Index

Raymond

Reco: Buy

Stock Update

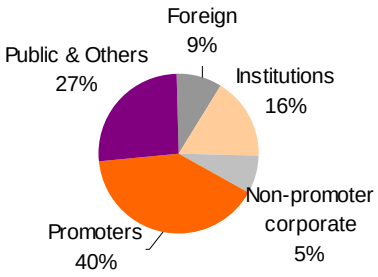
Strong results led by textile and apparel profitability

CMP: Rs302

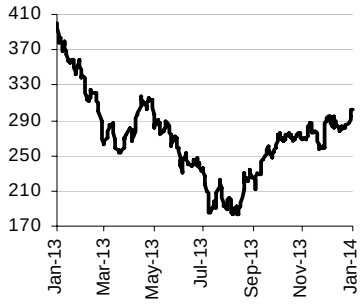
Company details

Price target:	Rs387
Market cap:	Rs1,853 cr
52 week high/low:	Rs409/176
NSE volume: (no. of shares)	4.0 lakh
BSE code:	500330
NSE code:	RAYMOND
Sharekhan code:	RAYMOND
Free float: (no. of shares)	3.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	9.3	27.0	-25.5
Relative to Sensex	3.0	6.6	19.3	-31.4

Key points

- Raymond's Q3FY2014 consolidated revenues grew by 14.8%, largely driven by a strong growth in the garments (over 44.8% YoY) and the denim (over 36.9% YoY) businesses. The operating performance was boosted by efficiency gains driven from the organisation re-vamping and the consolidation of its supply chain across the businesses. In addition to the margin expansion, the exponential growth in the PAT was aided by a lower effective tax rate in Q3.
- Though the management sounded cautious about the slowing sales volume in December 2013, it is confident of the volumes picking up with the marriage season and sustaining the margin at the current levels. On the flip side, there is no meaningful progress on monetising the Thane land-bank parcel.
- Owing to a better than expected operating performance, we are revising our earnings for FY2014 and tweak our earnings estimate for FY2015 and introduce our FY2016 estimate. We expect a 23% CAGR growth in the operating profit over FY2013-16. We maintain our Buy rating on the stock with a price target of Rs387.

Results Rs cr

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net revenues	**1,208.2**	**1,052.7**	**14.8**	**1,226.7**	**-1.5**
COGS	465.1	397.4	17.0	474.4	-2.0
% sales	*38.5*	*37.8*		*38.7*	
Staff cost	150.9	144.2	4.6	147.5	2.3
% sales	*12.5*	*13.7*		*12.0*	
Other expenses	445.6	410.0	8.7	415.0	7.4
% sales	*36.9*	*39.0*		*33.8*	
Operating profit	**146.6**	**101.0**	**45.2**	**189.8**	**-22.7**
EBITDA	164.0	121.4	35.1	204.7	-19.9
Reported PAT	56.9	12.8	343.1	92.3	-38.4
Adjusted PAT*	**57.2**	**21.1**	**171.5**	**97.7**	**-41.4**
GPM (%)	61.5	62.2	-74 bps	61.3	18 bps
Operating profit margin (%)	12.1	9.6	254 bps	16.7	-455 bps

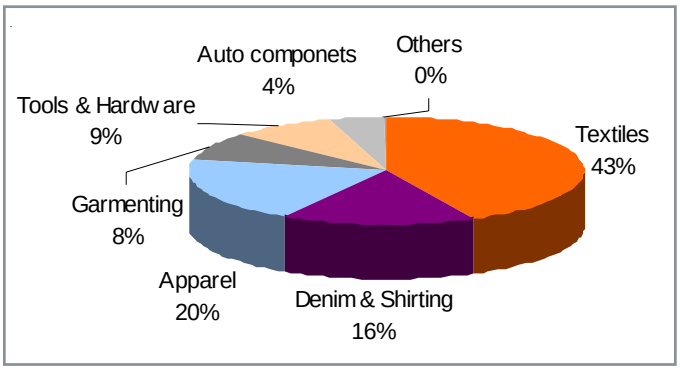
*Adjusted for non-recurring items like forex gain/loss and VRS payments

Denim and garmenting verticals led to a strong revenue growth: The consolidated revenues grew at 14.8% on a year-on-year (Y-o-Y) basis to Rs1,208 crore, led by the growth in the denim and shirting (over 36.9% year on year [YoY] revenue growth to Rs202 crore) segment, and the garmenting (over 44.9% YoY revenue growth to Rs104.5 crore) segment, while the textile segment and the branded apparel segment grew at a modest 7.9% YoY to Rs543 crore and 14.6% YoY to Rs250 crore respectively.

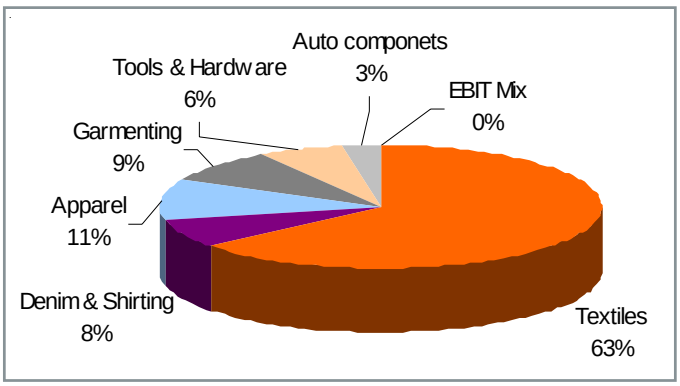
Operating profit witnessed a robust 45.2% YoY growth: Helped by a strong margin improvement in the textile and the branded apparel segments, the consolidated operating profit grew 45.2% to Rs146.6 crore. Primarily due to: (a) the supply chain consolidation benefits flowing into the system; and (b) the apparel segment threading towards normalcy (it had witnessed various inventory write-offs in the Q3FY2013 quarter). Along with this, the employee costs reduced by 120 basis points; however it was mitigated by a rise in the raw material costs by 74 basis points.

Robust operational performance, backed by low tax outflow resulted in 171% jump in APAT: The adjusted net profit grew at 171.5% on a Y-o-Y basis, led by a strong operating performance and a low effective tax rate (the effective tax rate for the quarter is 13% vs 33% in Q3FY2013).

Q3FY2014-consolidated revenue mix



Q3FY2014-consolidated EBIT mix



Key segmental analysis

Textiles

The textile business, which is the largest revenues contributor, posted a revenue growth of 8% YoY to Rs543 crore. The growth was led by the exports, and growth from the tier-III and tier-IV cities. The earnings before interest, tax, depreciation and amortisation (EBITDA) margin for the segment stood at 21% (an expansion of 228 basis points), owing to the consolidation of the supply chain and the distribution networks.

Textiles

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net sales (Rs cr)	543.3	503.3	7.9	558.7	(2.8)
EBIT	93.2	72.7	28.2	126.6	(26.4)
EBIT (%)	17.1	14.4	271bps	22.7	551bps

Branded apparel

The branded apparel segment, which constitutes of 20% of the total revenues, witnessed a robust jump in the revenues of 15% YoY to Rs250 crore. The growth is expected to be led by the wedding season in the tier-III and tier-IV cities. The segment has witnessed a good jump in the profitability as well, the EBITDA margin expanded by 8% YoY. It is believed that the branded apparel is back to its normalcy level after various inventory write-offs.

Branded apparel

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net sales (Rs cr)	250.3	218.5	14.6	254.0	(1.5)
EBIT	15.5	2.2	606.4	13.6	14.3
EBIT (%)	6.2	1.0	520bps	5.4	85bps

Denim and shirting

In terms of the overall revenues contribution, the denim segment is followed by the textile and branded apparel segments. It constitutes around 16% of the total revenues. The segment posted a revenue growth of 36.9% YoY to Rs203 crore. However, the EBIT margin posted a decline 79 basis points.

Denim and shirting

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net sales (Rs cr)	202.8	148.2	36.9	178.0	13.9
EBIT	11.0	9.2	19.5	9.3	18.2
EBIT (%)	5.4	6.2	(79)bps	5.2	19bps

Garmenting

The garmenting business posted a revenue growth of a robust 45% YoY, on account of the strong exports being witnessed by India led by the weak rupee and the improving cost competitiveness vis-a-vis the other global export countries like Bangladesh and China.

Garmenting

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net sales (Rs cr)	104.5	72.1	44.9	118.0	(11.4)
EBIT	12.6	7.2	75.4	12.1	4.4
EBIT (%)	12.1	10.0	210bps	10.3	183bps

Engineering business

The engineering business that includes the tools and hardware segment and the automobile (auto) components segment posted decent revenues as well as in the margin. Both these verticals witnessed a double-digit growth, while the margin also improved on a Y-o-Y basis. Going forward, the vertical is expected to grow at a steady rate.

Tools and hardware

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net sales (Rs cr)	110.3	96.0	14.9	114.0	(3.2)
EBIT	9.4	4.6	104.1	12.9	(27.2)
EBIT (%)	8.5	4.8	372bps	11.3	(280)bps

Auto components

Particulars	Q3FY14	Q3FY13	YoY %	Q2FY14	QoQ %
Net sales (Rs cr)	56.5	50.2	12.6	51.0	10.8
EBIT	4.0	0.8	395.0	3.7	7.0
EBIT (%)	7.0	1.6	541bps	7.3	(25)bps

Outlook

- The management sounded cautious on the demand environment and believes that the discretionary consumption category like the apparel and the fabric segments are still facing pressure. The somber marriage season demand validates their thesis.
- On the Thane land-bank parcel (the company possess 120 acres of land situated in the heart of Thane city at Pokhran road), it is exploring various options for monetisation, including outright sale and joint development.
- Despite the muted revenue growth, we expect Raymond to post a strong improvement in its operating and the net earnings, led by the cost rationalisation drive and the consolidation efforts that would continue to play in its financials.
- On the back of the improved profitability for Q3FY2014, we enhance our operating profit and earnings estimate for FY2014 while tweak our FY2015 estimate. We also introduce our FY2016 earnings estimate. Our earnings per share (EPS) estimates for FY2015 and FY2016 are Rs25.3 and Rs31.9 respectively.
- The improvement in the demand for the consumer discretionary category and any further development on the land bank monetisation front are the key monitorable for the near- to medium-term stock performance.

Valuations

We employ the sum-of-the-parts (SOTP) valuation method to value Raymond, wherein the core textile business and the apparel business are valued at 5x its enterprise value (EV)/EBITDA, while we embed the land parcel at 50% discount to the ruling price to arrive at our price target of Rs387. We maintain our Buy rating on the stock.

Valuations

Particulars	FY12	FY13	FY14E	FY15E	FY16E
Net sales (Rs cr)	3,642	4,069	4,478	4,928	5,440
EBITDA (Rs cr)	535	445	566	665	757
EBITDA margin (%)	14.7	10.9	12.6	13.5	13.9
Adjusted PAT (Rs cr)	143.0	40.7	125.9	155.0	195.8
EPS (Rs)	23.3	6.6	20.5	25.3	31.9
PE (x)	12.9	45.4	14.7	11.9	9.4
Book value (Rs)	221.9	224.6	244.0	267.8	298.6
P/BV (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	5.7	6.8	5.7	4.6	3.9
EV/sales (x)	0.8	0.7	0.7	0.6	0.5
RoCE (%)	12.5	8.2	11.2	12.8	14.0
RoE (%)	11.1	3.0	8.8	9.9	11.3

Sharekhan Stock Ideas

Automobiles

Apollo Tyres
Ashok Leyland
Bajaj Auto
M&M
Maruti Suzuki India

Banks & Finance

Allahabad Bank
Andhra Bank
Axis (UTI) Bank
Bajaj Finserv
Bank of Baroda
Bank of India
CanFin Homes
Capital First
Corp Bank
Federal Bank
HDFC
HDFC Bank
ICICI Bank
IDBI Bank
Punjab National Bank
SBI
Union Bank of India
Yes Bank

Consumer goods

Bajaj Corp
GSK Consumers
Godrej Consumer Products
Hindustan Unilever
ITC
Jyothy Laboratories
Marico
Mcleod Russel India
TGBL (Tata Tea)
Zydus Wellness

IT / IT services

CMC
HCL Technologies
Infosys
NIIT Technologies
Persistent Systems
Tata Consultancy Services
Wipro

Capital goods / Power

Bharat Heavy Electricals
CESC
Crompton Greaves
Greaves Cotton
Kalpataru Power Transmission
PTC India
Thermax
V-Guard Industries

Infrastructure / Real estate

Gayatri Projects
ITNL
IRB Infra
Jaiprakash Associates
Larsen & Toubro
Pratibha Industries
Punj Lloyd
Unity Infraprojects

Oil & gas

Oil India
Reliance Ind
Selan Exploration Technology

Pharmaceuticals

Aurobindo Pharma
Cadila Healthcare
Cipla
Dishman Pharma
Divi's Labs
JB Chemicals & Pharmaceuticals
Glenmark Pharmaceuticals
Ipca Laboratories
Lupin
Sun Pharmaceutical Industries
Torrent Pharma

Agri-Inputs

Tata Chemicals
UPL

Building materials

Grasim
India Cements
Orient Paper and Industries
Shree Cement
The Ramco Cements
UltraTech Cement

Discretionary consumption

Eros International Media
Indian Hotel Company
KKCL
Raymond
Relaxo Footwear
Speciality Restaurants
Sun TV Network
Zee Entertainment Enterprises

Diversified / Miscellaneous

Aditya Birla Nuvo
Bajaj Holdings
Bharti Airtel
Bharat Electronics
Gateway Distriparks
Max India
Ratnamani Metals and Tubes
Supreme Industries