Prabhudas Lilladher

Company Report
Industry : Gems & Jewellery

Rajesh Exports

Sparkle and Shine

Anand Mour (AnandMour@PLIndia.com)
+91-22-6632 2244

Mihir P Shah (MihirPShah@PLIndia.com)
+91-22-6632 2258

Contents

Rajesh Exports

Rating	BUY
Price	Rs898
Target Price	Rs1,562
Implied Upside	74%
Sensex	19,080

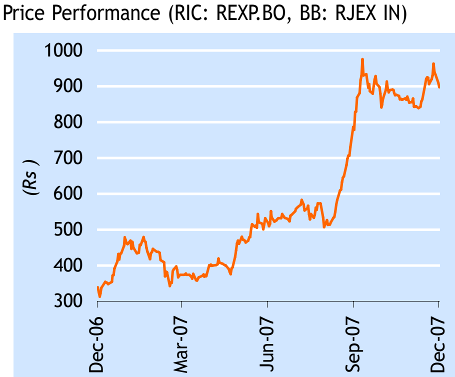
(Prices as on December 18, 2007)

Trading Data	
Market Cap. (Rs bn)	43
Shares o/s (m)	48.5
Free Float	33.1%
Avg. Daily Vol ('000)	149
Avg. Daily Value (Rs m)	131

Major Shareholders	
Promoters	61.5%
Foreign	15.4%
Domestic Inst.	7.6%
Public & Others	15.5%

Stock Performance	1M	6M	12M
Absolute	5.0	73.0	164.7
Relative	8.1	37.5	125.8

Price Performance (RIC: REXP.BO, BB: RJEX IN)



Source: Bloomberg, PL Research

- **Initiating coverage:** We initiate coverage on Rajesh Exports Ltd, the world's largest manufacturer of gold jewellery. The company accounts for 25% of all gold jewellery exported from India. Till date, the company's focus was on topline growth and it has been successful in establishing itself as a premier gold exporter from the country, accounting for 1.2% of the world's gold trade.

- **New drivers of growth:** In order to meet its objective of increasing its net profit margin, Rajesh Exports has identified a set of new growth drivers:

  1) Jewellery retailing

  2) Diamond jewellery

  3) White labels

  4) Real estate

- **Strong Earnings Growth:** Rajesh Exports had posted a revenue of Rs68,934m and PAT of Rs1,103m in FY07. We believe that the company would post 16.6% CAGR growth in revenue and 64% CAGR growth in PAT from FY07 to FY10. The company is expected to post a revenue of Rs82,885m in FY08, Rs92,656m in FY09 and Rs109,138m in FY10; PAT of Rs1,850m in FY08, Rs2,943m in FY09 and Rs4,470m in FY10. The company's net profit margin is likely to increase from 1.5% in FY07 to 4.1% in FY10.

- **Attractive valuation:** At the CMP of Rs898, the stock is trading at 8.1x FY10 (adjusted for real estate NAV). We initiate coverage on the company with BUY rating and 12-month SOTP price target of Rs1,562 with potential gain of 74%.

Key financials (Rs m)	FY07	FY08E	FY09E	FY10E
Revenue	68,934	82,885	92,656	109,138
Growth (%)	*25.7*	*20.2*	*11.8*	*17.8*
EBITDA	2,142	3,614	4,876	6,750
PAT	1,013	1,850	2,943	4,470
EPS (Rs)	27.4	38.2	60.7	92.3
Growth (%)	*52.1*	*39.3*	*59.0*	*51.9*
Net DPS (Rs)	2.0	2.0	2.0	2.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	3.1%	4.4%	5.3%	6.2%
RoE (%)	37.1%	25.5%	22.9%	27.2%
RoCE (%)	7.9%	8.1%	9.2%	11.1%
EV / sales (x)	0.1	0.1	0.1	0.1
EV / EBITDA (x)	4.1	1.8	1.0	1.3
PE (x)	32.8	23.5	14.8	9.7
P / BV (x)	10.7	3.8	3.0	2.3
Net divided yield (%)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Investment Rationale

High earnings momentum

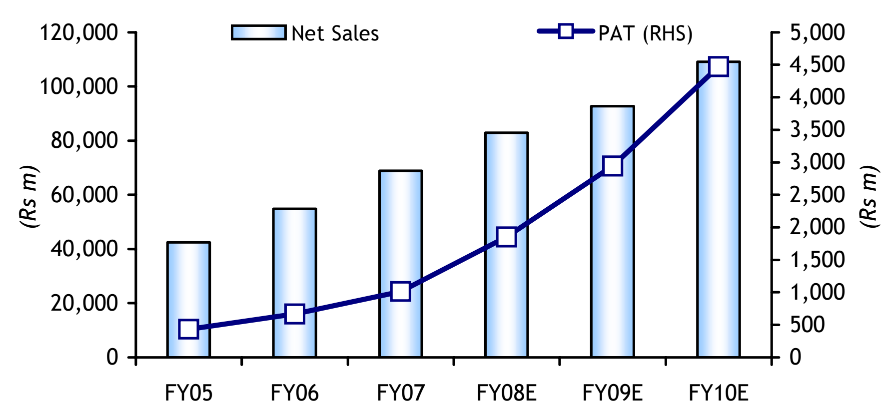
Since 1990, Rajesh Exports has focused its strengths on increasing revenue. This objective has been successful, as it is now the largest established private gold buyer, accounting for 1.2% of the global gold trade. Having attained this scale of operation, the company is now shifting its focus to find ways of increasing its net profit margin.

We expect the company to post revenue CAGR of 16.6% and PAT CAGR of 64% in the next three years

Rajesh Exports posted revenue of Rs68,934m and PAT of Rs1,013m in FY07. In H1FY08, the company posted revenue of Rs40,745 and PAT of Rs964m, with PAT growing at 142% YoY. We expect the company to post revenue CAGR of 16.6% in the next three years from 2007 to 2010, and PAT CAGR of 64% during the same period. This growth will be propelled by its new business drivers (details of which are in the point below), as the company has already kick-started its retail operations, and has launched nine new diamond jewellery brands.

In numbers, we believe the company could post revenue of Rs82,885m in FY08, Rs92,656m in FY09 and Rs109,138m in FY10, while PAT during these respective years could grow from Rs1,850m to Rs2,943m and Rs4,470m.

Chart 1: Strong PAT and steady revenue growth



Source: Company Data, PL Research

EPS in the next three years likely to grow at CAGR of 50%

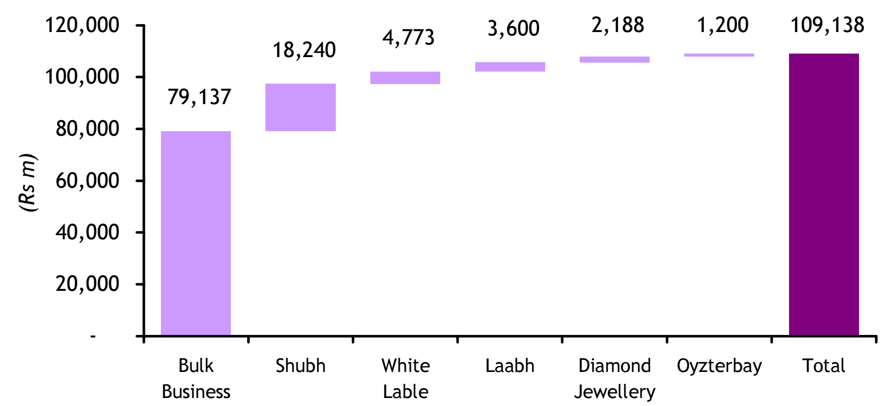
We expect the company's EPS to (fully diluted equity of Rs97m) grow at a CAGR of 50% from FY07 to FY10 - Rs38.2 in FY08, Rs60.7 in FY09 and Rs92.3 in FY10. In addition, the company will be developing its four million sq.ft. properties, the NAV of which is Rs188 per share.

Multiple drivers of growth

In order to meet its objective of increasing its net profit margin, Rajesh Exports has identified three major divers of growth:

- **Jewellery retailing:** increasing presence across value chain by catering to different segments of consumer needs
- **Diamond jewellery:** expanding product range with higher margins
- **White labels:** expanding its market by supplying white labels to retail chain stores across the world

Chart 2: FY10 revenue break-up



Source: PL Research

Bulk exports

Revenue contribution from bulk exports likely to decline as the company focuses on other drivers of growth

The contribution of bulk exports in gross revenue is expected to increase at a comparatively lower level than earlier. The company scaled up its bulk gold exports business revenue to Rs37,059m in H1FY08. We believe that the bulk export revenue will grow at 1% between FY08 and FY10 to Rs75,549m. This would be a strategic slowdown in bulk exports growth, as the company focuses on other drivers of growth.

White labels

Scouting for tie-ups with the intention of circulating private labels in the market

Rajesh Exports is looking at tie-ups with retail chains with the intention of circulating private labels in the market. The rationale behind this move is to enable it to benefit from large scale distribution, as it is the largest and lowest cost manufacturer of gold jewellery in the world. This also enables it to forge better relations with business parties. The company sources orders from these retail chains and manufactures jewellery exclusively to be sold in their outlets.

Diamond jewellery

All set to sell diamond studded jewellery in international and domestic markets

The company recently announced the launch of nine diamond jewellery brands (details of which are on pg. 9 & 10). It will be selling diamond studded jewellery in the international market through retail chain stores and in the domestic market through its outlets. With low cost procurement of diamonds from source, gold procurement and manufacturing being the lowest, the company would be able to post margins of 30% on diamond jewellery.

Retailing

The company has identified retailing as a future growth driver and has formed a 100% subsidiary, 24K Retail. It is looking at opening three types of retail stores to meet different customer needs.

Shubh - to target value conscious customers who buy jewellery purely for its core asset value and utility. The company is expected to open 30 stores in FY08, increasing it to 100 stores by FY09, 220 by FY10 and 350 by FY11.

Laabh - to target design conscious customers who buy jewellery mainly for its utility and asset value. The company currently has 30 stores (24 franchisees and 6 owned). It is expected to expand these stores to 70 in FY10 and 150 in FY11.

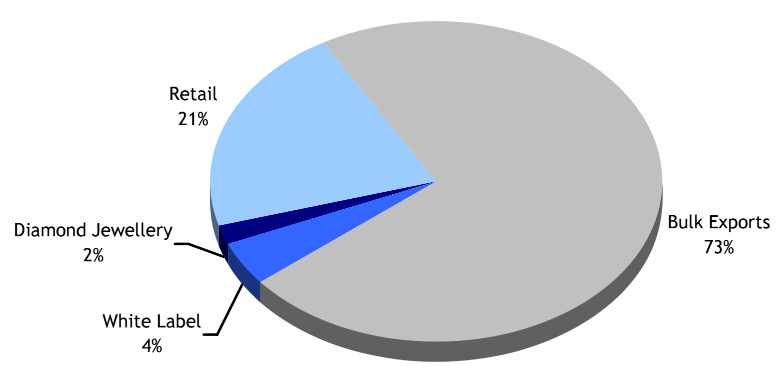
Oyzterbay - to target fashion conscious customers who buy jewellery also for its utility. The company is expected to open 30 stores in FY09, and increase it to 70 stores in FY10 and 130 in FY11.

Real estate

Considering property development foray

Rajesh Exports has about four million sq.ft. land in Bangalore and Kerala. It is now planning to develop these properties and acquire competence in property development by setting up a 100% subsidiary, Bangalore Infra. The company may look at property development as a separate business in future.

Chart 3: FY10 revenue contribution



Source: PL Research

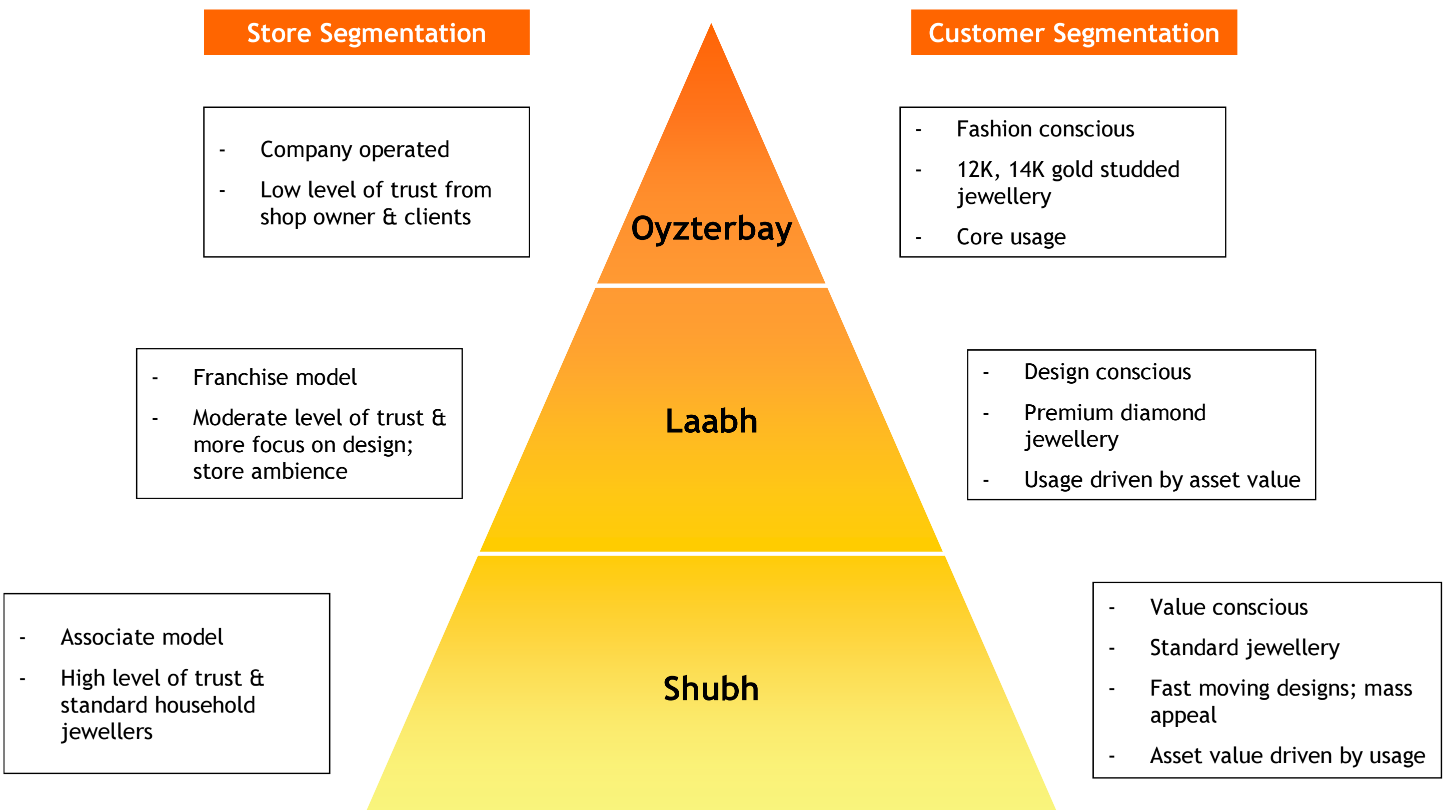
With different drivers propelling the company's growth at the same time, revenue mix could change from bulk gold export business contributing 93% in H1FY08 to 73% in FY10, and retail business increasing from 3% in H1FY08 to 21% in FY10. In FY10, the rest would be contributed by diamond jewellery and white labels.

Kicking off jewellery retail

Has identified retailing as a major growth driver going forward

Rajesh Exports has identified retailing as a major growth driver going forward. The company has planned an interesting retail foray with three different retail formats catering to different customer needs.

Chart 4: Retail formats to meet different consumer needs



Source: PL Research

Table 1: Rollout of retail outlets

	FY09E	FY10E
Oyzterbay		
Sales (Rs m)	300	1,200
No. of Stores	30	70
Laabh		
Sales (Rs m)	1,800	3,600
No. of Stores	30	70
Shubh		
Sales (Rs m)	6,175	18,240
No. of Stores	100	200

Source: PL Research

Shubh to target value conscious customers who buy jewellery for its core value and utility

Shubh caters to the mass market, which is value conscious and rely more on their traditional jewellers. The company has signed agreements with 100 existing jewellers in four southern states to act as associates of the company. These associates would have the option to liquidate their existing jewellery either in the market or to the company. Following which, the company would then stock its inventory in these stores and brand it as Shubh XYZ Jeweller, thereby retaining the identity of the erstwhile jeweller.

The stores would stock normal range of gold jewellery with a variety of designs and at lower cost. The average sales per store would be Rs90-100m per annum. We expect the company to open 30 stores in FY08, increasing the store count to 100 in FY09. The company would prune out the operational challenges in these stores in FY09 and would open up another 120 stores in FY10.

Table 2: Geographical break-up of Shubh stores

Andhra Pradesh	12
Karnataka	18
Kerala	39
Tamil Nadu	30

Source: Company Data, PL Research

We believe the associate model of Shubh stores would spell benefits for the company as the target clientele likes to buy gold jewellery for its core asset value and utility. These customers appreciate high level of trust with their jewellers and like to buy from their traditional jewellers. The associate stores bring to the table their existing clientele, while the low price format of these stores also drive word of mouth publicity. The company would make a net margin of 10% in these stores after providing 2-2.5% commission to its associates.

Laabh to target design conscious customers

Laabh caters to the premium market segment, which is design conscious about traditional and diamonds studded jewelleries. Consumers in this segment usually tend to look for the trust factor while making a purchase and are also sensitive to the ambience they shop in. The company currently has 30 of these stores (24 franchisees and 6 owned) across the country.

Under the arrangement, the franchisees would deposit approximately two million or 10% of their total stock in the store with the company. Following which, Rajesh Exports would then stock its inventory in the stores and brand it as a Laabh store. The stores would stock gold and diamond studded jewellery with a huge collection of exclusive designs at lower cost. Average sales per store would be Rs60m every year. The company plans to increase the number of these stores to 70 in FY10 and 150 in FY11. The model, due to sales of higher margin products, will enable Rajesh Exports to make a net margin of 12% from these stores after providing 2-2.5% commission to its associates. It is targeting design conscious customers who value jewellery for its utility and asset value.

Table 3: Laabh locations

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

Source: Company Data

Ozyterbay to target fashion conscious customers who buy jewellery also for its utility

On the other hand, Oyzterbay caters to the needs of the fashion conscious yuppie customers who appreciate jewellery more as a fashion statement than for its asset value. The company plans to open 30 stores in FY09 and increase its number to 130 by FY11. These stores would be company operated and would stock fashion jewellery and *Fossil* products like watches, accessories, etc. The company is expected to make a net margin of 16% from these stores.

We are convinced that the company's retail model is designed to cater to the needs of various customer segments and also provides scalability with existing jewellers being roped in as associates or franchisees. We believe the retail segment should post revenue of Rs8,275m in FY09 and Rs23,040m in FY10, and PAT of Rs742m in FY09 and Rs1,848m in FY10.

Plans to unveil diamond jewellery brands

Has lined up more diamond brands for international and domestic markets

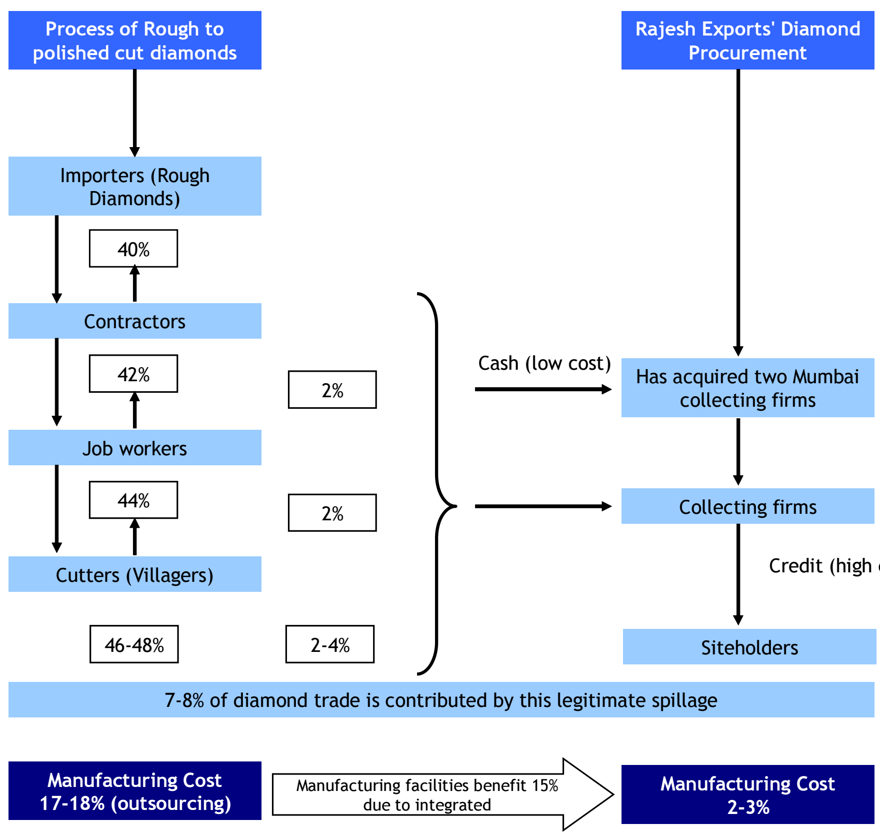
The company has decided to enter the diamond jewellery segment with value-added offering for its exiting customers and to support its retail operations. With low cost procurement of diamonds from source, gold procurement and manufacturing being the lowest, the company would be able to post a margin of 30% on diamond jewellery.

The jewellery will be sold in the international market through retail chain with exclusive territory rights for 3-7 years. The company would be able to establish its brands in the international market at a low cost by tying-up with reputed retail chains. In the domestic market, it will be sold through its own retail stores, Laabh. It will be beneficial for diamond jewellery as they would be sold through existing retail channel. We expect the segment to post revenue of Rs1,750m in FY09 and Rs2,188m in FY10.

1. Harmony	2. Eternal	3. Solitaire
4. I-Teen	5. Filigree	6. Southern
7. Ghazal	8. Aishwarya	9. Sushmita

The company has unveiled nine diamond jewellery brands, aimed at appealing to a cross section of the population, simultaneously. With the launch of these nine brands, the company is foraying in a major way into the branded diamond jewellery segment.

Chart 5: Process efficiencies lead to higher margins



Source: PL Research

Real estate: likely value unlocking

Building competence in construction for probable foray into real estate development

Rajesh Exports has about four million sq.ft. land in south India, with 70% of its properties being in Bangalore and 30% in Kerala. The company has created a 100% subsidiary which will develop these properties. Thus, by acquiring some level of competence by constructing on its own land, the company plans to later foray into full fledged property development, towards this end it may acquire more land. We are assuming the company will develop the land it owns in the next six years from now.

NAV of these projects come to Rs188 per share. At 80% discount to the NAV, real estate unlocking would be accretive to the equity price by Rs151 per share.

Table 4: Real estate NAV assumption

		FY09	FY10	FY11	FY12	FY13	FY14
Sq. Ft.		0.40	1.00	0.60	0.40	1.00	0.60
Price (Rs / sq.ft.)		6,000	6,000	6,600	6,600	7,260	7,260
Revenue (Rs m)		2,400	6,000	3,960	2,640	7,260	4,356
Cost (Rs m)		1,080	960	600	840	960	360
CF - PBT (Rs m)		1,320	5,040	3,360	1,800	6,300	3,996
CF - PAT (Rs m)		924	3,528	2,352	1,260	4,410	2,797
PV - PAT (Rs m)	9,140						
NPV / share (Rs)	188						
Discounted NPV / share (Rs)	151						

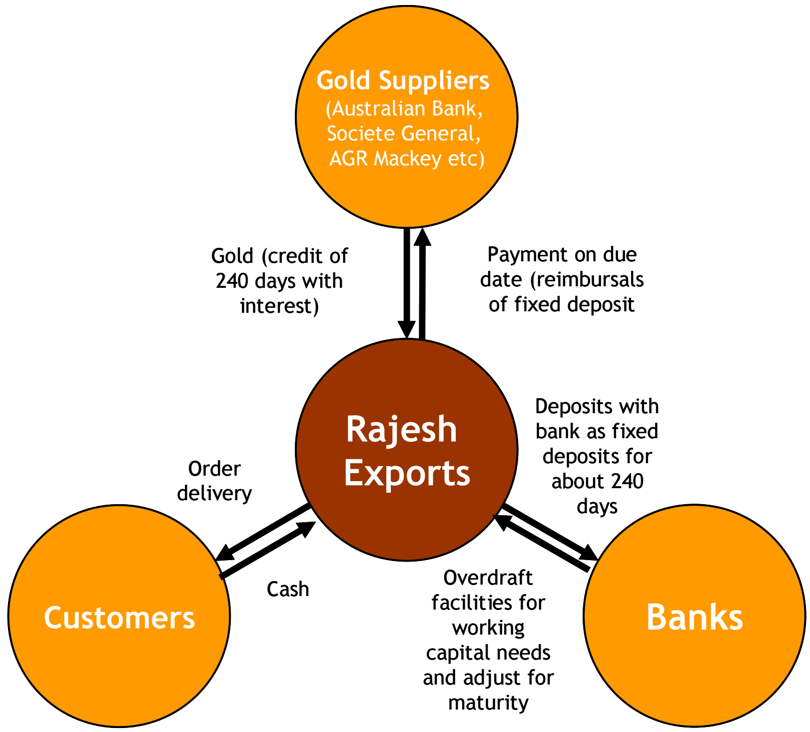
Source: PL Research

Effective hedging of gold price volatility and currency fluctuations

Operates on model that hedge against gold price volatility and currency fluctuation

The company's bulk business model is fully hedged against gold price volatility and currency fluctuations. On securing an order for a specified kilogram of gold jewellery from the buyer, the company procures inventory from the warehouse of the seller and settles for a mutually agreeable date of gold price. In the event a mutual date is not workable, the company hedges through MCX trading. Similarly, currency fluctuation is hedged for the time gap between receipt and payment. Thus, the company's margin on making charges remains intact, unaffected by any volatility.

Chart 6: Working capital cycle



Source: PL Research

The company has an efficient working capital management cycle. It buys gold on 240 days credit form its suppliers, on which it is charged interest. The company receives cash from its customers on delivery of goods ordered. The amount is deposited in the bank as fixed deposit for 8-9 months. On due date, the company withdraws the matured amount and pays to the suppliers. In case, the fixed deposit matures on a later date, the company takes overdraft on the fixed deposit and pays to the suppliers.

Investment Risk

Delay in execution could have a significant impact

Any delay in rollout of stores could hamper company's financials

The company has been planning to rollout Shubh stores since the last two years, but it has been delayed due to prioritisation of Laabh stores rollout. Going forward, any delay in the execution will have a negative impact on the company's financials.

Management bandwidth

Retail store operations are being managed by professionals who were in the past associated with Tanishq and Oyzterbay. With more players entering jewellery retailing, there can be a risk of management exodus. This can have a serious risk on its retail operations.

Business model risk

Fraudalent practices by associates could mar the success of its business model

The associate model of the Shubh stores is a novel concept, as the company would be acquiring some jewellers and partnering with them as associates. The company's inventory would be lying at associates' stores against the security of property and other liens. However, cases of fraudalent practices could mar the success of this model.

Company and Management Background

Company overview

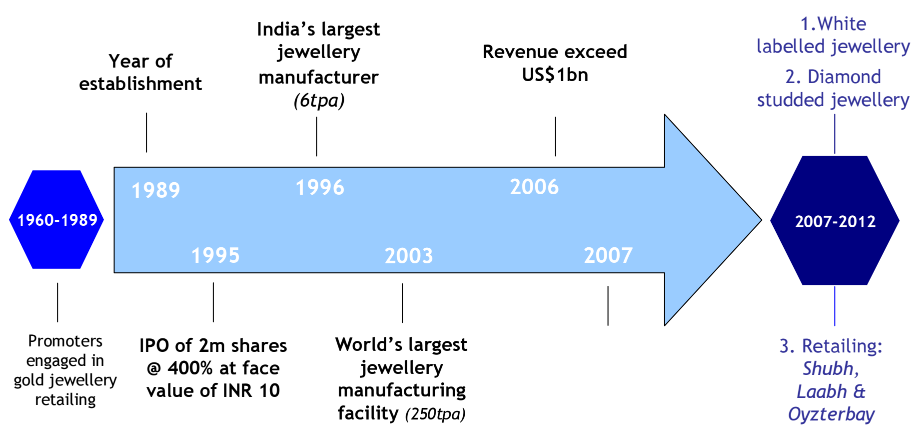
Rajesh Exports Ltd, a leading manufacturer, wholesaler and exporter of gold jewellery in India, accounts for 25% of all gold jewellery. It is the lowest cost manufacturer of gold jewellery in the world. Rajesh Exports operates its business at negligible price risk, as all its transactions are hedged for gold price and currency risks.

Manufacturing Capability

Rajesh Exports has the largest jewellery manufacturing plant in the world, spread over 500,000 sq.ft, with capacity to process 250tpa jewellery. Currently, the plant consumes 60-70 tonne gold a year. The company also has the distinction of having the largest jewellery design database (29,000 designs) in the world.

So far the company's focus has been on topline growth, where it has been successful in establishing itself as a premier gold exporter from India, accounting for about 1.2% of global gold trade.

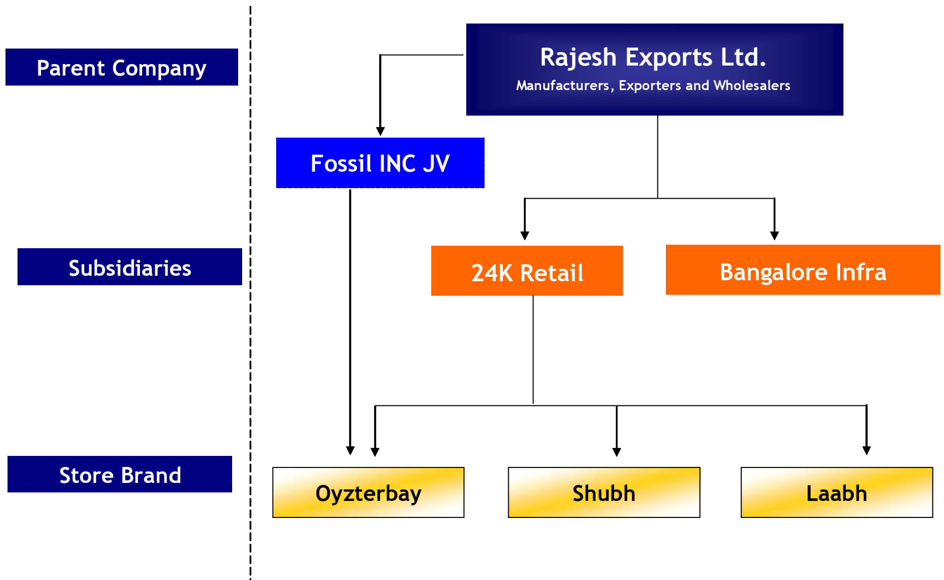
Chart 7: Rajesh Exports - Milestones and future plans



Source: Company Data, PL Research

The company has evolved from being a gold jeweller in 1989 to becoming India's largest jewellery manufacturer in 1996 and finally the world's largest manufacturer in 2003. The company is now treading into diamond and other jewellery retailing. Rajesh Exports has created two subsidiaries – 24K Retail and Bangalore Infra – to focus on jewellery retailing and property development respectively. The company has also forged a JV with Fossil Inc to retail their luxury brands in India.

Chart 8: Organisation structure



Source: Company Data, PL Research

Table 5: Key management

Name	Designation	Description
Mr. Rajesh Mehta	Executive Chairman	Has over 20 years of experience in the jewellery industry. Pioneer in organising jewellery trade in India
Mr. Prashant Mehta	Managing Director	Has about 22 years of experience in jewellery manufacturing. Expert on global best practices in jewellery manufacturing and technology
Mr. Vasant Nangia	CEO (Retailing)	Holds an experience of over 15 years. Pioneer in creation of retail jewellery brands in India. Founder-promoter of Oyzterbay
Mr. Vipin Sharma	Director (Laabh)	Come with an experience of over 12 years in brand building & jewellery retailing. Part of the Oyzterbay promoter-group
Mr. John Verghese	Chief GM (Shubh)	Has over 15 years of experience in branding and retailing of jewellery. Part of the Oyzterbay promoter-group
Mr. Kalpesh Sagar	CEO (Bangalore Infra)	Holds an experience of 10 years in real estate and construction. Ex-CEO of mid-sized real estate development company

Source: Company Data

Valuation

Rajesh Exports had posted revenue of Rs68,934m and PAT of Rs1,013m in FY07. We believe that the company would post 16.6% CAGR growth in revenue and 64% CAGR growth in PAT from FY07 to FY10. The company is expected to post revenue of Rs82,884m in FY08, Rs92,656m in FY09 and Rs109,138m in FY10; PAT of Rs1,850m in FY08, Rs2,943m in FY09 and Rs4,470m in FY10. The company's net profit margin will increase from 1.5% in FY07 to 4.1% in FY10.

We have valued the company on sum-of-parts basis. The bulk business, which includes bulk exports, diamond jewellery and white labels is expected to grow at CAGR of 7.7% to Rs86,098m in FY10, and PAT at a CAGR of 37.4% to Rs2,624m in FY10. We have valued the bulk business at 12x FY10, which means Rs649 per share. The retail business, which includes Shubh, Laabh and Oyzterbay, is expected to grow to Rs23,040m in FY10, and PAT to Rs1,848m in FY10. We have valued the retail business at 20x FY10, which means Rs 762 per share (fully diluted equity of Rs97m). The company plans to develop four million sq.ft. properties in its possession. In our opinion, NAV of the real estate business comes to Rs188 per share, which on discounting to 80%, we get Rs151 per share. The sum of the parts value of the company comes to Rs1,562.

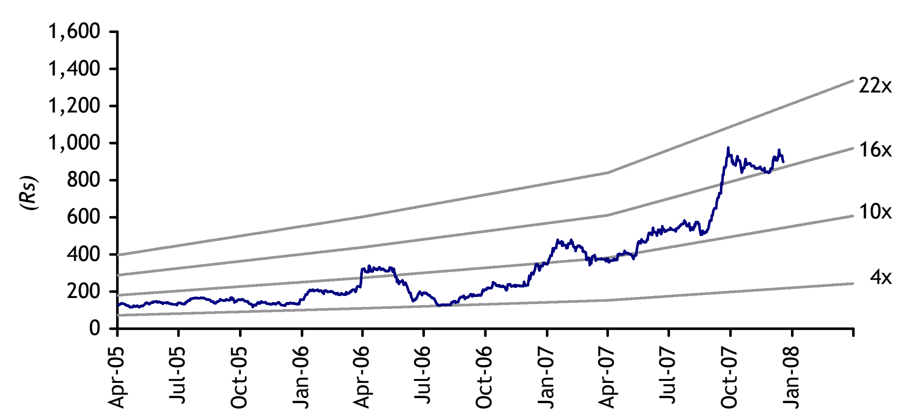
Table 6: SOTP valuation

	PAT	Multiple	EV	Value / share
Bulk	2,624	12x	31,494	649
Retail	1,848	20x	36,951	762
Real estate - NPV/share	188	0.8x	7,312	151
SOTP Value				**1,562**

Source: PL Research

At the CMP of Rs989, the stock is trading at 8.1x FY10 (adjusted for real estate NAV). We initiate coverage on the company with BUY rating and 12-month SOTP price target of Rs1,562 with potential gain of 74%.

Chart 9: One-year forward PE Band



Source: MetaStock, PL Research

Peer Comparison

	FY07	FY08E	FY09E	FY10E
Sales (Rs m)				
Gitanjali Gems	30,301	41,608	49,143	56,797
Titan Industries	19,935	28,546	36,644	45,818
Vaibhav Gems	5,570	10,230	10,230	13,553
Fossil Inc.	47,195	56,073	64,696	75,336
Tiffany & Co.	107,870	117,665	130,276	139,316
Zale Corp.	96,218	85,471	87,525	90,285
Rajesh Exports	**68,934**	**82,885**	**92,656**	**109,138**
PAT (Rs m)				
Gitanjali Gems	895	1,361	2,243	3,022
Titan Industries	1,180	1,565	2,166	2,737
Vaibhav Gems	117	30	707	-
Fossil Inc.	2,932	4,634	5,717	6,577
Tiffany & Co.	10,511	12,766	14,214	15,676
Zale Corp.	2,019	2,184	2,429	2,184
Rajesh Exports	**1,013**	**1,850**	**2,943**	**4,470**
PER (x)				
Gitanjali Gems	26.1	22.6	15.3	11.3
Titan Industries	54.9	41.4	29.9	23.7
Vaibhav Gems	39.5	153.9	6.5	-
Fossil Inc.	41.1	25.0	20.9	17.7
Tiffany & Co.	23.3	19.7	16.9	15.1
Zale Corp.	12.5	19.9	13.5	11.2
Rajesh Exports	**32.8**	**23.5**	**14.8**	**9.7**
M. Cap / Sales (x)				
Gitanjali Gems	0.8	0.6	0.5	0.4
Titan Industries	3.3	2.3	1.8	1.4
Vaibhav Gems	0.8	0.5	0.5	0.3
Fossil Inc.	2.5	2.1	1.8	1.6
Tiffany & Co.	2.2	2.0	1.8	1.7
Zale Corp.	0.3	0.4	0.3	0.3
Rajesh Exports	**0.5**	**0.4**	**0.4**	**0.3**
RoE (%)				
Gitanjali Gems	*11.0*	*11.8*	*15.6*	*18.2*
Titan Industries	*40.4*	*37.6*	*38.3*	*38.6*
Vaibhav Gems	*10.8*	*0.4*	*8.6*	-
Fossil Inc.	*16.8*	*14.0*	-	-
Tiffany & Co.	*14.1*	*17.5*	*18.0*	*18.3*
Zale Corp.	-	-	-	-
Rajesh Exports	***37.1***	***25.5***	***22.9***	***27.2***

Source: Bloomberg Estimates, Company Data, PL Research

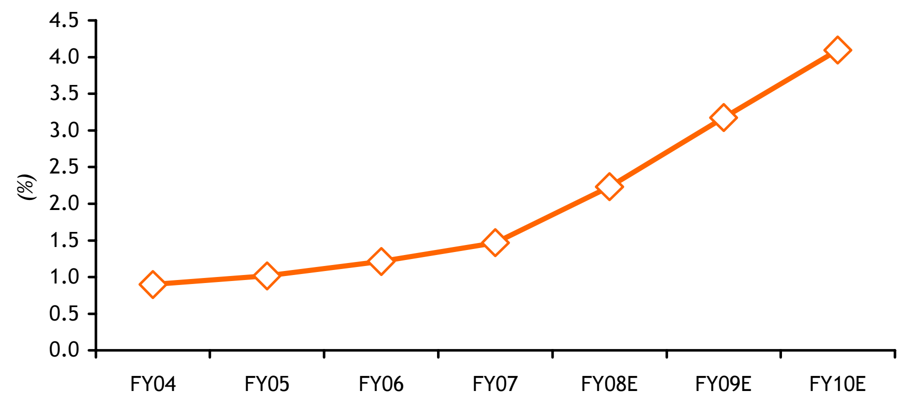
Revenue growing at CAGR of 16.6%

Strong PAT growth at CAGR of 64.0%

Financials

Rajesh Exports had posted revenue of Rs68,934m and PAT of Rs1,013m in FY07. We believe that the company would post 16.6% CAGR growth in revenue and 64% CAGR growth in PAT from FY07 to FY10. The company is expected to post revenue of Rs82,884m in FY08, Rs92,656m in FY09 and Rs109,138m in FY10; PAT of Rs1,850m in FY08, Rs2,943m in FY09 and Rs4,470m in FY10. The company's net profit margin is likely to increase from 1.5% in FY07 to 4.1% in FY10.

Chart 10: Net margin increasing every year



Source: Company Data, PL Research

Table 7: Revenue break-up *(%)*

Y/e March	FY08E	FY09E	FY10E
Bulk exports	93.6	85.0	72.5
White label	3.9	4.2	4.4
Diamond jewellery	-	1.9	2.0
Retail	2.6	8.9	21.1

Source: Company Data, PL Research

FCCB conversion: The company had raised FCCB of US$150m (Rs6613.5m) on Feburary 17, 2007 with an optional conversion price of Rs575 per equity share of Rs2. We have assumed that the FCCB is converted during the year 2007-08, raising the equity to Rs97m.

Assumptions *(Rs m)*

Y/e March	FY08E	FY09E	FY10E
Oyzterbay			
Sales / store (Rs m)	-	20	24
No. of stores	-	30	70
Laabh			
Sales / store (Rs m)	60	60	72
No. of stores	30	30	70
Shubh			
Sales / store (Rs m)	-	95	114
No. of stores	30	100	220

Source: Company Data, PL Research

Income Statement *(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	**54,819**	**68,934**	**82,885**	**92,656**	**109,138**
Expenses					
(Inc)/dec in stock	(917)	524	(2,807)	(4,670)	(8,474)
Raw materials consumed	54,524	64,901	80,481	89,917	106,934
% of NS	*97.8*	*94.9*	*93.7*	*92.0*	*90.2*
Personnel	48	40	56	91	124
% of NS	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Manufacturing & other exp.	49	1,326	1,540	2,441	3,804
% of NS	*0.1*	*1.9*	*1.9*	*2.6*	*3.5*
Total expenses	53,704	66,791	79,271	87,779	102,388
EBITDA	**1,115**	**2,142**	**3,614**	**4,876**	**6,750**
% of NS	*2.0*	*3.1*	*4.4*	*5.3*	*6.2*
Depreciation	14	15	15	16	16
EBIT	**1,101**	**2,128**	**3,599**	**4,861**	**6,733**
Interest	417	1,086	1,604	1,664	1,720
Other income	18	0.3	0.3	0.3	0.3
PBT	**702**	**1,042**	**1,995**	**3,197**	**5,013**
Tax	36	30	145	254	543
Effective tax rate (%)	*5.2*	*2.8*	*7.3*	*7.9*	*10.8*
PAT	**666**	**1,013**	**1,850**	**2,943**	**4,470**
Equity dividend	74	74	97	97	97
Dividend tax	10	13	16	16	16
Retained earnings	581	926	1,737	2,830	4,357

Source: Company Data, PL Research

Balance Sheet *(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
SOURCES OF FUNDS					
Equity capital	74	74	97	97	97
Reserves & surplus	2,289	3,017	11,343	14,173	18,530
Networth	2,363	3,091	11,440	14,270	18,627
Total debt	13,443	33,234	34,784	36,398	38,559
Deferred tax liability (Adj)	(8)	(8)	(8)	(8)	(8)
Total	**15,797**	**36,316**	**46,216**	**50,660**	**57,177**
APPLICATION OF FUNDS					
Gross block	549	596	608	620	632
Less: Depreciation	64	79	94	109	126
Net block	484	518	514	511	506
CWIP	15	19	19	19	19
Investments	49	63	63	63	63
Current assets	40,172	69,146	87,756	94,093	101,513
Inventories	1,481	957	4,288	5,626	12,762
Debtors	3,769	8,967	9,946	11,119	13,097
Cash & cash equivalents	34,104	57,647	71,616	75,217	73,144
Loans & advances	819	1,575	1,906	2,131	2,510
Less: Current liabiltites	24,924	33,429	42,137	44,026	44,924
Creditors	24,797	33,317	41,994	43,878	44,771
Other current liabilities	42	26	30	35	40
Provisions	84	86	113	113	113
Net working capital	15,249	35,716	45,619	50,067	56,588
Total	**15,797**	**36,316**	**46,216**	**50,660**	**57,177**

Source: Company Data, PL Research

Cash Flow *(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Operating cashflow	21,038	4,103	5,932	2,112	(4,108)
Cash from investing	(114)	(152)	(125)	(125)	(126)
Cash from financing	7,321	19,592	8,162	1,614	2,161
Increase / decrease in cash	28,246	23,543	13,969	3,601	(2,073)
Opening cash balance	5,859	34,104	57,647	71,616	75,217
Closing cash balance	34,104	57,646	71,616	75,217	73,144

Source: Company Data, PL Research

Key ratios

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
Growth ratios (%)					
Net sales	*29.1*	*25.7*	*20.2*	*11.8*	*17.8*
EBITDA	*27.8*	*92.2*	*68.7*	*34.9*	*38.4*
PAT	*54.2*	*52.1*	*82.7*	*59.0*	*51.9*
EPS	*46.1*	*52.1*	*39.3*	*59.0*	*51.9*
Asset based ratios(%)					
RoCE / RoI	*9.0*	*7.9*	*8.1*	*9.2*	*11.1*
RoE /RoNW	*34.6*	*37.1*	*25.5*	*22.9*	*27.2*
Gearing					
Debt/equity	5.7	10.8	3.0	2.6	2.1
Per Share (Rs.)					
EPS	18.0	27.4	38.2	60.7	92.3
BV	63.9	83.6	236.1	294.5	384.4
DPS	2.0	2.0	2.0	2.0	2.0
CEPS	18.4	27.8	38.5	61.1	92.6
Margins (%)					
EBITDA	*2.0*	*3.1*	*4.4*	*5.3*	*6.2*
PAT	*1.2*	*1.5*	*2.2*	*3.2*	*4.1*
Tax rate	*5.2*	*2.8*	*7.3*	*7.9*	*10.8*
Dividend payout	*11.1*	*7.3*	*5.2*	*3.3*	*2.2*
Velocity (days)					
Debtors	25	47	43	43	43
Inventories	10	5	19	22	42
Creditors	164	185	188	176	151
Valuations (x)					
P/E	49.8	32.8	23.5	14.8	9.7
P/CEPS	48.8	32.3	23.3	14.7	9.7
P/BV	14.0	10.7	3.8	3.0	2.3
M. Cap/ sales	0.6	0.5	0.5	0.5	0.4
EV/EBITDA	11.2	4.1	1.8	1.0	1.3
EV/sales	0.2	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

Notes

Notes

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

PL's Recommendation Scale

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer**	:	5 to 15% Outperformance to Sensex
Market Performer	:	-5 to 5% of Sensex Movement	**Underperformer**	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			