Raymond Apparel Limited

February 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	358.24 (Reduced from 378.42)	CARE A (CWD) (Single A) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Short Term Bank Facilities	44.00	CARE A1 (CWD) (A One) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Total Bank Facilities	**402.24 (Rs. Four Hundred Two Crore and Twenty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Raymond Apparel Limited (hereinafter referred to as 'RAL' or the Company) continue to factor weak operating performance in FY21 on account of Covid led disruption resulting in continued moderation in financial risk profile. CARE takes cognizance of RAL's improving business prospects during 9MFY22 with partial easing of covid crisis. The ratings continue to derive comfort from the well-established Raymond group, well-known brand portfolio, operational synergies and financial linkages with the group and its parent i.e. Raymond Limited (RL; rated CARE AA-; Stable / CARE A1+ as on September 29, 2021) and wide distribution network. These rating strengths are partially tempered by losses, weakened capital structure, elongated working capital cycle, volatile raw material prices, competitive nature of the branded apparel business and vulnerability to changes in fashion trends/consumer tastes and preferences/ economic cycles, etc.

As per exchange disclosures dated September 27, 2021, the Board of RL has proposed the following:

1. Consolidation of its auto component business (presently under Ring Plus Aqua Limited) and engineering business (presently under J.K. Files Limited) into J.K. Files Limited.
2. Raymond will consolidate its B2C business (currently under Raymond Apparel Limited) by transfer of Apparel Business into Raymond Ltd.
3. Finally, the real estate business of the company will be hived off into a wholly-owned subsidiary.

The ratings continue thus to remain on credit watch with developing implications due to ongoing consolidation of RAL's B2C business into RL. CARE continues to follow consolidated approach in the rating assessment of Raymond Limited. CARE will take a final view on the rating, once the exact implications of the above development on the business and overall credit profile of the company are clear. As per management articulation, the transaction is expected to be completed shortly post receipt of regulatory approvals.

[**Note:** For additional details, please refer to CARE Ratings' Press Release dated October 07, 2021. The same can be accessed here]

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in PBILDT margins above 8% on sustained basis
- Improvement in capital structure by way of infusion

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Continuation of moderation in financials with PBILDT remaining below 4% and further dip in overall gearing
- Downward revision in parent company's credit profile

Detailed description of the key rating drivers

Key Rating Strengths

Part of well-established promoter group:

RAL is a wholly owned subsidiary of Raymond Limited, which is one of the leading players of worsted suiting business. It is the flagship company of Raymond Group, which is a diversified conglomerate having interests in textiles, apparel retailing, toiletries, engineering files, engineering tools, real estate and auto components. The promoter group led by Mr Gautam Singhania (Chairman & Managing Director of Raymond) has been closely involved in devising the overall business strategy of the group backed by experienced management team.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Well-known 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 which includes Park Avenue, Raymond Ready to Wear, Colorplus, Parx , Ethnix etc.

Widespread distribution network:
Being part of the Raymond group, RAL enjoys a widespread distribution network across formats comprising of 290 Exclusive Brand Outlets (EBOs) as well as 1086 The Raymond Shops (TRS) as on December 31, 2021. In addition to TRS and EBOs, RAL also retails through independent retailers, 5000+ Multi brand outlets (MBOs) and other large format stores and has presence on online portals. RAL along with its parent RL commands a total retail space spanning 2.30 mn sq ft with a total of 1400+ domestic retail stores as on December 31, 2021 of which ~80% are on franchisee model.

Operational and financial linkages with Raymond Limited:
RAL's revenue of Rs. 511 crore in FY21 contributed to 14% of RL's consolidated revenue of Rs. 3607 crore and 17% of RL's consol revenue for Q3FY22. On account of RAL's importance to Raymond group, RAL continues to get financial support from Raymond in the form of unsecured loan and ICD. Raymond and group companies have extended ICDs amounting Rs. 212.00 crore as on March 31, 2021 (P.Y. Rs. 75 crore). The funds were utilised for working capital requirements of the company during challenging covid environment.

Key Rating Weaknesses
FY21 impacted by Covid; recovery seen in 9MFY22 and is expected to continue:
RAL's operations were severely impacted with the outbreak of the covid pandemic which led to a decline in company's revenue base y-o-y by 68% to Rs. 512 crore in FY21 from Rs. 1613 crore in FY20. Apart from operational challenges arising from covid disruptions, the company also had to grapple with changes in customer preferences and behaviour during the aforementioned period. Operating margins were adversely impacted owing to lower demand, poor realization and under absorption of fixed costs, which resulted in RAL becoming loss-making at PBILDT level in FY21. RAL had remained profitable during the last few years prior to covid. Accumulation of heavy losses incurred during FY21 also resulted in erosion of networth of the company which became negative. Consequently, other debt metrices also have weakened.
Recovery has been witnessed in 9MFY22 owing to increased vaccinations, reopening of economy, relaxation of covid restrictions etc. RAL's sales improved to Rs. 628 crore for 9MFY22 vis-à-vis sales of Rs. 322 crore during 9MFY21. The losses have however been reducing thereafter and RAL is expected to become PBILDT positive for FY22. CARE expects the recovery to continue subject to further easing of covid crisis. The company is simultaneously implementing various cost control measures like store rationalization, lease renegotiation, ad spends and personnel costs etc. to improve its margins.

Weakening of operating cycle:
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 average collection period stretched to 330 days in FY21 from 97 days in FY20 owing to pandemic related disruptions resulting in significantly low revenue base for FY21. The build up in inventory and stretch in collection also let to the average operating cycle stretching to 333 days, in FY21 vis-à-vis a vis 112 days in FY20. The operating cycle for FY21 can be considered as an anomaly, and the average operating cycle is expected to correct in FY22 in light of faster collections.

Volatility in raw material prices:
Raw material cost accounts for 53-57% of sales for RAL. Hence, the operating margin will depend on the ability to pass on any hike in raw material prices pro-rata basis to customers.

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.

Liquidity: Adequate
The liquidity profile of RAL is supported by virtue of it being subsidiary of Raymond Limited. Raymond has access to capital markets/banking channels and has demonstrated fund raising abilities in the past and is expected to continue doing so. Liquidity of RL is marked by unencumbered treasury investments in mutual funds and fixed deposits (including cash & bank balances) aggregating to Rs.643 crore on consolidated basis as on September 30, 2021. RAL maintained free cash balance of Rs. 29 crore as on March 31, 2021. The average utilization was 85% for 12 months ended December 31, 2021. RAL availed ECLGS (Emergency Credit Line Guarantee Scheme) loan of Rs. 74 crore to manage working capital requirements, the repayments of which commence from FY23 onwards. Post-merger it is likely that the banking limits of RAL would be subsumed within RL.

Analytical approach: Standalone and factoring in operational synergy and financial linkages with its parent cum holding company, Raymond Ltd. CARE has applied notching up based on the nature and strength of the linkages with Raymond group as per applicable criteria.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Cotton Textile

About the Company
Incorporated in 1948, Raymond Apparel Ltd (RAL) is a wholly owned subsidiary of Raymond Ltd. RAL is engaged in designing and branding of apparel and accessories; which are either outsourced as trade goods or manufactured on job work basis. It is engaged in the retailing of the same through its own exclusive brand outlets (EBOs 301 stores as on September 30, 2021), the Raymond shop, multi brand outlets and other independent retailers. Its brands are Park Avenue, Parx, Raymond Ready to Wear, Colorplus, Khadi, Ethnix & Next Look. The company mainly retails Shirts, trousers and suits.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021 (UA)
Total operating income	1,613.23	511.84	627.94
PBILDT	46.66	(108.75)	32.75
PAT	(84.02)	(180.31)	(200.90)
Overall gearing (times)	6.00	NM	-
Interest coverage (times)	0.63	NM	0.62

A: Audited; UA: Unaudited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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
Fund-based - LT-Working Capital Limits	-	-	-	-	285.00	CARE A (CWD)
Non-fund-based - ST-BG/LC	-	-	-	-	44.00	CARE A1 (CWD)
Fund-based - LT-Term Loan	-	-	-	Apr-26	73.24	CARE A (CWD)

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	Commercial Paper	ST	-	-	-	1)Withdrawn **(03-Apr-20)**	1)CARE A1+ (CWD) (18-Nov-19)	1)CARE A1+ (04-Jan-19)
2	Fund-based - LT-Working Capital Limits	LT	285.00	CARE A (CWD)	1)CARE A (CWD) (07-Oct-21) 2)CARE A (CWD) (06-Apr-21)	1)CARE A+ (CWD) (03-Apr-20)	1)CARE A+ (CWD) (18-Nov-19)	1)CARE A+; Stable (04-Jan-19)
3	Non-fund-based - ST-BG/LC	ST	44.00	CARE A1 (CWD)	1)CARE A1 (CWD) (07-Oct-21) 2)CARE A1 (CWD) (06-Apr-21)	1)CARE A1+ (CWD) (03-Apr-20)	1)CARE A1+ (CWD) (18-Nov-19)	1)CARE A1+ (04-Jan-19)
4	Fund-based - LT-Term Loan	LT	73.24	CARE A (CWD)	1)CARE A (CWD) (07-Oct-21) 2)CARE A (CWD) (06-Apr-21)	-	-	-

* Long Term / Short Term

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

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

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

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Arti Roy
Contact no.: +91-22-67543456
Email ID: arti.roy@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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