

# **MB854: CORPORATE VALUATION**

## **Assignment 2**

### **Raymond Valuation**

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## Company Overview

Raymond Ltd, founded in 1925 and headquartered in Mumbai, is a **prominent Indian conglomerate** with diversified interests spanning **textiles, apparel, engineering, and real estate**. Under the leadership of Chairman and Managing Director Gautam Singhania, the company has established a significant presence both domestically and internationally.



Originally renowned for its textile and apparel divisions, Raymond has undergone strategic restructuring in recent years. Notably, in 2024, the company demerged its lifestyle business, leading to the listing of Raymond Lifestyle Ltd (RLL) in September 2024. Additionally, Raymond sold its consumer goods segment, which included brands like Park Avenue and Kamasutra, and is in the process of spinning off its real estate division. These moves are steering Raymond Ltd towards a focused approach on its engineering operations.

### Market Presence and Share

In the **Indian suiting fabric market**, Raymond commands a dominant position with over **60% market share**, particularly in the premium and luxury segments. Its products are available in more than 55 countries, including the USA, Europe, Japan, and the Middle East. Domestically, Raymond boasts a vast distribution network comprising over 1,600 stores across approximately 600 towns and cities.

### Products and Services

Raymond's diverse portfolio encompasses:

- Textiles: Wool, poly-wool, silk, and other blended suiting fabrics.
- Apparel: Suits, blazers, jackets, trousers, denim fabrics, and shirts under brands like Raymond Ready-To-Wear, Park Avenue, ColorPlus, and Parx.
- Engineering: Steel files, drills, cutting tools, hand tools, and power tool accessories.
- Auto Components: Ring gears, flex plates, and water pump bearings.
- Real Estate: Residential and commercial developments under Raymond Realty.
- Others: Non-scheduled airline operations.

### Financial and Stock Information

As of April 19, 2025, Raymond Ltd.'s stock is trading at **₹1,524** on the NSE, with a **market capitalization** of ₹10,146 crore. The company has demonstrated robust financial performance, with a return on equity (ROE) of 21.9% and a return on capital employed (ROCE) of 20.1%.

### Recent Developments

In the first quarter of the fiscal year 2024-25, Raymond reported a 40% increase in adjusted profit, driven by strong performances in its real estate and engineering segments. Real estate contributed approximately 53% of the company's revenue during this period, with sales surging by 108%, while engineering sales doubled.

These strategic shifts underscore Raymond Ltd.'s commitment to evolving its business model in response to changing market dynamics, positioning itself for sustained growth in its core sectors.

## Company Financials

### Profit and Loss Statement

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
<i>Sales -</i>	6,482	3,446	6,179	8,215	9,020
<i>Sales Growth %</i>	-1.52%	-46.83%	79.27%	32.96%	9.80%
<i>Expenses -</i>	5,966	3,507	5,474	7,015	7,710
<i>Material Cost % -</i>	43.20%	47.68%	36.26%	36.50%	28.55%
<i>Raw material cost</i>	3,052	1,133	2,484	3,516	3,321
<i>Change in inventory</i>	-251	510	-243	-518	-746
<i>Manufacturing Cost %</i>	16.36%	17.74%	25.07%	23.02%	30.26%
<i>Employee Cost %</i>	15.40%	19.57%	14.28%	12.55%	13.28%
<i>Other Cost %</i>	17.08%	16.75%	12.98%	13.33%	13.40%
<i>Operating Profit</i>	516	-60	705	1,199	1,309
<i>OPM %</i>	8%	-2%	11%	15%	15%
<i>Other Income -</i>	285	186	6	31	1,216
<i>Exceptional items</i>	38	-16	-136	-107	-39
<i>Other income normal</i>	248	201	142	137	1,256
<i>Interest</i>	303	276	228	257	376
<i>Depreciation</i>	340	314	240	235	284
<i>Profit before tax</i>	159	-465	243	737	1,866
<i>Tax %</i>	-27%	-35%	-9%	27%	12%
<i>Net Profit -</i>	202	-304	265	537	1,643
<i>Profit after tax</i>	202	-304	265	537	1,643
<i>Profit from Associates</i>	0	0	0	0	0
<i>Reported Net Profit</i>	202	-304	265	537	1,643
<i>Minority share</i>	-6	7	-5	-8	-5
<i>Profit for EPS</i>	196	-297	260	529	1,638
<i>Exceptional items AT</i>	29	-15	-103	-74	-35
<i>Profit for PE</i>	168	-282	362	602	1,672
<i>EPS in Rs</i>	30.31	-44.6	39.09	79.42	245.91
<i>Dividend Payout %</i>	0%	0%	8%	4%	4%

## Balance Sheet

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Sept-24
<i>Equity Capital</i>	65	67	67	67	67	67
<i>Reserves</i>	2,311	2,031	2,293	2,832	4,551	3,524
<i>Borrowings -</i>	2,556	2,413	2,353	2,529	4,181	946
<i>Long term Borrowings</i>	387	1,176	1,161	991	2,368	442
<i>Short term Borrowings</i>	1,786	719	931	1,137	1,058	463
<i>Lease Liabilities</i>	0	337	261	402	756	40
<i>Other Borrowings</i>	384	182	0	0	0	
<i>Other Liabilities -</i>	2,790	2,220	2,654	2,779	4,203	2,877
<i>Non controlling int</i>	88	82	77	85	438	437
<i>Trade Payables</i>	1,406	1,164	1,714	1,692	2,064	836
<i>Advance from Customers</i>	85	68	68	84	68	
<i>Other liability items</i>	1,211	906	796	917	1,633	1,604
<i>Total Liabilities</i>	7,722	6,730	7,366	8,207	13,001	7,413
<i>Fixed Assets -</i>	2,441	2,044	1,878	1,934	3,475	1,928
<i>Land</i>	181	181	181	153	217	
<i>Building</i>	1,465	1,289	1,280	1,492	1,999	
<i>Plant Machinery</i>	1,428	1,442	1,444	1,475	1,752	
<i>Ships Vessels</i>	20	20	20	20	20	
<i>Equipments</i>	26	24	24	24	29	
<i>Computers</i>	13	13	14	14	16	
<i>Furniture n fittings</i>	193	190	194	202	226	
<i>Vehicles</i>	65	68	37	40	49	
<i>Intangible Assets</i>	12	1	1	1	400	906
<i>Other fixed assets</i>	16	17	18	19	544	
<i>Gross Block</i>	3,420	3,246	3,214	3,440	5,251	
<i>Accumulated Depreciation</i>	979	1,202	1,336	1,506	1,776	
<i>CWIP</i>	40	21	25	36	99	22
<i>Investments</i>	598	500	1,100	1,639	2,826	1,739
<i>Other Assets -</i>	4,644	4,164	4,363	4,598	6,601	3,725
<i>Inventories</i>	2,201	1,634	2,011	2,497	3,514	1,924
<i>Trade receivables -</i>	1,159	958	873	744	1,407	431
<i>Receivables over 6m</i>	0	0	0	25	52	
<i>Receivables under 6m</i>	1,192	991	908	790	1,435	
<i>Prov for Doubtful</i>	-33	-33	-35	-71	-80	
<i>Cash Equivalents</i>	328	552	336	326	526	440
<i>Loans n Advances</i>	90	92	176	169	247	94
<i>Other asset items</i>	865	929	967	863	908	835
<i>Total Assets</i>	7,722	6,730	7,366	8,207	13,001	7,413

## FY25 Projection

### Calculations:

- Revenue/Sales (+1.35%) and Expenses (-0.89%) are projected for Q4FY25 by taking the arithmetic average of the first three quarters.
- Other income normal, Interest & Depreciation are also calculated by taking the arithmetic average of the first three quarters.
- Tax rate (18%) is taken as same as Q4FY24.
- The Company had a revenue of Rs. 7,309.84 crores from discontinuing operations in Q1FY25. For further quarters it is assumed to be zero.
- Outstanding shares is 84949215.14, (as on Q3FY25).

	Jun-24	Sept-24	Dec-24	Mar-25 Projected	FY25 Projected
<b>Sales -</b>	<b>938</b>	<b>1,045</b>	<b>954</b>	<b>967</b>	<b>3903.87</b>
		<b>11.41%</b>	<b>-8.71%</b>		
<i>YOY Sales Growth %</i>	98.08%	122.25%	40.60%		
<b>Expenses -</b>	<b>850</b>	<b>943</b>	<b>823</b>	<b>815.66</b>	<b>3431.66</b>
		<b>10.94%</b>	<b>-12.73%</b>		
<i>Material Cost %</i>	52%	54%	51%		
<i>Employee Cost %</i>	13%	12%	13%		
<b>Operating Profit</b>	<b>88</b>	<b>102</b>	<b>131</b>	<b>151.22</b>	<b>472.22</b>
<i>OPM %</i>	9%	10%	14%		
<b>Other Income -</b>	<b>7,370</b>	<b>56</b>	<b>31</b>		<b>7457</b>
<i>Exceptional items</i>	7,309.84	0	0		
<i>Other income normal</i>	60.62	55.96	31.45	49.34	
<i>Interest</i>	31	29	28	29.33	
<i>Depreciation</i>	39	40	42	40.33	
<b>Profit before tax</b>	<b>7,388</b>	<b>89</b>	<b>92</b>	<b>130.89</b>	<b>7699.89</b>
<i>Tax %</i>	0%	34%	22%	18%	
<b>Net Profit</b>	<b>7,367</b>	<b>59</b>	<b>72</b>	<b>107.33</b>	<b>7605.33</b>
<i>Profit after tax</i>	7,367	59	72		
<i>Reported Net Profit</i>	7,367	59	72		
<i>Minority share</i>	0	1	0		
<i>Profit for EPS</i>	7,366	60	72		
<i>Exceptional items AT</i>	7,310	0	0		
<i>Profit for PE</i>	57	59	72		
<i>YOY Profit Growth %</i>	26%	1%	76%		
<i>EPS in Rs</i>	1,106.08	9.01	10.83	12.63	895.28

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	FY25 Projected
<b>Sales -</b>	<b>6,482</b>	<b>3,446</b>	<b>6,179</b>	<b>8,215</b>	<b>9,020</b>	<b>3,904</b>
<i>Sales Growth %</i>	-1.52%	-46.83%	79.27%	32.96%	9.80%	-56.72%
<b>Expenses -</b>	<b>5,966</b>	<b>3,507</b>	<b>5,474</b>	<b>7,015</b>	<b>7,710</b>	<b>3,432</b>
<b>Material Cost % -</b>	<b>43.20%</b>	<b>47.68%</b>	<b>36.26%</b>	<b>36.50%</b>	<b>28.55%</b>	
<i>Raw material cost</i>	3,052	1,133	2,484	3,516	3,321	
<i>Change in inventory</i>	-251	510	-243	-518	-746	
<i>Manufacturing Cost %</i>	16.36%	17.74%	25.07%	23.02%	30.26%	
<i>Employee Cost %</i>	15.40%	19.57%	14.28%	12.55%	13.28%	
<i>Other Cost %</i>	17.08%	16.75%	12.98%	13.33%	13.40%	
<b>Operating Profit</b>	<b>516</b>	<b>-60</b>	<b>705</b>	<b>1,199</b>	<b>1,309</b>	<b>472.22</b>
<i>OPM %</i>	8%	-2%	11%	15%	15%	12%
<b>Other Income -</b>	<b>285</b>	<b>186</b>	<b>6</b>	<b>31</b>	<b>1,216</b>	<b>7457</b>
<i>Exceptional items</i>	38	-16	-136	-107	-39	
<i>Other income normal</i>	248	201	142	137	1,256	
<i>Interest</i>	303	276	228	257	376	
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<b>Profit before tax</b>	<b>159</b>	<b>-465</b>	<b>243</b>	<b>737</b>	<b>1,866</b>	<b>7699.89</b>
<i>Tax %</i>	-27%	-35%	-9%	27%	12%	1%
<b>Net Profit -</b>	<b>202</b>	<b>-304</b>	<b>265</b>	<b>537</b>	<b>1,643</b>	<b>7605.33</b>
<i>Profit after tax</i>	202	-304	265	537	1,643	
<i>Profit from Associates</i>	0	0	0	0	0	
<i>Reported Net Profit</i>	202	-304	265	537	1,643	
<i>Minority share</i>	-6	7	-5	-8	-5	
<i>Profit for EPS</i>	196	-297	260	529	1,638	
<i>Exceptional items AT</i>	29	-15	-103	-74	-35	
<i>Profit for PE</i>	168	-282	362	602	1,672	
<i>EPS in Rs</i>	30.31	-44.6	39.09	79.42	245.91	895.28
<i>Dividend Payout %</i>	0%	0%	8%	4%	4%	4%

- The Payout ratio is taken as 4% same as that of last 2 financial years.
- The return on equity is 44.5% as of latest reports

## Part A

### Projections for FY26 to FY31 using Discounted Cashflow Model

$$\text{retention ratio} = 1 - \text{payout ratio}$$

Payout ratio = 4%

$$\text{retention ratio} = 1 - 0.04$$

$$\text{retention ratio} = 96\%$$

Return on Equity (RoE) = 44.5%

$$\text{growth (g)} = 0.96 * 44.5$$

$$\text{growth (g)} = 42.72\%$$

During the High growth phase, the estimated growth rate is 42.72% and during the stable growth phase the estimated growth rate is assumed as 7%.

$$\text{Cost of equity (} k_e \text{)} = R_f + \beta * (R_m - R_f)$$

The **risk-free** rate **6.5%** as per investing.com.

The **Beta** of the company is **1.5** as per moneycontrol.com

The **market risk premium** is **31.3%** as per moneycontrol.com for Nifty midcap companies

$$\text{Cost of equity (} k_e \text{)} = 6.5 + 1.5 * (31.3 - 6.5)$$

$$\text{Cost of equity (} k_e \text{)} = 43.7$$

	High Growth						Stable Growth
	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Sales -	3903.9	5571.6	7951.8	11348.8	16197.0	23116.4	24734.5
Sales Growth %	-0.6	0.4	0.4	0.4	0.4	0.4	0.1
Expenses -	3431.7	4897.7	6989.9	9976.0	14237.8	20320.2	21742.6
Operating Profit	472.2	673.9	961.9	1372.8	1959.2	2796.2	2991.9
OPM %	0.1	0.4	0.4	0.4	0.4	0.4	0.1
Other Income -	7457.0	492.1	702.3	1002.4	1430.6	2041.7	2184.6
Exceptional items		-74.2	-105.9	-151.2	-215.7	-307.9	-329.5
Other income normal		566.3	808.2	1153.5	1646.3	2349.6	2514.1
Interest		411.0	586.6	837.2	1194.9	1705.4	1824.7
Depreciation		403.3	575.6	821.5	1172.5	1673.4	1790.5
Profit before tax	7699.9	351.7	501.9	716.3	1022.4	1459.1	1561.3
Tax %	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Net Profit -	<b>7605.3</b>	<b>288.4</b>	<b>411.6</b>	<b>587.4</b>	<b>838.3</b>	<b>1196.5</b>	<b>1280.2</b>
EPS in Rs	895.3	33.9	48.5	69.1	98.7	140.8	150.7
Dividend Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		1.0	2.0	3.0	4.0	5.0	6.0
Dividend Payout	304.2	11.5	16.5	23.5	33.5	47.9	51.2
Present Value	304.2	11.4	16.1	22.8	32.3	45.6	7.8

## Valuation

Sum of present values of dividends = 440

Terminal Value = 1177.07

**Valuation price = ₹1617**

### **Conclusion and recommendations**

Based on our comprehensive valuation analysis of Raymond Ltd., we have determined an intrinsic value of ₹1,617 per share using the Dividend Discount Model. When compared to the current market price of ₹1,524, our valuation indicates that Raymond's stock is currently undervalued by approximately 6.1%.

The significant growth rate of 42.72% used in our model reflects the company's strong potential for expansion and increased market share in the textile and apparel sector. This growth projection is supported by the company's strategic initiatives, brand strength, and diversification efforts.

Given our findings, we recommend:

- **BUY:** Investors should consider purchasing Raymond shares at the current market price, as there is potential for appreciation to reach the intrinsic value.
- **HOLD:** Current shareholders should maintain their positions and potentially increase their holdings during market dips.
- **MONITORING:** Regular reassessment of the valuation is recommended as market conditions and company performance evolve.

This valuation should be considered alongside other qualitative factors such as management quality, industry trends, and competitive landscape before making investment decisions.

## Part B

### Relative Valuation of Raymond Ltd.

#### Formula Used

The following multi-stage P/E valuation formula is used from Aswath Damodaran's book (Illustration 18.1):

$$\frac{P_0}{EPS_0} = \frac{\left(1 - \frac{g}{ROE_{hg}}\right) \times (1+g) \times \left[1 - \frac{(1+g)^n}{(1+k_{e,hg})^n}\right]}{k_{e,hg} - g} + \frac{\left(1 - \frac{g_n}{ROE_{st}}\right) \times (1+g)^n \times (1+g_n)}{(k_{e,st} - g_n)(1+k_{e,hg})^n}$$

#### Given Data

Current Market Price (₹)	1,524
EPS (TTM)	1,160.79
Trailing P/E Ratio	1.31
Sector P/E	17.78
High Growth Rate (g)	42.72% or 0.4272
Stable Growth Rate (g <sub>n</sub> )	7% or 0.07
ROE in High Growth Phase	44.5% or 0.445
ROE in Stable Phase	12.5% or 0.125
Duration of High Growth Phase (n)	5 years

#### Step-by-step Calculation

##### High Growth Phase (Term 1)

$$\begin{aligned} (1 - g / ROE_{hg}) &= 1 - 0.4272 / 0.47 \approx 0.091 \\ (1 + g) &= 1.4272 \\ ((1 + g) / (1 + k_{e,hg}))^n &= (1.4272 / 1.12)^5 \approx 3.3526 \\ 1 - 1 / 3.3526 &= 0.7017 \\ \text{Denominator} &= 0.12 - 0.4272 = -0.3072 \\ \text{Term 1} &= 0.091 \times 1.4272 \times 0.7017 / -0.3072 \approx -0.297 \end{aligned}$$

##### Stable Growth Phase (Term 2)

$$\begin{aligned} (1 - g_n / ROE_{st}) &= 1 - 0.07 / 0.125 = 0.44 \\ (1 + g)^n &= 1.4272^5 \approx 5.2618 \\ (1 + g_n) &= 1.07 \end{aligned}$$

$$(k_{e,st} - g_n) = 0.03$$
$$(1 + k_{e,hg})^n = 1.12^5 \approx 1.7623$$

$$\text{Term 2} = 0.44 \times 5.2618 \times 1.07 / (0.03 \times 1.7623) \approx 46.86$$

#### Final Expected P/E

$$\text{Expected P/E} = \text{Term 1} + \text{Term 2} = -0.297 + 46.86 \approx \mathbf{46.56}$$

#### Conclusion

- The expected P/E based on fundamentals and growth assumptions is approximately 46.56.
- The actual trailing P/E is only 1.31, which is significantly lower than the expected P/E.
- This suggests that Raymond Ltd. is undervalued at its current price, given its strong growth and profitability metrics.