Raymond Apparel Limited

March 15, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	170.00 [enhanced from Rs.150.00 crore]	**CARE A+; Stable (Single A Plus; Outlook Stable)**	Reaffirmed
Short term Bank Facilities	30.00 [reduced from Rs.50.00 crore]	**CARE A1+ (A One Plus)**	Reaffirmed
Total bank facilities	**200.00 (Rs. Two hundred crore only)**		
Proposed Commercial Paper*	50.00	**CARE A1+ (A One Plus)**	Reaffirmed

**carved out of sanctioned working capital facilities*

Details of instruments/facilities in Annexure-1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities and debt instruments of Raymond Apparel Limited (RAL) continue to derive strength from the strong and resourceful promoters, operational linkages as well as financial support from the holding company (Raymond Limited, rated CARE AA; Stable / CARE A1+), well-established brand portfolio and wide distribution network.

The ratings take into account growth in operations. However, the ratings also take into account its reduced PBILDT margin and subdued financial performance during FY17 (refers to period from April 01 to March 31) on account of demonetization and subsequent recovery in operations during the nine months ending December 31, 2017.

These rating strengths, are however, tempered by working capital intensive nature of operations, moderate debt protection indicators, competitive nature of the branded apparel business, vulnerability to changes in fashion trends/consumer tastes and preferences and economic cycles.

The ability of the company to improve profitability margins and effectively managing working capital cycle remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong and Resourceful promoter group with experienced management: RAL is a wholly owned subsidiary of Raymond Limited (Raymond, rated CARE AA/ CARE A1+). Raymond, incorporated in 1925, is one of the leading integrated producers of worsted suiting fabric in the world. It is the flagship company of the Raymond Group, which is a diversified conglomerate having interests in textiles, apparel retailing, toiletries, and engineering. Furthermore, Raymond Group is managed by a qualified top management team comprising of industry personnel with over two decades of experience in their respective fields.

Operational linkages as well as financial support from promoter group: RAL continues to have operational linkages with its promoter group companies. The company generated sales of about 8.08% from Raymond Group in FY17 (previous year 6.01%). Moreover, RAL continues to get financial support from Raymond in the form of Compulsory Convertible Preference Shares (CCPS - outstanding as on March 31, 2017-Rs.34.30 crore) as well as Compulsorily Convertible Debentures (CCD; Rs.28.50 crore, converted to equity in January 2017). Raymond also extends support to RAL through inter-corporate deposits (ICDs) during the year. In FY17, Raymond had extended ICDs worth Rs.275 crore (vis-à-vis Rs.282 crore in FY16) to RAL which were fully repaid during the year.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Well established brand portfolio: RAL is engaged in retailing of branded apparel and has well established brands present across price segments (mid to high value) to cater to a wide range of customers. RAL over the years has built a strong portfolio of brands as discussed in the table below:

Brand	Launched	Offering
Park Avenue	1986	Premium contemporary wear
Park Avenue Woman	2007	Premium contemporary wear for women
Raymond Ready to Wear	2008	Luxury/Premium wear in classic/contemporary segment
ColorPlus	1991 [business merged into RAL in FY18]	Premium classic wear
Parx	1998	Premium/value edgy wear

Widespread distribution network: Being part of the Raymond group, RAL enjoys a widespread distribution network primarily on account of The Raymond Shops (TRS - 811 stores as on December 31, 2017). In addition to the TRS, RAL also retails through its own EBOs, MBOs and other large format stores. As on December 31, 2017, RAL had a total of 277 EBOs (257 as on March 31, 2017).

Growth in revenues albeit low PBILDT margins: During FY17, the company reported a y-o-y growth of 18% in total operating income i.e. from Rs.832 crore in FY16 to Rs.984 crore in FY17 due to continuous increase in brand strength and increasing presence in T2 and T3 cities. Nonetheless, due to intense competition from other established specialty brands and international brands, as well as constant discounts being offered by the increasing in popularity e-commerce platforms, RAL's PBILDT margin decreased from 6.92% in FY16 to 4.05% in FY17.

Comfortable capital structure and moderate debt protection indicators: Due to support from Raymond in the form of Compulsorily Convertible Preference Shares (being treated as quasi equity) and Inter-Corporate Deposits, the company is less reliant on external working capital borrowings. However, in Q4FY17, the sales were low due to demonetisation, leading to inventory build-up which resulted in higher working capital utilisation. The aforementioned led to moderation in overall gearing to 0.73x as on March 31, 2017 (vis-à-vis 0.53x as on March 31, 2016). Furthermore, due to reduced profitability, its debt protection matrices have worsened with interest coverage ratio at 2.80x in FY17 (vis-à-vis 5.14x in FY16) and total debt to GCA at 9.36x as on March 31, 2017 (vis-à-vis 3.78x as on March 31, 2016).

Key Rating Weaknesses

Working capital intensive nature of operations: The inventory holding period is generally high at around 120-130 days since bulk stock is kept at own stores network which the company is expanding constantly (and new stores take time to mature). The collection period on an average is around 40 days. The company sells its stock to MBOs through distributors. This funding gap is met by utilization of fund based limits (utilized around 65% during past 12 months ending December 2017 as against 25% during corresponding period last year). Some comfort is derived from the fact that RAL receives regular funding support from parent Raymond Limited.

Competition in the branded apparel segment: RAL continues to face intense competition in the branded apparel space from other established players like Allen Solly, Louis Philippe, US Polo, Blackberry, Zodiac, etc. and is also vulnerable to changes in fashion trends as well as consumer spending habits.

Prospects

In India, textile & clothing industry contributes nearly 4% of India's GDP, 12% of total industrial production and 11% of total exports of goods. Textile Industry provides direct employment to 35 million and indirect employment to 45 million people, which makes it one of the largest employment providers in the country. India's apparel exports increased by 2.3% to USD 17.40 billion during 2016-17, mainly attributable to increased demand from UAE. However, demand from USA and UK remained weak. The other major export destinations are China, Sri Lanka, Saudi Arabia, Republic of Korea, Bangladesh, Turkey, Pakistan, Brazil, Hong-Kong, Canada and Egypt etc.

Indian apparel exporters face stiff competition from Bangladesh on account of low wages and duty free access to around 37 countries including EU nations. With a view to give a boost to 'Make in India' initiative Government of India announced

Amended Technological Up-gradation Funds Scheme (ATUFS) in Dec. 2015. Indian apparel exports will continue to be guided by development in USA and EU economies. Further, decreasing cost competitiveness of China is likely to give positive impetus to Indian textile exporters. India has established apparel manufacturing base with availability of skilled manpower and raw material like cotton, polyester and viscose placing India in a favourable position vis-à-vis other countries. The outlook for Garment sector remains stable.

Analytical approach: CARE has considered Standalone financial statements. Furthermore, operational and financial synergy with its promoter group, Raymond and parent cum holding company, Raymond Ltd has been considered.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology: Retail
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1948, Raymond Apparel Ltd (RAL; erstwhile Solitaire Fashion Ltd (SFL)) is a wholly owned subsidiary of Raymond Ltd (Raymond, rated CARE AA / CARE A1+). In FY10 (refers to the period April 1 to March 31), RAL was amalgamated into SFL and subsequently SFL was renamed as RAL. RAL is engaged into manufacturing of branded apparel on job work basis and retailing of the same through its own exclusive brand outlets (EBOs-277 stores as on December 31, 2017), The Raymond Shop, multi brand outlets and other independent retailers.
The wholly owned subsidiary of RAL, Colorplus Fashions Ltd was engaged in manufacturing and retailing of men's casual ready-to-wear apparels under the 'Colorplus' brand. RAL and CFL entered into a composite scheme of arrangement to demerge entire business of CFL into RAL w.e.f. August 01, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	831.62	983.49
PBILDT	57.56	39.82
PAT	24.44	15.39
Overall gearing (times)	0.53	0.73
Interest coverage (times)	5.14	2.80

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	170.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	30.00	CARE A1+
Commercial Paper	-	-	-	50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (01-Mar-17) 2)CARE A1+ (12-Apr-16)	-	1)CARE A1+ (30-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	170.00	CARE A+; Stable	-	1)CARE A+; Stable (01-Mar-17) 2)CARE A+ (12-Apr-16)	-	1)CARE A+ (30-Mar-15)
3.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A1+	-	1)CARE A1+ (01-Mar-17) 2)CARE A1+ (12-Apr-16)	-	1)CARE A1+ (30-Mar-15)

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