

Raymond Ltd. (RW)

Textile, Realty and Engineering | NBIE Conference Update

Not Rated

CMP: Rs2,492 | Target Price (TP): NA | Upside: NA

June 19, 2024

Pioneers of fabric - stitching up 'the complete brand'

Key Points

- We recently hosted the management of Raymond Ltd., namely, Mr Amit Agarwal, CFO and Mr Jatin Khanna, Head of Corporate Development, during our investor conference.
- The meet was a review of the company's pivot post-COVID, deleveraging its stretched balance sheet with the sale of its FMCG business (RCCL) for Rs28.25bn, which enabled it to focus on its '3 growth vector' strategy – demerge the Lifestyle business from the conglomerate to unlock shareholder value, establish the Real Estate business and its Engineering business' foray into sunrise sectors like Aerospace, Defence and Auto Components with its recent acquisition of 59.25% stake in Maini Precision Products Ltd (MPPL) for Rs6.82bn.

Lifestyle Business – The company has initiated demerger of its Lifestyle business into Raymond Lifestyle Ltd (RLL).

Meeting the global supply gap: Raymond's integrated operations, spanning from fabric production to garmenting, provide it with a competitive advantage over players in Bangladesh, which primarily offer stitching services. 'China+1' is attracting foreign buyers, including Marks & Spencer, who are willing to pay an 8-9% premium over Chinese suppliers. This positions Raymond favourably amid the shifting global supply chains. It has already made inroads with high-profile clients like Hugo Boss in its Garmenting business and plans to expand into suit production soon. The company's raw material costs, primarily wool and polyester, are influenced by import prices but have a minimal impact on overall pricing at sub-15%. While volume growth remains challenging, the company has successfully implemented price increases. The decline in formalwear demand is being offset by growth in casualwear, reflecting changing consumer trends.

Aggressive expansion to dominate Branded Apparel market: Raymond's Textile segment is set for significant expansion, with plans to increase its store count from the current 150 to an additional 300-350 stores over the next 3-5 years. This aggressive expansion strategy aims to capitalize on the ongoing shift from unbranded to branded apparel in the highly fragmented Indian market. Presently, branded apparel constitutes only 10% of the market, but Raymond is well-positioned to drive this transition and capture a larger market share.

Competitive landscape: In terms of competition, Raymond faces rivals such as Tasva by Tarun Tahiliani, Reliance Retail, Manish Malhotra and Manyavar. However, these competitors operate at different price points, allowing Raymond to focus on the affordable luxury segment. A key part of this strategy is offering products like kurta pyjamas priced at Rs999, which cater to aspirational yet cost-conscious consumers. The company is targeting 6% value growth in its Branded Textile segment, although this will depend on input costs.

Tech led-backend: Raymond's competitive pricing strategy is underpinned by a technology-led backend system that optimizes inventory management. While this replenishment strategy works well for most product lines, ethnic wear requires a higher proportion of fresh designs (65%) to meet consumer demand for uniqueness. The franchise-led model ensures quality and accountability, with franchisees often being relatives of existing owners to maintain trust and performance standards.

Est Change	-
TP Change	-
Rating Change	-

Company Data and Valuation Summary

Reuters	RYMD.BO
Bloomberg	RW IN Equity
Market Cap (Rsbn / US\$bn)	165.7 / 2.0
52 Wk H / L (Rs)	2,685 / 1,488
ADTV-3M (mn) (Rs / US\$)	706.5 / 8.5
Stock performance (%) 1M/6M/1yr	11.3 / 42.6 / 44.2
Nifty 50 performance (%) 1M/6M/1yr	6.1 / 7.0 / 25.2

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	49.1	49.1	49.1
DII's	6.0	7.9	8.8
FII's	17.7	14.4	14.5
Others	27.2	28.6	27.6
Pro pledge	14.6	17.4	14.6

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Rising wage inflation: Rising wage inflation remains a challenge, particularly in regions like Bengaluru, where employee costs have increased significantly. To mitigate this, Raymond is considering alternative locations such as Telangana, where employee costs are lower.

Outlook: The Textile business is poised for robust growth, driven by strategic store expansion, market premiumization and leveraging garmenting opportunities. Despite challenges in volume growth and rising wages, the company's integrated operations and strategic investments position it well for a sustained 12-15% revenue growth.

Engineering business – MPPL: A key exporter with strong growth prospects in Aerospace and Automotive sectors

Company overview: MPPL, a prominent exporter of precision components, operates across 25 countries and supplies products to the top 10 global auto OEMs. The company caters to Tier 1 manufacturers in the Aerospace, Defence, Automotive and Industrial sectors. With nearly five decades of industry experience, MPPL serves ~60 major customers and is supported by a skilled development team of ~350 personnel.

Aerospace sector expansion: This acquisition was executed through Ring Plus Aqua Ltd. (RPAL), a subsidiary of Raymond, contributing Rs2.95bn in revenue and is expected to reach Rs5bn within the next 2-3 years. This growth is anticipated despite the ongoing capex requirement. The ROCE for this segment is projected to remain steady at 25%. The estimated capex required to achieve the Rs5bn revenue target in aerospace is Rs300-400mn. Although productivity in aerospace is currently low, robust growth is expected in the automotive segment.

Engineering revenue and market position: Overall engineering business revenue is projected to increase to Rs30-35bn, up from the current ~Rs18bn in the next three years. Product portfolio includes rim gears, brake shoes and linings, catering to major clients such as BMW, Volkswagen, Daimler and Volvo across the automotive spectrum of cars, trucks and tractors. While EVs form a small component of this mix, ICE vehicles continue to dominate. Hydrogen fuel technology is also expected to follow similar ICE requirements, providing visibility for future demand.

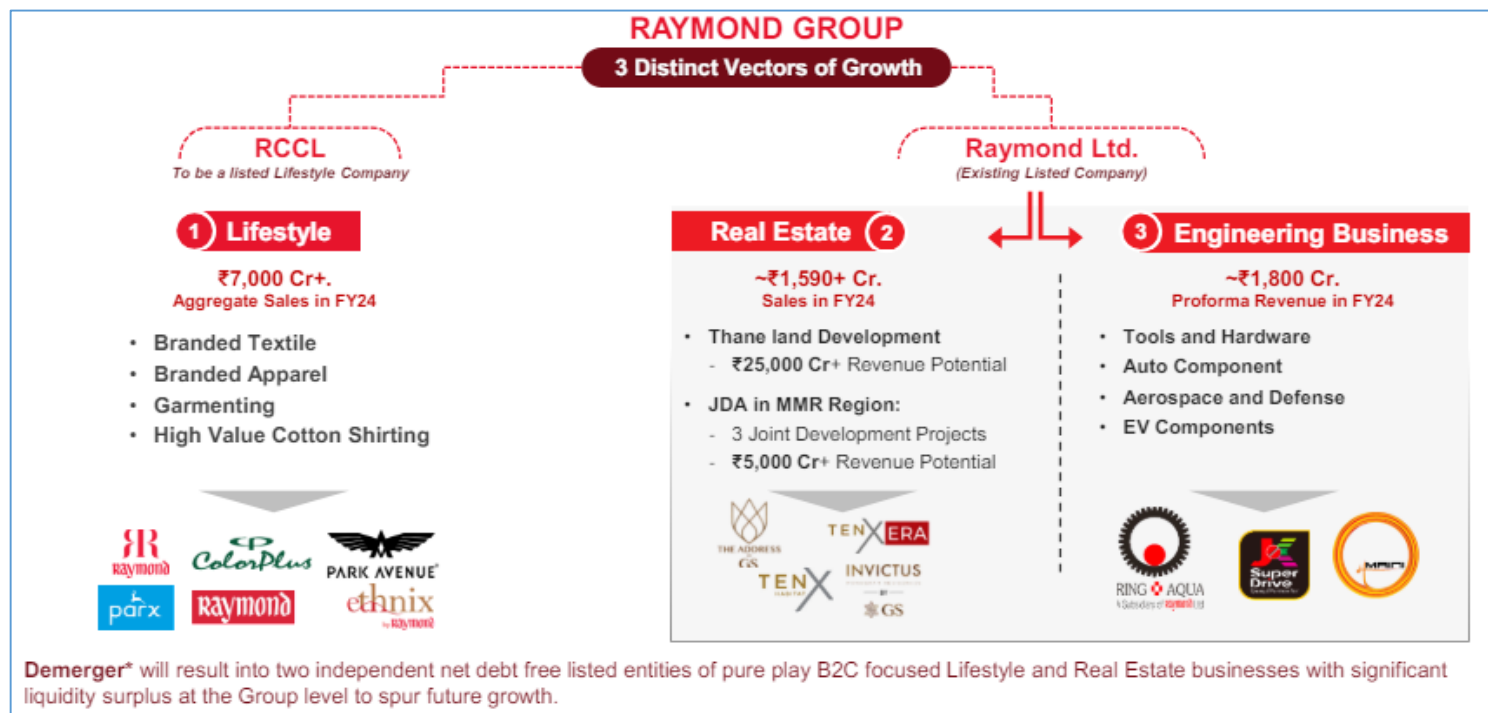
Automotive segment strength: The non-aerospace automotive segment boasts of a higher ROCE of 40-45%. MPPL is also focusing on machine indigenization, which is expected to play a crucial role in doubling its Engineering revenue approximately every three years. This strategic focus on indigenization not only enhances operational efficiency but also strengthens the company's competitive position in the global market.

Strategic growth initiatives: MPPL's strategic growth initiatives are underpinned by a commitment to innovation and market expansion. The company's targeted investments in the aerospace sector, coupled with its robust automotive segment, position it well for sustained growth. The focus on machine indigenization and the potential for hydrogen fuel technology adoption further reinforce MPPL's long-term growth prospects.

Outlook: MPPL stands as a key player in the precision components market with a strong foothold in both the aerospace and automotive sectors. The company's strategic acquisitions, combined with its focus on innovation and operational efficiency, are set to drive significant revenue growth and maintain high profitability in the coming years.

Raymond plans to streamline its operations by consolidating JK Files, RPAL and MPPL into two newly formed subsidiaries. The first subsidiary will be dedicated to the aerospace and defence sectors while the second will focus on auto components, including EVs and engineering consumables.

Exhibit 1: Demerging Lifestyle business from conglomerate



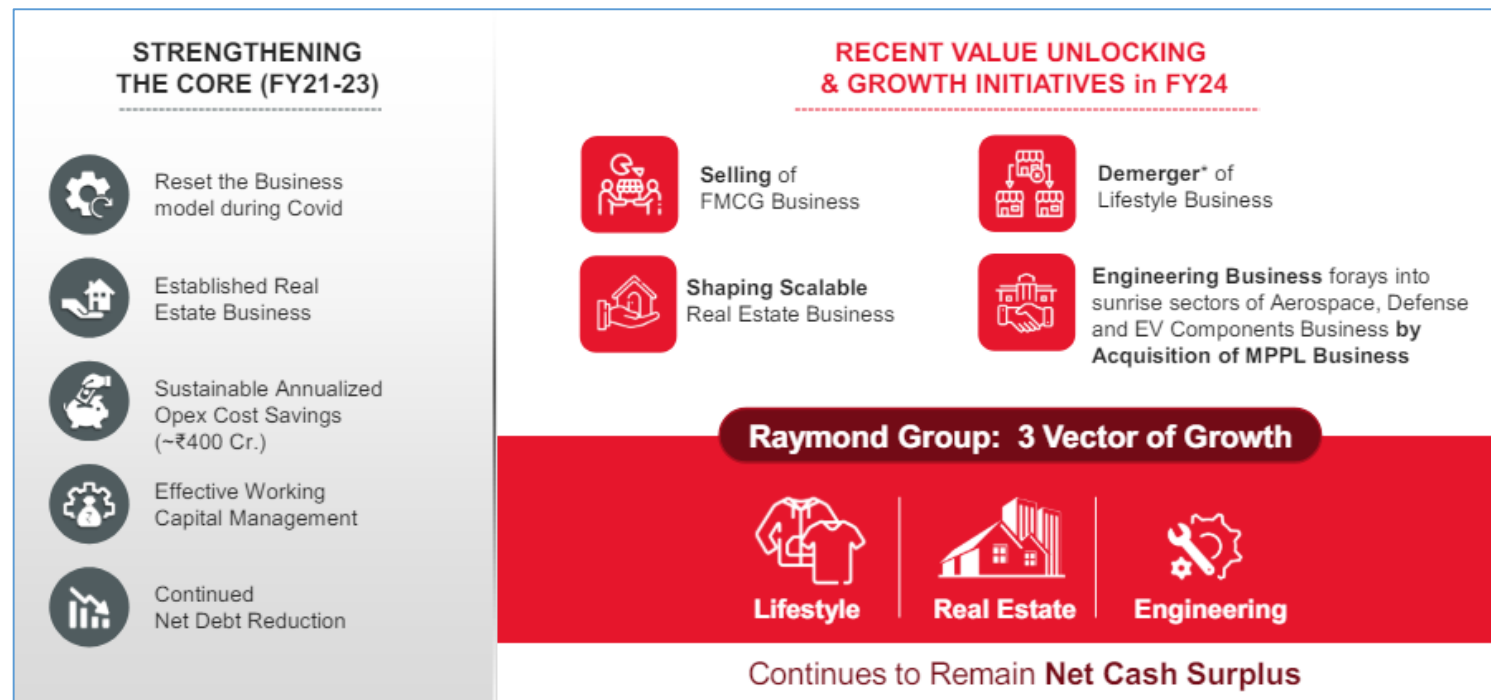
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Broad-based growth seen in FY24

Post IndAS 116	Revenue			EBITDA			EBITDA %	
Particulars (₹ Cr.)	FY24	FY23	YoY%	FY24	FY23	YoY%	FY24	FY23
Branded Textile	3,450	3,364	3%	721	702	3%	20.9%	20.9%
Branded Apparel	1,587	1,328	20%	189	144	31%	11.9%	10.8%
Garmenting	1,139	1,100	3%	109	84	30%	9.6%	7.6%
High Value Cotton Shirting	830	762	9%	95	85	12%	11.4%	11.1%
Engineering*	861	864	0%	122	122	0%	14.2%	14.1%
Real Estate	1,593	1,115	43%	370	287	29%	23.2%	25.7%
Others #	(173)	(196)		(30)	(101)			
Raymond Consolidated	9,286	8,337	11%	1,575	1,322	19%	17.0%	15.9%

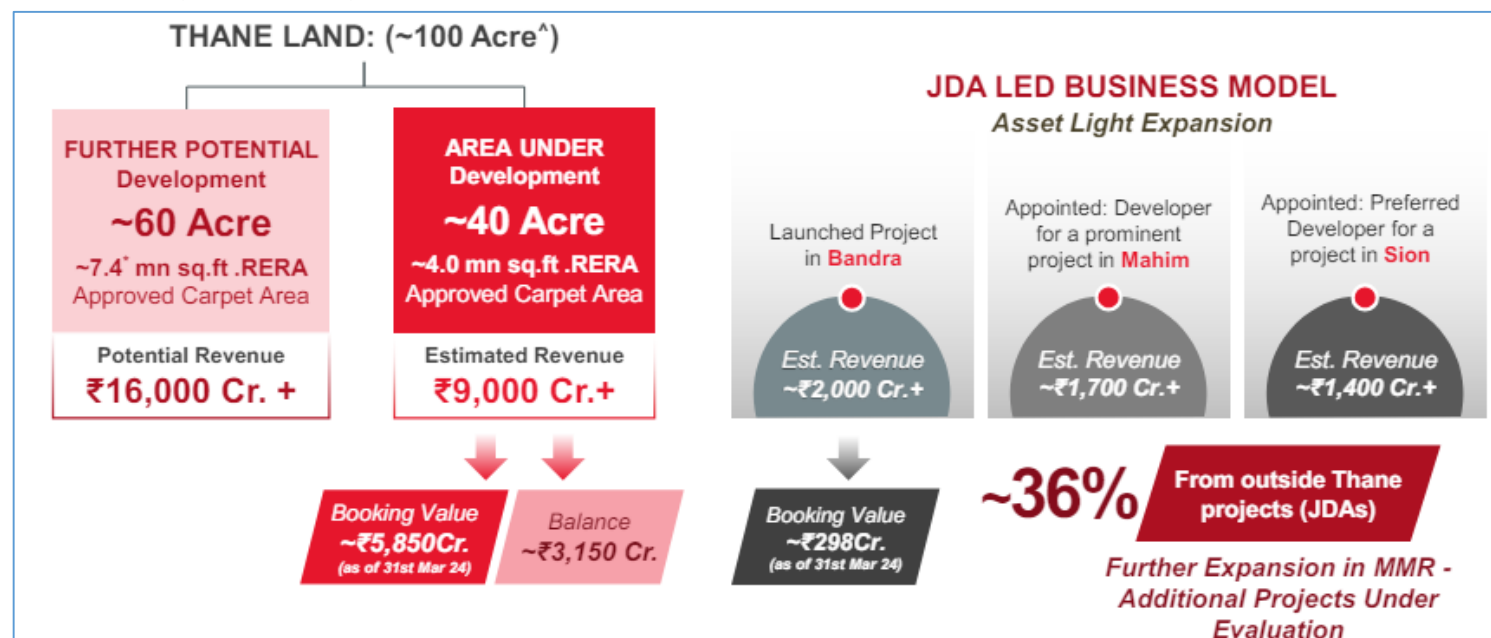
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Growth areas






Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Raymond Realty



Source: Company, Nirmal Bang Institutional Equities Research



Exhibit 5: Existing projects booking update....

	10 towers with RERA carpet area ~1.7 Mn sq.ft.	Particulars	FY23	Q4 FY24	FY24	Project Till Date	% UNIT SOLD <hr/> ~91%
	Total Units Planned: 3,103 (2BHK: 2,463; 1BHK: 640)	No of Bookings	542	72	359	2,810	
		RERA Carpet Area*	0.31	0.04	0.21	1.53	
		Value of Bookings (Cr.)	663	86	425	2,974	
		Customer Collections (Cr.)	897	314	719	2,712	
	02 towers with RERA carpet area ~0.7 Mn sq.ft.	Particulars	FY23	Q4 FY24	FY24	Project Till Date	% UNIT SOLD <hr/> ~92%
	Total Units Planned: 551 (4BHK: 188; 3BHK: 318, 5BHK & above: 45)	No of Bookings	255	7	70	504	
		RERA Carpet Area*	0.34	0.01	0.08	0.62	
		Value of Bookings (Cr.)	742	24	194	1,336	
		Customer Collections (Cr.)	374	98	450	865	
 Tower 3 launched in Dec-23	03 towers with RERA carpet area ~0.6 Mn sq.ft.	Particulars	FY23	Q4 FY24	FY24	Project Till Date	% UNIT SOLD <hr/> ~42%
	Total Units Planned: 905 (3BHK: 301; 2BHK: 604)	No of Bookings	141	44	243	384	
		RERA Carpet Area*	0.10	0.03	0.18	0.28	
		Value of Bookings (Cr.)	204	68	366	570	
		Customer Collections (Cr.)	11	81	164	175	

* In Mn Sq.ft



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Existing projects booking update....

 Launched in July-23; Tower 2 launched in Dec-23	2 Towers with RERA Carpet Area ~0.7 Mn sq.ft.	Particulars	Q4FY24	Project Till Date	% UNIT SOLD LAUNCHED UNITS <hr/> ~52%
	Total Units Planned: 440 5BHK & above: 20, 4BHK: 160; 3BHK: 260)	No of Bookings	58	228	
		RERA Carpet Area*	0.07	0.26	
		Value of Bookings (Cr.)	149	575	
		Customer Collections (Cr.)	38	109	
 Launched in Aug-23	1 tower with RERA carpet area ~0.2 Mn sq.ft.	Particulars	Q4FY24	Project Till Date	% UNIT SOLD LAUNCHED UNITS <hr/> ~40%
	Total Units Planned: 102 (4.5BHK: 102)	No of Bookings	8	41	
		RERA Carpet Area*	0.02	0.09	
		Value of Bookings (Cr.)	45	221	
		Customer Collections (Cr.)	19	39	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Existing projects booking update....

 THE ADDRESS GS Queens Court Launched in Feb-24; Tower 2 launched in Mar-24	8 Towers with RERA Carpet Area ~0.7 Mn sq.ft.	Particulars	Q4FY24	Project Till Date	% UNIT SOLD LAUNCHED UNITS ~62%
	Total Units Planned: 782 (1BHK: 2; 2BHK: 497; 3BHK: 215; 4BHK & above: 68)	No of Bookings	96	96	
		RERA Carpet Area*	0.09	0.09	
		Value of Bookings (Cr.)	298	298	
		Customer Collections (Cr.)	13	13	
 TENX vibes Retail Shops in TenX Project	RERA carpet area ~0.04 Mn sq.ft	Particulars	Q4FY24	Project Till Date	% UNIT SOLD LAUNCHED UNITS ~86%
	Total Units Planned: 104	No of Bookings	89	89	
		RERA Carpet Area*	0.02	0.02	
		Value of Bookings (Cr.)	122	122	
		Customer Collections (Cr.)	24	24	

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24
Revenue from operations	34,467	61,785	82,147	90,195
Total Expenses	35,127	54,673	70,153	77,104
COGS	16434.2	23205.4	29983.3	25750.4
Employee benefits expense	6715.6	8795.9	10242	11606
Other expenses	11,977	22,672	29,928	39,748
EBITDA	-660	7,112	11,994	13,091
Other income	2014	1695	1223	2661
Depre and amortisation expense	3142	2398	2354	2837
EBIT	-1,788	6,408	10,863	12,915
Finance costs	2760	2277	2573	3758
PBT	-4,646	2,569	7,373	18,658
Tax	-1609.1	-184.1	2003.6	2226.8
PAT	-3,037	2,753	5,370	16,431

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24
Equity	666	666	666	666
Reserves	20,308	22,925	28,324	45,508
Net worth	20,974	23,591	28,990	46,173
Total Debt	20,759	20,663	21,275	34,255
Lease liabilities	3,369	2,609	4,020	7,555
Other liabilities	2,622	2,456	2,260	11,041
Total Liabilities	47,724	49,319	56,545	99,025
Net block (incl CWIP)	20,527	18,934	19,608	26,188
Intangible Assets (incl goodwill)	76	44	27	9,262
Right of use assets	3,495	4,056	4,455	14,594
Deferred tax assets (net)	3,310	3,930	1,956	1,716
Other non-current assets	2,631	2,608	5,946	6,077
Current Investments	1,077	6,335	8,853	10,725
Inventories	16,338	20,113	24,966	35,142
Cash and Cash Equivalents	2,336	1,628	1,719	1,822
Other bank balances	3,186	1,735	1,539	3,433
Trade Receivables	9,580	8,731	7,443	14,072
Other current assets	4,846	5,652	5,638	8,699
Total Current Assets	37,363	44,194	50,158	73,892
Trade Payables	11,639	17,169	16,919	20,640
Other current liabilities	8,040	7,277	8,686	12,065
Total Current liabilities	19,679	24,447	25,605	32,705
Net current assets	17,685	19,748	24,553	41,187
Total Assets	47,724	49,319	56,545	99,025

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash Flow Statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24
EBIT	-3,802	4,714	9,641	10,254
(Inc.)/Dec in working capital	-5,159	741	94	-13,254
Cash flow from operations	-8,961	5,454	9,734	-3,000
Other income	2,014	1,695	1,223	2,661
Depreciation	3,142	2,398	2,354	2,837
Financial expenses	-2,760	-2,277	-2,573	-3,758
Dividends paid	0	0	0	0
Tax paid	1,609	184	-2,004	-2,227
Net cash from operations	-4,957	7,454	8,734	-3,487
Capital expenditure	995	-1,333	-3,410	-26,151
Net cash after capex	-3,962	6,121	5,324	-29,638
(Inc.)/Dec in investments	-891	5,433	5,009	1,956
Inc/(Dec) in debt	-966	-95	612	12,981
Equity Issue/ Buyback	0	0	0	0
Cash from financial activities	-1,857	5,337	5,621	14,936
Others	4,879	-15,351	-12,589	13,267
Opening cash	3,276	5,521	3,363	3,258
Closing cash	2,336	1,628	1,719	1,822
Change in cash	-940	-3893	-1644	-1435

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

Y/E March	FY21	FY22	FY23	FY24
Per share (Rs)				
EPS	-8.23	39.10	79.45	246.33
Book value	304.76	352.12	430.68	692.23
Dividend per share	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00
Dividend Payout Ratio	0.00	0.00	0.00	0.00
Valuation (x)	0.00	0.00	0.00	0.00
P/E	-263.79	55.52	27.33	8.81
P/sales	0.06	0.04	0.03	0.02
P/BV	7.12	6.17	5.04	3.14
EV/EBITDA	-249.39	22.88	13.69	13.28
EV/sales	4.78	2.63	2.00	1.93
Net Debt/Equity	0.68	0.78	0.69	0.77
M-Cap/Sales	4.33	2.35	1.78	1.61
Return ratios (%)	0.00	0.00	0.00	0.00
RoE	-13.28	12.34	20.12	43.58
Post Tax RoCE	-5.70	11.75	14.86	13.82
Post Tax RoIC	-6.19	13.54	18.48	16.79
Turnover ratio	0.00	0.00	0.00	0.00
Asset turnover ratio (x)	0.48	0.88	1.05	0.84
Debtor Days	101.46	51.58	33.07	56.94
Payable Days	123.25	101.43	75.17	83.52

Source: Company, Nirmal Bang Institutional Equities Research

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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