

Raymond Limited

December 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	975.00 (reduced from Rs.1025 crore)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	690.00 (enhanced from Rs.640 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	1665.00 (Rupees One Thousand Six Hundred and Sixty Five crore only)		
Non-Convertible Debentures	350.00 (Rupees Three Hundred Fifty Crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Proposed Non-Convertible Debentures	200.00 (Rupees Two Hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Commercial Paper	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 the ratings assigned to the bank facilities and various instruments of Raymond Limited (Raymond) 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 tempered by moderate financial risk, 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.

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 segment: A strong brand image with a long track record of nearly a century assisted by a large retail network has aided the Raymond 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 Raymond operational flexibility to rationalise costs by managing dependence on outsourced vendors.

Over the years, apart from its flagship brand, Raymond has also developed various other brands like Raymond Ready-to-Wear Apparel, 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 FY18. Hence, on consolidated level, Raymond's revenue profile is fairly diversified and distributed across segments which reduce its cash-flow dependence from any single segment.

Widespread distribution network supplemented by asset-light retail strategy: In India, Raymond has one of the largest retail networks of 1,282 stores (893 retail outlets branded as The Raymond shop (TRS), 67 Made to measure (MTM) and 322 exclusive brand outlets (EBO)) and dedicated retail space of 2.21 million sq. ft. as on September 30, 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 184+ wholesalers.

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

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 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 on making Raymond 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.

Moderate but improved operational risk profile: On consolidated basis, PBILDT improved (in absolute value terms) by 40.62% in FY18 to Rs.529.14 crore consequent into PBILDT margin of 8.81% in FY18 vis-à-vis 6.89% in FY17 due to operational efficiencies and lower advertising expenses. Consequently PAT improved to Rs.141.54 crore in FY18 vis-à-vis Rs.30 crore in FY17. However, ROCE continue to remain subdued although it improved in FY18 over FY17.

In H1FY19, total income increased to Rs.3165 crore from Rs.2856 crore in H1FY18 on account of better overall performance. Similarly PAT also improved to Rs.67 crore in H1FY19 vis-à-vis Rs.56 crore in H1FY18.

Moderate but improved financial risk profile: Total debt/PBILDT and total debt/GCA improved to 4.45x and 7.32x, respectively as on March 31, 2018 vis-à-vis 5.69x and 11.89x, respectively as on as on March 31, 2017 largely due to improved profitability. However total debt has increased to Rs.2340 crore as on March 31, 2018 from Rs.2059 crore as on March 31, 2017 largely due to huge capex in FY18. PBILDT interest coverage improved to 2.68x in FY18 (vis-à-vis 1.98x in FY17) on account of increased PBILDT. Overall gearing has largely remained stable during the last three fiscals and stood at 1.29x as on March 31, 2018 (vis-à-vis 1.24x as on March 31, 2017).

Liquidity: Liquidity comfort is derived through unencumbered treasury investments in mutual funds/ fixed deposits (including cash and bank balances) aggregating to Rs.403 crore as on September 30, 2018 (vis-à-vis Rs.460 crore as on March 31, 2018). Besides, these investments have continued to be in place over a period of time despite subdued profitability at times. Furthermore, fund based working capital limits utilization on an average for the last 12 month period ending September 2018 stood at 84%. Raymond has access to capital markets/banking channels and has demonstrated fund raising/refinancing abilities and is expected to continue doing so. In FY17 & FY18, long term debt has been repaid mainly through fund raising/refinancing as free cash flow from operations (FCFO) were negative due to huge capex incurred. Furthermore, debt service coverage ratio for FY19 is below unity and repayment obligations are expected to be met through a combination of internal accruals/fund raising/refinancing/etc. Also, 2019 onwards, capex intensity is expected to come down and long term debt is expected to be repaid largely from operating cash-flows.

Key Rating Weaknesses

Working capital intensive nature of operations: Average gross and net working capital cycle remained stable at 171 days and 106 days respectively in FY18 vis-à-vis 169 days and 114 days respectively in FY17. This has led to moderation in current ratio which stood at 0.98x as on March 31, 2018 vis-à-vis 1.04x as on March 31, 2017 and 1.29 as on March 31, 2016. Thus operations continue to be working capital intensive and fund based utilization on an average for the last 12 month period ending September 2018 stood at 84%.

Susceptible to commodity price risk as well as foreign exchange fluctuation risk: The cost of raw materials (including wool, cotton and polyester) constitutes around 44% of cost of sales in FY18 (vis-à-vis 44% in FY17 and 42% in FY16). In the past, the prices of raw materials have been volatile exposing the company to commodity price risk.

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. It is partly balanced by raw material imports in foreign currency (around 45% of its total raw material requirement procured from overseas). Furthermore, the company actively manages its currency risk by hedging a considerable amount of its net exposure.

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, Van Heusen, Arrow, Siyaram, 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 audited consolidated financial statements published in the annual report during FY18. Raymond has various subsidiaries including Raymond Apparel Limited (CARE A+), Silver Spark Apparel Limited (CARE A), Raymond Luxury Cottons Limited (CARE A-), Ring Plus Aqua Limited (CARE A+), J.K. Files (India) Limited (CARE A; Stable/ CARE A1), Celebrations Apparel Limited (CARE BBB / CARE AA- (SO)), amongst others and associates and joint ventures. These companies are fully consolidated due to operational and financial linkages, fungible cash-flows, common management and support provided by Raymond to various subsidiaries/associates/etc. List of companies that are consolidated to arrive at the ratings are given in Annexure 3 below.

Applicable Criteria

[Criteria on assigning Outlook 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](#)
[Rating Methodology for Cotton Yarn Industry](#)

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, etc. The group has about 19 plants located across India and 3 plants overseas. Raymond, on a standalone basis, is mainly engaged into suiting and shirting fabrics with production capacity of approximately 38 million meters per annum. All other businesses are housed largely in wholly owned subsidiaries.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	5463.44	6,006.40
PBILDT	376.27	529.14
PAT	30.01	141.54
Overall gearing (times)	1.24	1.29
Interest coverage (times)	1.95	2.67

A: Audited; Financials are classified as per CARE standards

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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****For detailed Rationale Report and subscription information, please contact us at www.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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	440.00	CARE AA; Stable
Fund-based-Short Term	-	-	-	100.00	CARE A1+
Fund-based - ST-Factoring/ Forfeiting	-	-	-	250.00	CARE A1+
Debentures-Non Convertible Debentures	February 10, 2016	9.52%	10/04/2019	100.00	CARE AA; Stable
Debentures-Non Convertible Debentures	April 21, 2017	8.35%	21/04/2020	150.00	CARE AA; Stable
Debentures-Non Convertible Debentures	March 27, 2018	8.65%	26/03/2021	100.00	CARE AA; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	200.00	CARE AA; Stable
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 (16-Aug-18)	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+ (16-Aug-18)	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	440.00	CARE AA; Stable	1)CARE AA; Stable (16-Aug-18)	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+ (16-Aug-18)	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	100.00	CARE A1+	1)CARE A1+ (16-Aug-18)	1)CARE A1+ (18-Jan-18)	1)CARE A1+ (18-Oct-16)	1)CARE A1+ (27-Jul-15)

					18)	2)CARE A1+ (19-Apr-17)		
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+	1)CARE A1+ (16-Aug- 18)	-	-	-
16.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	-	-	-	-

Annexure-3: Details of companies

Sr no.	Name of company		Ownership
1.	Raymond Apparel Limited	Domestic subsidiary	100%
2.	Pashmina Holdings Limited	Domestic subsidiary	100%
3.	Everblue Apparel Limited	Domestic subsidiary	100%
4.	JK Files (India) Limited	Domestic subsidiary	100%
5.	Color Plus Fashions Limited	Domestic subsidiary	100%
6.	Silver Spark Apparel Limited	Domestic subsidiary	100%
7.	Celebrations Apparel Limited	Domestic subsidiary	100%
8.	Ring Plus Aqua Limited	Domestic subsidiary	89.07%
9.	Scissors Engineering Products Limited	Domestic subsidiary	100%
10.	JK Talabot India	Domestic subsidiary	90%
11.	Raymond Wollen Outerwear Limited	Domestic subsidiary	99.54%
12.	Raymond Luxury Cottons Limited	Domestic subsidiary	75.69%
13.	Dress Master Apparel Private Limited	Domestic subsidiary	100%
14.	Jaykayorg AG	Foreign subsidiary	100%
15.	Raymond (Europe) Limited	Foreign subsidiary	100%
16.	R&A Logistics Inc.	Foreign subsidiary	100%
17.	Raymond Lifestyle	Foreign subsidiary	100%
18.	Silver Spark Middle East (FZE)	Foreign subsidiary	100%
19.	Silver Spark Apparel Ethiopia PLC	Foreign subsidiary	100%
20.	P.T. Jaykay Files Indonesia	Associate company	39.20%
21.	J.K. Investo Trade (India) Limited	Associate company	47.66%
22.	Radha Krshna Films Limited	Associate company	25.38%
23.	Raymond UCO Denim Private Limited	Associate company	50%

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