

June 20, 2008

Rating	BUY
Price	Rs82
Target Price	Rs147
Implied Upside	79.5%
Sensex	15,088

(Prices as on June 19, 2008)

Trading Data

Market Cap. (Rs bn)	20.5
Shares o/s (m)	290.9
Free Float	45.6%
Avg. Daily Vol ('000)	802.8
Avg. Daily Value (Rs m)	71.5

Major Shareholders

Promoters	54.4%
Foreign	17.0%
Domestic Inst.	9.7%
Public & Others	18.9%

Stock Performance

(%)	1M	6M	12M
Absolute	(16.7)	(44.5)	(3.7)
Relative	(3.2)	(23.6)	(9.2)

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



Source: Bloomberg

■ **Results:** Rajesh Exports reported revenue growth of 40.7% YoY to Rs25.25bn for Q4FY08. Profits grew by 46.8% YoY to Rs489m as against expectation of Rs528m. This was due to high tax outflow in the last quarter, which was not provided for in the previous quarters. OPM declined by 298bps YoY to 3.3% due to higher share of its low margin bulk business. For the year, revenue grew by 25.7% YoY to Rs86.67bn and PAT grew by 103.9% YoY to Rs2.07bn against our expectation of Rs2.11bn and OPM increased by 130bps to 4.4%.

■ **Slow retail expansion:** The company's aggressive retail expansion plan has witnessed a slowdown. The 100 *Shubh* stores which were expected to be rolled out by FY09, has been reduced to 40 due to continued volatility in gold prices and adverse market conditions. It is not expanding its *Laabh* stores either, and would keep the number of stores at a 30 in FY09. We also foresee some slowdown in the *Oyzyterbay* stores rollout.

■ **Compensated by growth in bulk business:** Although the retail rollout plan didn't take-off as expected, the company's revenue loss was compensated by higher demand in its bulk business owing to the Middle-East boom. The company expects its other businesses of bulk exports, white labels and diamond jewellery to more than compensate for the slowdown in its retail division.

■ **Valuation:** The slowdown in its retail business is likely to affect its overall financial performance. Thus, we have revised our earnings estimates downwards. At the CMP of Rs82, the stock trades at 8.9x FY09E and 6.2x FY10E earnings. Given inexpensive valuations we maintain BUY rating on the stock with a revised price target of Rs147.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	68,934	86,670	89,645	103,006
Growth (%)	25.7	25.7	3.4	14.9
EBITDA (Rs m)	2,142	3,817	4,932	6,658
PAT (Rs m)	1,013	2,066	2,686	3,827
EPS (Rs)	4.6	8.2	9.2	13.2
Growth (%)	(74.6)	80.4	12.0	42.5
Net DPS (Rs)	0.3	0.4	0.4	0.4

Source: Company Data; PL Research

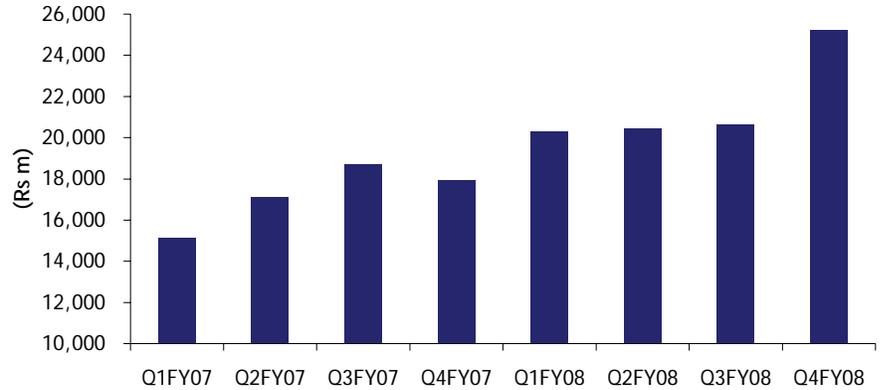
Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	3.1	4.4	5.5	6.5
RoE (%)	37.1	38.0	24.4	23.8
RoCE (%)	7.9	8.4	8.9	9.9
EV / sales (x)	0.4	0.3	0.3	0.3
EV / EBITDA (x)	12.6	6.1	5.4	4.0
PE (x)	17.9	9.9	8.9	6.2
P / BV (x)	5.9	2.6	1.7	1.3
Net dividend yield (%)	0.4	0.4	0.4	0.4

Source: Company Data; PL Research

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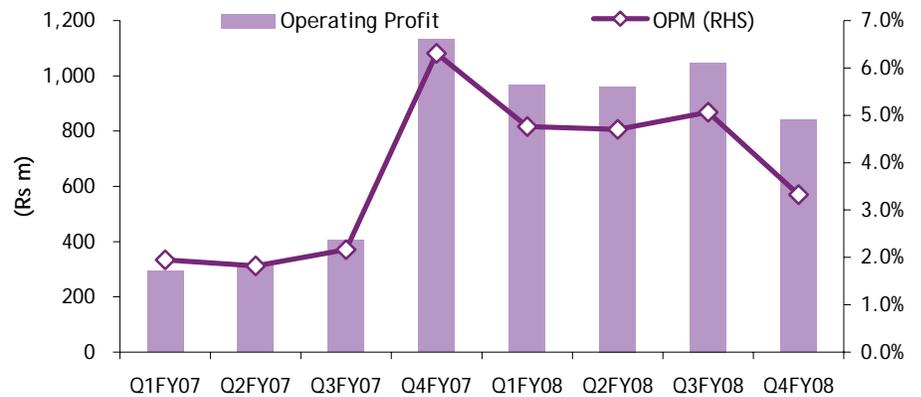
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Net sales increased with strong growth in bulk business...



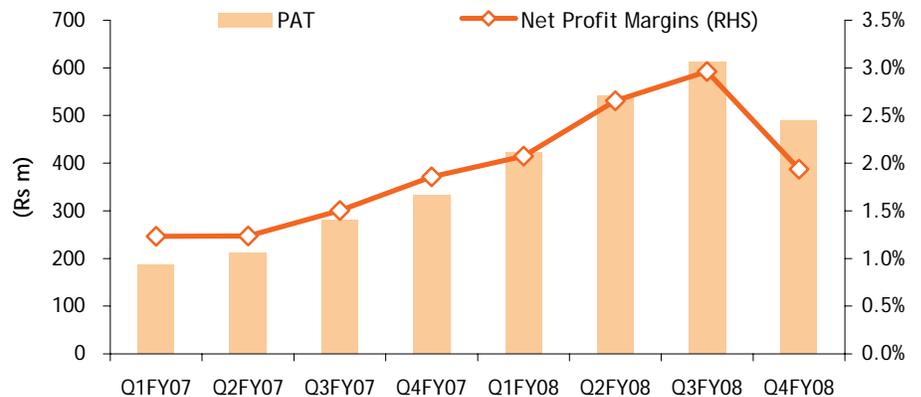
Source: Company Data, PL Research

Impacting operating margins



Source: Company Data, PL Research

Higher tax outflow further accentuated decline in net profit margin



Source: Company Data, PL Research



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	25,253	17,946	40.7	20,672	68,934	86,670	25.7
Expenditure							
Raw materials consumed	24,228	15,676	54.6	19,114	65,425	80,897	23.6
<i>% of NS</i>	<i>95.9</i>	<i>87.3</i>		<i>92.5</i>	<i>94.9</i>	<i>93.3</i>	
Personnel	15	9	71.0	32	40	89	123.2
<i>% of NS</i>	<i>0.1</i>	<i>0.0</i>		<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	
Manufacturing & other expenses	170	1,131	(84.9)	479	1,326	1,867	40.8
<i>% of NS</i>	<i>0.7</i>	<i>6.3</i>		<i>2.3</i>	<i>1.9</i>	<i>2.2</i>	
Total expenditure	24,413	16,815	45.2	19,625	66,791	82,853	24.0
EBITDA	840	1,132	(25.7)	1,047	2,142	3,817	78.2
<i>EBITDA margin (%)</i>	<i>3.3</i>	<i>6.3</i>		<i>5.1</i>	<i>3.1</i>	<i>4.4</i>	
Other income	1	-		-	0	1	
PBDIT	841	1,132		1,047	2,143	3,818	78
Depreciation	5	4	28.9	4	15	16	11.6
PBIT	836	1,128	(25.9)	1,044	2,128	3,801	78.6
Interest	166	765	(78.3)	392	1,086	1,480	36.3
PBT	670	363	84.5	651	1,042	2,321	122.7
Tax - total	180	30	508.6	39	30	256	763.2
<i>% of PBT</i>	<i>26.9</i>	<i>8.2</i>		<i>6.0</i>	<i>2.8</i>	<i>11.0</i>	
PAT	489	333	46.8	612	1,013	2,066	103.9



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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