

RAJESH EXPORTS LTD.

 Result Update (**CONSOLIDATED BASIS**): Q2 FY16

BUY

CMP	688.10
Target Price	790.00

NOVEMBER 16th 2015

ISIN: INE343B01030

Index Details

Stock Data

Sector	Other Apparels & Accessories
BSE Code	531500
Face Value	1.00
52wk. High / Low (Rs.)	724.00/136.10
Volume (2wk. Avg.)	212000
Market Cap (Rs. in mn.)	203168.41

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

YEARS	FY15A	FY16E	FY17E
Net Sales	504628.94	1190924.30	1345744.46
EBITDA	12665.58	19312.62	22360.97
Net Profit	6549.33	11327.53	12973.72
EPS	22.18	38.36	43.94
P/E	31.02	17.94	15.66

Shareholding Pattern (%)

(QUARTERLY)	As on Sep-15	As on Jun-15
PROMOTER	53.89	53.86
FII's	17.93	16.77
DII's	2.16	3.31
OTHERS	26.02	26.06

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.
- Revenue for the quarter ended September 30, 2015 stood at Rs 443196.50 Mn as compared to Rs 109594.27 Mn during the last comparable quarter, witnessing a growth of 304.40%.
- Net Profit after Tax for Q2 FY16 stood at Rs 2798.38 Mn, as compared to Rs 1597.65 Mn during the last comparable quarter, grew by 75.16%.
- During Q2 FY16, EBITDA was Rs. 4722.66 mn as compared to Rs. 2643.26 mn in Q2 FY15, up by 78.67%.
- The company has reported an EPS of Rs. 9.48 for the 2nd quarter as against an EPS of Rs. 5.41 in the corresponding quarter of the previous year.
- The order book position as on 30.09.2015 of the company was Rs. 2421500 Mn. These orders are to be completed within 31st January 2016.
- Revenue for H1 FY16 stood at Rs 594639.06 Mn, as compared to Rs 188644.72 Mn during H1 FY15, witnessing a growth of 215.22%.
- Net Profit after Tax for H1 FY16 stood at Rs 5170.00 Mn as compared to Rs 2781.10 Mn in H1 FY15, up by 85.90%.
- Net sales and PAT of the company are expected to grow at a CAGR of 66% and 53% over 2014 to 2017E 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	688.10	203168.41	22.18	31.02	5.89	100.00
PC Jeweller Ltd	396.35	70986.30	21.84	18.15	3.57	32.00
Tribhovandas Bhimji Zaveri Ltd	102.80	6859.90	2.34	43.93	1.47	10.00
Titan Company Ltd	359.15	318848.40	7.91	45.40	10.31	230.00

QUARTERLY HIGHLIGHTS (CONSOLIDATED)

Results updates- Q2 FY16,

Months	Sep-15	Sep-14	% Change
Net Sales	443196.50	109594.27	304.40
Net Profit	2798.38	1597.65	75.16
EPS	9.48	5.41	75.16
EBITDA	4722.66	2643.26	78.67

The company has achieved a turnover of Rs. 443196.50 million for the 2nd quarter of the financial year 2015-16 as against Rs. 109594.27 million in the corresponding quarter of the previous year, an increase of 75.16%. The consolidated EBITDA of Rs. 4722.66 million as against Rs. 2643.26 million in the corresponding quarter of the previous year. During the quarter, net profit stood at Rs. 2798.38 million against Rs. 1597.65 million reported in the corresponding quarter of the previous year, grew by 75.16%. The company has reported an EPS of Rs. 9.48 for the 2nd quarter as against an EPS of Rs. 5.41 in the corresponding quarter of the previous year.

Break up of Expenditure

Particulars	Rs. Millions		
	Q2 FY16	Q2 FY15	% Change
Cost of Material Consumed	439253.43	108630.56	304%
Employee Benefit Expenses	292.76	98.43	197%
Dep & Amortization Expense	196.98	145.17	36%
Other Expenses	608.60	415.12	47%

Latest Updates

- Rajesh Exports Ltd has bagged an export order worth of Rs. 1250 million as an initial order of a special range of jewellery for the European markets.
- Rajesh Exports Ltd has bagged an export order worth of Rs. 13600 million of a designer range of gold and diamond studded jewellery and medallions from U.A.E. The order is to be completed by 31st January 2016.
- Rajesh Exports Ltd has bagged an export order worth of Rs. 11230 million of a designer range of gold and diamond studded jewellery and medallions from Singapore. The order is to be completed by 31st December 2016.
- The order book position as on 30.09.2015 of the company was Rs. 2421500 Million. These orders are to be completed within 31st January 2016.

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 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 manufacturer 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 80 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 at March31, 2014 -2017E**

RAJESH EXPORTS LTD.	FY14A	FY15A	FY16E	FY17E
SOURCES OF FUNDS				
Shareholder's Funds				
a) Share Capital	295.26	295.26	295.26	295.26
b) Reserves and Surplus	27129.65	33321.17	41984.67	51221.30
1. Sub Total - Net worth	27424.91	33616.43	42279.93	51516.56
Non Current Liabilities				
a) Long-term borrowings	0.00	0.00	6145.20	5530.68
b) Other Long term liabilities	81.54	75.95	82.03	86.95
c) Long Term Provisions	4.12	4.12	4.78	5.35
2. Sub Total - Non Current Liabilities	85.66	80.07	6232.01	5622.98
Current Liabilities				
a) Short-term borrowings	31176.19	38424.88	29971.41	24576.55
b) Trade Payables	52155.09	87388.44	103118.36	117554.93
c) Other Current Liabilities	778.85	230.37	202.73	223.00
d) Short Term Provisions	760.61	1066.93	1451.02	1712.21
3. Sub Total - Current Liabilities	84870.74	127110.62	134743.52	144066.69
Total Liabilities (1+2+3)	112381.31	160807.12	183255.46	201206.23
APPLICATION OF FUNDS				
Non-Current Assets				
Fixed Assets				
i. Tangible assets	1684.75	2637.16	7655.50	8803.83
ii. Capital Work in Progress	3.64	4.17	4.59	4.95
a) Sub -Total Fixed Assets	1688.39	2641.33	7660.09	8808.78
b) Goodwill on consolidation	0.00	0.00	5320.45	5533.27
c) Non- Current Investments	134.18	602.48	8565.50	9764.67
d) Deferred tax assets	8.23	8.22	8.88	9.41
e) Long Term loans and advances	415.06	415.34	635.47	794.34
1. Sub Total - Non Current Assets	2245.86	3667.37	22190.38	24910.46
Current Assets				
a) Inventories	5713.05	5675.30	8512.95	10385.80
b) Trade receivables	24151.93	29898.38	31094.32	32959.97
c) Cash and Bank Balances	72141.60	114063.84	114096.47	124731.94
d) Short-terms loans & advances	4314.71	3280.63	3477.47	3790.44
e) Other current assets	3814.16	4221.60	3883.87	4427.61
2. Sub Total - Current Assets	110135.45	157139.75	161065.08	176295.77
Total Assets (1+2)	112381.31	160807.12	183255.46	201206.23

Annual Profit & Loss Statement for the period of 2014 to 2017E

Value(Rs.in.mn)	FY14A	FY15A	FY16E	FY17E
Description	12m	12m	12m	12m
Net Sales	291971.98	504628.94	1190924.30	1345744.46
Other Income	6.38	1.05	19.65	21.62
Total Income	291978.36	504629.99	1190943.95	1345766.07
Expenditure	-284134.08	-491964.41	-1171631.32	-1323405.10
Operating Profit	7844.28	12665.58	19312.62	22360.97
Interest	-3634.70	-4782.69	-6408.80	-7434.21
Gross profit	4209.58	7882.89	12903.82	14926.76
Depreciation	-164.10	-622.23	-827.57	-976.53
Profit Before Tax	4045.48	7260.66	12076.25	13950.23
Tax	-443.95	-711.33	-748.73	-976.52
Profit After Tax	3601.53	6549.33	11327.53	12973.72
Share of Profit & Loss of Asso	-5.63	0.00	0.00	0.00
Net Profit	3595.90	6549.33	11327.53	12973.72
Equity capital	295.26	295.26	295.26	295.26
Reserves	27446.31	34198.80	44458.44	55573.05
Face value	1.00	1.00	1.00	1.00
EPS	12.18	22.18	38.36	43.94

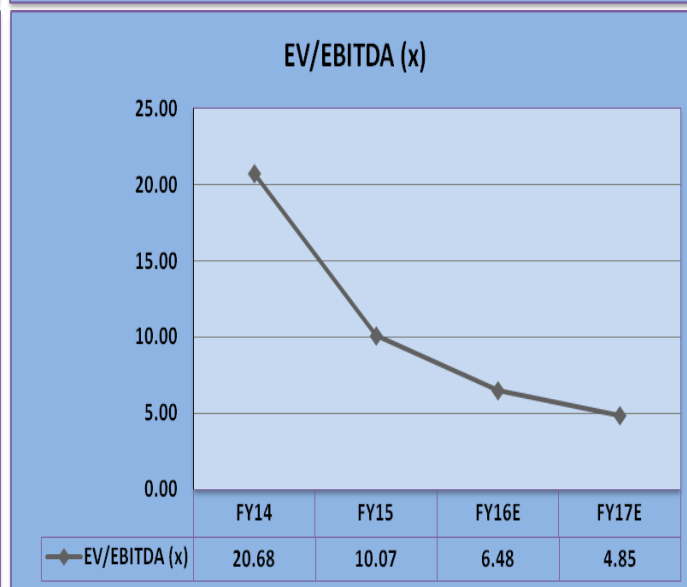
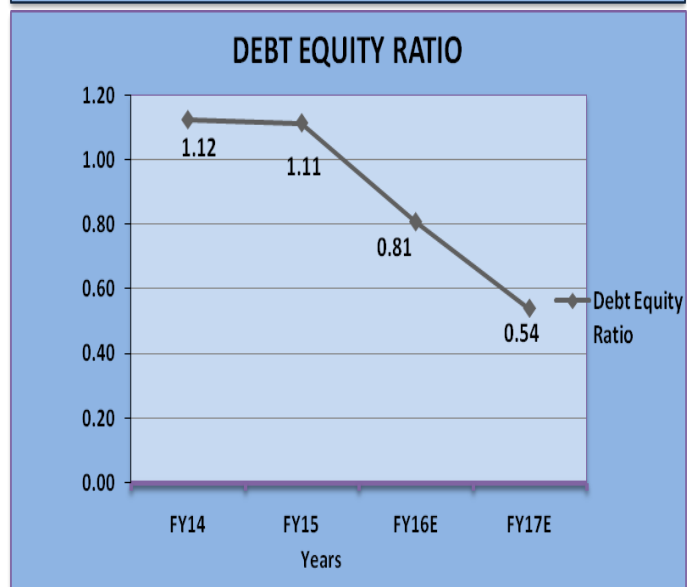
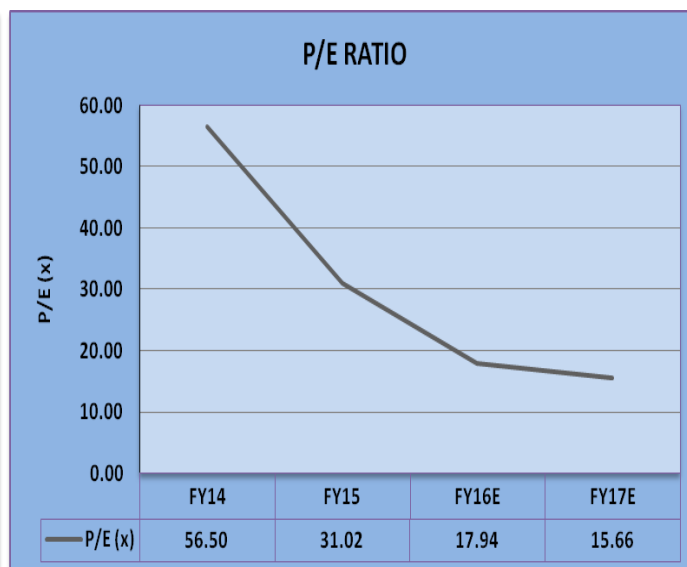
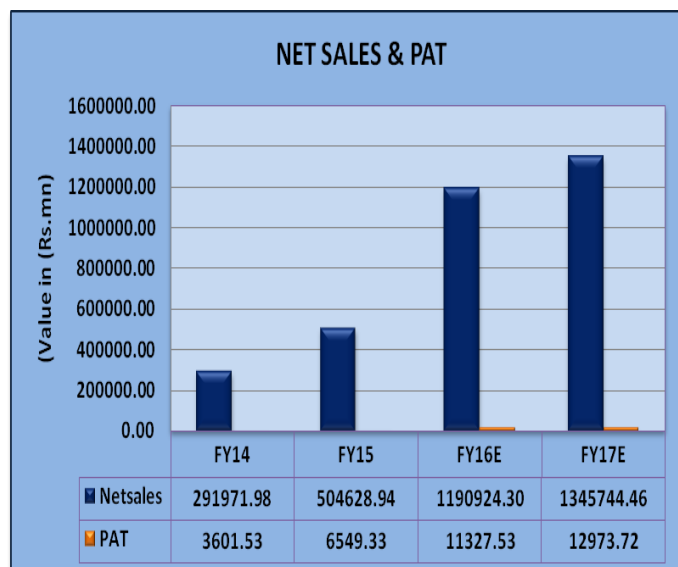
Quarterly Profit & Loss Statement for the period of 31st Mar, 2015 to 31st Dec, 2015E

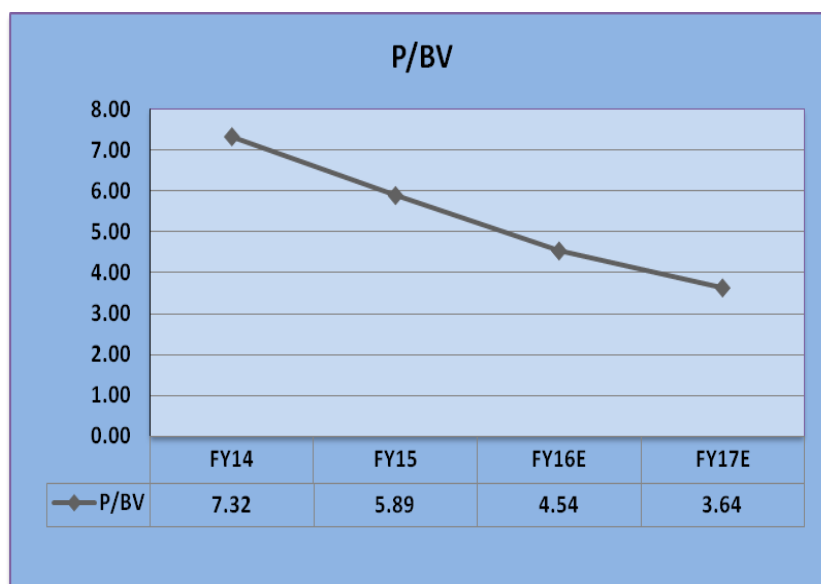
Value(Rs.in.mn)	31-Mar-15	30-Jun-15	30-Sep-15	31-Dec-15E
Description	3m	3m	3m	3m
Net sales	191659.90	151442.56	443196.50	469788.29
Other income	-40.06	0.00	8.58	9.01
Total Income	191619.84	151442.56	443205.08	469797.30
Expenditure	-186878.89	-147479.17	-438482.42	-464526.66
Operating profit	4740.95	3963.39	4722.66	5270.64
Interest	-1778.39	-1423.54	-1672.03	-1805.79
Gross profit	2962.56	2539.85	3050.63	3464.85
Depreciation	-195.56	-168.23	-196.98	-220.62
Profit Before Tax	2767.00	2371.62	2853.65	3244.23
Tax	-711.33	0.00	-55.27	-162.21
Net Profit	2055.67	2371.62	2798.38	3082.02
Equity capital	295.26	295.26	295.26	295.26
Face value	1.00	1.00	1.00	1.00
EPS	6.96	8.03	9.48	10.44

Ratio Analysis

Particulars	FY14A	FY15A	FY16E	FY17E
EPS (Rs.)	12.18	22.18	38.36	43.94
EBITDA Margin (%)	2.69%	2.51%	1.62%	1.66%
PBT Margin (%)	1.39%	1.44%	1.01%	1.04%
PAT Margin (%)	1.23%	1.30%	0.95%	0.96%
P/E Ratio (x)	56.50	31.02	17.94	15.66
ROE (%)	12.98%	18.99%	25.31%	23.22%
ROCE (%)	13.59%	18.22%	24.90%	27.14%
Debt Equity Ratio	1.12	1.11	0.81	0.54
EV/EBITDA (x)	20.68	10.07	6.48	4.85
Book Value (Rs.)	93.96	116.83	151.57	189.22
P/BV	7.32	5.89	4.54	3.64

Charts





OUTLOOK AND CONCLUSION

- At the current market price of **Rs. 688.10**, the stock P/E ratio is at 17.94 x FY16E and 15.66 x FY17E respectively.
- Earning per share (EPS) of the company for the earnings for FY16E and FY17E is seen at Rs.38.36 and Rs.43.94 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 66% and 53% over 2014 to 2017E respectively.
- On the basis of EV/EBITDA, the stock trades at 6.48 x for FY16E and 4.85 x for FY17E.
- Price to Book Value of the stock is expected to be at 4.54 x and 3.64 x for FY16E and FY17E respectively.

Q2 FY16 for the company has been a record breaking quarter compared to any other quarter for the company since inception. The company achieved a major milestone during this quarter with the completion of acquisition of Valcambi. Acquisition of Valcambi has proved to be a path breaking event for the company as the company has emerged as a truly global company and as the largest gold company in the world. The acquisition would yield further better results in the coming quarters as the synergies of both the companies would start integrating and set a new world order in gold business. REL is the only fully integrated company across the value chain of gold and going forward this integration would be strengthened to yield more results for the company in the retail segment, which would be one of the driver of higher profitability for the company. Hence, we recommend '**BUY**' in this particular scrip with a target price of **Rs.790.00** for Medium to Long term investment.

INDUSTRY OVERVIEW

The global economy continued to expand in 2014 at a moderate and uneven pace, as countries remained saddled with unfinished post-crisis adjustments. Global recovery was hampered by some new challenges, including a number of unexpected shocks, such as heightened geopolitical conflicts in various areas. Growth of WGP (World Gross Product) was estimated at 2.6% in 2014, marginally better than the growth of 2.5% in 2013, but lower than the projected 2.9%. A salient feature for major developed countries during 2014 was an erratic movement in their quarterly growth rates. Conversely, the economic situation in Europe was precarious, particularly in the Euro area, with some countries close to recession again.

The Indian gross domestic product (GDP) grew at 7.3% in 2014-15 and is poised to grow by 8% in 2015-16 according to forecasts by OECD, compared to China, which is pegged to grow at 7% during these years. With labour costs spiking in China, India is expected to emerge as the fastest-growing major economy in 2015-16.

India's per capita net national income during 2014-15 is estimated at Rs. 88,538 (US\$1,434), a rise of 10.1% compared with Rs. 80,388 (US\$1,302) during 2013-14 with a growth rate of 12.3%. Gross fixed capital formation increased from 3% in 2013-14 to 4.1% in 2014-15. Average retail inflation moderated to 6.3% in 2014-15 as against 8.9% in 2013-14.

India's current account deficit shrank to some 1.3% of GDP and could well narrow further to 1% of GDP next fiscal. Foreign direct investment hit a high of \$34.9 billion in 2015, a massive 61.6% from \$21.6 billion in the previous fiscal, accounting for 1.7% of the GDP, up from 1.1% in the previous year.

INDIAN GEMS AND JEWELLERY INDUSTRY

India is the world's largest cutting and polishing centre for diamonds with the cutting and polishing industry being well supported by government policies. India exports almost 95% of the world's diamonds, as per statistics from the Gems and Jewellery Export Promotion Council ("GJEPC"). The industry is projected to generate up to US\$35 billion of revenue from exports by the end of FY2015.

The gems and jewelry sector in India plays a significant role in the Indian economy, contributing around 6-7% of the country's GDP. One of the fastest growing sectors, it is export-oriented and labour-intensive. The government declared the sector as a focus area for export promotion, based on its potential for growth and value-addition.

According to the study by the global consultancy firm AT Kearney, India's gems and jewellery industry is expected to double in the next five years and is expected to reach Rs.500000– Rs.5300000.00 mn (US\$ 81.63 billion-US\$ 86.52 billion) by 2018 from Rs.2510000.00 mn (US\$ 40.96 billion) in 2013. In FY14, India's gems and jewellery sector contributed US\$ 34,746.90 million to the country's Foreign Exchange Earnings (FEEs).

The two major sectors of the industry in India comprised gold jewellery and diamonds. The country is the largest consumer of gold, accounting for more than 20% of the total world gold consumption. Gold jewellery forms around 80% of the Indian jewellery market, with the balance comprising fabricated studded jewellery that includes diamond and gemstone studded jewellery. A predominant portion of the gold jewellery manufactured in India is consumed in the domestic market.

India's gems and jewellery industry is highly unorganized and fragmented with 96% of the total players being family-owned businesses. The gold processing industry has around 15,000 players, with only 80 enjoying revenues over USD 5 million. India is also home to around 450,000 goldsmiths, 100,000 gold jewellers along with 6,000 diamond processing players and 8,000 diamond jewellers.

MARKET SIZE

The jewellery market in India is expected to grow at a compounded annual growth rate (CAGR) of 15.95% over the period 2014-2019.

The gold jewelry exports from India were US\$ 554.45 million in December 2014, while silver jewellery exports were US\$ 148.49 million, as per the data released by the GJEPC.

The cumulative foreign direct investment (FDI) inflows in diamond and gold ornaments during April 2000-December 2014 were US\$ 476 million, according to Department of Industrial Policy and Promotion (DIPP).

The fiscal year 2014-15 saw an increase of 12.65% in the export of cut and polished diamonds with the segment reaching US\$ 19,635 million. The industry also witnessed a rise of 11.98% in imports of rough diamonds with figures of US\$ 16,716 million. Also, platinum jewellery could breach the Rs.25000.00 mn (US\$ 402.95 million) mark in FY15, according to research by IKON Marketing Consultants.

GOVERNMENT INITIATIVES

RBI 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 jewelers. 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 diamond trading hubs.

In another significant development, the Gems and Jewellery Skill Council of India is planning to train over four million persons till 2022 as the sector is facing a critical shortage of skilled manpower.

OUTLOOK

In the years to come, the growth of the industry will depend on the development of the retail/ brand side of the industry. Established brands are expected to guide the organised market and open up opportunities for growth especially with the growing preference for branded products. Increasing penetration of organised players provides a 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 the short to medium term.

Disclaimer:

This document is prepared by our research analysts and it does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable but we do not represent that it is accurate or complete and it should not be relied on as such. Firstcall Research or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Firstcall Research and/ or its affiliates and/or employees will not be liable for the recipients' investment decision based on this document.

Firstcall India Equity Research: Email – info@firstobjectindia.com	
C.V.S.L.Kameswari	Pharma & Diversified
U. Janaki Rao	Capital Goods
B. Anil Kumar	Auto, IT & FMCG
M. Vinayak Rao	Diversified
G. Amarender	Diversified

Firstcall Research Provides

*Industry Research on all the Sectors and Equity Research on Major Companies
forming part of Listed and Unlisted Segments*

For Further Details Contact:

*Tel.: 022-2527 2510/2527 6077 / 25276089 Telefax: 022-25276089
040-20000235 /20000233*

*E-mail: info@firstobjectindia.com
www.firstcallresearch.com*