# "Raymond Limited
# Q3 FY2022 Earnings Conference Call"

January 27, 2022

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**Moderator**: Ladies and gentlemen, good day and welcome to Raymond's Limited Q3 FY2022 Earnings Conference Call, hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijeet Kundu of Antique Stock Broking Limited. Thank you and over to you, Sir!

**Abhijeet Kundu**: Thanks Raji. On behalf of Antique Stock Broking, I would like to welcome all the participants to the Q3 FY2022 conference call of Raymond Limited. I have with me Mr. J. Mukund who is the Head of Investor Relations of Raymond Limited. Without taking further time I would like to hand over the call to Mr. Mukund. Over to you, Mukund!

**J. Mukund**: Thank you Abhijeet. Good evening everyone and thank you for joining us for Q3 FY2022 Earnings Conference Call of Raymond Limited. I hope all of you would have received a copy of our results presentation. I would like to urge you to go through this along with the disclaimer slides.

Today we have with us Mr. Amit Agarwal, Group CFO; Mr. Ganesh Kumar, Chief Operating Officer of Lifestyle Business and Mr. Harmohan Sahni, CEO of Real Estate Business. I will now hand over the call to our Group CFO, Amit Agarwal who will give you the summary of the company's quarterly performance before we open up the floor for Q&A session. Over to you Amit.

**Amit Agarwal**: Thanks Mukund. Good evening ladies and gentlemen, thank you for joining us today on this earnings call to discuss our results of third quarter for fiscal 2022. Let us quickly touch upon how were the market conditions during the third quarter. Domestic market witnessed upbeat sentiments that drove consumer demand in the third quarter of the fiscal backed by higher optimism, festivities and wedding related purchases. The sustained rebound momentum witnessed from mid-August post-opening of the market and improved vaccination in the country got further augmented with 100% store network operational, resumptions of offices, surge in travel and overall festive moods starting from Navratri in October followed by Diwali in November and Christmas in December resulted in accelerated our B2C sales.

We witnessed the robust traction in secondary sales with higher footfalls in our stores as more consumers were able to indulge in shopping experience. The vaccination drive among the 18-to-45-year age group which is the key customer category visiting mall started progressively from May, June month onwards for whom the second dose eligibility was applicable largely in August and September month which were one of the main catalysts. This provided the much-required impetus to both high street and retail outlets in shopping malls thus increasing the confidence among our trade partners that resulted in strong revivals across our trade channels.

In the export market strong momentum for orders was maintained in both garmenting and engineering sectors. From garment perspective in US, UK, and Europe markets where consumerism is a key factor in driving the economic growth there were strong retail sales due to buoyant consumer sentiment despite higher inflation and uncertainty about COVID pandemic.

Before summarizing the financial highlights, we are happy to share that our third quarter fiscal 2022 has been a commendable quarter in terms of overall performance of the company. The company has achieved significant number of milestones leading to a robust performance driven by strong focus on execution. It is a testimony to the fact that with a 95-year-old strong brand Raymond and PAN India presence across businesses we are a resilient organization that has been demonstrating a strong grit to bounce back stronger quarter-on-quarter.

Let me now give you key consolidated financial highlights for the third quarter fiscal 2022.

Our consolidated revenue grew by 45% to ₹ 1,871 Crores from ₹ 1,286 Crores in third quarter fiscal 2021 reaching pre-COVID levels. This growth was driven by strong increase in sales across all businesses in both domestic and export markets. Also on a preceding quarter basis, the revenues were higher by 18% from ₹ 1,583 Crores in the second quarter of fiscal 2022. Similar trend was witnessed in second half of the previous year with unlocking and opening up of markets led to a strong growth in sales. This reiterates the fact that with recovery in consumer sentiments there exists a strong demand for our products and services across the country as well as in the global markets.

While revenues grew by 45%, our EBITDA grew by 93% over previous year achieving highest ever EBITDA of ₹ 303 Crores with an EBITDA margin of 16.2%. This was driven by strong performance across most of our businesses as compared to previous years. We also reported highest PBT of ₹ 186 Crores and highest margin thereof of 9.9% in the last 10 years driven by strong performance and reducing the interest cost. Through a combination of strong EBITDA and efficient working capital management we generated free cash flows of ₹ 320 Crores driving the net debt reduction of ₹ 310 Crores leading to a net debt of ₹ 1,253 Cr as on December 31, 2021. Our net profit was over four and a half times over the previous year amounting to ₹ 100 Crores in third quarter fiscal 2022 compared to ₹ 22 Crores in third quarter fiscal 2021.

Now let me discuss the operational performance in more detail. In third quarter fiscal 2022, strong growth was witnessed across all businesses resulting in 45% growth from ₹ 1,286 Crores in second quarter fiscal 2022 to ₹ 1,871 Crores in third quarter fiscal 2022. In our B2C businesses of branded textile and branded apparels all the trade and retail channels have shown a stronger recovery resulting, growing by about 50% as compared to last year.

In terms of our B2B businesses of high value cotton shirting we witnessed strong pickup in domestic demand resulting in high growth of 72% compared to previous year. Even the garmenting segment grew by 48% driven by continued high momentum in our key export markets of US, UK, and Europe. In the engineering business where we have already recovered and achieved pre-COVID topline in third quarter last year itself. This quarter additionally we have been able to grow by 28% over the previous year level driven by growth in export markets and continued improvement in domestic demand across categories.

In the real estate business we witnessed also a strong growth in number of bookings on the back of an encouraging demand and fast-paced construction activity leading to a sales of ₹ 175 Crores which is 177% growth compared to last year.

Let me talk about the EBITDA and the operating cost. We have achieved the highest ever EBITDA of ₹ 303 Crores for the quarter which reflects a growth of 93% over a previous year and EBITDA margin of 16.2% higher by 400 basis points as compared to previous year. This was driven by strong profitable performance in our B2C business of branded textile and branded apparel and supported by other businesses as well.

As far as operating cost is concerned, our operating costs stood at ₹ 478 Crores during the quarter which was higher by 43% as compared to previous year level of ₹ 334 Crores primarily due to increase in revenue. However with such continued strong focus on optimizing operating expenses we have been able to lower the Opex by 18% that amount savings to the tune of ₹ 102 Crores over pre-COVID third quarter fiscal 2020 levels of ₹ 580 Crores while revenues were at similar level. Additionally from an interest cost perspective based on the deleveraging and interest rate optimization we were further able to reduce interest cost to ₹ 57 Crores in third quarter fiscal 2022 which is lower by ₹ 11 Crores as compared to ₹ 68 Crores in third quarter fiscal 2021 and lower by ₹ 21 Crores as compared to ₹ 78 Crores in third quarter fiscal 2020 pre-COVID level.

The average interest rate level for the quarter was at 7.96%. On the working capital front we continued our focus on efficient working capital management and overall our working capital decreased by ₹ 161 Crores to ₹ 1,101 Crore as on December 31, 2021, compared to 1,263 Crores as on September 30, 2021, mainly through reduction in receivables driven by strong collections throughout the quarter.

On number of networking capital (NWC) days it also reduced by 19 days from 73 NWC days in September 2021 to 54 NWC days in December 2021 based on quarterly annualized revenue basis. From a cash flow perspective, driven by strong operating performance we reported strong operating cash flows of ₹ 379 Crores and free cash flow of ₹ 320 Crores for the third quarter fiscal 2022. On our debt the gross debt stood at ₹ 2,125 Crores as on December 31, 2021, as compared to ₹ 2,206 Crores as on September 30, 2021. At the same time the cash and cash equivalents was higher by ₹ 229 Crores and stood at 872 Crores as on December 31, 2021, as compared to ₹ 643 Crores on September 30, 2021. We were able to reduce the net debt by ₹ 310 Crores and the net debt stood at ₹ 1,253 Crores as on December 31, 2021, as compared to ₹ 1,564 Crores as on September 30, 2021.

Here I would like to reiterate the fact that over recent times the company has embarked on a deleveraging plan and has undertaken multiple steps in that direction with the purpose of enhancing shareholder value. In December 2019 we infused ₹ 350 Crores as a preferential issue from net proceed from sale of land by an associate company and utilized the entire amount for reducing debt. Additionally during FY2021 and in the current year which a period impacted by multiple waves of pandemic our strong focus on cost optimization and effective working capital management our deleveraging strategy has played out well. The key achievements have been, we were able to reduce the net debt by over ₹ 600 Crores that is by ₹ 443 Crores during FY2021 from ₹ 1859 Crores in March 2020 to ₹ 1,416 Crores in March 2021 and by ₹ 163 Crores in current year from ₹ 1,416 Crores in March 2021 to ₹ 1,253 Crores in December 2021. This improved debt structure through effective refinancing with 3 to 10 years maturities of long-term debt. Continuously improve the net debt equity ratio from a 0.75x in March 2020 to 0.65 in March 2021 to 0.58x in December 2021.

Now allow me to take you through our business segment-wise performance. Branded textile segment reported strong growth of 49% to ₹ 899 Crores versus ₹ 603 Crores in previous year. In the suiting business there was strong volume growth across all categories of wool blends, poly viscose and gifting solution. We offered collections catering to new trends and fashion. Our offerings in wool rich blend has received strong response from our customers and also there has been high demand for the premium gifting solutions catering to the wedding season.

In the shirting business there has been a strong volume growth in the cotton shirting category. We received good response to our 'Vibez collection' a latest collection of vibrant shirting fabrics addressing the needs of casualization that are available across cotton and linen blend. From a channel perspective, primary sales was mainly driven by a renewed optimism among trade channel partners post unlocking that drove good revival in wholesale and MBO trade channel on the back of improved buoyancy for festival demand and strong wedding related demand. Even when we talk about the secondary sales which continued to exhibit higher momentum in Q3 and in our TRS network we witnessed the ATV increase of 13% compared to pre-COVID levels due to improved consumer sentiment and increased footfalls. The segment reported healthy EBITDA margin of 21.2% which is higher than 433 basis points compared to previous years mainly driven due to increase in sales and improvement in realization. The growth was also driven by better product mix as there were higher sales of poly wool blends and benefits from 2% to 4% price hike taken across categories in bookings done in mid-of the year and overall operating efficiency.

Now let me talk about the branded apparel segment which recorded a sales growth by 50% to ₹ 316 Crores vis-à-vis ₹ 211 Crores during the third quarter of previous year and the EBITDA margin improved to 10.7% as compared to 3% in previous year. The growth was driven with strong recovery in consumer demand with the opening up of market as restrictions were removed and footfalls increase in the retail outlets in the festive and wedding season. Over the last few quarters our successful initiative such as cost optimization, focus on consolidation of backend processes and serviceability, store rationalization, channel specific merchandise and online penetration helped. These initiatives have worked very, very well for us and helped us in becoming leaner making us operationally more efficient. We continue to focus on enabling growth through widening the product portfolio increase in online presence network expansion through franchise model and continue to constantly work on back-end consolidation for improving efficiency. We have received overwhelming response from our customers for our new collections in our core product portfolio casual category and category extension in ethnic category. Our store network and LFS doors witnessed higher footfalls and observed higher traction. Keeping up with the demand of fresh collections with quick turnaround of merchandise we have witnessed growth in trade channels. We have also received very good response from our curated special lines for e-commerce marketplaces. Aggressive marketing campaigns in digital as well as other media in targeted cities during festivals helped to strengthen our brand and also drove the footfalls across all our stores. The segment reported a healthy EBITDA margin of 10.7% mainly due to better sales along with higher realizations, improved cost margin, better channel mix and continued operational efficiencies..

Regarding our retail network the network as on December 31, 2021, we had 1,411 stores spread across 600 towns. With opening up of market and revival in consumer sentiment we witnessed strong traction in secondary sales with improved average transaction value. In our The Raymond shop (TRS) network recorded 13% growth in average transaction value as compared to pre-Covid levels. We are strongly focused on making our EBO portfolio healthy during the quarter we close 21 underperforming stores and currently we are in the last phase of store rationalization process while at the same time we are continuously evaluating opportunities to strengthen our retail footprint. During the quarter, we opened 12 stores across tier one to four towns.

Let me talk about the garmenting segment where the sales grew by 48% to ₹ 203 Crores compared to ₹ 137 Crores in previous year driven by continued strong momentum in export markets. Growth in bulk business was driven by high demand from customers from US, UK, Europe markets and with the China + 1 adoption by some global brands and elevation to critical supplier status has helped us in driving customer acquisition. EBITDA margin for the quarter improved to 8.6% due to better utilization levels and operational efficiencies.

When we talk about our high value cotton shirting segment where the sales grew by 1.7 times to ₹ 148 Crores compared to ₹ 86 Crores in previous years due to higher cotton fabric sales in domestic markets as strong demand from B2B customers at the backdrop of lower inventory levels maintained at their level and higher secondary sales during the festival and wedding season. The segment reported EBITDA margin of 8.6% for the quarter impacted mainly due to higher raw material prices and lower contribution from higher margin yarn business.

During the quarter the engineering business was consolidated under JK Files and Engineering Limited which is 100% subsidiary of Raymond Limited on an aggregate basis the sales grew by 28% to ₹ 209 Crores as compared to ₹ 163 Crores in previous years. Sales growth mainly driven in export markets out of US, Europe, Asia, and Africa and in domestic market there was continued improvement in demand across categories of products which we supplied. The business reported lower EBITDA margin of 15% mainly due to increase in raw material prices and freight costs which was partly offset by higher productivity and efficiency.

Real estate segment grew by 177% to ₹ 175 Crores from ₹ 63 Crores in previous year. While there has been a strong demand in the overall real estate sector with key drivers being affordability driven demand, rising income level and low mortgage rates. Our real estate business witnessed strong growth due to higher number of bookings and fast paced construction activities in all 10 towers of the 'Ten X Habitat' project as the revenue is recognized on percentage completion method overall project 'Ten X' received 208 bookings in third quarter of fiscal 2022 resulting in total of 1,763 units booked which is 73% of the total inventory launched till December 31, 2021, with a booking value of ₹ 1,722 Crores. During the quarter we launched the premium residential project 'The Address by GS' and received an overwhelming response with 117 bookings in third quarter fiscal 2022 itself with a booking value of ₹ 252 Crores.

Now let me update the tower wise construction status. Tower 1, 2, 3, 4 is above terrace work in progress, tower 5, 6, 7, 15 slabs work in progress, tower 8, 6 slabs working in progress, tower 9 and 10 plinth work completed. The excavation work is in progress for the premium residential project 'The Address by GS.'

**Let me also give you an update on the consolidation of the businesses undertaken which was announced on September 27, 2021.**

As far as the consolidation of engineering business is concerned during the quarters we have done the consolidation of the engineering business. Post consolidation, Ring Plus Aqua Limited is a subsidiary of JK Files and Engineering Limited. This consolidation is expected to help in getting to bring in synergies in terms of product applications, business development, sourcing of raw materials, logistics services and overall administrative process. In line with the stated strategy to monetize the business thereby deleveraging Raymond Limited, JK Files and Engineering Limited has filed DRHP with the regulatory body for raising ₹ 800 Crores through offer for sale of shares held by Raymond Limited. Currently we are awaiting the regulatory approval.

The next was consolidation of B2C businesses including apparel into Raymond Limited we have received the shareholders and lenders approval for the same and currently the scheme has been filed with NCLT and awaiting the approval thereof. In terms of subsidiarization of real estate business the Board of Directors approved the real estate business division to be subsidiarized into wholly owned subsidiary of Raymond Limited.

**Now let me talk about the current status of operations and the near-term outlook.**

We are seeing strong consumer demand led to revenue recovery to the pre-COVID level and with the current momentum we expect to improve the operating performance and to be on a profitable growth path. In the domestic market from the last week of December there have been rising concerns over the third wave of the COVID pandemic while there have been state level restrictions, ban on large gatherings however it has been more of relaxed restrictions and limited lockdowns including weekend lockdown and night curfew.

Overall consumer sentiments are positive with double vaccination and relaxed restrictions and expected to be progressively improving with weaning of third wave while trade channel is cautiously optimistic.

**In the garmenting segment** the export demand levers continue to be strong and China + 1 strategy adopted by our customers and better sell-through due to consolidation of global brands at retail level. Also in the US, UK, and Europe regions despite slight spike in cases the demand is expected to continue as there was no major lockdown imposed by any country.

**From a raw material perspective**, prices of the wool and poly viscose have been stable and we expect it to remain the same for short-term basis. As we all are aware the cotton prices have increased by nearly 100% over the last one years and given the commodity prices continue to remain high we expect that the cotton prices will remain higher during the year.

**In the engineering business** we expect good domestic retail demand in our main consuming sector and higher export demand mainly driven by industrial segments. The expectation is on the steel prices to soften however freight costs continue to remain an area for monitoring as there is a shortage of containers which results in delay in the shipment as well.

**As far as real estate outlook** is concerned, we expect the growth momentum in the residential market to continue. From Raymond perspective the construction activity in our real estate business is in full swing in both the projects and we are on time to deliver the first three towers of 'Ten X Habitat' ahead of the RERA timeline by almost 24 months.

**From an Opex cost perspective** we are on track to exceed the stated guidance of cost savings of ₹ 300 Crores in fiscal 2022 as compared to fiscal 2020.

**As far as an industry outlook** is concerned we are expecting the union budget to be announced shortly and we are hopeful that there will be further impetus for improving consumerism and expect reforms that increases the spending power of the consumer which will provide opportunity for Indian economy to achieve a higher GDP growth in the coming years.

We also expect government to provide an impetus on infrastructure development and capitalize on the China + 1 adoption of global companies which would boost the employment and income levels that triggers domestic demand. Governments incentivise and support to fuel the growth in textile and apparel sector presenting Indian players with huge export opportunities. Government also incentivize 'Make in India' initiative for indigenous production of textile and related products.

Factors which would support the growth of textile and apparel includes:

- Increased penetration of organized retail, favorable demographics and rising income levels triggering demand for textile and apparel.
- Increased aspirations in tier three, four, five towns has helped to improve the spent on the branded goods.
- Rise of omni-channel convergence and mobile-led e-commerce.

Today Raymond with its very strong brand name and nationwide presence in 600 towns and cities is the market leader in suiting and shirting fabric company. With continued innovations through our strong R&D capabilities supported by vertically integrated manufacturing facilities and focused omni-channel developmental capability, we are emerging stronger than ever before to capture the growth potential in the market.

**On the engineering business** our focus on consolidating market leadership, particularly in the industrial files and automotive segments increase wallet share with our existing customers, increase presence in non-auto exports and continue to build relationship with other white label customers. We are expanding the existing manufacturing capacity across our product categories of cutting tools, ring gears, water pump bearing and flex plates.

**In the real estate business** in line with the company's growth plan to expand its reality horizons beyond Thane, 'Ten X Reality Limited', the step-down wholly owned subsidiary of the company has recently signed a binding term sheet for joint redevelopment of the residential project in the western suburban district of Mumbai. The project is estimated to have an aggregate revenue potential of around ₹ 2,000 Crores over a period of next five years. We will provide further updates on the same as soon as there is any meaningful progress.

Along with strong potential for growth we would continue to focus on liquidity management through cost reduction initiatives and networking capital optimization. We aim to be a net debt free company over the next three years.

Thank you very much and now we are open for questions.

**Moderator**: Thank you very much, Sir. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Harsh from Motilal Oswal. Please go ahead.

**Harsh**: Thank you for the opportunity. I just wanted to ask what is our outlook on the lifestyle business.

**Amit Agarwal**: So look as we mentioned that we have seen a very robust demand so to speak the recovery compared to the pre-COVID levels has been witnessed very clearly in the third quarter and that is backed by the strong festive and the wedding season. Now if I look at the current quarter as well as going forward there is still a large number of weddings which are expected to happen. Also based on the strength of the weddings and people coming back out of the COVID, coupled with a strong vaccination drive we see a strong demand coming on our way. You all know that if a wedding has to happen in our country there has to be a Raymond fabric or an apparel to be worn at any point of time. Concurrently, we also have a leg in terms of export which is the export of fabrics and the garments to the matured markets of the US, Europe and UK. Here we have seen a very strong demand and our order book is full till June 2022. As we speak today we have been seeing this phenomenon for almost last seven, eight months having full order books for six month ahead. We are looking at very clearly some of the new customers, large retailer out of Europe whom we have been longing to do the business they have come and engaged into a detailed discussion in terms of style, collection, pattern and this is clearly happening on the back of China

+ 1 strategy. So we are obviously benefiting out of that as well, and our facilities both in India and Ethiopia are running around the 80% to 85% of capacity utilization as we speak today. So we feel very confident about this.

**Harsh**: Thank you and that was really helpful. Just a small follow-up on that. Are we seeing any slowdown in our demand which is led by this new variant coming in or any impact of the Omicron, are we witnessing any slowness in that demand or what is the ground like in the last few couple of months or in January?

**Amit Agarwal**: Yes, look you see what happens is and I think a little bit of the lighter side this omicron variant has not been so severe if you see people have been getting well between five to seven days. Also, the restriction or the lockdowns has not been at all on a country wide, there has been some lockdowns here and there that too in the late hours. So that has not really impacted the shopping hours maybe one or the other place Delhi or some Uttarakhand had seen some of the lockdown during the weekends and such things. However by and large we have not seen such a restriction maybe there is a little impact in the first two weeks. Also during these first two weeks till 14th of January, in any case things are little weaker considering the period. And now good strong wedding season is ahead of us. So all our dealers are demanding the products and I can go out to say that people are asking in such a manner that they ordered last week and they expect a delivery in this week or next week. So people are expecting a lot of fabric to be delivered to them.

**Harsh**: Thank you. That was all from my end. Thank you.

**Modeator**: Thank you. The next question is from the line of Meet Jain from LKP Securities. Please go ahead.

**Meet Jain**: Hi! Sir, congratulations on the good set of numbers. My question is regarding the textile business like we have achieved a very good revenue in this quarter and the margins are also on the higher side so with the current trend you are seeing like the upcoming wedding season is still there so you are expecting going forward also you can maintain this kind of run rate in both our revenue and margins.

**Amit Agarwal**: In terms of the revenue textile being a little bit of a seasonality plays into the way so you have always a third quarter a very, very strong quarter with the festivals as well as a strong wedding season but also then you have the poly wool blend which is far more in this quarter vis-à-vis in the next quarters when the summer starts to come in the poly wool starts to come lower as a percentage of the overall. So to that extent on a seasonality adjusted basis, we see the robust revenue to come in higher than previous period. In terms of improving the margin what we explained to you earlier that as a business from fiscal 2020 level which is truly the pre-COVID time we have been able to reduce our fixed cost. Our Opex cost is down by around ₹ 400 Crores and I think that is something which we have been able to work very judiciously that where to spend money where not to spend money and how to spend. So therefore that is somet hing which is going to help us in consistently improving our EBITDA margin.

**Meet Jain**: So like we did around 21% EBITDA margin in this quarter for textile business and our historic average has been in the range of 15% to 17% so are we going to maintain that kind of range going forward or it will be little higher than that.

**Amit Agarwal**: So it will be higher than the margins which has been historically maintained because the opex cost reduction is going to help us to improve the margins.

**Meet Jain**: And the next question is that in this quarter we have a higher effective tax rate of around 45% so any particular reason for the same.

**Amit Agarwal**: Yes, so in terms of the higher tax I will give you a simple explanation during the quarter what we have been able to do is we took dividends from our two subsidiaries of almost ₹ 100 Crores and when you consolidate the results the dividend income gets netted off or eliminated. However the tax incidence on that remains the same so therefore if I take out ₹ 100 Crores of dividend income on which you pay end up 30% if you knock off that 30% then we have a standard tax rate of around 28%. So that is the reason.

**Meet Jain**: And the last question is on this new tower real estate projects of Raymond we say that we have booked around 50% units in this tower until December 2021 and so how many units have we launched currently.

**Amit Agarwal**: No, so basically what we said to you that within the launch and 31st of December that is practically 45 days we have sold close to 117 units and the total number of units launched is 180 and of that 117 units we have sold.

**Amit Agarwal**: Okay out of 180 units, 117 have been sold. Thank you.

**Moderator**: Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

**Harsh Shah:** So Sir we have seen significant raw material inflation in last few quarters. So if I look at your branded apparel and textile division can you give us a breakup in terms of volume growth and price growth for this quarter.

**Amit Agarwal**: So what happens is if I talk about in terms of the inflation we have been easily able to pass on the raw material inflation on the branded textiles be it the cotton, be it on the wool prices we have been able to do that. In terms of the volume there has been a small improvement in terms of the volume because you see we have to be very careful that you do not want to over flood the market but you want to be clear that the demand for your products is there and based on the demand you supply the product which is of a different quality. Now what we have been also able to do as I talked in my opening remark that we have improved the mix so if you improve the mix on a poly wool blend you get maybe lesser risk but your margins get higher so that is the whole trick that is being played on a day-to-day basis. Our effort which is the number one player in the country and all our efforts are to bring customers more and more to the wool segment, which is much more profitable than the poly viscose's of the world.

**Harsh Shah:** So when we look at the sales growth of around 49%, 50% in your branded textile and apparel business you mean to say that volume growth there would be negligible most of it would be price hike or revenue mix.

**Amit Agarwal**: No so in terms of compared to 50% you have almost 28% to 29% is our volume growth, 8% to 9% is on account of product mix and the balance 10% is on account of the typical price increase that is the way you should break it up.

**Harsh Shah:** Yes, okay that is what I was looking for and sir in your high value cotton business which is a B2B business why is it that we were not able to pass through the raw material impact because in the B2B most of it is pass through, right.

**Amit Agarwal**: Yes, so I will tell you, you ask about B2B right.

**Harsh Shah:** Yes high value cotton business.

**Ganesh Kumar**: Hi! This is Ganesh here. The high value cotton business primarily gets into the B2C channel which is the branded channel and the only a small portion gets into the B2B and there we have been in the B2C channel we have been able to recover most of the price increases that we have incurred and in the B2B also since high value cotton is a very small percentage the price increases have been passed on to the buyers.

**Amit Agarwal**: And just to add what is happening is there are two things one is on account of typical raw material which is the cotton or the linen flax that price increase you have been able to pass on. However there has been certain price increases on the dyes and chemicals you all know the chemical industry has gone through a very different phase during the last third quarter where the prices have jumped up, even the coal prices, so in the quarter itself such inflation has not been able to recover but now effective 1st of January we have been able to increase the prices on our cotton fabrics for the B2B because B2B players are typically the ones who contract the price for a little longer period than on a spot basis. So after those price increases we are going to benefit from the 1st of January onwards.

**Harsh Shah:** And because there is sharp contrast between your textile and apparel business that the margins have improved considerably but in case of high value cotton your margins have like nearly half from 15.1% to 8.8%.

**Amit Agarwal**: You are right because the reason being one clearly in your branded fabrics you are getting a significant premium for a brand which is always the case and once you have the resumption of the demand you are selling at a decent level your pre-COVID levels. Whereas on the B2B segment what happens is you are delivering to the customers who are eventually going to be the apparel makers whereas I mentioned the prices are not moving every day which you see the change in the prices at a certain periodic level and there is also a lag in a B2B businesses all across you will always have a lag and after that lag you start collecting and once you correct it then it remains with you. So therefore you will see that the price change of any inflationary pass on a retail is far sooner compared to in a B2B business where there is a lag.

**Harsh Shah:** And similarly for our engineering business even here we have seen some correction in the margin of course raw material inflation would have played its part so here do we expect the margins to return back to normalcy after a lag of few quarters.

**Amit Agarwal**: Yes, absolutely so what has happened is if you see the overall margin we have delivered is 15% and 15% if you see over the last few years that has been consistently growing up it used to be 12% then it went to 13% then it went for 14.5% and what has happened is when you look at the third quarter of last year why the margin was so high because we were sitting with a very high inventory of steel which was at a lower price and during the last three quarters the steel prices have moved up and there has been obviously there is certain supplies to a B2B segment where you get a delay if there is a lag and therefore we will collect it but it will be with some amount of lag depending upon the country, export and let us also not forget in engineering sectors we export 50% of our goods are exported and these freight rate increases has been to the tune of 400%. Now freight rate increases it takes a while to recover it back so that is the reason.

**Harsh Shah:** So what are the sustainable margins for engineering division as a whole?

**Amit Agarwal**: Look on engineering business as we talked about and that we have these margins you have seen the performance in the first quarter you have seen the performance in the second quarter the average of the same you can consistently consider that, that could be the margin.

**Harsh Shah:** And lastly on the real estate side have we booked any revenue in our premium project, 'Address By GS'.

**Amit Agarwal**: No so if you look at it the way the business as you do the accounting you do on a percentage of completion method and since in the last quarters the project was launched and there was hardly any work done so we have started the excavation now and based on that excavation from this quarter onward we will start booking the revenue.

**Harsh Shah:** Okay and so out of ₹ 252 Crores which we have booked how much have we received how much has been collected.

**Amit Agarwal**: No so basically when you do these kind of things at the time of booking anything between 2% to 5% depending upon various customer base and various arrangements you collect that amount, but for me the most important is somebody who has already come in made a booking and that reflects upon the confidence of the project that out of 180 odd apartments, 117 bookings have been made.

**Harmohan Sahni:** So just to just to add to that as per RERA the legal requirement is that I cannot collect anything more than 9.99% till I have registered the agreement and from sale to registration of agreement it is any time between two to two and a half months timeline is needed. So in any case by law I cannot collect more than that till the registration happens. So most of this 10% or 15% money will get collected towards the end of Q4 by March.

**Harsh Shah:** And just so I have one last question that is on the liquidity side so we have nearly ₹ 650 to 700 Crores worth of cash in our books and we are running some debt as well now with the COVID hopefully almost coming to an end what is the plan here I mean do we expect to continue to maintain same level of liquidity on our balance sheet or we would retire some debt and bring down the cash level.

**Amit Agarwal**: So look very clearly we have demonstrated that we have been able to consistently reduce the debt and the focus now is to become a net debt free company over the next course of time. Now as far as this cash is concerned look this cash is available and we have been able to draw lesser and lesser our cash credit working capital lines. Second thing if you look at it in terms of your thought about the negative carry the way we have been able to borrow now on a recent past in the last two to two and a half months we are able to borrow at a phenomenally cheaper rate so the negative carry is very, very small and considering the COVID impact we have been seeing every six months or so. The COVID wave comes in so it is much important that you have the dry powder available with you so that you can draw on this cash balance at any point of time. So let us go through a journey when we see six to nine months of first clean periods where you are not impacted by pandemic and then we can take it forward.

**Harsh Shah:** Sure I understood. Thank you, thanks a lot.

**Moderator:** Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

**Prerna Jhunjhunwala**: Thank you for the opportunity and congratulations on strong set of numbers. Just wanted to understand your cost reduction strategy, so in one of your slides you have mentioned that there have been a substantial reduction in the cost in the nine months over the last one year. Now in this year also we had the first quarter when we were hit with COVID and stores were closed and stuff. So there would be some operating expenses which would have got reduced over there as well so how should we see your cost structure going forward and what should be the sustainable cost reduction in absolute terms even when we reach pre-COVID level of operations.

**Amit Agarwal**: Yes, absolutely wonderful point Prerna. I think if you look at it we have been showing that if I consider even the most recent quarter, third quarter fiscal 2022 we have been able to reduce our cost by ₹ 100 Crores compared to the third quarter of fiscal 2020 which was a comparable pre-COVID quarter and overall for the nine months we have been able to reduce ₹ 400 Crores and we gave the guidance that for the whole year our reduction compared to fiscal 2020 was ₹ 300 Crores. So we are ahead of that and this is clearly demonstrated that it is not just because of the COVID periods however it is going beyond the COVID period. So what has happened is certain structural changes which has been brought in terms of manpower, rental savings the way you do the advertisement, the way you go about sales promotion activities, the way we used to hold this big trade shows which would cost ₹ 30 - 40 Crores like we explained to you last time also that every single item has been looked. We have started to work on a zero based budgeting so that we do not increase the cost. Now as far as this year is concerned we are very clearly seen compared to the fiscal 2020, ₹ 400 Crores has been already achieved and obviously some more savings will come in the Q4. So in all, we are well ahead that we have been able to reduce the cost. If I look at it you see in the first quarter which was pandemic led savings of 30%, Q2 it was 27% and Q3 it was ~20% compared to pre covid levels. So very clearly we are seeing that we will be able to maintain a decent cost reduction on a go forward basis. However at some point of time we have to also consider the impact of the inflation if I would consider fiscal 2020 and adjust it by the inflation even with a 4%, 4.5% you can imagine that we are sitting in the savings in this quarter itself by more than ₹ 175 Crores of savings because that is normally one would go out and give that inflationary increase so that is something needs to be also incorporated.

**Prerna Jhunjhunwala**: And sir could you guide us on your new businesses strategy of growth like Ethnics, Khadi and FMCG businesses which have been quite small today but can see substantial growth going forward so what is your strategy there and what kind of growth can we expect in these businesses.

**Ganesh Kumar**: Okay let me start with the ethnic I think that is what we are focusing on as the growth lever and we have reworked our ethnic strategy and what three aspects that we are going to look at. First is the Raymond shop is a natural destination for wedding purchases so that is where we are going to expand our presence. We are going to make sure that all those Raymond shops where we have space to offer or where we can expand we are going to offer ethnics as a range to the consumers for wedding shopping. Second is on the EBO network from the current network we are planning to double the network expansion over the next 12 months and if things go on well we will probably get into a 3x mode as well I think that is the second area. Third of course is a very fundamental to this business is what kind of offerings we give it to the consumers. So we have already set up a process of understanding the consumer insights on the trends and the fashion that we are offering on the ethnic side and that is where we are going to expand. In terms of the core ethnics as well as the casual ethnics range we will build capabilities for us. I think broadly the assumption is that Raymond shops are the logical wedding destination and that is the leverage which we would capture and build the ethnics business, for FMCG I will give it to Amit.

**Amit Agarwal**: Coming to FMCG question, FMCG business is a very strong business. You know in FMCG as we speak today, we are currently present in the Deo category which is down as we speak today. Considering the markets people have to go out then people use more Deo. As people are not going out, but slowly and steadily this is a very strong category which could recover. We enjoy a healthy market share of 17% to 18%. We see a huge growth opportunity for us as we talked earlier we see this revenue over the next four years to double from the level where we stand today and also improvements in the margins. So a very robust business for us which has a significant potential and capitalize on the strength of the marquee brands which is the 'Park Avenue' and 'KS'.

**Prerna Jhunjhunwala**: Sir a follow-up on this ethnic strategy just wanted to understand you are planning to open separate ethnic stores or it will be a part of the TRS because when you talk about Raymond as a destination for wedding shopping it will include all your blazers plus shirts pants and as well as the wedding attrire.

**Ganesh Kumar**: So to answer to your question there is an opportunity for us to leverage on the existing Raymond shop which is one of the strategy that we will do it. It is not an either or scenario, because there are certain markets and certain catchment areas where you need to have exclusive brand outlets as well. So it will be a combination of both Raymond shop as well as EBOs and plus we will of course tie up with LFS. We will also tie up with select MBOs where we will offer this range so the dealers, we will have formats of EBOs under three categories, which is mostly in term the size of the size of the market, business opportunity in terms of 1,000 square feet and 1,500 and 2,000 square feet I think that is what we are looking at.

**Prerna Jhunjhunwala**: And the last question is on profitability this quarter we have seen substantial improvement in profitability especially in the branded textile and branded apparel businesses which we have been waiting to see 20% plus in branded textile and 10% plus in the branded apparel kind of business now how sustainable these margins and I am sorry I joined late if these questions have been answered earlier also. Just wanted to get clarity on this.

**Amit Agarwal**: Sure Prerna obviously you see I will tell you as far as the branded apparel is concerned we have spoken number of times that in the last 18 to 24 months because of the pandemic, people have not been able to go out to the shopping mall and the streets to do the shopping in a normal desired manner. The shopping of an apparel is not just dependent that you are a destined shopper you go and buy this. If you go for a meal and/or for a movie you see something nice and you pick it up and that is called impulse shopping, where people are not really looking for the last discount and everything. Second if I look at it, as the demand is so strong and the products and the new lines which we have introduced are so strong that the discounting on the EOSS has come down substantially. Third thing if I look at it in terms of an intake margin very clearly we are seeing an improvement in the intake margin. Fourthly, all said and done we have rationalized the cost in this segment of our business in a very large manner. The sampling cost, the distribution cost, the rental you need to pay, so we are very mindful that if the x volume of sales happens then you can say why only rental even if it is in the most attractive location so all those careful evaluation is being done in order to see a healthier growth in revenue and we know very well. If I look at ₹ 316 Crores is a decent revenue which brings a decent profitability so therefore we expect that this profitability will be continuing and give us a robust revenue going forward.

**Prerna Jhunjhunwala**: And in branded textiles can we expect a little more margin because wool prices are going down.

**Amit Agarwal**: So branded textile has explained also that in branded textile what happens is it is a very seasonal business so you will find in wool segment which is sold typically in the winter-time your margins are way higher and in the poly viscose and others the margins are slightly lower. So seasonally adjusted if you consider we can easily see as the trend has been in the past with a couple of percentage improvement in basis points in terms of the EBITDA margin going forward.

**Prerna Jhunjhunwala**: Okay, Sir. Thank you Sir, that answers all my questions all the best great set of numbers.

**Moderator**: Thank you. The next question is from the line of Kunal Shah from Jefferies. Please go ahead.

**Kunal Shah**: So I have just a couple of questions I am not sure if they are answered earlier. So first is with the third wave coming in January and some restrictions in certain states have we seen any change in our revenue momentum from the December quarter.

**Amit Agarwal**: Actually not because what happens is typically you see we all know till 14th of January. The sales is little lower during this time and post 14th of January the sale starts to improve considering the wedding starts to come into the way and the wedding plays a very important role in the revenue. Maybe it is little bit coincided also with the omicron variant especially in the tier-one cities. However the sales get impacted when you have a countrywide lockdown or a statewide lockdown or during the shopping hours lockdown. While in this omicron variant you have not seen any of these things happening. Maybe it is far and few there you had some weekend lockdown or late night hours which is not typically a shopping hour. So the activities were practically happening, there was a small here and there dip but can I say it was a significant drop, answer is no. So we do not expect any major concern as we speak today but it is very difficult to predict which kind of variant and when it erupts.

**Ganesh Kumar**: In fact this is one thing which we have to live with. I think as business houses and as retailers what we have also started looking at is how can we prepare for this. So there are one is the revenue from the stores itself second is also how do we reach out to the consumers and how do we service their requirements from both this combined process combined together I think we are in good state and we can tackle any sort of challenges that come in three points. One needs to remember the lockdowns are typically localized and lockdowns are not full day lockdowns it is basically restrictive time hours. So whereby whatever shopping needs to be done is still happening that is point number one. Second vaccination is increasing with every passing day. I think that is the other point which is also ensuring that people come to the stores the malls etc. We have seen this evolution over the last 18 months from the first pandemic onwards that now people are no longer scared of not getting out into and doing shopping if required. The third which is very critical is the weddings, the celebrations the events have started going back to the original scale in terms of people wanting to get their relatives, their family, their friends to celebrate so that is becoming much more prominent and thereby the impact on the retail for us at least from what we are seeing in our Raymond shops and the EBOs is not so significant.

**Kunal Shah**: Got it that is very clear. The second question is on the recovery that you have seen in the last six months and especially this quarter in the festive season do you see any divergent trends between let us say metros and tier one towns and let us say smaller towns since Raymond has a fairly broad EBO network or TRS network.

**Ganesh Kumar**: In fact the tier one basically had a slow start but today across tiers, across zones we have recovered the sales and all of them are doing fine. The only point which all of us need to remember is tier 4, 5, 6 which during the pandemic also did not go down because it was always there the second trend which we are also saying is an improvement of ATV average ticket values so that has gone up by about 10% to 13% in a range vs pre-covid levels. It has gone up and that is still continuing to be going strong for us.

**Amit Agarwal**: And let us understand very simply that the 25 lakh weddings which people talked about and our dealer distribution network talked about between November, December it will be between tier one and two towns which is spread all across the country. Considering that, it is spread celebrations are spread all across the country it benefits us.

**Kunal Shah**: Got it. Thank you, that is all from my side.

**Moderator**: Thank you. The next question is from the line of Siddarth Mohta from Principal India. Please go ahead.

**Siddarth Mohta**: Good afternoon to you Sir. Sir historically we have seen strong topline growth in branded apparel and textiles, but it used to be at an expense of working capital but this time we have witnessed strong sales growth without compromising on working capital as reflected in our strong cash flow and debt reduction. So what were the few changes that we have done in working capital policy, in the sense tracking secondary sales more closely system driven and hope company to maintain the same discipline in working capital without sacrificing on the group.

**Amit Agarwal**: Yes, absolutely I think this pandemic has taught us a lot of things. What we did was very clear that we took certain discipline that we will go out and sell to our dealer network franchisee network on the premise that we will give you all sorts of facilities, all provisions, all collections and everything but there is one simple condition that when the amount is due you will pay that money. If there is a certain delay which is not acceptable beyond the normal framework, we will stop the delivery and now that kind of a discipline which we took has clearly helped us to improve our performance in terms of receivable management. Second thing is also we have been very careful was that whatever is typically required when the store needs was timely delivered and that is why which I mentioned in my earlier script that we were getting orders last week to deliver in 10 days. So that also a faster turnaround time from our plants so that people get the right quality of inventory which they can sell sooner and helps them to move the whole cycle faster. Third thing in terms of our plant locations we cater the plants in such a manner in demand planning in a way that they will produce specifically to the requirements of the customers and without compromising on cost obviously, but very specific so when we do a booking we know exactly what is to be done and we were very careful in terms of a demand planning and delivery. If their people do not take their inventory it is very clearly told that there would be certain penalties which will be imposed upon these sites in order to take the business and the next time they will come stand in the queue at a later point. So therefore there has been a lot of discipline and I think the entire company has very clearly focused that working capital is a key and it cannot be compromised for the sake of achieving sales and that is why as I told you that we are sitting at one of the lowest working capital in terms of number of days in this company after a long period of time. and we have not compromised sales I can tell you we have hardly compromised any sales because it is a discipline, hygiene.

**Siddarth Mohta**: Sir, so that is very heartening to know and sir hope that the same discipline and the same alignment could keep between working capital and the sales will continue going forward also. Sir my second question is on this Ethiopia unit. Sir any update on that how is capacity utilization going on, has that unit has become profitable.

**Amit Agarwal**: Absolutely, so look that business is doing around 80% of capacity utilization and the attractiveness of Ethiopia having the free trade agreement so the supplies made out of Ethiopia to the US, Europe and all do not have to end up paying a export duty so that has really helped. We were very clear that if these facilities go above 70% it is a cash machine so therefore we see good volume and good profitability coming out of Ethiopia.

**Ganesh Kumar:** Yes, secondly we have also added new customers into Ethiopia to whom we are supplying so that also added to the capacity utilization and we are also looking at how to diversify the product range as well over there.

**Siddarth Mohta**: Okay, so that is up and running.

**Amit Agarwal**: Yes. Today it is such in our export market I can keep on adding more capacities and the orders keep coming to us. It is such a good market as we speak today.

**Siddarth Mohta**: Sir, so any plan to expand the capacity as that unit is running at 100% or and you plan to do some de-bottlenecking there.

**Amit Agarwal**: Look we consistently do that. It is not that we do not do that. We consistently do that and I will give you a classical example in our engineering business. We plan to double our capacity over the next three to four years and we have seen an increase in our capacity at the engineering plants because basically you get the orders. The whole philosophy of the group is that you secure orders or order pipeline and then you invest in Capex. Not to invest before and then look to chase for an order. So we develop the market and develop the line and then go and create the Capex.

**Siddarth Mohta**: Okay, Sir. So you have mentioned that within three-year company plans to become net debt free, but seeing the very strong cash flow and assuming the IPO that we have planned to do for the engineering segment and it comes at ₹ 700 - 800 Crores. So the combination of IPO plus strong cash flow do you think that that is being a bit conservative guidance that you have given.

**Amit Agarwal**: I think sometimes it is better to be conservative. But you are right you did the right math.

**Siddarth Mohta**: Sir then final question is on the tax front can you please help what it will be because this time taxation part it is on a bit higher side.

**Amit Agarwal**: Yes, but maybe you were not there when we explained.

**Siddarth Mohta**: I have missed that part.

**Amit Agarwal**: Yes, so we explained that during the quarter we took ₹ 100 Crores of the dividend from our subsidiary companies and when you consolidate the results the ₹ 100 Crores dividend is nullified or eliminated however the tax incidence on that is around ₹ 30 Crores and if you knock off the ₹ 30 Crores then your tax rate comes down to 28%, which is a normal tax rate we believe that is a normal standard tax rate we will continue to have on a go forward basis.

**Siddarth Mohta**: And Sir my final question so we do a bit of our exports. Are we eligible for any export incentive from the government side.

**Amit Agarwal**: So we do quite a bit exports.

**Ganesh Kumar**: Yes, so across fabrics, garmenting and the engineering business there is an export incentive. Whatever is the export incentive available at that point in time that is eligible we get it. In fact there are some which has been withdrawn, but there are others which are still there. Also we are getting the cash flow clean into our system.

**Amit Agarwal**: Great Sir and best wishes for upcoming quarters, excellent results. Thank you.

**Moderator**: Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference over to Mr. Abhijeet Kundu for his closing comments. Over to you, Sir.

**Abhijeet Kundu**: Yes, thanks. Thanks for participating in Raymond's conference call. Thanks for all your questions and I thank the management of Raymond Limited for this opportunity to host the call. Over to you, Mukund.

**J. Mukund**: Thanks everyone in case of any other further queries, please reach out to me.

**Amit Agarwal**: Thank you very much and look forward talking to you in the next quarter.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.