29 April 2007 | 5 pages

Raymond Ltd. (RYMD.BO)

Buy: Consolidated FY07 Results, Disappointing

- **Results below expectations** – While consolidated FY07 revenues grew 19% YoY, beating our 16% estimate, operating profit growth of a meager 4% YoY and PAT decline of 31% YoY disappointed. Unexpected losses from the denim JV, higher than expected losses from woolen and shirting fabric JVs are key reasons. Standalone 4Q results are not comparable due to demerger of denim in Aug'06.

- **Denim JV in troubled waters** – The 50:50 JV, Raymond UCO Denim, posted an unexpected loss of Rs.598.8m; Dismal performance of US and EU(~53% of revenues) due to low utilization, high overheads and order cancellations caused this; India's fabric unit did well, but jeans plant suffered losses of Rs.100mn.

- **Branded apparels, new store additions affect margins** – Revenues grew 24% YoY, but initial margin pressures due to set-up costs on ~85 new stores led the 27% decline in earnings. These are initial pressures and management expects earnings to pick up. Launched Notting Hill and Zap brand in FY07, plans to add ~110 new stores in FY08. This will increase total store network to ~560 stores.

- **Core worsted fabrics, the silver lining** – Revenues grew 14% YoY with operating profits growing higher at 15%, despite high overheads on 6m mtr commissioned in Vapi. With solid demand, increasing operating leverage from Phase I & II additions at Vapi in 2QFY07 and 4QFY07, respectively, growth outlook is strong.

- **Conclusion** — Growth triggers 1) Highly profitable worsted fabric business with strong brand 2) growing branded apparel division and 3) unlocking of value in real estate assets. Concerns - Significant losses from Denim and woolen JVs.

Buy/Low Risk	**1L**
Price (27 Apr 07)	Rs358.00
Target price	Rs570.00
Expected share price return	59.2%
Expected dividend yield	1.5%
Expected total return	**60.8%**
Market Cap	Rs21,974M US$539M

Figure 1. FY07 Consolidated Earnings Summary (Rs. m)

	FY06	FY07	YoY
Net Sales	17,106	20,407	19.3%
EBITDA	2,447	2,537	3.7%
EBITDA Margin	14.3%	12.4%	
Interest	250	502	nm
Other Income	755	780	3.4%
Depreciation	874	1,257	43.9%
PBT	2,078	1,558	-25.0%
PAT before extraoridnary	1,466	1,009	-31.2%
Extraordinary Items	-54	372	
Reported Net Income after Min.Int / Shr of Associates	1,360	1,400	2.9%

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See Appendix A-1 for Analyst Certification and important disclosures.

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Raymond Ltd.

Company description

Raymond is among the top three worsted fabric players in the world, with capacity of 31m meters per annum. In India it is a leader with 60% market share, strong brand equity and a distribution network of 450 retail outlets. It also has a presence in denim and branded apparel garments, which it is looking to ramp-up. In files & tools, a non core engineering business, it is one of the largest producers with a 30% share, and dominates the domestic market with a 70% share. Its thrust on garmenting is a step toward vertically integrating its business model, leveraging off its fabric capacity. It is the flagship company of the Singhania Group, which owns a 35% stake in the company.

Investment thesis

We maintain a Buy (1L) rating on Raymond with a target price of Rs570 based on 16.5x Sept 07E P/E at premium to sector valuations of 9x. This implies total return of 61% over a 12-month horizon. The premium is attributed to: 1) robust business model with strong brand; 2) a play on domestic branded retailing with wide network of stores; and 3) sustained earnings CAGR of 28% over FY06-09E.

With most of new expansions now operational, its JV in denim set to significantly scale up business, its thrust on vertical integration into garments, and partnerships with global players post quota removals, we believe Raymond offers a robust business model for growth. With growth fundamentals intact, cash reserves of Rs4bn, and potential unlocking of real estate value, we believe Raymond offers multiple growth triggers – and hence is our top sector pick.

Valuation

Our target price of Rs570 is based on 16.5x Sept 07E P/E. We believe P/E is a suitable valuation tool because it best captures the company's strong earnings growth potential. Our target multiple still places the stock at significant premium to our India textile universe valuations of 10x building for: 1) robust business model with strong brand; 2) a play on domestic branded retailing (45% of FY06 revenues) with wide network of stores; and 3) sustained earnings CAGR of 28% over FY06-09E.The stock is trading at 10.3x Sept 07E P/E at the low end of last 2-years trading band of 10-17.5x, which in our view does not completely discount its robust business model. With its premium brand positioning allowing some pricing power, improved earnings growth visibility, we believe the stock offers a re-rating potential and expect valuations to appreciate.

Risks

We rate Raymond Low Risk based on our quantitative risk rating system that measures the stock volatility over a 260-day period. The main company-specific risks are: 1) High priced acquisitions to dilute cash reserves and adversely impact ROCE's. Acquisitions in non-core business would hinder re-rating; 2) Delay in ramp up of production at export garment operations would adversely impact our earnings growth estimates; and 3) Sharp increase in cotton prices by 10-12% from current levels of Rs52/kg and any decline in denim price realization would impact profitability of the denim business (17% of FY06 sales), with cotton costs constituting (43% of denim revenues).If any of these risk factors plays out, Raymond's share price will likely have difficulty attaining our target price.

Appendix A-1

Analyst Certification

I, Ashish Jagnani, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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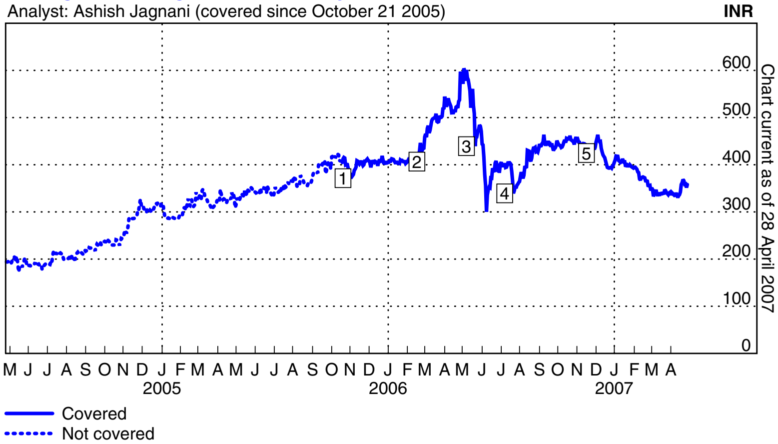
Raymond Ltd. (RYMD.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since October 21 2005)



#	Date	Rating	Target Price	Closing Price
1:	20 Oct 05	1L	500.00	412.40
2:	16 Feb 06	1L	*540.00	416.05
3:	8 May 06	*2L	*625.00	601.00
4:	7 Jul 06	*1L	625.00	403.25
5:	16 Nov 06	1L	*570.00	438.60

*Indicates change.

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