Detailed Report
SECTOR: TEXTILES

MOTILAL OSWAL

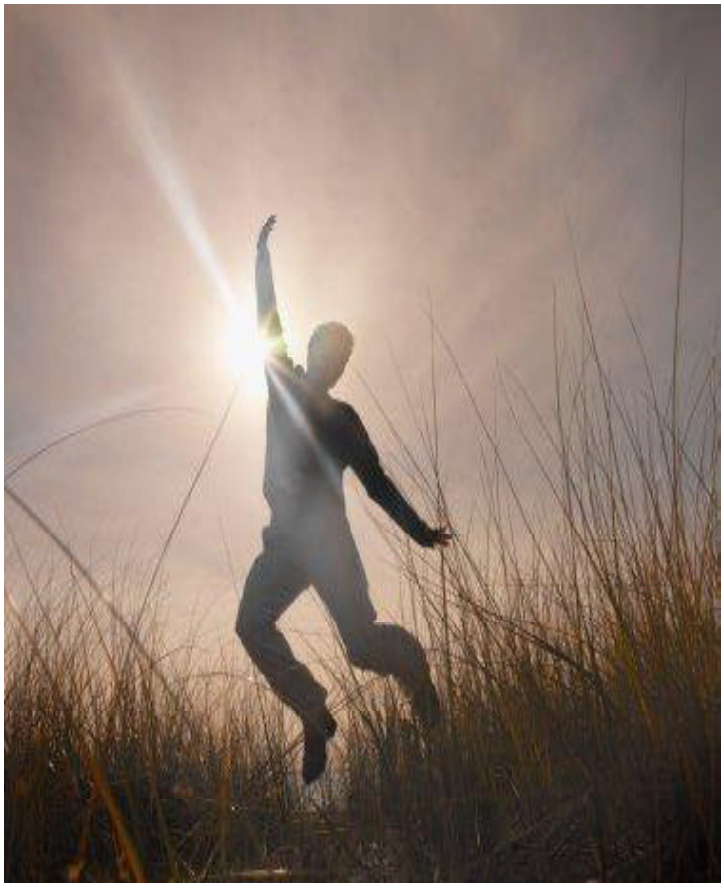
Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,223	RW IN
S&P CNX: 2,478	REUTERS CODE RYMD.BO

23 September 2005

Buy

Previous Recommendation: Buy Rs388



Renewed vigor

- Raymond's core worsted fabric business has hit a high growth trajectory
- It is the best proxy for the booming domestic branded retail industry
- It owns respected brands and has a massive retail distribution network
- Earnings to grow at a 47% CAGR (FY05-07); available at 12x FY07E earnings and 1.7x FY07E book value
- Given its strong brand and cash holdings of Rs6b (Rs99/share),we recommend **Buy** with a target price of Rs486 (25% upside)

Siddharth Bothra (Sbothra@MotilalOswal.com); Tel: +91 22 5657 5360

Contents

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RS MILLION	2004	2005E	2006E	2007E
Sales	12,283	14,401	17,744	21,204
EBITDA	1,173	1,578	2,707	3,418
PAT	1,377	916	1,454	1,989
EPS (Rs)	22.4	14.9	23.7	32.4
EPS Growth (%)	64.1	-33.5	58.8	36.8
BV/Share (Rs)	181.0	191.4	208.3	232.7
P/E (x)	17.3	26.0	16.4	12.0
P/BV (x)	2.1	2.0	1.9	1.7
EV/EBITDA (x)	18.9	14.5	9.5	7.4
EV/Sales (x)	1.8	1.6	1.5	1.2
RoE (%)	12.8	7.7	12.2	14.5
RoCE (%)	11.6	9.4	11.0	13.3

KEY FINANCIALS	
Shares Outstanding (m)	61.4
Market Cap. (Rs b)	23.8
Market Cap. (US$ b)	0.5
Past 3 yrs Sales Growth (%)	12.7
Past 3 yrs PAT Growth (%)	-0.4
Dividend Payout (%)	30.6
Dividend Yield (%)	1.0

STOCK DATA	
52-Week Range (Rs)	424/218
Major Shareholders (as of June 2005)	(%)
Promoters	35.3
Domestic Institutions	28.4
FII/FDIs	13.1
Public	23.2
Average Daily Turnover	
Volume ('000 shares)	142.9
Value (Rs million)	46.1
1/6/12 Month Rel. Performance (%)	1/0/16
1/6/12 Month Abs. Performance (%)	9/27/65

With its sound business model, strong balance sheet and large cash holdings, Raymond is well placed to exploit the opportunities in the post-quota era. We believe a host of catalysts could lead to a re-rating in the stock's valuations.

Worsted fabrics hits a high growth trajectory

The key concern for Raymond — flat growth in its main worsted fabrics business — is being addressed. We expect Raymond's fabric division to report a 11.3% CAGR in sales over FY05-07.

Best proxy for boom in branded apparel and retail

Raymond owns some of the most respected brands — Raymond's, Color Plus, Park Avenue, Parx and Mazoni — and has a large domestic retail distribution network with 0.8m square feet of retail space.

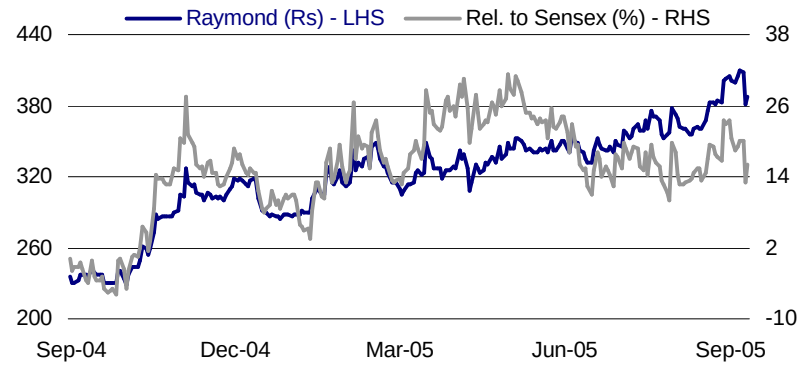
Potential to move up the service value chain

Due to its vertically integrated model, Raymond has strong expertise and understanding of key issues across the value chain. We believe this would help it move up the service value chain. We expect its EBITDA margins to expand from 11% to 16% over FY05-07.

We recommend Buy

We expect Raymond's earnings to post a 47% CAGR over FY05-07. The stock trades at 12x FY07E earnings and 1.7x FY07E book value. It also holds cash of Rs99 per share. **Buy** with a target price of Rs486, an upside of 25%.

STOCK PERFORMANCE (1 YEAR)

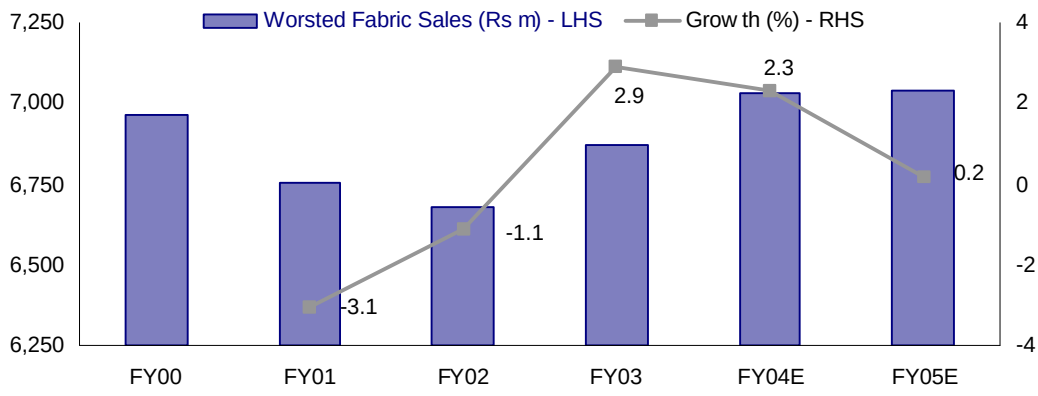


Worsted fabrics hits a high growth trajectory

After flat growth for five years, Raymond's worsted fabric division is set to witness double digit sales growth...

The key concern for Raymond over the last few years has been the flat growth rate in its main business of worsted fabrics. The worsted fabric segment, which accounts for almost 50% of its consolidated revenues, has witnessed a 0.8% CAGR during FY01-05. We believe this is set to change significantly. We expect Raymond's worsted fabric division to report double digit growth in its top line, over FY05-07. This would be led by improved product mix and increase in capacity by 12%. We believe with the turnaround in the worsted fabric segment, Raymond is poised for a significant re-rating.

FLAT GROWTH IN THE WORSTED FABRIC SEGMENT



Source: Company/Motilal Oswal Securities

Signs of improvement already visible

...signs of which are already evident in its 1QFY06 performance

During 1QFY06, the worsted fabric division reported a robust 39% YoY increase in revenues, while volumes increased by 15% YoY. Going forward, we expect, the worsted fabric division of Raymond to post a 11.3% CAGR (FY05-07).

SHARP IMPROVEMENT IN ITS WORSTED FABRIC BUSINESS

PARTICULARS	1QFY06	1QFY05	% CHG.	FY05	FY04	% CHG.
Realization (Rs/mtr)	296	246	20	301	284	6
Volumes (m mtr)	**4.5**	**3.9**	**15**	**24.2**	**24.1**	**0**
Domestic (m mtr)	3.5	3.3	6	20.6	21.5	-4
International (m mtr)	1	0.6	67	3.6	2.6	38
Value (Rs)	**1,332**	**959**	**39**	**7,284**	**6,844**	**6**

Source: Company/Motilal Oswal Securities

Capacity expansion to further aid growth

To ride the boom, Raymond is increasing its capacity

In view of the boom in the worsted fabric segment, Raymond is expanding its worsted fabric capacity further by 3m meters to 28m meters. The location selected for its expansion project (Vapi) offers a dual advantage. First, the labour cost in Vapi is significantly lower than its existing Thane plant. Second, given the size of the plot (120 acre), there is enough scope for relocation and expansion.

Higher demand in international and domestic markets

We expect Raymond's worsted fabric division to recover from its multi-year low-to-zero-growth phase and to post a robust 11.3% CAGR over FY05-07. We believe a host of factors are likely to lead to sustainable high growth for Raymond's worsted fabric division.

✍ To benefit from de-risking initiatives by the Japanese

This should help it cater to increased outsourcing demand from Japan...

China currently controls close to 80% of the Japanese worsted fabric market. The recent political tiff between China and Japan has resulted in de-risking initiatives by Japanese buyers. As a result, India is witnessing increased outsourcing from Japan in recent times. The Japanese worsted fabric demand is for very high-end quality, hence very few players internationally have the requisite skill sets to tap this market. We believe Raymond is well equipped to capture this huge opportunity, due to its world-class capacities and excellent quality standards.

✍ Garment exports to drive growth

Raymond has forward integrated into garment manufacturing to be able to provide a one-stop solution to its customers. It has set up a state-of-the-art garment manufacturing facility for jackets and trousers at a cost of Rs400m. Further, as majority of the exports are of high quality garments targeted at the high-end Japanese market, the overall realizations for the worsted fabric segment is likely to increase. Going forward, we believe that this segment would alone contribute to around 10% of worsted fabric sales.

✍ Resurgence of demand in the domestic market

…as well as increased domestic demand due to a shift towards formal wear

There has been a resurgence of demand for worsted fabric demand in the domestic market, due to the changing demographics and burgeoning demand from the white-collar workforce in the knowledge industries. There has been a perceptible shift towards formal wear and increasingly the new trend is towards dressing up, which would further contribute to robust growth of the worsted fabric division.

Sustainable competitive advantage

It is amongst the four largest worsted fabric manufacturers in the world

Raymond is amongst the four largest worsted fabric manufacturers in the world, with a capacity of 25m metres. We believe Raymond has a sustainable competitive advantage in the worsted fabric segment. Strong brand image and distribution network is critical for the industry, hence, competition is limited in the domestic worsted fabric market because of few organized players. Raymond is the market leader in the domestic market with around 60% market share, the rest of the market is shared between Birla VXL, S Kumars etc. Raymond, with a good brand image and a large distribution network, enjoys sufficient pricing flexibility to pass on any increase in raw material and other input costs to its customers.

Best proxy for the boom in branded apparel and retail

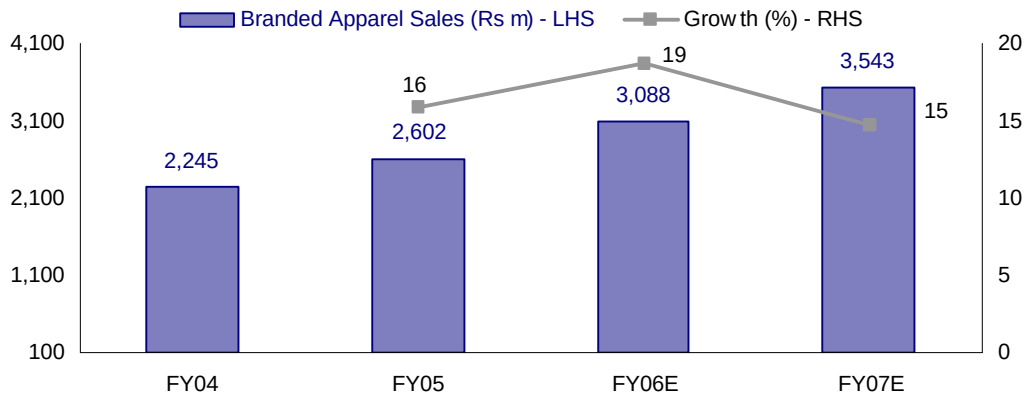
Domestic demand for branded apparel has grown at a robust 25% CAGR (FY00-05) with the advent of organized retailing, rising disposable incomes and changing demographic profile.

Raymond owns respected brands...

Raymond is a strong play on the booming branded apparel and retail industry in India. It enjoys tremendous brand recall and retail franchise in the domestic market. Raymond owns some of the oldest and most respected brands in India such as Raymond's, Color Plus, Park Avenue, Parx and Mazoni.

We estimate branded apparel retail sales of Raymond to witness a CAGR (FY05-07) of 17% from Rs2.6b in FY05 to Rs3.5b in FY07. The mangement has recently further consolidated its branded apparel business by divesting its 74% stake in Color Plus to its 100% subsidiary Raymond Apparels Ltd. With this, Raymond Apparel is set to emerge as one of the largest and most profitable domestic branded apparel company. We expect Raymond Apparel's consolidated profits to witness a CAGR of 32% from Rs209m in FY05 to Rs363m in FY07.

STRONG GROWTH IN BRANDED APPAREL SALES (RS M)



Source: Company/Motilal Oswal Securities

BRAND PROFILE: PREMIUM POSITIONING

...which in turn should help it position its products effectively

BRANDS	REVENUES	PRODUCT PROFILE	POSITIONING	STORES (NOS)
Color Plus	Rs900m	Men's casual shirts and trousers	Premium	26
Raymond	Rs6b	Suiting and shirting fabrics	Premium	
Park Avenue		Men's suits, blazers, trousers and shirts	Premium	
Parx	Rs1.7b	Semi formal and casual range.	Popular/Mid market	325
Manzoni		Luxury range of men's shirts, ties and accessories	Premium	(0.75msq.ft)

Source: Company/Motilal Oswal Securities

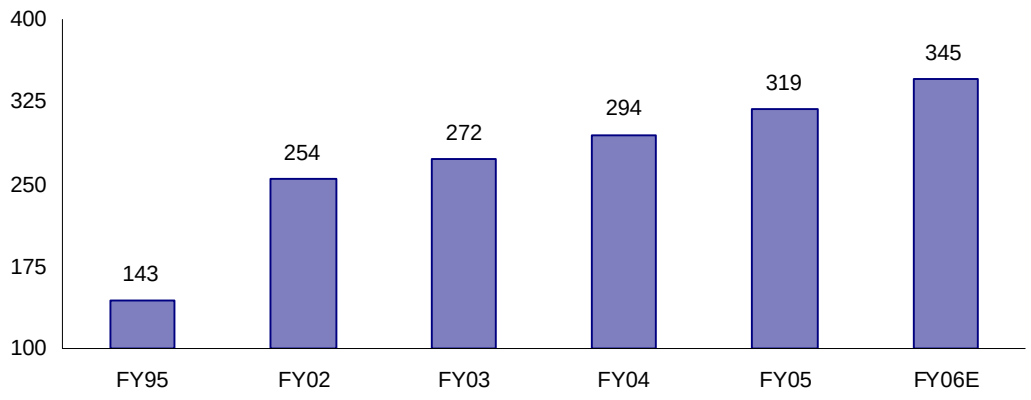
It has a large distribution network with 325 dedicated stores

It also enjoys one of the largest domestic retail distribution networks with 325 dedicated stores, including 25 international stores in 15 cities accounting for around 0.8m square feet of dedicated retail space. Raymond also has around 26 dedicated Color Plus show rooms under one of its group subsidiaries.

In view of the boom in apparels, it plans to add another 26 dedicated stores in FY06

Raymond has very aggressive plans to expand its own dedicated stores in upcoming malls and supermarkets. The management has indicated a 10% growth per annum in stores network over the next few years. It plans to add around 26 dedicated stores in FY06 alone. The management is focusing on an innovation-based value enhancement strategy, going forward. We believe Raymond is one of the best proxies for the booming branded apparel and retail industry in India.

STRONG GROWTH IN RETAIL STORES OVER THE YEARS (NOS)



Source: Company

Raymond has one of the largest distribution networks in the branded apparel segment in India

COMPARATIVE PERFORMANCE: ADVANTAGE RAYMOND

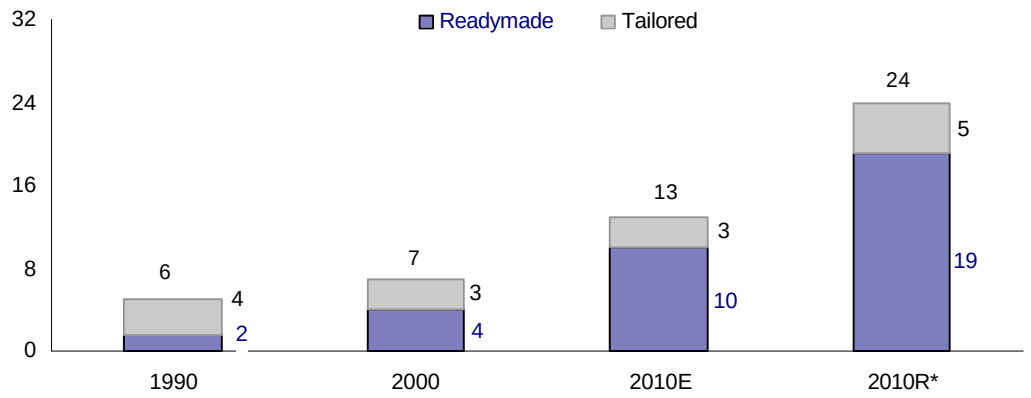
	NUMBER OF STORES			SALES (RS B)	
Y/E DECEMBER	2003	2004	2005E	2004	2005E
Brands (EBOs)					
Peter England + Elements	149	165	278	1.6	2.0
Loius Philippe	13	15	20	1.8	2.2
Van Heusen	15	18	20	1.5	1.7
Allen Solly (Mens)	29	30	39	1.2	1.4
Blackberry's	7	10	15	0.8	1.1
Color Plus	21	20	33	0.7	0.9
Apparel Company Managed (MBOs)					
The Raymond Shop	**280**	**310**	**332**	**5.0**	**5.6**
Planet Fashion - Trouser Town	48	58	77	1.1	1.6
Wills Lifestyle	33	42	52	0.7	na

Note: EBOs-Exclusive Brand Outlets, MBOs-Multi Brand Outlets. *Source: KSA Technopak*

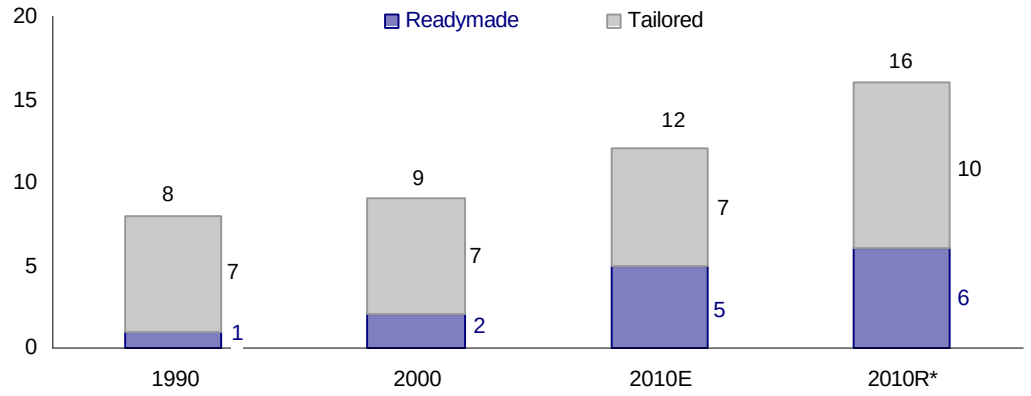
Indian Readymade Apparel Industry is slated to witness a boom. Raymond, with its strong brand franchise and distribution network, would be best placed to capitalize on this boom.

INDIA'S DOMESTIC MARKET MOVING TOWARDS WESTERN STYLE APPAREL

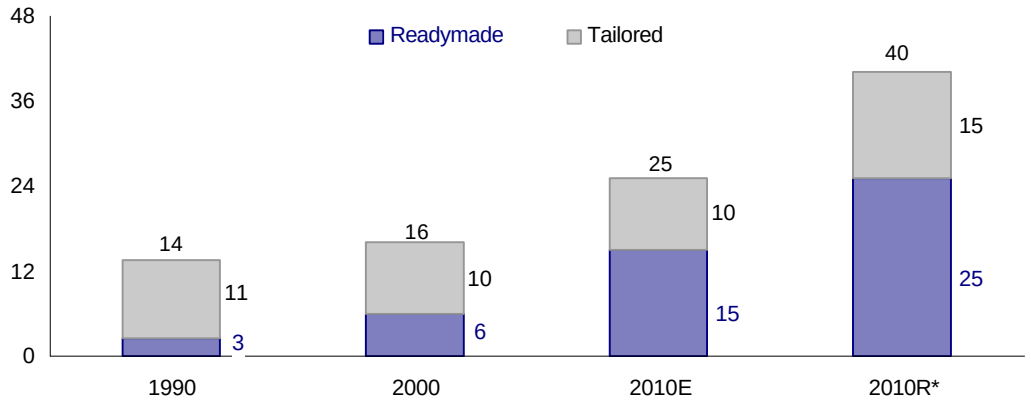
URBAN MARKET (US$B)



RURAL MARKET (US$B)



TOTAL APPAREL MARKET (US$B)



*R: If reform implemented

Source: Market Research Wing, Ministry of Textiles

Scope to move up the service value chain

In its quest to move up the value chain and tap the post-quota opportunity, Raymond is investing in garment manufacturing

Due to its vertically integrated model, Raymond has strong expertise and understanding of key issues across the value chain from yarn to retail. Raymond is aiming at moving up the value chain to be able to tap the vast opportunities available in the post quota era. In this connection, Raymond has recently made aggressive investment in garment manufacturing to be able to become a one-stop shop for all its customers.

We believe Raymond would be able to leverage its strong understanding of service logistics across the chain and steadily move up the service value chain for international retailers.We estimate share of branded apparel and new businesses to increase from Rs2.7b, accounting for 19% of revenues in FY05, to Rs5.8b accounting for 27% in FY07.

SHARE OF VALUE ADDED BUSINESS TO INCREASE (RS M)

	FY04	FY05	FY06E	FY07E	CAGR (%) (FY05-07)
Branded Apparel Sales	2,245	2,602	3,088	3,543	17
Raymond Apparel	1,512	1,715	2,023	2,266	15
Colour Plus*	733	887	1,064	1,277	20
New Ventures/Acquisition					
New Garmenting (Unit)	-	105	773	1,413	267
Ring Plus Aqua	-	-	425	837	-
Total	**2,245**	**2,706**	**4,285**	**5,794**	**46**
% of Total Sales	18	19	24	27	-

**Color Plus holding divested into Raymond Apparel* *Source: Company/Motilal Oswal Securities*

The exhibit below captures the value addition in the textile and apparel industry from the fiber to retail stage.

VALUE ADDITION ACROSS THE TEXTILE CHAIN

Source: KSA Technopak

Global JVs to position it as a premium international brand

Meanwhile, a spate of JVs with global textile majors should help Raymond evolve as an international company

We believe that Raymond is on course to transform itself from a cash rich strong domestic brand company into an internationally recognized fully integrated premium end textile company. Raymond has announced a spate of JVs with international majors in its textile business. This would allow the company to piggyback on international players to create brand awareness in the international markets.

JV with Gruppo Zambaiti of Italy for High Value Cotton Shirting

Raymond's JV with Gruppo Zambaiti of Italy will help it upgrade its design skills for high value cotton shirting...

Raymond has entered into a JV with Gruppo Zambaiti of Italy for high value cotton shirting. The plant would manufacture fine cotton and cotton linen shirting fabric and would have a capacity of 11.5m meters. In addition to the equity support, Gruppo Zambaiti would also share its technological and design capabilities and its global marketing network. Gruppo Zambaiti is one of the top three Italian high fashion cotton textile groups, with strengths in design and development and is a supplier to leading premium shirt brands worldwide. The main companies of the group are Cotonificio Zambaiti Spa, which is into designing and manufacturing cotton household linen; Copertificio Zambaiti Spa, which manufactures blankets and plaids; and Cotonificio Honegger Spa, which manufactures fine cotton shirting fabrics.

JV with Lanificio Fedora S.p.a., Italy for woolen fabrics

...while its JV with Lanificio Fedora of Italy will help it upgrade and enhance its carded woolen capacity

Raymond has also formed a joint venture with Lanificio Fedora of Italy, a leading woolen fabric manufacturer. Founded in 1948, Lanificio Fedora is the largest producer of carded woollen fabric in the world. With a turnover of about Eur 110m, Lanificio Fedora supplies its products to some of the most renowned fashion brands across the world. Apart from access to the technical expertise from Lanificio Fedora, this new partnership will allow the company to enhance its current manufacturing capacity from 1.5m meters to 2.5m meters per annum, in the first phase. The JV will have a product mix that includes blankets, shawls and fancy woolen jacketing and expects to export around two thirds of its output. Raymond will transfer its existing carded woolen unit, making largely blankets and shawls, at Jalgaon (Maharashtra) to the new JV. The cost of the total project, with capacity addition, is estimated to be around Rs400m. Raymond would have a 50% stake in the JV. The unit had a turnover of Rs170m in FY05 and suffered from low capacity utilization due to severe competition from cheaper acrylic-based products.

Financial performance improving

With its sound business model, strong balance sheet and huge cash, Raymond is a re-rating candidate

With its sound business model, strong balance sheet and large cash holdings, Raymond stands out as a company that can exploit the opportunities in the post-quota period to the fullest. Raymond's scalable business model is extremely attractive, as it manages to capture the entire value chain from the yarn to the fashion and retail stage. The company has shed its inertia and has become very aggressive in its effort to tap the vast opportunities in the textile industry.

Revenues to see a 21% CAGR (FY05-07)

Strong growth in value added sales and a 35% CAGR in denim to drive sales growth

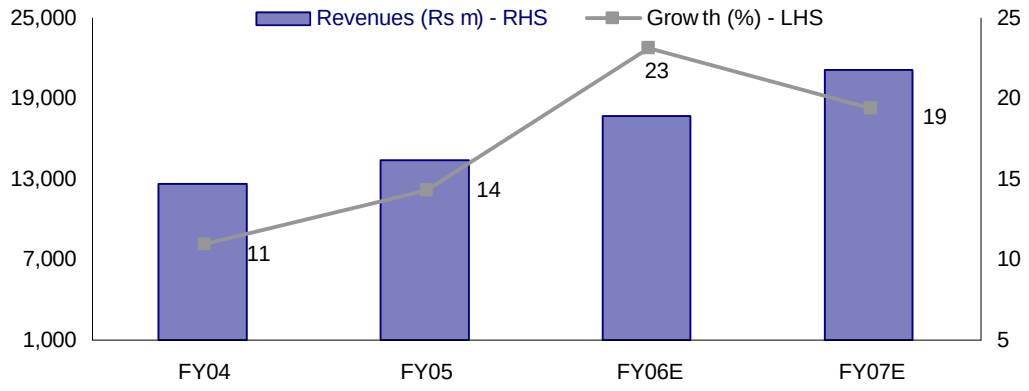
We estimate Raymond's revenues to see a CAGR of 21% (FY05-07), from Rs14.4b to Rs21.2b. While the traditional textile business would witness a CAGR of 11%, denim is likely to exhibit a strong CAGR of 35%, on the back of capacity expansion. Raymond's branded apparel sales are likely to see a CAGR 17% to Rs3.5b. The share of value added and new business revenues is slated to increase from 19% in FY05 to 27% in FY07.

SALES BREAKUP: BRANDED APPAREL TO DRIVE GROWTH

PARTICULARS	FY05E	FY06E	FY07E	CAGR (%)
Textiles	7,371	8,027	8,994	10
Files & Tools	1,542	1,666	1,799	8
Denim	2,224	3,230	4,040	35
Ring Plus Aqua *	-	425*	837	-
Raymond Apparel	1,715	2,023	2,266	15
Hindustan Files	188	217	230	10
Colour Plus	887	1,064	1,277	20
Garment Subsidiaries	105	773	1,413	267
Others	370	307	316	-8
Total	**14,402**	**17,744**	**21,204**	**21**

** FY06 nos are for seven months* *Source: Company / Motilal Oswal Securities*

REVENUES TO WITNESS A CARG OF 21% OVER FY05-07

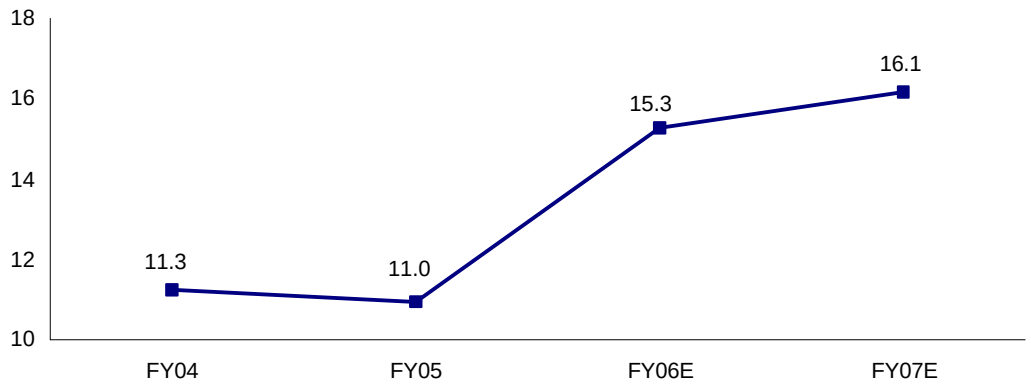


Source: Company / Motilal Oswal Securities

EBITDA margins to expand to 16%

We estimate Raymond's EBITDA margins to expand from 11% in FY05 to around 16% in FY07, while its earnings are likely to register a CAGR (FY05-07) of 47% to Rs1.9b. This would be driven by lower raw material costs, better product mix, capacity expansion and increased contribution from the branded apparel business.

SHARP IMPROVEMENT IN EBITDA MARGINS (%)



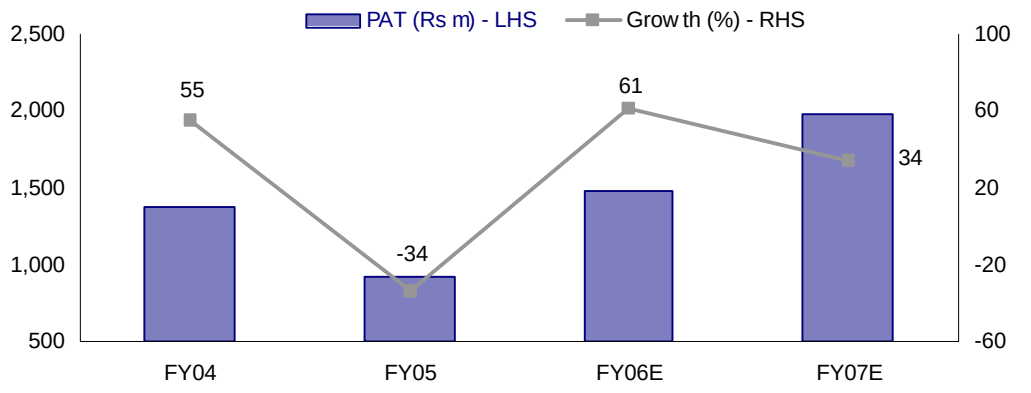
Source: Company / Motilal Oswal Securities

Earnings to witness a CAGR of 47%

Earnings to witness a CAGR of 47%

We estimate Raymond's consolidated earnings to register a CAGR of 47%, over FY05-07E. Earnings in FY05 was depressed due to a Rs250m one time charge on account of VRS expense.

PAT TO WITNESS A CARG OF 47% OVER FY05-07



Source: Company / Motilal Oswal Securities

Improved performance from subsidiaries

Better performance by subsidiaries should add to its consolidated profits

The subsidiaries of the company – Color Plus, Raymond Apparel and Hindustan Files – are performing well. During FY05, Raymond Apparel and Colour Plus witnessed a 13% and 21% YoY increase in revenues, respectively. Raymond Apparel posted a robust 242% YoY growth in earnings to around Rs79m. Meanwhile, Hindustan Files turned around posting a Rs15.6m profit. Going forward, once the company's garment subsidiaries also begin operations, Raymond's consolidated results should improve further.

PERFORMANCE OF SUBSIDIARIES FY05 (RS M)

		REVENUES			PAT		
	% HOLDING	FY04	FY05	% CH.	FY04	FY05	% CH.
Raymond Apparel	100	1,512	1,715	13	23	79	242
Colorplus Fashion	74.1*	733	887	21	132	129	-2
Hindustan Files	100	133	188	42	-31	15	148

*Source: Company Data *Will become 100% by May-06*

During 1QFY06 Raymond Apparel posted a sharp 54% YoY growth in pre tax earnings, while Color Plus reported a 45% YoY growth in pre tax earnings.

PERFORMANCE OF SUBSIDIARIES 1QFY06 (RS M)

	REVENUES			PBT		
	1QFY05	1QFY06	% CH.	1QFY05	1QFY06	%CH.
Raymond Apparel	394	398	1	7	10	54
Color Plus Fashion	197	233	18	40	57	45

*Source: Company Data * Since FY06*

Strong balance sheet and comfortable leverage

Raymond has a strong balance sheet with Rs6b in cash

Raymond is amongst the few domestic textile companies to boast of a strong balance sheet. It holds almost Rs6b in cash and has a comfortable leverage of 0.5x. In FY05, it had total debt of Rs6.4b, which included Rs1.7b of TUF loans at 2.5-3% interest cost, while the rest comprised of working capital loans.

Scope for substantial savings in cost

Raymond's largest plant at Thane has high labour cost. In FY05 the company had shifted its files division from its Thane plant, citing high cost of operations in Mumbai. Going forward, we believe that there is scope for substantial savings if Raymond shifts its existing operations from the high-cost Thane plant to a low-cost city. Raymond's average labour cost at its Thane plant works out to around Rs17,000/worker as against Rs5,000/worker at its new unit at Vapi. The company is also slated to benefit from the large number of VRS it has offered over the last few years (1,000-1,200 employees). Raymond spent around Rs250m on VRS in FY05.

Robust 1QFY06 performance

Raymond reported robust 1QFY06 results with revenues increasing by 31% YoY to Rs2.5b, while earnings increased by 497% to Rs188m. EBITDA margin expanded to 13% YoY in 1QFY06. The strong revenue growth was driven by 39% YoY increase in worsted textiles to Rs1.5b and 31% YoY increase in denim to Rs621m. EBIT margins in the textiles and files segment improved substantially by 860bp YoY and 660bp YoY, respectively.

1QFY06 PERFORMANCE: HARBINGER OF BETTER TIMES (RS M)

PARTICULARS	1QFY05	1QFY06	% CH.
Net Revenues	1,876	2,452	31
Other Income	100	162.9	63
Total Income	1,976	2,618	33
Total Expenditure	1,769	2,137	21
EBITDA	107	318.2	198
EBITDA Margin (%)	*6*	*13*	*127*
Interest	22	45.8	108
Depreciation	133	166.3	25
PBT before EO Items	52	269	422
Extraordinary Items	-	-41.7	-
Reported PBT	52	227.3	341
Provision for Tax	20	39.2	96
Reported PAT	31.5	188.1	497

SEGMENT REVENUES

PARTICULARS	1QFY05	1QFY06	% CH.
Revenues			
Textiles	1,078	1,454	35
Files & Tools	331	372	12
Denim	475	621	31
Others	26	7	-72
EBIT			
Textiles	99	261	164
% of Sales	*9*	*18*	*96*
Files & Tools	16	42.3	168
% of Sales	*4.8*	*11.4*	*138*
Denim	31	40.6	31
% of Sales	*6.5*	*6.5*	*0*

Source: Company/Motilal Oswal Securities

Valuations reasonable; Buy

Despite a turnaround in its worsted business (50% of FY05 sales), Raymond trades at a discount to the textile universe

Raymond trades at 16.4x FY06E and 12x FY07E earnings. It is available at an attractive P/BV of 1.7x FY07E and enjoys an EV/EBITDA of 7.4x FY07E. The discounted valuations are in spite of Raymond's strong brand and retail franchise, large cash and a low leverage at 0.5x. Raymond holds close to Rs6b in cash (Rs99/share) and has significant real estate at its Thane plant (160 acres). We rate the stock a **Buy** with a target price of Rs486, an upside of 25%.

COMPARATIVE PERFORMANCE: ADVANTAGE RAYMOND88

	P/E (X)		P/BV (X)		EV/EBITDA (X)	
COMPANIES	FY06E	FY07E	FY06E	FY07E	FY06E	FY07E
Alok Industries	14.1	7.9	1.4	1.2	8.7	5.5
Arvind Mills	12.6	11.6	1.8	1.6	8.4	7.1
Gokaldas Exports	15.8	11.8	2.3	2.0	11.1	8.8
Himatsingka Seide	20.6	17.6	3.4	3.0	14.1	11.3
Vardhman Textiles	11.6	10.0	1.9	1.7	7.5	6.6
Raymond	16.4	12.0	1.9	1.7	9.5	7.4
Welspun	16.4	9.5	1.8	1.6	10.3	7.4

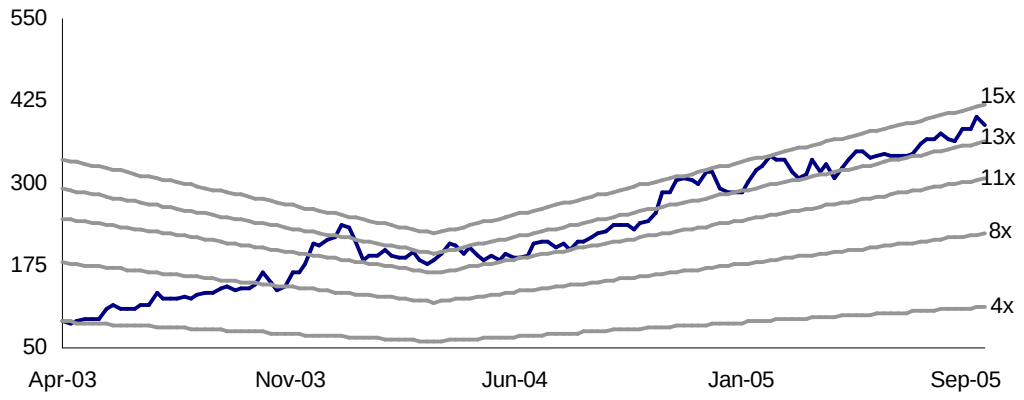
Source: Company / Motilal Oswal Securities

Price target of Rs486, upside of 25%

We recommend Buy

We believe Raymond is set to witness a re-rating in its valuations, as it transforms itself from a cash rich strong domestic brand company into an internationally recognized fully integrated premium end textile company. We have valued Raymond at a PER of 15x FY07E earnings, which gives us a one-year price target of Rs486, an upside of 25%. Our DCF-based price target for Raymond is Rs484. We have assumed a 4% terminal growth and a WACC of 9.9%.

RAYMOND: PER BAND



Source: Company/Motilal Oswal Securities

DCF VALUE							(RS MILLION)
PARTICULARS	FY05	FY06E	FY07E	FY08E	FY09E	FY10E	FY11E
Revenue	**14,401**	**17,744**	**21,204**	**22,900**	**24,732**	**26,711**	**28,847**
% Change	*14*	*23*	*19*	*8*	*8*	*8*	*8*
Operating Profit	**1,578**	**2,707**	**3,418**	**3,664**	**3,957**	**4,274**	**4,616**
Operating margin (%)	*11*	*15*	*16*	*16*	*16*	*16*	*16*
Depreciation	707	890	987	1,046	1,109	1,175	1,246
EBIT	**871**	**1,818**	**2,431**	**2,618**	**2,848**	**3,098**	**3,370**
Effective Tax Tate (%)	*24*	*26*	*28*	*30*	*30*	*30*	*30*
Tax Adjusted EBIT	601	1,383	1,799	1,885	1,994	2,169	2,359
Add:Depreciation	707	890	987	1,066	1,151	1,243	1,343
Add:Other non-cash charges	26	79	267	-	-	-	-
% Dep. to Sales	*4.9*	*4.7*	*4.5*	*4.3*	*4.1*	*3.9*	*3.7*
Less: Incr./ Decr.Working Capital	135	(1339)	(1418)	(509)	(550)	(594)	(641)
Less: Capex	(2,887)	(3,500)	(1,450)	(600)	(600)	(600)	(600)
Free Cash Flow to the Firm	**(1,470)**	**(2,487)**	**185**	**1,842**	**1,995**	**2,218**	**2,460**

PARTICULARS	RS M	(%)
Discounted Free Cash Flow from Operating Period	4,691	15
Terminal Value Discounted	27,096	85
Firm Value	31,787	-
Less: Total Net Debt	8,155	27
Add: Transferable liquid Investments	6,076	20
Total Equity Value of the Company	29,708	100
DCF Value of the Stock in Rs/Share	**484**	**-**

WEIGHTED AVERAGE COST OF CAPITAL	
Net Worth	12,783
Financial Debt	8,361
Total Capital Employed	21,144
Debt/Total Capital (%)	40
Equity/Total Capital (%)	60

WACC	OPERATING (%)
Cost of Equity	
Rf +B (Rm-Rf)	16
Rf	6.5
Beta	0.8
Rm	16.0
Cost of Equity	13.6
Cost of Debt (Pre-tax)	5.5
Cost of Debt (Post-tax)	4.2
WACC	**9.9**

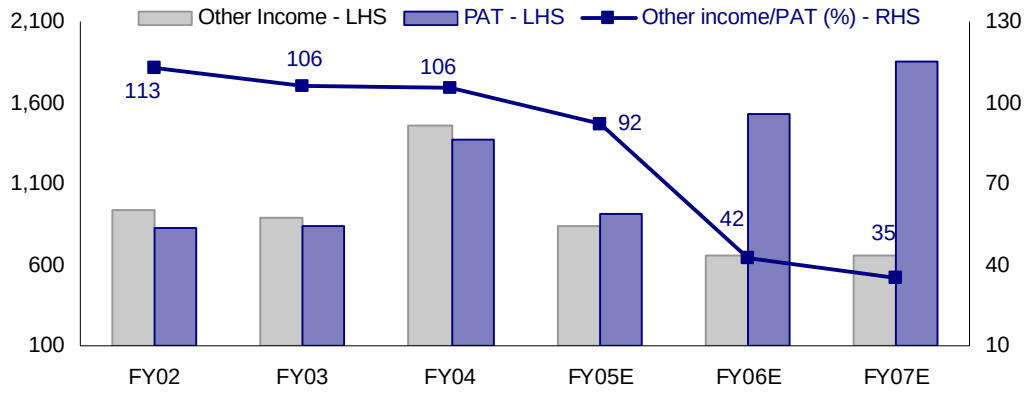
TERMINAL VALUE (VALUE DRIVER FORMULA)	
Terminal Growth Rate (Nominal) - (%)	4.0
Terminal Value (adjusted) - (Rs m)	27,096

Concerns

High dependence on other income

Raymond has a large treasury operation with its total investment portfolio amounting to over Rs7.1b as on 31 March 2005. This is inclusive of the Rs0.73b invested in its subsidiaries. These investments are mainly in debt mutual funds and equities. The yield on these investments has averaged between 6-8% in the past. Non-operating income has been a significant contributor to profits. Pending the utilization of these liquid investments for funding any capital expenditure, non-operating income is expected to remain a significant contributor to net profits.

OTHER INCOME/PAT GOING DOWN (RS M)



Source: Company/Motilal Oswal Securities

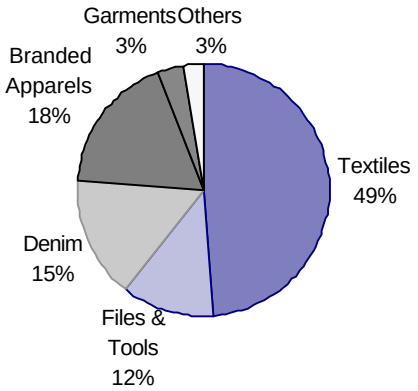
Unrelated diversifications

In the past, Raymond had made several unrelated diversifications across industries such as cement, steel and engineering. However, the company restructured its operations over the last four to five years by divesting its cement and steel businesses to become a more focused textile company. In recent years it has invested in the consumer durables, media and auto ancillary industry. With Rs6b in cash at the disposal of the management, fears of unrelated diversification continues to remain a major concern.

Background

Raymond was incorporated in 1925. Raymond is a diversified company and has three divisions — textiles, denim, and engineering files and tools. (Raymond divested its steel and cement business in 2000-01.) Raymond is India's leading producer of worsted suiting fabric, with a market share of around 60%. The company has a strong brand equity, with high-quality products and a wide distribution network. Although, the engineering files and tools division is the company's smallest division in terms of revenues, Raymond is the world's largest engineering files and tools manufacturer and exports nearly 60% of its production.

REVENUE BREAK UP (FY05): TEXTILES ACCOUNT FOR BULK OF ITS BUSINESS



Source: Company/Motilal Oswal Securities

Raymond has won several prestigious awards for its brands

- Superbrand 2003/04 Status awarded to Raymond by Superbrands India as selected by the Independent Superbrands Council.
- 'Global Operations (International Business) of the Year' awarded to 'The Raymond Shop' retail network at the In ICICI - Excellence in Retail Awards 2005.
- Colorplus Fashions, a subsidiary of the company, was conferred the Lycra Images Fashion Award 2005 for the Most Admired Brand of the Year in the category - 'Smart Casuals'.
- Raymond Apparel Limited, a wholly-owned subsidiary of the company was conferred the Lycra Images Fashion Award 2005 for 'Park Avenue' being adjudged the Most Admired Brand of the Year in the category 'Formalwear'.
- Raymond won the Business World's 'Most Respected Company Award for 2003 in the Readymade & Textiles category in the year 2003.

Worsted fabric division

Worsted fabrics are made from wool. The organized sector comprises composite mills, combing units, worsted and non-worsted spinning units and machine-made carpet manufacturing units. The unorganized sector comprises hosiery and knitting, power-loom, handloom, hand-made knotted carpets and independent dyeing units. Organized players operate in the domestic branded worsted fabric market and the quality conscious export market.

INDIAN SUITING INDUSTRY: STILL LARGELY UNBRANDED	(RS M)
Branded Worsted	1,500
Branded PV	2,700
Unbranded	4,500
Total	**8,700**

** Source: Industry*

Denim division

Denim production requires integrated facilities and technology, which has resulted in fewer unorganized players. The denim industry is dominated by Arvind Mills, which accounted for almost 50% of the total denim capacity. Aarvee Denim has emerged as the second largest player, followed by Raymond. Ashima Syntex, Modern Denim and KG Denim are the other large players in the industry.

It is estimated that almost 150-200m meters of capacity is being added in the denim industry over the next few years. Almost 60% of denim production is currently being exported from India.

Engineering files and tools division

Raymond's files and tools division manufactures engineering files and drills, and trades in goods like saw blades, drills and screwdrivers. These are primarily used to sharpen saws, which are used in the agricultural and industrial businesses. The company manufactures HSS cutting tools at its Chiplun (Maharashtra) and Pithampur (Madhya Pradesh) plants. The division operates a captive hot rolling mill at Pithampur to cater to its raw material requirements. The labour intensity of operations gives India a competitive edge in the international market, because of the abundance of low-cost labour in India. However, competition from low-priced Chinese imports, rising steel costs and stagnant international demand pose a key risk for the company.

Dominance in files and tools business

Raymond is the largest producer of steel files in the world and exports nearly 60% of its production. The company cemented its position in the domestic steel files market with the acquisition of Hindustan Gas in 2001. Post acquisition, its domestic and global market share has increased to over 90% and 38%, respectively. Raymond's strategy of widening its product range and lowering its costs is expected to enhance its competitive position in the medium term.

Plans to grow inorganically

Raymond group has identified engineering as a focus area for the future. Raymond has recently acquired a 76% stake in Ring Plus Aqua at a consideration of Rs230m. This company is in the auto components industry with its main focus on starter gears and integral shaft bearing.

Ring Plus Aqua – a profile

- Ring Gears India and Aqua Bearings were amalgamated in 1998 to form Ring Plus Aqua. The erstwhile Ring Gears India is now the 'Starter Gear Division' and the erstwhile Aqua Bearings is now the 'Shaft Bearing Division' of the merged company.
- Ring Plus Aqua manufactures its products at two separate locations in integrated factories located at Sinnar in Nasik (Maharashtra). The company services Original Equipment Manufacturers as well as the Replacement Market, both in India and overseas.
- Exports comprised almost 70% of the company's sales in FY05, with the main market being USA. Ring Plus Aqua has setup a 100% subsidiary in the US named R&A Logistics Inc. with a view to expand market base and manage the logistics for the Just in Time clientele.

FINANCIAL SNAPSHOT: REVENUE GROWTH PICKING UP (RS M)

	FY02	FY03	FY04	FY05
Revenues	356	415	489	633
EBITDA	84	99	89	113
Depreciation	26	28	25	37
EBIT	58	71	64	76
PAT	18	41	43	41
Net Worth	**282**	**317**	**337**	**363**
Loans	272	167	109	105
Capital Employed	554	484	446	468
Fixed Assets	405	355	345	321
Net Current Assets	**143**	**126**	**98**	**144**
Investment	4	3	3	3
Total Application of Funds	**554**	**484**	**446**	**468**
EBITDA Margin (%)	24	24	18	18
RoCE (%)	10	15	14	16

Source: Company/Motilal Oswal Securities

Large capex plans

The company has planned capex of around Rs7.6b, which includes investments in a joint-venture with an Italian company to set up a high value added cotton shirting fabric plant, and increasing its worsted fabric capacity by 3m meters. This would put the company in an enviable position, best placed to capitalize on the major opportunities in the post quota era.

RAYMOND'S CAPEX SCHEDULE OVER FY05-07E (RS M)

	CAPACITY INCREASE	COMMISSIONING DATE	CAPEX	TURNOVER POSSIBLE
Trousers & Suits	0.33m pieces suits & 2.1m trousers	Already Commissioned	400	1,250
Worsted Fabric Expansion	1m meter + Upgradation	December 2005	1,000	300
Denim Fabric	10m meter	March 2005	1,270	1,100
Denim Fabric	10m meter	March 2006	1,000	1,100
Jeans	3m pieces	October 2005	440	830
Shirts	1m pieces	April 2005	180	370
JV with Gruppo Zambaiti	10.5m meters high value cotton shirtings fabric	1HFY07	900	1,680
New Worsted Fabric Facility	3m meter	1HFY07	1,000	990
Retail Stores	20 stores		150	1,000
Other (including maintenance)			750	
Total				**7,630**

Source: Company

INCOME STATEMENT					(RS MILLION)
Y/E MARCH	2003	2004	2005	2006E	2007E
Gross Sales	**12,416**	**13,597**	**14,745**	**18,099**	**21,628**
Less Excise	1,068	1,314	344	355	424
Net Sales	**11,348**	**12,283**	**14,401**	**17,744**	**21,204**
YoY Growth (%)	*14.5*	*8.2*	*17.2*	*23.2*	*19.5*
Total Expenditure	9,845	11,110	12,823	15,037	17,786
EBIDT	**1,503**	**1,173**	**1,578**	**2,707**	**3,418**
Change (%)	*68.2*	*-21.9*	*34.5*	*71.6*	*26.3*
% of Net sales	*13.2*	*9.6*	*11.0*	*15.3*	*16.1*
Exceptional Items	-153	29	250	42	0
Depreciation	621	681	707	890	987
EBIT	882	492	923	1,824	2,448
Int.& Finance Charges	368	250	307	360	321
Other Income	890	1,458	844	600	600
PBT	**1,350**	**1,974**	**1,159**	**2,023**	**2,727**
Tax	462	611	277	526	764
Change (%)	*16.8*	*53.5*	*-35.3*	*69.8*	*31.2*
Monority Interest	-2.3	-30.8	-28.5	-53.4	-9.1
Share of profit from Associate Companies	28.3	40.1	0.7	10.0	34.9
PAT	**839**	**1,377**	**916**	**1,454**	**1,989**
Adj. Profit after Tax	**839**	**1,377**	**916**	**1,454**	**1,989**
Change (%)	*1.1*	*64.1*	*-33.5*	*58.8*	*36.8*

E: MOSt Estimates

BALANCE SHEET					(RS MILLION)
Y/E MARCH	2003	2004	2005	2006E	2007E
Share Capital	614	614	614	614	614
Reserves	9,502	10,496	11,135	12,169	13,669
Net Worth	**10,116**	**11,109**	**11,749**	**12,783**	**14,283**
Loans	5,161	4,978	6,411	8,361	7,461
Deferred Tax Liability	504	584	558	637	904
Minority Share	62	95	123	177	186
Capital Employed	**15,842**	**16,767**	**18,842**	**21,958**	**22,834**
Gross Block	9,739	10,511	12,674	16,174	17,624
Less: Depreciation	5,433	6,058	6,681	7,571	8,558
Net Fixed Assets	**4,306**	**4,453**	**5,993**	**8,603**	**9,066**
CWIP	122	187	911	0	0
Fixed Assets	4,428	4,640	6,904	8,603	9,066
Investments	5,743	6,658	6,666	7,012	6,545
Curr. Assets,Loans & Ad.	**8,828**	**8,588**	**8,336**	**10,074**	**11,717**
Inventory	3,693	3,776	3,710	4,736	5,598
Sundry Debtors	3,250	2,834	2,645	3,471	4,148
Cash & Bank Balances	438	569	494	206	144
Others	239	371	371	400	440
Current Liab. & Prov.	**3,165**	**3,134**	**3,064**	**3,731**	**4,495**
Sundry Creditors	1,390	1,365	1,477	1,943	2,402
No. of Days	45	41	37	40	41
Other Liabilities	1,025	858	968	1,046	1,202
Current Liabilities	2,415	2,223	2,445	2,988	3,604
Provisions	750	910	619	743	891
Net Current Assets	**5,663**	**5,454**	**5,271**	**6,343**	**7,223**
Misc. Expenditures	9	15	0	0	0
Application of Funds	**15,842**	**16,767**	**18,842**	**21,958**	**22,834**

E: MOSt Estimates

RATIO

Y/E MARCH	2003	2004	2005	2006E	2007E
Basic (Rs)					
EPS	**13.7**	**22.4**	**14.9**	**23.7**	**32.4**
Cash EPS	23.8	33.5	26.4	38.2	48.5
Book Value per Share	165	181	191	208	233
DPS	4.5	5.5	4.0	6.0	7.0
Payout (Incl. Div. Tax) %	32.9	27.7	30.6	28.9	24.6
Valuation (x)					
P/E		17.3	26.0	16.4	12.0
Cash PE		11.6	14.7	10.2	8.0
EV/EBITDA		18.9	14.5	9.5	7.4
EV/Sales		1.8	1.6	1.5	1.2
Price/Book Value		2.1	2.0	1.9	1.7
Dividend Yield (%)		1.4	1.0	1.5	1.8
Profitability Ratios (%)					
EBITDA Margin	13.2	9.6	11.3	15.3	16.2
RoE	9.1	12.8	7.7	12.2	14.5
RoCE	11.2	11.6	9.4	11.0	13.3
Turnover Ratios					
Debtors (Days)	96	76	65	70	70
Inventory (Days)	137	124	106	115	115
Creditors (Days)	164	128	118	120	120
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.9
Fixed Asset Turnover (x)	1.2	1.2	1.1	1.1	1.2
Leverage Ratio (x)					
Debt/Equity (x)	0.5	0.4	0.5	0.7	0.5

E: MOSt Estimates

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2003	2004	2005	2006E	2007E
OP/(Loss) before Tax	1,350	1,974	1,159	2,023	2,727
Add: Depreciation & Amort.	621	681	707	890	987
Add: Interest Paid	368	250	307	360	321
Less: Direct Taxes Paid	-462	-611	-277	-526	-764
Less: (Inc)/Dec in Wkg. Capital	-107	340	108	-1,359	-941
CF from Op. Activity	**624**	**988**	**823**	**516**	**1,710**
Other Items	-54	-7	517	-17	-51
CF after EO Items	**570**	**981**	**1,340**	**499**	**1,659**
(Inc)/Dec in Fixed Assets & CWIP	-1,263	-706	-1,439	-4,411	-1,450
(Pur)/Sale of Invest.	-39	-313	-46	304	487
CF from Inv. Activity	**-943**	**-1,138**	**-2,868**	**-2,914**	**-1,460**
Inc / (Dec) in Debt	-455	-182	1,433	1,950	-900
Interest Paid	368	250	307	360	321
Dividends Paid	276	381	280	420	490
CF from Fin. Activity	**282**	**288**	**1,453**	**2,127**	**-262**
Inc / (Dec) in Cash	**-92**	**131**	**-75**	**-288**	**-62**
Add: Opening Balance	529	438	569	494	206
Closing Balance	**438**	**569**	**494**	**206**	**144**

E: Inquire Estimates

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For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 56575200 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Disclosure of Interest Statement	**Raymond**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.