

Result Update

CMP : INR 498
Rating : Buy
Target : INR 644

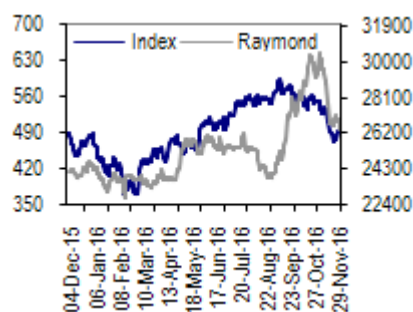
KEY DATA

Market Cap (INR bn)	30.6
Market Cap (USD mn)	443.0
52 WK High / Low	654/351
Half Yr Avg Vol. (NSE+BSE) (INR mn)	280.38
Face Value (INR)	10

BSE Sensex	26,394
Nifty	8,142
BSE Code	500330
NSE Code	RAYMOND
Reuters Code	RYMD.BO
Bloomberg Code	RW IN

Shareholding %	2Q	1Q	4Q
Promoters	43.0	42.4	42.2
MF/Banks/Indian FIs	14.3	13.4	13.5
FII/ NRIs/ OCBs	7.5	6.7	6.9
Indian Public	35.3	37.5	37.4

Performance Chart



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Raymond Ltd.

Raymond Ltd. (RYMD) reported a decent set of numbers for Q2FY17. While the company delivered on the topline front posting sales of Rs 15.54bn, up 12% Y-o-Y, profitability suffered as EBITDA margin contracted by 172bps Y-o-Y to 6.6%. Diluted earnings per share shot up by 367% Y-o-Y to Rs 4.33 benefitting from higher other income which grew by 37% Y-o-Y to Rs 304mn and lower extra-ordinaries. The top line benefited from good off take during the festivities and the wedding season. However the costs went up due to higher raw material costs (cotton prices were up 41% while wool prices were up 11% Y-o-Y) and adverse AUD/INR movement during the quarter (up 7% Y-o-Y). On the other hand, Ad spends shot up to 5.6% of sales in FY17 (Up from 3.8% in FY16) mainly due to campaigns such as trouser exchange and Raymond white, which were somewhat compensated by operational efficiencies and lower utility costs. Employee costs went up 19% Y-o-Y in Q2FY17 due to statutory, bonus and standard increments.

The textile division, which acts as the cash cow of RYMD posted good numbers in Q2FY17 as sales grew 12% Y-o-Y to Rs 7.79bn quarter on the back of marriage and the festival season. Sales of suiting grew by 10% Y-o-Y with 7% volume growth and B2C shirting grew by 23% with volume growth of 32% with newly launched Technosmart fabric being the key driver. EBITDA margin contracted by 231bps Y-o-Y to 16.2% due to increase in raw material cost, higher Advertising & Promotion (A&P) spends and employee cost.

The Apparel segment grew by 17.9% Y-o-Y led by growth across brands. EBITDA margin improved marginally by 17bps to -1.3% in Q2FY17 despite lower gross margins, which were impacted by higher cotton prices and excise duty. The total exclusive network stores of RYMD at the end of Q2FY17 stood at 1,150 stores. The like-to-like secondary sales growth stood at 17% Y-o-Y during the quarter. The company plans to continue with its plan to renovate 45 to 50 stores during FY16-17. The company has completed renovation of 101 stores and 40 stores were under renovation at the end of September 2016. The average same-store sales growth for the renovated stores stood at 20%. During the quarter, sales of Park Avenue grew by 17% Y-o-Y, Raymond Ready-To-Wear by 8% Y-o-Y, ColorPlus by 11% Y-o-Y and Parx by 42% Y-o-Y.

The Garmenting business continued its good show posting sales of Rs 1,856mn, up 17.6% Y-o-Y while the EBITDA grew by 13% Y-o-Y to Rs 188mn, benefitting from higher capacity utilizations but was slightly impacted by adverse product mix. The sales of B2B cotton shirting business grew by 13.8% to Rs 1,480 mn led by strong growth in the domestic market while EBITDA margin remained nearly flat at 10%. Sales from the Engineering business comprising of tools and hardware segment was down 12.8% Y-o-Y to Rs 878mn as it was impacted from the subdued demand in domestic market along with the slowdown in industrial activities in key markets, especially Latin America. The company also mentioned that the portfolio mix rationalization in domestic and export market, operational efficiency and lower commodity prices led to gross margin improvement by 300 bps but EBITDA margins were impacted due to lower volumes which tanked 103bps Y-o-Y to 2.9%. The auto component segment performance is not comparable Y-o-Y as the forging business was disposed off in Q3FY16. The auto business continued its good run as like to like sales (post divestment of forging business) was up 24% Y-o-Y and EBITDA tripled to Rs 68mn led by higher off take in export market and increase in operating efficiencies.

Management Outlook (Pre-Demonitization)

Management expects the growth trend to continue during the H2FY17 due to festivities and sizeable number of wedding days. It had a range of new and innovative products lined up for launch. It had received a good response to initiatives like the Champion Collection and Technostretch. The company had spend Rs 690mn in H1FY17 on capex while it expects to spend Rs 2,800mn in H2FY17.

Our take

Though the company benefited from the good festive sales and posted very good numbers in Q2FY17, demonetization will result in a sharp decline in sales in Q3FY17. We expect the sales of textile and apparel division to contract 25% Y-o-Y and 30% Y-o-Y respectively in Q3FY17. The other divisions viz. Garmenting and Tool divisions might not be affected much in Q3FY17. The higher cotton prices and the adverse wool prices resulting from the appreciating AUD impacted margins for RYMD in Q2FY17. This trend is expected to continue even in Q3FY17 as cotton prices are up 23% Y-o-Y; however they are sequentially down 12% while the AUD which had appreciated 7% in Q2FY17 has remained flat sequentially. So on a net basis, RYMD would continue to face headwinds on the cost front even in Q3FY17.

Valuations

The near term, outlook remains grim as the company might report decline in earnings during H2FY17 (demonetization effect). However it's a good time to accumulate the stock at lower levels as the consumption is expected to return in FY18. We expect RYMD's sales and proforma EPS to contract in FY17 by 4% to Rs 52.10bn and 42% to Rs 10.2 in FY17. However we believe the sales and earnings to bounce back in FY18 as they are expected to grow by 10% to Rs 57.31bn and by 141% to Rs 24.5 respectively. We value the core operations of the company at a P/E of 17x FY18E earnings of Rs 24.5 and arrive at a core equity value of Rs 417/share. On the other hand we value the land bank at Thane at a 50% discount to the expected market value at Rs 230/share giving a combined price target of Rs 644 for FY18E.

SOTP Valuation of Raymond (RYMD)

Company	Basis of Valuation	No. of acres	Valn. Parameter (CMP/EPS)	Value/Mcap (Rs.mn)	RYMD's Shares (in mn)	Value/RYMD's Share (Rs.)	25% Discount on Land bank
Raymond's core equity value	P/E		15.0x		61	625	368
Land Value / Share	Rsmn/Acre	100	Rs 280	28,000	61	3,454	275
Total Value / Share							644
CMP							498
Upside							29%

Comparative Valuation

Company	Rs		Rs bn	Rs bn	(x)	Sales		EPS		P/E		EV/EBITDA	EBIDTA	RoE	Annual EPS Growth	Annual Sales Growth	Div. Yield
	Price	Mcap				Rs Bn		Rs									
						TTM/ FY17E	FY18E	TTM/ FY17E	FY18E	TTM/ FY17E	FY18E						
PAGE Industries	12,694	142	1.5	0.2	21.4	26.3	253	321	50.2	39.5	35.3	19.7	52.2	27.1	22.9	0.7	
Aditya Birla Fashn & Retl Ltd*	141	109	0.4	2.0	63.1	NA	-1	NA	-186.2	NA	28.5	6.7	-16.2	94.5	227.4	0.0	
Arvind Ltd	357	92	0	1.3	94.1	106.6	17	22	20.9	16.5	11.2	11.7	14.3	26.3	13.3	0.7	
Trent Ltd	181	60	0.3	0.3	30.0	37.9	5	7	36.2	27.0	29.7	5.7	4.4	34.0	26.6	0.5	
Bombay Rayon Fashions*	139	26	0.8	2.3	43.0	NA	2	NA	59.1	NA	9.5	17.6	2.3	162.0	18.1	0.0	
Shoppers Stop	295	25	0.1	1.6	52.5	58.7	3	6	106.5	49.3	13.4	4.3	-8.3	115.9	11.9	0.3	
Raymond	498	31	4.0	1.3	52.1	57.3	10	25	48.9	20.3	14.8	6.2	3.6	141.1	10.0	0.0	
Future lifestyle fashion*	127	24	4.5	0.7	34.8	NA	2	NA	67.5	NA	9.9	9.9	1.8	56.0	5.3	0.3	
Kitex Garments	390	19	2.1	0.3	6.2	7.0	28	34	13.9	11.6	9.2	33.5	35.5	20.3	14.1	0.4	
Kewal Kiran	1,825	22	1.3	0.1	5.1	5.9	70	78	26.0	23.5	18.9	22.8	22.0	10.7	15.0	3.3	
Sangam India	261	10	0.0	1.5	17.5	20.0	26	33	10.0	7.8	7.1	13.7	19.0	27.8	14.5	0.8	
Montecarlo Fashions*	403	9	1.2	0.2	6.1	NA	27	NA	14.8	NA	6.8	19.4	13.7	-1.4	6.7	2.5	
Bombay Dyeing *	46	9	1.5	8.0	18.3	NA	-4	NA	-11.4	NA	14.3	10.1	-24.8	-447.1	-22.4	1.1	

Source: FQ Research, Reuters

* On TTM basis, NA - Not Available

Q2FY17 Highlights

Particulars (Mn. Rs)	Q2 FY17	Q2 FY16	Y-o-Y change %	Q1 FY16	Q-o-Q change %	H1 FY17	H1 FY16	Y-o-Y change %
Total Income	15,536	13,858	12.1%	10,619	46.3%	26,155	24,071	8.7%
Less:								
COGS	7,428	6,216	19.5%	4,346	70.9%	11,773	10,253	14.8%
Manufacturing & operating costs	1,817	1,913	(5.0%)	1,669	8.9%	3,486	3,626	(3.9%)
Employee benefit expenses	2,023	1704.8	18.6%	1801.0	12.3%	3,824	3326.0	15.0%
Other Expenses	3,242	2870.9	12.9%	2447.5	32.4%	5,689	5370.2	5.9%
Total Expenditure	14,509	12,705	14.2%	10,263	41.4%	24,772	22,575	9.7%
EBIDTA	1,027	1,154	(11.0%)	356	188.1%	1,383	1,496	(7.6%)
Less: Depreciation & Amortization	332	369	(10.1%)	362	(8.4%)	694	720	(3.7%)
EBIT	695	785	(11.5%)	(6)	(12293.0%)	689	776	(11.2%)
Less: Interest	457	509	(10.2%)	453	0.8%	909	979	(7.1%)
Add: Other income	304	222	36.9%	270	12.5%	573	475	20.7%
Extraordinary Expense (Net)	(52)	(320)	(83.7%)	0	NM	(52)	(320)	(83.7%)
Forex loss & Other one offs	0	(5)	(100.0%)	(1)	(100.0%)	(1)	(15)	(92.2%)
Profit Before Tax	490	178	174.7%	(189)	(359.7%)	301	(48)	(730.3%)
Profit Before Ext-ord. items and Tax	542	503	7.8%	(188)	(389.1%)	355	287	23.3%
Less: Total Tax	179	166	8.0%	(63)	(384.7%)	116	95	21.8%
Profit After Tax before Minority Interest	311	12	2387.2%	(126)	(347.1%)	185	(143)	(229.3%)
Minority Interest	0	0	NM	0	NM	0	(8)	(100.0%)
Profit share of associates	(45)	44	(201.4%)	(30)	49.5%	(75)	64	(217.9%)
Profit After Tax	266	57	367.3%	(156)	(270.6%)	110	(88)	(225.3%)
Profit After Tax Excl. extra-ordinaries	299	80	275.3%	(155)	(292.7%)	144	(58)	(349.2%)
Shares Outstanding (Diluted) (mn)	61	61		61		61	61	
Reported EPS (Rs.)	4.33	0.93	367.3%	(2.54)	(270.6%)	1.79	(1.43)	(225.3%)
Proforma EPS (Rs.)	4.87	1.30	275.3%	(2.53)	(292.7%)	2.34	(0.94)	(349.2%)
Margin Analysis			Change in bps		Change in bps			Change in bps
EBIDTA Margin	6.6%	8.3%	-172	3.4%	325	5.3%	6.2%	-93
EBIT margin	4.5%	5.7%	-119	-0.1%	453	2.6%	3.2%	-59
Proforma NPM	1.9%	0.6%	135	-1.5%	338	0.5%	-0.2%	79
Effective Tax Rate	36.6%	93.0%	-5,644	33.3%	322	38.6%	-199.6%	23815
Margin Analysis			Change in bps		Change in bps			
Cost of Material consumed/Net Sales	47.8%	44.9%	296	40.9%	689	45.0%	42.6%	242
Manufacturing & operating costs/Net Sales	11.7%	13.8%	-211	15.7%	-402	13.3%	15.1%	-174
Employee benefit expenses/Net Sales	13.0%	12.3%	72	17.0%	-394	14.6%	13.8%	80
Other Expenses/Net Sales	20.9%	20.7%	15	23.0%	-218	21.8%	22.3%	-56

Source: Company, FQ Research

NM- Not Meaningful

The Capex for the quarter stood at Rs.420mn, comprising of the stores rollout, besides the regular maintenance Capex. The gross debt at the end of Q2FY17 stood at 22.36bn, whereas the net debt came in at Rs.17.80bn. Net debt to equity stood at 1.06 in Q2FY17 vs 1.11 in Q2FY16. The average interest cost came down by 80bps during the quarter.

The management has guided for a Capex of Rs 2.5-3bn for FY17.

Business wise Analysis

1] Textile Division (Fabric)

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Net Sales	6,965	7,328	7,256	5,041	7,789
Y-o-Y growth (%)	-0.2%	7.5%	7.1%	-1.0%	11.6%
% of total sales	49.2%	51.9%	50.2%	45.5%	49.0%
EBIDTA	1,290	1,388	1,670	613	1,260
EBIDTA margin (%)	18.5%	18.9%	23.0%	12.2%	16.2%
% of total EBIDTA	76.8%	82.7%	78.1%	68.9%	78.6%

Source: Company, FQ Research

The revenue from the Textile division grew by 12% Y-o-Y to Rs 7.79bn in the quarter on the back of marriage and the festival season. Sales of suitings grew by 10% Y-o-Y with 7% Y-o-Y volume growth and B2C shirting grew by 23% Y-o-Y with volume growth of 32% Y-o-Y with newly launched Technosmart fabric being the key driver. The company mentioned that the trouser exchange scheme was a big success with nearly 60% new customers and the store renovations undertaken resulted in 20% + sales growth post renovation. EBITDA margin contracted by 231bps Y-o-Y to 16.2% due to increase in raw material cost, higher A&P spends and employee cost. The shirting business which was less than 15% of the overall textile revenue some time ago has now reached 20%.

2] Branded Apparel

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Net Sales	3,334	3,197	3,299	2,420	3,833
Y-o-Y growth (%)	15.8%	24.7%	14.7%	17.2%	17.9%
% of total sales	23.6%	22.7%	22.8%	21.8%	24.1%
EBIDTA	-48	-36	70	-146	-50
EBIDTA margin (%)	-1.4%	-1.1%	2.1%	-6.0%	-1.3%
% of total EBIDTA	-2.9%	-2.1%	3.3%	-16.4%	-3.1%

Source: Company, FQ Research

The Apparel segment grew by 17.9% Y-o-Y led by growth across brands. EBITDA margin contracted by 17bps to -1.3% in Q2FY17. RYMDs e-commerce sale through online channel partners grew by 59% Y-o-Y for the quarter. EBITDA margin improved marginally despite lower gross margins which were impacted by higher cotton prices and impact of excise duty, which impacted ~2% on sales. Promotional spends were also higher at 9.4% sales.

Coming to its retail channel, the total exclusive network stores stood at 1,150 stores. Like-to-like secondary sales growth stood at 17% Y-o-Y during the quarter. Secondary sales across the entire exclusive network of stores grew by 21% Y-o-Y. During the quarter RYMD opened 15 stores and closed 16 non-performing stores. The company plans to continue with its plan to renovate 45 to 50 stores during FY16-17. The renovation of eight stores was completed in Q2FY17. The company has completed renovation of 101 stores and 40 stores were under renovation at the end of September 2016. Average same-store sales growth for the renovated stores stood at 20%.

On the decline in EBITDA in the FY17, the company had to say this

There was Rs. 230mn delta on advertising, which was due to pre-ponement of Diwali by a fortnight. Last year Diwali was on 12th November, this time it was on 30th of October which shifted the advertising spends slightly.

Secondly, on the input cost front, in Q2FY16 there was no bonus provision while in FY17 because of legal requirement from central government, on 31st December, 2016 the company had to take Rs. 40mn provision on account of bonus in branded textiles (as the company manufactures both suiting and shirting) resulting in an additional Rs. 45-50mn additional provision. So a total of Rs 230 mn in addition to the 40 mn coupled with the 11% increase in wool price (8% because of Aussie dollar hit), 40% increase in cotton prices resulted in lower margins.

Branded Apparel

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Park Avenue					
Y-o-Y growth (%)	21.0%	33.0%	12.0%	17.0%	17.0%
Color Plus					
Y-o-Y growth (%)	10.0%	20.0%	18.0%	NA	11.0%
Raymond premium apparel					
Y-o-Y growth (%)	18.0%	6.0%	5.0%	29.0%	8.0%
Parx					
Y-o-Y growth (%)	8.0%	16.0%	19.0%	33.0%	42.0%
Made to Measure					
Y-o-Y growth (%)	38%	84%	31%	19.0%	44.0%

Source: Company, FQ Research

NA: Not Available

During the quarter, Park Avenue grew by 17% Y-o-Y, Raymond Ready-To-Wear by 8% Y-o-Y, ColorPlus by 11% Y-o-Y and Parx by 42% Y-o-Y. RYMD's Made To Measure (MTM) sales have been gaining good traction and grew by 44% in Q2FY17. RYMD's apparel stores witnessed a healthy like to like growth of 7% with Park Avenue growing 16% Y-o-Y, Color Plus up 2% Y-o-Y, Parx at 5% Y-o-Y and Raymond Premium Apparel at 52% Y-o-Y, MTM grew 14% Y-o-Y and The Raymond Store registered a growth of 18% Y-o-Y. On the channel wise sales, growth in Exclusive Brand Outlets (EBO) grew at 21% Y-o-Y, Large Format Stores (LFS) grew 19% Y-o-Y, The Raymond Store grew 8% Y-o-Y and the Multi Brand Outlets sales grew at 44% Y-o-Y in Q2FY17.

3] Garmenting

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Net Sales	1,579	1,459	1,742	1,402	1,856
Y-o-Y growth (%)	5.1%	5.4%	44.7%	21.3%	17.6%
% of total sales	11.2%	10.3%	12.1%	12.7%	11.7%
EBIDTA	166	76	187	128	188
EBIDTA margin (%)	10.5%	5.2%	10.7%	9.1%	10.1%
% of total EBITDA	9.9%	4.5%	8.7%	14.4%	11.7%

Source: Company, FQ Research

The Garmenting business continued its good show from the past few quarters into Q2FY17 posting sales of Rs 1,856mn, up 17.6% Y-o-Y while the EBITDA grew by 13% Y-o-Y to Rs 188mn, benefitting from higher capacity utilizations but slightly impacted by adverse product mix.

4] B2B Luxury Cotton Shirting Fabric- 75.69% share

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Net Sales	1,300	1,187	1,180	1,150	1,480
Y-o-Y growth (%)	21.5%	22.4%	19.2%	15.0%	13.8%
% of total sales	9.2%	8.4%	8.2%	10.4%	9.3%
EBIDTA	131	86	77	108	148
EBIDTA margin (%)	10.1%	7.2%	6.5%	9.4%	10.0%
% of total EBITDA	7.8%	5.1%	3.6%	12.1%	9.2%

Source: Company, FQ Research

The sales of B2B cotton shirting business grew by 13.8% Y-o-Y to Rs 1,480 mn led by strong growth in the domestic market while EBITDA margin remained nearly flat at 10%.

5] Tools & Hardware

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Net Sales	944	920	856	911	878
Y-o-Y growth (%)	-17.7%	-11.2%	-20.4%	-13.4%	-12.8%
% of total sales	6.7%	6.5%	5.9%	8.2%	5.5%
EBIDTA	40	60	44	29	26
EBIDTA margin (%)	4.2%	6.5%	5.2%	3.2%	2.9%
% of total EBITDA	2.4%	3.6%	2.1%	3.3%	1.6%

Source: Company, FQ Research

Sales from the engineering business comprising of tools and hardware segment was down 12.8% Y-o-Y to Rs 878mn as it was impacted from the subdued demand in domestic market along with the slowdown in industrial activities in key markets, especially Latin America; however, the company mentioned that the export market was showing signs of recovery with increased off take of orders in the last few weeks of Q2FY17. The company also mentioned that the portfolio mix rationalization in domestic and export market, operational efficiency and lower commodity prices led to gross margin improvement by 300 bps but EBITDA margins were impacted due to lower volumes which tanked 103bps Y-o-Y to 2.9%.

On hiving off of Tools and Hardware business: the company mentioned that as it divested a part of the auto business, the company can even do the same for Tools and hardware. But before that they wanted to turn this business around, improve its margins, and rationalize manufacturing capacity. Gross margins in this business had gone up by 300 bps this year due to supply chain efficiencies, though volume was impacted which resulted in lower EBITDA.

6] Auto Components

Particulars (In Rs. mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17
Net Sales	528	309	400	433	415
Y-o-Y growth (%)	-12.1%	-42.6%	-19.7%	-23.5%	-21.4%
% of total sales	3.7%	2.2%	2.8%	3.9%	2.6%
EBIDTA	17	0	0	64	68
EBIDTA margin (%)	3.2%	0.2%	0.1%	14.8%	16.3%
% of total EBITDA	1.0%	0.0%	0.0%	7.2%	4.2%

Source: Company, FQ Research

The auto component segment performance is not comparable Y-o-Y as the forging business was disposed off in Q3FY16. The auto business continued its good run as like to like sales was up 24% Y-o-Y and EBITDA tripled to Rs 68mn led by higher off take in export market and increase in operating efficiencies. The company witnessed an increased demand in the domestic market and export market. During the quarter the company sold off its stake in Rose Engineered Products Ltd. to Neel Metals for an enterprise valuation of about Rs 200mn.

Management Outlook (pre-demonetization)

Management expects the growth trend to continue during the H2FY17 due to festivities and sizeable number of wedding days. It had a range of new and innovative products lined up for launch. It had received a good response to initiatives like the Champion Collection and Technostretch.

The company is committed to expand and improve its retail network including franchise stores and expects to add another 30-40 retail stores during the year and complete the renovation of 45-50 stores. The company mentioned that though it had pressure on margin due to statutory levies and raw material cost it continues to optimize productivity, focus on strategic initiatives and product development, brand building, enhancing customer experience and working capital reduction.

The company had spent Rs 690mn in H1FY17 on capex while it expects to spend Rs 2,800mn in H2FY17. The capex guidance is substantially higher due to the spending on the Amravati plant, of ~Rs 1500mn. On the Ethiopian plant it plans to spend Rs 500mn in H2FY17 while the investment in retail, new stores and renovation would be ~Rs500mn and maintenance capex would be another ~Rs300mn.

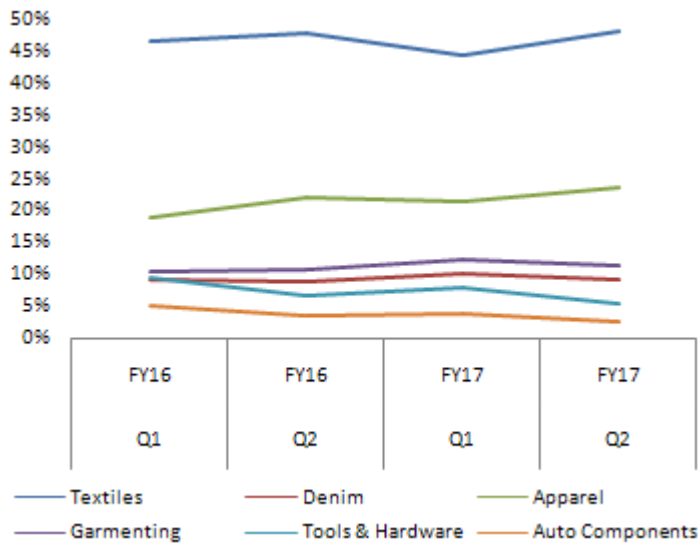
Other key highlights from the concall

- Brand expenses contributed to around 5.6% of turnover in FY17 which went up from 3.8% in FY16.
- Technosmart is priced at 1.5x the average realization of Raymond suiting, while Raymond is already 2x the realization of market, so Technosmart is almost 4x the average selling price of the market of suiting fabric. This product has picked up well and in the first year itself it expects the sales to Rs. 100 cr.
- Profitability of Shirting and Suiting is almost equal in terms of gross margins, upwards of 40%. On the trading front, margins stand at 15-16% in the B2C channel for both while in the B2B part of shirtings, trading margin stands at 10%.
- Raw material cost was adversely impacted by higher wool prices, with 95% plus imports of wool coming from Australia, where wool prices had gone up 11% Y-o-Y coupled with Australian dollar rising by 8-10%.
- On cotton prices, the company expects some equalization resulting from good monsoons, and lower exports from India. But the softening is likely to be seen only in Q4FY16 with Q3FY17 continuing to be tight.
- The company had undertaken a price hike of 3-4% in June'16 and all the stocks booked till Dec'16 are with this hike.
- The company plans to shut 5% of stores while planning to add 10-15% going ahead, so net net it would be a 10% addition every year.
- The MTM segment would break even at the EBITDA level, on sales of Rs 1,000mn.

Segment Analysis

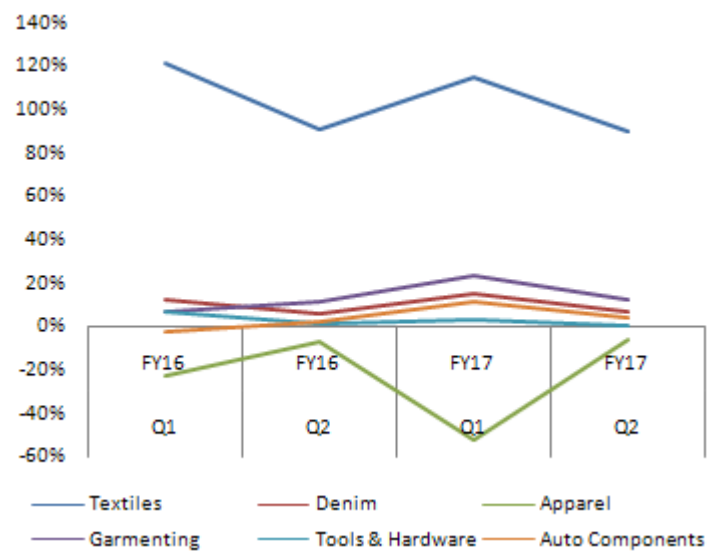
Particulars (Mn. Rs)	Q2 FY17	Q2 FY16	Y-o-Y change %	Q1 FY16	Q-o-Q change %	H1 FY17	H1 FY16	Y-o-Y change %
Segment Revenue								
Textiles	7,789	6,978	11.6%	5,041	54.5%	12,830	12,071	6.3%
Shirting	1,478	1,299	13.8%	1,150	28.5%	2,628	2,300	14.3%
Apparel	3,833	3,252	17.9%	2,420	58.4%	6,253	5,316	17.6%
Garmenting	1,856	1,579	17.6%	1,402	32.4%	3,259	2,735	19.2%
Tools & Hardware	878	1,006	(12.8%)	911	(3.7%)	1,788	2,059	(13.1%)
Auto Components	415	528	(21.4%)	433	(4.3%)	848	1,094	(22.5%)
Others	9	3	217.9%	11	(15.2%)	19	7	162.2%
Inter segment revenue	723	787	(8.2%)	795	(9.0%)	1,517	1,637	(7.3%)
Net Sales/ Income from operation	15,535	13,858	12.1%	10,574	46.9%	26,109	23,946	9.0%
Operating Profit								
Textiles	1,109	1,090	1.7%	462	139.8%	1,571	1,636	(3.9%)
Denim/Shirting	88	75	16.2%	60	46.1%	147	131	12.6%
Apparel	(76)	(89)	(15.5%)	(209)	(63.8%)	(284)	(190)	49.3%
Garmenting	158	136	15.8%	96	65.1%	253	166	52.8%
Tools & Hardware	9	22	(58.1%)	13	(28.0%)	22	53	(59.5%)
Auto Components	51	31	65.6%	47	7.9%	97	21	374.6%
Others	(100)	(57)	77.2%	(65)	53.8%	(166)	(158)	4.7%
Inter segment revenue	-9	47	(118.4%)	-48	(81.9%)	-57	17	(431.6%)
Total	1,229	1,255	(2.1%)	355	245.9%	1,584	1,674	(5.4%)
Less: Finance Costs	457	509	(10.2%)	453	0.8%	909	979	(7.1%)
Add/(Less): Unallocable Inc./ (Exp)- net	-246	803	(130.7%)	-101	142.9%	-348	620	(156.1%)
Add/(Less): Exceptional Items	-52	-320	(83.7%)	0	#DIV/0!	-52	-320	(83.7%)
Add/(Less): Provision for taxes	-179	-166	8.0%	63	(384.7%)	-116	-95	21.8%
Add/(Less): Share of profit in associate cos.	-45	44	(201.4%)	-30	49.5%	-75	64	(217.9%)
Net Profit	250	1,108	(77.4%)	(166)	(250.6%)	84	964	(91.3%)

Segmental Sales Contribution (%) - Quarterly Trend



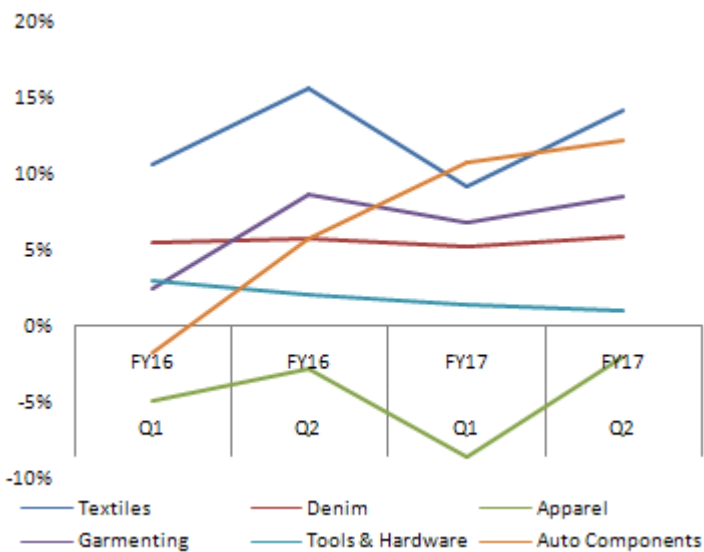
Source: Company, FQ Research

Segmental EBIT Contribution (%) - Quarterly Trend



Source: Company, FQ Research

Segmental EBIT Margin (%) - Quarterly Trend



Source: Company, FQ Research

Consolidated Financials

Profit and Loss Statement

in Rs. Mn.	FY14	FY15	FY16	FY17E	FY18E
Total Revenues	45,577	53,517	54,135	52,103	57,313
Net Sales Growth (Y-o-Y)	12%	17%	1%	-4%	10%
Total Expenditure	40,680	49,058	49,823	48,888	52,728
EBIDTA	4,897	4,459	4,312	3,215	4,585
EBIDTA Margin (%)	10.7%	8.3%	8.0%	6.2%	8.0%
EBIDTA Growth (Y-o-Y)	32%	-9%	-3%	-25%	43%
Interest	1,968	2,004	1,864	1,855	2,020
Depreciation/Amortization	1,958	1,619	1,577	1,625	1,813
Other Income	629	761	902	1,225	1,411
PBT	1,246	1,597	1,423	960	2,163
PBT Margin (%)	2.7%	3.0%	2.6%	1.8%	3.8%
Net Profit	1,076	1,128	875	625	1,506
Net Profit Excl. extra-ordinaries	1,311	1,246	1,079	625	1,506
Net Profit Excl. extra-ord. (Y-o-Y %)	245%	-5%	-13%	-42%	141%

Profit and Loss Statement

	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E (x)	28.4	27.1	34.9	48.9	20.3
P/E Excl. Extra-ordinaries (x)	23.3	24.5	28.3	48.9	20.3
P/BV (x)	2.0	1.9	1.8	1.7	1.6
P/CEPS (x)	10.1	11.1	12.5	13.6	9.2
EV/EBITDA (x)	9.7	10.7	11.0	14.8	10.4
Market Cap. / Sales (x)	0.7	0.6	0.6	0.6	0.5
Div.Yield (%)	0.4%	0.6%	0.8%	1.0%	1.2%
Leverage Ratios					
Debt/Equity (x)	0.8	0.7	0.7	0.5	0.6
Interest Coverage (x)	2.5	2.2	2.3	1.7	2.3
Per Share Data					
Diluted EPS	17.5	18.4	14.3	10.2	24.5
Fully Diluted EPS Excl. extra-ordinaries	21.4	20.3	17.6	10.2	24.5
Diluted Cash EPS	49.4	44.8	40.0	36.7	54.1
Book Value Per share (Rs.)	250	263	276	287	311
Returns (%)					
RoE (%)	7.3%	7.1%	5.2%	3.6%	8.1%
RoE (%) - Excl. extra-ordinaries	8.9%	7.9%	6.5%	3.6%	8.1%
RoCE (%)	9.6%	9.2%	6.9%	6.6%	10.0%
RoCE (%) - Excl. extra-ordinaries	10.5%	9.6%	7.6%	6.6%	10.0%
Dividend Payout	13.1%	18.8%	32.2%	56.5%	28.1%
Du-Pont Analysis					
EBIDTA/Sales (%)	10.7%	8.3%	8.0%	6.2%	8.0%
Sales/Operating assets (x)	1.9	2.2	2.2	2.1	2.4
EBIDTA/Operating Assets (%)	20.9%	18.4%	17.2%	13.2%	19.5%
Operating Assets/Net Assets (x)	0.9	0.9	0.9	0.9	0.8
Net Earnings/EBIDTA (%)	26.8%	27.9%	25.0%	19.4%	32.9%
Net Assets/Net Worth (x)	1.7	1.7	1.7	1.6	1.5
RoE (%)	8.9%	7.9%	6.5%	3.6%	8.1%
Margins (%)					
EBIDTA margin	10.7%	8.3%	8.0%	6.2%	8.0%
PBT margin	2.7%	3.0%	2.6%	1.8%	3.8%
PAT margin	2.4%	2.1%	1.6%	1.2%	2.6%
Growth (%)					
Revenue	12%	17%	1%	-4%	10%
EBIDTA	32%	-9%	-3%	-25%	43%
PAT	275%	5%	-22%	-29%	141%
APAT	245%	-5%	-13%	-42%	141%

Operating Cycle

Debtors	68	63	71	74	74
Creditors	39	40	44	88	84
Inventory	98	86	93	89	89
Cash conversion Cycle	127	110	119	75	78

Balance Sheet

in Rs. Mn.	FY14	FY15	FY16	FY17E	FY18E
Liabilities					
Equity Capital	614	614	614	614	614
Reserves & Surplus	14,047	14,800	15,700	16,325	17,831
Equity	14,661	15,414	16,314	16,938	18,445
Minority Interest	705	725	630	666	666
Net Worth	15,367	16,139	16,943	17,605	19,111
Other Liabilities	1,388	1,730	2,179	173	1,818
Total Loans	11,178	9,503	10,161	8,311	9,349
Capital Employed	27,933	27,372	29,283	26,089	30,278
Assets					
Gross Block	27,951	29,318	30,686	33,863	36,258
Less: Depreciation	15,388	16,574	17,621	19,247	21,060
Net Block	12,564	12,744	13,065	14,616	15,199
Capital WIP	1,740	1,958	2,500	2,039	1,443
Investments	1,106	1,090	1,457	4,391	4,391
Others - Assets	3,038	3,815	3,698	1,954	1,839
Current Assets					
Inventories	10,925	11,578	12,660	11,891	12,825
Sundry Debtors	8,499	9,239	10,475	10,563	11,620
Cash and cash equivalents	4,851	4,472	4,491	8,971	12,654
Loans and Advances	1,007	965	954	283	283
Other Current Assets	695	820	1,388	1,291	1,263
Total Current Assets	25,977	27,073	29,968	33,000	38,645
Less: Current Liabilities & Provisions					
Short Term borrowing	5,455	6,205	7,266	10,267	10,546
Sundry Creditors	5,930	7,022	7,573	7,233	7,801
Provisions	4,346	5,328	6,002	11,776	12,206
Other Current Liabilities	760	754	564	636	685
Total Current Liabilities & Prov.	16,491	19,309	21,405	29,910	31,238
Capital Applied	27,933	27,372	29,283	26,089	30,278

Cash Flow Statement

in Rs. Mn.	FY14	FY15	FY16	FY17E	FY18E
EBITDA	2,939	2,840	2,735	1,590	2,772
Less: Adjusted Taxes	794	794	1,146	539	956
NOPLAT	2,145	2,046	1,589	1,051	1,816
Plus: Depreciation	1,958	1,619	1,577	1,625	1,813
Gross Cashflow	4,103	3,665	3,167	2,676	3,629
Minority Interest/ Profit share of asso.	181	105	49	(10)	89
Less: Increase in Working Capital	2,202	(291)	719	(3,381)	1,247
Operating Cashflow	2,082	4,061	2,496	6,047	2,471
Less: Net Capex	1,451	2,018	2,440	2,716	1,799
Less: Increase in Net Other Assets	2,558	(115)	(367)	(7,233)	(623)
FCF From Operation	(1,927)	2,159	423	10,564	1,295
Less: Inc./(Dec.) in Investment	(8)	(16)	367	2,934	-
FCF after Investment	(1,919)	2,174	56	7,630	1,295
Plus: Gain/(loss) on Extraord. Items	(250)	0	(203)	-	-
Total FCF	(2,169)	2,174	(147)	7,630	1,295

Recommendation Summary

Event	Date	Price	Rating	Target
Result Update (Q1FY15)	04-08-2014	419	Buy	500
Result Update (Q2FY15)	17-11-2014	461	Buy	784
Result Update (Q3FY15)	16-02-2014	513	Buy	987
Result Update (Q4FY15)	04-06-2015	429	Buy	761
Result Update (Q1FY16)	16-09-2015	387	Buy	755
Result Update (Q3FY16)	04-02-2016	393	Buy	685
Result Update (Q4FY16)	27-05-2016	450	Buy	801
Result Update (Q1FY17)	05-08-2016	459	Buy	897
Result Update (Q2FY17)	30-11-2016	498	Buy	644

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BUY

More than 10% return

HOLD

Between 5-10% return

SELL

Less than 5% return