Emkay Research

Initiating Coverage

Rajesh Exports Ltd.

After bulk, its retail

30 April, 2008

BUY

Price	Target Price
Rs 90	**Rs 155**

Sensex - 17,378

Rajesh Exports (REL) is the world's largest manufacturer and exporter of gold jewellery. REL's competitive cost structure supported by significant economies of scale have helped it gain volumes and garner ~3% market share of the global gold jewellery market. After achieving success in the high volume-low margin bulk exports of gold jewellery, REL is leveraging its existing manufacturing facility and global distribution network to tap opportunities in exports of high margin (15-20%) diamond studded jewellery and white label jewellery. It has also entered the branded gold jewellery market in India, which is growing at 35-40% pa and commands margins of 8-12%. Its foray into the retail gold jewellery market is mainly through 2 formats- Shubh (to target value conscious customer) and Laabh (fashion conscious customers). We expect REL's focus on the high margin retail business to boost its PAT margins from 1.5% in FY07 to 3.6% by FY10E. We expect moderate revenue growth in FY07-10E at a CAGR of 11.8% and significant PAT growth at 50.2%. We initiate coverage on the stock with a price target of Rs 155 and recommend BUY.

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	(28)	(40)	30
Rel. to Sensex	13	(23)	(30)	6

Source: Bloomberg

Stock Details

Sector	Jewellery
Reuters	REXP.BO
Bloomberg	RJEX@IN
Equity Capital (Rs mn)	250.6
Face Value Rs	1
52 Week H/L	170/62
Market Cap(Rs bn/USD mn)	22/559
Daily Avg Volume (No of shares)	2463920
Daily Avg Turnover (US$mn)	6.8

Shareholding Pattern (%)

	Mar'08	Dec'07	Sep'07
Promoters	54.4	61.5	61.5
FII/NRI	17.4	15.4	13.5
Institutions	9.7	0.5	4.5
Private Corp.	7.4	7.1	10.0
Public	11.2	15.5	10.5

Source: Capitaline

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World's largest manufacturer and exporter of gold jewellery

REL is the world's largest manufacturer and exporter of gold jewellery based in India. It processes approximately 3% of the world's gold jewellery consumption of 2,366 mt and accounts for approximately 25% of gold jewellery exports from India. Its fully backward integrated model, strong bargaining power with raw material suppliers and effective working capital management creates cost competencies, leading to significant economies of scale.

New business verticals in exports to expand margins

To leverage its existing worldwide distribution network and its large jewellery manufacturing facility, REL has entered into manufacturing and exports of diamond jewellery and white label jewellery for leading global retailers. Margins in this business are higher at 15-20% as against 2-3% in traditional gold jewellery exports. We expect EBITDA contribution from these new verticals to increase from 15.7% in FY08E to 27.5% by FY10E.

Tapping opportunities in growing branded retail jewellery

REL has recently entered the branded retail jewellery segment in India. This segment has been growing at 35-40% annually and commands margins of 8-12%. It has launched Shubh and Laabh stores to tap value and fashion conscious customers respectively. It has aggressive plans to increase the number of stores (Shubh + Laabh) from 38 at present to 160 by FY10E. EBITDA contribution from retail business is expected to increase from 2.8% in 9MFY08 to 25.2% by FY10E.

Initiate coverage with a BUY, price target of Rs 155

We are positive on REL's strategy of improving its bottomline by focusing on the high margin retail jewellery segment and tapping the lucrative diamond and white label jewellery in exports. We expect this shift in focus to boost REL's PAT margins from 1.5% in FY07 to 3.6% by FY10E. We expect revenues to grow at a CAGR of 11.8% (FY07-10E) to Rs 96.4 bn and PAT to grow at a CAGR of 50.2% to Rs 3.4 bn by FY10E. We initiate coverage on the stock with a BUY rating and a SoTP based price target of Rs 155.

Key financials

(Rs mn)

YE-Mar	Net Sales	EBIDTA Core	EBIDTA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld EBIDTA (%)	RoCE (%)	P/E
FY07	68933	2145	3.1	1017	3.6	13.5	2.2	37.3	1.1	25.1
FY08E	79175	3874	4.9	1949	6.9	7.2	4.3	50.3	1.7	13.1
FY09E	88330	4538	5.1	2542	8.9	5.9	1.9	28.5	2.2	10.1
FY10E	96406	5514	5.7	3445	12.1	5.4	1.6	23.7	2.8	7.4

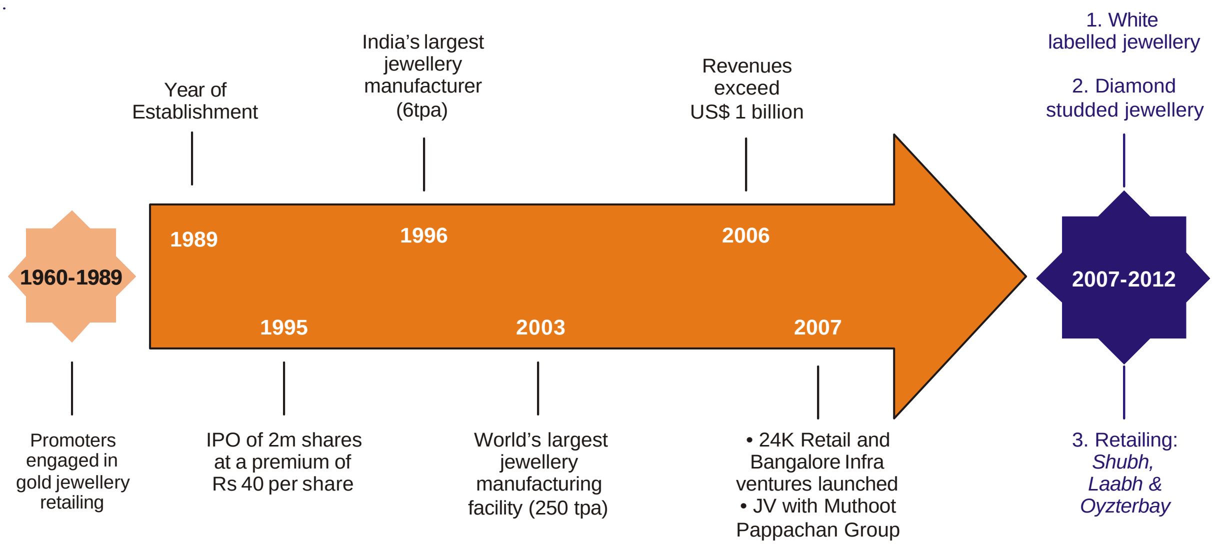
Company background

Rajesh Exports Ltd (REL) was established in 1989 as a partnership firm, manufacturing and exporting gold jewellery and went public in 1995. In 2003, it set up the world's largest gold jewellery manufacturing facility at Bangalore with an installed annual capacity of 250 mt. Over the years, REL has built a strong R&D team in gold jewellery, helping it win national and international acclaim through introduction of new concepts and procedures in the manufacture of gold jewellery.

Since inception, REL has achieved many milestones and has emerged as the world's largest manufacturer of 22 carat gold jewellery and biggest exporter of gold jewellery from India. It accounts for ~3% of world gold jewellery (world gold jewellery consumption- 2,366 mt in FY07) and processed 68 mt of gold jewellery. It contributes approximately 25% to the total gold jewellery exports from India and enjoys the status of country's premier gold jewellery export house. REL exports jewellery across the world through its established worldwide distribution network and has strong relationship with wholesalers in many key cities in the world. Rich experience of understanding different jewellery markets across the world is an added advantage for the company and helps its strong R&D team in designing new products. REL's catalogue includes 29,000 exclusive designs, which is incidentally one of the biggest catalogues in the world.

After achieving success in bulk gold jewellery export, REL has chalked down plans to get into export of diamond studded jewellery and also manufacturing of white label jewellery for leading global retail stores. REL has further plans to foray into retailing of branded jewellery in the domestic markets. It has plans to target all the segments from value conscious customers to fashionable clients looking for trendy jewellery, through its Shubh and Laabh retail stores.

REL - Moving from bulk export to lucrative avenues



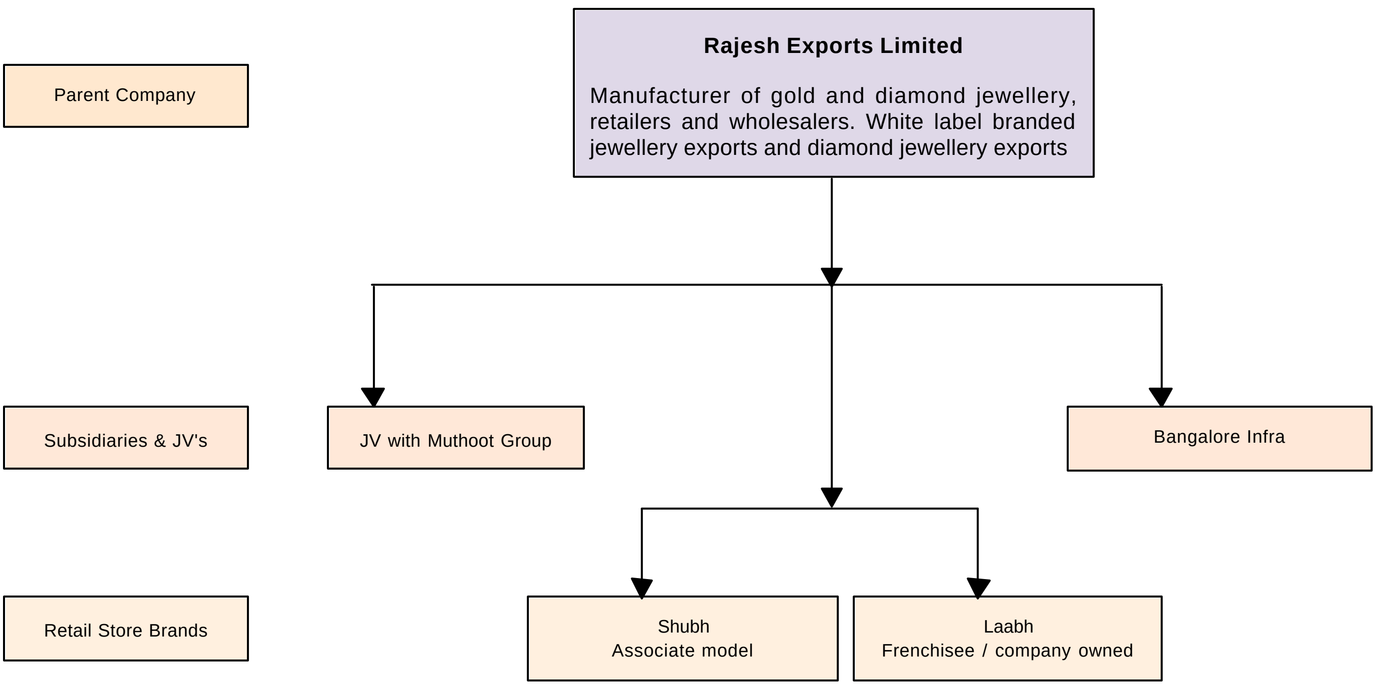
Source: Company

Management Team

Rajesh Mehta *Executive Chairman*	▪ Experience of over 20 years in the jewellery industry ▪ Pioneer in organising jewellery trade in India ▪ Director, Handloom & Handicrafts Exports Promotion Corp President, Jewellery Exporters Association of Karnataka ▪ Member of the export trade advisory committee of the Bangalore Jewellers Association
Prashant Mehta *Managing Director*	▪ Experience of over 22 years in jewellery manufacturing ▪ Expert on global best practices in jewellery manufacturing and technology
Vipin Sharma *CEO (Shubh)*	▪ Experience of over 12 years in brand building & jewellery retailing ▪ Part of the Oyzterbay promoter-group
Kirit Turakhia CEO (Laabh)	▪ Experience of over 20 years in retailing
M A Prakash *CEO (Banglore Infra)*	▪ Experience of 7 years in real estate and construction

Source: Company

REL's corporate structure



Source: Company

Investment argument

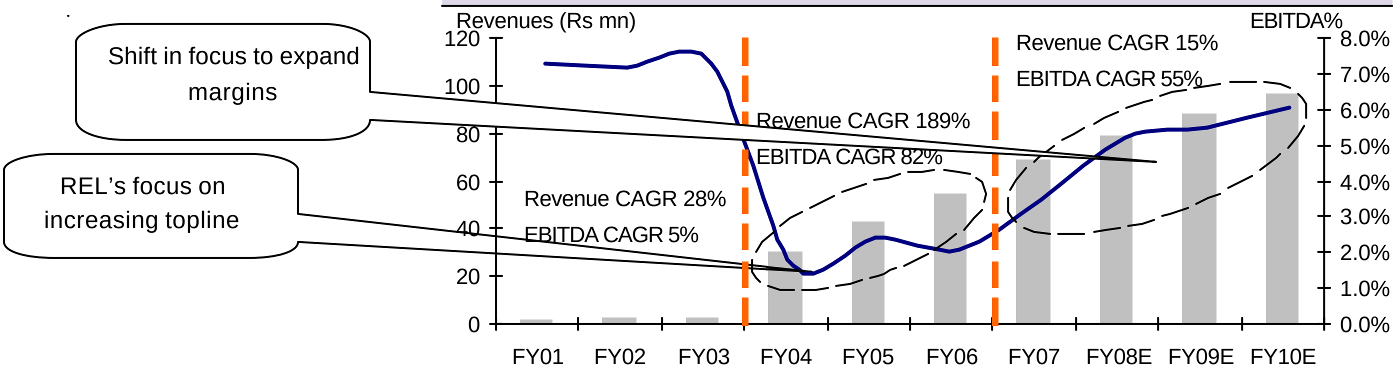
Shifting focus from bulk gold jewellery exports to retail gold jewellery

REL is aggressively focusing on moving from a bulk gold jewellery manufacturer and exporter to a branded jewellery retail player. In the initial stages of REL's growth (from 2003 – 2007), the company focused on achieving topline growth by offering gold jewellery in global markets at very competitive prices. REL has now emerged as the world's largest jewellery manufacturer and exporter. Topline grew at a CAGR of 189% in this period. However, competitive pricing saw EBITDA margins come down from 6.9% to a mere 1.7%.

Rapid revenue growth through exports but adverse impact on margins

In the next phase of growth (post 2007), REL is concentrating on expanding its profit margins rather than topline growth. To boost its margins, REL plans to foray into the high margin retail branded jewellery market. We are enthused by REL's strategy of ensuring topline growth through bulk exports and bottomline growth through high margin retail. REL is also adding diamond studded jewellery to its bulk export portfolio and is planning to manufacture white label jewellery for leading global retail players. We believe that both these new verticals along with its foray into the retail jewellery business will lead to sharp margin expansion. We expect margins to increase from a mere 1.7% in FY06 to 5.9% by FY10E.

REL growth phase



Source: Company, Emkay research

Attractive growth opportunities for jewellery retailing in India

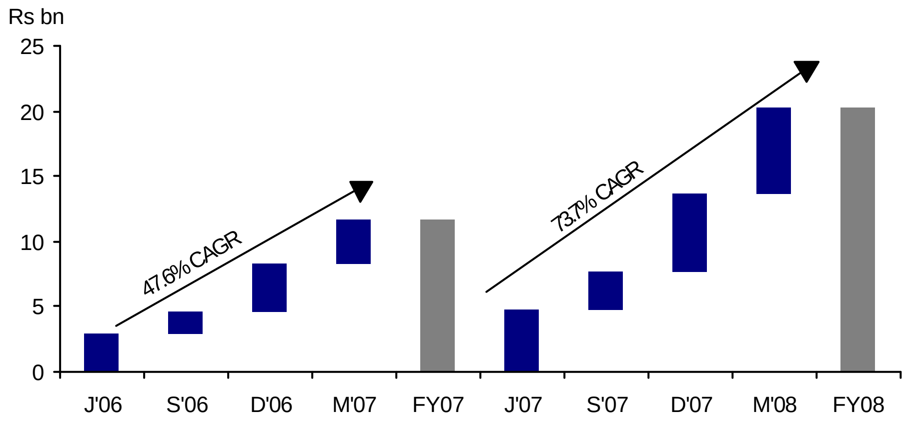
India is world's largest jewellery consuming country with organised branded retailing comprising of only ~4% of total jewellery market

The Indian jewellery market is dominated by the unorganized sector, with organized retailing constituting only about 4% of the total market. Globally, organised retailing comprises of ~30% of total jewellery sales. The market for organized jewellery retailing in India is estimated at Rs 20 bn and is expected to grow at 40%+ pa. We believe that the Indian market offers attractive growth opportunities, given the fact that India is the world's largest consumer of gold and gold jewellery, accounting for approximately 27% of the global consumption. Increasing urbanization, changing consumption trends and growing brand awareness are expected to drive the organized retailing growth in India. We expect the share of organized retail jewellery to increase from the existing 4% to 7% by FY10E.

Titan, which is the biggest jewellery retailer in India with 40% + market share, can be used as a proxy for the organised retail jewellery market in India. It has already demonstrated a CAGR of 60% (FY06-08) in its revenues from the jewellery business.

Attractive growth in Titan's topline reflects growth in India's organised jewellery market

Rapid growth in Titan's revenue from jewellery business



Source: Capitaline, Emkay research

India accounts for 23% of world gold jewellery consumption and 27% of total gold consumption

World gold consumption

	Jewellery consumption		Total gold consumption	
Country	**Consumption (mt)**	**% Total**	**Consumption (mt)**	**% Total**
India	558.2	23%	773.6	27%
China	302.2	12%	326.1	12%
USA	262.9	11%	278.1	10%
Turkey	188.1	8%	249.3	9%
Saudi Arabia	120.2	5%	129.4	5%
UAE	99.8	4%	107.3	4%
Russia	77.0	3%	77.0	3%
Egypt	67.3	3%	68.0	2%
Italy	58.8	2%	58.8	2%
Indonesia	58.3	2%	58.7	2%
UK	48.6	2%	48.6	2%
Other Gulf	40.8	2%	43.7	2%
Japan	32.2	1%	-24.1	-1%
Vietnam	21.6	1%	77.7	3%
Hong Kong	14.4	1%	15.5	1%
Taiwan	14.4	1%	21.8	1%
Europe	0.0	0%	-5.9	0%
Other	460.9	19%	527.3	19%
Total	2425.7	100%	2830.9	100%

Source - World Gold Council, Emkay research

REL plans to cater to the entire retail segment

REL's Shubh and Laabh store format will cater various classes of retail clients starting from value conscious customer to fashionable clients

REL has planned its foray into the retail segment with a view to cater to the diverse customer profile within the retail segment. To cater to each segment and class of customers in retailing, REL plans to launch three retail formats – 1) Shubh- for the value conscious customer who buys jewellery for the purpose of investment, 2) Laabh- for the fashion conscious customer and 3) Oyzterbay – for the upscale clientele, who buy jewellery influenced by fashion and trend. However, the company's plans for Oyzterbay are subject to change after the termination of its JV with Fossil. Initially, REL plans to target tier 1 and tier 2 cities through Shubh while Laabh will target Metros and Tier 1.

Unorganised vs Organised retail format

Company	Unorganised market / Stand alone shop	Organised market / Branded players
Customer relations	Strong customer relationships built across generations	Builds trust on the back of brand
Gold purity	Purity is always under question.	Purity of gold certified by industry standards like hallmarking etc.
Customisation	High degree of customisation	Customer interaction is less
Management	Owned and managed by shopowners	Professional management of stores
Designs	Designs are generally old and traditional	Designs are contemporary and in keeping with latest trends

Source: Emkay research

We believe that the company's retail model is well diversified. In the case of Shubh, the company has plans to tie-up with existing jewellers in a particular market to retail REL's products. The encouraging response for its newly launched stores promises attractive growth opportunities.

Retail Outlet

	Shubh	Laabh
Target customer	Value conscious	Fashion conscious
Target cities	Tier 1, Tier 2 and Tier 3	Metro, Tier 1 and Tier 2
Jewellery type	Heavy gold jewellery with higher karats	Gold and diamond jewellery
Store size (sq ft)	1200 - 4000 sqft	500 - 1200 sqft
Number of designs kept	5,000	3,000
No of outlets targeted in next 3 years	450	150
Business model	Associate model	Franchisee /Company owned

Source: Company, Emkay research

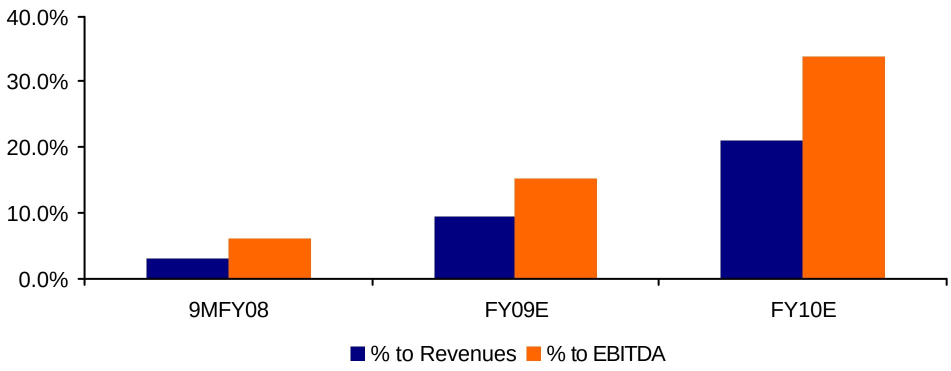
High margins in retail business to support profit growth

Retail business contribution to EBITDA to increase from a mere 5% at present to 25% by FY10E

We believe that REL's foray into the high margin retail business coupled with its economies of scale will lead to sharp expansion in profit margins. Margins in retail business are expected to settle at 10%. We expect REL's retail business contribution in revenues to increase from 2.8% in 9MFY08 to 8.6% in FY09E and 17.3% by FY10E. However, due to higher margins in this business at 8-12% as compared to 2-3% in exports business, their retail venture is expected to contribute 13.1% and 25.2% to EBITDA in FY09E and FY10E, respectively.

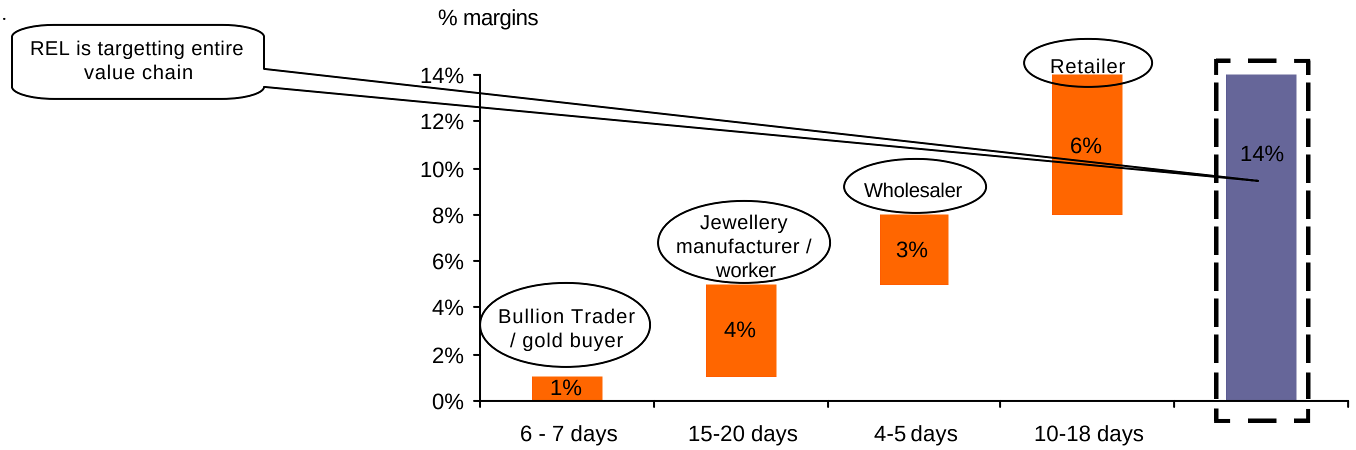
Retail contribution to increase significantly in revenues and EBITDA

Retail contribution to revenues and EBITDA



Source: Company, Emkay research

Profit margins in various stages of jewellery sale



Source: Emkay research

Shubh – Targeting value for money segment

Shubh to target value conscious customers and initially will focus on Tier – 1 and Tier – 2 cities

Shubh will be positioned as a value for money brand, targeting customers who are value conscious and buy pure jewellery for investment purpose. REL will be targeting tier one and tier two cities through Shubh. REL has plans to rollout 450 such stores over the next three years. In this model, REL is likely to follow tie-up / associate model with an established local jeweller for a 3-4% commission. After extensive research across the country, REL has developed an exclusive range of five thousand jewellery designs suitable for this target segment, under the Shubh platform. Shubh will have four formats of stores starting from rural stores to large urban stores. Initially, the company plans to target tier 1 and tier 2 cities (urban and semi urban). In the first phase of expansion, it plans to open 100 stores in the four southern states of India. First phase of launch in Karnataka has already started with 8 stores being launched.

REL presently has 8 Shubh stores, which we expect to go up to 50 by FY09 (against management guidance of 100) and further to 100 by FY10. We have conservatively assumed per shop revenues of Rs 90 mn per annum (against management guidance of Rs 150 mn) which should increase to Rs 114 mn by FY10E. We expect EBITDA margins from Shubh stores to increase marginally from 7% initially to 8% in FY10E.

Shubh stores contribution	FY08E	FY09E	FY10E
Total no of outlets	8	50	100
Revenues / outlet per annum (Rs mn)	90	104	114
Net revenues (Rs mn)	720	5175	11385
EBITDA (Rs mn)	50	388	911
EBITDA margins %	7.0%	7.5%	8.0%
% of retail revenues	26%	68%	68%
% of retail profit	23%	65%	66%

Source: Emkay research

Laabh – Fashion store

Laabh will be targeting fashion conscious customers

Laabh is the upmarket brand, which will focus on fashion conscious customers. Laabh will be urban centric, with stores in cities with one million plus population. REL plans to open 150 outlets over the next three years. REL has developed three thousand exclusive jewellery designs to be sold through Laabh stores. It will also sell its diamond jewellery in these shops. The company is likely to have franchisee model or ownership by REL. Franchisee will work for a commission of 3-4% of revenues and all the shop expenses will be borne by the shop owner.

Laabh stores location

Ahmedabad	Delhi	Kolkata	Rajkot
Amritsar	Guwahati	Lucknow	Secunderabad
Bangalore	Ludhiana	Vadodara	Srinagar
Bhubaneshwar	Indore	Mumbai	Varanasi
Chandigarh	Jammu	Patna	Vishakapatnam
Cochin	Jamnagar	Pune	

Source: Company

We have assumed that in FY09, the company will focus on increasing revenues from its existing 30 stores and will not add any new store during the year. However, we have assumed addition of another 30 stores in FY10. We expect per store revenues of Rs 70 mn, which should increase to Rs 89 mn by FY10E. We have estimated an EBITDA margin increase from 8% to 9% by FY10E.

Laabh stores contribution	FY08E	FY09E	FY10E
Total no of outlets	30	30	60
Revenues / outlet per annum (Rs mn)	70	81	89
Net revenues (Rs mn)	2100	2415	5313
EBITDA (Rs mn)	168	205	478
EBITDA margins %	8.0%	8.5%	9.0%
% of retail revenues	74%	32%	32%
% of retail profit	77%	35%	34%

Source: Emkay research

REL's competitive advantage

	Rajesh Exports	Other branded jeweller like Tanishq	Local shop owner
Sourcing of raw material / gold	- Direct access to the gold mines in world market - Credit of 240 days on payment	Gold procurement from local market	Procurement from the local maarket on cash basis
Manufacturing facility	Very strong manufacturing and handling capacity of 250 mt gold	Lower advantage since most of the manufacturing is oputsourced	Traditional and old manufacturing process, which is very labour intensive
Gold wastages in manufacturing process	0.3% wastage, lowest in the world	Higher wastage because of lower economies of scale	Higher wastage 0.5% - 1%
Whole sale distribution network	Wholesale distribution network across the counrty	Presence only in retail	Single shop model
Retail network	Plans for diversified retail network through Shubh and Laabh format	Very strong retail distribution network across the country	Single shop model
Access to capital	Access to capital market because of the size of the business	Access to capital market because of the size of the business	No access to capital market
Working capital management	Well experienced and efficient working capital management team. Enjoys benefit of 240 days credit on payment for raw material	Working capital intensive business model, need to hold huge inventory	Working capital intensive business model, need to hold huge inventory
Varieties of design	Have catalogue of 8000+ exclusive designs	Have about 5000 designs	Not very wide range of ready designs and designs are generally based on customers choice
Risk management	Strong and experienced team for hedging of gold price movement, forex movement	Strong and experienced team for hedging of gold price movement, forex movement	Not much focused on management of gold price movement and forex risk
Product diversification ability	Diversifying into diamond jewellery	Also offers diamond studded jewellery	Generally available on demand
Branding	Started branding of Shubh and Laabh	Well estabilished brands like Tanishq and have started branding Gold plus	Not much focus on brand building because of single store model
Flexibility of replicating the product	Can easily reproduce any product from its existing catalogue	Many product / designs are outsourced	Replicating any product is not very easy since some variations are always there

Source: Emkay research

Oyzterbay – Launch plans are on hold

REL had earlier tied up with Fossil to sell Fossil brands accessories along with REL's own jewellery through its Oyzterbay outlets. However, this JV was recently terminated because of regulatory hindrance on FDI in retail. This was a shop in shop concept and the company was expected to launch 30 such stores in FY09 and increase it to 150 stores over the next three years. REL is still confident about its plans for Oyzterbay retail format.

We have not assumed any revenues from Oyzterbay since launch plans are on hold at present

Given the uncertainty about the rollout plans of Oyzterbay and its retail format, we have not assumed any revenues from this segment. However, we remain confident that the company will come up with concrete business plans to tap opportunities in the high end fashion conscious jewellery and accessories segment.

Benefits to the customer

	Rajesh Exports	Other branded jeweller like Tanishq	Local shop owner
Making charges	Rs 70 - 150 per gram	Rs 115 - 345 per gram	Negotiable on customer relation but varies from Rs 40 - 200 per gram
Purity of gold	High degree of purity and customer belief	High degree of purity and customer belief	Impurity and blending are very common
Trust on shop owners	Increasing trust on brand because of rising awareness about the company	High degree of trust on brand	Depend on shop owner's relationship and past experience of the customer
Access to designs	Availability of various designs in various price range	Availability of various designs in various price range	Limited ready options since designs are generally custom made
Exchange options	Guaranteed exchange option for charges of only ~2% of the asset value	Guaranteed exchange option for charges of only ~2% of the asset value	Exchange is sometimes not guaranteed and exchange charges are generally 10-15% of the value

Source: Emkay research

Bulk exports– economies of scale

REL enjoys the benefits of economies of scale in its bulk export jewellery business. A fully integrated manufacturing facility, strong bargaining power with raw material suppliers and low wastages have resulted in the company enjoying a high degree of cost efficiency. Supported by this low cost advantage, REL is able to quote lower charges for jewellery processing as compared to its competitors, which helps it to win orders and gain on volumes.

REL's economies of scale are supported by

Competitive advantage in raw material sourcing – For sourcing of raw material (gold), REL has a direct arrangement with gold suppliers and enjoys strong bargaining power because of its bulk buys. REL pays premium of only 40 cents / ounce over LME price while bullion importers need to pay US$ 1- 1.5 / ounce. It results in cost advantage of approximately Rs 50 – 80 mn to the company.

Fully integrated Bangalore facility – REL's Bangalore facility is the world's largest gold jewellery manufacturing facility with an installed annual capacity of 250 mt. This plant is capable of producing hand-made jewellery, casting jewellery, machine chains, stamped jewellery, studded jewellery, tube jewellery and electro-formed jewellery. The company has developed R&D, technology and human capital over a period of time which can manufacture, process and handle 250 mt of world class gold jewellery at its facility.

Low wastage – Over a period of time, REL has developed technologies for manufacturing gold jewellery through processes involving minimum wastage of gold. As a result, REL has a lower gold wastage of 0.3% as against 0.5 - 1% for other players, further enhancing their low cost advantage.

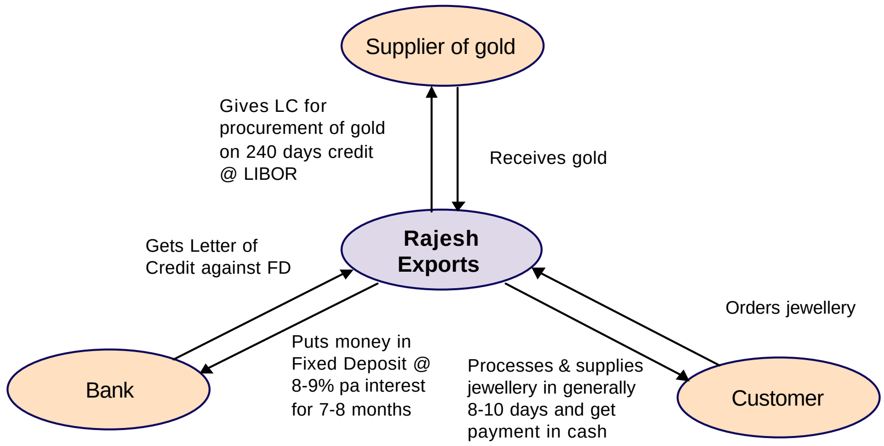
All these factors enable REL to aggressively quote for bulk orders in the export markets. On account of competitive bidding, REL has managed to successfully clinch many deals and drastically improve its revenues.

Efficient working capital management enhances profit margins

REL's strong working capital management team enjoys benefit of interest rate arbitrage

REL enjoys strong bargaining power with its suppliers and gets 240 days credit (at an interest of LIBOR + 80 bps) for making payment towards its purchases of gold. However, REL's working capital management team effectively utilizes this credit period for generating interest income. From its customers, REL gets payment on cash on delivery basis and manufacturing and delivery of jewellery takes approximately 15-20 days. Because of higher creditor days (approximately 240 days) and significantly lower debtor days (15-20 days), REL enjoys negative working capital. The money received from customers is generally kept in fixed deposits for 6-8 months where company earns interest rate of 8-9% pa. This interest rate differential enhances cost efficiencies and boosts profit margins of the company.

REL working cycle



Source: Emkay research

Understanding working capital cycle – Hypothetical example

We have provided a hypothetical example to facilitate a better understanding of its working capital management.

REL receives an order from its customer for 1 ounce of gold jewellery on 1st Apr 2008 and fixes the gold price at US$ 1000 / ounce (at prevailing market price). REL orders its supplier for the same quantity of gold (1 ounce) at the prevailing market price of US$ 1000 / ounce but supplier bills it to REL at US$ 1000 + LIBOR + 80 bps interest for 240 days i.e. US$ 1035. REL has a special arrangement, wherein the supplier stocks consignment stocks of gold at REL's nearby bank and hence gets gold within 7 days and processes this gold into jewellery in approximately 10 days. REL gets payment of US$ 1025 on 17th Apr'2008 in cash on delivery of jewellery alongwith its processing charges (say 2.5%) of US$ 25. Since REL has to make the payment for its purchases after 240 days, it deposits this money in the bank as fixed deposit for 7 months and earns interest of 8% pa i.e. US$ 48 in our example.

REL's efficient working capital management

	Gold supplier	Customer
Date of Purchase / Order	1st Apr 2008	1st Apr 2008
Quantity of gold	1 ounce	1 ounce
Gold price fixing date	1st Apr 2008	1st Apr 2008
Gold purchase price	1000 US$ / ounce	1000 US$ / ounce
Gold / jewellery procurement and / processing days	7	10
Date of delievery	7th Apr 2008	17th Apr 2008
Credit period	240 days	Nill
Date of payment - made / received	7th Nov 2008	17th Apr 2008
Total value of gold / jewellry	US$ 1000	US$ 1025*
Interest rate	LIBOR + 80 bps = 5.3% pa	8% in FD in India
Interest amount paid / received	US$ 1000 x 5.3% for 8 M = US$ 35	US$ 1025 x 8% for 7 M = US$ 48
Total payment made / received	US$ 1035	US$ 1025
Other Expenditure / Income	0	US$ 48
Total cost / income	US$ 1035	US$ 1073

Assumption - LIBOR @ 4.5%
** Jewellery processing charges 2.5%*
Source: Emkay research

Notes on accounts

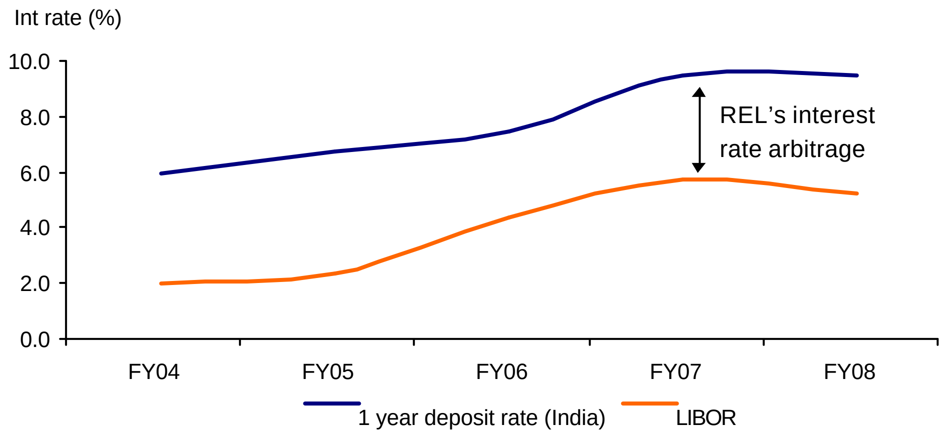
Addition of interest charge in raw material cost lead to operating losses

Adjusting for interest income– REL has a unique business model with very high raw material cost and very thin profit margins. Under the current accounting standards, it looks like the company makes operating losses. As mentioned in the above example, the raw material cost includes interest cost ,which suppliers add in invoice of gold, making it a part of cost of goods sold. Because of very thin processing margins (2-3% only) and higher interest charges (4-5% pa), REL reports operating looses in its financials. As in our hypothetical example there is operating loss of US$ 10. On the other hand, the interest earned on fixed deposits is treated as other income. In our financials we have taken this interest income as business income.

REL only earns profit from processing of jewellery manufacturing and not from gold trading and forex movements

Adjustment for gold hedging and forex transactions – REL's business model is not exposed to any trading loss / gain from gold price movement or forex transactions. The company hedges all its transactions and only generates jewellery processing income. However, due to accounting treatment any expense or loss on hedging of gold or forex gets added in cost of goods sold as operating expenditure while any gains on hedging of gold or forex income is shown as other income. However, any losses on commodity hedging or forex transaction should be adjusted against losses in the same. In our estimates, we have adjusted the financial numbers accordingly in order to give a true picture of REL's operating income

Interest rate differentials



Source: Emkay research

We expect slow down in bulk export business

Shift towards diamond studded jewellery, white label jewellery and retail to moderate revenue growth

REL has already proven its expertise in manufacturing low cost gold jewellery and enjoys economies of scale with sizable topline in this segment. The company is now focusing on its retail venture and other verticals in the export business – diamond studded jewellery and white label jewellery. We believe that the recent slowdown in developed economies and volatility in gold prices will have an adverse impact on gold jewellery consumption. Moreover, with REL shifting focus towards high margins retail and new verticals of diamond and white label jewellery, we expect a slowdown in bulk exports gold jewellery business. As a result, we have assumed a 10% decline in volumes in tonnage terms in FY09E and FY10E respectively. However, we have assumed a 15% and 5% rise in gold prices in FY09E and FY10E respectively. Hence, we expect export revenues to increase by 3.5% in FY09E and decline by 5.5% in FY10E.

Financials

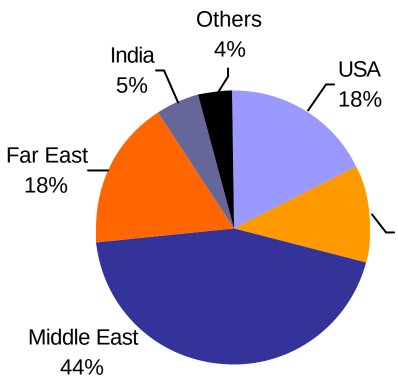
Bulk exports	FY08E	FY09E	FY10E
Sales volumes (kg)	64457	58012	52210
% change	-5.0%	-10.0%	-10.0%
Gold price (US$ / Ounce)	842	968	1016
% change	15.0%	15.0%	5.0%
Exchange (US$ - INR)	40.0	40.0	40.0
Sales realisation (INR / 10g)	10825	12449	13071
Sales revenues (Rs mn)	69774	72216	68244
% change	5.7%	3.5%	-5.5%
EBITDA %	4.2%	4.0%	3.7%
EBITDA (Rs mn)	3048	2998	2611
% of export revenues	95.0%	92.8%	88.5%
% of export profit	83%	76%	63%

Source: Emkay research

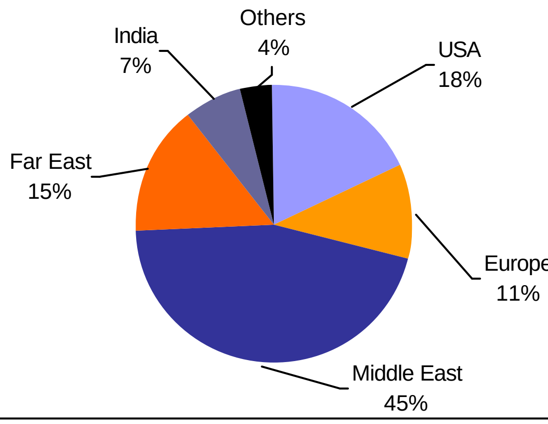
Diversified geographical mix provides cushion against US slowdown

There are concerns about the US slowdown, which can have an adverse impact on REL's export business. We want to highlight here that US is not the biggest customer of the company since it contributes only 18-20% to REL's revenues. Middle east and far east, which are the company's key markets and contribute 44% and 18% revenues respectively still remain attractive.

Revenue geographic mix



Net profit geographic mix



Source: Company, Emkay research

White label jewellery - new business opportunity

US White label jewellery market is US$30 bn with 15% margins

REL has plans to leverage its gold jewellery manufacturing facility and world wide distribution network to tap the potential in the US$ 30 bn white label jewellery market. REL will manufacture white label jewellery on order for the world's leading retail stores. Many of the leading retail chains like Wal-Mart, Carrefour etc sell white label jewellery sourced from various countries, in their stores under their brand name. REL will have tie – ups with these global players to supply white label jewellery. Margins in this business are expected to be 15%.

REL has started reporting revenues from this new venture and reported revenues of Rs 2.5 bn in 9MFY08 and EBITDA margins of 16.9%. We believe that REL will bag more contracts from various global retailers, on account of its strong distribution network and cost competitiveness. We expect the white label jewellery segment to report revenues of Rs 4.2 bn in FY09E and Rs 6.3 bn in FY10E. We have estimated 15% EBITDA margins in our financial projections. While revenue contribution from this segment will be marginal (5.2% and 7.9% in FY09 and FY10, respectively) EBITDA contribution is expected to be high at 16% and 23% in FY09E and FY10E, respectively.

White label jewellery	FY08E	FY09E	FY10E
Net revenues (Rs mn)	3000	4200	6300
% growth	0.0%	40.0%	50.0%
EBITDA (Rs mn)	450	630	945
EBITDA margins %	15.0%	15.0%	15.0%
% of bulk export revenues	3.9%	5.2%	7.9%
% of bulk export profit	12%	16%	23%

Source: Emkay research

Conservative approach to factor US slowdown

US is the biggest consumer of white label jewellery and the recent slow down in the US market is likely to have an adverse impact on demand. To factor in the US slowdown, we have been fairly conservative in our growth assumptions for white label jewellery. We have estimated 40% growth in FY09E and 50% in FY10E on low base as against management guidance of 100% pa. Despite consumption de-growth in the US market, lot of orders are likely to flow to REL from US retailers because of its low cost advantage. We highlight that in our estimates, we have assumed only 0.5% market share of the total global opportunity while company is confident about gaining 2% market share.

Diamond jewellery

Existing strong global distribution network and manufacturing facility will help garner share in world's diamond jewellery.

To widen its product offering and to cash in on its domestic and global distribution network and strong relationship, REL has entered into the diamond jewellery business. Globally, the size of the diamond jewellery market is estimated at US$ 5 bn and the company is targeting 2% market share in this segment. REL recently launched 2000 diamond jewellery designs in the domestic and international market under nine brand names. It will leverage its existing distribution network in global market for distribution of diamond jewellery. In the domestic market, its diamond jewellery will be sold through its Laabh outlets. REL already has cost advantage in gold procurement and manufacturing of gold jewellery and it has established a team of experts for the procurement of diamonds also. This will give cost advantage to the company over other players.

Nine brands in diamond jewellery:

Harmony	Eternal	Solitaire
I- teen	Filigree	Southern
Ghazal	Aishwarya	Sushmita

REL's diamond jewellery business has started taking shape from Q4FY08 only, after the launch of nine brands in the month of December 2007. We expect revenues of Rs 1.6 bn and Rs 2.8 bn in FY09E and FY10E respectively. EBITDA margins in this segment are expected to range between 20 – 25%. However, we have assumed only 20% margins in this segment because of early phase of launch and pressure on brand promotional expenditure.

Diamond studed jewellry	FY08E	FY09E	FY10E
Net revenues (Rs mn)	790	1580	2844
% growth	0.0%	100.0%	80.0%
EBITDA (Rs mn)	158	316	569
EBITDA margins %	20.0%	20.0%	20.0%
% of bulk export revenues	1.0%	2.0%	3.6%
% of bulk export profit	4%	8%	14%

Source: Emkay research

Leading brands in diamond jewellery in India :

Tanishq
Gili
Carbon
Asmi
D'Damas
Gili
Gianti

Stiff competition in diamond jewellery

The key concern in this business vertical is competition from established big players. Compared to gold jewellery, the diamond jewellery market is highly competitive with various established brands in the market. Customers here, are not much value conscious but brand conscious. Some of the established brands in diamond jewellery are D Damas, Gilli, etc. It may take a longer time for the company to establish its brand in this segment and initially advertisement and promotional expenditures can have a drag on company's profit.

Per share value for Bangalore Infra works out Rs 28 per share at current market price

Bangalore Infra – Value unlocking for future

Bangalore Infra is a 100% subsidiary of REL and is engaged in development of REL's valuable land bank in and around Bangalore. The company holds 170,458 sqft of prime commercial space in Bangalore and about 137 acres of land bank in the outskirts of Bangalore. The acquisition cost of this land is Rs 1 bn while current estimated market value is Rs 8 bn (as per management guidance). Post development value of the same is expected to be Rs 14 bn. Since company has not finalised any plans for the development of this land, we have not assumed any value for the same. However at current market price of Rs 8 bn of land bank, per share value works out Rs 28 per share.

SWOT analysis

Strengths

- Largest gold jewellery manufacturing facility
- Lowest cost advantage because of economies of scale
- Understanding of various global markets and portfolio of 29000 exclusive jewellery designs
- Backward integration supports cost structure
- Government recognized trading house in jewellery sector
- Experienced team of jewellery professionals

Weaknesses

- New player in retail sector.
- No ready retail distribution network
- No brand recognition
- New entrant in diamond jewellery

Opportunities

- Fast growth in organised jewellery retail markets in India
- Organised retail market in India is less penetrated (Single player commands ~50% of the market share)
- Foray into diamond jewellery.
- Entry into white label jewellery exports.

Threats

- Growing investment opportunity in other asset class like equities, real estate etc to affect gold jewellery consumption
- Slow down in US and other developed market.
- Weaker outlook for US $ may further spur the gold prices in future.
- Emergence of other luxury products to replace gold jewellery.

Financials and Valuations

Assumptions

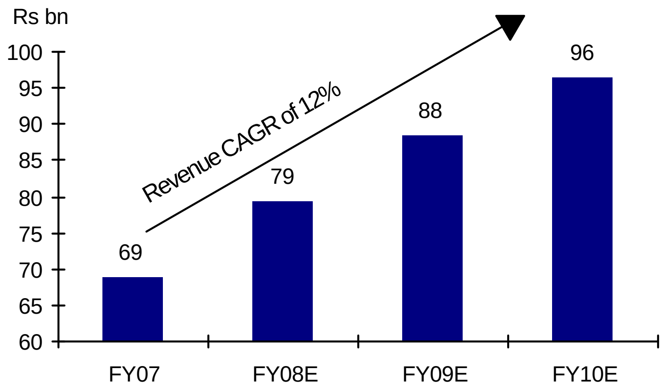
Rs mn	FY08E	FY09E	FY10E
Bulk Exports			
Net revenues	72565	74960	70564
Sales volumes (kg)	64457	58012	52210
% change	-5.0%	-10.0%	-10.0%
Gold price (US$ / Ounce)	842	968	1016
% change	15.0%	15.0%	5.0%
Exchange (US$ - INR)	40.0	40.0	40.0
Sales realisation (INR / 10g)	10825	12449	13071
Sales revenues (Rs mn)	69774	72216	68244
% change	5.7%	3.5%	-5.5%
EBITDA %	4.2%	4.0%	3.7%
EBITDA (Rs mn)	3048	2998	2611
Interest charge	2791	2744	2320
% int rate	4.0%	3.8%	3.4%
Diamond studded jewllery			
Sales revenues (Rs mn)	790	1580	2844
% change	-	100.0%	80.0%
EBITDA %	20%	20%	20%
EBITDA (Rs mn)	158	316	569
White label jewllery			
Sales revenues (Rs mn)	3000	4200	6300
% change	-	40.0%	50.0%
EBITDA %	15.0%	15.0%	15.0%
EBITDA (Rs mn)	450	630	945
Retailing			
Sales revenues (Rs mn)	2820	7590	16698
% change	-	169.1%	120.0%
EBITDA %	7.7%	7.8%	8.3%
EBITDA (Rs mn)	218	593	1389
Shubh			
Stores (numbers)	8	50	100
Average sales / store per year (Rs mn)	90.0	103.5	113.9
% change	-	15%	10%
Sales revenues (Rs mn)	720	5175	11385
EBITDA %	7.0%	7.5%	8.0%
EBITDA (Rs mn)	50	388	911
Laabh			
Stores (numbers)	30	30	60
Average sales / store per year (Rs mn)	70.0	80.5	88.6
% change	-	15%	10%
Sales revenues (Rs mn)	2100	2415	5313
EBITDA %	8.0%	8.5%	9.0%
EBITDA (Rs mn)	168	205	478

Moderate growth in revenues

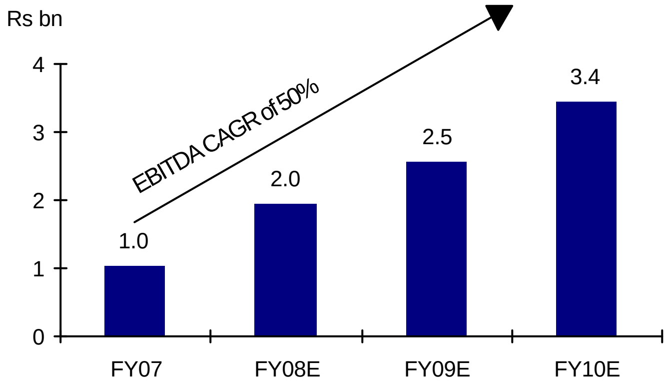
Revenue growth to be supported by retail foray and addition of new business verticals

We expect a moderate revenue growth, given a slowdown in export revenues and shift towards retail business. We expect net sales to grow at a CAGR of 11.8% from Rs 68.9 bn in FY09 to Rs 96.4 bn by FY10E. We expect a strong ramp up in retail business revenues from a mere Rs 1.7 bn in 9MFY08 to Rs 7.6 bn and Rs 16.7 bn by FY09E and FY10E, respectively. Revenues from retail business should contribute 8.6% in FY09E and 17.3% in FY10E. We have assumed a 10% drop in gold jewellery export volumes in FY09E and FY10E rrspectively, due to reduced focus on this segment. However, we have assumed a 15% and 5% rise in gold prices in FY09E and FY10E respectively. As a result, we expect export revenues to increase by 3.5% in FY09E and decline by 5.5% in FY10E.

REL - Revenue growth



REL - EBITDA growth



Source: Company, Emkay research

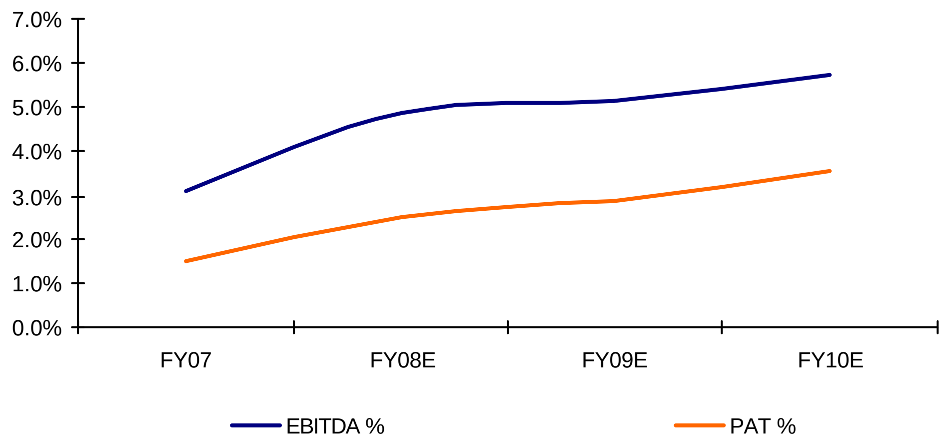
Retail foray and new business verticals to expand margins

EBITDA margin expansion is key to profit growth

Key consideration in our financial model for this company is EBITDA margins expansion. We expect overall EBITDA margins to increase from 4.8% in 9MFY08 to 5.1% in FY09E and 5.7% in FY10E. Margin expansion in primarily on account of company's entry in jewellery retailing business and inclusion of other business verticals in existing export business like white label jewellery and diamond jewellery which are higher margins business.

- ❖ We have assumed 7.8% and 8.3% EBITDA margins in retail business in FY09E and FY10E, respectively. We expect 7.5 - 8% margins from Shubh stores and 8.5 - 9% margins from Laabh stores.
- ❖ We have assumed 20% margins in white label jewellery and 15% margins in diamond studded jewellery.
- ❖ We have estimated 4% and 3.7% margins in bulk exports of gold jewellery in FY09E and FY10E, respectively.

EBITDA & PAT Margin



Source: Company, Emkay research

EBITDA contribution - FY09-10E

Source: Company, Emkay research

50% CAGR in PAT

On account of attractive margin expansion, we expect REL's bottomline to increase at a CAGR of 50.2% during FY07-10E. We expect the company to report a net profit of Rs 2.5 bn and Rs 3.4 bn in FY09E and FY10E respectively. We have assumed effective tax rate of the company to increase from a mere 4.6% in 9MFY08 to 7% in F09E and 12% in FY10E, due to growing share of profit from retail business. REL enjoys status of export house and hence enjoys tax benefits since most of its revenues are from exports.

Initiate coverage with a BUY

Attractive upside potential of 74% at our target price

We initiate coverage on the stock with a BUY recommendation and a SOTP based price target of Rs 156. We expect REL's retail foray to boost margins and help it tap opportunities in organised jewellery retailing in India. Entry into export of diamond jewellery and manufacturing of white label jewellery for leading global retail players will further boost its margins in the export business. REL enjoys the status of world's lowest cost producer of gold jewellery, which we believe will help the company in maintaining its strong order book position for export of gold jewellery. Even slowdown in US or other developed market may see various orders flowing to REL due to low cost advantage.

Valuations – SOTP based price target of Rs 155

We believe that Sum of the part (SOTP) based valuations method is the most suitable method to value this company because of the diverse dynamics of its business verticals. Also, a relative valuation of REL is not possible due to lack of companies with a similar business model.

Business segment	Valuation methodology	Target EV (Rs mn)	Per share (Rs)	Remarks
Bulk Exports	6x FY10E EBITDA	15665	55	It is 2-3% margins business with high sales volumes. On account of REL's strong economies of scale, this segment will continue to generate strong cash flows in future.
Diamond & white label	7x FY10E EBITDA	10597	37	15-20% margins with high growth potential. REL will benefit from its strong global network.
Retail business	8x FY10E EBITDA	11112	39	Margins in retail business are generally 8-12% and have significant growth potential. However branding is long term exercise with brand recognition playing a crucial role.
Cash / (Net Debt)	FY09 balance sheet	6720	24	
Total Value		**44094**	**155**	

Source: Emkay research

Bulk export gold jewellery business is valued at 6x EBITDA - This business enjoys the benefit of economies of scale and has no comparable benchmark. It is a low margin (EBITDA margins 2-3%) and high volume business, which we expect, will continue to generate steady cash flows on account of REL's competitive cost advantage. We expect EBITDA of Rs 2.6 bn from this business and have valued it at 6x FY10E EBITDA, which works out to Rs 55 per share

New verticals of diamond studded jewellery and white label jewellery valued at 7x EBITDA- REL has started exports of diamond studded jewellery and manufacturing of white label jewellery which commands 15-20% margins. Both of these new businesses have attractive growth potential and at present, both of them are in an early phase of expansion. We expect this segment to generate EBITDA of Rs 1.5 bn by FY10E and have valued it at 7x, which works out to Rs 37 per share.

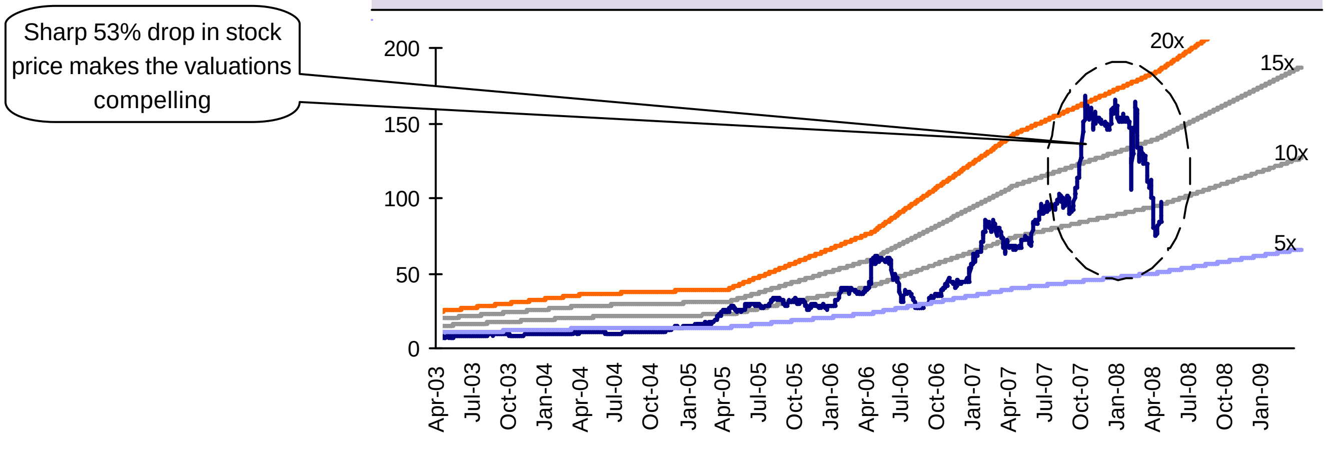
Retail business is valued at 8x EBITDA. The company's retail venture is in an early stage of expansion. It is a high margin (8-12%) and low volume business and is likely to follow the growth of branded jewellery retailing in India. Initial years may see company spending on brand building exercise and setting up its stores across the country, which may have a drag on margins. We value this business 8x EBITDA, due to high margins and high growth potential in this segment. The per share value of this business works out to Rs 39.

Not assumed any value for Bangalore Infra – We have not taken any value for its 100% subsidiary, Bangalore Infra since REL has not come up with any firm plans to develop the land bank. However, current estimated value of the land bank is Rs 8 bn and post developmental value is estimated at Rs 14 bn (as per management guidance). Per share value for Bangalore Infra works out Rs 28 per share at current market value of the land.

Significant correction in current stock price offers attractive upside

In the recent stock market meltdown, the stock has come down by 53% from its all time high (Rs 170). We believe that this correction in the stock price offers attractive upside potential.

P/E band



Source: Bloomberg, Emkay research

Comparision with peer

	Mcap US$ mn)	P/E		EV/EBITDA		Growth % Net Sales		Growth % PAT	
		FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10
Domestic companies									
Titan Industries Limited	1208.6	24.1	18.6	15.3	11.7	34.2	26.0	40.0	32.0
Gitanjali Gems Ltd	561.3	12.3	9.4	7.1	5.6	23.0	15.1	38.2	28.9
Vaibhav Gems Limited	50.4	3.2	2.5	2.2	1.8	32.5	12.1	2256.4	28.7
Rajesh Exports Limited	**559.0**	**8.9**	**6.6**	**5.9**	**4.9**	**11.6**	**9.1**	**30.4**	**35.5**
Global Companies									
Tiffany & Co	5285.6	13.9	11.9	6.9	6.2	19.5	9.9	27.8	15.8
Fossil Inc	2271.1	12.6	-	-	-	14.9	13.7	21.4	19.9
Signet Group Plc	2122.4	11.5	12.3	5.7	5.3	5.0	6.2	6.2	10.2
Zale Corp	863.0	20.3	25.9	6.1	8.6	-0.8	1.7	-255.6	-11.7
Chow Sang Sang Hldg	787.9	9.2	8.3	7.7	6.8	6.8	8.8	15.5	12.4
Blue Nile Inc	733.9	32.9	-	16.5	-	10.3	15.1	17.5	20.1
Movado Group Inc	517.6	10.4	10.7	-	-	3.3	1.7	-15.0	-
Gems TV Holdings Ltd	155.7	4.4	2.6	-	-	31.3	39.6	-0.2	52.2
Pranda Jewelry Pub Co Ltd	99.1	6.3	-	5.2	-	12.0	-	19.1	6.2

Source: Bloomberg, Emkay research

Risks and concerns

Recent rally and volatility in gold prices to have adverse impact on sales volumes

World jewellery consumption dropped by 17% in Q4CY07

Gold prices in the last three months have perked up by 10% to around US$ 920 / ounce after hitting an all time high of US$ 1,011 / ounce on 20 March 2008. This quick rally in gold prices has resulted in a sharp fall in consumption of gold jewellery across the world. Recent data by world gold council indicates a 17% drop in sales volume of gold jewellery in Q4CY07 as against 6% volume growth in CY07. Demand for gold jewellery in Q4CY07 took a hit in various countries while India (-67% YoY), Taiwan (-21%) and USA (-17%) were the worst hit. We believe that a further rise in gold price or volatility in gold price movement can dampen the demand growth.

Jewellery consumption in key world markets

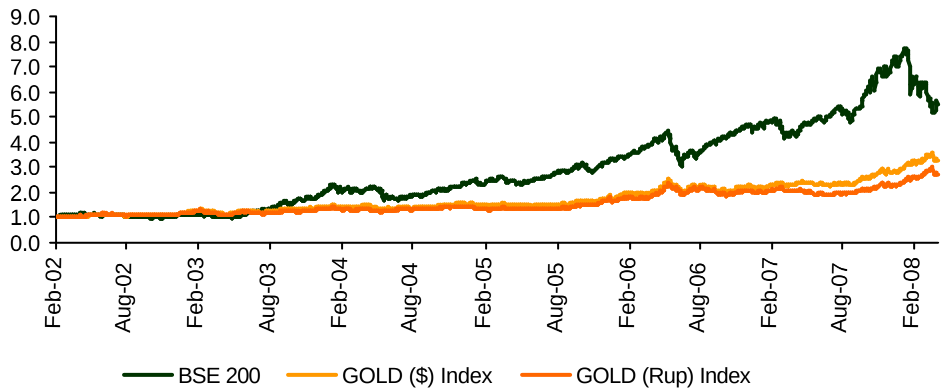
Country	Jewellery consumption (mt)					% YoY				
	Q1CY07	Q2CY07	Q3CY07	Q4CY07	CY07	Q1CY07	Q2CY07	Q3CY07	Q4CY07	CY07
India	147.0	240.0	117.2	54.0	558.2	48.0	89.0	6.0	-67.0	6.1
Greater China	**89.1**	**78.0**	**79.4**	**84.5**	**331.0**	**24.0**	**25.0**	**20.0**	**15.0**	**20.4**
China	81.6	70.6	72.7	77.3	302.2	27.0	30.0	23.0	18.0	23.5
Hong Kong	3.6	3.6	3.4	3.8	14.4	17.0	10.0	10.0	4.0	9.9
Taiwan	3.8	3.8	3.4	3.4	14.4	-13.0	-18.0	-16.0	-21.0	-16.3
Japan	8.2	7.9	8.1	8.0	32.2	-6.0	-1.0	-2.0	-7.0	-1.8
Indonesia	15.6	13.7	16.3	12.7	58.3	2.0	14.0	1.0	-8.0	1.0
Vietnam	6.5	6.0	3.6	5.5	21.6	14.0	19.0	-2.0	-14.0	-2.3
Middle East	**77.4**	**91.6**	**90.9**	**68.2**	**328.1**	**8.0**	**21.0**	**11.0**	**-5.0**	**10.8**
Saudi Arabia	24.3	39.6	33.9	22.4	120.2	7.0	30.0	15.0	-9.0	15.2
Egypt	15.5	13.1	21.3	17.4	67.3	16.0	8.0	12.0	9.0	12.2
UAE	27.8	27.8	24.9	19.3	99.8	7.0	18.0	8.0	-8.0	8.0
Other Gulf	9.9	11.1	10.7	9.1	40.8	3.0	14.0	3.0	-10.0	3.3
Turkey	32.8	52.2	65.1	38.0	188.1	6.0	14.0	14.0	19.0	13.8
Russia	0.0	20.3	31.8	24.9	77.0	0.0	27.0	11.0	25.0	10.8
USA	54.2	51.0	53.1	104.6	262.9	-5.0	-4.0	-14.0	-17.0	-14.1
Italy	9.3	12.6	8.3	28.6	58.8	-8.0	-10.0	-9.0	-10.0	-9.3
UK	7.8	8.2	7.9	24.7	48.6	1.0	-2.0	-8.0	-10.0	-7.4
Europe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0
Total above	447.8	581.6	481.8	453.6	1964.8	18.0	36.0	5.0	-21.0	5.2
Other	125.0	93.5	110.3	132.1	460.9	14.0	-1.0	11.0	0.0	11.1
World	**572.8**	**675.1**	**592.1**	**585.7**	**2425.7**	**17.0**	**29.0**	**6.0**	**-17.0**	**6.3**

Source - World Gold Council, Emkay Research

Equity market offers better investment opportunity than gold after recent correction

We expect that recent correction in equities market can potentially offer better returns on investment as compared to gold. As a result, consumers who are willing to buy gold / gold jewellery from an investment point of view may postpone their purchase or may switch to equity markets, which may have adverse impact on consumption of gold.

India: Returns in gold and equities



Source: Global Insight, WGC

Execution risk – lower than expected rollout of retail outlets

REL has chalked down aggressive rollout plans for its retail outlets. Even though we have been conservative in our assumptions of the company's retail rollout plans, lower than expected launch of retail outlets will have an adverse impact on our earnings estimates. Similarly, lower than expected revenues per outlet will also have adverse impact on our earnings estimates.

Rising acceptance of other competitors of gold

There is increasing willingness in the consumers of gold to own other competitive products than gold / gold jewellery. Technology goods like cell phones, Ipods, laptops etc are some of the products which are a potential threat to gold consumption. Inclination towards luxury clothings and fashion accessories like handbags, sunglasses, designer wear etc also have adverse impact on the demand of gold consumption. We also see that rising share of expenditure on travel and leisure products may reduce the demand for gold.

Upside triggers

We have been fairly conservative in assumption of rollout plans of company's retail Shubh and Laabh stores. Higher than expected rollout of retail outlets presents potential upside to our estimates. Similarly, our conservative assumption on margins in retail business leaves considerable room for upsides. We have not assumed any rollout plans for its Oyzterbay, given the uncertainty involved in the business model after termination of JV with Fossil. However, the company remains confident about the launch of its Oyzterbay stores. Any such launch is likely to result in better than expected earnings.

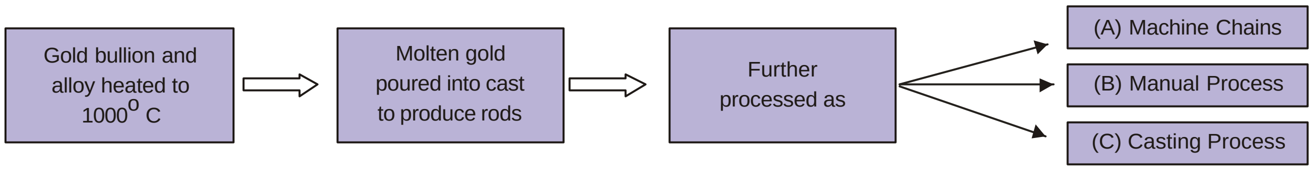
We have not assumed any development of its real estate assets in and around Bangalore. REL has plans to develop this land bank in the future, resulting in a positive impact on our earnings estimate.

Global gold supply and demand

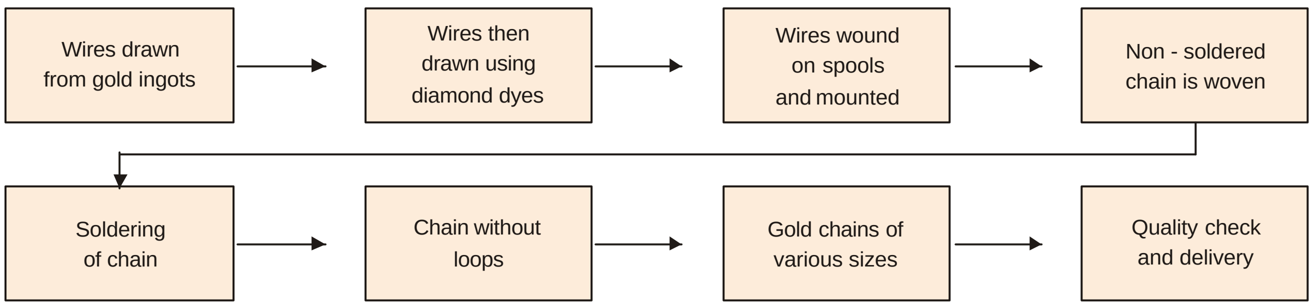
			Annual			Quarterly					
(In mt)	2005	2006	% YoY	2007	% YoY	Q4'06	Q1'07	Q2'07	Q3'07	Q4'07	% YoY
Supply											
Mine production	2,550	2,481	-2.7	2,447	-1.4	663	587	611	631	618	-6.8
Net producer hedging	-86	-373	333.7	-400	7.2	-32	-137	-182	-31	-50	56.3
Total mine supply	2,464	2,108	-14.4	2,047	-2.9	631	450	429	601	568	-10.0
Official sector sales	662	367	-44.6	485	32.2	59	73	145	169	98	66.1
Old gold scrap	886	1,107	24.9	937	-15.4	242	237	219	204	277	14.5
Total Supply	4,012	3,582	-10.7	3,469	-3.2	933	760	792	973	943	1.1
Demand											
Fabrication											
Jewellery	2,707	2,283	-15.7	2,426	6.3	624	584	701	630	511	-18.1
Industrial & dental	431	458	6.3	465	1.5	116	116	119	118	113	-2.6
Sub-total above fabrication	3,138	2,741	-12.7	2,891	5.5	740	700	820	747	624	-15.7
Bar & coin retail investment	412	421	2.2	441	4.8	119	120	139	111	71	-40.3
Other retail investment	-26	-22	-15.4	-36	63.6	-9	-11	-12	-9	-4	-55.6
ETFs & similar	208	260	25.0	251	-3.5	79	36	-3	139	78	-1.3
Total Demand	3,731	3,400	-8.9	3,547	4.3	929	844	945	989	769	-17.2
Inferred investment	280	182	-35.0	-79	-143.4	4	-84	-153	-16	175	4275.0
Gold price average (US$/oz)	444	604	35.8	695	15.2	613	650	667	680	786	28

Source: Emkay research, GFMS Ltd.

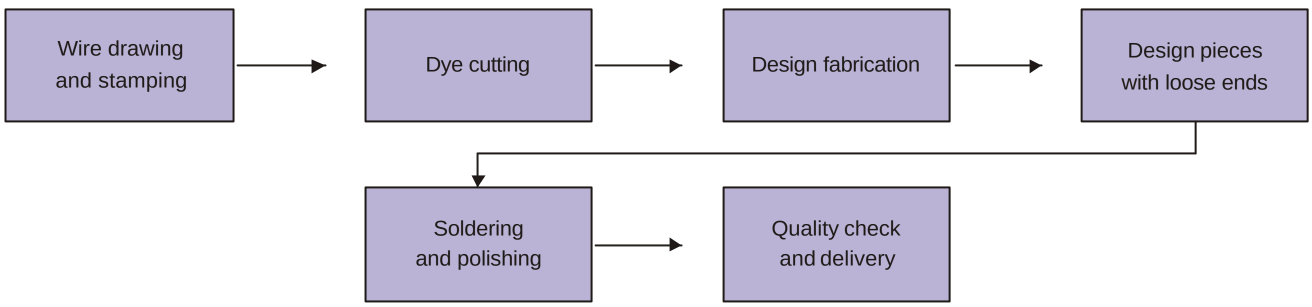
Gold jewellery manufacturing process



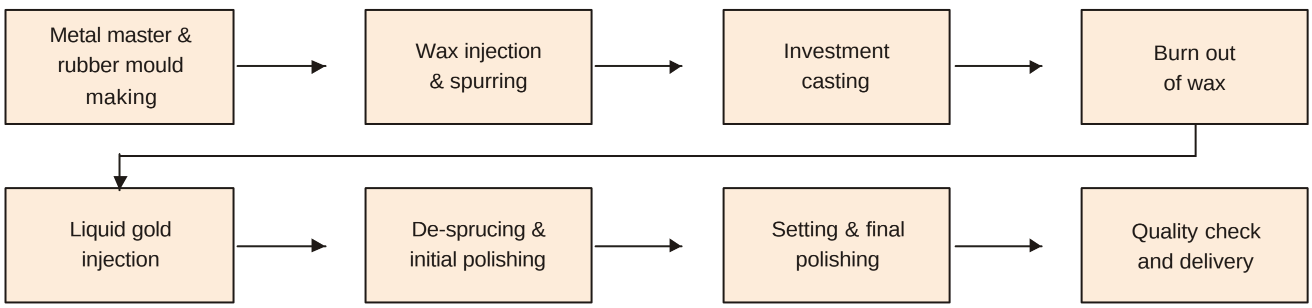
(A) Machine Chains *(for standard gold chains of various designs)*



(B) Manual Process *(for hand-made jewellery)*



(C) Casted Jewellery *(for plain and diamond jewellery)*



Income Statement (Rs mn)

	FY07	FY08E	FY09E	FY10E
Net Sales	68933	79175	88330	96406
Total Exp	66787	75301	83792	90893
EBIDTA	2145	3874	4538	5514
% of Sales	3.1	4.9	5.1	5.7
Depreciation	15	16	17	18
EBIT	2131	3858	4521	5495
Other Income	1	0	0	0
Interest	1086	1828	1787	1580
PBT	1046	2030	2734	3915
Tax	30	81	191	470
ETR (%)	2.8	4.0	7.0	12.0
A PAT	1017	1949	2542	3445
EO items	8	0	0	0
Reported NP	1009	1949	2542	3445

Source: Company, Emkay research

Balance Sheet (Rs mn)

	FY07	FY08E	FY09E	FY10E
Equity Capital	74	222	284	284
Reserves & Surplus	3017	4435	12920	15556
Networth	3091	4657	13204	15840
Total Debts	33234	33234	26334	26334
Net deferred lib	-8	-8	-8	-8
Capital Employed	**36316**	**37883**	**39530**	**42165**
Gross Block	596	646	696	746
Less Depreciation	79	95	112	130
CWIP	19	0	0	0
Net Fixed Assets	537	551	584	616
Investments	63	63	63	63
Inventory	957	2169	7260	11886
Debtors	8967	8677	10890	11886
Cash and Bank	57647	58892	54734	54928
Loans & Advances	1575	1583	1767	1928
Total Curr. Assets	69146	71322	74650	80627
Current Liabilites	33343	33674	35120	38331
Provisions	87	379	648	810
Total Curr. Liabi. & Prov.	33429	34053	35768	39141
Net Current Assets	35716	37268	38882	41486
Total Assets	**36316**	**37883**	**39530**	**42165**

Source: Company, Emkay research

Cash Flow Statement (Rs mn)

	FY07	FY08E	FY09E	FY10E
PBT	1046	2030	2734	3915
Depreciation	15	16	17	18
Interest	1086	1828	1787	1580
Net Chg in WC	3075	-599	-6042	-2572
Tax	-29	-81	-191	-470
Others	-8	-4	0	0
CFO	5185	3190	-1695	2472
Chg in FA	-52	-30	-50	-50
Chg in Invstmnts	-14	0	0	0
Others	0	0	0	1
CFI	-66	-30	-50	-49
Chg in equity	-198	0	6653	0
Chnge in Debts	19791	0	-6900	0
Interest & Fin. Charges	-1086	-1828	-1787	-1580
Div. & Div Tax	-74	-87	-379	-648
Others	0	0	0	1
CFF	18433	-1914	-2414	-2227
Total Cash Generated	23552	1246	-4159	196
Cash Opening Balance	34104	57647	58892	54734
Cash Closing Balance	57656	58892	54734	54930

Source: Company, Emkay research

Ratios

	FY07	FY08E	FY09E	FY10E
EBIDTA %	3.1	4.9	5.1	5.7
EBIT%	3.1	4.9	5.1	5.7
NPM %	1.5	2.5	2.9	3.6
Adj ROCE (%)	17.8	30.6	22.8	21.5
Adj ROE (%)	37.3	50.3	28.5	23.7
Adj EPS	3.6	6.9	8.9	12.1
Cash EPS	3.6	6.9	9.0	12.2
Book Value	41.8	21.0	46.5	55.8
DPS	1.0	1.5	2.0	2.5
Payout (%)	7.3	17.1	22.3	20.6
Debtors days	34	40	45	45
Creditors days	160	160	150	150
Debt Equity (x)	8.6	8.6	3.3	1.8
PE (x)	25.1	13.1	10.1	7.4
Cash P/E (x)	24.8	13.0	10.0	7.4
P/BV (x)	2.2	4.3	1.9	1.6
EV/Sales (x)	0.4	0.4	0.3	0.3
EV/EBITDA (x)	13.5	7.2	5.9	5.4
Mcap / Sales (x)	0.3	0.3	0.2	0.2
Div Yield (%)	1.1	1.7	2.2	2.8

Source: Company, Emkay research

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Emkay Rating Distribution

BUY	Expected total return (%) of stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) of stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
REDUCE	Expected total return (%) of stock price appreciation and dividend yield) of below 10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.
NEUTRAL	Analyst has no investment opinion on the stock under review.