

RAJESH EXPORTS LTD Result Update (CONSOLIDATED BASIS): Q2 FY17	CMP: 457.15	NOV 28th, 2016
	Overweight	ISIN: INE343B01030

Index Details

Stock Data	
Sector	Other Apparels & Accessories
BSE Code	531500
Face Value	1.00
52wk. High / Low (Rs.)	745.50/422.50
Volume (2wk. Avg.)	47000
Market Cap (Rs. in mn.)	134978.11

Annual Estimated Results(A*: Actual / E*: Estimated)

Years(Rs in mn)	FY16A	FY17E	FY18E
Net Sales	1652113.69	2395564.85	2898633.47
EBITDA	17687.76	17742.68	19295.44
Net Profit	10667.24	12024.36	14081.93
EPS	36.13	40.72	47.69
P/E	12.65	11.23	9.59

Shareholding Pattern (%)

	As on Sep 2016	As on Jun 2016
Promoter	53.93	53.92
Public	46.07	46.08
Others	--	--

1 Year Comparative Graph



SYNOPSIS

- Rajesh Exports Ltd (REL) is a zero debt company on standalone basis, with its undivided focus and expertise, the company is currently the largest constituent of gold business in the world.
- Consolidated revenue for the quarter rose by 45.44% to Rs. 644589.37 mn from Rs. 443196.50 mn, when compared with the prior year period.
- During Q2 FY17, consolidated EBIDTA is Rs. 4347.77 mn as against Rs. 4722.66 mn in the corresponding period of the previous year.
- During Q2 FY17, consolidated Profit before tax grew 12.85% at Rs. 3220.34 mn against Rs. 2853.65 mn in Q2 FY16.
- During the quarter, consolidated net profit jumps to Rs. 3097.15 mn from Rs. 2798.38 mn in the corresponding quarter ending of previous year, an increase of 10.68%.
- EPS of the company stood at Rs. 10.49 during the quarter, as against Rs. 9.48 per share over previous year period.
- On November 02, 2016, the company won an order worth Rs. 12 bn from the UAE to export designer range gold and diamond studded jewelry and medallions.
- The company's Net sales stood at Rs. 1233757.01 mn for six months end of FY17 as compared to Rs. 594639.06 mn for six months end of FY16.
- For the end of 6M FY17, Net Profit grew by 12.11% at Rs. 5796.23 mn as compared to Rs. 5170.00 mn for the end of 6M FY16.
- Net Sales and PAT of the company are expected to grow at a CAGR of 78% and 41% over 2015 to 2018E respectively.

PEER GROUPS	CMP	MARKET CAP	EPS	P/E (X)	P/BV(X)	DIVIDEND
Company Name	(Rs.)	Rs. in mn.	(Rs.)	Ratio	Ratio	(%)
Rajesh Exports Ltd	457.15	134978.11	36.13	12.65	3.00	100.00
PC Jeweller Ltd	358.40	64189.40	24.50	14.63	2.76	33.50
Thangamayil Jewellery Ltd	174.80	2398.20	8.22	21.27	1.74	10.00
Titan Company Ltd	306.65	272239.60	8.14	37.67	7.75	220.00

QUARTERLY HIGHLIGHTS (CONSOLIDATED BASIS)

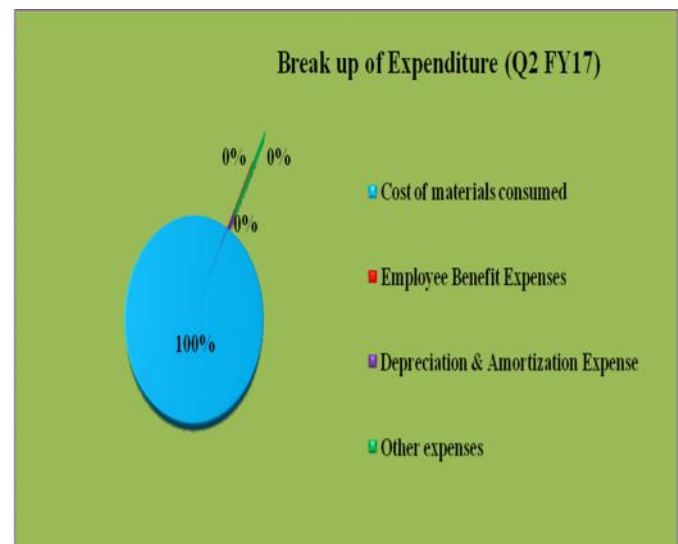
Results updates- Q2 FY17,

(Rs in million)	Sep-16	Sep-15	% Change
Revenue	644589.37	443196.50	45.44%
Net Profit	3097.15	2798.38	10.68%
EPS	10.49	9.48	10.68%
EBIDTA	4347.77	4722.66	-7.94%

Revenue for the quarter rose by 45.44% to Rs. 644589.37 million from Rs. 443196.50 million, when compared with the prior year period. EBIDTA is Rs. 4347.77 million as against Rs. 4722.66 million in the corresponding period of the previous year. The company's net profit jumps to Rs. 3097.15 million from Rs. 2798.38 million in the corresponding quarter ending of previous year, an increase of 10.68%. Reported earnings per share of the company stood at Rs. 10.49 during the quarter, as against Rs. 9.48 per share over previous year period.

Break up of Expenditure

Break up of Expenditure	Value in Rs. Million		
	Q2 FY17	Q2 FY16	% Change
Cost of Material consumed	639969.21	439253.43	46%
Employee Benefit Expenses	433.51	292.76	48%
Depreciation & Amortization Expenses	147.46	196.98	-25%
Other Expenditure	427.46	608.60	-30%



Latest Updates

- On November 02, 2016, the company won an order worth Rs. 12 billion from the UAE to export designer range gold and diamond studded jewelry and medallions. The order, which is to be completed by February 2017, will be executed at the company's manufacturing facility at Bangalore.

COMPANY PROFILE

Rajesh Exports Limited (REL) is a zero debt company on standalone basis. REL was established in the year 1989, with its undivided focus and expertise, the company is currently the largest constituent of gold business in the world. REL is the only gold company with a presence across the value chain of gold from mining till its own retail brand. The company is also the only gold company to have been included in the Global Fortune 500 list of companies.

The company is the largest refiner of gold in the World. With the recent acquisition of Valcambi, the world's largest gold refinery at Switzerland, along with its Indian refinery has built up a total capacity to refine 2400 tons of precious metals per annum. Valcambi is a LBMA accredited refinery, the gold bars produced at Valcambi are good delivery bars and are accepted across all the precious metal exchanges of the world and with all the bullion banks and central banks. Valcambi supplies "Valcambi" brand gold bars to various bullion banks and central banks.

REL is the largest manufacture of gold products in the world. Among its various manufacturing facilities REL has a total installed capacity to manufacture 400 tons of world class gold products per annum including the finest plain and studded jewellery, medallions and coins. REL has set up the world's finest R&D facilities in Switzerland and in India for developing new designs and for evolving innovative manufacturing process for manufacture of world class gold products.

REL exports its products to various countries around the world and also supplies its products in wholesale to jewellery showrooms across India.

REL has set up 81 retail jewellery showrooms under the brand name of SHUBH Jewellers. SHUBH Jewellers is one of the most trusted household jewellery brand name in South India which is known for the quality, designs and value for money prices of its products.

FINANCIAL HIGHLIGHT (CONSOLIDATED BASIS)

(A* - Actual, E* - Estimations & Rs. In Millions)

Balance Sheet as of March 31, 2015 -2018E

	FY15A	FY16A	FY17E	FY18E
SOURCES OF FUNDS				
Shareholder's Funds				
Share Capital	295.26	295.26	295.26	295.26
Reserves and Surplus	33321.17	44721.86	56746.22	70828.15
1. Sub Total - Net worth	33616.43	45017.12	57041.48	71123.41
2. Exchange Fluctuation	0.00	1638.37	4175.50	0.00
Non Current Liabilities				
Long term Borrowings	0.00	4975.49	3880.88	3182.32
Other Long term Liabilities	75.95	122.89	98.31	112.08
Long term Provisions	4.12	4.12	3.63	3.99
3. Sub Total - Non Current Liabilities	80.07	5102.50	3982.82	3298.39
Current Liabilities				
Short term Borrowings	38424.88	43222.71	41926.03	39829.73
Trade Payables	87388.44	107909.40	131649.47	150080.39
Other Current Liabilities	230.37	22682.99	4082.94	4368.74
Short Term Provisions	1066.93	1849.88	1738.89	1878.00
4. Sub Total - Current Liabilities	127110.62	175664.98	179397.32	196156.86
Total Liabilities (1+2+3+4)	160807.12	227422.97	244597.12	270578.66
APPLICATION OF FUNDS				
Non-Current Assets				
Fixed Assets				
Tangible assets	2637.16	7009.31	7359.78	8022.16
Intangible assets	0.00	1.58	1.14	1.33
Capital Work in Progress	4.17	0.00	0.00	0.00
a) Sub Total - Fixed Assets	2641.33	7010.89	7360.91	8023.49
b) Goodwill on consolidation	0.00	6477.01	6800.86	7344.93
c) Non-current investments	602.48	8405.42	9077.85	10348.75
d) Deferred Tax Asset	8.22	8.22	8.96	9.59
e) Long Term Loans and Advances	415.34	600.45	528.40	612.94
1. Sub Total - Non Current Assets	3667.37	22501.99	23776.98	26339.70
Current Assets				
Inventories	5675.30	9926.08	11911.30	14055.33
Trade receivables	29898.38	68889.51	69578.41	77927.81
Cash and Bank Balances	114063.84	118652.95	131018.98	142718.89
Short-terms loans & advances	3280.63	3116.21	3801.78	4486.10
Other current assets	4221.60	4336.23	4509.68	5050.84
2. Sub Total - Current Assets	157139.75	204920.98	220820.14	244238.97
Total Assets (1+2)	160807.12	227422.97	244597.12	270578.66

Annual Profit & Loss Statement for the period of 2015 to 2018E

Value(Rs.in.mn)	FY15A	FY16A	FY17E	FY18E
Description	12m	12m	12m	12m
Net Sales	504628.94	1652113.69	2395564.85	2898633.47
Other Income	1.05	90.17	15.50	19.53
Total Income	504629.99	1652203.86	2395580.35	2898653.00
Expenditure	-491964.41	-1634516.10	-2377837.67	-2879357.56
Operating Profit	12665.58	17687.76	17742.68	19295.44
Interest	-4782.69	-5776.46	-4274.58	-3590.65
Gross profit	7882.89	11911.30	13468.10	15704.80
Depreciation	-622.23	-790.07	-837.47	-912.85
Profit Before Tax	7260.66	11121.23	12630.63	14791.95
Tax	-711.33	-413.24	-606.27	-710.01
Profit After Tax	6549.33	10707.99	12024.36	14081.93
Share of Profit & Loss of Asso	0.00	-40.75	0.00	0.00
Net Profit	6549.33	10667.24	12024.36	14081.93
Equity capital	295.26	295.26	295.26	295.26
Reserves	33321.17	44721.86	56746.22	70828.15
Face value	1.00	1.00	1.00	1.00
EPS	22.18	36.13	40.72	47.69

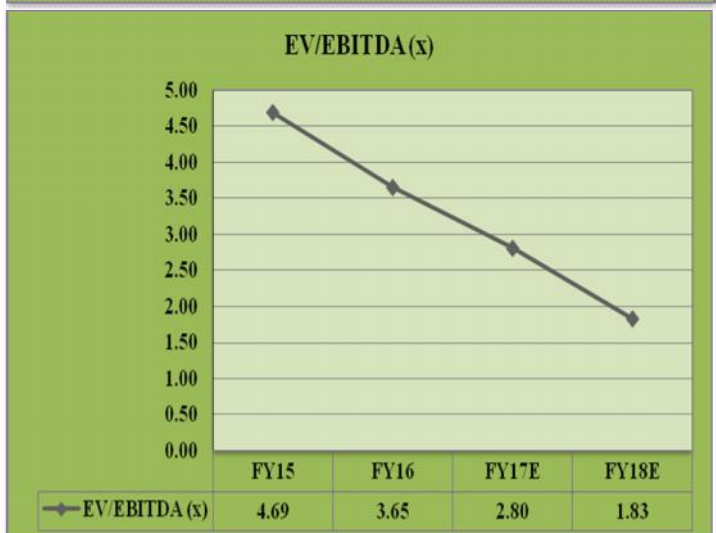
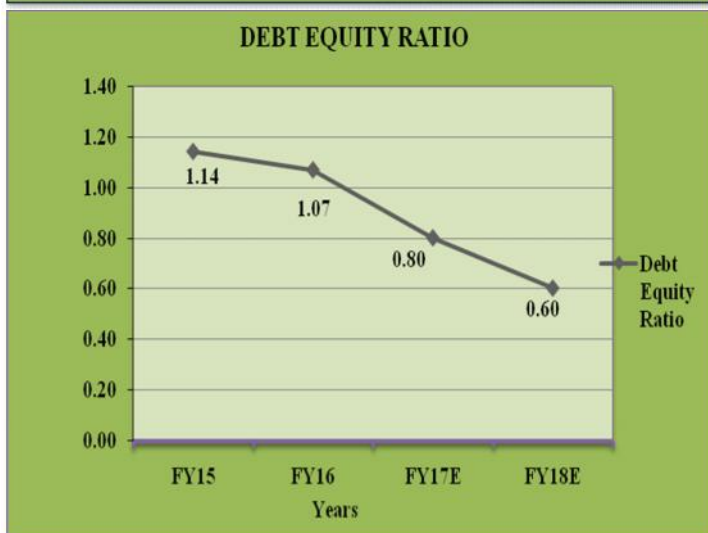
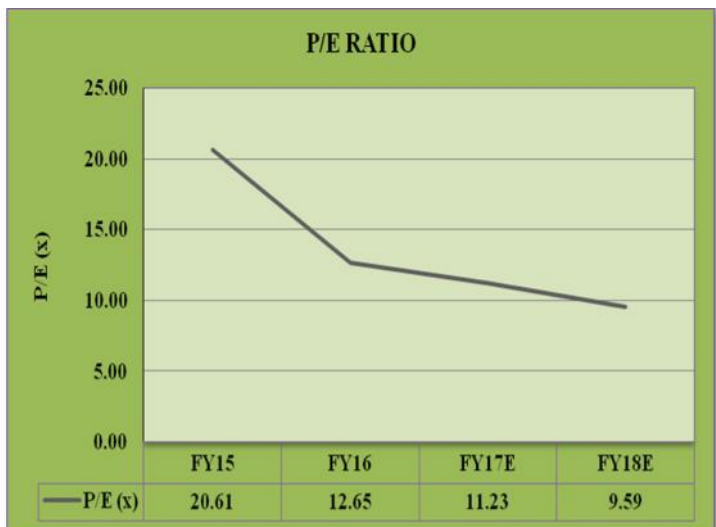
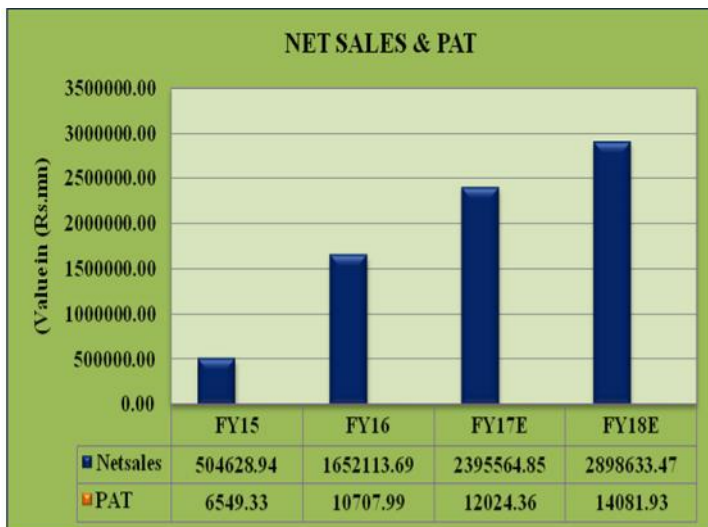
Quarterly Profit & Loss Statement for the period of 31st Mar, 2016 to 31st Dec, 2016E

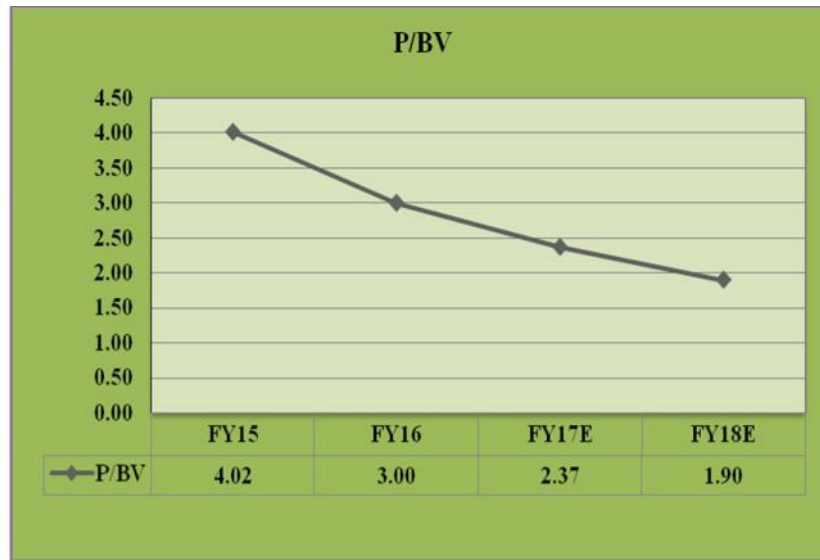
Value(Rs.in.mn)	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16E
Description	3m	3m	3m	3m
Net sales	559283.32	589167.64	644589.37	676818.84
Other income	45.53	1.36	3.62	4.16
Total Income	559328.85	589169.00	644592.99	676823.00
Expenditure	-554148.58	-585353.41	-640245.22	-672182.63
Operating profit	5180.27	3815.59	4347.77	4640.37
Interest	-2131.16	-929.87	-979.97	-901.57
Gross profit	3049.11	2885.72	3367.80	3738.80
Depreciation	-179.99	-153.37	-147.46	-174.00
Profit Before Tax	2869.12	2732.35	3220.34	3564.80
Tax	-357.97	-33.27	-123.19	-206.76
Profit After Tax	2511.15	2699.08	3097.15	3358.04
Share of Profit & Loss of Asso	-40.75	0.00	0.00	0.00
Net Profit	2470.40	2699.08	3097.15	3358.04
Equity capital	295.26	295.26	295.26	295.26
Face value	1.00	1.00	1.00	1.00
EPS	8.37	9.14	10.49	11.37

Ratio Analysis

Particulars	FY15A	FY16A	FY17E	FY18E
EPS (Rs.)	22.18	36.13	40.72	47.69
EBITDA Margin (%)	2.51%	1.07%	0.74%	0.67%
PBT Margin (%)	1.44%	0.67%	0.53%	0.51%
PAT Margin (%)	1.30%	0.65%	0.50%	0.49%
P/E Ratio (x)	20.61	12.65	11.23	9.59
ROE (%)	19.48%	23.79%	21.08%	19.80%
ROCE (%)	18.44%	19.82%	18.07%	17.71%
Debt Equity Ratio	1.14	1.07	0.80	0.60
EV/EBITDA (x)	4.69	3.65	2.80	1.83
Book Value (Rs.)	113.85	152.47	193.19	240.88
P/BV	4.02	3.00	2.37	1.90

Charts





OUTLOOK AND CONCLUSION

- At the current market price of **Rs.457.15**, the stock P/E ratio is at 11.23 x FY17E and 9.59 x FY18E respectively.
- Earning per share (EPS) of the company for the earnings for FY17E and FY18E is seen at Rs. 40.72 and Rs. 47.69 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 78% and 41% over 2015 to 2018E respectively.
- On the basis of EV/EBITDA, the stock trades at 2.80 x for FY17E and 1.83 x for FY18E.
- Price to Book Value of the stock is expected to be at 2.37 x and 1.90 x for FY17E and FY18E respectively.
- Hence, we say that, we are Overweight in this particular scrip for Medium to Long term investment.

INDUSTRY OVERVIEW

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 6-7 per cent of the country's GDP. One of the fastest growing sectors, it is extremely export oriented and labour intensive.

Based on its potential for growth and value addition, the Government of India has declared the Gems and Jewellery sector as a focus area for export promotion. The Government has recently undertaken various measures to promote investments and to upgrade technology and skills to promote 'Brand India' in the international market.

India is deemed to be the hub of the global jewellery market because of its low costs and availability of high-skilled labour. India is the world's largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies. Moreover, India exports 95 per cent of the world's diamonds, as per

statistics from the Gems and Jewellery Export promotion Council (GJEPC). The industry has generated US\$ 38.6 billion of revenue from exports in 2015-16, making it the second largest exporter after petrochemicals.

India's Gems and Jewellery sector has been contributing in a big way to the country's foreign exchange earnings (FEEs). The Government of India has viewed the sector as a thrust area for export promotion. The Indian government presently allows 100 per cent Foreign Direct Investment (FDI) in the sector through the automatic route.

Market size

The gems and jewellery market in India is home to more than 500,000 players, with the majority being small players.

India is one of the largest exporters of gems and jewellery and the industry is considered to play a vital role in the Indian economy as it contributes a major chunk to the total foreign reserves of the country. UAE, US, Russia, Singapore, Hong Kong, Latin America and China are the biggest importers of Indian jewellery.

The overall gross exports of Gems & Jewellery in April 2016 stood at US\$ 3.23 billion, whereas exports of cut and polished diamonds stood at US\$ 1.78 billion. Exports of gold coins and medallions stood at US\$ 302.67 million and silver jewellery export stood at US\$ 299.69 million in April 2016. The overall gross imports of Gems & Jewellery in April 2016 stood at US\$ 2.90 billion.

The cumulative Foreign Direct Investment (FDI) inflows in diamond and gold ornaments in the period April 2000-March 2016 were US\$ 772.05 million, according to Department of Industrial Policy and Promotion (DIPP).

Government Initiatives

The Reserve Bank of India has announced norms for gold monetisation scheme, which allows individuals, trusts and mutual funds to deposit gold with banks in return for interest, to help reduce gold imports and alleviate pressure on trade balance.

The Reserve Bank of India (RBI) has liberalised gold import norms. With this, star and premier export houses can import the commodity, while banks and nominated agencies can offer gold for domestic use as loans to bullion traders and jewellers. Also, India has signed a Memorandum of Understanding (MoU) with Russia to source data on diamond trade between the two countries. India is the top global processor of diamonds, while Russia is the largest rough diamond producer. The Government of India is planning to establish a special zone with tax benefits for diamond import and trading in Mumbai, in an effort to develop the city as a rival to Antwerp and Dubai, which are currently the top trading hubs for diamond.

Due to shortage of skilled manpower, the Gems and Jewellery Skill Council of India is planning to train over four million people till 2022. The council aims to train, skill and enhance 4.07 million people by 2022. The council plans to tie-up with the existing training institutes including Gemological Institute of America (GIA) and Indian Gemological Institute (IGI),

along with setting up of new institutes in major diamond cutting and processing centres, according to Gems & Jewellery Export Promotion Council (GJEPC). The GJEPC has also proposed to develop a jewellery park on Thane-Belapur Road which is around five kilometers from Mumbai with a view to boost the Mumbai-based jewellery industry by providing modern facilities and services.

Indian Institute of Gems & Jewellery (IIGJ) Mumbai, a project of the Gem & Jewellery Export Promotion Council of India (GJEPC), has come-up with three-year Graduate Program in Jewellery Design & Manufacturing Techniques with an introduction to Management studies in collaboration with Welingkar Institute of Management.

Road Ahead

In the coming years, growth in Gems and Jewellery sector would be largely contributed by the development of large retailers/brands. Established brands are guiding the organised market and are opening opportunities to grow. Increasing penetration of organised players provides variety in terms of products and designs. Also, the relaxation of restrictions of gold import is likely to provide a fillip to the industry. The improvement in availability along with the reintroduction of low cost gold metal loans and likely stabilisation of gold prices at lower levels is expected to drive volume growth for jewellers over short to medium term. The demand for jewellery is expected to be significantly supported by the recent positive developments in the industry.

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