24 December 2024
Company Update | Sector: Retail

Raymond Lifestyle

BSE SENSEX	S&P CNX
78,473	23,728

Raymond LIFESTYLE LIMITED

Bloomberg	RAYMONDL IN
Equity Shares (m)	61
M.Cap.(INRb)/(USDb)	122.7 / 1.4
52-Week Range (INR)	3100 / 1913
1, 6, 12 Rel. Per (%)	2/-/-
12M Avg Val (INR M)	349

Financials &Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	65.4	68.6	76.8
EBITDA	9.4	9.2	10.8
Adj. PAT	4.9	4.1	5.0
EPS (INR)	80.2	66.9	81.4
EPS Gr. (%)	-	(16.7)	21.7
Ratios			
BV/Sh. (INR)	1,599	1,656	1,738
RoE (%)	10.9	8.7	9.7
RoCE (%)	15.1	12.3	13.0
Valuations			
P/E (x)	25.2	30.2	24.8
P/BV (x)	1.3	1.2	1.2
EV/EBITDA (x)	13.7	14.0	11.9
Div. Yield (%)	-	-	-

Shareholding pattern (%)

As On	Sep-24
Promoter	54.7
DII	7.9
FII	12.7
Others	24.8

FII Includes depository receipts

CMP: INR2,013 TP: INR3,000 (+49%) Buy

Multiple growth drivers in place

- The festive and the ongoing wedding season has improved the demand environment for retailers such as Raymond Lifestyle (RLL), with **expectations of double-digit growth (~12-14%) in secondary sales,** which should result in improved collections in 3QFY25**.**
- However, primary sales may reflect demand improvement with a quarter's lag owing to higher inventory in the channel amid demand weakness in the past 12-15 months.
- Given a higher number of wedding days extending the season to 1HFY26, the demand momentum is expected to remain robust, which places RLL in a sweet spot as its wedding portfolio accounts for ~35-40% of its total revenue.
- RLL is targeting **12-14% revenue growth** and **15-18% growth in EBITDA/PAT** in the medium term. The branded apparels segment will be the key growth driver, aided by increased EBO footprint, the ramp-up of the Ethnix by Raymond, and the entry into sleepwear and innerwear segments.
- RLL operates at ~30% operational RoCE and the management **expects RoCE to improve further**, driven by 1) the improved demand environment, resulting in better collections; and 2) moderation in capex vs. FY25 levels.
- We factor in a CAGR of 9-11% in revenue/EBITDA/PAT over FY24-27. We value RLL at a PE multiple of 30x on Dec'26E. **Reiterate BUY with an unchanged TP of INR3,000.**

Scale-up of distribution network in branded apparels – a key focus area

- RLL boasts a legacy of established brands such as Park Avenue, Raymond RTW, Parx, and Colorplus. However, the presence of RLL brands remain under-penetrated with 463 EBOs (including Ethnix EBOs).
- RLL plans to expand the retail network in the branded apparels segment while maintaining mid-single-digit LFL growth.
- RLL targets to increase its EBO count to ~900 by FY27 (~30% CAGR over FY24-27) as brands like Park Avenue, ColorPlus and Ethnix could expand their presence to 300 stores each across Tier-1 to Tier-4 cities.
- The majority of RLL's EBO expansion will likely be done through the asset-light FOFO model. Further, the company is looking to expand its share in large-format stores (LFS) and MBOs.
- RLL has recently launched sleepwear under the 'Sleepz by Raymond' brand offering western and Indian sleepwear products at a price range of INR500-999. Further, the company is targeting the innerwear category though Park Avenue Innerwear. We expect incremental revenue of ~INR3b by FY27 from these two categories.

Rising focus on the ethnics and wedding wear market through Ethnix

- The 'Raymond' brand has a strong customer recall for wedding wear in India. RLL derives ~35-40% of its total revenue from its wedding wear portfolio (Exhibit 2).
- Through 'Ethnix by Raymond,' RLL aims to become a significant player in the largely unorganized Indian ethnic wear industry (~INR140-150b).
- Ethnix currently has a presence across 136 EBOs and generated ~INR1b in revenue in FY24. RLL plans to increase the store footprint of Ethnix to 300+ stores over the next two to three years and expects to generate ~INR3.5b in annual revenue.
- Gross margin is typically higher in the ethnics category. RLL focuses on the ~INR15-30k category and aims to gain market share from unorganized players. RLL is not considering designers-led tie-ups.

Headwinds in leading garment-exporting countries bode well for RLL

- The recent turmoil in Bangladesh (~USD50b market), a global trend of China+1, and free trade agreements (FTAs) with the UK, EU, and Australia could create a large opportunity for RLL's garmenting business.
- Bangladesh's textile industry benefited from low power costs (no longer the case). Further, in CY29, Bangladesh is expected to lose the LDC (least developed countries) benefits (link), which could further improve the competitiveness for the Indian textile companies.
- RLL has on-boarded customers such as Calvin Klein (CK), Tommy, etc. under the FTA with Australia. Further, it is receiving inquiries from large clients such as Marks & Spencer and H&M, which could fructify after FTAs with the UK and EU.
- RLL is incurring a cumulative capex of INR2b over FY24-25 to increase its capacity to benefit from the China+1 and Bangladesh+1 shifts.
- Given macro tailwinds, we build in ~11% revenue CAGR over FY24-27 in RLL's garmenting business. Further, we expect EBITDA margins to improve to ~12% by FY27, driving a ~17% EBITDA CAGR over FY24-27.

Valuation and view: Reiterate BUY with unchanged TP of INR3,000

- While RLL benefits from strong brand affinity, its valuation has been impeded by sluggish execution in the past (volatility in PAT growth over FY10-20).
- However, RLL's renewed focus on growth, along with working capital discipline, could lead to a valuation re-rating over the medium term.
- A growth recovery in the branded apparel segment, the scale-up of newer categories like sleepwear and innerwear, and the successful execution in Ethnix by Raymond are the key growth drivers, in our view.
- We build in a CAGR of 9-11% in revenue/EBITDA/PAT over FY24-27. We value RLL at a PE multiple of 30x on Dec'26E, resulting in a TP of INR3,000 per share. **Reiterate our BUY rating on RLL.**