Raymond Limited

July 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debentures	395 (Rs. Three Hundred and ninety five crore only)	**CARE AA (Double A) Credit watch with developing implications**	**Assigned**
Proposed Non-Convertible Debentures	55 (Rs. Fifty five crore only)	**CARE AA (Double A) Credit watch with developing implications**	**Reaffirmed**

Other Ratings:

Facilities	Amount (Rs. crore)	Rating[2]
Long-term Bank Facilities	723.50	CARE AA (Double A) Credit watch with developing implications
Short-term Bank Facilities	941.50	CARE A1+(A One Plus) Credit watch with developing implications
Total Facilities	**1665.00 (Rupees One Thousand Six Hundred and Sixty Five crore only)**	
Non-Convertible Debentures	145.00 (Rupees One Hundred and Forty Five crore only)	CARE AA (Double A) Credit watch with developing implications
Commercial Paper	550.00 (Rupees Five Hundred Fifty Crore only)	CARE A1+ (A One Plus) Credit watch with developing implications

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and various instruments of RL continue to derive strength from its dominant position in the worsted suiting segment, integrated presence across the textile value chain along with diversified revenue stream, widespread distribution network supplemented by asset-light retail strategy, presence of established brands in the apparel segment, experienced promoter group & management and satisfactory liquidity.

These rating strengths are however, tempered by lower than envisaged financial and operating performance and margin contraction in FY20; expectation of subdued performance continuing till FY 21, working capital intensive nature of operations, 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 especially in the branded apparel segment and demand risks associated with real estate.

RL has obtained a moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

The rating also factors impact of Covid19 lockdown on financial and business profile of Raymond Limited. Approx. 80% of the retail outlets which were closed since March 2020 have opened up at the end of June 2020. The company's manufacturing units have also resumed post gradual relaxation in the lockdown albeit at a significantly lower capacity utilisation. The

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

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company has taken various cost control initiatives like manpower and salary rationalization, rationalization in sales and advertising expenses and lease rental negotiations which are expected to aid operating margins.

The ratings assigned to the instruments and bank facilities of Raymond Limited (RL) continue to remain on credit watch with developing implications. 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 to a separate listed entity (Raymond Lifestyle). 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.

According to the management the demerger process is expected to take about 6-9 months subject to necessary statutory and regulatory approvals.

CARE will take a final view on the ratings, once the exact implications of the above development on the business and overall credit profile of the company are clear.

Key Rating Sensitivities:

Positive

* Sustained improvement in operating performance with PBILDT margin at 12% on sustained basis
* Significant debt reduction leading to improvement in debt metrics with total debt/EBIDTA below 2x

Negative

* Significant reduction in available liquid investments
*Increase in working capital intensity with the company reporting negative cash flow from operations
*NCD (INE301A07011) amounting to Rs.65.00 crore has a coupon reset clause by 25bps for every notch downgrade in the external credit rating below AA-. It also has an option of accelerated prepayment if the rating falls below A.

Detailed description of the key rating drivers

Key Rating Strengths

Dominant position in the worsted suiting segment: A strong brand image with a long track record of nearly a century assisted by a large retail network has aided RL emerge as one of the leading players in the worsted suiting business. It is India's largest manufacturer of worsted fabrics and wool blends having a dominant market share.

Diversified revenue stream coupled with integrated presence across the textile value chain: The group has largely an integrated presence across the textile value chain right from yarn manufacturing to suiting and shirting fabrics to garments to denim to apparel and retailing. This integrated setup gives RL operational flexibility to rationalise costs by managing dependence on outsourced vendors.

Over the years, apart from its flagship brand, RL has also developed various other brands like Raymond Ready-to-Wear Apparel, Park Avenue, Colorplus and Parx. Furthermore, RL 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. In Q4FY19 the group entered into the realty business with a new division Raymond realty which has an on-going development of 20 acres of its Thane land parcel. The group also has presence in denim mfg. and FMCG through its JVs and associates.

Hence, on consolidated level, Raymond's revenue profile is well diversified and fairly distributed across segments. In FY20, Indian operations contributed 84% to the total revenues and the balance from overseas operations.

Widespread distribution network supplemented by asset-light retail strategy: In India, Raymond alongwith its subsidiary Raymond Apparel Limited (RAL) has one of the largest retail networks of 1,638 stores across all formats and dedicated retail space of 2.50 million sq. ft. as on March 31, 2020. Furthermore, of the branded apparels and made to measure (EBOs and MTM), more than 75% are on franchise basis whereas around 95% of The Raymond stores (TRS) are on franchise basis.

Experienced promoter group and management: The promoter group has been in textiles business since decades and has also been closely involved in the defining and monitoring the business strategy. Mr Gautam Singhania (Chairman & Managing Director of RL) has been on the board since 1990. He has restructured the group, sold RL's non-core businesses (synthetics, steel and cement) and focused on making RL an internationally reputed fabric to fashion player. Furthermore, Raymond group has a qualified management team comprising of industry personnel with over decades of relevant consumer experience.

Key Rating Weaknesses

Financial and operating performance in FY 20 not as envisaged: The key performance parameters for FY 20 were not as envisaged at the time of previous review. RL's turnover PBILDT (pre IND AS) in absolute terms was down by 37% at the end of

FY 20 as compared to FY19. PBILDT margins also contracted to 6.7% from 10.50% (Pre IND AS).However the group's gross debt stood at Rs.2429 Crs at the end of March 2020.(as compared to Rs. 2420 at the end of December 2019) as expected. The subdued performance in Q4 FY20 is attributable to the lockdown due to Covid 19 and stock correction in the apparel business.

Adverse impact of Covid-19 pandemic on textile sector: The closure of retail stores and malls on account of lockdown situation across the nation will affect textile industry's sales. On the international front, spread of Covid-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted in closure of retail stores and malls there.
As per RL, currently 1332 of its Raymond stores have opened post lockdown. On the manufacturing side, garmenting plants, tools and auto components plants have partially opened while suiting and shirting mfg. plants continue to remain shut.
Even after the lockdown is lifted, gradual and delayed recovery is likely in consumer demand given the relatively discretionary nature of the apparel products in the backdrop of likely economic slowdown. The strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand will constrain revenues and earnings of the sector. Further, in medium to long term, some demand from US and EU market is expected to shift gradually from China to other major garmenting manufacturers including India to reduce dependence on China.

Decline in share price in the past year exacerbated by Covid 19
Over the uncertainty w.r.t Covid-19, entire global capital markets have been declining sharply and the Indian market has also witnessed a sharp decline. In the past 1 year, i.e. from June 2019, the share price of Raymond Limited has declined by over 60% while Sensex has moved adversely by 11% in the same period. Consequently the market capitalization of the company has also weakened thus curtailing its financial flexibility.

Working capital intensive nature of operations: Average gross and net working capital cycle remained stable at 191 days and 106 days respectively in FY19 vis-à-vis 171 days and 106 days respectively in FY18. Furthermore, average collection period remained comfortable at 65 days in FY19 vis-à-vis 66 days in FY18. Current ratio is weak albeit stable at 0.96x as on March 31, 2019 vis-a-vis 0.98x on March 31, 2018. Thus, operations continue to be working capital intensive and fund based utilization on an average for the last 12 month period ending May 2020 stood at 87%.

Susceptible to commodity price risk as well as foreign exchange fluctuation risk:
For Raymond, the cost of raw materials (including wool, cotton and polyester) constitutes around 43% of cost of sales in FY19 (vis-à-vis 44% in FY18 and 43% in FY17). In the past, the prices of raw materials have been volatile exposing the company to commodity price risk. Domestic cotton price declined by 7% to 13% during first 6 months of Cotton Season 2019-20 (Oct'19-Mar'20) on y-o-y basis backed by higher output, fall in international prices and weak export scenario. Wool prices have also seen a downward trend during the same period.
Nonetheless, being an established brand, Raymond is able to alter its product mix accordingly and pass on the increase in costs which partially mitigate the commodity price fluctuation.
Raymond is exposed to foreign exchange fluctuation risk via export driven sales in its garmenting and engineering segments as well as exports in branded textiles and branded apparels. It is partly balanced by raw material imports in foreign currency (around 45% of its total raw material requirement procured from overseas).

Intense competition from organized and unorganized sector in the branded apparel segment: RL faces intense competition in the branded apparel space from other established players like Allen Solly, Louis Philippe, Van Heusen, Arrow, Siyaram, US Polo, Blackberry, Zodiac, etc. and is also vulnerable to changes in fashion trends as well as consumer spending habits. RL's apparel business has been affected by the continuing economic slowdown. Both primary and secondary sales saw slowdown in receivables and inventory pile up at the end of Q3FY20. There was aggressive discounting in all its channels leading to dip in profitability during this period. However, Raymond limited with its widespread distribution network and strong brand image is expected to sustain its operating performance.

Exposure to Demand Risk in Real Estate:
RL owns ~ 100 acres land in Thane of which ~ 20 acres of land is being developed as a residential project. The project was launched in Q4FY19. In Phase 1 the company on 14 acre land parcel is developing 10 towers (2.7 mn sq.ft. saleable and 2960 apartments). The company received RERA registration for 6 towers. The towers are located in a prime location in Thane at an attractive price point. The total bookings at the end of FY20 stood at 950 and amounted to Rs. 960 Crs for 6 towers with an inventory of 1530 units. The project has received Rs. 220 crores in customer collection till FY20on a cumulative basis since inception. However, the project remains exposed to demand as well as implementation risks. Timely completion of the project and offtake remain key monitorables.

Liquidity: Adequate Liquidity continues to be satisfactory, marked by sizeable unencumbered treasury investments in mutual funds and fixed deposits (including cash and bank balances) aggregating to Rs.461 crore on standalone basis and Rs. 541 crore on consolidated basis as on May 30, 2020. Against these, RL has maintenance capex requirements of ~ Rs.55 crore and scheduled debt repayments of Rs. 256 crore in FY21. Further, Raymond has already raised NCDs of Rs. 145 crore since April 2020.

Raymond Limited has also opted for moratorium on interest, principal repayments for some of its term loans as well as availed moratorium on interest payment of some of its working capital limits as part of RBI's relief package. This is expected to result in total outflow towards repayments of approx. Rs. 170 crore for FY 21.
The operations continue to be working capital intensive and fund based utilization on an average for the 12 month ending May 2020 stood at 87%.

Analytical approach: Consolidated
List of companies that are consolidated to arrive at the ratings are given in Annexure 3 below.

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: Factoring Linkages in Ratings
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, retailing, auto components, engineering files & tools, real estate etc. The group has about 19 plants located across India. Raymond, on a standalone basis, is mainly engaged into suiting and shirting fabrics with production capacity of approximately 38 million meters per annum and development of real estate. All other businesses are housed largely in wholly owned subsidiaries.

On Nov. 7th 2019, Raymond announced the restructuring of its various businesses whereby the lifestyle business (Branded textile, Branded apparel and garmenting) will be demerged in a separate listed entity Raymond Lifestyle Limited. The existing company Raymond Limited will have real estate business, Thane land bank, B2B shirting business, engineering business, FMCG business and other investment businesses like denim. Appointed date of the transaction will be 1st April 2020.

Brief Financials (Rs. crore)	FY19 (A)[Pre IndAS 116]	FY20 (Abridged)*[Post Ind AS 116]
Total operating income	6691.47	6,578.30
PBILDT	675.52	611.54
PAT	174.77	201.76
Overall gearing (times)	1.22	1.23
Overall gearing(excluding lease liabilities)	1.22	0.99
Interest coverage (times)	2.80	2.94

A: Audited; FY19 financials are classified as per CARE standard; however FY 20 detailed financials are awaited

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
Debentures-Non Convertible Debentures-Proposed	-	-	-	450.00	CARE AA (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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	703.40	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE AA (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE AA (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18) 2)CARE AA; Stable (16-Aug-18)	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)
2.	Non-fund-based-Short Term	ST	340.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE A1+ (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE A1+ (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (19-Apr-17)
3.	Fund-based - LT-Term Loan	LT	20.10	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE AA (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE AA (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18) 2)CARE AA; Stable (16-Aug-18)	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)
4.	Commercial Paper	ST	550.00	CARE A1+	1)CARE A1+	1)CARE A1+	1)CARE	1)CARE A1+

				(Under Credit watch with Developing Implications)	(Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE A1+ (Under Credit watch with Developing Implications) (03-Apr-20)	(Under Credit watch with Developing Implications) (18-Nov-19)	A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)	(18-Jan-18) 2)CARE A1+ (09-Oct-17)
5.	Fund-based-Short Term	ST	351.50	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE A1+ (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE A1+ (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (19-Apr-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (19-Apr-17)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (06-Jul-20) 2)CARE AA (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE AA (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)
9.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (03-Apr-20)	1)CARE AA (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (18-Jan-18) 2)CARE AA; Stable (19-Apr-17)
10.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (06-Jul-20) 2)CARE AA (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE AA (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (26-Mar-18)

11.	Fund-based - ST-Factoring/ Forfeiting	ST	250.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE A1+ (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE A1+ (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE A1+ (07-Dec-18) 2)CARE A1+ (16-Aug-18)	-
12.	Debentures-Non Convertible Debentures	LT	145.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (06-Jul-20) 2)CARE AA (Under Credit watch with Developing Implications) (03-Apr-20)	1)CARE AA (Under Credit watch with Developing Implications) (18-Nov-19)	1)CARE AA; Stable (07-Dec-18)	-
13.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA (Under Credit watch with Developing Implications)	-	-	-	-
14.	Debentures-Non Convertible Debentures	LT	55.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (06-Jul-20)	-	-	-
15.	Debentures-Non Convertible Debentures	LT	195.00	CARE AA (Under Credit watch with Developing Implications)	-	-	-	-

Annexure 3:- Subsidiaries Consolidated

1. Raymond Apparel Limited
2. Pashmina Holdings Limited
3. Everblue Apparel Limited
4. JK Files (India) Limited
5. JK Talabot Limited
6. Colorplus Realty Limited
7. Silver Spark Apparel Limited
8. Celebrations Apparel Limited
9. Scissors Engineering Products Limited

10. Ring Plus Aqua Limited
11. Raymond Woollen Outerwear Limited
12. Raymond Luxury Cottons Limited
13. Dress Master Apparel Private Limited
14. Raymond Lifestyle Limited
15. Jaykayorg AG
16. Raymond (Europe) Limited
17. R&A Logistics Inc.
18. Silver Spark Middle East (FZE)
19. Silver Spark Apparel Ethiopia PLC
20. Raymond Lifestyle (Bangladesh) Private Limited
21. Raymond Lifestyle International DMCC
22. P.T. Jaykay Files Indonesia
23. J.K. Investo Trade (India) Limited
24. Radha Krshna Films Limited
25. Raymond UCO Denim Private Limited

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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