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## CRISIL Research assigns IPO grade '3/5' to Joyalukkas India Ltd

CRISIL Research has assigned a CRISIL IPO Grade '3/5' (pronounced 'three on five') to the proposed initial public offer (IPO) of Joyalukkas India Ltd (Joyalukkas). This grade indicates that the fundamentals of the IPO are 'average' relative to the 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, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects Joyalukkas' established position in jewellery retailing in Tamil Nadu and Kerala, resulting from steady expansion in outlets from one to 23 in just a decade. Its unique store format has largely helped Joyalukkas differentiate itself from its competitors (a few of them nearly a century old), and strengthen its brand in south India. Hence, the company is well-positioned to tap the rise in demand for gold jewellery in India in general and in the two southern Indian markets, in particular, which together are expected to account for nearly 30% of incremental domestic demand. The rise in preference for hallmarked gold jewellery, offered by players such as Joyalukkas, also supports our grade.

The grade is moderated by intensifying competition in jewellery retailing, especially in Tamil Nadu (55% of FY10 revenues), where both national as well as regional players are expanding aggressively. This is pressurising the company's same store sales in Tamil Nadu, necessitating opening of additional stores and expansions outside south India. However, the regional nature of the brand might be a constraint for its pan-India expansion. Further, the current concentration of outlets in Tamil Nadu and Kerala (together accounting for 78% of FY10 revenues) exposes the company to negative changes in state-specific duties and policies.

### About the company and the issue

Joyalukkas India Ltd is a Kochi-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 also retails textiles, apparels and accessories alongside jewellery, through its Wedding Centers located across Kerala.

Joyalukkas' revenues increased at a three-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 rising proportion of diamond-studded jewellery led to an improvement in EBITDA margin from 5.9% in FY08 to 8.3% in H1FY11. EBITDA increased at a three-year CAGR of 42.2% between FY07 and FY10. During the same period, PAT increased at a CAGR of 55.9% and was Rs 674 mn in FY10.

Through the IPO, Joyalukkas plans to issue 18 mn new shares and has outlined a capex of Rs 5.2 bn to be financed through the IPO proceeds. The proceeds will be used for setting up of new retail outlets and repayment/prepayment of existing borrowings.

## About CRISIL IPO Grading

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