Raymond Apparel Limited

November 18, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	170.00	**CARE A+ (Single A Plus) (Credit watch with developing implications)**	**Placed on credit watch with developing implications**
Short term Bank Facilities	30.00	**CARE A1+ (A One Plus) (Credit watch with developing implications)**	
Total bank facilities	**200.00 (Rs. Two hundred crore only)**		
Proposed Commercial Paper*	50.00	**CARE A1+ (A One Plus) (Credit watch with developing implications)**	**Placed on credit watch with developing implications**

*Details of instruments/facilities in Annexure-1, *Will be carved out of working capital limits*

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the instruments and bank facilities of Raymond Apparel on credit watch with developing implications as a result of its proposed merger with Raymond Limited and also following a similar action on the ratings of Raymond Limited.

On November 7, 2019, the board of RL approved and announced restructuring of the Raymond group wherein the lifestyle businesses (Branded textile, Branded apparel 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/debt instruments of Raymond Apparel Limited (RAL) continues to derive comfort from being part of well-established Raymond group, well-known brand portfolio, operational synergies and financial linkages with the group and its parent i.e. Raymond Limited, and wide distribution network.

These rating strengths, are however, tempered by elongated working capital cycle, moderate debt coverage metrics, 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 ability of the company to improve operating profitability and/or any further increase in working capital cycle from current levels and continued support from the parent/promoter group remain key rating sensitivities.

Detailed description of the key rating drivers - The below analysis is based on our previous PR dated January 4, 2019 as CARE is not in receipt of updated information.

Key Rating Strengths

Part of well-established promoter group: RAL is a wholly owned subsidiary of Raymond Limited, (rated CARE AA; stable)/ CARE A1+) 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 , , , etc.

Widespread distribution network: Being part of the Raymond group, RAL enjoys a widespread distribution comprising of 322 exclusive brand outlets as well as 893 The Raymond Shops (TRS) as on September 30, 2018. In addition to TRS and EBOs, RAL

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

also retails through independent retailers and other large format stores. EBO's stores stands at 322 stores as on Sept 30, 2018 vis-à-vis 257 stores in FY17 and 235 stores in FY16.

Operational and financial linkages with Raymond: Raymond Apparel comprises for around 20% of Raymond's consolidated revenues and forms important piece in the overall business strategy. Also, RAL generated sales of about 4.8% from Raymond Group in FY18 (previous year 6.68%). Moreover, RAL continues to get financial support from Raymond in the form of preference shares/debentures/ inter-corporate deposits (ICDs)/etc. to take care of business requirements.

Improved operational performance: RAL reported a y-o-y growth of 12% in total operating income to Rs.1408 crore in FY18 due to increasing brand recognition and presence in t2 and t3 cities. Further, driven by reduction in advertising and discretionary expenses, PBILDT margin improved from 2.39% in FY17 to 4.15% in FY18 though it was lower compared to PBILDT margin of 6.92% in FY16. Besides, it posted PAT of Rs.13.74 crore in FY18 vis-à-vis loss of Rs.67.52 crore in FY17.

Adequate capital structure

Overall gearing remained stable at 0.84x as on March 31, 2018 as against 0.92x as on March 3, 2017. 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, 2018.

Key Rating Weaknesses

Elongated working capital 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 collection period on an average is around 45 days. Thus the operations continue to remain working capital intensive. Further led by pickup in demand for branded apparel in Feb 2018 & Mar 2018 due to wedding season resulted in built of inventory levels as well as higher receivables thereby leading to increase in gross and net working capital cycle days to 186 days and 110 days, respectively in FY18 vis-à-vis 149 days and 100 days, respectively in FY17.

Moderate debt coverage metrics: Debt coverage metrics marginally improved with interest coverage ratio at 2.65x in FY18 (vis-à-vis 1.61x in FY17) and total debt to CGA at 7.21x as on March 31, 2018 (vis-à-vis Negative TDGCA as on March 31, 2017). due to improved profitability.

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.

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.

Analytical approach: For arriving at the ratings, CARE has considered standalone audited financial statements for FY18 (A). Furthermore, the operational synergies and financial linkages with Raymond Group and parent company i.e. Raymond Limited has been considered.

Liquidity *Analysis- Adequate*

Fund based working capital limits are 69% utilized during 12 months ended November 2018 and usage has increased due to rise in working capital needs. Liquidity is strengthened as RAL receives regular funding support from its parent, Raymond, which is the flagship and holding company of the Raymond group. Raymond has access to capital markets /banking channels and has demonstrated fund raising in the past and is expected to continue doing so. Furthermore, RAL does not have any term loans as on September 30, 2018.

Rating Sensitivities

Positive Factors

- Improvement in ROCE to 16.00% on sustained basis

Negative Factors

- Downgrade in rating of the parent
- Weakening of linkages with parent company i.e Raymond Limited

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
Criteria for Short Term Instruments
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Incorporated in 1948, Raymond Apparel Ltd (RAL; erstwhile Solitaire Fashion Ltd (SFL)) is a wholly owned subsidiary of Raymond Ltd . In FY10 (refers to the period April 1 to March 31), RAL was amalgamated into SFL and subsequently SFL was renamed as RAL. RAL is engaged into manufacturing of branded apparel on job work basis and retailing of the same through its own exclusive brand outlets (EBOs-322 stores as on September 30, 2018 vis-à-vis 257 stores in FY17), the Raymond shop, multi brand outlets and other independent retailers. It has brands such as Park Avenue, Parx, Colorplus and Raymond Ready to Wear. The wholly owned subsidiary of RAL, Colorplus Fashions Ltd (CFL) is engaged in manufacturing and retailing of men's casual ready-to-wear apparels under the 'Colorplus' brand. RAL and CFL entered into a composite scheme of arrangement to demerge entire business of CFL and subsequently merge the business into RAL. The scheme has been sanctioned by the National Company Law Tribunal, Mumbai Bench, and is effective from August 1, 2017.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total operating income	1255.14	1408.34
PBILDT	29.94	58.41
PAT	-67.52	13.74
Overall gearing (times)	0.92	0.84
Interest coverage (times)	1.61	2.65

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

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	-	-	-	170.00	CARE A+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	30.00	CARE A1+ (Under Credit watch with Developing Implications)
Proposed Commercial Paper	-	-	7 days to 364 days	50.00	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	50.00	CARE A1+ (Under Credit watch with Developing Implications)	-	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-Cash Credit	LT	170.00	CARE A+ (Under Credit watch with Developing Implications)	-	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	30.00	CARE A1+ (Under Credit watch with Developing Implications)	-	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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