

## Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,353	RW IN
	REUTERS CODE
S&P CNX: 3,023	RYMD.BO

20 July 2006

**Buy**
*Previous Recommendation: Buy*
**Rs367**

Equity Shares	61.4
52-Week Range	625/289
1,6,12 Rel.Per. (%)	-11/-19/-37
M.Cap (Rs. b)	22.5
M.Cap (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	17,106	1,377	22.2	48.6	16.5	1.8	11.6	10.6	1.4	10.3
3/07E	20,961	1,906	31.1	40.1	11.8	1.6	14.0	13.0	1.2	7.4
3/08E	24,041	2,290	37.3	20.2	9.8	1.4	14.9	14.4	1.0	6.0

- 1QFY07 results came in below our expectations. Revenues were up 14% YoY to Rs2.8b v/s our estimate of Rs3.2b, primarily due to lower growth in the textiles division. According to management, the lower growth was due to orders postponed to 2QFY07.
- Reported PAT declined 38% YoY to Rs116m v/s our estimate of Rs246m. This sharp variation was mainly due to exceptional items of Rs142.2m (provision for diminution of investment of Rs101m, forex loss of Rs40.4m and VRS of Rs14m). Adjusted for the exceptional items, PAT was in line with our estimates.
- EBIT margins improved 87bp YoY in textiles to 18.8% and by 653bp YoY in the denim division to 13.1%.
- Denim division performed smartly on the back of capacity expansion, with revenues registering 39% YoY increase and EBIT increasing 177% YoY.
- Raymond's branded apparel subsidiaries posted robust growth with consolidated revenues increasing by 20% YoY to Rs747m and PBT increasing 24% YoY to Rs84m.
- Raymond finalized its denim JV with UCO NV, Belgium and is awaiting necessary statutory approvals for transfer of its denim division to the new JV.
- We are lowering our FY07 revenues estimates by 1.1% to Rs20.9b and PAT estimates by 3.6% to Rs1.9b.
- The stock trades at 11.8x FY07E EPS of Rs31.1 and 9.8x FY08E EPS of Rs37.3. We believe valuations are attractive considering Raymond's strong brand and retail franchise, large cash and low leverage at 0.5x. We maintain **Buy**.

**QUARTERLY PERFORMANCE**

(Rs Million)

Y/E MARCH	FY06				FY07				FY06*	FY07E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>2,455</b>	<b>3,497</b>	<b>3,453</b>	<b>3,843</b>	<b>2,806</b>	<b>4,020</b>	<b>4,020</b>	<b>4,615</b>	<b>13,248</b>	<b>15,461</b>
Change (%)	30.9	3.2	15.4	20.6	14.3	15.0	16.4	20.1	15.8	17
<b>EBITDA</b>	<b>318</b>	<b>551</b>	<b>589</b>	<b>531</b>	<b>228</b>	<b>675</b>	<b>691</b>	<b>789</b>	<b>1,989</b>	<b>2,383</b>
Change (%)	197.9	36.1	52.5	26.3	-28.4	22.6	17.3	48.6	75.0	20
As % of Sales	13.0	15.7	17.1	13.8	8.1	16.8	17.2	17.1	15.0	15.4
Depreciation	166	180	188	193	187	187	211	227	727	812
Interest	46	63	69	54	44	59	64	69	231	236
Other Income	163	231	141	160	179	143	137	191	695	650
Extra-ordinary Income	-42	-35	-35	2	-14	0	0	0	-109	-14
<b>PBT</b>	<b>227</b>	<b>505</b>	<b>439</b>	<b>444</b>	<b>162</b>	<b>573</b>	<b>553</b>	<b>684</b>	<b>1,725</b>	<b>1,972</b>
Tax	39	136	143	98	46	163	160	211	416	581
Effective Tax Rate (%)	17.2	26.9	32.6	22.0	24.0	28.5	29.0	30.9	24.1	29.5
<b>Reported PAT</b>	<b>188</b>	<b>369</b>	<b>296</b>	<b>347</b>	<b>116</b>	<b>409</b>	<b>393</b>	<b>472</b>	<b>1,210</b>	<b>1,391</b>
<b>Adj. PAT</b>	<b>188</b>	<b>334</b>	<b>261</b>	<b>348</b>	<b>130</b>	<b>409</b>	<b>393</b>	<b>472</b>	<b>1,101</b>	<b>1,405</b>
Change (%)	499.0	15.1	17.9	51.2	-30.8	22.5	50.5	35.7	69.7	28

E: MOSt Estimates, \* Standalone Numbers

### Low growth in the textiles division

Raymond reported 1QFY07 below our expectations with revenues increasing by 14% YoY to Rs2.8b v/s our estimate of Rs3.2b, primarily due to lower growth in the textiles division. Management has attributed this lower growth in the textiles division to postponement of orders to 2QFY07.

### 1QFY07 segmental performance

Denim revenues increased by 39% YoY to Rs862m in 1QFY06, whilst EBIT margins improved to 13%. EBIT margins improved by 87bp YoY in the textiles division to 18.8% and by 653bp YoY in the denim division to 13.1%.

#### SEGMENTAL PERFORMANCE (RS M)

	1QFY07	Q1FY06	% CHG.
<b>Revenues</b>			
Textiles	1,563	1,454	8
Files & Tools	371	372	-0.4
Denim	862	621	39
Others	10	7	34
<b>EBIT</b>			
Textiles	294	261	12.8
% of Revenues	19	18	
Files & Tools	30	42	-30
% of Revenues	8	11	
Denim	113	41	177
% of Revenues	13	7	

Source: Company/Motilal Oswal Securities

### Strong traction in branded apparel business

Raymond's branded apparel subsidiaries recorded robust growth with consolidated revenues increasing by 20% YoY to Rs747m and PBT increasing by 24% YoY to Rs84m. During the quarter, Raymond Apparel purchased the outstanding 24% stake in Color Plus Fashion from its erstwhile management, thereby making it a 100% subsidiary of Raymond Apparel.

Going forward, management has given guidance for an aggressive growth rate of 20%-25% for its branded apparel business. Raymond owns some of the most respected brands – Raymond's, Color Plus, Park Avenue, Parx and Mazoni – and has a widespread domestic retail distribution network, with 0.8m sq. ft. of retail space. We expect Raymond's branded apparel retail sales to witness 18%

CAGR (FY06-FY08) to Rs4.1b in FY08E from Rs2.9b in FY06.

#### KEY FINANCIALS: BRANDED APPAREL SUBSIDIARIES

	REVENUES			PBT		
	1QFY07	1QFY06	% CHG.	1QFY07	1QFY06	% CHG.
Raymond						
Apparel	466	392	19	18	10	71
Color Plus						
Fashion	281	233	21	67	58	15
<b>Total</b>	<b>747</b>	<b>625</b>	<b>20</b>	<b>84</b>	<b>68</b>	<b>24</b>

Source: Company

### Consolidation of branded apparel subsidiaries

Management has recently consolidated its branded apparel business further by divesting its 74% stake in *Color Plus* to its 100% subsidiary, Raymond Apparels Ltd. Consequently, Raymond Apparels is set to emerge as one of the largest and most profitable domestic branded apparel company. Raymond has allocated around Rs700m for expanding its retail network across all categories over the next three years.

The table below shows the existing and planned expansion program for the retail division.

#### RAYMOND'S RETAIL NETWORK (IN NOS)

PARTICULARS	EXISTING	EXPANSION PLANS
Raymond	301 stores	100 stores in 3 years time
Colorplus Fashions	44 stores	88 stores in three years time
Raymond Apparel	7 stores	50 stores over the next 3-5 years
Malls	Tied up with 17-18 already	Plans to tie up with new upcoming malls

Source: Company/Motilal Oswal Securities

### Garment operations stabilizing

During 1QFY07, Raymond's garment subsidiaries recorded total revenues of Rs212m and losses of Rs41m. Raymond has forward integrated into garment manufacturing to be able to provide a one-stop solution for its customers. It has set up a garment manufacturing facility for jackets and trousers at a cost of Rs400m. Further, as a majority of its exports are high quality garments targeted at the high-end Japanese market, overall realizations for the worsted fabric segment are likely to increase.

## FINANCIALS OF GARMENT SUBSIDIARIES 1QFY07

	REVENUES	PAT
Silverspark Apparel	152	-4
Everblue Apparel	51	-33
Celebration Apparel	9	-4
Total	212	-41

Source: Company/Motilal Oswal Securities

### Significant positives from denim JV with UCO, NV

Raymond has formed a 50:50 JV with Belgium-based UCO, NV. The move, considered the first of its kind, would see the merger of their lucrative denim divisions. We believe this would be positive for Raymond, allowing it to move up the value chain and also offer a richer product mix to its customers. With this JV, Raymond would enjoy the unique advantage of multi-location plants, enabling it to cater to high-end fashion retailers, who demand low lead times. Consequently the company's products would have a larger presence in the important US and EU markets.

## RAYMOND-UCO JV: WIN-WIN

	RAYMOND	UCO, NV	MERGED ENTITY
Capacity (m meters)	40*	40*	80
Plants/Location	1	3	4
Realizations (Rs/meter)	110	180	146
Sales (Rs m)	4,200	6,800	11,000

\* Post Expansion; Source: Company/Motilal Oswal Securities

### Global JVs to position it as a premium international brand

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 establish itself as a premium international brand.

**Lowering FY07 estimates marginally:** We are lowering our FY07 revenues estimates by 1.1% to Rs20.9b and PAT estimates by 3.6% to Rs1.9b.

## REVISED FY07 ESTIMATES (RS M)

	OLD	REVISED	% CHG.
Revenues	21,203	20,961	-1.1
PAT	1,977	1,906	-3.6

Source: Motilal Oswal Securities

### We maintain our Buy recommendation

With its sound business model, strong balance sheet and large cash holdings, Raymond stands out as a company that can benefit from 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 stock trades at 11.8x FY07E and 9.8x FY08E earnings. It enjoys an EV/EBITDA of 7.4x FY07E and 6x FY08E. We believe valuations are reasonable considering Raymond's strong brand and retail franchise, large cash and low leverage at 0.5x. Raymond has significant real estate at its Thane plant (160 acres), estimated to be worth around Rs110-Rs160/share. We maintain **Buy**.

## Raymond: an investment profile

### Company description

Raymond was incorporated in 1925. It is a diversified company and has three divisions — textiles, denim, and engineering files and tools. (Raymond divested its steel and cement businesses in 2000-2001.) Raymond is India's leading producer of worsted suiting fabric, with share of around 60%. The company has strong brand equity, with high-quality products and wide distribution network.

### Key investment arguments

- ✍ Worsted fabric hits a high growth trajectory.
- ✍ Best proxy for the anticipated boom in branded apparel and retail.
- ✍ Potential to move up the service value chain.
- ✍ Global JVs to position Raymond as a premium international brand.

### Key investment risks

- ✍ High dependence on other income.
- ✍ Unrelated diversifications.
- ✍ Unfavorable currency movements.

### Recent developments

- ✍ Foray into the kidswear segment.
- ✍ Denim division hived off into a new JV.
- ✍ Aggressive foray into garment manufacturing.
- ✍ Plans to increase denim capacity by 10m meters.
- ✍ JV with an Italian company for high value added shirting

### Valuation and view

- ✍ Strong balance sheet and comfortable leverage.
- ✍ Scope for substantial savings in cost.
- ✍ Raymond trades at 11.8x FY07E and 9.8x FY08E earnings. We rate the stock a **Buy** with a target price of Rs560.

### Sector view

- ✍ Exports from China are likely to be severely constrained due to safeguard measures imposed by the US and EU.
- ✍ India registered robust export growth rates to the US and EU in the post-quota era.
- ✍ Global buyers are focusing on building vendor partners that have high product development skills.
- ✍ The concern of industry overcapacity causing waves of deflation in prices is overblown.

#### COMPARATIVE VALUATIONS

		RAYMOND	WELSPUN	ARVIND MILLS
P/E (x)	FY07E	11.8	9.8	12.1
	FY08E	9.8	7.9	9.4
P/BV (x)	FY07E	1.6	0.9	0.8
	FY08E	1.4	0.8	0.7
EV/Sales (x)	FY07E	1.2	2.0	1.5
	FY08E	1.0	1.8	1.4
EV/EBITDA (x)	FY07E	7.4	9.3	7.0
	FY08E	6.0	8.5	7.1

#### SHAREHOLDING PATTERN (%)

	JUN.06	MAR.06	JUN.05
Promoters	35.2	35.0	35.3
Domestic Institutions	33.0	32.5	28.4
FII's/FDIs	8.7	10.5	13.1
Others	23.1	22.0	23.2

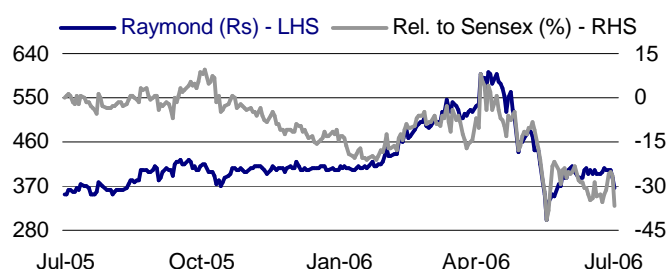
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	31.1	30.6	1.8
FY08	37.3	37.7	-1.1

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
367	560	52.7	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
<b>Gross Sales</b>	<b>13,597</b>	<b>14,745</b>	<b>17,348</b>	<b>21,380</b>	<b>24,041</b>
Less Excise	1,314	344	241	49	471
<b>Net Sales</b>	<b>12,283</b>	<b>14,401</b>	<b>17,106</b>	<b>20,961</b>	<b>23,569</b>
YoY Growth (%)	8.2	17.2	8.8	22.5	2.4
Total Expenditure	11,110	12,771	14,731	17,678	19,680
<b>EBIDT</b>	<b>1,173</b>	<b>1,630</b>	<b>2,376</b>	<b>3,283</b>	<b>3,890</b>
Change (%)	-21.9	39.0	45.7	38.2	18.5
% of Net sales	9.6	11.3	13.9	15.7	16.5
Depreciation	681	707	874	987	1,079
<b>EBIT</b>	<b>492</b>	<b>923</b>	<b>1,502</b>	<b>2,296</b>	<b>2,810</b>
Int. & Finance Charges	250	307	250	321	265
Other Income	1,458	844	826	650	600
<b>Profit before Tax</b>	<b>1,974</b>	<b>1,159</b>	<b>2,024</b>	<b>2,612</b>	<b>3,145</b>
Tax	611	277	610	731	912
<b>PAT</b>	<b>1,363</b>	<b>882</b>	<b>1,414</b>	<b>1,880</b>	<b>2,233</b>
Change (%)	53.5	-35.3	60.3	33.0	18.8
Minority Interest	-30.8	-28.5	-50.0	-9.1	-119
Share of profit from Associ	40.1	0.7	7.6	34.9	69.0
<b>PAT after MI</b>	<b>1,377</b>	<b>916</b>	<b>1,377</b>	<b>1,906</b>	<b>2,290</b>
Change (%)	64.1	-33.5	48.6	40.1	20.2

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
Share Capital	614	614	614	614	614
Reserves	10,496	11,135	12,076	13,492	15,223
<b>Net Worth</b>	<b>11,109</b>	<b>11,749</b>	<b>12,690</b>	<b>14,106</b>	<b>15,836</b>
Loans	4,978	6,411	8,361	7,461	6,461
Deferred Tax Liability	584	558	649	905	1,225
Minority Share	95	123	173	183	194
<b>Capital Employed</b>	<b>16,767</b>	<b>18,842</b>	<b>21,874</b>	<b>22,655</b>	<b>23,717</b>
<b>Gross Block</b>	<b>10,511</b>	<b>12,674</b>	<b>16,174</b>	<b>17,624</b>	<b>19,274</b>
Less: Depreciation	6,058	6,681	7,555	8,542	9,621
<b>Net Fixed Assets</b>	<b>4,453</b>	<b>5,993</b>	<b>8,619</b>	<b>9,082</b>	<b>9,653</b>
Investments	6,658	6,666	7,012	6,545	6,200
<b>Curr. Assets, Loans &amp; A</b>	<b>8,588</b>	<b>8,336</b>	<b>9,903</b>	<b>11,496</b>	<b>12,940</b>
Inventory	3,776	3,710	4,641	5,570	6,200
Sundry Debtors	2,834	2,645	3,327	4,100	4,676
Cash & Bank Balances	569	494	274	138	304
Others	117	249	2,804	1,895	1,251
<b>Current Liab. &amp; Prov.</b>	<b>3,134</b>	<b>3,064</b>	<b>3,661</b>	<b>4,467</b>	<b>5,077</b>
Sundry Creditors	1,365	1,477	1,873	2,374	2,669
Other Liabilities	858	968	1,046	1,202	1,383
Current Liabilities	2,223	2,445	2,919	3,576	4,052
Provisions	910	619	743	891	1,025
<b>Net Current Assets</b>	<b>5,454</b>	<b>5,271</b>	<b>6,242</b>	<b>7,028</b>	<b>7,863</b>
Misc. Expenditures	15	0	0	0	0
<b>Application of Funds</b>	<b>16,767</b>	<b>18,842</b>	<b>21,873</b>	<b>22,655</b>	<b>23,717</b>

E: MOSI Estimates

RATIO					
Y/E MARCH	2004	2005	2006	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>22.4</b>	<b>14.9</b>	<b>22.2</b>	<b>31.1</b>	<b>37.3</b>
Cash EPS	33.5	26.4	36.4	47.1	54.9
Book Value per Share	181	191	207	230	258
DPS	5.5	4.0	6.0	7.0	8.0
Payout (Incl. Div. Tax) %	27.7	30.6	30.9	25.7	24.4
<b>Valuation (x)</b>					
P/E		24.6	16.5	11.8	9.8
Cash PE		13.9	10.1	7.8	6.7
EV/EBITDA		13.7	10.3	7.4	6.0
EV/Sales		16	14	12	10
Price/Book Value		19	18	16	14
Dividend Yield (%)		11	16	19	2.2
<b>Profitability Ratios (%)</b>					
RoE	12.8	7.7	11.6	14.0	14.9
RoCE	11.6	9.4	10.6	13.0	14.4
<b>Turnover Ratios</b>					
Debtors (Days)	76	65	70	70	71
Inventory (Days)	124	106	115	115	115
Creditors (Days)	128	118	120	120	120
Asset Turnover (x)	0.7	0.8	0.8	0.9	1.0
Fixed Asset Turnover (x)	12	11	11	12	12
<b>Leverage Ratio (x)</b>					
Debt/Equity (x)	0.4	0.5	0.7	0.5	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
<b>OP/(Loss) before Tax</b>	<b>1,974</b>	<b>1,159</b>	<b>2,024</b>	<b>2,612</b>	<b>3,145</b>
Depreciation & Amort.	681	707	874	987	1,079
Interest Paid	250	307	250	321	265
Less: Direct Taxes Paid	-611	-277	-610	-731	-912
Less: (Inc)/Dec in W/kg. Capi	340	108	-1,191	-922	-669
<b>CF from Op. Activity</b>	<b>989</b>	<b>823</b>	<b>359</b>	<b>1,587</b>	<b>2,432</b>
Other Items	-66	18	4	-36	-69
<b>CF after EO Items</b>	<b>923</b>	<b>841</b>	<b>363</b>	<b>1,551</b>	<b>2,363</b>
(Inc)/Dec in Fixed Assets & I	-706	-1,439	-4,411	-1,450	-1,649
(Pur)/Sale of Invest.	-313	-46	304	487	345
<b>CF from Inv. Activity</b>	<b>-1,138</b>	<b>-2,868</b>	<b>-2,914</b>	<b>-1,460</b>	<b>-1,651</b>
Issue of Shares	0	0	0	0	0
Inc / (Dec) in Debt	-182	1,433	1,950	-900	-1,000
Interest Paid	250	307	250	321	265
Dividends Paid	381	280	420	490	560
<b>CF from Fin. Activity</b>	<b>347</b>	<b>1,952</b>	<b>2,331</b>	<b>-227</b>	<b>-546</b>
<b>Inc / ( Dec) in Cash</b>	<b>131</b>	<b>-75</b>	<b>-219</b>	<b>-136</b>	<b>166</b>
Add: Opening Balance	438	569	494	274	138
<b>Closing Balance</b>	<b>569</b>	<b>493</b>	<b>274</b>	<b>138</b>	<b>304</b>



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

<b>Disclosure of Interest Statement</b>	<b>Raymond</b>
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.