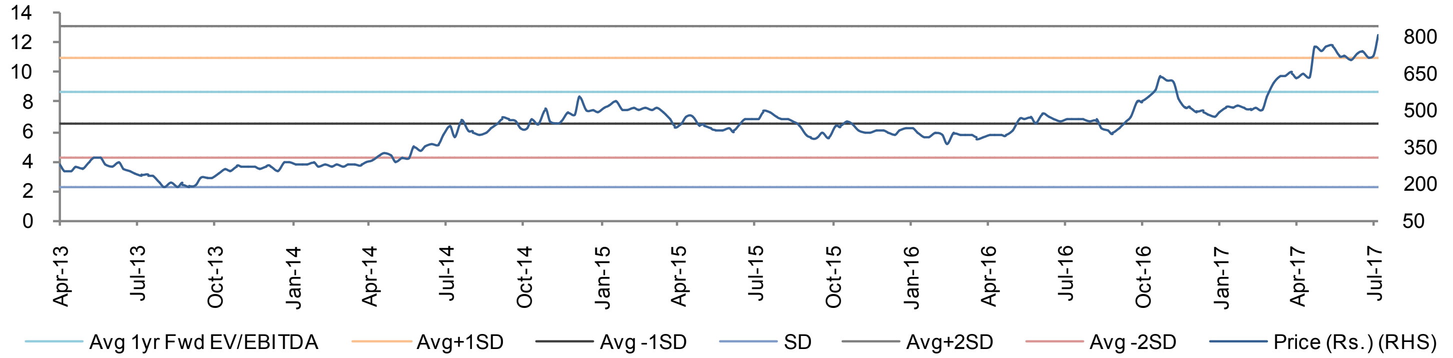
	Low				High
	1	2	3	4	5
Quality of Earnings			✓		
Domestic Sales				✓	
Exports	✓				
Net Debt/Equity				✓	
Working Capital Requirement			✓		
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance			✓		

Source: Company, Karvy Research

Valuation & Outlook

Overall improvement in the domestic demand scenario, increased efficiencies in the apparel and garmenting segments will aid the company to recover from the poor performances in the last seen 2 years. We expect more clarity regarding the use of the Thane land bank to come through in the next few quarters, and value the stock at 13.0x FY19E EV/EBITDA, arriving at a target price of Rs. 935 per share, with an upside potential of 17%.

Exhibit 20: EV/EBITDA



Source: Bloomberg, Karvy Research

Key Risks

- Volatility in price of raw materials.
- Delay in the implementation of the strategy for Thane land bank.
- Lower demand pick up.

Financials

Exhibit 21: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	53745	51768	53913	59109	64823
Growth (%)	17.0	(3.7)	4.1	9.6	9.7
Operating Expenses	49477	47896	50865	54896	59705
EBITDA	4268	3873	3048	4213	5118
Growth (%)	(11.1)	(9.3)	(21.3)	38.2	21.5
Depreciation & Amortization	1619	1589	1569	1952	2107
Other income	921	934	819	1182	1296
EBIT	3570	3217	2299	3444	4307
Interest Expenses	2004	1897	1780	1913	1943
PBT	1567	1320	519	1531	2364
Tax	439	465	218	430	663
Adjusted PAT	1128	855	300	1090	1685
Growth (%)	4.8	(24.2)	(64.9)	266.7	54.4

Source: Company, Karvy Research

Exhibit 22: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Cash & Cash Equivalents	1261	903	697	560	575
Trade receivables	9428	10448	10507	11518	12636
Inventory	10762	11732	12886	13348	14357
Loans & Advances	31	41	52	57	62
Investments	3844	4074	4323	4729	5186
Net Block	11781	11608	11530	13677	14769
Other assets	8872	10240	12353	12109	12358
Total Assets	**45979**	**49046**	**52349**	**55997**	**59942**
Current Liabilities	11881	13261	16142	17302	18402
Debt	16448	17442	17674	19128	20454
Other Liabilities	1710	1621	1803	1944	2081
Total Liabilities	**30038**	**32324**	**35618**	**38374**	**40938**
Shareholders Capital	613	613	613	613	613
Reserves & Surplus	15328	16109	16117	17011	18391
Total Networth	**15941**	**16722**	**16730**	**17624**	**19004**
Total Networth & Liabilities	**45979**	**49046**	**52349**	**55997**	**59942**

Source: Company, Karvy Research

Exhibit 23: Cash Flow Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
PBT	1567	1320	519	1531	2364
Depreciation	1619	1589	1569	1952	2107
Net Interest Expense	1659	1285	1067	731	647
Tax Paid	(655)	(492)	(350)	(430)	(663)
Inc/dec in Net WC	(204)	(489)	638	(1395)	(1941)
Others	(186)	(42)	0	1322	782
Cash flow from operating activities	**3800**	**3172**	**3443**	**3710**	**3295**
Inc/dec in capital expenditure	(2238)	(2222)	(2779)	(3980)	(3214)
Others	840	114	583	777	839
Cash flow from investing activities	**(1399)**	**(2108)**	**(2196)**	**(3203)**	**(2374)**
Inc/dec in borrowings	(225)	339	(2453)	1454	1326
Dividend paid	(143)	(221)	(219)	(197)	(304)
Interest paid	(2132)	(1875)	(1979)	(1913)	(1943)
Others	0	577	3435	11	15
Cash flow from financing activities	**(2500)**	**(1179)**	**(1216)**	**(644)**	**(906)**
Net change in cash	(99)	(115)	31	(137)	15

Source: Company, Karvy Research

Exhibit 24: Key Ratios

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	7.9	7.5	5.7	7.1	7.9
EBIT Margin (%)	6.6	6.2	4.3	5.8	6.6
Net Profit Margin (%)	2.1	1.7	0.6	1.8	2.6
Dividend Payout Ratio (%)	16.3	21.5	25.5	14.9	14.9
Net Debt/Equity (x)	0.4	0.4	0.4	0.5	0.5
RoE (%)	7.4	5.2	1.8	6.3	9.2
RoCE (%)	8.1	6.7	4.2	6.4	7.9

Source: Company, Karvy Research

Exhibit 25: Valuation Parameters

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	18.4	13.9	4.9	17.8	27.5
DPS (Rs.)	3.3	3.6	1.9	3.2	5.0
BVPS (Rs.)	260.0	272.8	272.9	287.5	310.0
PE (x)	24.2	29.1	129.3	45.0	29.1
P/BV (x)	1.7	1.5	2.3	2.8	2.6
EV/EBITDA (x)	8.0	8.2	15.1	13.4	11.0
EV/Sales (x)	0.6	0.6	0.9	1.0	0.9

*Source: Company, Karvy Research; *Represents multiples for FY15, FY16 & FY17 are based on historic market price*

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

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