Raymond Apparel Limited
April 3, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	420.00 (enhanced from 170.00)	CARE A+ (Under Credit watch with Developing Implications)	Continues to be on Credit watch
Short term Bank Facilities	44.00 (enhanced from 30.00)	CARE A1+ (A One Plus) (Under Credit watch with Developing Implications)	Continues to be on Credit watch
Total Facilities	464.00 (Rs. Four hundred and Sixty four crore 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 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.

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.

The ratings assigned to the bank facilities of Raymond Apparel Limited (RAL) 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; /CARE A1;Under Credit watch with developing implications)), and wide distribution network.

These rating strengths, are however, tempered by moderation in profitability, average debt metrics, working capital intensive nature of operations, 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.

Rating Sensitivities

Positive:

- Improvement in credit profile of the parent Company
- Increase in EBIDTA margins above 8% on sustained basis

Negative:

- Further increase in operating cycle with gross current assets increasing to 250 days and above on sustained basis
- 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, (rated CARE AA; /CARE A1;Under Credit watch with developing implications), under credit watch with developing implications) 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 and tools and private aviation services. 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.careratings.com and other CARE 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 etc.

Widespread distribution network: Being part of the Raymond group, RAL enjoys a widespread distribution network across formats comprising of 411 exclusive brand outlets as well as 1106 The Raymond Shops (TRS) as on December 31st, 2019[as against 378 EBOs and 1056 TRS as on September 2019]. In addition to TRS and EBOs, RAL also retails through independent retailers, 5200+ Multi brand outlets (MBOs) and other large format stores and has presence on online portals. RAL commands a total retail space spanning 2.4 mn sq ft with 1584 domestic retail stores as at December 31, 2019 of which 70-75% are on franchisee model. The Company is expanding its retail footprint primarily on franchisee basis; with 99% stores opened in Q3 under the franchisee model. The rental cost to total sales for RAL in FY 19 was 6.22% as compared to 6.99% in FY18.

Operational and financial linkages with Raymond: Raymond Apparel comprises for around 25% of Raymond's consolidated revenues and holds strategic importance. Also, RAL generated sales of about 4.09% from Raymond Group in FY19 (previous year 4.80%). 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 (CCPS-outstanding as on March 31, 2019-Rs.34.30 crore). Raymond also extends support to RAL through inter-corporate deposits (ICDs) during the year. In FY19, Raymond had extended ICDs worth Rs.348crore (vis-à-vis Rs.385 crore in FY18) and repaid Rs. 348 crore during the year and balance as on March 31, 2019 was Rs.30 crore. RAL also had ICDs from JK Talbot Limited amounting Rs.10.00 crore outstanding at the end of March 31, 2019. The funds were utilised for working capital requirements of the company to reduce dependence on working capital bank borrowings.

Key Rating Weaknesses

Moderation in financials

The company reported a y-o-y growth of 16% in total operating income i.e. from Rs.1408 crore in FY18to Rs.1634 crore in FY19. Profitability remained stable albeit modest with PBILDT margins at 4.73% in FY 19. The profitability has suffered in 9MFY20, with RAL posting a net loss of Rs. 4.54 crores for 9MFY20 .

Due to promoter support in the form of compulsorily convertible preference shares (being treated as quasi equity) and inter-corporate deposits reducing reliance on external working capital borrowings, RAL's capital structure has remained comfortable over the years. RAL had no term loan from banks or financial institutions as on March 31, 2019. Overall gearing remained stable at 0.90x as on March 31, 2019 as against 0.84x as on March 31, 2018. The debt coverage metrics marginally improved with interest coverage ratio at 2.76x in FY19 (vis-à-vis 2.65x in FY18) and total debt to GCA also remained stable at at 7.37x as on March 31, 2019.

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 55 days. Thus the operations continue to remain working capital intensive. Further due to opening of 50+ stores in FY19 and increase in overall business led to significant built up of inventory and receivable levels at the end of March 31, 2019. The gross and net working capital cycle days were 208 days and 100 days, respectively in FY19 vis-à-vis 186 days and 110 days, respectively in FY18. The company has taken short term loans for working capital purpose.As per the banker the consortium is looking at enhancement in working capital limits.In absence of the same roll over of short term loans remains a key rating monitorable.

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.

Analytical approach: Standalone and factoring in operational synergy and financial linkages with its parent cum holding company, Raymond Ltd (rated CARE AA /A1+ Placed on Credit watch with developing implications) has been considered.

Liquidity: Adequate RAL has an operating cycle of100 days with average working capital limits utilisation at 71% over 12 months ending January 2020. The company had cash accruals of Rs. 36.75 crore in FY19 with no debt repayment obligations. The company does not have any major capex plans. 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.

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Rating Criteria for Short Term Instruments]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Rating Methodology - Organized 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 (Raymond, rated CARE AA; / CARE A1+; Under credit watch with developing implication). 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.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-411 stores as on December 30, 2019 vis-à-vis 378 stores in September 2019), the Raymond shop, multi brand outlets and other independent retailers. Its brands are Park Avenue, Parx, Raymond Ready to Wear, Colorplus, Ethnix & Next Look. The company mainly retails Shirts (44.76% of total revenue in FY19), trousers (19.00% of total revenue in FY19) and suits (10.49% of total revenue in FY19).

Brief Financials (Rs. crore)	**FY18 (A)**	**FY19 (A)**
Total operating income	1408.34	1634.11
PBILDT	58.41	77.34
PAT	13.74	22.00
Overall gearing (times)	0.84	0.90
Interest coverage (times)	2.65	2.24

A=Audited
Status of non-cooperation with previous CRA: Nil
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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-Working Capital Limits	-	-	-	420.00	CARE A+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	44.00	CARE A1+ (Under Credit watch with Developing Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	-	-	1)CARE A1+ (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE A1+ (04-Jan-19)	1)CARE A1+ (15-Mar-18)	1)CARE A1+ (01-Mar-17) 2)CARE A1+ (12-Apr-16)

2.	Fund-based - LT-Working Capital Limits	LT	420.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE A+; Stable (04-Jan-19)	1)CARE A+; Stable (15-Mar-18)	1)CARE A+; Stable (01-Mar-17) 2)CARE A+ (12-Apr-16)
3.	Non-fund-based - ST-BG/LC	ST	44.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE A1+ (04-Jan-19)	1)CARE A1+ (15-Mar-18)	1)CARE A1+ (01-Mar-17) 2)CARE A1+ (12-Apr-16)

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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