Raymond Limited

December 02, 2021

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-convertible Debentures	100.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Total Long-term Instruments	100.00 (Rs. One hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Non-convertible debenture (NCD) of Raymond Limited (RL) continues to derive strength from its dominant position in the worsted suiting segment, integrated presence across the textile value chain along with diversified revenue stream, widespread distribution network supplemented by asset-light retail strategy, presence of established brands in the apparel segment, experienced promoter group & management and satisfactory liquidity. Please refer to the following link for the previous press release that captures the rated bank facilities and instruments for RL, click here.

The rating also factors in the improvement in operating performance in H1FY22 (refers to the period April 2021 to September 2021), in particular in Q2FY22 (refers to the period July 2021 to September 2021) owing to gradual lifting of restrictions imposed due to the pandemic. Increase in the hours of operations for retail outlets across formats and increasing number of vaccinations have led to pick up in footfalls in retail stores thus leading to healthy recover in B2C business. The onset of festive and wedding seasons further boosted overall demand for branded apparel and textiles. Improved level of operations led to improving operating efficiencies thus, resulting in higher operating margins in Q2FY22. CARE Ratings notes that sales momentum in the real estate project has also been maintained in Q2FY22, thus, lending stability to cash flows.

CARE Ratings notes that the overall gearing on a consolidated basis has improved to 1.06x as on September 30, 2021 owing to reduced levels of short-term working capital borrowings. Cash generated during the year was used for working capital purposes. Going forward, the company intends to deleverage by monetizing its land bank as well as divestment in engineering/real estate business. Achievement of this objective in a timely manner shall be a key rating monitorable.

The ratings are tempered by working capital intensive nature of operations, susceptibility to fluctuation in raw material prices and fluctuation in foreign exchange imparting volatility to profitability and intense competition faced from organized and unorganized players especially in the branded apparel segment and demand risks associated with real estate.

Rating Sensitivities

Positive triggers:

- *Sustained improvement in operating performance with PBILDT margins of 15% and above*
- *Significant debt reduction leading to improvement in debt metrics with Total debt/PBILDT of 2x*

Negative triggers:

- *Inability of the company to deleverage and increasing Total debt/ PBILDT above 4x on a sustained basis*
- *Reduction in available cash and liquid investments below Rs. 600 crore on a sustained basis*
- *Decline in PBILDT margin to below 9%*
- *Increase in working capital intensity with the company reporting negative cash flow from operations*

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, track record of management and experience in managing businesses spread over diverse sectors: The promoter group has been in textiles business since decades and has also been closely involved in the defining and monitoring the business strategy. Mr Gautam Singhania (Chairman & Managing Director of Raymond) has been on the board since 1990. He has restructured the group, sold Raymond's non-core businesses (synthetics, steel and cement) and focused on making Raymond an internationally reputed fabric to fashion player. Furthermore, the Raymond group is managed by a qualified management team comprising industry personnel with over two decades of experience in their respective fields.

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

Dominant position in the worsted suiting fabrics business: A strong brand image with a long track record of 95 years assisted by a large retail network has aided Raymond to emerge as one of the leading players in the worsted suiting business. It is India's largest manufacturer of worsted fabrics and wool blends having a dominant market share. It had 1,082 retail outlets branded as The Raymond Shop (TRS) as on September 30, 2021, across India and abroad. It has also emerged as the largest over-the-counter (OTC) branded shirting player in the domestic organised market since it's launch in 2015. In the tools & hardware business, Raymond is among the leading manufacturers of steel files globally and it has around 65% market share in India.

Diversified revenue stream with integrated presence across the textile value chain: Raymond's revenue profile is well diversified and fairly distributed across segments. In FY21 (refers to period April 1 to March 31), Indian operations contributed 78% to the total revenues and the balance from overseas operations. Furthermore, it has largely an integrated presence across the textile value chain right from yarn manufacturing to suiting and shirting fabrics to garments to denim to apparel and retailing. This integrated setup gives Raymond operational flexibility to rationalise costs by managing dependence on outsourced vendors.

Widespread distribution network supplemented by asset-light retail strategy: In India, Raymond alongwith its subsidiary Raymond Apparel Limited (RAL) has one of the largest retail networks of 1,420 stores (1,082 retail outlets branded as The Raymond shop (TRS), 37 Made to measure (MTM) and 301 exclusive brand outlets (EBO)) and dedicated retail space of 2.33 million sq. ft. as on September 30, 2021. The company's retail network is spread across 600 towns and cities in India and overseas stores in nine countries. Furthermore, of the branded apparels and made to measure (EBOs and MTM), more than 80% are company owned whereas around 70%-75% of The Raymond stores (TRS) are on franchise basis implying that the company generally follows an asset-light franchise model wherein the company usually incurs only minimal capital expenditure needed to open a store (with land/store space owned by franchisee). In an attempt to make the apparel business profitable, the company shut 152 stores in FY21 and another 66 stores in H1FY22. Going forward, store opening will be through franchises. Apart from signage and façade Raymond does not have to incur any other cost.

Over achievement of cost rationalisation measures in FY21 and H1FY22 likely to result in improvement in operating profitability going forward: In order to sustain operations in challenging times, the management of Raymond had set out to rationalise certain costs. As such, they had committed to reduce operational costs by 30%-33% of FY20 levels. Some of the measures included reviewing opex costs like employee costs, reviewing admin costs, renegotiation of rentals for retail spaces, shutting down of unprofitable retail stores, focused advertisement etc. In FY21, the company was able to reduce its cost by 40% as compared with FY20. Most of these costs apart from selling and advertising expenses are fixed in nature as such, these are likely to be sustained in the future and result in an improvement in the operating profitability once sales volumes return to pre-CoVID levels.

Improvement in overall gearing although and other debt coverage metrics have in H1FY22: The overall gearing of RL has improved to 1.06x as on September 30, 2021 from 1.11x as on March 3, 2021 owing to reduction in short-term borrowing. RL has been raising long-term debt in the form of non -convertible debentures in a bid to improve its LT/ST debt mix. Cash generated during the half year was primarily used for working capital purposes. TD/PBILDT and TD/GCA have improved in H1FY22 owing to improvement in operating profitability. Going forward, the company intends to deleverage by monetizing its land bank as well as invite investors in its engineering/real estate business. Achievement of this objective in a timely manner shall be a key rating monitorable.

Key Rating Weaknesses

Weaker FY21 and Q1FY22 performance owing to the pandemic however, performance has recovered in Q2FY22: Operating income declined by 46% in FY21 owing to lower demand across business segments and restrictions on trade channels owing to the pandemic. However, if we consider quarterly performance, it started improving from the second half of Q2FY21 with significant improvement in Q3FY21 owing to pent up demand and onset of wedding and festive seasons. However, Q1FY22 was adversely impacted owing to the second wave as it led to imposition of restrictions by several states. Nevertheless, recovery has been witnessed from June 2021 onwards owing to increased vaccinations and gradual relaxations of restrictions. Opening up of offices, onset of festive and wedding season has led to significant revenue growth in Q2FY22. Operating margins were also adversely impacted in FY21 and Q1FY22 across segments as capacities were underutilized leading to lower absorption of fixed costs. Furthermore, in the branded apparel segment, the company attempts to offer a different collection in each season and as such had to offer significant discounts to clear unsold inventory at the retail level. However, better capacity utilization levels in Q2FY22 have led to improvement in operating profitability to 12.81% as compared with 0.80% in Q1FY21.

Susceptible to commodity price risk as well as foreign exchange fluctuation risk: For Raymond, the cost of raw materials (including wool, cotton and polyester) constitutes around 40%-45% of cost of sales. In the past, the prices of raw materials have been volatile exposing the company to commodity price risk. Nonetheless, being an established brand, Raymond is able to alter its product mix accordingly and pass on the increase in costs which partially mitigate the commodity price fluctuation.

***Intense competition from organized and unorganized sector in the branded apparel segment*:** RL faces intense competition in the branded apparel space from other established players like Allen Solly, Louis Philippe, Van Heusen, Arrow, Siyaram, US Polo, Blackberry, Zodiac, etc. and is also vulnerable to changes in fashion trends as well as consumer spending habits. However, RL with its widespread distribution network and strong brand image, is expected to sustain its operating performance going forward.

***Exposure to demand risk in real estate*:** RL owns around 100 acres land in Thane of which around 20 acres of land is being developed as a residential project. The project was launched in Q4FY19. In Phase 1, the company on 14acre land parcel is developing 10 towers (2.8 mn sq.ft. saleable area). The company has launched seven towers as of now. The towers are located in a prime location in Thane and the offering (1 BHK and 2 BHK formats) at an attractive price point. The total bookings at the end of H1FY22 stood at 1,555 units and were valued at Rs.1,529 crores. While the company has received healthy bookings in FY21 and H1FY22 despite the pandemic, demand risk remains for the unsold inventory.

Liquidity: Strong - Liquidity continues to be adequate marked by unencumbered treasury investments in mutual funds and fixed deposits (including cash & bank balances) aggregating to around Rs.592 crore on consolidated basis as on September 30, 2021. Against these, RL has minimal maintenance capex requirements and scheduled debt repayments of Rs. 281.39 crore in FY22. Furthermore, its working capital utilization is moderate at 48% for 12 months ending October 2021.

Analytical approach: Consolidated, owing to strong operational and financial linkages between the parent and its subsidiaries. The list of companies which have been consolidated are placed in Annexure 6.

Applicable Criteria:
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Rating Outlook and Credit Watch
Cotton Textile
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies
Short Term Instruments

About the Company
Incorporated in 1925, Raymond Ltd (Raymond) 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, retailing, auto components, engineering files & tools, real estate, etc. The group has about 19 plants located across India. Raymond, on a standalone basis, is mainly engaged into suiting and shirting fabrics with production capacity of approximately 38 million meters per annum and development of real estate. All other businesses are housed largely in wholly-owned subsidiaries.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (UA)
Total operating income	6,708	3,607	2,445
PBILDT	742	113	220
PAT	202	(304)	-101
Overall gearing (times)	1.21	1.11	1.06
Interest coverage (times)	2.45	0.41	1.94

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-convertible debentures-Proposed		-	-	-	100.00	CARE AA-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	660.00	CARE AA-; Stable	1)CARE AA-; Stable (29-Sep-21)	1)CARE AA- (CWD) (06-Oct-20) 2)CARE AA (CWD) (06-Jul-20) 3)CARE AA (CWD) (03-Apr-20)	1)CARE AA (CWD) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18) 2)CARE AA; Stable (16-Aug-18)
2	Non-fund-based-Short Term	ST	320.00	CARE A1+	1)CARE A1+ (29-Sep-21)	1)CARE A1+ (CWD) (06-Oct-20) 2)CARE A1+ (CWD) (06-Jul-20) 3)CARE A1+ (CWD) (03-Apr-20)	1)CARE A1+ (CWD) (18-Nov-19)	1)CARE A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)
3	Fund-based - LT-Term Loan	LT	620.00	CARE AA-; Stable	1)CARE AA-; Stable (29-Sep-21)	1)CARE AA- (CWD) (06-Oct-20) 2)CARE AA (CWD) (06-Jul-20) 3)CARE AA (CWD) (03-Apr-20)	1)CARE AA (CWD) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18) 2)CARE AA; Stable (16-Aug-18)
4	Commercial Paper-Commercial Paper (Standalone)	ST	550.00	CARE A1+	1)CARE A1+ (29-Sep-21)	1)CARE A1+ (CWD) (06-Oct-20) 2)CARE A1+ (CWD) (06-Jul-20) 3)CARE A1+ (CWD) (03-Apr-20)	1)CARE A1+ (CWD) (18-Nov-19)	1)CARE A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)
5	Fund-based-Short Term	ST	25.00	CARE A1+	1)CARE A1+ (29-Sep-21)	1)CARE A1+ (CWD) (06-Oct-20) 2)CARE A1+	1)CARE A1+ (CWD) (18-Nov-19)	1)CARE A1+ (07-Dec-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						(CWD) (06-Jul-20) 3)CARE A1+ (CWD) (03-Apr-20)		2)CARE A1+ (16-Aug-18)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Jul-20) 2)CARE AA (CWD) (03-Apr-20)	1)CARE AA (CWD) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)
7	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Apr-20)	1)CARE AA (CWD) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)
8	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Jul-20) 2)CARE AA (CWD) (03-Apr-20)	1)CARE AA (CWD) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)
9	Fund-based - ST-Factoring/ Forfeiting	ST	150.00	CARE A1+	1)CARE A1+ (29-Sep-21)	1)CARE A1+ (CWD) (06-Oct-20) 2)CARE A1+ (CWD) (06-Jul-20) 3)CARE A1+ (CWD) (03-Apr-20)	1)CARE A1+ (CWD) (18-Nov-19)	1)CARE A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)
10	Debentures-Non Convertible Debentures	LT	145.00	CARE AA-; Stable	1)CARE AA-; Stable (29-Sep-21)	1)CARE AA- (CWD) (06-Oct-20) 2)CARE AA (CWD) (06-Jul-20) 3)CARE AA (CWD) (03-Apr-20)	1)CARE AA (CWD) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)
11	Debentures-Non Convertible Debentures	LT	90.00	CARE AA-; Stable	1)CARE AA-; Stable (29-Sep-21)	1)CARE AA- (CWD) (06-Oct-20) 2)CARE AA (CWD) (28-Jul-20)	-	-
12	Debentures-Non Convertible Debentures	LT	55.00	CARE AA-; Stable	1)CARE AA-; Stable (29-Sep-21)	1)CARE AA- (CWD) (06-Oct-20) 2)CARE AA (CWD) (28-Jul-20) 3)CARE AA (CWD) (06-Jul-20)	-	-
13	Debentures-Non	LT	195.00	CARE	1)CARE AA-;	1)CARE AA-	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
	Convertible Debentures			AA-; Stable	Stable (29-Sep-21)	(CWD) (06-Oct-20) 2)CARE AA (CWD) (28-Jul-20)		
14	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (29-Sep-21)	1)CARE AA- (CWD) (06-Oct-20)	-	-
15	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable				

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple

Annexure 5: Bank lender details for this company

To view the lender-wise details of bank facilities please **click here**

Annexure 6: List of entities which have been consolidated

Sr. No.	Name	Holding/Subsidiary/Associate	Holding
1	Raymond Apparel Limited	Subsidiary Company	100%
2.	Pashmina Holdings Limited	Subsidiary Company	100%
3.	Everblue Apparel Limited	Subsidiary Company	100%
4.	JK Files (India) Limited	Subsidiary Company	100%
5	JK Talabot Limited	Subsidiary Company	90%
6	Colorplus Realty Limited	Subsidiary Company	100%
7	Silver Spark Apparel Limited	Subsidiary Company	100%
8	Celebrations Apparel Limited	Subsidiary Company	100%
9	Scissors Engineering Products Limited	Subsidiary Company	100%
10	Ring Plus Aqua Limited	Subsidiary Company	89.07%
11	Raymond Woollen Outerwear Limited	Subsidiary Company	99.54%
12	Raymond Luxury Cottons Limited	Subsidiary Company	75.69%
13	Dress Master Apparel Private Limited	Subsidiary Company	100%
14	Raymond Lifestyle Limited	Subsidiary Company	100%
15	Jaykayorg AG	Subsidiary Company	100%
16	Raymond (Europe) Limited	Subsidiary Company	100%
17	R&A Logistics Inc.	Subsidiary Company	100%
18	Silver Spark Middle East (FZE)	Subsidiary Company	100%
19	Silver Spark Apparel Ethiopia PLC	Subsidiary Company	100%
20	Raymond Lifestyle (Bangladesh) Private Limited	Subsidiary Company	100%
21	Raymond Lifestyle International DMCC	Subsidiary Company	100%
22	P.T. Jaykay Files Indonesia	Associate Company	39.20%
23	J.K. Investo Trade (India) Limited	Associate Company	47.66%
24	Radha Krshna Films Limited	Associate Company	25.38%
25	Raymond UCO Denim Private Limited	Associate Company	50%

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

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