Raymond Apparel Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	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	**422.42 (Rs. Four Hundred Twenty-Two Crore and Forty-Two 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 (RAL) continue to factor in losses reported in FY20 and continued moderation in financial and operational performance in FY21 significantly eroding its net worth. 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 however, 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. The ratings continue to remain on credit watch with developing implications.

CARE had placed the ratings assigned to the instruments and bank facilities of RAL on credit watch with developing implications following the restructuring announcement by parent company Raymond Limited (RL). On November 7, 2019, the board of RL approved and announced restructuring of the Raymond group wherein the lifestyle businesses (Branded textile, Branded apparel(RAL) and garmenting) will be demerged in a separate listed entity (Lifestyle Co.). The existing company Raymond Limited will house the real estate business, Thane land bank, B2B shirting business, engineering business, tools and hardware, FMCG and other investment businesses like denim.

However, as per exchange disclosures dated September 27, 2021, the Board of RL has withdrawn the above-mentioned scheme of demerger. Instead the following is proposed by the Board of Raymond:

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.

As RL has withdrawn the initial scheme of demerger, but the ratings are kept on “watch with developing implications” due to consolidation of B2C business. CARE Ratings 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.

<u>Rating Sensitivities (as per last PR dated April 06, 2021)</u>

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

- Increase in EBIDTA 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:

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

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

Detailed description of the key rating drivers (as per last PR dated April 06, 2021)

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 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.

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 381 exclusive brand outlets (EBOs) as well as 1127 The Raymond Shops (TRS) as on December 31st , 2020. In addition to TRS and EBOs, RAL also retails through independent retailers, 5425+ 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 2.46 mn sq ft with a total of 1559 domestic retail stores as on December 31, 2020 of which 70-75% are on franchisee model.

Operational and financial linkages with Raymond Limited

Raymond Apparel comprises for around 25% of Raymond's consolidated revenues and holds strategic importance. Also, RAL generated sales of about 4.50% from Raymond Group in FY20 (previous year 4.09%). Hence, it will continue to have strong operational linkages with its parent, Raymond. Moreover, RAL continues to get financial support from Raymond in the form of compulsory convertible preference shares. In September 2019, RL converted its CCPS of Rs. 34.30 crore into equity in FY20 thus increasing the share capital from Rs. 2.22 crs to Rs. 2.48 crs. Raymond also extends support to RAL through inter-corporate deposits (ICDs) during the year In FY20, Raymond and group company JK Talbot have extended ICDs worth Rs. 75.00 crore as on March 31, 2020. The funds were utilised for working capital requirements of the company to reduce dependence on working capital bank borrowings. RL group has supported RAL with~ Rs. 220 crs in FY21 by way of ICDs from Raymond and group companies.

Key Rating Weaknesses

Moderation in Financials

The Company's overall revenue degrew by ~ 1% in FY20 due to general market conditions and subdued buying. Moreover the overall business was impacted in Q4 of FY 20 owing to the dual affected of a one-time stock correction in the Multi Brand Outlet (MBOs) channel as well as the beginning of the pandemic. Additionally, lockdowns in March 2020 – which is a strong month for RAL impacted its topline significantly. Overall RAL reported a net loss of Rs. 84 crore in FY20 as against a net profit of Rs. 22 crore in FY19. Covid 19 and the ensuing lockdown further impacted RAL's performance with 9MFY21 topline of Rs. 321.85 crore vis a vis Rs. 1321.57 crore in the same period last year. RAL reported a net loss of Rs. 145.42 crore as of 9MFY21 as against a net loss of Rs. 9.47 crore in 9MFY20. However the business has shown recovery with the gradual opening of stores. Approx ~ Rs. 202 crore revenue was earned in Q3 FY21 as against Rs. 61 crore coming in from the entire first half of FY21. The business also turned EBITDA positive in Q3 with a 4% margin. The erosion in net worth led to moderation in overall gearing from 0.90 x in FY19 to 3.33x in FY20 (excluding lease liabilities).Subsequently all other debt coverage metrics have also moderated. The Company has cut down its operating expenses by ~ 53% by YTD December 2020 primarily by cutting down on manpower and lease rentals.

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 stretched to 97 days in FY20 from 75 days in FY19 owing to the pandemic related delays. Thus the operations continue to remain working capital intensive. The built up in inventory and stretch in collection period also let to the operating cycle stretching to 112 days, in FY20 vis-à-vis a vis 100 days in FY19.

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
RAL has minimal liquid investments/cash balance and its working capital utilization is high at 95% for 12 months ending February 2021.The company has repayments of Rs. 4.44 crore in FY21 and Rs. 5.31 crore in FY22. Additionally, it has short term loan from HDFC bank for Rs. 10 crs due in June 2021. However as per management the same is likely to get rolled over. The Company is also expected to avail Rs. 74 crore of Emergency Credit line guarantee scheme (ECGLS) loan before March 31, 2021; the repayments of which will begin in FY23. The liquidity profile is also supported by virtue of 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.

Analytical approach:
Standalone and factoring in operational synergy and financial linkages with its parent cum holding company, Raymond Ltd has been considered.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Companies
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology-Organised Retail Companies

About the Company
Incorporated in 1948, Raymond Apparel Ltd (RAL; erstwhile Solitaire Fashion Ltd (SFL)) 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-381 stores as on December 30, 2020 vis-à-vis 411 stores in December 2019), 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 (40.7% of total revenue in FY20), trousers (19.30% of total revenue in FY20) and suits (10.40% of total revenue in FY20).
In FY10 (refers to the period April 1 to March 31), RAL was amalgamated into SFL and subsequently SFL was renamed as RAL. Colorplus Realty Limited (Formerly Known As Color Plus Fashions Limited) engaged in manufacturing and retailing of men's casual ready-to-wear apparels under the 'Colorplus' brand was merged with RAL through a composite scheme of arrangement with effect from August 1, 2017.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	1,613.23	511.84
PBILDT	46.66	-108.75
PAT	-84.02	-180.31
Overall gearing (times)	6.00	-35.61
Interest coverage (times)	0.63	-1.34

A: Audited

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		-	-	-	305.00	CARE A (CWD)
Non-fund-based - ST-BG/LC		-	-	-	44.00	CARE A1 (CWD)
Fund-based - LT-Term Loan		-	-	-	73.42	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	305.00	CARE A (CWD)	1)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) (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	73.42	CARE A (CWD)	1)CARE A (CWD) (06-Apr-21)	-	-	-

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 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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Soumya Dasgupta
Group Head Contact no.- 022-67543505
Group Head Email ID- soumya.dasgupta@careratings.com

Relationship Contact
Name: Saikat Roy
Contact no.- 022 6754 3404
Email ID- Saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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