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# Business India

THE MAGAZINE OF THE CORPORATE WORLD

April 23-May 6, 2018

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GAUTAM SINGHANIA

# On a Winning Path

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# Business India

Raymond, under Gautam Singhania, has begun to show its paces.

The Singhanias have had a long history and were amongst the early industrialists in India. But over time many big industrial houses broke up. After the divisions and separations, some family members and their units did well while other family members were left behind. In the Singhanias' case the North and the West groups have done well. But even the smaller parts have divided further as individual nuclear families took over individual units.

In the case of Raymond it is where originally Gautam Singhania's father's brother and other family members too had a stake, it took some years before Gautam Singhania was finally able to take independent charge.

As the country liberalised and opened up, the companies where there was an emphasis on competent professional managers, from outside the family, taking charge were the ones that did well. There was an emphasis on execution and cost effectiveness. And it is these companies that developed a competitive spirit. This is the path that Raymond has followed under the leadership of Gautam.

Today Raymond, with its consumer facing business, is well poised to take advantage of our growing economy. The reason why many analysts emphasise the value of consumer facing businesses is that levels of consumption in India are extremely low in most categories of consumer goods. Quite apart from the West, even if we compare with our neighbours in Southeast Asia we have very low consumption levels across all sectors. With clothing being one of the key and basic requirements of the population, Raymond is bound to see growth. In addition, with changing lifestyles and the spread of knowledge and habits through the media, print, TV and Internet, our population – particularly the young – are moving rapidly towards a consumer society.

Gautam has rightly focused on building Raymond, and other subsidiary brands, as strong brands recognised by consumers not only all over the country but overseas too. The value of a strong brand is that it not only maintains the loyalty of the existing customers but it also continuously attracts newer customers. Across the world companies are focusing on building their brands, not on assets, moving towards asset light models. This allows the companies to move nimbly, get the maximum returns on capital and maintain flexibility in a competitive and changing business environment.

An emphasis on good governance, open and transparent accounting and separating personal expenses (and even extravagances) from corporate accounts to the personal accounts of the controlling shareholders is what the public stock markets want to see. Such companies are rewarded more than handsomely. Gautam has rightly chosen to move along this path. And the results are already clearly visible, particularly in the last year.

*Business India* believes that Raymond will be a strong Indian brand and leader in the years to come.

Ashok H. Advani

SANJAY BORADE


COVER PHOTOGRAPH BY SANJAY BORADE

## FOCUS

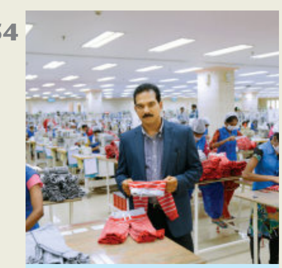
SANJAY BORADE



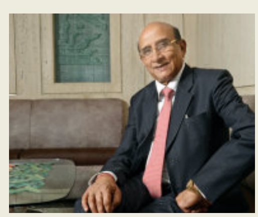
## CORPORATE REPORTS











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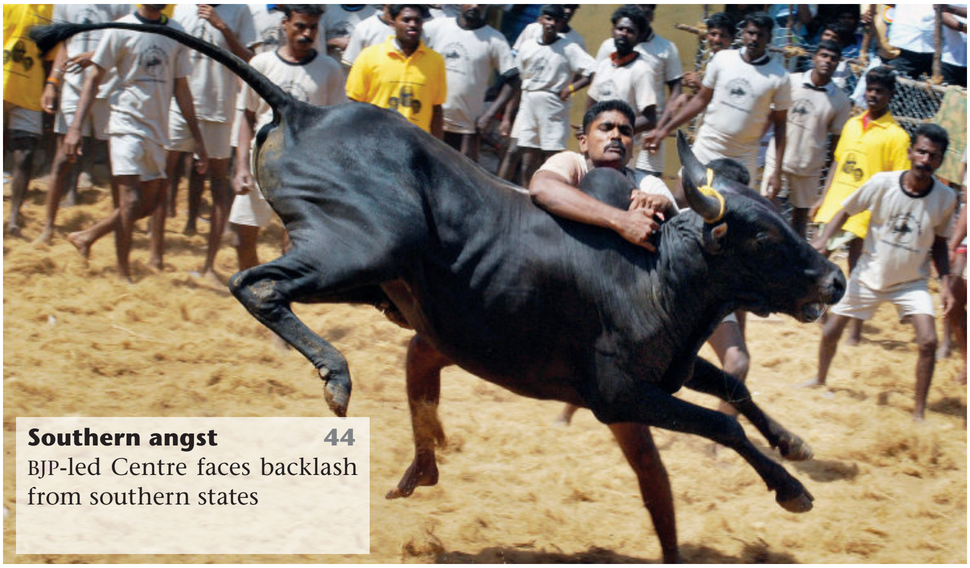

**Southern angst** 44
BJP-led Centre faces backlash from southern states



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# Evolving to win

**Gautam Singhania endeavours to bring back the glory Raymond once had**

PHOTOS: SANJAY BORADE

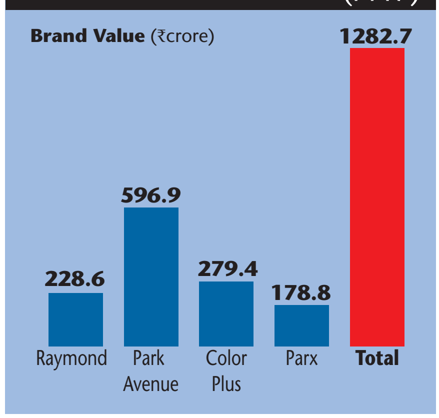
A metamorphosis has been taking place at Raymond since February 2015, when Gautam Singhania took ownership control of Raymond, after settling with his father and cousins. "I can now take even bolder decisions, without having to worry about it," says Singhania the complete control has given him more freedom to explore new things. "You have seen the transformation that has happened in the last two and half years at Raymond. The stock price has done well; investors are happy; now, we have a clear strategy of what we are doing," he elaborates. The stock market has appreciated what Singhania is doing, as the share price has moved up by 92 per cent since February 2015. Arvind, one of the competitor companies, moved up by 31 per cent during the same period. Raymond has even outperformed the BSE Mid-cap Index, which moved up by 53 per cent during the same period. Institutional investors too have appreciated what Singhania has been doing, as is reflected in their holding, which has improved from 20.87 per cent as on December 2015 to a healthy 29.34 per cent by December 2017. The promoter holding in the company stands at 43.34 per cent as on December 2017. The company that has businesses ranging from branded fabrics, apparels and garmenting to FMCG, auto ancillaries and engineering is working on an asset-light approach now to improve its return on equity.

Everyone knew Raymond was a fabric brand, but few realised its efforts to create an apparel brand. Three years ago it relaunched its 'ready-to-wear' items under the Raymond name, which would be a strong ₹300 crore revenue brand by the end of FY18. "We have done a huge amount of work on Raymond Apparels in the last few years," says Gaurav Mahajan, president, apparel, Raymond group, underlining the fact that this brand has become a hit with the customers. "We seem to have achieved good traction too. It would almost be the same size as ColorPlus (which Raymond bought in 2002) this year," he adds. For the nine months ended December 2017, Raymond Apparel grew by 25 per cent, the second highest in the company's apparel portfolio and next only to Parx, launched in 1999, which grew by 33 per cent. For the year ended March 2017, Park Avenue, launched in 1986, was the largest apparel brand for Raymond, with a turnover of ₹597 crore; followed by ColorPlus, with ₹280 crore; Raymond, with ₹229 crore; and Parx, with ₹178 crore.

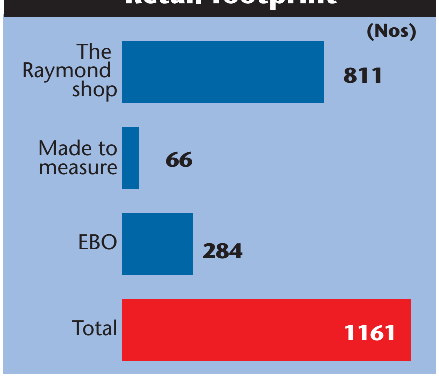
New and innovative strategies worked behind the success of Raymond Apparel. Studies had shown that every fourth shirt sold in India was white and that every wardrobe would have at least one white shirt. And, Raymond is known for suits and jackets. To extend that legacy, Raymond launched a campaign called Raymond whites, offering more than 100 options within whites. It worked, helping consumers associate Raymond with ready-made shirts too.

Mahajan is confident that Raymond apparel will soon move to be among the top five apparel brands in the country. At present, the section is led by Louis Philippe, with turnover of ₹1,149 crore, followed by Van Heusen (from the Aditya Birla stable), with a tally of ₹933 crore (*see table*).

**Branded apparel bifurcations (FY17)**




**Retail footprint**




In a similar vein, Raymond has introduced its branded shirting too – so much so that, for the year ended March 2017, branded shirting fabrics has clocked revenues of ₹469 crore, by selling 19 million metres. "If you look at any male wardrobe, you will find that the ratio between shirts and trousers is 3:1. However, we were not selling shirting. We started selling branded shirting three years ago. And, from zero revenue, it has climbed to be a ₹500 crore strong brand now. This business is consistently growing at 20-25 per cent," says group CFO Sanjay Bahl. Today, Raymond is the market leader in branded shirting business in India. The potential for branded shirting business is huge, as it is a hugely underpenetrated segment. Raymond has left earlier established players like Bombay Dyeing, Piramal and Arvind behind.

### Making to measure

Another business segment the company has added to its stock is 'made to measure'. This business had its initial hiccups but now looks promising. 'Made to measure' is needed for a strategic reason too – the branded fabrics business, which contributes almost 50 per cent to the consolidated revenue of Raymond, has been facing challenges from ready-made apparels these days. In today's hurried lifestyle, it's not convenient for customers to buy fabric, take it to a tailor, then undergo trials, before getting the finished product in hand. Not only is this time-consuming, but also scores low on convenience. The quality of tailoring also varies greatly. Raymond had to address this issue – especially with the young generation.

To counter the challenge, it started the 'made to measure' concept, where not only can one buy Raymond fabric, but the same store would offer the service of stitching too. "We had to disrupt our model," admits Bahl. "Convenience is the customer's right. The question was: how do we make tailoring more convenient than ready-mades? How do we win this battle?" Every year, Raymond has been selling 50 million metres of branded fabrics at a time when ready-made garments were the

*Behl: evaluation on three parameters: outsourcing, buying, divesting*

first choice of customers. The stitched product had to be of the same quality, if not better than, the ready-made garments. Where does one get the tailors who can give that kind of finish? Raymond had to take up the challenge.

It started a centre of excellence at Thane, an eastern suburb of Mumbai, to train tailors. The company at present has 20 franchise-based tailoring hubs, run as an industrial enterprise, and wants to take it to 25 by the end of this year. It has set a target to upskill 100,000 tailors by 2020. The company is using technology to drive this initiative, making a digital platform where customers can not only buy fabrics online, but can also connect to a tailor and then have the final product delivered at a preferred location of choice. The price of Raymond tailoring is a little expensive, but offers good quality. Last year, the made-to-measure section had contributed ₹67 crore to the topline of the company. This figure is likely to swell, with the availability of more trained tailors. But the real benefits would be what it has done to the branded fabrics business.

Another initiative the company undertook was to start an asset-light mini TRS (The Raymond Store). There were solid reasons for the same. One, the normal TRS covers some 2,500 sq ft. Not only would this call for larger capex, but it also would require higher working capital and a longer period to break even. It's estimated that large format stores call for investments to the tune of ₹70 lakh, plus working capital. The company wanted to move beyond Tier I and Tier II cities to expand its reach. But, larger stores in Tier III and IV cities were not a feasible option. To counter that the company came up with the concept of mini stores, which are less than 1,000 sq ft in size and costs ₹20 lakh, plus the working capital, but offered almost the same range of products.

## Mini stores

Raymond started with nine mini TRS as a pilot project and now has 53 operational stores. "Our chairman's vision is to have 300 stores in next 12 months," says Bahl. Raymond has a total 1,161 stores, of which 811 are TRS, while 284 are 'exclusive brand outlets' (EBOs).

The company, which has a presence in 400 cities of India, wants to expand to another 300 cities in the next three years. This will help the company expand its topline too, as Raymond has a strong brand recall as well as presence in Tier III, IV and V cities. The company is adopting a dual strategy whereby, in big cities, it would have large format stores (like destination shopping),

**1925**
- Gentleman called Wadia-started Wollen mill called Wadia
- This was taken over by ED Sasson & Co and renamed as Raymond Wollen Mills

**1944** Singhania acquired Raymond

**1956** First Export order from Fiji

**1958** First retail store at Ballard Estate

**1964** First FMCG product launched under brand Tiara – hair care products

**1966** Entered ready-made garments with Double Barrel brand

**1967** Plant set up in Kenya. It was closed down in 2000 due to political turmoil

**1968** Trovine brand was launched – new polyviscose fabric

**1981** Launched 'Legswear' as trouser brand for mass market

**1986** Launched Park Avenue brand

**1990** First retail store outside India, in Oman

**1991** Personal care product under Park Avenue launched

**1992** KamaSutra condoms launched

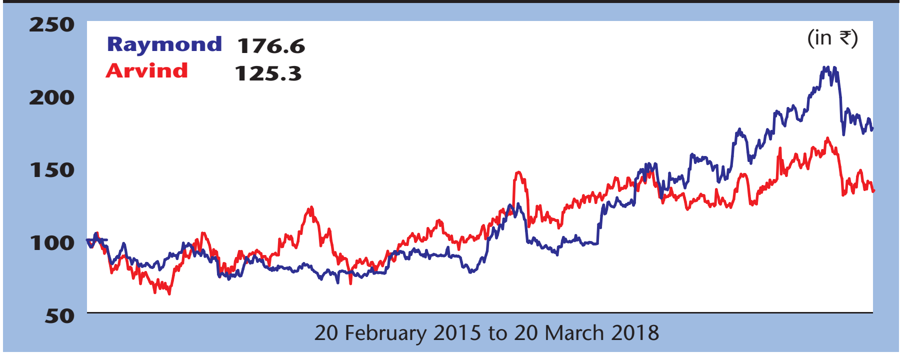
which will have all products and all services under one roof, while smaller stores would cover Tier III, IV and V cities. The company expects each mini TRS to give it an annual turnover of at least ₹90 lakh. It wants to play on India as well as Bharat. Most of the new stores would be on franchisee model, as the company wants to focus on reducing the assets, to expand its RoE.

Another interesting experiment Raymond has undertaken is to look at store level profitability. Three years ago Raymond started a concept whereby every store manager was expected to wear a colour band that signified store level profitability. This was to bring certain awareness at the store level that it was imperative to improve profitability. A red band meant that the store was bleeding; orange meant the EBDIT was 0-15 per cent; green meant 15-25 per cent profitability; and blue indicated above 25 per cent profit. "We could have had charts, or speeches, or circulars sent," Mahajan says, explaining the logic of the bands. "But, if you wanted to co-opt people, you had to simplify – do something which applied uniformly to everybody. So, everybody including my finance guy and myself wear bands. And, when my daughter asks me what this band is all about, I tell her 'this is my school mark'."

Till a few months back, Mahajan was wearing a red band, signifying that, at the aggregate store level, the company was losing money at the EBDIT level. Now, Mahajan is sporting an orange band. "We are heading towards green. Within the next financial year, we will be in green," he hopes. At present, the band concept is implemented only in stores where apparels alone are being sold (in about 325 stores). But the company wants to extend this concept to other formats too.

Another move the company has made is on the FMCG business front, which is being run under an associate company called JK Helen Curtis (brand: Park Avenue) and is undergoing restructuring. Raymond owns a 48 per cent stake in JK Helen Curtis through another group company called JK Investo Trade, while the balance is owned by promoters in their personal capacity. The company has recently announced its 'go to the market' strategy, focussing on the Beta male, rather than Alpha male. It has revamped its FMCG products under 'One Park Avenue' brand. Another group company JK Ansell (of the Kamasutra (KS) brand fame) is now being integrated with JK Helen Curtis, to bring in cost and revenue synergies. While KS, strong in the pharma distribution network, is almost absent in the mainline FMCG channel, Park Avenue is

**Price comparison for Raymond v/s Arvind apparel industry**




**Financials of Raymond Ltd – consolidated** (₹ crore)

| Particulars | 17-Mar | 16-Mar | 15-Mar | 14-Mar | 13-Mar |
|---|---|---|---|---|---|
| Total operating revenues | 5391.32 | 5131.36 | 4837.26 | 4001.99 | 3494.89 |
| Profit/Loss before exceptional, extra ordinary items and tax | 87.82 | 196.85 | 159.72 | 160.01 | 65.64 |
| Profit/loss for the period | 55.93 | 89.78 | 115.87 | 94.86 | 11.7 |

**EBITDA margin** (%)

| Segments | FY18 9 months | FY17 | FY16 |
|---|---|---|---|
| Branded textile | 14.3 | 14.1 | 17.3 |
| Branded apparels | 0.8 | -1 | 2 |
| Garmenting | 4.5 | 8.4 | 8.3 |
| Cotton shirting | 10.6 | 9.8 | 9.3 |
| Tools and hardware | 8.7 | 2 | 4.7 |
| Auto components | 23.1 | 14.5 | 2.7 |

**1994** Name changed from Raymond Wollen to Raymond Ltd

**1995** Entered steel business with cold rolled steel plant

**1996** • JV for denim with Italian company • JV with Ansell to form JK Ansell

**1999** Parx brand was launched

**2000** • Gautam Singhania appointed as MD at Raymond • Manzoni was launched as a premium brand

**2001** • 'Be' brand launched as designer clothing collection • Cement plant sold to Lafarge

**2002** Acquired ColorPlus

**2003** Silver Spark apparel as well as Celebrations apprarel started

**2006** JV with UCO Nv Belgian for denim

**2008** Raymond as a premium apparel launched

**2015** B2C shirting business launched

**2016** Technosmart fabric launched. Sold 1 million metres in a year – a record in company's history

**2017** Techno-Strech fabric was launched

**2018** Vacation of office of Vijaypat Singhania

# ‘Creating a world-class company’

**Gautam Singhania** gives a broad perspective on Raymond’s growth plans to **Sunil Damania**:

**You have a new logo and a new tagline: Raymond Reimagined? What are the thoughts behind these?**
You have to keep changing and evolving. Every five years or so, you have to do something different. A big change in my life happened in February 2015, when I took ownership control of the company. I settled with my father and all my cousins in February 2015. I can now take even bolder decisions, without having to worry about it. You have seen transformation that happened in the last two and half years. How do we take Raymond to next level of growth? That’s what Raymond Reimagined is all about. In last two and half years, our stock price has done well. Investors are happy. We have a clear strategy of what we are doing.

**Can you elaborate on ‘next level of growth’?**
Every business has a plan in terms of what it wishes to do. The Raymond brand is at the core, but we are getting new avenues of growth. Each new avenue is a growth engine. Look at Raymond premium apparels, which had no revenue three years ago but, today, it’s a ₹300 crore brand. It took five years to stabilise ‘Made to Measure’, but today it’s doing well. People are seeing value benefits. I think you have to keep evolving yourself. Put focus in on something you are doing. You need to come out of the corner and press the accelerator; you just can’t keep rolling on.

**But Raymond has too many divisions. How can you focus, when you have too many divisions?**
By creating a professional team for each division! Take FMCG. It got a professional board. This is the first time in India that the promoter of a company has stepped off as chairman of the company. This is growth initiative for the company. Now Rajeev Bakshi is chairman of the board. I am a member of the board but it’s a properly governed company. Am I a textile manufacturer or am I an entrepreneur? I am an entrepreneur. Are we saying that I am not allowed to do anything except lifestyle textile? I am a businessman. If I see an opportunity I will do it. Tomorrow, if I wish to develop luxury lifestyle products and, if I want to put my personal money into it, I will do it. Today, the auto component business is the best running business in the group. Someone would say: what do you know about auto component business? We may not. But we will find people who know how to run auto component business.

**But everything need not be in one company?**
What was historically there is still there; untangling will happen in due time. We are on a journey and we reach milestones in journeys. The fundamental mission is to enhance the shareholders’ value; to create a world-class company; to create a world-class-governed company; to do all the right things. Nothing in life is easy; there would be challenges on the way. But we know the journey we have embarked on.

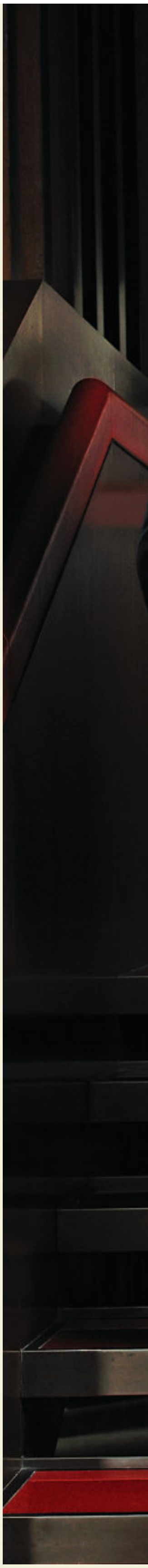
**In last year’s annual report, you talked about an asset-light approach and strong focus on RoCE. You also talked about unlocking value in FMCG, engineering and real estate…**
It’s better to be asset-light. Are we more of a manufacturing company or more of a marketing company? Our manufacturing is there, because of a lot of technology. Technology drives our dominance in the market place. So, products that we make, nobody else can make. That’s the fundamental DNA of the company. So, there has to be a balance between asset-light and asset-heavy. It’s a constant endeavour to improve RoCE and that’s the only way we can improve the shareholders’ value. There is a sharp focus on it. We have put the right people and the right structure to drive FMCG. Engineering is doing well too. At the end of the day, one pays value for our businesses. In 2000, when we sold our steel, cement and filament businesses, we looked at divesting engineering business too, but there was no buyer for it.

We will have to monetise real estate. I need to differentiate between an owner and a manager. I will do everything that enhances shareholder value. The more the shareholder value enhances many times, there is more in it for me too. I got good people in the company and they are focussed on what needs to be done. I am not involved in the day-to-day operation of the company; I am involved only with vision and strategy.

**You say you are not in the day-to-day management of the company. While you have CEOs for the divisions, you don’t have a CEO for the whole company?**
That’s me. The more you grow, the more your job changes. We have committees, we have boards and we have an advisory board. I am not here to see how much stock is sold and how much a debtor is up or down. You are paying a guy to do that. The fact that you are not in the day-to-day management does not mean that you are not in the management. The buck stops with me.

**Do you see a separation of the management from ownership – someone else as md of the company?**
So, you are asking me about my future strategy? As time goes by, at the end of the day, I am a businessman. I would always be involved in the business -- which way, I don’t know. My job is simply to create a structure where I am either involved or not involved, depending on how much I am needed. There may be a business where the requirement is 90 per cent and another business where requirement is 10 per cent. At the end of the day, I must create shareholder value.

**Do you have a plan to demerge companies vertically to create shareholders’ value like Bajaj and Orient did and your competitor Arvind is doing? Does this kind of thought really fit into your**



**scheme of things?**
I am not going to divulge what we are going to do tomorrow. We will do what is best in the interest of shareholders. If someone comes and says: here I am, paying $5 billion for the business; I will say, take it, and I will distribute to shareholders.

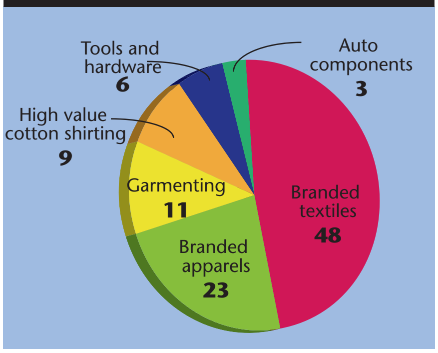
**You talked about monetising real estate. Can you spell out your strategy?**
We have settled with labour and relocated the factory. Today, it is the only case in India where 1,855 people were settled without one drop of blood being shed or one blow being hit. It took just one day and one cheque. The land issue, we are sorting out slowly. We will adopt a strategy that will give us the best value, like developing on our own or partnering with someone. If someone makes me offer I cannot refuse, then I will sell it. But I have no emotions in this. I was neither born in that place, nor am I going to live there. So, any decision taken would be a business-based one.

**Is there any timeframe for this?**
We do have a timeline. We have lot of balls in the air. We are doing lot of things at the same time. Something takes more time, and something else takes less time. I don't wish to give you wrong guidance. In the last 8-9 quarters of performance, every quarter has been better than the one before. See what has happened in the past; see the direction, don't see the destination. Environment is also changing. In the last 12 months, we had two major instances -- demonetisation and GST. How can you plan for events such as these? You have to embrace this. You have to move on with life. As a company gives the best products, the best governance and the best system, either you do well, or you do very well.

**You are doing many things like being asset-light, applying theory of constraints, etc. How do you ensure that all these are implemented the way it should be?**
We have a strong advisory board. We got a steering committee. You have to give power to get power. This is the philosophy I believe in. The more power you give, the more powerful you become. The more power you give, the more they will do for you. The more they do for you, the stronger you become. The stronger you become, the more powerful you become. In Raymond, we trust people. I rather trust people and fail, than not trust at all.

**How are the issues on governance going, especially about JK House?**
This is the first time in the history of India, when a promoter has taken a resolution to shareholders, where the promoter was the only person to gain from that and, yet, he advises the shareholders in writing to vote against the resolution. Who else will do this today? This is bad governance or good governance? I think it is outstanding governance. I have lost out personally. At the end of the day, we have to do what is right thing. The right path is always going to be rougher and more beaten but the pleasure at the end of the day is going to be higher. One can take the easier path, but you will not get anything. We are on a journey. Nothing is going to happen overnight. The bus has left in the right direction. I strongly believe that, if you are committed to do right things everything will follow. ◆

**Raymond revenue mix for FY17** %




strong in the FMCG channel.

JK Ansell, a JV with Ansell of Australia, recently underwent restructuring, where the surgical gloves business was left with Ansell and the condom and deodorant businesses were retained by the company. The FMCG business has a turnover (covering condom and deo) of about ₹400 crore. The company is focussing on the male grooming space, which includes deo, skin care, hair care and sex wellness products (under the KS brand). The Raymond group enjoys the No.2 position in the male deodorant segment. Fogg is the market leader here, with a market share of 18 per cent in male deo, while the market share of KS and Park Avenue together is 16.9 per cent.

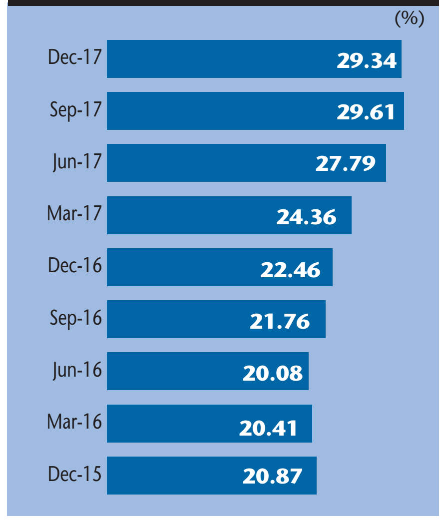
Bagri wants Park Avenue to be India's undisputable number one brand, when it comes to male grooming. KS has a high brand recall value and the company nurtures an ambition to put it among the global Top Five brands in the sexual wellness category. It's highly probable that KS will emerge as a bigger brand when compared to Park Avenue in the next couple of years, despite Park Avenue also growing fast. Today, Park Avenue is almost double the size of KS. The FMCG business, which was incurring losses till last year, is expected to turn around in the current financial year.

### Strong team

The corporate side too has been witnessing action. With Gautam Singhania stepping down as chairman of JK Helen Curtis (though he continues to be a director), the board is now headed by Rajeev Bakshi, who has worked with companies of repute, such as Cadbury, PepsiCo India, as also Metro Cash & Carry India. He is also a director on the Marico board. Bagri, CEO, FMCG business, who joined in 2016, has previously worked with ITC, Castrol and Colgate.

At the same time, the company's engineering as well as auto ancillary businesses have started doing well. The EBIDTA of the auto component business is on the rise – improving from 2.7 per cent in 2015-16 to 14.5 per cent during 2016-17. And, in the first nine months of the current year, it has touched 23.1 per cent. Similarly, the engineering business, JK files is the leader in the engineering files business, which had an EBIDTA of 2 per cent for 2016-17, has

**Institutional investor stake in Raymond**




Source: *Business India/bseindia.com*

improved to 8.7 per cent for the nine months ended December 2017.

All the above mentioned initiatives would not have been possible had Raymond not taken the initiative to transform its top leadership team. During the last few years, a new leadership team has been at the helm, which is taking the company to the next level of growth.

Sanjay Bahl, group CFO, had joined the team in 2015, after having worked with reputed companies like Hindustan Unilever, Saint Gobain and Landmark group (Dubai). Sanjay Behl, CEO, lifestyle business, joined in 2013, after

## The genesis

Why did a Marwari family from Singhana (hence, the surname Singhania) in Rajasthan call the company Raymond? The fact is, Raymond was not set up by Singhania, but by a Parsi gentleman called Wadia (nothing to do with the Bombay Dyeing Wadias). In 1925 he started a firm in the name of Wadia Mills, to supply clothes to soldiers. During the same year, the mill was acquired by E.D. Sassoon & Company, a prominent industrial family of that time. They changed name of the company from Wadia Mills to Raymond Woollen Mills, named after Albert Raymond, one of the directors. Singhania acquired the company in 1944 from Sassoon, but continued with the name, though many of the group companies are known by the name JK -- like JK Cotton Spinning &Weaving Mills, JK Oil, and so on.

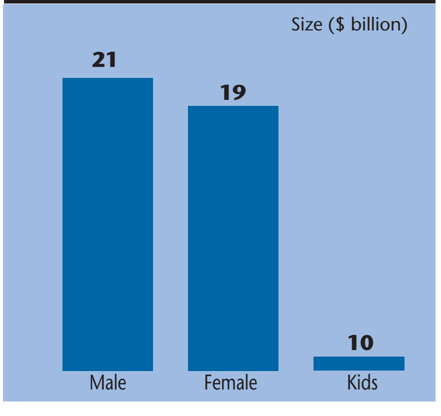
The JK group derived its name from the original father-son duo, Juggilal and Kamlapat. Kamlapat Singhania's three sons were Padampat, Kailashpat and Lakshmipat and Vijaypat (father of Gautam Hari Singhania) is the son of Kailashpat Singhania. Later, the JK group divided on the basis of region, each brother given responsibilities to manage companies of one region. Padampat got the Northern region, Kailashpat took up the Western region and Lakshmipat went for the Eastern region. Labour problems in West Bengal forced Lakshmipat to shift to Delhi. The Padampat family still manages its businesses from Kanpur.

The present name, Raymond Limited, was assumed in 1994. A lot of credit for the success of Raymond goes Gopalkrishna Singhania, cousin of Vijaypat Singhania. Back in the 1960s and 1970s, Raymond was talked about in high esteem, because Gopalkrishna set a strong foundation for Raymond. Unfortunately, he died at an early age of 47 in 1980. For the next 20 years, Vijaypat Singhania managed the company and took Raymond to the next level of growth. Gautam Singhania, son of Vijaypat, was appointed as MD in 2000 and he is determined to bring the company to an even higher realm. Raymond, which has illustrious history, would have a wonderful future too, if Gautam executes his strategies well. ◆

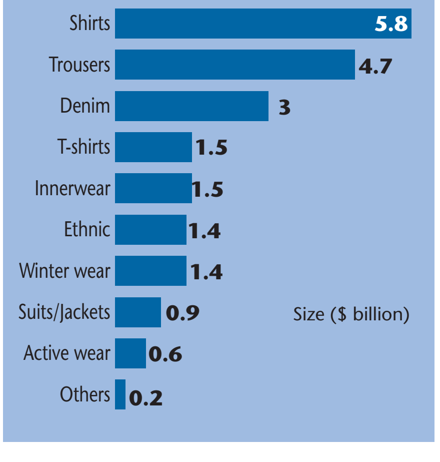
a stint with Hindustan Unilever, Nokia and Reliance Communications. Pankaj Madan, president, corporate services, since 2017, has worked with Indigo Airlines (as CFO), Bharti Walmart, Cargill Thailand and Telstra Singapore. Sudhanshu Pokhriyal, who joined in 2015 as president, suiting, has worked with Asian Paints, Hindustan Coca-Cola Beverages and SC Johnson. Gaurav Mahajan, head, apparel business, who joined Raymond in 2015, was formerly with Trent, a Tata group company. Abhishek Kapoor, who joined as CEO, realty, in 2015, had worked with Rustomjee and CB Richard Ellis. "In Raymond, we trust people. I would rather trust people and fail than not trust at all," remarks Singhania.

Raymond has taken a major step in talent grooming to take it to next level. It did a gap analysis of its top 25 leaders to figure out their desired versus existing, competencies. For this exercise, the company tied up with Cornell

**Indian apparel industry**




**How male apparel industry stacks up**




*Bahl: consistant growth in branded shirting*

University, New York, last year. The four competencies that Raymond wanted to enhance and nurture in its top leadership team are: strategic thinking in today's disruptive and exponential growth environment; digital sensitivity; integrated supply chain management; and design thinking.

But the partnership with Cornell is not limited to making its leadership future ready. It is also trying to commercialise some of the products from the Cornell fibre innovation technology centre. "We can possibly pick up some promising innovative technologies from Cornell and actually give them a scale of manufacturing to commercialise them," says Sanjay Behl, CEO, lifestyle. Behl is confident that they can commercialise and enter the market with the first product in the next 6-9 months.

Another major project the company is working on relates to the improvement of its supply chain management. It wants to reduce the amount of inventory it is carrying and improve its speed of response to the market. "The biggest transformation Raymond will undergo in the next two years concerns its ability to disruptively change its supply chain," announces Behl. Just to extend its strategy of having an asset-light model, the company is also exploring the option of 'make or buy'. It's also evaluating its business on two basic parameters – is an activity core? Is it strategic? Any activity, which is highly strategic as also core, is what the company will invest on. Anything strategic but non-core, the company will partner with other players, while something non-strategic but core, the company will outsource.

Raymond is constantly evaluating itself on three basic parameters: outsourcing, buying and divesting, says Behl. While it has added new products to drive revenue, it has also exited some of its non-core businesses, such as home furnishings and low-cost filament yarn-based fabrics, during the last three years. It's also closing down its loss-making stores. Some of the non-core but strategic activities – IT services, payroll and admin facilities – are now being outsourced.

In another important move,


*Mahajan: achieved good traction*

Raymond is shifting from being a product company to a solutions company. It's offering solutions on issues like when and where a consumer wants to be in his lounge wear, party-wear or occasion-wear. Here, it's not restricting itself to clothing; it wants to offer products like shoes, bags, cuff-links, etc. The company recently rejigged its entire ethnic wear, to tap the growing demand for them among customers. As many as 40 new-look shops have been set up now to enhance revenue from non-textile products. "We want to be fully into offering men's-wear solutions by 2020, instead of being just an apparel company," says Behl. The company has also made its blueprint for the next decade and wants to become an 'experience company' by 2030. "Our journey has to be from manufacturing to solutions and then to be an experience company," contends Behl, explaining how Raymond wants to transform itself and take itself into a new growth orbit.

In 2017 the company set up a suit manufacturing facility in Ethiopia, which offers some strategic advantages – like low cost of power (one fourth of what is paid in India), as also cheap labour (about one-third of what prevails in India). It also has an advantage when it comes to payment of duty, for garments exported from Ethiopia to US carry zero duty, while exports from India attract duty charges at 17-27 per cent. Apart from the cost advantage, Raymond also benefits by exporting fabric from its own factories to Ethiopia to make these suits, thereby helping to capture the complete value addition within the group. The plant capacity at Ethiopia is 1.5-1.8 million suits per annum. Once this plant stabilises (say, in about 12 months), it could add ₹300-350 crore to the company's topline.

With the setting up of the plant in Ethiopia, the group's suit manufacturing capacity has been expanded to 4 million pieces per annum. Globally, the largest suit manufacturer is from China, and has the capacity to produce 7 million suits. Raymond nurtures an ambition to overtake it. Of course, it's not necessary that all capacities would be in the company's book, as it is also exploring chances of outsourcing some of its capacities.

**Competing apparel brands**

| | 2017 (₹ crore) |
|---|---|
| Louis Phillip | 1,149 |
| Van Heusen | 933 |
| Peter England | 965 |
| Allen Solly | 594 |
| Arrow | 800 |
| US Polo | 620 |
| Tommy Hilfiger | 537 |

Source: Industry

But, despite all these initiatives, there is a lot more to be done to strengthen Singhania's realm. The most important is the perception that Gautam Singhania's luxury lifestyle is at the company's expense. Last year, one minority shareholder had released an advertisement in a newspaper, alleging that the company is imprudent in spending money to appease the promoter's personal interests.

## Denying allegations

Also, in the last AGM, concerns were expressed about promoters becoming owners of duplex flats in JK House at substantially discounted prices. Singhania had denied these allegations. "This is the first time in the history of India that promoters have taken a resolution to shareholders (the promoters were the only persons to gain from that) and advise them in writing to vote against the resolution," he counters. "Who has done this today? This is bad governance or good governance? I think is outstanding governance."

Family disputes hogging the limelight every now and then do impact the image of the company. First there was the news of three factions of JK group fighting over a 30-year-old issue of the valuation of a bungalow at Juhu. Then came the news that the children of Madhupati Singhania, a brother of Gautam, who had severed ties with the family in 1998, are filing a case to register a claim in Raymond and other ancestral properties. All this negative news has impacted the company's image considerably.

To put things in perspective, JK House was bought by Raymond in 1945. In 1994, when India's corporate governance standards were still evolving, Raymond, through its subsidiary, sub-leased flats to four people in the family – Veenadevi (wife of Vijaypat Singhania's brother Ajaypat), Vijaypat, Madhupati (Vijaypat's son and Gautam brother) and Akshyapat (son of Veenadevi). Gautam Singhania did not sub-lease a duplex flat in the JK House in 1994. But, when Madhupati Singhania surrendered his rights on the duplex flat in 1998, the same

*Bagri: aiming for no 1 with Park Avenue*

was later sub-leased to Gautam Singhania in 1999. And, in 2000, Gautam Singhania took charge as MD of the company. Hence, the allotment precedes Gautam's assumption of charge as the MD of the company. Singhania may claim that the company is following the best principles of corporate governance, but he would do well to make concerted efforts to improve the perception that the company is doing so. The JK group (of which Raymond was a part) was once talked about in the same breath as the Tatas and the Birla group, with regard to its high integrity. Raymond is far from that glory today.

With regard to shareholders' wealth creation too, Singhania has to do much more. One of the options Raymond could explore is to split the company vertically. There is a huge gap between the market cap Raymond can command and what it enjoys today. Raymond is a market leader in the branded fabric business, with an annual turnover of ₹2,700 crore. There are not many brands in the country, which have a consumer-facing business, with a turnover in excess of ₹2,500 crore. The male branded fabric business is estimated in the region of ₹7,000 crore, in which Raymond is by far the market leader, while Siyaram, the second big player, has a turnover in the region of ₹860 crore. Arvind would also have a turnover of ₹800 crore. Such a business, with so much of a turnover and market leadership, should command a much bigger market cap. Players like Page Industries (Jockey), which has a turnover of ₹2,140 crore, commands a market cap of ₹24,000 crore. Manyavar, a specialist in ethnic wear, was recently valued by PE player at ₹4,000-4,500 crore, on a turnover of just ₹610 crore. But, Raymond, despite its many businesses, commands a market cap of only ₹6,400 crore! Siyaram Silk Mills on the other hand commands a market cap of ₹3,000 crore.

## Business dynamics

Fabrics, apparels and garmenting, though parts of the same industry, have different business dynamics. They can grow at a much better pace if they are separate companies run by independent boards. While fabrics and apparels are B2C businesses, garmenting is a purely B2B activity. Arvind, which competes with Raymond in fabrics as well as the apparel businesses, has announced plans to demerging its textile, branded apparels, as well as engineering businesses, to have better growth prospects. Maybe, Raymond too could take the same route. It has, under its umbrella the engineering and auto ancillary businesses, which have no synergy with the textile-related businesses. In 2000, when Raymond sold its cement and steel businesses, it wanted to sell the engineering division too, but the assets could not fetch the right valuation at that time.

Also, Raymond has a huge tract of land at Thane, where it used to have its manufacturing facilities, which it has now discontinued. This land parcel measures 120 acres, while another, measuring 20 acres, is owned by an associate company, JK Investo. Anarock, a leading real estate broking firm, feels that Thane has huge potential as the next big destination. "Thane has substantial demand for large integrated townships, wherein the walk-to-work concept can be effectively institutionalised," says Anuj Puri, of Anarock, commenting on the demand for real estate in Thane. "A few developers have already built such townships and are reaping benefits from the same. Plots of 100 acres or above lend themselves well to townships, and Thane has sufficient demand for range-bound housing options."

GlaxoSmithKline, which had 60 acres of land at Thane recently sold it to a builder for ₹555 crore. Using this benchmark, Raymond's holdings in Thane can fetch the company about ₹1,100 crore. Singhania admits he has plans to monetise the land bank at Thane, but does not reveal details. He also admits that he has no emotional attachment to the land bank. "I was neither born in that place, nor am I going to live there. Whatever decision is taken will be a business decision," he says. It's to be seen how effectively and how soon Singhania monetises his real estate assets.

While Singhania has started on a journey to improve shareholders' value, Raymond is still to reach its true potential. Singhania is expected to bring back the glory Raymond commanded in the late 1970s. The new thought process at Raymond is that instead of adapting to win, it is now focussing on evolving to win. If Singhania proves his critics wrong, Raymond will evolve to be a big winner.

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