

CMP: INR 3,078

Rating: BUY

TP: INR 3,850

Stock Info

BSE	500330
NSE	RAYMOND
Bloomberg	RW:IN
Reuters	RYMD.NS
Sector	Garments & Apparels
Face Value (INR)	10
Equity Capital (INR cr)	66.57
Mkt Cap (INR cr)	20,682
52w H/L (INR)	3,493/ 1,487
Avg Daily Vol (in 000')	373

Shareholding Pattern %

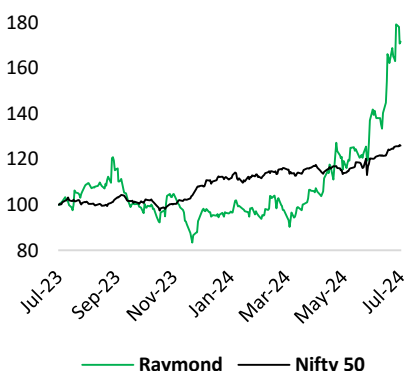
(As on March 2024)

Promoters	49.11
DII	8.78
FII	14.50
Public & Others	27.59

Stock Performance (%)

	1m	6m	12m
RAYMOND	21.6	77.5	72.3
NIFTY 50	4.9	12.9	26.1

Raymond Price Chart



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Last year, Raymond announced the demerger of their Lifestyle business into a separate listed entity- the record date for which is 11th July 2024. The listing will take place in August- September 2024, after which the company will trade ex-lifestyle, as a net debt-free company. Last week, they announced the demerger of their Real Estate business, which will take 15-18 months to complete. After completing this demerger, the Raymond entity will comprise the Engineering business only. This is to create three pure-play businesses for heightened value unlocking. The share exchange ratio for the lifestyle listing is 4:5 (4 shares of RLL for every 5 of Raymond), and 1:1 for the real estate listing.

Real estate vectors in a nutshell: Out of the 100 acres of legacy land in Thane, 40 acres are currently under development. On the JDA route, the company has currently signed 4 and has many more under evaluation. The revenue potential from the 40 acres under development is INR 9,000 Cr, and the remaining area has a revenue potential of INR 16,000 Cr (total INR 25,000 Cr which should accrue in about 8 years). The current JDAs have a revenue potential of INR 7,000 Cr which will accrue in 4-5 years. This business has ~INR 500 Cr cash on books and no significant capital requirements for the next 2 years. In the next 3 years, the real estate business will reach an annual run rate of ~INR 4,000 Cr and will maintain a stable EBITDA Margin of 25%. The company does not plan on acquiring any new land and will go the JDA route for further expansion.

Engineering vectors in a nutshell: The acquisition of MPPL opened up massive potential for value unlocking in aerospace and defense. In FY24 this business made a revenue of INR 300 Cr, with a margin of 25%, vs the mid to low teen margin of Raymond Engineering (JK Files + JK Talabot+ RPAL). The consolidated engineering business will own 2 subsidiaries; Raymond Engineering, and MPPL. MPPL is a high-growth, high-margin business, planned to double revenues in 3-4 years. Raymond Engineering will also double its revenues in 5 years. The consolidated engineering business had a pro-forma revenue of ~INR 1,800 Cr with a 15% margin. MPPL has a 2.2% share in Indian Component Manufacturers and is set to attain 2.5% of the market by 2027 driven by Strong Relationships and Merger Synergies. We foresee a heightened demand from major players like HAL owing to the 'Make in India' initiative. They are also preferred suppliers to Boeing, Airbus, and Comac.

Valuation and Outlook: We revise our TP upward from INR 2,846 to INR 3,850 to factor in the aforementioned growth vectors, yielding an upside of 25% based on a SOTP multiple of 18x the FY27E EV/ EBITDA and maintain our BUY recommendation.

Earnings Summary (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue (Ex- OI)	82,147	90,195	105,105	118,353	135,788
Operating Profit	11,994	13,091	15,834	18,225	21,243
Operating Margin	14.60%	14.51%	15.06%	15.40%	15.64%
EBITDA	13,217	15,752	17,697	20,181	23,296
EBITDA Margin (%)	15.85%	16.96%	16.54%	16.77%	16.90%
PAT	6,361	15,888	8,082	10,228	12,879
PAT growth (%)	50.1	149.8	(49.1)	26.6	25.9
EPS (INR)	95.6	238.7	121.4	153.6	193.5
EPS growth (%)	50.1	149.8	(49.1)	26.6	25.9
P/E (x)	32.2	12.9	25.4	20.0	15.9
P/BV (x)	7.1	4.4	3.8	3.2	2.7
EV/EBITDA (x)	17.2	16.5	13.3	11.2	9.3

Note: EBITDA, and EBITDA Margin calculation includes other income

Source: Company Filings & Arihant Capital Research

SOTP Valuation (FY27E)	EBITDA (INR Mn)	Multiple (x)	Enterprise Value (INR Mn)
Branded Textiles	7,320	10	73,204
Branded Apparel	2,742	20	54,847
High Value Cotton Shirting	1,075	9	9,674
Garmenting	1,157	8	9,255
Tools & Hardware	1,410	12	16,918
Auto Components	1,415	12	16,985
Real Estate			86,164
Total	15,120	18	267,047
Intersegment Elimination	214	18	3,788
Segment EV	14,905	18	263,258
Cash & Investments			33,676
JV/Associates			4,555
Total Debt			45,195
Intrinsic Market Cap			256,295
Outstanding Shares (Mn)			67
Fair Value Per Share (INR)			3,850
Upside/ Downside			25%

Source: Company & Arian Research

Analyst Meet Highlights:

- **New launches in lifestyle:** They have forayed into innerwear (Park Avenue), sleepwear (SleepZ by Raymond), and linen shirts. Innerwear and sleepwear will launch in July, and they have their management team, with identified distributor networks and retail points. They will have a semi-premium to premium offering in the price range of INR 200-600 for innerwear vs the industry range of INR 300-400, and sleepwear will be in the range of INR 500-900. Linen shirts are identified as a good opportunity for Indian consumers given the tropical heat, but the market is currently underdeveloped, and Raymond is undertaking category building. This is also an endeavor to grow their market share in Shirting.
- **Ethnix's brand awareness** has now reached 80% of large Indian brands.
- **Bank funding costs for construction in the Real Estate business** (required for normal business) will not exceed 9-10.5%.
- **The average price per square foot** in Thane is INR 20,000- INR 25,000 but is higher for the JDAs- touching INR 50,000 depending on area.
- **The JDAs** need 12-15 months to launch after signing. They are also looking into the Navi Mumbai market to sign more.
- MPPL will be laser-focused on manufacturing parts that are difficult and expensive to produce to strengthen its market leadership in India.

Income Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue (Ex- OI)	82,147	90,195	105,105	118,353	135,788
Op. Expenses	70,153	77,104	89,271	100,128	114,545
Operating Profit	11,994	13,091	15,834	18,225	21,243
<i>Operating Margin</i>	<i>14.60%</i>	<i>14.51%</i>	<i>15.06%</i>	<i>15.40%</i>	<i>15.64%</i>
Other income	1,223	2,661	1,863	1,956	2,054
EBITDA	13,217	15,752	17,697	20,181	23,296
<i>EBITDA Margin</i>	<i>15.85%</i>	<i>16.96%</i>	<i>16.54%</i>	<i>16.77%</i>	<i>16.90%</i>
Depreciation	2,354	3,758	4,407	4,507	4,607
EBIT	10,863	11,994	13,289	15,674	18,689
Interest Exp.	2,573	3,758	3,312	3,012	2,712
Extra Ordinary Items -gain/(loss)	(1,072)	(432)	-	-	-
PBT	7,219	7,804	9,978	12,662	15,977
Tax	2,004	2,227	1,996	2,532	3,195
PAT	5,216	5,577	7,982	10,130	12,782
Minority Int./Profit (Loss) From Associates	(74)	(9,879)	(100)	(99)	(97)
Net Profit	5,289	15,456	8,082	10,228	12,879
Adjusted PAT	6,361	15,888	8,082	10,228	12,879
Adjusted EPS (INR)	95.6	238.7	121.4	153.6	193.5
Balance Sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	666	666	666	666	666
Reserves & Surplus	28,324	45,508	53,135	62,907	75,331
Networth	28,990	46,173	53,800	63,573	75,996
Debt	25,295	60,195	55,195	50,195	45,195
Minority Interest	850	4,379	4,435	4,494	4,555
Net deferred Tax liabilities	(1,876)	271	271	271	271
Capital Employed	53,259	111,018	113,701	118,532	126,017
Gross Fixed Assets	34,391	43,073	44,073	45,073	46,073
Accumulated Depreciation	15,064	17,584	21,992	26,499	31,106
Capital work in progress	360	988	988	988	988
Net Fixed Assets	19,687	33,089	23,069	19,562	15,955
Goodwill	10	2,650	2,650	2,650	2,650
Investments	16,391	28,260	28,260	28,260	28,260
Current Assets, Loans & Advances	43,897	84,409	100,876	114,402	132,321
Inventory	24,966	35,142	31,943	35,969	41,268
Debtors	7,443	14,072	9,523	10,724	12,303
Cash & Bank balance	3,258	5,256	24,521	28,423	33,676
Loans & advances and others	8,230	29,940	34,889	39,287	45,074
Current Liabilities & Provisions	26,727	37,390	41,154	46,342	53,169
Liabilities	25,852	36,089	39,638	44,634	51,209
Provisions	875	1,301	1,517	1,708	1,959
Net Current Assets	17,170	47,019	59,722	68,060	79,153
Application of Funds	53,259	111,018	113,701	118,532	126,017
Cash Flow Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	8,445	18,168	10,133	12,819	16,136
Depreciation & amortisation	2,354	3,758	4,407	4,507	4,607
Interest expense	2,573	3,758	3,312	3,012	2,712
(Inc)/Dec in working capital	(3,862)	(7,551)	6,563	(4,437)	(5,839)
Tax paid	(724)	(770)	(1,996)	(2,532)	(3,195)
Other operating Cash Flow	(742)	(12,031)	(1,863)	(1,956)	(2,054)
Cash flow from operating activities	8,042	5,332	20,556	11,413	12,367
Capital expenditure	(1,023)	(2,076)	(1,000)	(1,000)	(1,000)
Add: Int/Div. Income Recd.	(3,735)	(8,340)	1,863	1,956	2,054
CF from investing activities	(4,758)	(10,416)	863	956	1,054
Inc/(Dec) in debt	336	21,028	(5,000)	(5,000)	(5,000)
Dividend Paid	(2,466)	(3,064)	(3,511)	(3,211)	(2,911)
Others	1,545	(9,336)	6,513	(99)	(97)
CF from financing activities	(585)	8,628	(1,999)	(8,310)	(8,008)
Net cash flow	2,700	3,544	19,421	4,058	5,412
Opening balance	1,617	1,712	5,256	24,521	28,422
Closing balance	3,257	5,256	24,521	28,422	33,676

Source: Company & Arianth Research

Per share data	FY23	FY24	FY25E	FY26E	FY27E
No. of shares (m)	66.6	66.6	66.6	66.6	66.6
Diluted no. of shares (m)	66.6	66.6	66.6	66.6	66.6
BVPS (INR)	435.5	693.6	808.2	955.0	1,141.6
CEPS (INR)	113.7	140.2	186.1	219.9	261.2
DPS (INR)	3.0	10.0	3.0	3.0	3.0
Margins	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin	15.85%	16.96%	16.54%	16.77%	16.90%
EBIT Margin	13.03%	12.92%	12.42%	13.03%	13.56%
PAT Margin	7.63%	17.11%	7.56%	8.50%	9.34%
Growth Indicators (%)	FY23	FY24	FY25E	FY26E	FY27E
Revenue(%)	33.0	9.8	16.5	12.6	14.7
EBITDA(%)	50.1	19.2	12.3	14.0	15.4
Adj PAT(%)	50.1	149.8	-49.1	26.6	25.9
Adj EPS(%)	50.1	149.8	-49.1	26.6	25.9
Valuation (x)	FY23	FY24	FY25E	FY26E	FY27E
P/E	32.2	12.9	25.4	20.0	15.9
P/BV	7.1	4.4	3.8	3.2	2.7
EV/EBITDA	17.2	16.5	13.3	11.2	9.3
EV/Sales	2.8	2.9	2.2	1.9	1.6
Dividend Yield (%)	0.1	0.3	0.1	0.1	0.1
Financial Ratios	FY23	FY24	FY25E	FY26E	FY27E
RM/Net Revenue	36	29	28	28	28
Emp Exp/Net Revenue	12	13	12	13	12
Other Exp/Net Revenue	36	44	44	44	44
RoE (%)	24.2	42.3	16.2	17.4	18.5
RoCE (%)	24.9	17.8	13.5	15.2	17.0
Asset/T.O (x)	2.4	1.5	1.3	1.4	1.5
Net Debt/Equity (x)	0.8	1.2	0.6	0.3	0.2
EBIT/Interest (x)	4.7	3.9	4.6	5.9	7.6
Key operating metrics	FY23	FY24	FY25E	FY26E	FY27E
Dep. (% of Gross Block)	7.1	9.7	10.1	10.1	10.1
Inventory days	111	142	111	111	111
Debtor days	33	57	33	33	33
Creditor days	75	84	75	75	75
Net working capital days	62	169	122	122	122
Asset turnover (x)	1.7	1.1	0.9	1.0	1.1
Fixed asset turnover (x)	2.4	2.1	2.4	2.6	2.9
Sales :Net Block (x)	4.2	2.7	4.6	6.1	8.5
Financial leverage (Asset/Equity)	0.5	0.4	0.5	0.5	0.6
Debt/Equity (x)	0.9	1.3	1.0	0.8	0.6

Source: Company & Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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