India Equity Report | Company Update | Textiles

Raymond Ltd. ₹ 464

The Revival ! Buy

Gateway to Prosperity

Jul 22, 2016

Company Background

Raymond Ltd. is among the largest integrated manufacturers of worsted fabrics in the world and is the part of The Raymond Group which was incorporated in 1925 and within a span of a few years, transformed from being an Indian textile major to a global conglomerate. Today, the Raymond group is vertically and horizontally integrated to provide customers total textile solutions. Few companies globally have such a diverse product range of nearly 20,000 varieties of worsted suiting to cater to customers across age groups, occasions and styles. Raymond has some of the most highly respected fabric and apparel brands in portfolio: Raymond, Raymond Premium Apparel, Park Avenue, ColorPlus, Parx, Makers and Notting Hill. It also has an expansive retail presence established through the exclusive chain of 'The Raymond Shop' and stand-alone brand stores.

Key Highlights

- Raymond Ltd is expanding its retail footprint across India. Expansion in the past few years has been largely in small towns, taking the brand's exclusive stores to over 200 towns. Forty per cent of the sales for Raymond apparel, split across Raymond (fabrics), Color Plus, Park Avenue, Parx and accessories, come from its exclusive stores. Opening 500 outlets in smaller towns during the next three years. It has identified 750 Tier -III, VI and V towns and it plans to leverage Raymond's brand equity and enter these markets with exclusive stores. It launched its economy-brand 'Makers' in three north Indian states to focus on rural and suburban population. With the the seventh pay commission coming in, the disposable income is set to rise further This would lead to strong demand from the middle class.
- Raymond has a land bank of 125 acres in Mumbai and near-by Thane area, which it plans to monetise in the coming years. The land could fetch Rs.15 - 18.75 bn (implying value of Rs. 244-305 per share) at conservative valuations.
- Raymond has been striving to reduce cost of business it has recently reconfigured its Supply Chain the benefits of it likely to follow. The management mentions that the company's current focus is on keeping the inventory pile lean.

Key Financials

Year Ended 31st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	23,388.8	27,966.8	29,445.7
Rev. growth (%)	8.85	19.57	5.29
EBITDA (INR mn)	3,514.0	3,560.9	2,314.6
Net profit (INR mn)	1,000.0	881.2	(478.4)
Shares outstanding (mn)	61.4	61.4	61.4
EPS (INR)	14.0	16.3	13.4
EPS growth (%)	-	16.19	(17.93)
P/E (x)	182.65	214.09	30.39
RONW (%)	1.19	7.90	6.82
ROCE (%)	6.50	9.23	9.66

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Info Codes

Reuters	:	RYMD.BO
Bloomberg	:	DRRD:IN
NSE	:	RAYMOND
BSE	:	500330

Market Data

52 Wk Range (₹)	:	352 / 495
Shares in Issue (mn)	:	61.4
Mkt. Cap (₹ bn)	:	28.09
BSE 2 Wk Avg Vol	:	80000

Share Holding Pattern (%)

Promoters	:	42.40
Public	:	57.6
Others	:	00.00

Investment Theme

Raymond has reduced on its past agressiveness, and is now looking out for organic growth, though the last year has not been good. The company is building up efforts with implementation of SCM and other cost reduction measures to increase profits. It is also Targetting Middle Class. The Company has 600+ own stores from where 40% of its business comes. It is planning to focus more on middle class as well and is opening more outlets in smaller cities. With the rising income & discretionary spending, consumers will upgrade to branded. Raymond with its strong brand value and mass network will be benefited by this. We believe that its efforts tos stepping up its brands, and distribution network augurs well towards creating a profitable branded play in the next few quarters once the investment start yielding results along with improvement in macro environment. Thus, we continue to like it in medium-to-long term.

Growth from Tier II.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	21,968.4	26,702.5	21.5	28,271.2	5.9
Other Income	1,417.2	1,262.8	(10.9)	1,172.0	(7.2)
Change in Stocks	590.4	324.3	(45.1)	711.6	119.4
Raw Material Con.	8,561.3	11,692.9	36.6	12,513.7	7.0
Employee Exp.	2,762.3	3,133.9	13.5	3,378.0	7.8
Indirect Taxes	3.2	1.5	(53.1)	2.5	66.7
Other Exp.	9,088.3	9,947.3	9.5	10,741.5	8.0
Operating Exp.	20,415.1	24,775.6	21.4	26,635.7	7.5
Operating Profit	3,560.9	3,514.0	(1.3)	3,519.1	0.1
Total Interest	1,534.2	1,482.6	(3.4)	1,362.3	(8.1)
Gross Profit	2,026.7	2,031.4	0.2	2,156.8	6.2
Net Dep.	1,145.0	934.9	(18.3)	874.7	(6.4)
Total Taxation	0.5	96.5	19,200.0	461.2	377.9
Net Profit/Loss	881.2	1,000.0	13.5	820.9	(17.9)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	**24,820.4**	**26,265.3**	**26,547.8**	**28,185.7**
Equity Share capital	613.8	613.8	613.8	613.8
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	9,695.8	10,394.0	11,063.8	11,770.6
Secured Loans	6,560.9	6,616.5	5,356.4	5,078.6
Unsecured Loans	7,949.9	8,641.0	9,513.8	10,722.7
USES OF FUNDS	**24,820.4**	**26,265.3**	**26,547.8**	**28,185.7**
Gross Block	18,666.4	18,061.7	18,354.1	18,692.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	10,323.6	11,323.9	12,239.9	12,869.6
Net Block	8,342.8	6,737.8	6,114.2	5,822.7
Capital Work in Progress	1,448.8	1,577.2	1,674.0	1,967.6
Investments	7,448.5	7,701.8	7,086.8	8,344.5
Current Assets	10,172.0	11,534.1	13,525.0	15,149.6
Less : Current Liabilities	5,390.8	4,146.5	5,270.1	6,125.0
Total Net Current Assets	4,781.2	7,387.6	8,254.9	9,024.6
Misc. Expenses not writtenoff	2,799.1	2,860.9	3,417.9	3,026.3
NOTE				
Book Value of Unquoted Investments	6,902.4	7,100.7	6,896.8	7,924.3
Market Value of Quoted Investments	553.0	617.3	244.2	473.1
Contingent Liabilities	2,118.6	1,907.4	2,040.5	2,069.7
Dividend (%)	30.0	20.0	30.0	30.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 15	Sep 15	Dec 15	Mar 16
Net Sales	7,215.8	7,735.1	7,638.0	5,367.5
Cost Of Sales	6,632.2	6,927.2	6,741.2	5,326.3
Operating Profit	583.6	807.9	896.8	41.2
Other Income	248.2	279.5	265.5	353.5
Adjusted PBDIT	831.8	1,087.4	1,162.3	394.7
Financial Expenses	357.0	347.8	333.2	372.5
Depreciation	216.1	221.0	226.5	202.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	258.7	518.6	602.6	(180.6)
Tax Charges	92.9	142.7	241.4	(67.6)
Reported Profit	165.8	375.9	361.2	(113.0)
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	165.8	375.9	361.2	(113.0)

52 Week Index Relative Percentage Appreciation

Raymond vs SENSEX

Risks Associated

- Textile companies are been exposed to risk of price, as any fluctuation in the prices of raw materials as well as finished goods would definitely have an impact of its earnings growth. Companies exporting its products to overseas markets are faced to foreign exchange risk, as any fluctuation in Rupee would impact its revenue growth. The strengthening of dollar in the recent times would adversely impact the export income.
- The recent global events have put doubts in the minds of investors worldwide about the global economic recovery. A further downward movement European economies would have some effect on all the countries worldwide. The exports to such countries might get affected significantly and this could affect the performance of the company.
- The Textile Industry is majorly affected by non-availability of skilled manpower & with high labour costs. The continued weakness and fiscal tightening in developed markets is a matter of concern.Further, competition from low cost manufacturing countries has increased. Textiles being directly related to the production of natural fibers viz. cotton, inherent risks related to rain and climate also pose a major part. In Viscose fiber Yarn segment the costs of Raw Material are mounting and the Government is not showing any mercy to local manufacturers on cheap imports from China.

In a Nutshell

The Indian Textile Industry is one of the leading textile industries in the world. It is one of the key sectors of India's manufacturing segment as it contributes significantly to the economy in terms of employment generation and foreign exchange revenue. It contributes about 14% to industrial production , 5% to GDP and 17% to country's export earnings. Raymond is geared to benefit from all this. It is a premier textile manufacturer in India was established in 1925. It is the largest integrated manufacturer of worsted fabric in the world & ranks amongst the first three fully integrated manufacturers of worsted suiting, in the world. The company is engaged in selling products related to textiles, readymade garments, engineering tools, prophylactics & toiletries. It offers a wide variety of products at equally wide range of prices. It is one of the most respected brands in India. Raymond also has wide network across India. Each segment of the textile business offers a bright outlook in the future. Nevertheless company has also diversified into other sectors as well. Raymond is focusing more on middle class as well and is opening more outlets in smaller cities. With the rising income & discretionary spending and the 7th pay commission, consumers will upgrade to branded. Recent reports of the announcement of Textile Policy should also bring in some good news for the company. Thanks to its strong brand value and mass network will be benefited by this. We remain positive on the company and therefore recommend to accumulate the stock.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days
Reduce : Expected to depreciate up to 10% over 12-months
Sell : Expected to depreciate 10% or more over 12-months
Trade Sell : Expected to depreciate more than 10% over 45-days