

June 01, 2010

C.M.P:
Rs.88.00

Target Price:
Rs.110.00

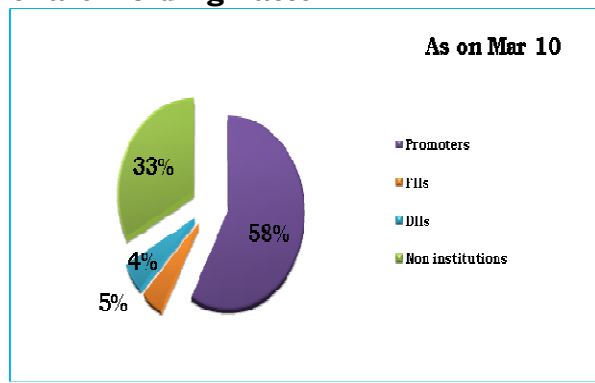
1 Year Comparative Graph



Stock Data

Sector	Diamond & Jewellery
Face Value (Rs.)	1.00
52 wk. High/Low (Rs.)	133.05/32.10
Volume (2 wk. Avg.)	237000
BSE Code	531500
Market Cap (Rs.mn.)	23392.16

Share Holding Pattern



V.S.R. Sastry
Equity Research Desk
vsrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.
Chief Research Officer
drsastry@firstcallindia.com

SYNOPSIS

- Rajesh Exports Ltd is the world's largest and the lowest-cost manufacturer of global jewelry, coins and other gold products.
- The company has retail presence with 25 stores spread across the country under the brand name of "SHUBH Jewellers." The company plans to open 300 retail stores in India over the next three years, and has lined up a capex of Rs 3000-4000 crore.
- The company is in advanced talks with Australian and South African firms to acquire gold refineries and mines, and is likely to close some deals over the next 3-4 months.
- Last calendar year, the company took advantage of the crash in real-estate prices, to acquire prime properties and augment its land bank over Rs1400cr.
- The company will launch the "Gold Revolution" across the country within the next twelve months. With this, REL heralds the dawn of a new era of transparency in gold purity, price and weight to bring in ultimate transparency in the gold jewellery trade.
- Net sales and Net profit of the Company are expected to grow at a CAGR of 36.35% & 51.94 % over FY09 to FY12E.

Financials(Mn)	FY10	FY11E	FY12E
Net Sales	185113.5	240647.60	312841.88
EBIDTA	3010.24	3706.52	4640.52
Net Profit	1934.11	2463.47	3064.69
EPS	7.28	9.27	11.53
P/E	16.36	9.50	7.63

Peer Group Comparison

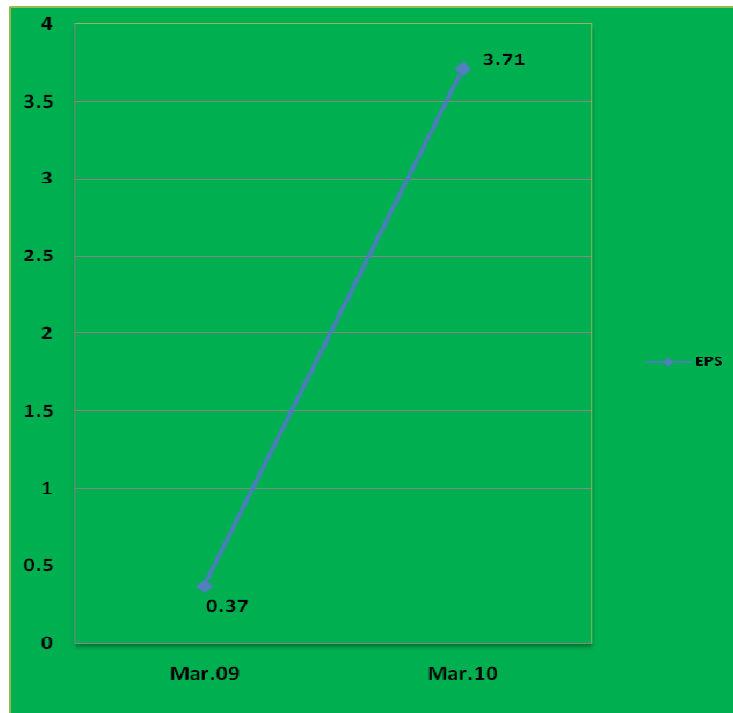
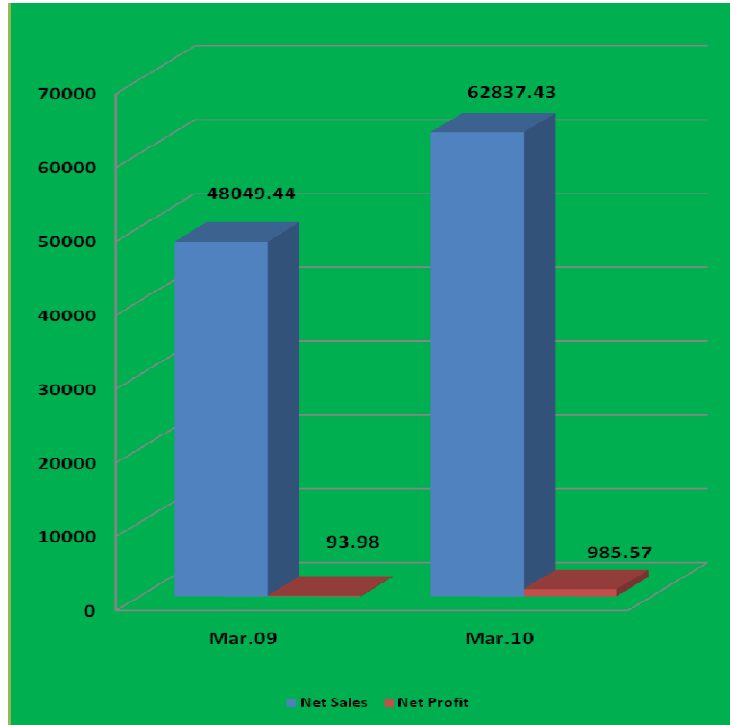
Name of the company	CMP (As on JUNE 01, 2010)	Market Cap. (Rs. Mn.)	EPS (Rs.)	P/E (x)	P/BV (x)	Dividend (%)
RAJESH EXPO	88.00	23392.16	7.28	12.09	2.04	60.00
GITANJALI GEMS	113.60	9573.10	16.37	6.94	0.51	18.00
ASIAN STAR	1130.00	12058.50	12.48	90.54	3.77	20.00
SU-RAJ DIAMOND	49.40	3055.10	10.95	4.51	0.40	0.00

Investment Highlights

• Q4 FY10 Results Update

For the quarter ended on March 31, 2010 (Standalone) the company has registered a 30.78 % (YOY) growth in the net sales and stood at Rs.62837.43 mn from Rs.48049.44 mn of the corresponding period of the previous year. The operating profit for the quarter stood at Rs.1481.42 mn from Rs.1149.49 mn, for the same quarter of last year. EBITDA margins for the quarter stood at 2.36 %. The company has reported a net profit of Rs.985.57 mn for the quarter ended March 31, 2010 as compared to the net profit of Rs.93.98 mn for the quarter ended March 31, 2009. EPS for the quarter stood at Rs.3.71 per equity share of Rs.1.00.

Quarterly Results - Standalone (Rs in mn)			
As at	Mar - 09	Mar - 10	%Change
Net Sales	48049.44	62837.43	30.78
Net Profit	93.98	985.57	948.70
Basic EPS	0.37	3.71	902.70



- **FY10 Performance**

For the year, the company has posted a rise of 38.65 % in Standalone net sales to Rs 185113.54 million for the year ended Mar. 31, 2010 as compared to Rs 123417.73 million for the year ended Mar. 31, 2009. Net Profit has increased by 121.35% to Rs 1934.11 million for the year ended Mar. 31, 2010 from Rs 873.76 million for the year ended Mar. 31, 2009. EPS for the year stood at Rs.7.28 per equity share of Rs.1.00.

- **Leashes the "Gold Revolution"**

The company will launch the "Gold Revolution" across the country within the next twelve months. With this, REL heralds the dawn of a new era of transparency in gold purity, price and weight to bring in ultimate transparency in the gold jewellery trade. The Gold Revolution will be launched first in their prestigious "Shubh Gold Mall" at MG Road (next to Cauvery Handicrafts) in Bangalore. The Gold Revolution will also be activated in their existing 6 "Shubh" outlets in Bangalore as well as one store in Udupi."

- **Order book**

In the Last twelve months the company has developed more than 6,000 new designs of jewelry, which have been very well received in the Indian and global markets, resulting in a current order book of over Rs,4600 cr.

- **Expansion Plans**

The company has retail presence with 25 stores spread across the country under the brand name of “SHUBH Jewellers.”

The company plans to open 300 retail stores in India over the next three years, and has lined up a capex of Rs 3000-4000 crore.

The company plans to expand retail operations overseas with showrooms in the Middle East, Far East, US and parts of Europe including the UK and France.

The company is in advanced talks with Australian and South African firms to acquire gold refineries and mines, and is likely to close some deals over the next 3-4 months.

- **Land bank over Rs1400cr**

Last calendar year, the company took advantage of the crash in real-estate prices; to acquire prime properties and augment its land bank over Rs1400cr. The Company has significantly enhanced its treasury management to actively manage over Rs.1000.cr of its cash surplus, resulting in higher income without undue risks.

Company Profile

Rajesh Exports is manufacturer of gold and diamond jewellery and was incorporated in 1995. Mr Rajesh Mehta and his brother Prashant Mehta entered into their family business of retailing jewellery in 1985. Then in 1989, Rajesh export was established in partnership to manufacture and export jewellery. In the 1990 the company set up its gold jewellery manufacturing unit. Immediately in the next year, REL also set up research and development facilities for jewellery segment. In 1994 the company became the largest exporter of jewellery from India.

Currently the company has set up world's largest jewellery manufacturing unit which is spread across 10 acres of land. This unit processes 250 tonnes of gold per annum. It is also capable of producing hand-made jewellery, casting jewellery, machine chains, stamped jewellery, studded jewellery, tube jewellery and electro-formed jewellery. The company has its presence in entire jewellery cycle starting from refining of gold to marketing of jewellery. The company designs jewellery according to market trend and has a portfolio of 29000 designs.

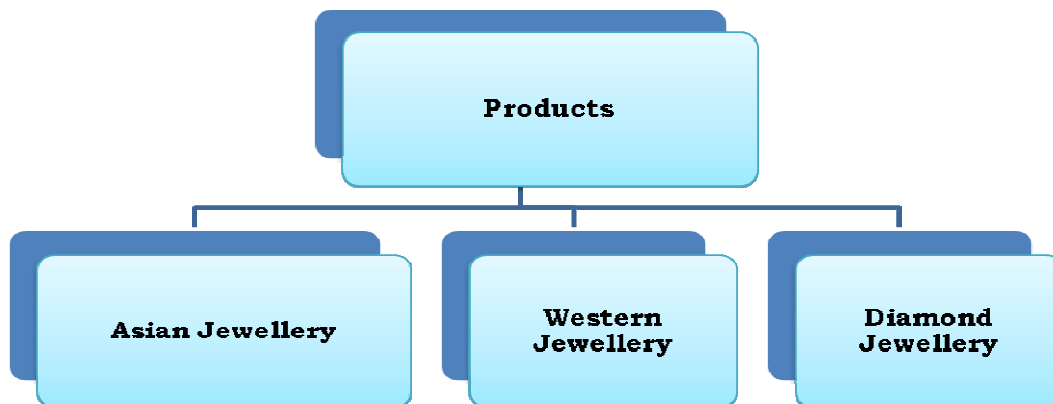
It is the lowest cost gold jewellery producer in the world. The company has its presence in four continents of North America, Europe, Asia and Australia. It has distribution network in the cities of New York, Chicago, Dallas, Toronto, London, Paris, Zurich, Dubai, Sharjah, Muscat, Kuwait, Singapore, Kuala Lumpur and Sydney. Currently the company supplies jewellery to over five thousand retail showrooms across India. It has also set up exclusive jewellery retail stores under the name LAABH JEWELLERS. Currently it has 30 stores across India.

Products:

REL manufactures a wide range of jewellery. The R&D division tracks the changes in the jewellery markets, the changes are analysed and based on the analysis designers create designs. The designs on the drawing board are prototyped by senior artisans. The products so created are displayed to the selection committee which decides on the inclusion of the products in the design portfolio. The existing design portfolio is also constantly monitored to eliminate out of trend designs. REL currently has a design portfolio of 29,000 active designs.

The design portfolio is divided in to three basic types of products :-

- **Asian Jewellery**
- **Western Jewellery**
- **Diamond Jewellery**



These products are further divided into various categories and items. The entire product portfolio is digitized and each of the design bears a distinctive number. The R&D division has conducted extensive research in colour, finish, shine, size and durability of the products which has resulted in each of the products of REL being exclusive and unique. Each piece of jewellery undergoes a strict quality checking process and only after the certification by the quality control department the product is released for sale. REL absolutely guarantees the gold purity in each of its products.

The inventory division maintains inventory of the products based on the quantity suggested by the product division for each of the designs. Most of the products are available off the shelf. REL is capable of quickly responding to orders from its buyers.

SWOT Analysis:

Strengths:

- Worlds largest Manufacturer of gold jewellery
- State of the Art and the most advanced, Worlds Largest manufacturing facility
- The lowest gold wastage in the jewellery manufacturing process in the world.
- Lowest cost gold jewellery producer in the world.
- One of the largest and the most advanced R&D facility in the field of jewellery

- One of the largest design portfolio of 29000 active jewellery designs.
- Most integrated jewellery entity with presence from refining up to retailing.
- Largest exporter of gold jewellery in India
- The only government recognized five star export house in the jewellery sector.
- Widespread and organized international and domestic marketing network.
- Most experienced and dedicated team of jewellery professionals.

Weakness:

- Low Margins

Opportunities:

- Growing Retail Market
- Growing consumption of Gold

Threats:

- High Competition
- Gold price Fluctuations

Financial Results

12 months ended Profit & Loss A/C (Standalone)

Value(Rs. in million)	FY09A	FY10A	FY11E	FY12E
Net Sales	123417.73	185113.54	240647.60	312841.88
Other Income	266.55	180.94	217.13	260.55
Total Income	123684.28	185294.48	240864.73	313102.44
Expenditure	-121265.31	-182284.24	-237158.21	-308462.10
Operating Profit	2418.97	3010.24	3706.52	4640.34
Interest	-1415.74	-919.97	-951.23	-1216.23
Gross Profit	1003.23	2090.27	2755.29	3424.11
Depreciation	-17.56	-17.80	-18.10	-18.90
Profit before Tax	985.67	2072.47	2737.19	3405.21
Tax	-111.91	-138.36	-273.72	-340.52
Profit after Tax	873.76	1934.11	2463.47	3064.69
Net profit	873.76	1934.11	2463.47	3064.69
Equity Capital	257.01	265.82	265.82	265.82
Reserves	8881.34	11176.83	13640.30	16704.99
Total No. of Shares(mn)	257.01	265.82	265.82	265.82
Face Value(Rs)	1.00	1.00	1.00	1.00
EPS(Rs)	3.40	7.28	9.27	11.53

Quarterly ended Profit & Loss A/C (Standalone)

Value(Rs. in million)	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10E
Net Sales	40232.71	45321.72	62837.43	64094.18
Other Income	0.35	0.19	180.40	216.48
Total Income	40233.06	45321.91	63017.83	64310.66
Expenditure	-39778.35	-44647.82	-61536.41	-62844.34
Operating Profit	454.71	674.09	1481.42	1466.32
Interest	-125.24	-229.86	-353.76	-325.23
Gross Profit	329.47	444.23	1127.66	1141.09
Depreciation	-4.45	-5.23	-3.73	-3.95
Profit before Tax	325.02	439.00	1123.93	1137.14
Tax	0.00	0.00	-138.36	-136.46
Profit after Tax	325.02	439.00	985.57	1000.68
Net profit	325.02	439.00	985.57	1000.68
Equity Capital	257.01	257.34	265.82	265.82
Face Value(Rs)	1.00	1.00	1.00	1.00
Total No. of Shares(mn)	257.01	257.34	265.82	265.82
EPS(Rs)	1.26	1.71	3.71	3.76

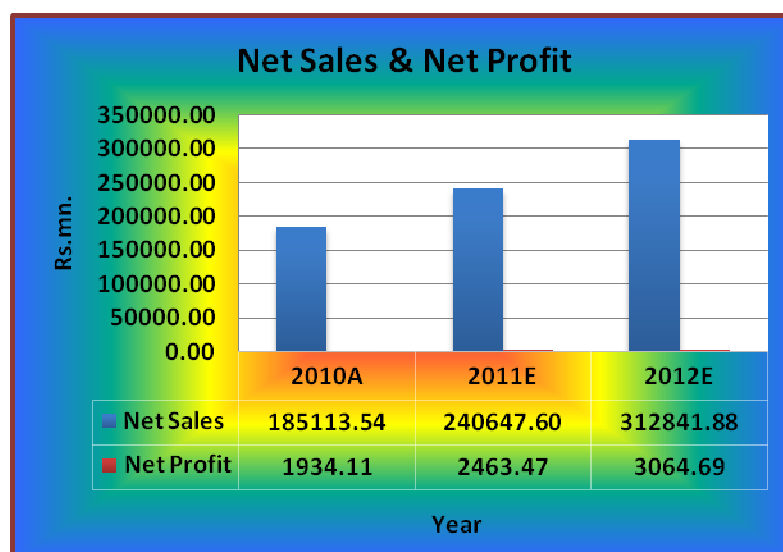
Key Ratios

Particulars	2009(A)	2010(A)	2011(E)	2012(E)
EBITDA Margin (%)	1.96%	1.63%	1.54%	1.48%
NP Margin (%)	0.71%	1.04%	1.02%	0.98%
P/E (x)	7.41	16.36	9.50	7.63
ROE (%)	9.56%	16.90%	17.72%	18.06%
ROCE (%)	8.27%	8.98%	10.83%	12.69%
EV/EBITDA (x)	2.68	10.51	7.89	7.45
Debt Equity Ratio (x)	2.18	1.91	1.45	1.15
Book value (Rs)	35.56	43.05	52.31	63.84
P/BV (x)	0.71	2.76	1.68	1.38

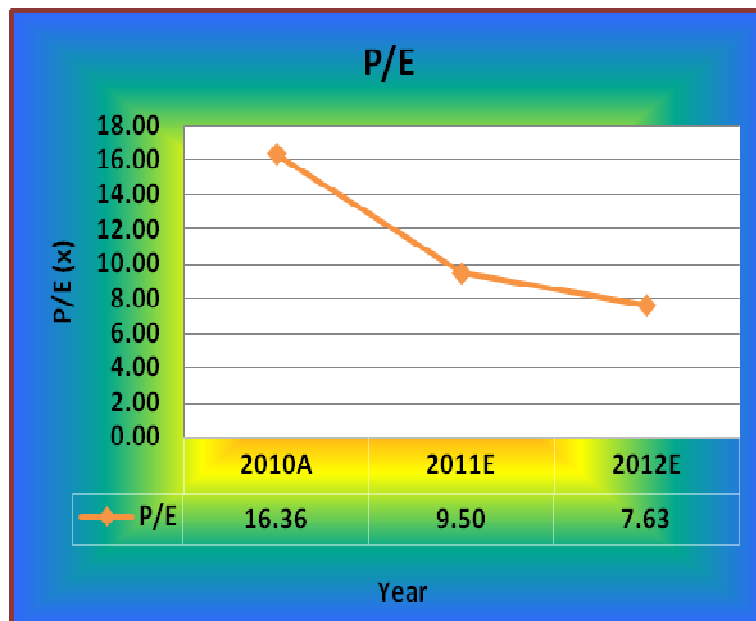
A-Actual E-Expected

Charts

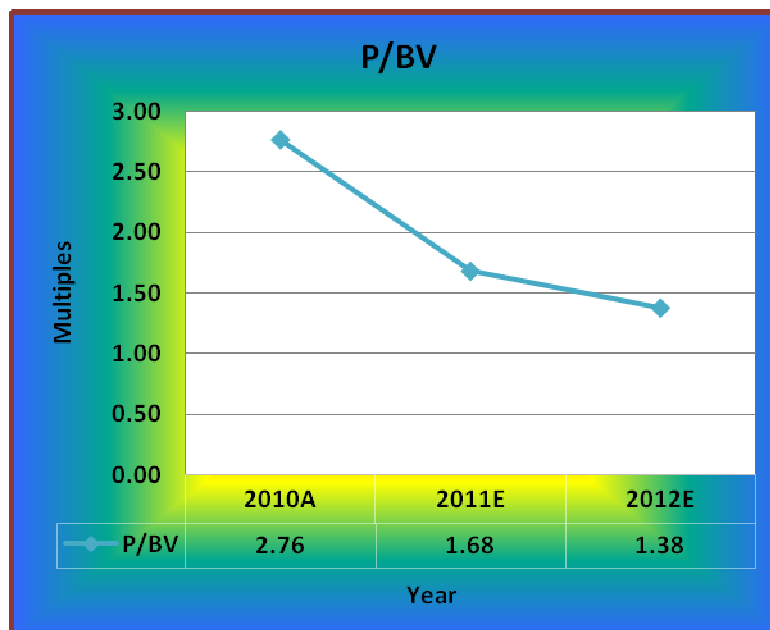
1. Net Sales & Net Profit



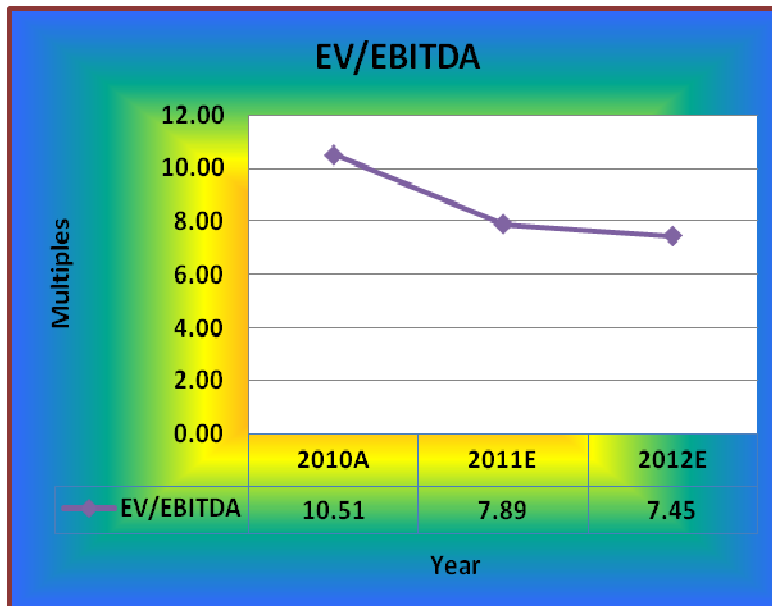
2. P/E Ratio



3. P/BV



4. EV/EBITDA



Valuation

- At the market price of Rs.88.00, the stock trades at P/E of 9.50 x and 7.63 x for the earnings of FY11E and FY12E respectively.
- Price to Book Value of the stock is expected to be at 1.68 x and 1.38 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings of FY11E and FY12E is seen at Rs.9.27 and Rs.11.53 respectively for equity share of Rs.1.00 each.

- Net sales and Net profit of the Company are expected to grow at a CAGR of 36.35% & 51.94 % over FY09 to FY12E.
- The company has retail presence with 25 stores spread across the country under the brand name of “SHUBH Jewellers.” The company plans to open 300 retail stores in India over the next three years, and has lined up a capex of Rs 3000-4000 crore.
- The company is in advanced talks with Australian and South African firms to acquire gold refineries and mines, and is likely to close some deals over the next 3-4 months.
- Last calendar year, the company took advantage of the crash in real-estate prices, to acquire prime properties and augment its land bank over Rs1400cr.
- The company has significantly enhanced its treasury management to actively manage over Rs.1000.cr of its cash surplus, resulting in higher income without undue risks.
- In the Last twelve months the company has developed more than 6,000 new designs of jewelry, which have been very well received in the Indian and global markets, resulting in a current order book of over Rs,4600 cr.
- We recommend Strong **‘BUY’** in this particular scrip with a target price of **Rs.110.00** for Medium to Long term investment.

Industry Overview

Gems and jewellery has been used by the Indian civilisation since ages for both its aesthetic as well as investment purposes. Precious metals and stones have been an integral part of the Indian civilisation since its recorded history. India has the distinction of being the first country to introduce diamonds to the world. The country was also the first to mine, cut & polish and trade in diamonds.

The gems and jewellery industry can be classified into various sub segments like diamonds, coloured stones, gold and silver jewellery, pearls, etc. However, the two major segments in India are gold and diamonds. India dominates the diamond processing trade with 11 out of 12 diamonds being cut and polished in India. India also dominates the gold and silver consumption globally. The industry holds prominent significance as it is a net exporter and provides employment to 1.3 million people directly and indirectly. The industry is characterised by highly unorganised trade, labour intensive operations, working capital & raw material intensiveness, price volatility of gold especially and export orientation. Demand for gold and diamond jewellery is driven by festivals and wedding, increasing affluent and middle class population, increase in per capita spend on luxury items, etc.

Sector Structure/Market Size

The Indian gems and jewellery industry is one of the fastest growing segments in the Indian economy with an annual growth rate of approximately 15 per cent.

The domestic market is estimated to be around US\$ 16.1 billion and the All India Gems and Jewellery Trade Federation, a nodal agency representing 300,000 jewellers across the country, expects it to grow to US\$ 25.2 billion in two to three years.

The country is also the largest consumer of gold in the world. It consumes nearly 800 tonnes of gold that accounts for 20 per cent of world gold consumption, of which nearly 600 tonnes go into making jewellery.

India is also emerging as the world's largest trading centre for gold targeting US\$ 16 billion by 2010. The industry has the best skilled manpower for designing and producing high volumes of exquisite jewellery at low labour costs.

The Indian consumer population is among the youngest in the world with nearly two-thirds of the population below 35 years of age. The proportion of working population has also been consistently increasing along with the increasing per capita income. This has resulted in increasing disposable income and discretionary spending by Indian consumers leading into a change in consumer behavior towards demand for branded and luxury products.

Research indicates that the rural jewellery market in India is set to grow strongly despite the global economic meltdown. Overall sales of jewellery dominated by the plain gold variety in India through 2008 rose by 23 per cent over 2007 to Rs. 86,000 crores (US\$ 17.6 billion) and rural areas accounted for Rs. 52,000 crores (US\$ 10.64 billion). Last year rural areas witnessed a 24 per cent growth in gold jewellery sales in terms of value.

The reasons attributed for the growth are:

- (i) The majority of working women in rural India do not invest in stocks and shares or use other investment instruments and they usually invest their surplus money in jewellery
- (ii) The rural families allocate fixed budgets to buy jewellery for weddings and they buy jewellery at this time irrespective of whether gold prices are high or not.
- (iii) Rural markets are less affected by the global meltdown as they are agriculture-based.

Diamonds

India is the largest diamond cutting and polishing centre in the world—the industry enjoys 60 per cent value share, 82 per cent carat share and 95 per cent share of the world market in terms of number of pieces. In other words, nearly 9 out of 10 diamonds sold worldwide are cut and polished in India. India exported cut and polished diamonds worth US\$ 13.02 billion in 2008-09.

Retail Sector

The Indian gems and jewellery market continues to be dominated by the unorganised sector. However, with the Indian consumer becoming more aware and quality conscious, branded jewellery is becoming very popular and the market for branded jewellery is likely to be worth US\$ 2.2 billion by 2010.

Moreover, the government allows 51 per cent FDI in single brand retail outlets, attracting both global and domestic players to this sector.

Research indicates that the jewellery and watches market is pegged at about US\$ 13.70 billion. It is expected to register a 12 per cent growth by 2012, touching US\$ 23.60 billion.

The World Gold Council recently estimated the size of India's gold coin market at about US\$ 2.11 billion.

In order to increase the demand during recession, jewelers are concentrating on newer designs in light weight jewellery.

Exports

What started off as a sub-prime crisis in the US housing mortgage sector has turned successively into a global banking crisis, global financial crisis and global economic crisis - resulted in Great Recession of 2008-09.

However, India's gem and jewellery exports grew by 1.45 per cent to US\$ 21.1 billion in the financial year 2008-09, compared with US\$ 20.8 billion in the previous fiscal year, according to figures released by the Gems and Jewellery Export promotion Council (GJEPC). The growth in the sector was mainly driven by gold jewellery exports, which rose nearly 24 per cent to US\$ 6.86 billion.

Exports grew annually despite falling 19 per cent in the second half of the fiscal year, which was hit by the slow down in the United States, the world's biggest jewellery market. The SEEPZ jewellery manufacturing hub in Mumbai, which is primarily dependent on US, also saw a sharp decline of 21.61 per cent in exports versus a year ago, GJEPC noted.

The modest overall export growth was partly offset by a fall in India's cut and polished diamond exports, which dropped 8.24 per cent to US\$ 13.02 billion in the fiscal, from US\$ 14.2 billion a year earlier. In volume terms, polished diamond export fell 7 per cent to 40.2 million carats year on year.

Coloured gemstone exports decreased by 3.68 per cent in dollar terms to US\$ 265.95 million in 2008-09.

India's biggest export destination during the year was the United Arab Emirates (UAE), which accounted for 31 per cent of all gems and jewellery exports, followed by Hong Kong at 25 per cent and the US at 20 per cent.

The industry has undergone challenging times in the fiscal year 2008-09. The US slowdown in the second half of 2009 affected the industry greatly and the gem and jewellery sector witnessed a decrease in exports in the last two quarters of the year. In spite of slowdown in the second half the industry achieved flat growth and performed reasonably close to its target of US\$ 21.9 billion.

Government Initiatives

The Indian government has provided an impetus to the booming gems and jewellery industry with favourable foreign trade policies:

- 100 per cent foreign direct investment (FDI) in gems and jewellery through the automatic route is allowed.
- The government has lowered import duty on platinum and has exempted rough coloured precious gems stones from customs duty.

- Rough, semi-precious stones are also exempt from import duty.
- Duty-free import of consumables for metals other than gold and platinum up to 2 per cent of freight on board (f.o.b) value of exports.
- Duty-free import entitlement for rejected jewellery up to 2 per cent of f.o.b value of exports.
- Import of gold of 18 carat and above under the replenishment scheme.
- Setting up of SEZs and gems and jewellery parks to promote investment in the sector.
- In May 2007, the government abolished import duty on polished diamonds.
- The government has raised the limit value of jewellery parcels for export through foreign post office (including via speed post) from US\$ 50,000 to US\$ 75,000 and the time period for re-import of branded jewellery remaining unsold has been extended from 180 days to 365 days.
- The export of coloured gemstones on a consignment basis has been allowed.

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3rd Floor,Sankalp,The Bureau,Dr.R.C.Marg,Chembur,Mumbai 400 071

Tel. : 022-2527 2510/2527 6077/25276089 Telefax : 022-25276089

E-mail: info@firstcallindiaequity.com

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