Raymond Ltd.

EQUITY REPORT

Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

November 15, 2013

BSE Code:	500330	NSE Code:	RAYMOND	Reuters Code:	RYMD.NS	Bloomberg Code:	RW:IN

Raymond Ltd, a part of global conglomerate Raymond Group, was incorporated in 1925. The company produces wool-blended and premium polyester viscose worsted suiting. Its textile division has a distribution network of more than 4,000 multi-brand outlets and over 400 exclusive retail shops in the domestic market itself. Suitings are available in India in over 400 towns through 30,000 retailers and exclusive chain are present in over 150 cities across India and overseas especially the products exports to over 55 countries including USA, Canada, Europe, Japan and the Middle East. Besides textile, Raymond has also diversified in engineering and aviation. Raymond is largest manufacturer of steel files in the world accounting 30% of market share.

Investor's Rationale

- In Q2FY'14, Raymond Ltd registered a growth of 10% in its consolidated topline at ₹12.2 bn on account of healthy sales growth across most of its segments. EBITDA grew marginally by 17% against 15% in the corresponding period previous year. Net profit for the quarter grew strongly by 84% YoY to ₹0.9 bn as against ₹0.5 bn in the same period a year ago.

- Raymond Ltd is cautiously optimistic over performance in the next quarter, given the unfavourable economic environment. It has increased its focus on exports as it has witnessed strong realisation from the same on the back of recent devaluation in the domestic currency. Raymond's denim and tools & hardware segment observed improvement in the last few quarters. So, the company is hopeful that it will see a good growth in revenue in the next quarter also.

- Raymond aims to grow its exports about four times in the next four years as the domestic market is witnessing a relative slow-down. In order to compensate for the slow-down in textile segment and to protect the company from suffering the losses, Raymond is planning to expand its presence in the overseas market and to revive the business. While it continues its efforts for growing the domestic market, Raymond also plans to focus on exporting men's jacket in the US, Europe and Japan, so as to grow rapidly. The company has also been looking at China as the potential market.

- The compnay is eyeing big in the FMCG business as the company is looking to unleash new shampoo variants under its Park Avenue beer shampoo franchise. The company sees huge potential in the shampoo category where there are only few players.It is testing new categories for Raymond in the FMCG space and going beyond deo's and fragrances. Raymond has a different positioning as it is for "the complete man" while Park Avenue is targeted at the "working man".

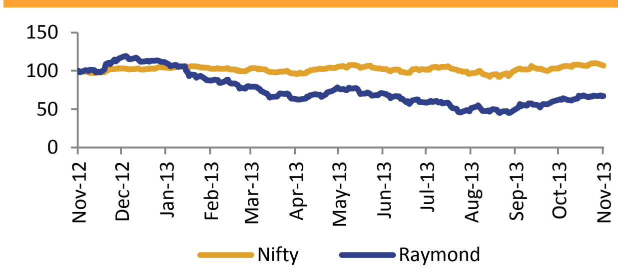
Market Data

Rating	**BUY**
CMP (₹)	272.4
Target (₹)	**318**
Potential Upside	16.9%
Duration	Long Term
Face Value (₹)	10
52 week H/L (₹)	488.5/175.5
Adj. all time High (₹)	579.4
Decline from 52WH (%)	44.3
Rise from 52WL (%)	55.2
Beta	1.6
Mkt. Cap (₹bn)	16.7
Enterprise Value	30.3

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹bn)	36.4	40.7	46.6	53.1
EBITDA (₹bn)	4.5	3.7	4.6	5.9
Net Profit (₹bn)	1.6	0.3	1.2	1.9
Adj EPS (₹)	25.4	4.7	19.4	31.6
P/E (x)	10.7	58.2	14.0	8.6
P/BV (x)	1.2	1.2	1.2	1.1
EV/EBITDA (x)	6.8	8.2	7.0	5.7
ROCE (%)	9.6	5.3	8.4	11.3
ROE (%)	11.4	2.1	8.3	12.3

One year Price Chart



Shareholding Pattern	Sep'13	Jul'13	Diff.
Promoters	39.9	38.5	1.4
FII	7.8	12.4	(4.6)
DII	16.0	16.5	(0.5)
Others	36.3	32.6	3.7

Raymond Ltd, the largest integrated manufacturer of worsted fabric in the world

Raymond operates mainly in three segments, namely, Textiles, Engineering and Aviation.

Raymond Ltd, a part of global conglomerate Raymond Group, was established in 1925. Raymond, with its corporate headquarters in Mumbai, is India's Leading Textile and Branded Apparel Company with interests in FMCG, Engineering (files, power tools and auto components) business. The company is largest manufacturer of steel files in the world accounting for a total of 30% market share.

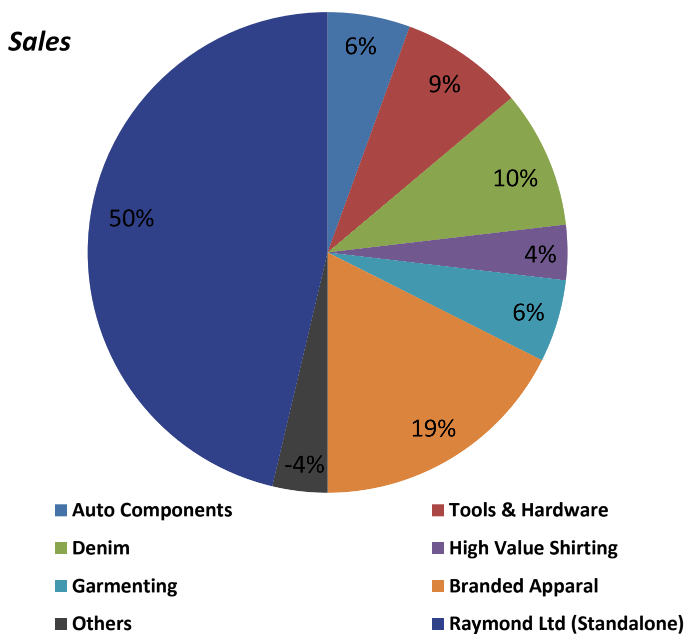
The company operates mainly in three segments, namely, Textiles, Engineering and Aviation. The textile division has a distribution network of more than 4,000 multi-brand outlets and over 400 exclusive retail shops in the domestic market itself. Its suitings are available in India in over 400 towns through 30,000 retailers and an exclusive chain is present in over 150 cities across India and overseas especially the products exports to over 55 countries including USA, Canada, Europe, Japan and the Middle East. The group has three engineering divisions, J.K. Files & Tools, J.K. Talabot Ltd. to cater to national and international markets and a controlling interest in Ring Plus Aqua Ltd engaged in the manufacture of auto components. Further, it is one of the first Corporate Houses in India to launch Air Charter Services in India and since then it has always been a way ahead for Raymond Aviation under the name of Million Air and have a fleet of 3 helicopters and 1 executive jet for the corporate executive.

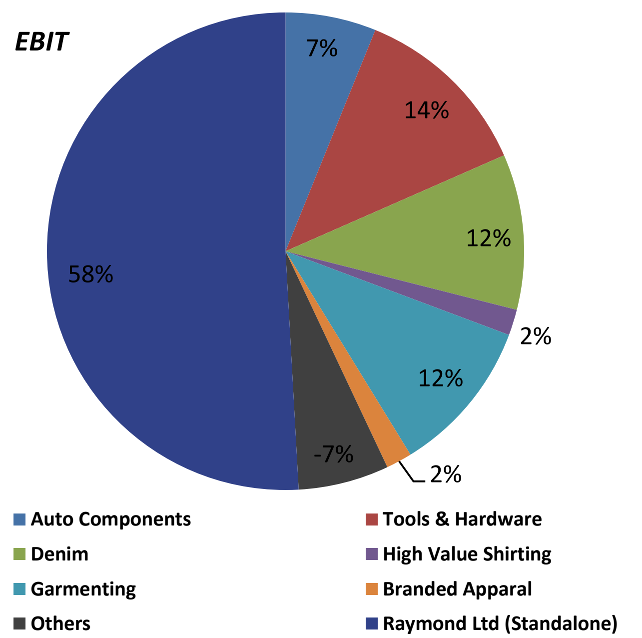
Raymond Ltd is largest manufacturer of steel files in the world accounting for a total of 30% market share.

As on 31 March 2013, the company had 922 retail stores (including 41 overseas stores) across all formats. This includes TRS (The Raymond Shop), EBO (The Exclusive Brand Outlet) and Made-to-Measure (MTM). The company's Pan-India retail network spreads over 1.8 mn square feet of retail space

In FY'13. the company's total textile sales registered a growth of 9% with the net Revenue being ₹20.6 bn as against ₹18.7 bn in FY'12, despite tough business environment. The growing young middle-class population is a source of great potential and provides immense opportunities to spur growth in the textile industry going forward.

Consoliadted Sales and Profitability Mix during FY'13



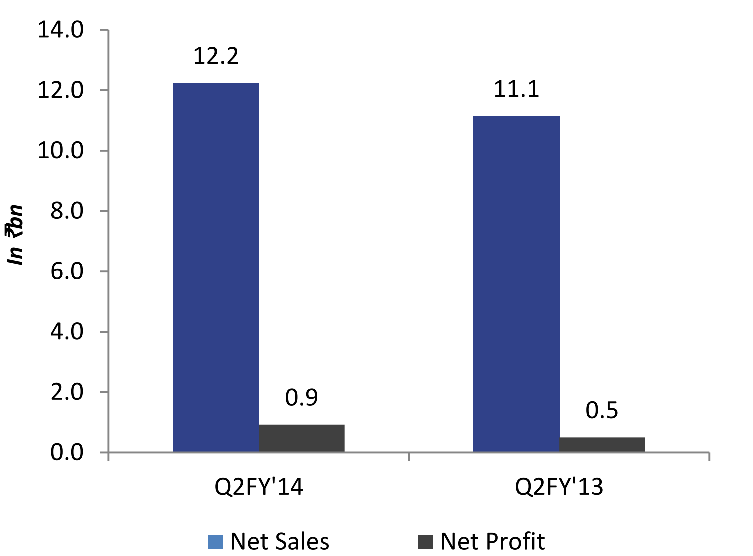


Witnessed healthy performance in Q2FY'14

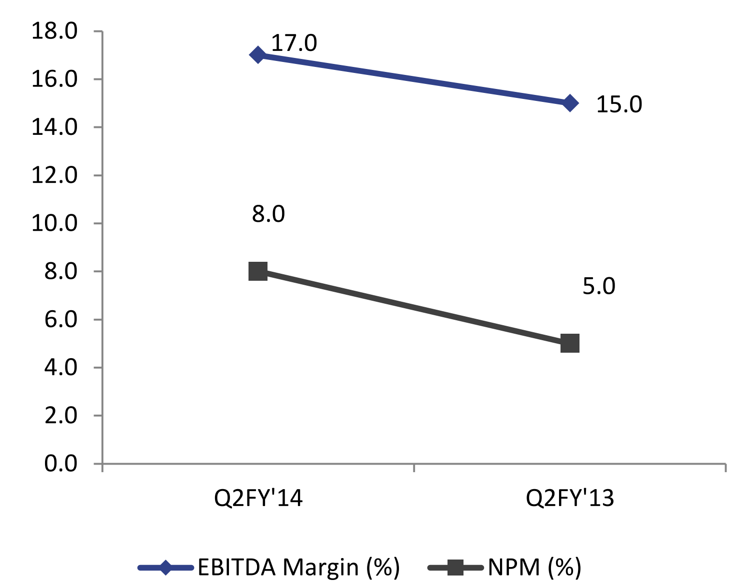
Raymond continues to remain bullish on the Indian consumption story with its strategy to enter and consolidate its presence in smaller towns and cities.

The largest integrated manufacturer of worsted fabric in the world, Raymond closed the half year of FY'14 on a positive note given by the company's confidence in its Brands, Product quality and Strong pan-India distribution network, coupled with continued thrust being given on strategic and tactical plans. Further, the company continues to remain bullish on the Indian consumption story with its strategy to enter and consolidate its presence in smaller towns and cities with its iconic brands giving desired results. In Q2FY'14, Raymond Ltd registered a growth of 10% in its consolidated topline at ₹12.2 bn on account of healthy sales growth across most

Improved performance in Q2FY'14



Margin Trend (%)



Consolidated net sales of the company gew 10% YoY to ₹12.2 bn in Q2FY'14, while net profit of the company grew strongly by 84% YoY to ₹0.9 bn.

of its segments. EBITDA margin grew marginally by 17% against 15% in the corresponding period previous year. Net profit for the quarter grew strongly by 84% YoY to ₹0.9 bn as against ₹0.5 bn in the same period a year ago.

Good growth across major segments : Revenues from the textile segment increased 7% YoY to ₹5.6 bn led by higher realisation from domestic as well as export segment. For textile segment, EBITDA margin improved by 192bps to 27%, during the quarter.

Further, apparel segment of the company posted a 9% rise in revenue at ₹2.5 bn with an 8% increase in EBITDA margin to 88bps. The formats, including 41 stores in the Middle East and SAARC region covering over 1.8 mn square feet of retail space. During the quarter, like-to-like sales growth across all formats came in at 3%. Secondary sales through the exclusive retail channel grew by 8% YoY.

Moving ahead, the company's garmenting business saw a 17% growth in revenue at ₹1.2 bn. However, EBITDA for the quarter was impacted by Forex losses of ₹0.1 bn (compared with a gain of ₹0.01 bn in last year), mainly due to mark-to-market (MTM) provisioning on unexecuted orders.

The cotton shirting fabric business (Raymond Zambaiti) grew by 12% to ₹0.9 bn during the quarter. However, EBITDA for the quarter was impacted due to higher input costs and

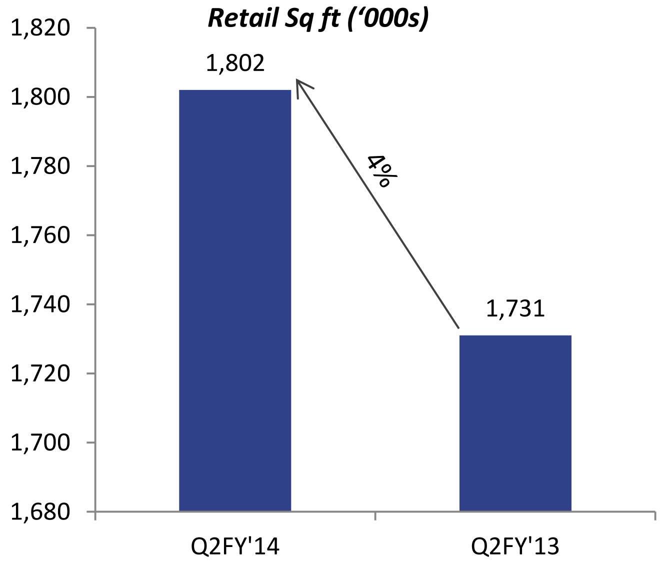
Raymond Zambaiti has become a subsidiary of Raymond effective from 18 September 2013 and results of Raymond Zambaiti have been consolidated accordingly.

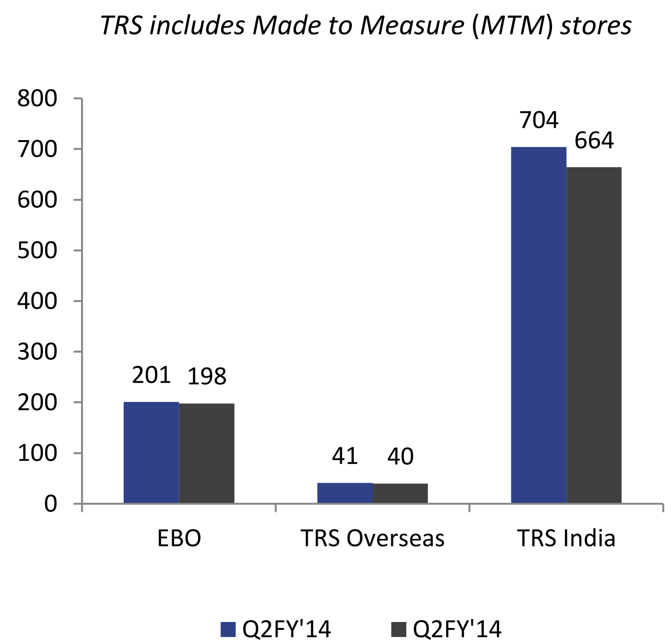
lower exports. During the quarter, Raymond Zambaiti has become a subsidiary of Raymond effective from 18 September 2013 and results of Raymond Zambaiti have been consolidated accordingly.

The denim business witnessed a 11% sales growth during the quarter and stood at ₹2.4 bn backed by higher realisation in the domestic as well as in the export markets, while EBITDA stood at ₹0.2bn.

Sales in the tools & hardware segment grew by 22% to ₹1.1 bn led by both domestic as well as export market. EBITDA margins increased by 110 bps to 13%. Sales in the auto component segment declined by 5% to ₹0.5 bn. EBITDA margins improved by 240 bps to 13%.

Exclusive retail network





Aims to grow exports four-folds in five years

In order to compensate for the reliave slow-down in textile business, Raymond is planning to expand its presence in the overseas market and to revive the business.

Raymond is aiming to grow its exports about four times in the next four years as the domestic market is witnessing a relative slow-down. The company is facing a slow-down in its branded textile business, so in order to compensate and to protect the company from suffering the losses, Raymond is planning to expand its presence in the overseas market and to revive the business. While it continues its efforts for growing the domestic market, Raymond also plans to focus on exporting men's jacket in the US, Europe and Japan, so as to grow rapidly. The company has also been looking at China as the potential market.

According to the company's estimates, India exports USD 40 bn worth of textiles in a year, as in 2013, which makes about ₹2 lakh crore in Indian currency. Raymond's exports revenue in 2012-13 from businesses including garment, textile and denim was about ₹2.5 bn. In FY'13, Raymond recorded a net profit of ₹0.3 bn on the back of ₹40.7 bn in revenue. With a target of ₹10.0 bn annual exports over the next five years, the company looks at 10-15% YoY growth. Moreover, it plans to invest around ₹10.0 bn in the coming few years to augment its garmenting capacities. The investment also includes its plans to expand its retail footprints by 30 to 50 stores in a year. the capacity scale-up will help the company emerge as a dominant global player for export in men's wear and worsted textile segment.

With a 7% market share in the deo-category, the company is just behind the market leader, HUL's Axe which enjoys a 10% markets share.

Entry into the hair-care segment to ramp up the male grooming category

After hitting the deo market for males, the group has now come up with an innovation in the shampoo category. The company is all set to fight MNCs like Hindustan Unilever (HUL) and P&G in the male grooming category. Followed by the launch of two deo brands, Raymond and Park Avenue, the company will also unleash new shampoo variants under its Park Avenue beer shampoo franchise. With a 7% market share in the deo-category, the company is just behind the market leader, HUL's Axe which enjoys a 10% markets share.

Raymond sees huge potential in the shampoo category where there are only few players, unlike the ₹14.0 bn deo-category which has more than 200 brands at present.

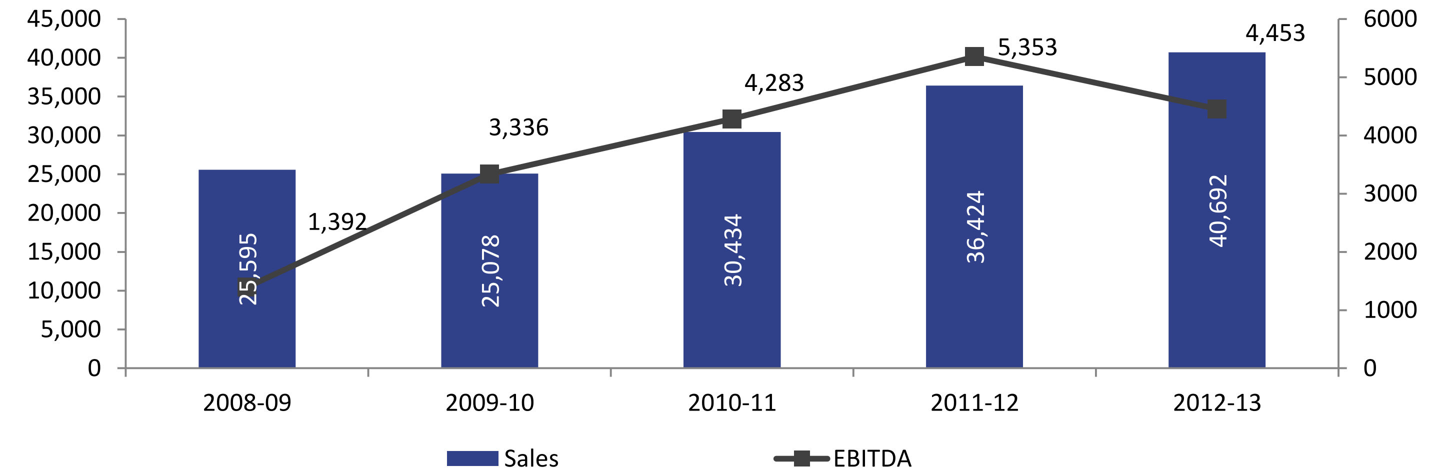
The company sees huge potential in the shampoo category where there are only few players, unlike the ₹14.0 bn deo-category which has more than 200 brands at present. Moreover, the deo category has faced slow-down in the recent past with the growth rate coming down to 15% as against 25% in the previous year. In order to cope up with that, the company has now rolled out it deo's with premium stance, Raymond in general trade which were earlier restricted to the Raymond stores. Besides, the management stated that the Raymond personal care franchise would also get extended in the male grooming category much like the Part Avenue did. It is testing new categories for Raymond in the FMCG space and going beyond deos and fragrances. Raymond has a different positioning as it is for "the complete man" while Park Avenue is targeted at the "working man".

Raymond is planning to raise around ₹2.5 - 3.0 bn from the stake sale as it intends to fund the global buy outs and to expand its manufacturing facilities.

Eyes divestment of minority stake in engineering arm in order to fund the global buyouts

The company is planning to sell a minority stake in its engineering arm, JK Files. JK Files is one of the largest producers of files in the world and has become a part of Raymond in 1949. The company enjoys 30% global market share in cutting and precisions tool business. JK Files' products include files, power tools, hand tools (screw driver, hammers and spanners), drills, taps and solid carbide. Raymond's engineering division's client list includes General Motors, Fiat, Caterpillar and Tata Motors. Raymond is planning to raise around ₹2.5 -3.0 bn from the stake sale as it intends to fund the global buy outs and to expand its

Significant Performance Improvement year-on-year



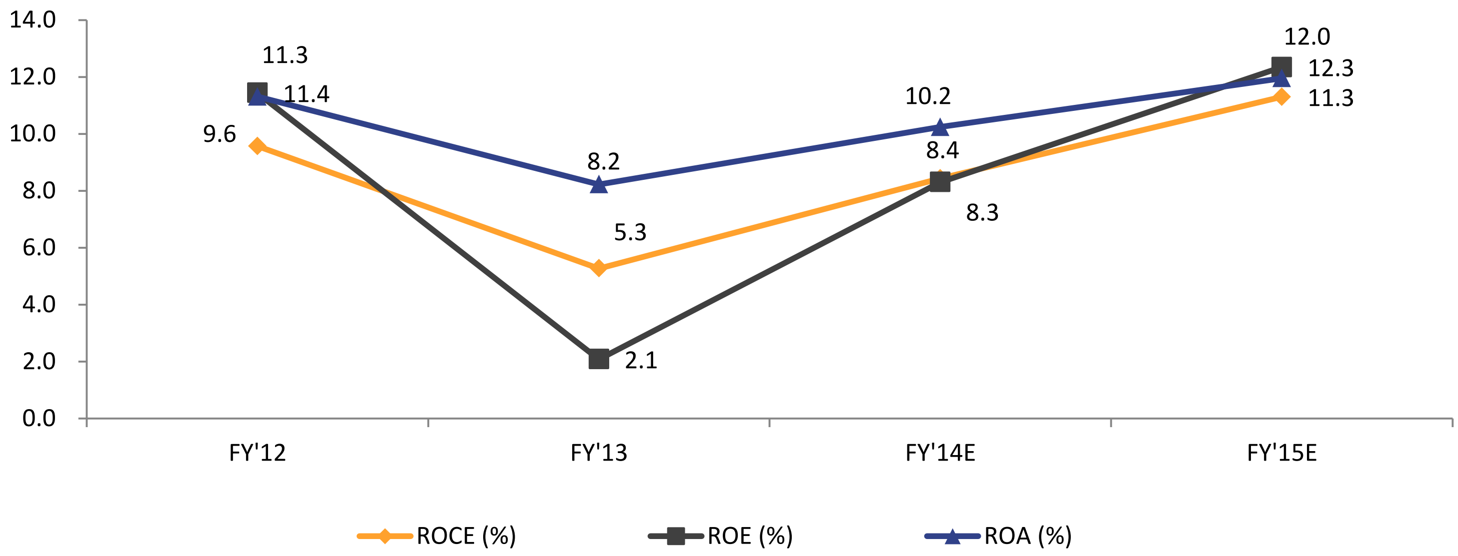
The company exports and imports currently stood at USD 200 mn and USD 100-110 mn, respectively, so it is a net earner of foreign currency.

manufacturing facilities. The engineering arm has launched a range of products in hand tools and agricultural implements industry recently and it accounts for 60% of total turnover of Raymond Ltd. Besides, the company has earned gross revenue of ₹4.2 bn in FY'13.

Cautiously optimistic for improved performance in H2FY'14

The company's management is cautiously optimistic over the company's performance in Q3FY'14 as the company focusses on exports, given strong realisation from exports on the back of domestic currency depreciated seen in Q1 and Q2, i.e. between April and September. The company exports and imports currently stood at USD 200 mn and USD 100-110 mn, respectively, so it is a net earner of foreign currency. In its denim segment, a large part of revenue comes from exports. Further, the company witnessed an improvement in its tools and hardware segments on account of rupee depreciation. So, the company is hopeful that its will see a good growth in revenue in the next quarter result subject to any change in the macroeconomic factors.

Key Ratios



Key Concerns

- A sluggish growth in consumer demand across the textile and apparel value chain in FY'13 has been one of the major concerns for Raymond. The sluggish demand was mainly due to high inflation and interest rates resulting in long periods of extended end-of-season sales, pressure on margins, thus impacting profitability of the company.
- The major challenge that the textile and apparel industry is facing is increasing cost of production arising out of rising wages, high power and interest costs.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	**613.8**	**613.8**	**613.8**	**613.8**
Reserve and surplus	13,009.6	13,175.1	13,754.2	15,077.3
Net Worth	**13,623.4**	**13,788.9**	**14,368.0**	**15,691.1**
Minority Interest	140.9	123.5	687.8	687.8
Loans	14,265.0	13,844.9	15,426.0	16,968.6
Current Liablilities	9,974.9	12,732.1	15,023.9	17,728.2
Net Deferred Tax Liability	215.8	189.0	212.8	212.8
Other long term liabilities	1833.6	1151.6	1,212.7	1,212.7
Capital Employed	**40,053.7**	**41,830.1**	**46,931.2**	**52,501.2**
Fixed assets	14,742.0	14,810.3	15,550.8	16,328.3
Investments	5,083.9	5,240.8	5,230.8	5,230.8
Loans and Advances	2,189.5	2,435.6	2,638.0	2,901.8
Current Assets	17,511.9	18,845.1	22,991.0	27,511.9
Deferred tax assets	236.0	195.2	209.9	209.9
Other Assets	290.4	303.1	310.7	318.5
Capital Deployed	**40,053.7**	**41,830.1**	**46,931.2**	**52,501.2**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Total Income	**36,424.1**	**40,691.6**	**46,551.2**	**53,068.4**
Expenses	31,887.9	36,977.6	41,932.6	47,174.2
EBITDA	**4,536.2**	**3,714.0**	**4,618.6**	**5,894.2**
EBITDA Margin (%)	*12.5*	*9.1*	*9.9*	*11.1*
Depreciation	1,658.4	1,890.4	1,928.3	1,966.8
Exceptional Items	0.0	289.6	0.0	0.0
EBIT	**2,877.8**	**1,533.9**	**2,690.3**	**3,927.4**
EBIT Margin %	7.9	3.8	5.8	7.4
Interest	1,650.5	1,905.8	2,115.5	2,348.2
Other Income	816.6	738.7	812.6	893.8
Profit before Tax	**2,043.9**	**366.8**	**1,387.4**	**2,473.0**
Tax	613.8	249.5	381.5	741.9
Profit after Tax	**1,430.1**	**117.3**	**1,005.9**	**1,731.1**
MI/Share in profit of associates	127.7	170.0	187.0	205.7
Net Profit	**1,557.8**	**287.3**	**1,192.9**	**1,936.8**

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	12.5	9.1	9.9	11.1
EBIT Margin (%)	7.9	3.8	5.8	7.4
NPM (%)	4.3	0.7	2.6	3.6
ROCE (%)	9.6	5.3	8.4	11.3
ROE (%)	11.4	2.1	8.3	12.3
Adj EPS (₹)	25.4	4.7	19.4	31.6
P/E (x)	10.7	58.2	14.0	8.6
BVPS (₹)	221.9	224.6	234.1	255.6
P/BVPS (x)	1.2	1.2	1.2	1.1
EV/Operating Income (x)	0.8	0.7	0.7	0.6
EV/EBITDA (x)	6.8	8.2	7.0	5.7
EV/EBIT (x)	10.7	19.8	12.0	8.6

Valuation and view

For the quarter ended 30 September 2013, the company posted a quite satisfactory performance with growth across all of its major segments. The management seems quite optimistic over the performance in the coming quarter, given the macros will not change drastically, and with increasing efforts to increase exports in most of the segment with particular focus on garmenting business. Raymond is constantly engaging itself to evaluate various options and opportunities to maximize value in other segments of its businesses to increase the shareholder value.

At a current market price (CMP) of ₹272.4, the stock trades at 14.0x FY14E and of 8.6x FY15E, P/E. We recommend ‘BUY’ with a target price of ₹318, which implies potential upside of ~16% to the CMP from 1 year perceptive.

Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.