

# Joyalukkas India Limited

CRISIL IPO Grade 3/5 (Average)

October 04, 2011

## Grading summary

CRISIL has assigned a CRISIL IPO grade of '3/5' (pronounced 'three on five') to the proposed IPO of Joyalukkas India Limited (Joyalukkas). This grade indicates that the fundamentals of the IPO are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The assigned grade reflects the company's successful branch expansion - from one to 23 in a decade - and its established reputation in South India - a region known for its high gold consumption. It also factors in the resilience of Indian gold jewellery demand and the expected increase in organised retail penetration in jewellery, which will benefit established players such as Joyalukkas.

The grade is moderated by intense competition in jewellery retailing, especially in Tamil Nadu, which accounted for 55% of the company's revenues in FY10. The concentration of outlets in Tamil Nadu and Kerala also exposes the company to negative changes in state-specific duties and policies.

Joyalukkas' revenues increased at a 3 year CAGR of 39.1% between FY07 and FY10 to Rs 18.2 bn, largely driven by branch additions and steady increase in gold prices. A higher proportion of diamond studded jewellery has led to an improvement in EBITDA margin from 5.9% in FY08 to 8.3% in H1FY11. EBITDA increased at a 3 year CAGR of 42.2% between FY07-10. During the same period, PAT increased at a CAGR of 55.9% and was Rs 674 mn in FY10.

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## About the company

Joyalukkas India Ltd is a leading South India-based company engaged in retail jewellery business with 13 regular retail stores and 10 large format stores (more than 12,000 sq. ft. in size each) as of September 2011. The aggregate floor area is 283,352 sq. ft. The company retails textiles, apparels and accessories alongside jewellery, through its Wedding Centers located across Kerala.

The Joyalukkas Group was established in the United Arab Emirates (UAE) by Mr Alukkas Varghese Joy in 1988. Outside India, the Joyalukkas Group runs 39 jewellery retail stores (25 in UAE , two in Qatar, four in Kuwait, two in Bahrain, five in Oman and one in the UK) and one textile store.

Joyalukkas India commenced operations in 2002 with one store in Kottayam. As of September 2011, the company has expanded to 23 stores, mainly across Tamil Nadu and Kerala.

### Issue details

<b>Shares offered to public</b>	18,000,000
<b>As per cent of post issue equity</b>	Not available at the time of grading
<b>Object of the issue</b>	<ul style="list-style-type: none"> <li>• Finance the establishment of new retail outlets</li> <li>• Repayment/prepayment of existing borrowings</li> <li>• General corporate purposes</li> </ul>
<b>Amount proposed to be raised</b>	Not available at the time of grading
<b>Price band</b>	Not available at the time of grading
<b>Lead managers</b>	Enam Securities Pvt Ltd, Citigroup Global Markets India Pvt Ltd

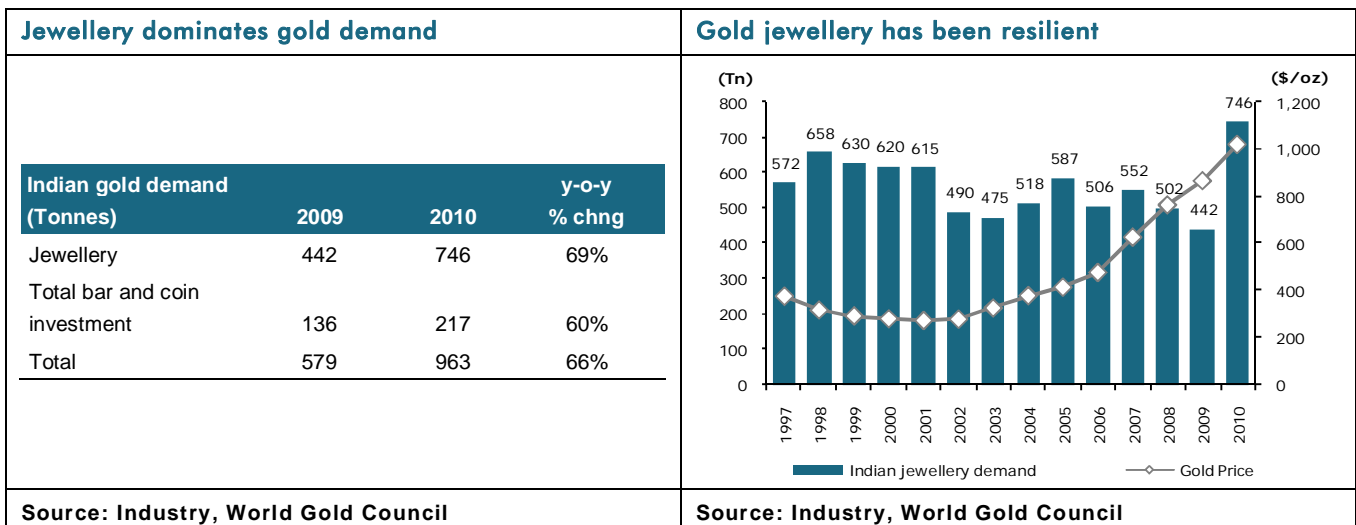
Source: DRHP

## Detailed Grading Rationale

### A. Business Prospects

- Gold jewellery demand has withstood exponential price increases*

Demand for gold jewellery constitutes 77% of India's overall gold demand and has withstood an exponential increase in gold prices. In CY2010, when gold prices peaked, the demand for gold jewellery in the domestic market amounted to 746 tonnes, 13% more than the previous peak in 1998. A 20% rise in the rupee price of gold combined with a 69% rise in volume pushed up the value of gold demand by 101% to Rs1,342 bn as compared with Rs669 bn in CY2009.

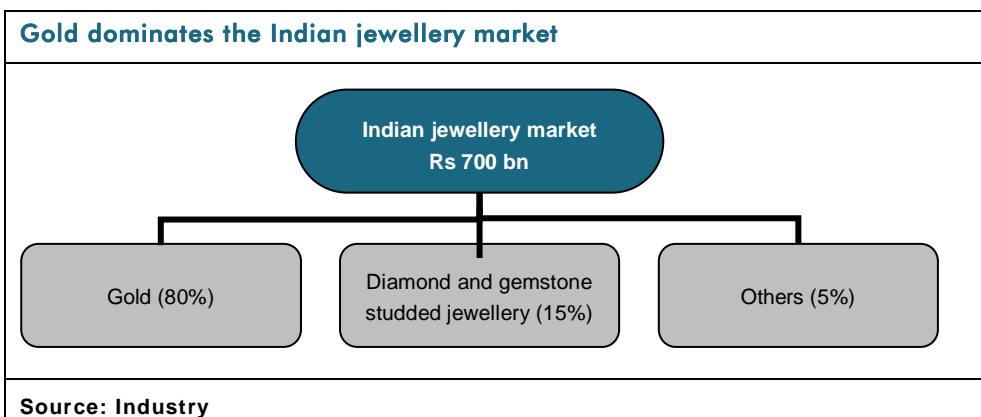


- Perception of gold as an investment has kept demand firm*

In India, gold is perceived as

- An easily encashable asset or investment
- Financial security and an indicator of social status
- An asset passed on from one generation to another

These fundamental factors have kept India's gold demand relatively resilient over the past few years, despite a steady rise in prices; gold jewellery continues to occupy a prominent position in the overall jewellery demand in India.



• **Established jewellery players to benefit from the increase in organized retail penetration**

Traditionally, the jewellery retailing space in India has been dominated by the family jeweler concept largely due to factors like considering certain jewelers as trustworthy and auspicious. Hence, the organised retail penetration (ORP) in domestic jewellery retailing is a mere 10%. However, it is expected to increase on the back of:

- Increasing awareness about hallmarking (quality assurance) and assured buy-back (since jewellery is seen as an investment)
- Aggressive branding by organised players
- Higher disposable income

Established players such as Joyalukkas are well-placed to benefit from this shift in consumer preference - from traditional family jewellers to organised jewellery players.

• **Joyalukkas – steadily expanded to become a household name in south India**

Despite the presence of well-established players, some of whom have been around for more than a century (especially in Tamil Nadu), Joyalukkas has expanded steadily across Tamil Nadu and Kerala over the past 10 years, differentiating itself as a quality brand through extensive advertising and unique store formats. As of September 2011, the company also operates stores in cities like Bengaluru, Mangalore, Hyderabad, Mumbai, Puducherry and Gurgaon.

**Branch expansion timeline**

State	FY06	FY07	FY08	FY09	FY10	FY11
<b>Kerala</b>	Angamaly Wedding Centre	Ernakulam			Trivandrum	
	Kollam Wedding Centre	Wedding Centre			Thrissur	
	Kottayam (Large Format)				Palace Road	
	Thiruvalla Wedding Centre					
	Thrissur Round East					
<b>Tamil Nadu</b>	Coimbatore (Large Format)	Madurai	Tirunelveli		Vellore	
		Salem	Chennai		Karur	
		(Large Format)	(Large Format)		Kanchipuram	
<b>Others</b>	Gurgaon			Mumbai		Bangalore
	Hyderabad			Puducherry		(Large Format)
				(Large Format)		Mangalore
						Vijaywada

Source - DRHP

• **Focused expansion strategy in South India**

To overcome the growth constraints in some of the larger branches in Tamil Nadu and in wedding centres in Kerala, the company is setting up 11 additional jewellery outlets across Tamil Nadu, Kerala, Karnataka, Andhra Pradesh and New Delhi and three Wedding Centres in Kerala - with a cumulative area of 320,255 sq. ft. - in FY11-14. In Tamil Nadu, Andhra Pradesh and Karnataka, the expansion will be primarily through smaller branches (average size of 3,000 sq. ft.) whereas in Kerala, the focus will be on Wedding Centres measuring 70,000-80,000 sq. ft. The company will likely benefit from a keen understanding of these markets. The proceeds from the IPO will partly be used to finance these expansions.

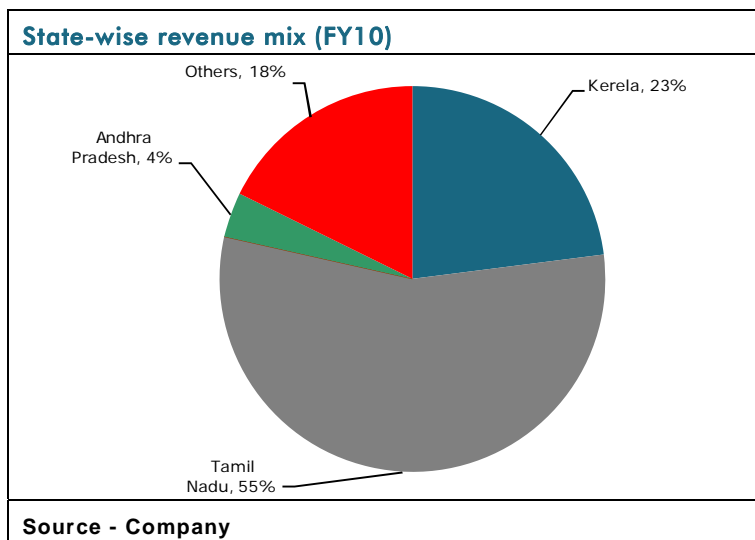
**Future expansion timeline**

State	FY12	FY13	FY14
<b>Kerala</b>	Kozhikode Wedding Centre Kochi	Thrissur Wedding Centre	Thiruvananthapuram Wedding Centre
<b>Tamil Nadu</b>	Trichy	Kumbakonam (Large Format)	Nagercoil
<b>Others</b>	Mysore Hubli (Large Format) New Delhi (Large Format)	Davengere Shimoga Vizag Rajahmundry	

Source - DRHP

- Geographical concentration exposes the company to regulatory risks**

As of FY10, the company derived 78% of its revenues from Tamil Nadu and Kerala. This exposes the company to negative changes in state-specific duties and government policies. For instance, a levy of 4% VAT on jewellery sales in Kerala led to a drop in the company’s gold sales in FY10 (Kollam recorded a 27% drop, Ernakulam 37%, Angamaly 33%, Thiruvalla 18% and Kottayam 18%). The company also retails textiles in Kerala, which mitigates the concentration risk by way of product diversification, but its share in overall revenues is small.



Source - Company

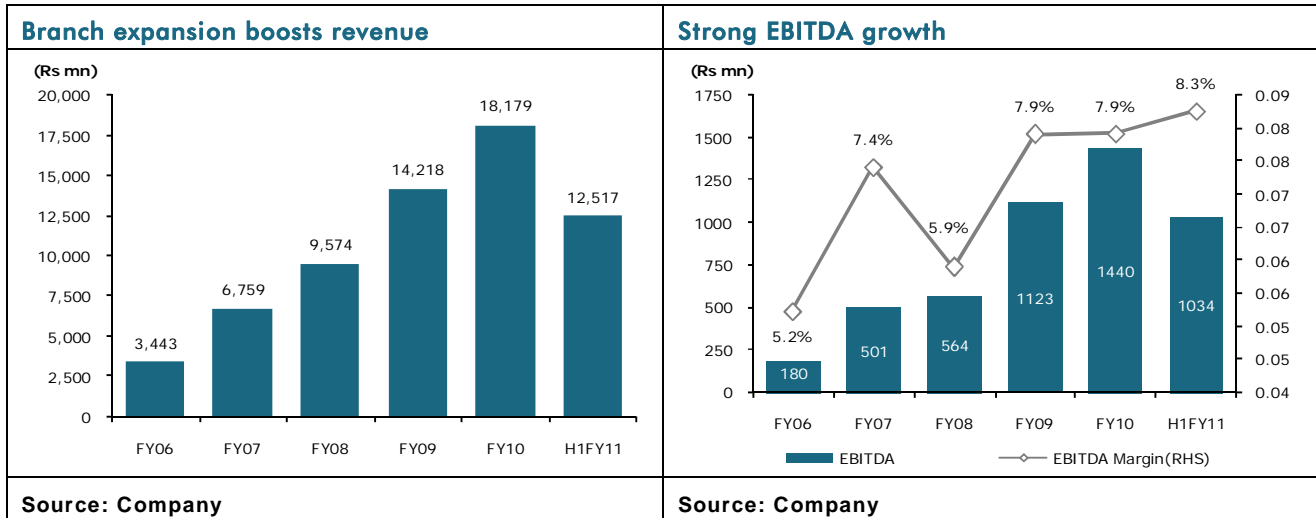
- Competition to intensify due to expansion by other organised players**

In larger cities, especially in Tamil Nadu, the jewellery retailing market is getting increasingly competitive, evidenced by a decline in the company’s same store sales. The company is responding by entering into tier-2 and tier-3 cities, where demand is picking up and there is lesser competition.

With many regional and national jewellery retailers as well as jewellery manufacturers and exporters lining up aggressive expansion plans, the competition is expected to intensify. While this pans out, the shift from unbranded jewellery to branded jewellery will likely provide some room for the players to co-exist and compete on customer loyalty and variety, since quality assurance would be a given. However, this may also translate into higher adspend.

## B. Financial Performance

Joyalukkas' revenues increased at a 3 year CAGR of 39.1% between FY07 and FY10 to Rs 18.2 bn, largely driven by branch additions and steady increase in gold prices.



A higher proportion of diamond studded jewellery has led to an improvement in EBITDA margin from 5.9% in FY08 to 8.3% in H1FY11. EBITDA increased at a 3 year CAGR of 42.2% between FY07-10. During the same period, PAT increased at a CAGR of 55.9%.

### Financial performance snapshot

		FY08 Actual 12 months	FY09 Actual 12 months	FY10 Actual 12 months	H1FY11 Actual 6 months
Operating income	Rs mn	9,574	14,218	18,179	12,517
EBITDA	Rs mn	564	1,123	1,440	1034
EBITDA margins	%	5.9%	7.9%	7.9%	8.3%
Net profits	Rs mn	167	496	674	545
RONW	%	27.2	45.3	40.5	21.8
Basic EPS	Rs	3.7	9.9	13.5	10.9
Diluted EPS	Rs	3.7	9.9	13.5	10.9
No. of equity shares	mn	45	50	50	50
Net worth	Rs mn	823	1,369	1,955	2499
Book value per share	Rs	18.3	27.4	39.1	50.0
Net debt - equity	x	2.1	1.2	1.2	1.1

Note: Numbers have been reclassified as per CRISIL standards

Source: DRHP

## C. Management Capabilities and Corporate Governance

- *Experienced promoter*

After a successful stint in the Middle East, the promoter Mr Alukkas Varghese Joy has expanded the Indian operations rapidly and created a unique identity for the company, accompanied by a strong financial performance. Operations are carried out through a professional setup, with adequate internal control systems for its current size.

- *Second line of management will likely be strengthened*

The promoter manages both the Indian as well as the Middle East operations, with his son John Paul Joy Alukkas increasingly focusing on the Middle East operations. The company will likely strengthen the second line of management to handle the enlarged operations.

- *Experienced independent directors*

The company has highly qualified independent/non-executive directors who have considerable experience in their respective fields like industry, finance and administration. Their understanding of the business and involvement in decision making is good.

- *Group companies in the Middle east*

There are 13 group entities in the Middle East carrying out similar operations there. They operate without a formal non-compete agreement; however, they have are no material transactions with the Indian entity.

## Annexure I

### Business Profile

#### *Business segments*

- **Retailing of gold and diamond-studded jewellery** (92% of FY10 revenues): Joyalukkas' jewellery business consists of the sale of jewellery made of gold, diamond and other precious stones, platinum and silver. In FY08, FY09 and FY10, the company sold 7,154 kgs, 8,430 kgs and 8,807 kgs of gold, respectively. The three large format stores in Chennai, Bangalore and Coimbatore (aggregate floor area of 96,309 sq. ft.) accounted for 40.3% of the revenues in FY10.
- **Retailing of textiles and accessories** (8% of FY10 revenues): The company retails textiles, apparels and accessories through four Wedding Centres situated in Kerala, having an aggregate floor area of 157,593 sq. ft. Wedding Centres were conceptualised to offer an integrated shopping experience where customers can purchase premium jewellery, textiles, apparels and accessories for weddings and other festive occasions in the same store.



## Annexure II: Profile of the Directors

Name of Directors	Designation	Age	Date of Joining	Qualification	Other Directorships
Alukkas Varghese Joy	Managing Director	54	May 1, 2002		<b>Domestic companies</b> <ol style="list-style-type: none"> <li>1. KIMS Health Care Management Ltd</li> <li>2. Joyal Properties Private Ltd</li> <li>3. Mythri Entertainers and Enterprises Private Ltd</li> <li>4. Cochin Smart City Properties Private Ltd</li> <li>5. Fusion Technosoft Private Ltd</li> <li>6. Jyothi Aviation &amp; Developers Private Ltd</li> <li>7. Mudita Trades Private Ltd</li> <li>8. Joyal Ornaments &amp; Trades Private Ltd</li> <li>9. Dalia Hotels &amp; Resorts Private Ltd</li> <li>10. Joyalukkas Foundation.</li> </ol> <b>Offshore companies</b> <ol style="list-style-type: none"> <li>1. Joy Alukkas Holdings Inc. British Virgin Islands</li> <li>2. Joy Alukkas Centre LLC, Sharjah</li> <li>3. Alukkas Exchange LLP, Dubai UAE</li> <li>4. Joy Alukkas Jewellery LLC, Dubai</li> <li>5. Joy Alukkas Diamonds LLC, Sharjah</li> <li>6. Joy Alukkas Jewellery LLC, Abu Dhabi</li> <li>7. Joy Alukkas Jewellers LLC, Ras Al Khaimah</li> <li>8. Joy Alukkas Jewellery LLC, Oman</li> <li>9. Joy Alukkas Jewellery WLL, Bahrain</li> <li>10. Joy Alukkas Jewellery WLL, Qatar</li> <li>11. Joy Alukkas Jewellery WLL, Kuwait</li> <li>12. Alukkas Ltd, United Kingdom</li> <li>13. Joy Alukkas Jewellery LLC, Ajman</li> </ol>
John Paul Joy Alukkas	Director (Non executive)	25	Dec 5, 2003	Bachelor's degree in Business Administration	<b>Domestic companies</b> <ol style="list-style-type: none"> <li>1. Mudita Trades Private Ltd and</li> <li>2. Jyothi Aviation &amp; Developers Private Ltd</li> </ol> <b>Offshore Companies</b> <ol style="list-style-type: none"> <li>1. Joy Alukkas Jewellery LLC, Ajman</li> <li>2. Joy Alukkas Diamonds LLC, Sharjah</li> <li>3. Joy Alukkas Jewellery LLC, Dubai</li> <li>4. Joy Alukkas Jewellery LLC, Abu Dhabi</li> <li>5. Joy Alukkas Jewellery WLL, Bahrain</li> <li>6. Joy Alukkas Jewellery WLL, Kuwait</li> <li>7. Joy Alukkas Jewellers LLC, Ras Al Khaimah</li> <li>8. Joy Alukkas Jewellery LLC, Oman</li> <li>9. Alukkas Ltd, London</li> <li>10. Joy Alukkas Holdings INC., BVI</li> </ol>
D.K.Manavalan	Chairman (Independent Director)	69	Oct 15, 2010	Bachelor's degree (Hons.) in science from University of Kerala	<b>Domestic companies</b> <ol style="list-style-type: none"> <li>1. The South Indian Bank Ltd</li> </ol>
C.J.George	Independent Director	51	May 22, 2010		<b>Domestic companies</b> <ol style="list-style-type: none"> <li>1. Geojit BNP Paribas Financial Services Ltd</li> <li>2. Geojit Credits Private Ltd</li> <li>3. Geojit Investment Services Ltd</li> <li>4. Geojit Financial Distribution Private Ltd</li> </ol>

5. Geojit Financial Management Services Private Ltd
6. V-Guard Industries Ltd
7. CJG Holdings India Private Ltd
8. Geojit Comtrade Ltd
9. Cochin Chamber of Commerce and Industry

**Offshore companies**

1. Barjeel Geojit Securities LLC
2. Al-Oula Geojit Brokerage Company, Saudi Arabia
3. Sigma Systems International FZ LLC

K.P.Padmakumar Independent Director 66 May 22, 2010 Bachelor's degree in Agricultural Science; certified associate of the Indian Institute of Bankers

**Domestic companies**

1. Muthoot Vehicle & Asset Finance Ltd
2. Muthoot Securities Ltd
3. Muthoot Commodities Ltd
4. Jyothy Laboratories Ltd

Source: DRHP

**Disclaimer**

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