



THINK DIFFERENT PROFIT MORE

Company Name	: RAYMOND LTD.
BSE Code	: 500330
Time Duration	: 2 years
CMP	: ₹754.35 (as on 03 July., 2019)
Target Price	: ₹1060

Our Upstream Pick for the month of July is Raymond Limited. The company is a diversified group with presence in textiles and apparels, FMCG, auto components, engineering and real estate sector. The company's revenue mix as of FY19 stood as follows: textiles (44.2%), shirtings (8%), apparels (26%), garmenting (11.2%), tools & hardware (5.4%), auto components (3.6%) and others (1.3%).

We have picked Raymond as our Upstream Pick as the stock in recent times has fallen owing to slowdown in consumption. Also, the company has debt on its balance sheet which we can attribute to its recent foray into the real estate business. But we believe that strong traction in apparel business and revival in textile business is expected to contribute in the growth trajectory of Raymond. However, the debt level would be the key thing to watch as it has expanded its real estate business.

Segmental performance in FY19

During FY19, the company has beaten its revenue target and registered overall revenue growth of 12%. The major revenue contributor segments like textiles, apparels, garmenting and high value cotton shirting grew by 8%, 16%, 13% and 13%, respectively, on a YoY basis in revenue terms. In terms of operating profit, the company's textile business posted lower EBITDA margin due to higher input prices and higher operating costs. The company has taken price hike of 5-6% in this business, which would lead to a better picture in FY20. The apparels business performed well, led by better channel mix and operational efficiencies for high value cotton shirting. The EBITDA margins improved led by Amravati attaining full capacity utilisation. For FY20, the company has guided revenue growth of 10-12% with improvement in EBITDA by 70-100 bps.

Favourable macro factors to play key role in the growth trajectory

India's retail industry growth is mainly underpinned by consumption pattern and rising income levels. With favourable demographic shift, which majorly comprises of young population, the demand is likely to be positive in the years to come. Raymond has one of the most deeply penetrated retail networks in India, with 1392 exclusive Raymond shops offering textiles, apparels, accessories and custom-tailoring services under one roof. Growing urbanisation, higher disposable incomes of the Indian households and favourable demographics, coupled with increasing preference for branded apparels, are key drivers for the industry and we believe Raymond is well-poised to capitalise on the opportunity.

Growing apparel industry

The Indian apparel industry size as on 2018 was USD 54 billion, which is expected to grow at a CAGR of 8 per cent over 2018-28 to reach a market size of USD 118 billion. The country's apparel market is mainly dominated by menswear, which contributes nearly 43 per cent of the overall market. Over the decades, Raymond has strengthened its position in the menswear segment, and to grow further, it is expanding its presence through rapid expansion of multi-brand outlet, large format stores and owned retail stores. Also, during the last fiscal, the company enhanced its position in the apparel industry by foraying into new categories of Khadi and expanding the new customer segments Ethnix, which mainly caters to high growth premium ethnic wear.

Foray into real estate to reap benefit from land holding

During FY19, the company forayed into real estate business. The company boasts of nearly 120 acres of land parcel at prime location in Thane, which would help it to boost the newly commenced real estate business in the years to come. Around 20 acres of land has been approved for residential development and, at present, 14 acres are being developed. In this residential project, Raymond will develop overall 3,000 residential units across 10 towers. The company has received strong response of around 450 applications for these apartments through soft launch. The project is likely to be completed in five years and the company would not go for external funding as a large portion will be funded by the revenue accretion from this segment.

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Financial performance

In Q4FY19, the consolidated revenue came in at Rs. 1808.71 crore as against Rs. 1629.84 crore in the corresponding quarter last year, registering 11% yoy increase. EBITDA for the quarter grew by 10.8% yoy to Rs. 166.94 crore as against Rs. 150.67 crore in the corresponding quarter last year, with a corresponding margin contraction of 1 bps. EBITDA margin for the quarter stood at 9.2%. PAT for the quarter came in at Rs. 68.21 crore as against Rs. 52.06 crore in the corresponding quarter last year, an increase of 31% yoy. Looking at the full year numbers for FY19, the revenue jumped by 11% to Rs. 6582.28 crore, while its EBITDA grew by 35% to 576.78 crore. Further, the company reported net profit of Rs.182.77 crore, up 25% yoy.

Valuation & outlook

The increasing disposable incomes, rising preference for branded apparels, coupled with expanding segment in apparel division would aid revenue growth for Raymond. Also, the price hike in suiting and the demand in wedding season is expected to aid textile business. However, one thing that needs to be watched is the company's debt level due to the realty business. The stock of Raymond is currently available at attractive P/E valuation of 27.12x on TTM earnings as compared to 33.6x 5-year median P/E. Notably, the company has posted significant improvement in ROCE from 8.9% in FY18 to 11.2% in FY19. Further, the company is expected to incur a capex of Rs. 275 crore. Considering the above factors, coupled with the growth of the industry, we see a potential upside of 41% with a target price of Rs 1060 over a period of two years.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	6582.28	5899.51	5353.29	5140.59	5332.62
Total Income	6712.14	6022.97	5471.88	5273.31	5428.43
Total Expenditure	6009.99	5476.57	5049.14	4767.05	4906.45
PBIDT	702.15	546.40	422.74	506.26	521.99
PAT	182.77	146.58	55.93	75.91	115.87
Dividend %	30.00	30.00	12.50	30.00	30.00
Adj. EPS(Rs)	27.38	21.93	4.16	13.82	18.38

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201903	201812	Q on Q Var%	201803	Y on Y Var%
Net Sales	1808.71	1675.16	7.97	1629.84	10.97
Total Expenditure	1641.77	1520.59	7.97	1479.17	10.99
PBIDT (Excl OI)	166.94	154.57	8.00	150.67	10.80
PAT	68.21	45.07	51.34	52.06	31.02
PBIDTM% (Excl OI)	9.23	9.23	0.00	9.24	-0.11
PBIDTM%	10.80	11.05	-2.26	10.80	0.00
PATM%	3.77	2.69	40.15	3.19	18.18
Adj. EPS(Rs)	11.00	6.12	79.74	8.65	27.17



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