PICK OF THE WEEK

Raymond Ltd.

Rs. 425 | Buy

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Nifty: 3922; Sensex: 13602

Key Stock Data

Sector	Textiles
Bloomberg/Reuters	RW@IN/RYMD.BO
Shares o/s (m)	61.4
Market cap (Rs m)	26,087
Market cap (US$ m)	584
3-m daily average vol.	18,034

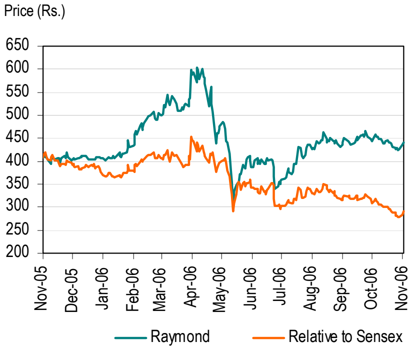
Price Performance

52-week high/low			Rs625/289
	-1m	-3m	-12m
Absolute (%)	(4.0)	(0.6)	3.6
Rel to Sensex (%)	(9.4)	(17.6)	(47.6)

Shareholding Pattern (%)

Promoters	35.21
FIIs/NRIs/OCBs/GDR	7.00
MFs/Banks/FIs	34.74
Non Promoter Corporate	2.86
Public & Others	20.19

Stock vs Relative to Sensex



Source: Capitaline

Summary

Raymond India Ltd. is one of the larger textile companies in the country with interests in worsted fabrics, denim, engineering tools and files, apparel retailing and garment manufacturing. The company has developed a de-risked business model to ensure that the fluctuating fortunes of any particular segment don't upset its revenue and profit growth. The robustness of the model has been put to test with the domestic glut scenario in denim. Raymond India was hardly affected by this situation and saw almost no fall in realization while all other major players saw a 20-25% dip in realizations.

All the divisions of the company have seen capacity addition and are witnessing good demand conditions. We expect the company to post revenue CAGR of 21% over the next 3 years driven by the contributions from its various high profile joint ventures and domestic retail presence. The stock is currently trading at 15x FY07E EPS of Rs.29 and 12x FY08E EPS of Rs.37. We believe the stock is the best bet in the textile space with its ability to capture both global and domestic growth and have a target of Rs.510 which is a 20% upside from current levels.

Investment highlights

Brands to drive domestic growth

The company has to its credit some of the biggest and well-known brands in the domestic market. The company's brands are positioned mainly in the premium segment and enjoy very high consumer recall. Raymond operates this business through its 100% subsidiaries Raymond Apparel and Colorplus. The company is one of the top 5 players in branded men's apparel segment with an approximate 10% share. It is now looking at capturing share in the growing kids wear and branded women's wear segment as well with its brand *Zapp* and *Be*.

Table 1: Raymond's brand portfolio

Brands	Product profile
Raymond	Worsted fabric
Park Avenue	Formal wear and accessories for men
Parx	Semi formal and casual wear for men
Mazoni	Men's shirts and ties
Be:	Designer wear for both women and men
ColorPlus	Men's casual wear
Zapp	Kid's wear

Source: Company reports; IDBI Capital Market Services

The company is broadening its branded offering and supporting that with aggressive retail store roll out. It is looking at widening its brand portfolio in the women's wear segment. It intends to capitalize on the absence of too many other brands in the segment. It plans to bring in some new launches in early 2007.The company is also considering joint ventures with international labels, or acquisition of existing brands.

JV's to drive global growth

The company has restructured its business into business enhancing JV's which have ensured the company gains an entry into the global market. It has a JV with Lanicifo Fedora Spa the largest producer of carded woolen fabric, and one for high value cotton shirting with one of the top 3 Italian textile groups Gruppo Zambaiti.

These JV's are aimed at developing a global market for the company and exchange of technology. The new JV with UCO for denim will give the company an entry into the fashion conscious EU market. This JV in particular has been strategic as it is through this venture that the company can keep its denim business profitable given the glut scenario in the domestic market despite rising demand for premium denim.

The latest addition to the company has been the 50-50 agreement with Grotto spa of Italy to introduce GAS, a niche, and contemporary lifestyle brand in India. The investment in the JV is pegged at about Rs.500m, and will target a turnover of Rs.1,250m in the next three years. GAS will be retailed through flagship stores, exclusive franchise outlets, large format stores and multi-brand outlets, and is expected to be present at 600 points of sale. Raymond will also be launching a premium denim collection and accessories in India through the JV.

Retail expansion plans

The company has one of the largest retail chains in the domestic market and it is planning to further increase it. The company owns most of its stores, which makes it an attractive real estate bet as well. Stores achieve break even in 1.5 years against 2 years for other retailers. Raymond is also planning to enhance its presence through other channels such as shop-in-shops and multi-brand outlets.

Table 2: Planned retail expansion

Outlets	Existing	Planned	Time period
Raymond	301	100	3 yrs
Colorplus	44	88	3 yrs
Raymond Apparel	7	50	3-5 yrs
Malls	18		

Source: Company reports; IDBI Capital Market Services

Table 3: Target for FY07

Store Tally	2,007
Park avenue	25
Parx	12
Zapp	12
Be	20

Source: Company reports; IDBI Capital Market Services

Capacity expansion

The company has set up a green-field textile capacity at Vapi of 6m meters of worsted fabric of which 3m meters have already started commercial production. The rest will begin production in early FY08. Post this the total worsted fabric capacity will stand at 31m meters per annum. The company in the denim division added another 10m meters to take its capacity to 40m meters. This capacity now under the Raymond UCO JV will cater to global buyers.

On the apparel front the company has commissioned a 1m pieces shirts facility, a 3mn pieces jeans capacity, a 1m pieces trouser and 0.33m pieces suits facility over the last 2 years. Ring Plus Aqua, the auto ancillary subsidiary of the company, has invested Rs.100m to increase its capacity of ring gears to 2.2m pieces.

Table 4: Capacity expansion

Division	Units	Capacity
Textiles	M Mtrs	34
Denim	M Mtrs	40
Jeans	M Pcs	3
Shirts	M Pcs	0.9
Trousers	M Pcs	1
Suits	M Pcs	0.3

Source: Company reports; IDBI Capital Market Services

- **Real estate bank**

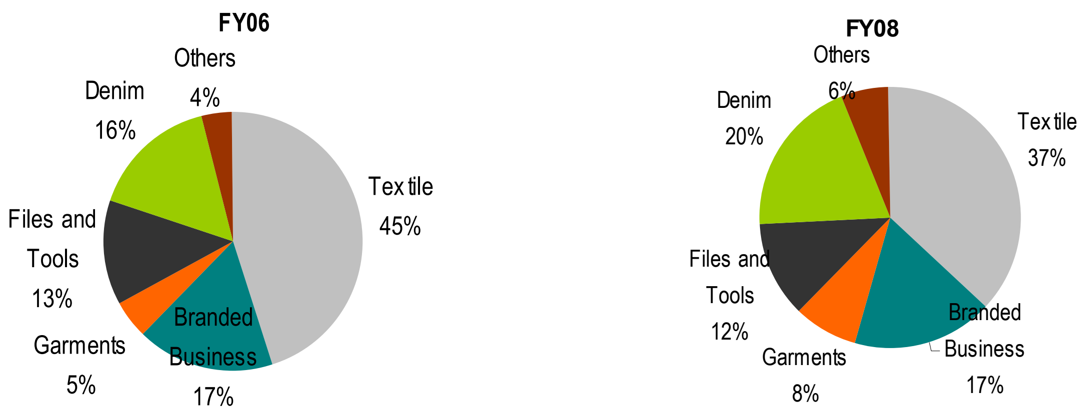
  The company has 140 acres of land at Thane, which previously housed the files and tools division. It is also considering moving out the worsted fabric division from there. This land can be conservatively valued at around Rs.6bn, which translates into Rs.100/share. In addition to this the company owns real estate through its stores. It currently owns 52 of its 365 stores and going forward plans to add own most of the new stores.

Business description

The company operates in 3 broad segments: textiles, denim, and files and tools. The textile division, which is the worsted fabrics business account for the largest chunk of revenues. The denim segment contributed 16% to consolidated revenue until FY06, however now the business has been transferred to the joint venture with UCO.

The files and tools division accounts for around 12% of revenue. The company is the domestic market leader in files and tools with around 80% market share. The company operates its branded apparel retail business through its fully owned subsidiaries *Raymond apparel* and *Colorplus*. The branded apparel retail business accounts for 17% of consolidated revenue and garments contribute 5%. Exports comprised 26% of the company's revenues.

Figure 1: Revenue mix



Source: Company reports; IDBI Capital Market Services

The company has forged a number of joint ventures with global players, majority of which will begin contributing to revenues from FY08. The ventures will bring in multiple benefits, the biggest being the access to global markets, technological transfers, and better value addition. The company has also added a new product lien in the form of shirting fabric through its venture with Zambaiti of Italy for manufacturing 11.5m of high value shirting fabrics.

Financial performance

The company in the last 5 years has posted revenue CAGR of 12%. The operating profits over the same period have grown at 13% and the after tax profits at 14%. The company has been working hard at keeping its costs low and it is on this account that its has relocated its plants from Thane to Vapi. It has undertaken at regular intervals VRS initiatives. The constant churn in the product mix and addition of better value products has resulted in better realizations over the years.

- **Q2FY07 result analysis**

  In Q2FY07 the company recorded a revenue growth of 3% at Rs.3,586m and an adjusted PAT growth of 42% at Rs.560mYoY. Though the revenue growth may look muted it is actually a very good quarter considering that it saw the hiving off the denim division to the JV with UCO in the form of a slump sale. The strong volume and value growth in the textile division has led to the overall growth. The operating margins expanded by 300bps on account of better realization in the textile division. The reported bottom line saw a boost of 284% on account of the Rs.871m from the slump sale to the JV of the denim division and some write backs on earlier losses.

Valuation and outlook

We believe that Raymond India is the best bet in the textile space with its diversified and robust revenue model. The company is well poised to benefit from the twin benefits in the export and domestic markets. It has the requisite brands and good recall in the domestic market and strong JV's that will drive its export foray. In addition to these benefits the company also has the cash flows to make necessary investments repeatedly. Going forward we expect the company to record revenue CAGR of 21% and PAT CAGR of 37%. The stock is currently trading at 15x FY07E EPS of Rs.29 and 12x FY08E EPS of Rs.37. Based on this we have a target of Rs.510 for the company.

Table 5: Quarter history (Rs. m)

Year-end: March	Q2FY07	Q2FY06	% Change	H1FY07	H1FY06	% Change
Net sales	3,586	3,497	3	6,392	5,952	7
Total expenditure	2,958	2,980	(1)	5,537	5,155	7
Operating profit	629	517	22	855	797	7
OPM (%)	18	15		13	13	
Other income	1,031	234	340	1,210	397	205
PBIDT	1,659	751	121	2,065	1,193	73
Interest	93	66	39	149	116	29
Depreciation	146	180	(19)	332	346	(4)
Tax	6	136	(95)	52	175	(70)
PAT	1,415	368	284	1,531	556	175
Extra-ordinary Items	855	(25)	(3,478)	817	(58)	(1,508)
Adj PAT	560	394	42	714	614	16
EPS (Rs.) Annualised	92	24	284	50	18	175
No. of shares (m)	61	61		61	61	

Source: Company reports; IDBI Capital Market Services

Financial summary

Profit and loss account

(Rs m)

Year-end: March	FY05	FY06	FY07E	FY08E
Net sales	**14,601**	**17,179**	**21,160**	**26,067**
% growth YoY	*16*	*18*	*23*	*23*
Other income	1,050	1,291	1,481	1,825
Stock Adj	(252)	389	915	1,244
Total income	**15,399**	**18,858**	**23,556**	**29,135**
Expenditure				
Raw materials	4,551	5,564	6,983	9,645
Power and fuel	908.9	1,076	1,270	1,825
Manufacturing and operating costs	2,517.2	2,760	3,386	4,431
Employee costs	2,073	2,408	2,962	4,171
Administration and selling costs	1,773	2,092	2,539	3,389
Misc expenditure	1,414	1,668	1,904	2,867
Total expenditure	**13,229**	**15,559**	**19,044**	**23,460**
Operating profit	1,120	2,009	3,031	3,850
% growth YoY	*1*	*79*	*51*	*27*
OPM (%)	7	11	13	13
PBDIT	2,170	3,300	4,512	5,675
Interest	307	390	366	344
Depreciation	707	874	1,701	2,221
PBT	1,156	2,036	2,445	3,110
Extraordinary items	55	251	100	100
PBT after extraordinary	1,101	1,785	2,545	3,210
Total tax provision	274	606	687	867
PAT	**914**	**1,479**	**1,758**	**2,243**
% growth YoY	*(34)*	*62*	*19*	*28*
NPM (%)	6	9	8	9
EPS (Rs.)	**15**	**24**	**29**	**37**
No. of shares (m)	61	61	61.4	61.4

Source: Company reports; IDBI Capital Market Services

Balance sheet and Ratios

(Rs m)

Year-end: March	FY05	FY06	FY07E	FY08E
Net block	5,993	8,691	8,600	7,770
Net current assets	5,086	5,627	6,139	6,692
Debt	6,411	9,412	8,912	8,312
Shareholder's funds	11,745	12,738	14,086	15,919
Key ratios				
Basic				
EPS (Rs.)	14.9	24.1	28.6	36.5
CEPS (Rs.)	26.4	38.3	56.3	72.7
BV (Rs.)	191.4	207.5	229.5	259.4
Valuation				
PE (x)	29.1	18.0	15.2	11.9
EV/Sales (x)	2.3	2.1	1.7	1.3
EV/EBIDTA (X)	29.5	17.9	11.7	9.1
EV/PAT (x)	36.2	24.4	20.2	15.6
EV (m)	33,050	36,051	35,551	34,951
P/BV (x)	2.3	2.1	1.9	1.7
Profiatbility ratios				
OPM (%)	8	12	14	15
NPM (%)	6	8	8	9
RONW (%)	8	12	12	14
ROCE (%)	11	15	15	17
Leverage ratio				
Debt / Equity	0.5	0.7	0.6	0.5

Source: Company reports; IDBI Capital Market Services

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