Raymond Limited

August 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1025.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	640.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**1665.00 (Rupees One Thousand Six Hundred and Sixty Five crore only)**		
Commercial Paper (CP) Issue	**550.00** (Rupees Five Hundred Fifty Crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Raymond Limited (Raymond) continue to derive strength from the dominant position of the company in the worsted suiting fabrics industry, widespread distribution network supplemented by asset-light retail strategy and experienced promoter group and management. Integrated operations along with diversified revenue stream and presence of brands in the apparel segment add strength to the ratings. The ratings also take cognizance of adequate liquidity profile and moderate financial risk profile of the company.

These rating strengths are tempered by 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 in the branded apparel segment.

The company's ability to improve its debt coverage indicators and profitability margins amidst intense competition in the industry is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Dominant position in the worsted suiting business and presence of brands in apparel segment: An established track record of nearly a century, a strong brand image, and large retail network has helped Raymond develop a healthy market position in the worsted suiting business. Being India's largest manufacturer of worsted fabrics and wool blends, the company enjoys 65% market share. It had 1219 (800 retail outlets branded as The Raymond Shop (TRS), 68 MTM and 299 EBO) over 2.15 sq. ft. as on March 31, 2018, spread across India. Over the years, apart from its flagship brand, Raymond has also developed various other brands in apparel segment like Raymond Ready-to-Wear, Park Avenue, ColorPlus and Parx. Furthermore, Raymond is also present in the engineering segment, where it manufactures tools (including steel files) and, hardware and automotive components and is the leading manufacturer of steel files, with a domestic market share of about 65% in FY17.

Experienced promoter group and management: The promoter group of Raymond has been in the textiles business since decades and has also been closely involved in the management of operations in addition to defining and monitoring the business strategy. The promoters are supported by a well-qualified and experienced management team. 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 in making Raymond an internationally reputed fabric to fashion player. The promoters are supported by a well-qualified and experienced management team.

Diversified revenue stream along with complete vertical integration: On a consolidated level, the revenue profile is well-diversified and fairly distributed across its segments. It has significant presence in Branded Textiles (Suiting, Shirting fabrics, and Made to Measure; 48% of revenue in FY18 & FY17), Branded Apparel (24% in FY18 and 22% in FY17), Garmenting (11% each in FY18 & FY17), Shirting (10% in FY18 and 9% in FY17), and Engineering (containing auto components and tools and hardware; 10% in FY18 and 9% in FY17) businesses. Furthermore, Raymond's clothing business operations (comprising Textiles, Garmenting, Denim & Shirting and Apparel) are vertically integrated across the complete

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

value chain from fabric to garments to branded apparel to retail. This integrated setup gives Raymond significant operational flexibility and an ability to rationalize costs by managing dependence on outsourced vendors.

Widespread distribution network: Raymond has one of the largest retail networks in the textile space in India with a retail store network of 1,219 stores (800 retail outlets branded as The Raymond Shop (TRS), 68 Made to Measure (MTM) and 299 Exclusive Brand Outlets (EBO)) and dedicated retail space of 2.15 million sq. ft. as on March 31, 2018. Raymond, via pan India presence, retails its products through a distribution network of more than 20,000 touch-points in 600 cities and towns reached through 165 wholesalers, 3300 multi-brand outlets (MBO), 1080 exclusive 'The Raymond Shop' outlets, and 800 LFS.

Adequate liquidity profile despite deterioration in current ratio*:* Over the past few years, Raymond Group's short term liabilities (including borrowings, customer advances and creditors) have increased leading to moderation of current ratio which witnessed a decline viz. 0.99x as on March 31, 2018 and 1.04x as on March 31, 2017 vis-à-vis 1.29 as on March 31, 2016. However, the group continues to enjoy adequate liquidity position as can be seen from its low working capital utilization (29% of average utilization in the past 12 months ending June 2018). Its liquidity risk is further mitigated on account of sizeable treasury investments and cash aggregating Rs.432.63 crore as of March 31, 2018 (comprising of current investments of Rs.335.00 crore, non-current investments in tax free bonds and venture capital funds aggregating Rs.70.84 crore, and unencumbered cash balance of Rs.26.79 crore).

Moderate financial risk profile: Raymond Group's financial risk profile has remained moderate over the past with overall gearing in the range of 1.20x to 1.30x in the past three years ending March 31, 2018. Due to increase in profitability, interest coverage ratio improved to 2.67x in FY18 vis-à-vis 2.03x in FY17 and 2.53x in FY16, however FY17 ratio was impacted due to demonetization.
Furthermore, total debt to gross cash accruals improved to 7.32x as on March 31, 2018 vis-à-vis 12.28x as on March 31, 2017 and 8.70x as on March 31, 2016.
Furthermore, its debt service coverage ratio continues to be below unity on consolidated levels. Nonetheless, comfort is derived from the Group's established brand and financial flexibility by way of strong refinancing capability and also option to monetize non-core assets (~120 acres of land in Thane, Maharashtra). Furthermore, Raymond has consistently maintained an adequate liquidity position along with a sizeable liquid investments portfolio which adds strength to its debt servicing capability.

Stable operational performance: Being a market leader in worsted suiting fabrics as well as having established apparel brands and a wide spread distribution network, Raymond's operational performance has remained stable with consistent growth across all textile segments. In FY18, the company reported growth of 11% to Rs.6006 crore
During FY17, despite demonetization and GST rollout affecting industry demand, Raymond achieved a ~3% year on year growth in total operating income as well as like-to-like store sales in FY17. Furthermore, with innovative product launches such as 'Techno Smart' and 'Techno Stretch', intelligent product mixes and streamlined advertising setup, Raymond Group achieved growth in revenue in FY18.

Key Rating Weaknesses

Susceptibility to adverse movements in input costs:
Volatility in wool, cotton, and other raw material prices has also led to fluctuations in operating margin. In fiscal 2018 and 2017, sharp and sustained increase in cotton and wool prices, a key raw material, led to erosion in gross margins. Also, Raymond imports bulk of its wool requirement from Australia and New Zealand, and thus, faces currency volatility as well.

Intense Competition from organized and unorganized sector in the branded apparel segment:
Raymond faces 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.

Analytical approach: For arriving at the ratings, CARE has considered the consolidated financials of the group owing to operational and financial linkages between the parent and various subsidiaries, common management and fungible cash-flows.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

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, apparel retailing, auto components and engineering files & tools amongst others. Raymond, on a standalone basis, is mainly engaged into fabric manufacturing with total production capacity of approximately 38 million meters per annum.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	5,410	6,006
PBILDT	361	529
PAT	27	142
Overall gearing (times)	1.24	1.29
Interest coverage (times)	2.03	2.67

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

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	-	-	-	535.00	CARE AA; Stable
Non-fund-based-Short Term	-	-	-	340.00	CARE A1+
Fund-based - LT-Term Loan	-	-	December 2020	490.00	CARE AA; Stable
Fund-based-Short Term	-	-	-	50.00	CARE A1+
Fund-based - ST-Factoring/ Forfeiting	July 24, 2018	-	-	250.00	CARE A1+
Commercial Paper	-	-	-	550.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	535.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)	1)CARE AA (18-Oct-16)	1)CARE AA (27-Jul-15)
2.	Non-fund-based-Short Term	ST	340.00	CARE A1+	-	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (19-Apr-17)	1)CARE A1+ (18-Oct-16)	1)CARE A1+ (27-Jul-15)
3.	Fund-based - LT-Term Loan	LT	490.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)	1)CARE AA (18-Oct-16)	1)CARE AA (27-Jul-15)
4.	Commercial Paper	ST	550.00	CARE A1+	-	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (09-Oct-17)	1)CARE A1+ (18-Oct-16)	1)CARE A1+ (27-Jul-15)
5.	Fund-based-Short Term	ST	50.00	CARE A1+	-	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (19-Apr-17)	1)CARE A1+ (18-Oct-16)	1)CARE A1+ (27-Jul-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (12-Apr-16)	1)CARE AA (27-Jul-15)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (01-Apr-15)

8.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (18-Oct-16)	1)CARE AA (27-Jul-15)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (19-Apr-17)	1)CARE AA (18-Oct-16)	1)CARE AA (27-Jul-15)
10.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (12-Apr-16)	1)CARE AA (27-Jul-15)
11.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)	1)CARE AA (18-Oct-16)	1)CARE AA (27-Jul-15)
12.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)	1)CARE AA (18-Oct-16)	1)CARE AA (22-Feb-16)
13.	Debentures-Non Convertible Debentures	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)	-	-
14.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (26-Mar-18)	-	-
15.	Fund-based - ST-Factoring/ Forfeiting	ST	250.00	CARE A1+	-	-	-	-

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