27 August 2024
Company Update | Sector: Retail

Raymond Lifestyle

BSE SENSEX	S&P CNX
81,698	25,011

Not Rated

On a transformative journey

We attended Raymond Lifestyle's investor meet and factory visit in Vapi prior to its listing.

Raymond Lifestyle (RLL) is expected to list in the first week of Sep'24. The company is guiding for 12-15% revenue growth in the lifestyle business and expects to double its EBITDA to +INR20b by FY28. The growth will be led by a) the doubling of its EBO network, b) capitalizing on Bangladesh +1 and China +1 opportunity, c) the extension of new categories such as innerwear and sleepwear, and d) wedding wear led growth.

Expanding EBO network to boost growth in Branded Apparel

RLL has a legacy collection of well-established brands such as Park Avenue, Raymond, Parx, Ethnics by Raymond and ColorPlus, yet it has remained under-penetrated with total EBOs of 424 as of 1QFY25 end. Each brand has potential to reach at least 250 EBOs individually (2,636/931 EBOs for ABLFL Lifestyle Brands/Arvind Fashion). Hence, the combination of franchisee-led model and underpenetrated brands offers strong runway of growth. The management is replicating the TRS growth story in EBOs and has added 108 EBOs in the last five quarters and expects to add 650+ EBOs (2x of current size) in the next three years. At a revenue base of INR16b (23% of lifestyle revenue), we expect a 17% revenue CAGR over FY24-27 with a focus on capex-light franchisee model.

Capitalizing Bangladesh and China opportunity

Garmenting is 95%+ B2B export business and holds a strategic advantage with the China + 1 and Bangladesh +1 (USD50b market) opportunity. New trade agreements with the UK, EU and Australia should create additional tailwinds, which make the segment in a sweet spot. RLL has incurred a capex of INR1b in FY24 to increase the capacity to 10.7m pieces and will incur an additional capex of INR1b in FY25, which could generate INR4b of incremental revenue by FY27 (~2x asset turnover ratio). Assuming EBITDAM of 10%, it can generate INR400m incremental EBITDA with 16% incremental RoCE post-tax. We model 11% revenue growth during FY24-27E.

Extension of new categories: Broadening horizons into everyday essentials

RLL is introducing two new categories: 1) sleepwear brand, SleepZ by Raymond, which is launched in Jul'24 at an attractive ASP range of INR500-999 and will be distributed across India, and 2) Park Avenue Innerwear, which will be launched in the next few months at a pricing of INR250-600. The company is targeting the semi-premium and premium category consumer (> 50% of the Market) and following the omni-channel distribution strategy with strong focus on MBO channel expansion. The management expects SleepZ to contribute INR 5-7b of revenue by FY27.

Tanmay Gupta - Research Analyst (Tanmay.Gupta@MotilalOswal.com)
Siddhesh Chaudhari – Research Analyst (Siddhesh.Chaudhari@MotilalOswal.com)

Wedding focus to improve EBITDA and industry tailwinds in Ethnics

RLL currently holds ~5% market share in the INR750b men's wear market as the wedding season contributes ~35-40% of revenue (INR25-35b in FY24). The company continues to focus on premium wedding collections and aims to increase its market share to 6-7%, with a revenue CAGR target of 15%. The wedding format also offers 300bp higher gross margins, which boosts EBITDA growth.

The market size of ethnic wear is expected to grow at an 8% CAGR; however, given the shift from unorganized to organized, the management expects the organized market to grow at 14% (vs. unorganized at 5%). As of FY24, it has presence across ~114 stores, with a revenue contribution of ~INR800m, catering to both occasion and casual ethnic wear. It targets to add 100+ stores annually, which could achieve a revenue potential of INR3.5b by FY27E.

Valuation and view

- Raymond has been demonstrating positive actions in the form of selling the FMCG business, de-merging the Lifestyle Business, shaping the Real Estate Business and demerging it, and establishing an engineering unit after the Maini Precision (MPPL) acquisition. These three vectors may create shareholder value for each of the businesses led by professional management, net cash, and optimization of costs and WC.
- We estimate 6% revenue/EBITDA growth for FY24-26, led by branded apparel and garmenting segments and cashflow supported by branded textiles. FY24 ROE/ROCE figures stood at 10/32%, as per the company.
- We ascribe EV/EBITDA of 15x on FY26 (implied PE of 28x) to arrive at a valuation of INR159b (per share price of INR2,610).

Exhibit 1: Lifestyle business- Valuation on FY26 (INR m)

INR	FY26E
EBITDA (pre Ind-AS)	10,456
EV/EBITDA	**15**
EV	1,56,843
add: net cash	**2,270**
Equity	1,59,113
No of shares	60.9
per share	2,610
Implied PE	28

Source: Company, MOFSL

Exhibit 2: Sales mix

INRm	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Branded Textile	**31,530**	**29,167**	**15,716**	**27,894**	**33,641**	**34,501**	**33,804**	**34,936**	**36,127**
growth	8.2%	-7.5%	-46.1%	77.5%	20.6%	2.6%	-2.0%	3.4%	3.4%
% of gross	50.6%	48.6%	55.4%	56.0%	51.3%	49.4%	46.6%	44.1%	41.5%
Branded Apparel	**16,470**	**16,186**	**4,566**	**8,909**	**13,276**	**15,872**	**17,855**	**21,427**	**25,712**
growth	15.7%	-1.7%	-71.8%	95.1%	49.0%	19.6%	12.5%	20.0%	20.0%
% of gross	26.4%	27.0%	16.1%	17.9%	20.3%	22.7%	24.6%	27.0%	29.6%
Garmenting	**7,790**	**8,432**	**5,491**	**7,250**	**11,003**	**11,124**	**12,292**	**13,645**	**15,282**
growth	13%	8%	-35%	32%	52%	1%	10.5%	11.0%	12.0%
% of gross	12.5%	14.1%	19.4%	14.6%	16.8%	15.9%	16.9%	17.2%	17.6%
B2B Shirting	**6,480**	**6,218**	**2,578**	**5,718**	**7,620**	**8,297**	**8,629**	**9,233**	**9,879**
growth	12.7%	-4.0%	-58.5%	121.8%	33.3%	8.9%	4.0%	7.0%	7.0%
% of gross	10.4%	10.4%	9.1%	11.5%	11.6%	11.9%	11.9%	11.7%	11.4%
Lifestyle business revenue	**62,270**	**60,004**	**28,351**	**49,771**	**65,540**	**69,794**	**72,580**	**79,240**	**87,000**
growth%	11%	-4%	-53%	76%	32%	6%	4%	9%	10%
Lifestyle business revenue as per PPT						**66,910**	**69,582**	**75,966**	**83,406**
intersegmental elimination						4%	4%	4%	4%

Source: Company, MOFSL

Exhibit 3: EBITDA mix

INRm	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Branded Textile	**4,350**	**4,353**	**1,638**	**4,918**	**7,026**	**7,209**	**6,423**	**7,337**	**7,587**
Margin	13.8%	14.9%	10.4%	17.6%	20.9%	20.9%	19.0%	21.0%	21.0%
Mix	59.9%	65.0%	98.3%	55.8%	53.0%	45.7%	40.0%	36.8%	30.0%
Branded Apparel	**610**	**294**	**(1,251)**	**427**	**1,444**	**1,878**	**1,786**	**2,571**	**3,343**
Margin	3.7%	1.8%	-27.4%	4.8%	10.9%	11.8%	10.0%	12.0%	13.0%
Mix	8.4%	4.4%	-75.0%	4.8%	10.9%	11.9%	11.1%	12.9%	13.2%
Garmenting	**401**	**327**	**190**	**474**	**841**	**1,088**	**1,082**	**1,364**	**1,681**
Margin	5.1%	3.9%	3.5%	6.5%	7.6%	9.8%	8.8%	10.0%	11.0%
Mix	5.5%	4.9%	11.4%	5.4%	6.3%	6.9%	6.7%	6.8%	6.7%
Shirting	**890**	**854**	**41**	**598**	**852**	**951**	**863**	**1,016**	**1,186**
Margin	13.7%	13.7%	1.6%	10.5%	11.2%	11.5%	10.0%	11.0%	12.0%
Mix	12.3%	12.8%	2.5%	6.8%	6.4%	6.0%	5.4%	5.1%	4.7%
Lifestyle business EBITDA	**6,251**	**5,828**	**618**	**6,415**	**10,163**	**11,126**	**10,153**	**12,288**	**13,796**
growth%	9%	-7%	-89%	938%	58%	9%	-9%	21%	12%
Margins%	10.0%	9.7%	2.2%	12.9%	15.5%	15.9%	14.0%	15.5%	15.9%
Lifestyle business EBITDA as per PPT						**10,930**	**9,974**	**12,071**	**13,552**
intersegmental elimination						2%	2%	2%	2%
Margins%						16.3%	14.3%	15.9%	16.2%

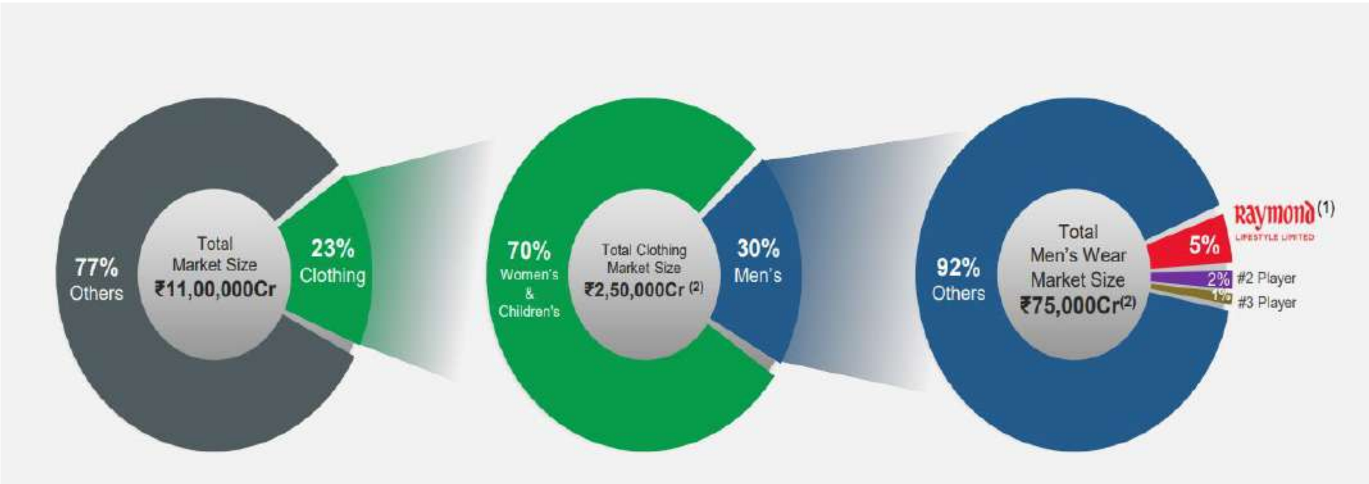
Source: Company, MOFSL

Detailed management commentary

- RLL has been operational since 1925 and is now ranked among the top 10 companies in terms of brand valuation at 84.6 brand strength Indicator (as per Brand Finance India).
- **RLL is expected to list in next 10-12 days.**
- It is present across all the categories viz. wedding wear, styling, domestic textile and garment export, thus gaining access to a wide addressable market across these categories.
- The company laid down the below-mentioned strategic approach:
  - **Core categories**: Branded textile (Cash Cow)
  - **Growth categories**: Apparel and garmenting (Disruptive growth)
  - **New Categories**: Ethnic wear, inner wear, sleep wear and international retail (building new categories to become The Complete Man)

- **Wedding Market**:
  - The Indian wedding landscape is changing. The wedding celebration days in India have now increased to five days vs. two days earlier.
  - Total men's wear market is INR75k cr. This market is fragmented with a large number of unorganized players (90%). Raymond is the largest player with a market share of 5%, with next two players having a market share of 2% and 1%.
  - **RLL is targeting a 15% CAGR to gain a 6-7% market share in the men's wear wedding market by 2027.**
  - Currently, it is 2.5x the No 2 player in the wedding space.

Exhibit 4: Total market size (Retail/Clothing/Men's wear)



Source: Company, MOFSL

- **Wedding business revenue share in each segment:** 55-60% in branded textile, 20-25% in branded apparel, 35-40% in overall company level. The wedding & ceremonial portfolio revenue is expected to increase 1.5x/2.3x by FY27/FY30. **Overall RLL aims to achieve 12-15% Revenue growth and double the EBITDA by 2028.**
- **Branded Textile:**
  - The management expects the segment to grow in **high single digits** over next few years.
  - Emotional Brand appeal, premiumization, availability (20k+ SKU's), Quality products, category development, casualization and ability to customize at TRS and EBO's are few levers that will help it grow.
  - Suiting has 40-50% market share, while Shirting has sub-20% market share in mass segment.
  - In Shirting, the management will try to disrupt the market with launches across the mass segment.
  - 95%+ of stores have 18%+ IRR, while the majority of the franchisee partners for Ethnix are from TRS.
- **Branded Apparel**:
  - The management will focus on brand refresh, store expansion, inorganic distributor expansion, LFL expansion and mid-single digit LFL growth, which will help to grow the segment in **mid-teens**.

- RLL will try to replicate the TRS success by expanding EBO network for enhanced apparel growth. It aims to add 650+ stores (incl Ethnics) by FY27E.
- The management aims to add 250-300 stores for each brand, which will remain in focus for the next three years.
- The company will have differentiated marketing for ready-to-wear stores and TRS stores identity.
- Park Avenue/Casuals are expected to contribute 25% of revenue going ahead.
- The store expansion will be on an asset-light model with 70:30 for Franchisee:COCO.

Exhibit 5: Branded Apparel Store Expansion

Source: Company, MOFSL

- **Garmenting**:
  - The management guided for **mid-teen** growth for next few years.
  - The company has undertaken capex of INR200cr, which will increase its capacity.
  - RLL expects the China +1 and Bangladesh +1 strategy to favor it.
  - With the capacity addition, RLL will become the third largest Suit manufacturer in the world.
  - **Growth enablers**: 1) New customer acquisition, 2) Complete solution provider, 3) Vertically integrated supply chain, 4) Bangladesh +1 open up USD50b market opportunity, and 5) awaiting FTA with EV.
  - US contributes 55% of the export in this segment.

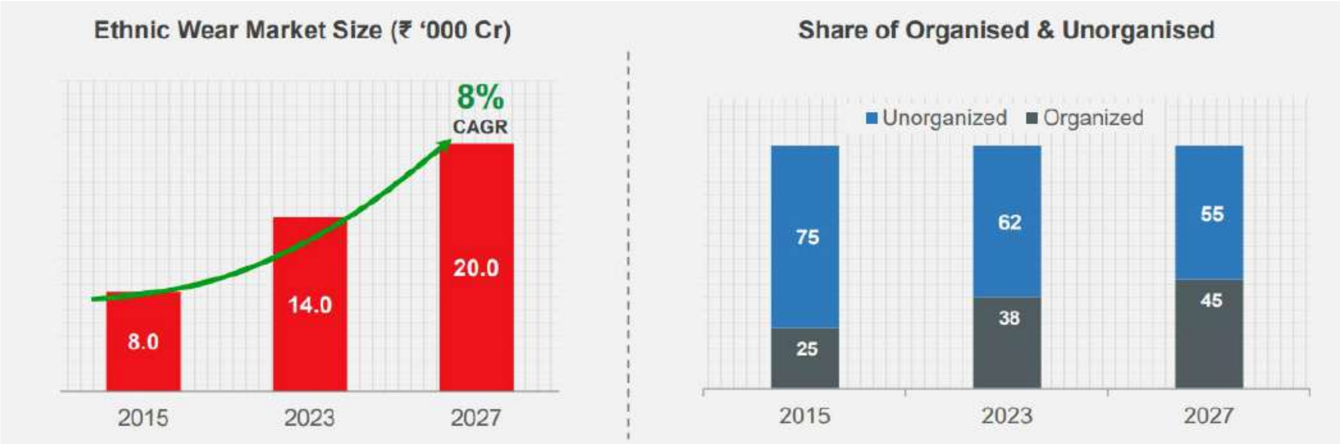
New categories: Ethnix, SleepZ and Innerwear

Ethnix (Multiplier game)

- The Ethnix wear market is expected to grow at 8% CAGR to INR20k cr by 2027.
- The organized market will grow at 14%, while unorganized at 5%. The organized share is expected to reach 45% by 2027 (vs. 38% in FY23).
- Ethnix is expected to add 300+ stores in the next three years.
- The product ranges from INR15,000 to INR1.5 lakh; however, the management will maintain price parity with competitors and will focus on consumer conversion.

- The management will focus on product differentiation, capture the trends in the market, build brand awareness, expand retail footprint and enhance store customer experience.
- The management will also focus on Smart Ethnix (Short Kurta's) to overcome the challenge of seasonality to some extent.

Exhibit 6: Ethnix wear market to grow at 8% CAGR



Source: Company, MOFSL

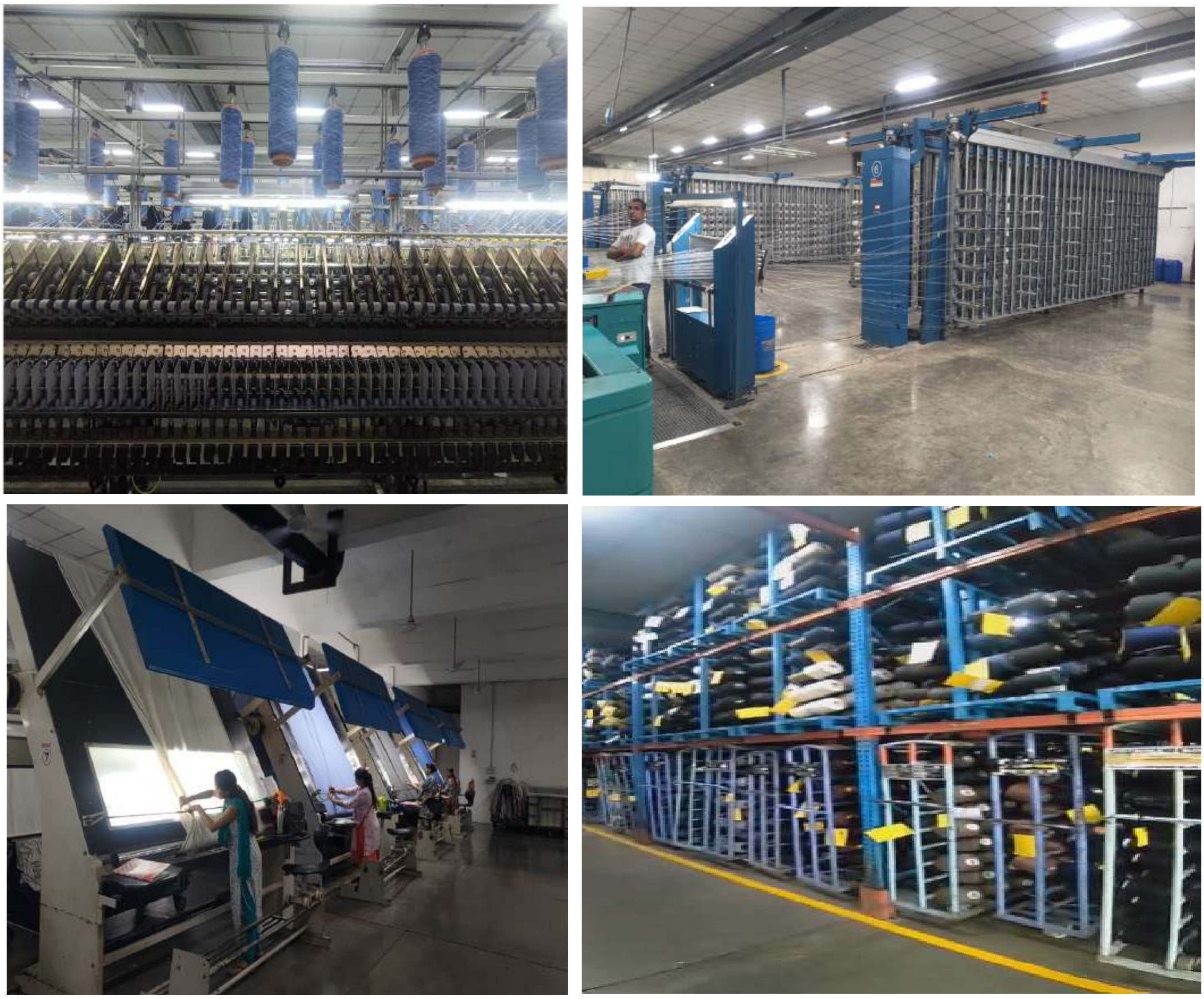
- **Sleepz**
  - The segment will be launched next month and will cater to a price point of sub INR1,000 (set of Top & Bottom).
  - It is the first launched pan-India brand in the sleepwear category.
  - The brand will follow distributor-led model (plus some TRS stores) and expects to reach 25k stores in the next 18-20 months.
  - It will be completely outsourced.
  - It also expects to add 100+ new distributors by year end.
  - The management targets INR500-1000cr in revenue in the next few years.

Exhibit 7: SleepZ by Raymond

Source: Company, MOFSL

- **Innerwear**
  - The brand is expected to be launched in the next 4-5 months with focus on mass premium end of the market.
  - There will be a dedicated team of distributors and designers to focus on the segment.
  - RLL will leverage on Park Avenue brand for innerwear.
- **Corporate Governance**:
  - RLL has reshuffled its board with a new team of seven independent directors from across the industry and two internal.
  - The management highlighted that all the committees will comprise independent directors.
  - Over the last 2-3 years, RLL has brought in a new management team.
- **Factory visit**:
  - Lower the micron, greater the quality of wool. Wool is sourced from Australia for better quality.
  - There was ~10-15% old stock (greater than 1 year), as per the floor manager. The management decides on how to replenish the stock.
  - There is ~90-120 days inventory on average at warehouse.
  - The manufacturing time is 45 days for fabric manufacturing, while Ethnix has a turnaround time of 90 days, from order placing to product in shop.
  - At present the capacity utilization at plant is 75%.
  - As per the floor manager, the Ethnix has 300 days of inventory on average and RLL is taking measures to streamline the supply chain.

Exhibit 8: Glimpse of on-ground production, quality check and raw material storage



Source: Company, MOFSL

Pro forma Income Statement

Y/E March	FY24	FY25E	FY26E
Revenue as per drivers	69,794	72,580	79,240
Elimination	4%	4%	4%
Total Revenue from Operations	66,910	69,453	75,825
YoY (%)		4	9
EBITDA	10,920	9,961	12,056
Margin (%)	16.3	14.3	15.9
EBITDA as per drivers	11,126	10,153	12,288
Elimination	2%	2%	2%
Depreciation / Amortization *	2,480	2,505	2,530
EBIT	8,440	7,456	9,526
Margin (%)	12.6	10.7	12.6
Interest & Finance Charges *	1,960	1,980	1,999
PBT before EO Expenses	6,480	5,477	7,526
Extraordinary Items (Net)	-92		
PBT after EO Expenses	6,388	5,477	7,526
Total Tax	1,703	1,369	1,882
Tax Rate (%)	27	25	25
Profit for the year	4,685	4,108	5,645
Margin (%)	7.0	5.9	7.4
* Note: assumed 1% YoY growth for FY25/26 in order to calculate PAT	69,794	72,580	79,240

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Nainesh Rajani
Email: nainesh.rajani@motilaloswal.com
Contact: (+65) 8328 0276

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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