IPO Note

IPO Details	
Face Value	Rs. 10
Price Band	Rs. 125-150
Issue Opens	19-Nov-07
Issue Closes	21-Nov-07
BRLM	Edelweiss Capital Limited
Registrar to issue	Intime Spectrum Registry Ltd.
Shares on offer for sale	5.3 mn

Pre issue shareholding pattern

	% Stake
Promoters and Promoter group	100

Post issue shareholding pattern

Shareholders	% Stake
Promoters and Promoter group	71.0
Public	29.0

Segmented Allocation	
QIBs	2,662,120
Non-Institutional	798,636
Retail	1,863,484

IPO Details	Lower End	Upper End
Price Band (Rs.)	125	150
Equity Shares prior to issue (mn)	13.0	13.0
Fresh Issue of shares (mn)	5.3	5.3
Total Equity Shares (mn)	18.4	18.4
Share Capital (bn)	Rs. 0.2	Rs. 0.2
Implied market cap (bn)	Rs. 2.3	Rs. 2.8
Debt (bn) (as on 30/06/2007)	Rs. 1.0	Rs. 1.0
Cash (bn) (as on 30/06/2007)	Rs. 0.0	Rs. 0.0
Implied EV (bn)	Rs. 3.3	Rs. 3.7

Renaissance Jewellery Ltd. — Do not subscribe

Renaissance Jewellery Limited (RJL) manufactures and sells studded gold, silver and platinum jewellery with the main focus on overseas markets, especially the US. The contribution from the US market constituted more than 95% of the total revenues in FY07. The Company has two domestic & one foreign subsidiary and operates through three manufacturing units, of which one is a 100% EOU and two are located at SEEPZ-SEZ in Mumbai.

RJL is planning to raise Rs. 665.5 mn to Rs. 798.6 mn by offering 5.3 mn shares, with a face value of Rs. 10, at a price band of Rs. 125-150. In addition, it is offering one share warrants for every two equity shares alloted. The Company plans to use the issue proceeds for expanding the production capacity of its Bhavnagar and Mumbai units, investing in its foreign subsidiary and meeting the working capital requirements.

Valuation and Recommendations

Though, prima facie it appears that the Company's issue is at a considerable discount to its peers, we believe that the increasing competition from the Chinese exporters, insignificant presence in the domestic market and withdrawal of tax benefits available to EOUs w.e.f. FY10 poses serious threat to the prospects of the Company. Moreover, the US economy is expected to slow down and as RJL derives a major chunk of its revenues from the US markets, this will further impact the top line growth. In addition, rupee appreciation and the imposition of import duty on exports of jewellery from India to US will also compound its problems.

In view of the aforementioned factors, we believe the Company's profitability will be adversely affected in the near future. Moreover, on the face of massive capacity expansion, we expect a decline in its return on assets (10.7% in FY07) and return on equity (29.6% in FY07) in the coming years. We, therefore, recommend the investors not to subscribe to the issue.

Valuation	P/E	EV/Revenue	EV/EBITDA
Goldiam international	10.4	0.7	7.2
Gitanjali Gems	24.1	0.9	18.8
Classic Diamonds	14.8	1.1	10.5
Industry Average	16.5	0.9	12.2
Renaissance Jewellery			
Upper Band	7.7	0.6	8.7
Lower Band	6.4	0.6	7.7
Premium / (Discount) to industry average			
Upper Band	(53.2)%	(27.7)%	(28.1)%
Lower Band	(61.0)%	(36.0)%	(36.4)%

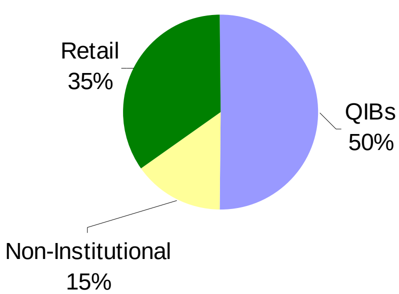
IPO

Issue details

RJL plans to raise Rs. 665.5 mn to Rs. 798.6 mn through an IPO of 5.3 mn equity shares. The equity shares having a face value Rs. 10 each will be offered at a price band of Rs. 125 – Rs. 150. In addition, one detachable warrant will be offered for every two equity shares allotted. Warrant exercise period will be 2 months commencing from the completion of the 16th month from the date of allotment of the equity shares and warrants. The exercise price will be a fixed premium of 25% over the issue price.

Pre-issue, the promoters and the promoter group held 100% of the issued and paid up share capital. After the issue, they will own 71% of the post issue paid-up equity share capital. Net issue to the public will constitute 29% of the fully diluted post issue paid-up capital of the Company prior to exercise of detachable warrants, and 37.99% of the paid-up equity share capital after the exercise of detachable warrants.

Segmented Allocation of the IPO



Issue objective

The IPO is being carried out to raise funds for:

- Expanding the capacity of the Mumbai and Bhavnagar manufacturing facilities to 1,700 kgs and 1,080 kgs per annum, respectively. The total cost of the project will be around Rs. 140.7 mn.
- Investing Rs. 350 mn in its foreign subsidiary, Renaissance Jewelry New York, Inc. (RJNY).
- Increasing the working capital of the Company.

Promoters

RJL was promoted by Mr. Niranjan A. Shah, Mr. Sumit N. Shah, Mr. Hitesh M. Shah, Mr. Bhupen C. Shah and Mr. Amit C. Shah. Mr. Niranjan A. Shah is the Chairman of the Company, with more than 37 years of experience in the gems and jewellery business. Mr. Sumit N. Shah, the MD of the Company, has over 10 years experience in this line. Mr. Hitesh M. Shah joined the Company as CFO and was appointed as a Whole Time Director in January 2003. He commands an experience of more than 12 years in this line. The other two promoters of RJL, Mr. Bhupen C. Shah and Mr. Amit C. Shah, too have over 20 years of relevant experience.

Rationale

Dependency on a few clients

The Company relies heavily upon a few customers. In FY07 around 96% of RJL's revenue was derived from top five customers, with around 42.4% revenue coming from a single customer. In the absence of any long term arrangement or binding contract with any of its customers, the Company's revenue and profitability could be adversely affected by the loss of any one of them.

Geographic concentration

RJL is primarily dependent on the US market for its revenue generation, with more than 95% revenue coming from the country. Although, the Company is diversifying into other regions like Hong Kong, UAE and UK, the contribution from these will not be considerable and so its dependence on the US markets will remain intact. In the domestic market also, it does not have a noticeable presence.

Currently, the US economy is expected to face a slowdown and with gems and jewellery being a luxury item, the Company's business can take a considerable hit. Moreover, with a heavy dependence on the US market, strong rupee appreciation will further impact the Company's profitability despite the fact that it is partly being hedged by the purchases made by RJL in US dollar.

Pressure on the margins

Earlier the Company was guarded by the US Generalised System of Preferences (GSP), under which it was eligible for a duty waiver on the sale of its products in the US. However, w.e.f. July 2007, the export of studded jewellery from India to US was made ineligible for exemption from duty. As a result, going forward import duty will be levied on RJL's exports, which will make its products expensive. RJL's revenue can therefore take a hit and thereby put significant pressure on margins.

Moreover, gold and diamond prices, which constitute more than 90% of the raw material cost, are increasing at a considerable rate. This uptrend is likely to put further pressure on margins.

From FY08 the Company will come under the purview of Minimum Alternative Tax (MAT). Also, from FY10 tax exemptions under section 10A and 10B will expire, thus margins would be adversely affected by the increase in tax expenses.

Negative operating cash flows

On a consolidated basis, RJL's operating cash flows have declined from a mere Rs. 22.7 mn in FY06 to negative Rs. 238 in FY07. Even on a stand alone basis, the Company's operating cash flows were negative in three out of the last five financial years. If the Company is not able to check this decline in operating cash flows, it would face problems in repaying loans and making new investments.

Under utilization of capacity

On a consolidated basis, RJL's capacity utilization for FY05, FY06 and FY07 was 66.3%, 66.1% and 81.3%, respectively. Even though the Company has spare capacity, it intends to enhance the production capacity of its manufacturing units. Further, as of date it has not received any firm orders for optimally utilizing the increased capacity.

Presence in highly competitive markets

The Company's primary focus is on the highly competitive US market. The withdrawal of benefit under GSP w.e.f. July 1, 2007 would further increase the competition from Chinese players. As of now, both the countries do not enjoy the GSP benefits. This could adversely impact the Company's top line and thus its profitability. Non-diversified geographical presence and exposure to the highly competitive US markets remain a cause of concern.

Outlook

RJL is the manufacturer and seller of studded gold, silver and platinum jewellery. The Company's promoters and management have a vast experience in the gems and jewellery business. Though, the Company enjoys tax benefits resulting from its manufacturing facilities located in the SEZ, yet the imposition of MAT from FY08 and expiry of tax exemptions under section 10A and 10B from FY10, will put pressure on its margins. Moreover, a large chunk of its revenue comes from the US market, which is expected to face a slowdown; this could further impact its profitability. In addition, rupee appreciation and increased competition from the Chinese players, would further impact the Company's operating performance.

Though, the Company's issue is at a discount to its peers, however, based on the aforementioned factors, we recommend our investors not to subscribe to the issue. Moreover, with the Company going for massive capacity expansion, we expect a decline in its return on assets (10.7% in FY07) and return on equity (29.6% in FY07) in the coming years.

Company Background

Renaissance Jewellery Ltd. (RJL) started its operations in 1989, under the name of Mayur Gems and Jewellery Export Pvt. Ltd. Later, on June 30, 1995 it was acquired by the existing promoters and w.e.f. April 5, 2002 it was renamed as Renaissance Jewellery Pvt. Ltd. In December 2005, the Company was converted into a public limited company and named as Renaissance Jewellery Ltd.

The Company's line of business includes the manufacture and sale of studded gold, platinum and silver jewellery with the prime focus on international markets, mainly USA. RJL's product line includes rings, earrings, pendants, bracelets, necklaces, etc. and since July 2007, it has also commenced the export of loose diamonds.

The Company has two wholly owned Indian subsidiaries, Verigold Fine Jewellery Pvt. Ltd. (VFJPL) and Renaissance Retail Venture Pvt. Ltd. (RRVPL). While VFJPL caters primarily to the international market, RRVPL looks after the demand in the domestic retail market. In addition, RJL also has a foreign subsidiary, Renaissance Jewelry New York (RJNY).

RJL operates through three manufacturing units, of which two units are located in SEEPZ-SEZ at Mumbai and one is a 100% EOU at Bhavnagar, Gujarat. Besides RRVPL has a manufacturing facility at MIDC, Andheri and VFJPL has a manufacturing facility in SEEPZ-SEZ at Mumbai.

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.