

Raymond Ltd

Relative to sector: **Neutral**

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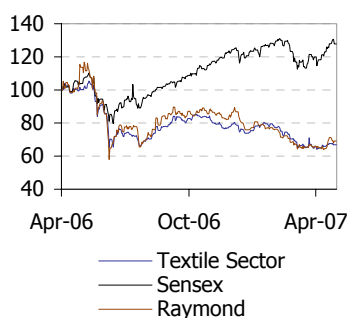
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 61.4mn
Market cap	: Rs.21.2bn
52 week high/low	: Rs 625/ Rs 289
Avg. daily vol. (6mth)	: 73,000 shares
Bloomberg code	: RW IN
Reuters code	: RYMD.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 35.4	0.2
FIIIs	: 4.6	(0.4)
MFs / UTI	: 14.8	(1.1)
Banks / FIs	: 19.3	0.8
Others	: 25.9	0.5

JVs DISAPPOINT

Raymond Ltd. (consolidated) reported revenues of Rs 20.4bn (↑ 19.3%), EBIDTA of Rs 2.3bn (↓ 3%) and adj. net profit of Rs 762mn (↓ 47%) in FY07. Consolidated earnings were significantly lower than our expectations due to losses accruing from the JV Raymond UCO Denim that was incorporated in August 2006. Against our prognosis that UCO's presence in the premium denim segment insulates it from demand sluggishness, a slowdown in the EU and the US denim markets has impacted all market segments. On a standalone basis, reported earnings were lower at Rs 108mn (↓ 69% YoY) in Q4FY07 due to the denim hive-off & a surge in wool prices.

FY07 Highlights

- UCO Denim JV disappoints:** The JV reported a loss of Rs 599mn. European operations continue to remain under pressure due to structural overcapacity. While US operations suffered due to an overall drop in jeans sales by ~9%, cancellations of orders by some key customers further worsened the situation. Against this, Raymond UCO's domestic operation witnessed a 90% capacity utilization and a PBITDA margin of 18%. While the management expects positive results from new collections launched in the US and the EU markets, we believe the denim oversupply situation will persist for the next few quarters.
- Start-up losses in other new JVs:** Raymond Zambaiti (high value cotton shirting fabric) and Raymond Fedora (woolen fabrics) together posted losses of Rs 240mn in their first full-year of operation. Raymond's share of losses is 50% in the JVs
- Worsted fabric - steady performance, albeit cost inflation:** Sales growth (↑14% YoY to Rs 9.9bn) and volume off-take (↑15% YoY) for FY07 were inline with our expectations. Though PBIT margin declined by 200bps in Q4FY07 due to higher wool prices (up 30%), for the full year PBIT earnings grew by 15% YoY.

Downgrading to Neutral

While we do believe a significant intrinsic value does exist for the branded apparel, retail business and the JVs (revised sum-of-the-part valuations at Rs 440 per share), we expect earnings pressure from UCO and the new ventures in the interim phase. At CMP Rs 345 the stock trades at 20.5x FY08E EPS of Rs 16.8.

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	17,179	1,429	23.3	32	22.2	11.5	12.4	13.3	5.0
2007	20,407	762	12.4	(47)	27.5	5.8	7.8	9.7	5.0
2008E	22,428	1,031	16.8	35	20.5	7.5	9.2	8.2	6.5
2009E	25,160	1,436	23.4	39	14.7	9.8	12.8	6.5	7.5

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs mn)	Quarter ended (Standalone)					Y/E ended (Consolidated)		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	3,477	3,843	(9.5)	2,973	17.0	22,428	20,407	9.9
EBIDTA	410	522	(21.5)	443	(7.6)	2,983	2,602	14.6
Other income	94	169	(44.7)	268	(65.1)	350	474	(26.2)
PBIDT	503	691	(27.2)	711	(29.3)	3,333	3,077	8.3
Depreciation	165	193	(14.7)	134	23.2	1,312	1,257	4.4
Interest	78	54	45.1	72	7.9	514	502	2.4
PBT	261	444	(41.3)	505	(48.4)	1,508	1,318	14.4
Tax	153	96	59.2	165	(7.5)	407	548	(25.7)
Minority Interest	-	-	-	-	-	70	9	723.5
Adjusted PAT	108	348	(69.0)	341	(68.3)	1,031	762	35.3
Extra ordinary income/ (exp.)	(1)	2	-	43	-	-	637	-
Reported PAT	107	350	(69.5)	384	(72.2)	1,031	1,399	(26.3)
No. of shares (mn)	61	61	-	61	-	61	61	-
EBIDTA margins (%)	11.8	13.6	-	14.9	-	13.3	12.8	-
PBIDT margins (%)	14.5	18.0	-	23.9	-	14.9	15.1	-
EPS - annualized (Rs.)	7.0	22.7	(69.0)	22.2	(68.3)	16.8	12.4	35.3

Source: Company, ENAM Research

- Branded business:** Branded sales grew by 24% YoY to Rs 3.6bn largely due to increase in retail penetration and increased volume offtake in all categories. PAT margin declined significantly to 11% in Colorplus largely due to startup expenses incurred in the rollout of new stores. The management intends to increase investment in its retail network and in branded apparels with planned product extensions for existing brands in FY08E.
- Apparel exports turnaround:** Raymond's largest apparel export subsidiary Silver Spark Apparel, reported a PAT of Rs 26.5mn in FY07 against a loss of Rs 48mn in FY06. Continued focus on training operators and improving manufacturing consistency is expected to yield higher utilization levels. We expect a further improvement in the PAT margin by 100bps each year for the next 2 years.

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