MOTILAL OSWAL

2 February 2015

PC Jeweller

spotlight
The Idea Junction

Evolving from a regional to a national player

Strong positioning in North India; rising studded jewelry mix

Well established jewelry brand in North India

PC Jeweller (PCJL) is one of the leading organized jewelry retailers, with a strong brand presence in North and Central India. PCJL operations include design, manufacturing, retailing and export of jewelry. It has 49 showrooms in 39 cities and 16 states, with an operational space of ~292,800sqft as of Dec'14. We expect the penetration of organized and branded jewelry to increase going forward, driven by rising disposable incomes, increasing awareness of quality/hallmarking and favorable demographics. The government has recently designated PCJL as a nominated agency for direct import of precious metals to be used for domestic business.

Steadily expands retail footprint pan India

PCJL has expanded its retail footprint steadily with an operational space of ~292,800sqft (~4.5x over FY10-Dec'14) as of December 2014. It plans to add 20 showrooms annually over the next three years in the ratio of 20:40:40 in metros, tier I and tier II cities. We expect PCJL to widen its presence geographically and capitalize on the growing salience of branded jewelry in India.

Increasing salience of domestic business

PCJL exports gold jewelry on a wholesale basis to international distributors. However, given the low margins and higher working capital requirement, it is prioritizing resources and management bandwidth towards the domestic retail segment. Salience of exports business has fallen from 34.4% in FY11 to 25% in FY14. We expect the revenue mix to further tilt towards domestic business as it opens 12,14 and 14 new stores over FY15, FY16 and FY17 respectively.

Focus on studded jewelry to drive margin expansion

PCJL is driving studded jewelry sales through aggressive marketing, launch of new design concepts (like flexia) and customer activation initiatives. Contribution of diamond jewelry in overall domestic revenue has risen from 17.9% in FY10 to 26.4% in FY14. Diamond jewelry enjoys gross margin of 35%, compared to the

Stock Info

Bloomberg	PCJL IN
CMP (INR)	276
Equity Shares (m)	179.1
M.Cap. (INR b)/(USD b)	49.4/0.8
52-Week Range (INR)	283/72
1,6,12 Rel. Perf. (%)	24/101/233

Financials & Valuation (INR b)

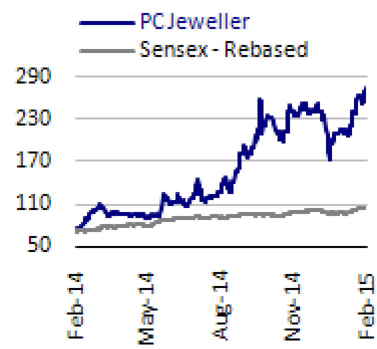
Y/E March	2015E	2016E	2017E
Sales	54.2	63.9	76.8
EBITDA	6.2	7.6	9.4
Adj. PAT	3.2	4.0	5.0
Adj. EPS (INR)	18.1	22.1	28.0
EPS Gr. (%)	-9.1	22.3	26.5
BV/Sh.(INR)	28.0	32.6	38.6
RoE (%)	16.6	17.4	18.6
RoCE (%)	22.1	26.0	28.0
Valuations			
P/E (x)	15.3	12.5	9.9
P/BV (x)	9.9	8.5	7.2
EV/EBITDA (x)	9.1	7.6	6.2
Div. Yield (%)	1.0	1.2	1.5

Shareholding pattern (%)

As on	Sep-14	Jun-14	Mar-14
Promoter	70.6	70.6	70.6
FII	13.4	11.2	13.0
DII	2.4	2.9	3.0
Others	13.7	15.4	13.4

Notes: FII includes depository receipts

Stock performance (1 year)



RED: Caution
AMBER: In transition
GREEN: Interesting

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11-12% enjoyed by gold jewelry. Over the next three years, PCJL intends to increase the salience of diamond jewelry to 35% from 27% in FY14. We expect PCJL's operating margin to expand 80bp over FY15E-17E to 12.2%. Improving discretionary consumption trends backed by macro recovery could drive the premiumization in jewelry industry, in our view.

Play on rising branded Jewellery penetration: 24% FY15-17 EPS CAGR, 9.9x FY17 P/E

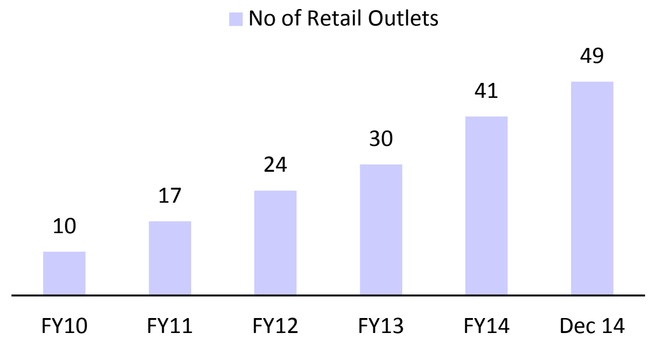
PCJL has posted robust 39%, 44% and 35% in sales, EBITDA and PAT CAGR respectively over FY11-14. However, FY15 performance is impacted by a slowdown in discretionary consumption. Company's expansion plans coupled with a focus on studded jewelry and improvement in consumer sentiments should drive the next leg of growth, in our view. We expect PCJL to deliver 19%, 23% and 24% in sales, EBITDA and PAT CAGR respectively over FY15E-17E, aided by a low base of FY15. The stock trades at 12.5x/9.9x FY16E/FY17E EPS. A sharp correction in gold prices and adverse regulations can pose as key downside risks. **Not Rated.**

Well established brand in North India

Enviable niche in wedding segment

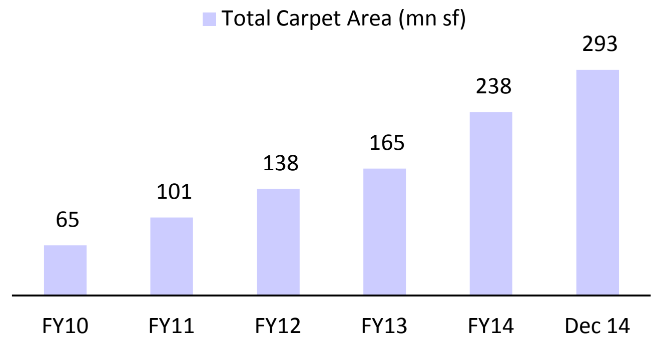
- PC Jeweller (PCJL), incorporated in 2005, is one of the leading organized jewellery retailers with a strong brand presence in North and Central India. Its operations include design, manufacturing, retailing and export of jewellery. Company has 49 showrooms present in 39 cities and 16 states, with an operational space of ~292,800sqft as of Dec'14.
- PCJL retails a wide range of gold, diamond and other jewellery, including silver articles, under the brand "PC Jeweller". Gold jewellery contributes ~74% of its domestic revenue, while diamond contributes the rest.
- Large format showrooms with wider design collection and focus on wedding jewellery remain its areas of strength. Of the 49 showrooms (as on December 2014) it operates, 22 are large format stores, with a carpet area of more than 5,000sqft. Over the last five years, company has expanded its presence from 10 showrooms in FY10 to 49 showrooms as on Dec'14.
- Apart from retailing jewellery in India, PCJL also exports jewellery to the Middle East and South East Asia. Domestic jewellery retail business contributed ~75% of the revenues in FY14, while exports contributed the rest.
- Company has a strong in-house design team (over 50 designers) and four jewellery manufacturing units to support its retail footprint.

Exhibit 1: 4.9x store count over FY10-Dec'14…



Source: Company, MOSL

Exhibit 2: …while total space addition has been 4.5x



Source: Company, MOSL

Exhibit 3: Key metrics performance over FY10-14

	FY10	FY11	FY12	FY13	FY14
Cumulative store count	10	17	24	30	41
Revenues per store (domestic)	655	763	850	996	976
Revenue per sqft	100,670	128,258	147,496	181,540	168,155
Total revenue (INR m)	**9,848**	**19,771**	**30,419**	**40,184**	**53,248**
Growth (%)	58%	101%	54%	32%	33%
Domestic Revenue (INR m)	**6,549**	**12,978**	**20,395**	**29,876**	**40,021**
Growth (%)	0.9	1.0	0.6	0.5	0.3
Export revenue (INR m)	**3,299**	**6,792**	**10,024**	**10,308**	**13,227**
Growth (%)	0.2	1.1	0.5	0.0	0.3

Source: Company, MOSL

Expansion plans to widen geographic presence

Increase footprint pan India, 85 stores by FY17

- PCJL has opened 25 stores since its IPO, with six stores added in FY13 and 11 being added in FY14. It has added 8 stores YTD FY15.
- Since inception PCJL has focused on large format showrooms to establish a strong presence in the wedding segment, which contributes >50% of Indian jewellery demand annually. Focus on large format showrooms has proven to be a successful strategy for PCJL, and even Titan, the leader in branded jewellery space has concentrated on opening large format showrooms since FY12.
- PCJL follows a cluster approach, wherein one-third stores are present in metros, another one-third in tier I cities and the balance in tier II cities. This approach has aided the company to consolidate its position in the NCR region and reap the benefits of increasing brand awareness and better operating efficiency. From a store level perspective, for a new PCJL store opened in an existing city of company's presence, it takes about four to five months to achieve cash breakeven, while for a store opened in a new city in an existing state, the cash breakeven is between six and seven months. However, for a store opened in a new city in a new state, the cash breakeven period is around a year. This variance in achievement is mainly as the presence in a city generates awareness and aids to facilitate footfalls for a new store in the same city, thus aiding cash breakeven.

Exhibit 4: PCJL has expanded its geographical footprint pan India

Source: Company, MOSL

Exhibit 5: PCJL is aggressively expanding its presence (added ~128,000sqft over the last 24 months)

Count	Opening date	Location	Area (sqft)	Count	Opening date	Location	Area (sqft)
Region	**North India**			**Region**	**Rest of India**		
1	Apr, 2005	Karol Bagh, New Delhi	13,016	1	Aug, 2010	Indore, Madhya Pradesh	8,917
2	Oct, 2007	Noida, Uttar Pradesh	2,660	2	Sep, 2010	Bhopal, Madhya Pradesh	5,800
3	Dec, 2007	Panchkula, Haryana	11,600	3	Oct, 2010	Raipur, Chattisgarh	4,590
4	Oct, 2008	Faridabad, Haryana	3,950	4	Jul, 2011	Bilaspur, Chattisgarh	3,500
5	Oct, 2008	Dehradun, Uttarakhand	3,450	5	Apr, 2013	Ahmedabad, Gujarat	7,800
6	Apr, 2009	Pitampura, New Delhi	6,290	6	Apr, 2013	Vadodra, Gujarat	7,800
7	Sep, 2009	Chandigarh	2,208	7	Apr, 2013	Jabalpur, Madhya Pradesh	5,000
8	Mar, 2010	Gurgaon, Haryana	13,400	8	Oct, 2013	Rajkot, Gujarat	4,200
9	Mar, 2010	Preet Vihar, New Delhi	5,130	9	Nov, 2013	Hyderabad, Andhra Pradesh	17,065
10	Mar, 2010	Ghaziabad, Uttar Pradesh	3,350	10	Nov, 2013	Mangalore, Karnataka	7,070
11	Jul, 2010	Lucknow, Uttar Pradesh	3,874	11	Dec, 2013	Bengaluru, Karnataka	12,281
12	Oct, 2010	Jodhpur, Rajasthan	5,655	12	Jan, 2014	Satellite Ahmedabad, Gujarat	8,710
13	Dec, 2010	Bhilwara, Rajasthan	3,500	13	May, 2014	Ranchi, Jharkhand	3,300
14	Mar, 2011	Ludhiana, Punjab	3,798	14	Jun, 2014	Guwahati, Assam	4,350
15	Jul, 2011	Haridwar, Uttarakhand	4,393	15	Jul, 2014	Patna, Bihar	6,378
16	Aug, 2011	Pali, Rajasthan	3,600	16	Sep, 2014	Kolkata, West Bengal	8,198
17	Oct, 2011	South Extension, New Delhi	11,500				
18	Oct, 2011	Amritsar, Punjab	5,756				
19	Oct, 2011	Beawar, Rajasthan	3,500				
20	Oct, 2011	Ajmer, Rajasthan	4,500				
21	May, 2012	Kanpur, Uttar Pradesh	4,552				
22	May, 2012	Rohtak, Haryana	4,600				
23	May, 2012	Rajouri Garden, New Delhi	4,455				
24	Jun, 2012	Greater Kailash, New Delhi	4,500				
25	Aug, 2012	Ghaziabad, Uttar Pradesh	2,528				
26	Aug, 2012	Kingsway Camp, New Delhi	6,000				
27	Apr, 2013	Sri Ganganagar, Rajasthan	5,300				
28	May, 2013	Hisar, Haryana	3,400				
29	May, 2013	Paschim Vihar, New Delhi	3,900				
30	Jun, 2014	Jammu, J&K	3,250				
31	Oct, 2014	Mathura, Uttar Pradesh	3,200				
32	Nov, 2014	Bareilly, Uttar Pradesh	4,000				
33	Dec, 2014	Varanasi, Uttar Pradesh	13,000				
Total North India			**177,815**		**Total Rest of India**		**114,959**

Source: Company, MOSL

- In our recent interaction, management reiterated its plan to add 20 stores annually over FY14-17 (100 stores by FY17) in the ratio of 20:40:40 in metros, tier I and II cities. PCJL has added 8 stores during 9MFY15. We are modeling for 12, 14 and 14 new stores for FY15, FY16 and FY17, respectively.
- PCJL continues to expand its reach in tier II and III cities, which are largely dominated by unorganized/small players and where the quality of offerings remains doubtful. Going forward, PCJL has also lined up aggressive expansion plans to diversify its geographic presence and capitalize on the growing consumerism trend in the branded jewellery space.

Exhibit 6: Typical store level economics for a mature store (size of 4,500sqft)

Gold: Diamond jewellery mix	70:30	Capital employed	INR m
Blended Gross Margin	**16.0%**	Metros	440
Gold	10.0%	Tier 1	270
Diamond	30.0%	Tier 2	200
Store costs		**Inventory**	
Rentals	1.0%	Metros	400
Ad spends	1.0%	Tier 1	250
Employee costs	1.0%	Tier 2	180
Other Expenses	0.8%	**Furniture/fixture**	
Average Store EBITDA Margin	**12.2%**	Metros	40
Finance costs	3.0%	Tier 1	20
PBT	**9.2%**	Tier 2	20

Source: Company, MOSL

Exhibit 7: Recent store additions in Jharkhand and J&K

Source: Company, MOSL

Exhibit 8: Large size store formats opened in Bihar and Assam

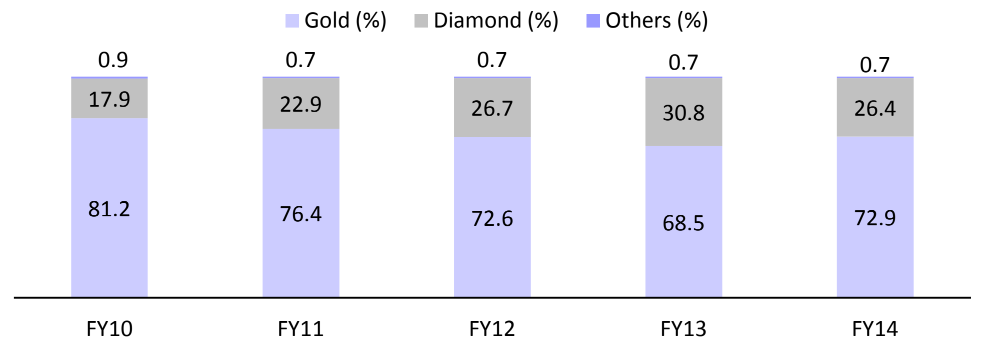
Source: Company, MOSL

Studded jewellery to drive margin expansion

Increased brand investment to drive mix improvement

- PCJL is targeting to improve its margin profile by driving diamond studded jewellery sales, given the 3.5x gross margin differential between plain gold and studded jewellery (diamond jewellery enjoys gross margin of 35%, compared to the 11-12% enjoyed by gold jewellery).
- The contribution of diamond studded jewellery in overall domestic revenue has risen from 17.9% in FY10 to 26.4% in FY14. We note that the company has improved its retail mix in favor of diamond jewellery at a faster pace compared to peers like Titan and TBZ.
- PCJL's plan to boost diamond jewellery sales include: (1) investments in advertising for diamond studded jewellery, (2) promotion schemes for diamond jewellery, (3) display of diamond jewellery on the ground floor of its multi-storey showrooms, (4) new launches with penetrative price points to entice entry-level buyers, (5) cross-selling of diamond jewellery to gold jewellery customers and (6) launch of new design concepts in diamond jewelelry (like Flexia – interchangeable diamond jewellery).
- Over the next three years, company intends to increase the salience of diamond jewellery from 27% in FY14 to 35% in FY17E. We expect its operating margin to expand 80bp over FY15E-17E to 12.2%. If the same store sales growth is higher than our estimates of -8%, 10% and 15% in FY15E, FY16E and FY17E respectively, there exists upside risks to our margin estimates.

Exhibit 9: Salience of diamond jewellery has increased by 850bp over the last five years



Source: Company, MOSL

PCJL implements several customer initiatives to strengthen its brand and drive footfalls in the showrooms. Some of the branding/marketing strategies that it implements to increase its visibility include:

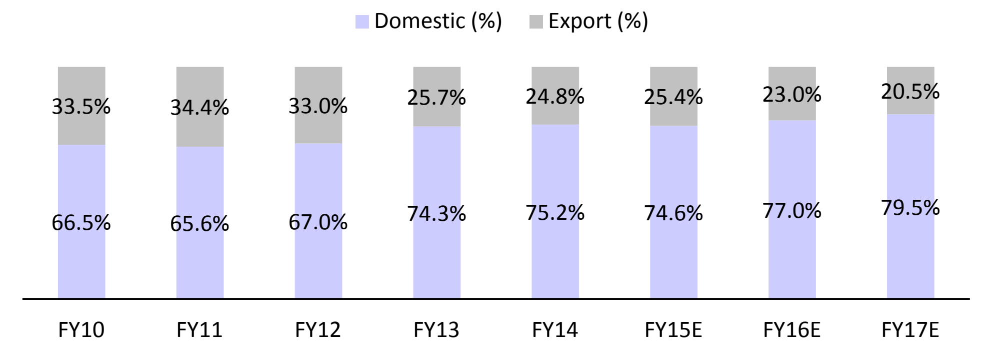
- National, regional and local store-level advertising campaigns.
- It runs special promotions during festivals and showroom openings. It also hosts events such as the PCJ Gold Bangle Festival, PCJ Diamond Festival and PCJ Kundan Festival to drive footfalls in showrooms.
- Focus on jewellery fairs, trade shows and other industry forums to introduce and market products and new designs. It is one of the associate sponsors of the grand finale of India International Jewellery Week and Filmfare Awards.

Salience of high margin domestic segment to increase further

Priortize resources towards domestic retail segment

- PCJL exports gold jewellery on a wholesale basis to international distributors in Dubai and Hong Kong. These are primarily hand-made gold jewellery for wholesalers.
- PCJL has two jewellery manufacturing facilities at Noida SEZ, Uttar Pradesh, which cater to exports business.
- Exports business offer low margins, higher working capital requirement and consequent low return ratios. Hence PCJ is de-focusing on the exports business and has guided for mid single digit growth in exports revenues.
- We expect the revenue mix to further shift towards domestic jewellery business as it executes expansion plans. We expect exports business to contribute 20.5% of revenues in FY17 from 24.8% in FY14.

Exhibit 10: Salience of domestic business to increase further



Source: Company, MOSL

Exhibit 11: PCJL operates four jewellery manufacturing units to support its footprint

Location	Commissioning date	Purpose	Area in sq ft
Noida SEZ, Uttar Pradesh	20-Nov-07	Jewellery for exports	36,570
Noida SEZ, Uttar Pradesh	3-Mar-11	Jewellery for exports	3,938
Selaqui, Dehradun, Uttarakhand	30-Mar-10	Jewellery for domestic market	8,611
Noida, Uttar Pradesh	17-Nov-11	Jewellery for domestic	34,000

Source: Company, MOSL

Regulatory headwinds behind

Indian Jewellery sector was impacted by several regulatory measures in FY13, FY14 and 1HFY15. In order to curb gold consumption and in-turn balance current account deficit, government had imposed several restrictions on Jewellery sector. Key restrictions included:

- **Import restrictions via 80:20 rule:** Out of total quantum of imported gold, 20% had to be compulsorily exported. The nominated agency could import next tranche of gold only after exporting the 20% of the lot earlier imported. This resulted in shortage of gold supply and consequently higher gold premiums in the market.
- **Ban on gold-on-lease scheme:** RBI also banned gold on lease scheme. Gold on lease is a low cost effective hedging tool employed by branded jewelers like Titan, TBZ, and PCJL etc. Thus, jewelers' had to purchase gold by upfront payment without any credit, resulting in higher interest costs, working capital and debt.
- **Import duty hike:** Government increased the import duty on gold from 2% to 10% in 18 months (the last hike being from 8% to 10% in Aug'13).

PCJL did not bear the brunt of 80:20 scheme due to its export operations. However, it was impacted by ban on gold-on-lease scheme. We note that interest cost nearly doubled over FY12-14 from INR 772m to INR1.5b.

In May'14 RBI lifted the ban on gold-on-lease. Subsequently, after representations from industry, government has withdrawn the 80:20 scheme in November'14.

Thus, key regulatory headwinds impacting the Jewellery industry are behind. We believe these steps augur well for expansion of retail network of all jewelers as it facilitates expansion without proportionate increase in leverage.

Creating a future ready organization

E-commerce and Franchisee foray incremental growth drivers

PC Jewellery has taken several initiatives to build a future ready Jewellery set up. Some of the initiatives include:

- Foray into online jewellery through tie-ups with Snapdeal, Flipkart and Amazon (separate line of jewellery for every retailer). It is targeting working women in the age bracket of 22-32 years by offering a range of products, with pricing from INR3,000 to INR50,000.
- It has also launched its online platform 'wearyourshine.com' which it plans to integrate with its offline stores thus delivering an omnichannel experience.
- PCJL is investing behind advanced CRM systems which will aid its marketing, communication and targeting strategies (target specific customers based on their buying patterns).
- E-commerce foray is also intended to build familiarity and relevance with a youth buyer who may migrate from current low ticket purchase to a high ticket wedding purchase.

Exhibit 12: PCJL's foray into online platform

Source: Company, MOSL

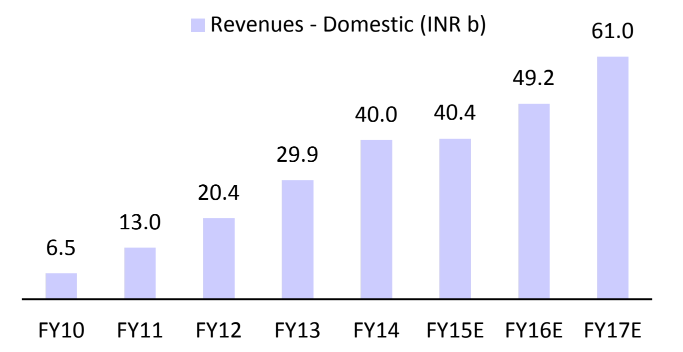
- PCJL is also test marketing the franchisee model and is planning to launch two stores near the NCR region. If the feasibility of the model is established, PCJL will expand its operations in tier III locations (population below 500,000) to further expand the footprint.
- It has started custom jewellery manufacturing for high-end customers and regular buyers (bespoke services). It is also planning to sell premium watches (INR10,000-50,000 range) at certain select outlets.
- We are not building in any revenue upside from these initiatives but believe that these are catalyst for future growth in an ever evolving branded jewellery space.

Valuation and View

24% EPS CAGR; 80bps margin expansion over FY15-17E

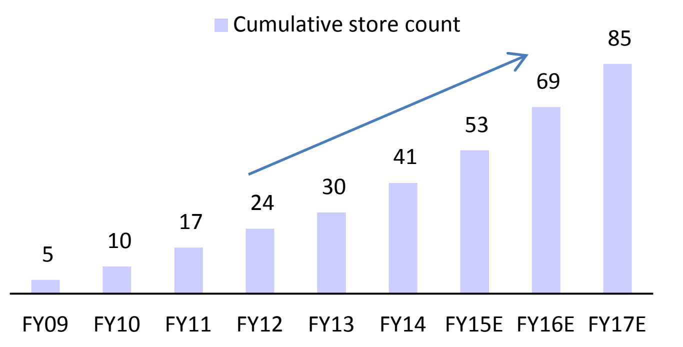
- PCJL has posted 39%, 44% and 35% in sales, EBITDA and PAT CAGR over FY10-14, respectively. However slowdown in discretionary consumption owing to weak macros and several regulatory headwinds impacted the Jewellery sector in FY14 and FY15. Regulatory constraints have eased now. RBI has withdrawn the 80:20 gold import scheme and also lifted the ban on low cost gold-on-lease scheme.
- We build in 12/14/14 store additions for FY15/FY16/FY17 as against the management guidance of 20 annual store additions. In 9MFY15 it has added 8 stores.

Exhibit 13: Domestic segment has posted 57% revenue CAGR over FY10-14



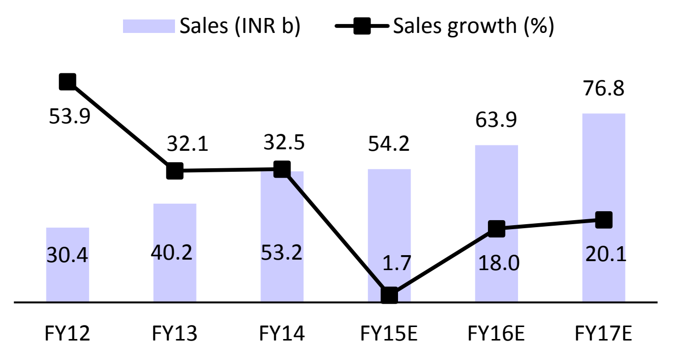
Source: Company, MOSL

Exhibit 14: PCJL to add 38 stores over FY14-17E, in our view



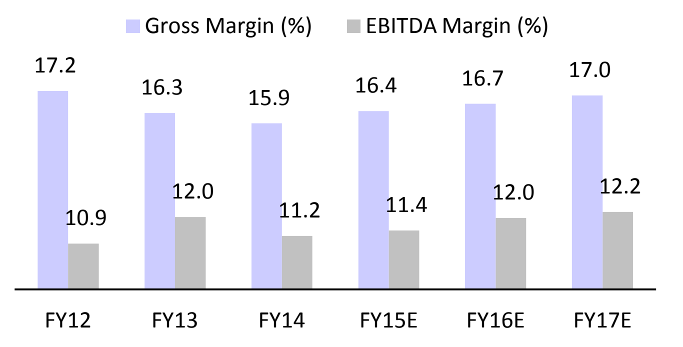
Source: Company, MOSL

Exhibit 15: PCJL to post 19% sales CAGR over FY15-17E



Source: Company, MOSL

Exhibit 16: EBITDA margin to expand 80bp over FY15-17E

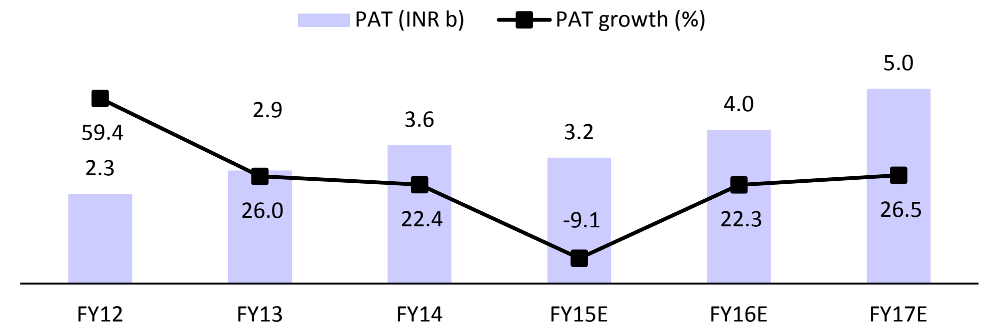


Source: Company, MOSL

- We are modeling for modest improvement in same store sales over next two years. This will be driven by improving macros, consumer sentiments and consequent pick up in discretionary consumption, in our view. For FY16 and FY17 we assume same store growth of 10% and 15%, respectively.
- PC Jeweller procures gold mostly via gold-on-lease mechanism which allows it to keep its interest cost under control. It has recently received gold import license from government. The government has designated the company as nominated agency for direct import of precious metals to be used for domestic business. This should help in reducing the cost of gold procurement, in our view.

- Thus, we expect PCJL to deliver 19%, 23% and 24% sales, EBITDA and PAT CAGR over FY15-17E, respectively. This will be led by expansion plans and an improvement in sales mix as diamond jewellery salience moves up from 27% in FY14 to ~32% in FY17E, in our view. Lower base of FY15 (1HFY15 PAT down 23%) should aid the overall performance, in our view.
- We estimate EBITDA margins to expand from 11.4% for FY15E to 12% and 12.2% for FY16E and FY17E, respectively, led by improving same store growth and higher contribution of studded jewellery.

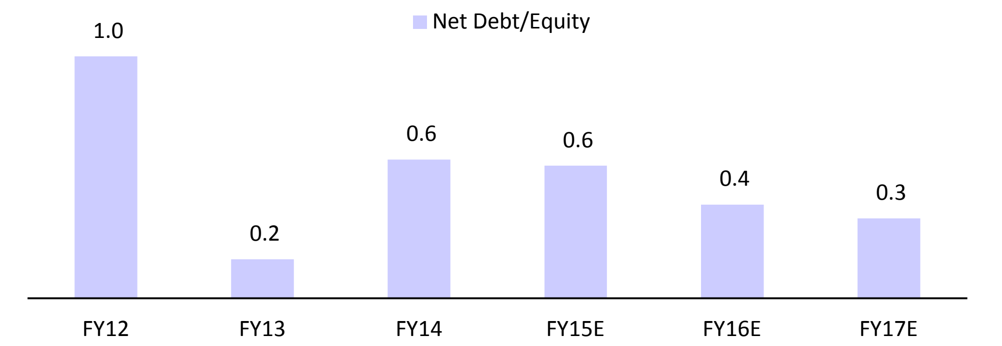
Exhibit 17: PAT to post 24% CAGR over FY15-17E



Source: Company, MOSL

- As exports salience declines further, we expect an improvement in working capital and capital efficiency ratios. We model for working capital to sales to reduce from 52.8% in FY15 to 43.9% in FY17.
- PCJ has a debt to equity of 0.6x as on 1HFY15. Continued expansion will prevent any material reduction in leverage, in our view.

Exhibit 18: Net leverage set to half over FY15-17E



Source: Company, MOSL

Play on rising branded Jewellery penetration

- We expect the penetration of organized and branded jewellery to increase going forward driven by rising disposable incomes, increasing awareness of quality/hallmarking and favorable demographics (rising youth population, increasing urbanization and number of working women).
- Having established a good brand recall in North and Central India, we now expect PCJL to shift gears and partake in the rapidly growing Indian branded jewellery retail segment through geographic expansion.

- We like PCJL's focus on large format stores, which drive wedding jewellery demand.
- We expect PCJL to post an attractive 24% EPS CAGR over FY15-17E. The stock trades P/E at 12.5x/9.9x FY16E/17E. **Not Rated.**

Risks

- **Sharp correction in gold prices**: Gold demand can be adversely affected by high volatility in gold prices. Also, in the event of a major correction in gold prices, it can impact revenue, if not sufficiently compensated by higher volumes.
- **Regulation risk:** Any adverse change in the regulations that govern gold procurement could impact industry's profitability.
- **Execution risk:** Though we have assumed only 14 new store addition vs. guidance of 20 per annum, any slowdown in demand may force company to change its expansion plans.

Exhibit 19: PCJL is well placed relative to its peers

	Titan				PC Jewellers				TBZ			
	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Sales (INR b)	109.2	124.6	148.1	178.9	53.3	54.2	63.9	76.8	18.2	20.0	24.8	28.6
Sales growth (%)	7.9	14.1	18.8	20.8	32.5	1.7	18.0	20.1	10.2	10.1	23.2	16.0
EBITDA (INR b)	10.5	11.7	14.7	18.4	6.0	6.2	7.6	9.4	1.3	1.4	1.9	2.3
EBITDA growth (%)	3.6	11.7	25.4	25.4	23.9	3.8	23.2	22.7	-9.5	4.7	34.6	20.2
EBITDA Margin (%)	9.6	9.4	9.9	10.3	11.2	11.4	11.9	12.2	7.3	7.0	7.6	7.9
PAT (INR b)	7.4	8.7	10.9	13.7	3.6	3.2	4.0	5.0	0.55	0.64	0.87	1.1
PAT growth (%)	2.1	16.7	25.7	25.8	22.4	-11.9	22.3	26.5	-35.2	15.7	36.4	21.8
RoE	29.4	28.0	28.2	28.5	21.9	16.6	17.4	18.6	12.8	13.0	15.4	16.5
P/E	44.3	41.1	32.7	26.0	13.9	15.3	12.5	9.9	19.7	17.9	12.6	8.6
P/BV	13.0	11.5	9.2	7.4	11.4	9.9	8.4	7.1	2.4	4.0	3.5	1.8
EV/EBITDA	31.2	30.5	24.0	18.8	9.1	9.1	7.6	6.2	15.4	11.4	8.4	7.6

Source: Company, MOSL, Bloomberg

Annexure I: Company overview

PC Jeweller is one of the leading jewellery companies in India, with business involving design, manufacturing, retailing and export of jewellery. It began operations in 2005 with the first showroom in Karol Bagh, New Delhi and presently has 49 showrooms across 39 cities and 16 states.

Exhibit 20: PCJL: SWOT analysis

Strength	Weakness
i. Established brand - successful expansion in other parts of India.	i. Presence in exports segment which has high working capital requirements.
ii. Experienced management team.	
iii. Backward integration with strong manufacturing set-up.	
Opportunity	**Threat**
i. Increasing trend towards branded jewellery.	i. Intense competition due to highly fragmented nature of industry.
ii. Domestic segment growth remains buoyant with favorable demographics.	ii. Adverse government policy.

Source: Company, MOSL

Exhibit 21: Details of Board of Directors

Name	Designation	Description
Mr. Padam Chand Gupta	Chairman	Over 20 years of experience in the jewellery industry and is part of the company since incorporation.
Mr. Balram Garg	Managing Director	Involved in the company since incorporation and has over 20 years of experience in the jewellery industry.
Mr. Manohar Lal Singla	Independent Director	Over 25 years of experience in academics and is currently a professor of management at Faculty of Management Studies, New Delhi.
Mr. Krishan Kumar Khurana	Independent Director	Over 25 years of experience in the legal services industry and is a practicing advocate of the Supreme Court of India and the High Court of New Delhi.
Mr. Miyar Ramanath Nayak	Independent Director	He was associated with the banking industry for over 40 years and has experience in the field of gold banking, treasury and forex operations, credit risk management and branch banking.
Mr. Ramesh Kumar Sharma	ED & COO	Over 29 years of experience in foreign exchange, credit and administration services

Source: Company, MOSL

Exhibit 22: Shareholding pattern (%)

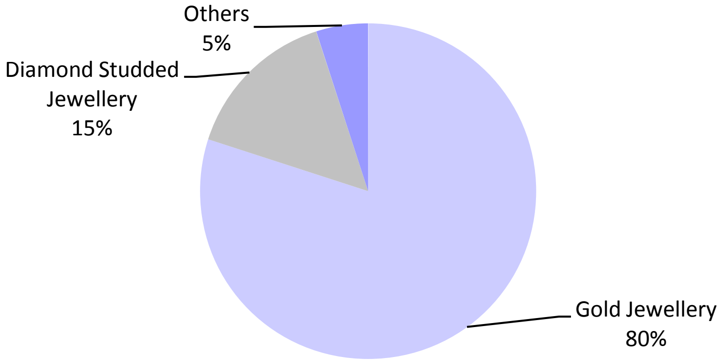
	Dec-12	Mar-13	Mar-14	Sep-14
Promoter	70.0	70.0	70.6	70.6
Public				
DII	3.9	3.6	3.0	2.4
FII	11.3	13.4	13.0	13.7
Non Institutions	14.8	13.0	13.4	15.4

Source: Company, MOSL

Annexure II: India - Unique Gold Market

The domestic jewellery industry is estimated to be USD45.3b and gold sales represent 80% of domestic jewellery market. Currently, the market is fragmented across value chain with ~450,000 unorganized players operating on small margins, while the organized market forms ~20% of the market and national players represent 5% of the category.

Exhibit 23: Segmentation of Indian jewellery market



Source: Industry, Company, MOSL

India is a unique gold market in many aspects and gold carries emotional, sentimental, religious as well as financial quotient for Indians. Country is the largest consumer of gold in the world with roughly 700 tonnes ($1/3^{rd}$ of gold mined in the world is consumed in India), making India the largest importer of gold. We discuss below certain reasons for gold's continuing preference among Indian customers:

- **Buying for weddings – 50% of demand constituted by wedding related purchases:** Indian weddings are the single largest catalyst for the country's obsession with gold and constitute nearly 50% of overall jewellery consumption in India. Annually, 10m weddings ensure that the demand for gold does not suffer/wane drastically. In India, it is a common practice for parents of a girl child to collect gold jewellery for marriage from the time the child is born. In rich and middle class marriages, gold jewellery is gifted to close relatives of the bride and groom.
- **Buying for auspicious occasions – cultural and sentimental drivers:** Buying gold on certain auspicious days is a ritual Indians follow religiously. The Indian Hindu calendar has auspicious days for gold buying such as Akshay Tritiya, Dhanteras and Dassera. Gold is also bought on festivals like Onam, Pongal and Durga Puja. Banks and jewelers promote gold aggressively on such occasions.
- **Only available investment option for many in rural India – liquid and safe:** Due to the lack of last mile banking infrastructure in rural India, gold remains the only source of savings/investments for rural population. High liquidity also drives the preference for gold as it can easily be liquidated in times of need, unlike fixed deposits and other financial saving instruments. Low literacy levels in rural India ensured other asset classes do not gain prominence versus gold.
- **Status symbol – more the merrier:** Gold is a status symbol in the Indian culture and people take pride in displaying gold during occasions. Typically in the past,

an individual's social standing depended on how much gold they had and it has continued even now.

The big fat Indian wedding demand: band, baja and gold

The wedding demand alone contributes to ~50% of the gold consumption annually. Below we show our workings of annual gold demand from weddings. Roughly 10m weddings take place annually in India, and we estimate ~400-450 tonnes of gold demand from the wedding season alone in India.

Exhibit 24: Wedding season amounts to ~435tonnes of annual gold demand

Income strata	% of Population	No. of marriages	Avg. Gold consumption/marriage	Total Gold consumption (in 16ones)
Ultra rich	1%	100,000	1,000.0	100.0
Rich	3%	300,000	300.0	90.0
Upper middle	6%	600,000	150.0	90.0
Middle	15%	1,500,000	50.0	75.0
Lower middle	25%	2,500,000	25.0	62.5
Poor	25%	2,500,000	5.0	12.5
Extremely poor	25%	2,500,000	2.0	5.0
Total		**10,000,000**		**435.0**

Source: Company, MOSL

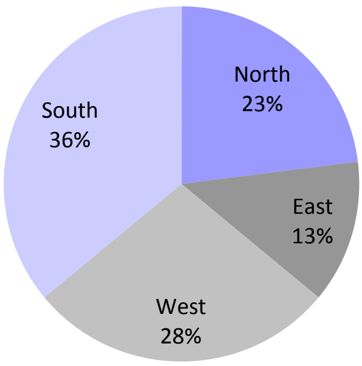
- Indian wedding industry is estimated to be worth ~USD45b and is growing at 15% per annum. Jewellery constitutes the biggest segment of the spending, accounting for 35% of total spends, in our view.
- With a total population of 1.2b and an average household size of five members, number of households work out to 240m. Assuming one marriage per family every 20 years, number of marriages per annum can be 10m. Given India's young demographics, with median age of 26 years, number of weddings per annum should continue at the current run rate in the foreseeable future.
- Indian wedding industry is by and large recession proof as spending for wedding is typically done out of savings done through a lifetime. Amount of money spent on a wedding also has an impact on social standing and thus wedding is used as an opportunity to flaunt the financial status.
- Wedding jewellery demand does not necessarily mean jewellery is purchased only for the wedding day. We highlight below the occasions/events which adds up to wedding jewellery consumption: **a) Engagement**: It all begins with engagement. Since this is the first official function between the two families, both try to ensure the ring offered from their side is the best-in-class. Increasingly the trend is shifting towards diamond ring, especially in upper middle class and above families. **B) Gifts for the families**: After the engagement and before the wedding, typically there is a gap of few months. In this gap, there comes occasions/festivals when both the families offer gifts to each other and often it includes jewellery. **C) Wedding**: On the D-day, the bride is decked up in gold (necklace, bangles, ear-rings, nose-ring, bracelet etc), as it becomes an object of discussion for guests and relatives. **D) Wedding gifts for groom's family**: In certain wedding customs, as a part of wedding, bride's family gifts jewellery to groom's family. **E) Dowry/Stree-Dhan**: Stree-dhan (women's wealth) is defined as gifts made by family, friends, relatives during the wedding. Dowry is a payment of cash or gifts from the bride's family to the bridegroom's

family upon marriage. It may include cash, jewellery, electrical appliances and other household items that help the newly-weds set up their home. **F) Post wedding gifts**: Gifting of jewellery does not stop at the wedding and even continue post that.

Changing buying pattern aids diamond jewellery's growth

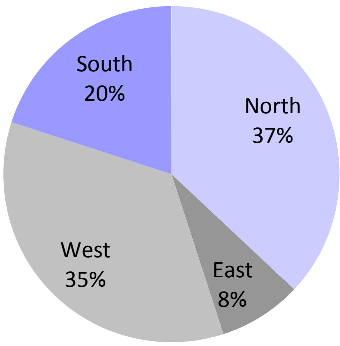
- In the past, the family patriarch did the buying for wedding jewellery. Thus, bulk of the wedding jewellery was constituted by gold as there was lack of awareness about diamond and studded jewellery as indeed the absence of aggressive marketing efforts of jewelers.
- However, our discussions with various jewellery industry participants suggest changes in the buying pattern of wedding jewellery. Buying for wedding jewellery is now a family affair. Decision-making authority no longer vests only with the patriarch. While the budget is specified by the family elders, bride has more influence in deciding the designs and make of her wedding jewellery.
- Given the increased awareness about studded jewellery and evolving lifestyle changes coupled with aggressive promotion of diamond studded jewellery by retailers, preference for such jewellery is on the rise, as reflected in the increasing contribution of diamond studded jewellery in overall pie.
- Secondly, the rising proportion of working women is also aiding the growth of studded jewellery, given the increased affordability of this class.

Exhibit 25: South forms 1/3rd of gold demand in India



Note: Rural India forms 60% of gold demand Source: Company, MOSL

Exhibit 26: Diamond demand remains concentrated in North and West



Source: Industry, Company, MOSL

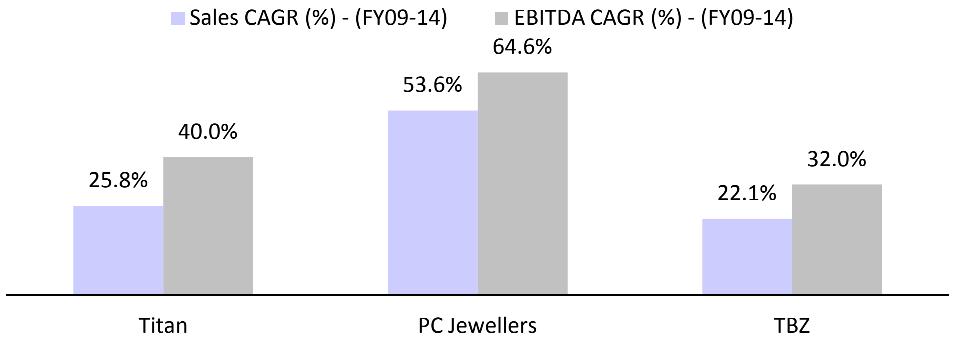
What catapulted organized jewellery trade in the last five years

Organized retail jewellery segment has done well in the last five years and has increased its contribution to total jewellery market in India from 12% to 20%. Following factors, in our view, have accelerated the acceptance of branded jewellery:

- **Hallmarking:** Prevalence of under-caratage is the single largest concern while buying jewellery from traditional jewelers in India. Introduction of hallmarking has helped the growth of organized retail as hallmarking lends to confidence to the customers about the purity of the jewellery they buy (the Bureau of Indian Standards provides hallmarking wherein gold articles are evaluated and tested at an official Assaying and Hallmarking Centre and then certified that the metal used conforms to the standard of fineness and purity).

- **Buyback guarantee**: Various organized jewelers offer buy-back guarantee for the jewellery they sell. In such cases, jewellery is bought back by the jeweler at a price prevailing on that day, excluding the making charges paid by the customer. Even the diamond-studded jewellery now carries a buyback guarantee with 90% of resale value. To gain customers' confidence, jewelers are also offering certificates of purity of precious stones and metals.

Exhibit 27: Revenue CAGR of key players over FY09-14



Note: For Titan, we have only taken the Jewellery segment numbers Source: Company, MOSL

- **Shopping experience and variety:** Variety of designs offered by branded jewellery players is a key differentiator and has helped attract more customers. Traditional jewelers typically stock limited variety given the constraints with respect to space and inventory investments. Organized retail offers various choices of design, cut and polish which drives customer footfalls in such stores. Typically, customers prefer a wide variety to choose from when it comes to wedding jewellery purchase and hence while a customer may buy regular jewellery from traditional jewelers, one may opt for branded jewellery for wedding purchase. Quality of shopping experience is also a factor that has driven the growth of organized sector. Branded jewelers typically have various seasonal/festival collections, which drives demand during those occasions.
- **Expansion by branded players**: Branded players have expanded their operations and increased store counts, thus driving increased penetration of organized jewellery.

Exhibit 28: Changing landscape of Indian jewellery market

Traditional Practice		Emerging Trend	
i.	Gold jewellery consumption emanates from traditional and investment-related demand.	i.	It is regarded as a fashion accessory by the growing young population.
ii.	Demand peaks during weddings and festival seasons.	ii.	They still remain the main demand drivers but its use for regular wearing and gifting has evened out the demand throughout the year.
iii.	Consumption of pure gold - preferred 22-carat. Traditional and Ethnic designs preferred.	iii.	Lower caratage & light-weight jewellery preferred. Trend is more towards fashionable and contemporary designs.
iv.	Purchase from neighborhood jewelers dominated. Hence the Industry lacked transparency.	iv.	Growing preference for brands, retail stores & e-retailing. Introduction of hallmarking & certifications.
v.	Predominance of gold (yellow)-based jewellery.	v.	Acceptance of white gold, platinum and diamond-studded jewellery. Even imitation jewellery is gaining acceptance.

Source: Company, MOSL

Financials and valuations

Income Statement								(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Net Sales	**9,848**	**19,771**	**30,419**	**40,184**	**53,248**	**54,176**	**63,909**	**76,781**
Change (%)	58.1	100.7	53.9	32.1	32.5	1.7	18.0	20.1
Total Expenditure	8,864	17,777	27,104	35,359	47,271	47,973	56,265	67,403
EBITDA	**985**	**1,993**	**3,315**	**4,825**	**5,978**	**6,203**	**7,643**	**9,379**
Change (%)	99.1	102.4	66.3	45.5	23.9	3.8	23.2	22.7
Margin (%)	10.0	10.1	10.9	12.0	11.2	11.4	12.0	12.2
Depreciation	19	30	69	100	123	173	184	204
Int. and Fin. Charges	382	496	772	1,275	1,519	1,654	1,950	2,159
Other Income - Recurring	182	168	172	206	472	352	404	465
Profit before Taxes	**766**	**1,635**	**2,646**	**3,656**	**4,808**	**4,728**	**5,914**	**7,480**
Change (%)	125.9	113.6	61.8	38.1	31.5	-1.7	25.1	26.5
Margin (%)	7.8	8.3	8.7	9.1	9.0	8.7	9.3	9.7
Tax	101	183	337	739	1,131	1,489	1,951	2,468
Tax Rate (%)	13.2	11.2	12.7	20.2	23.5	31.5	33.0	33.0
Profit after Taxes	**665**	**1,453**	**2,309**	**2,917**	**3,677**	**3,238**	**3,962**	**5,012**
Change (%)	114.5	118.6	58.9	26.3	26.1	-11.9	22.3	26.5
Margin (%)	6.7	7.3	7.6	7.3	6.9	6.0	6.2	6.5
Extraordinary income	0	-4	0	-7	-114	0	0	0
Reported PAT	**665**	**1,449**	**2,309**	**2,910**	**3,563**	**3,238**	**3,962**	**5,012**

E: MOSL Estimates

Balance Sheet								(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Share Capital	402	447	1,340	6,973	6,973	6,973	6,973	6,973
Reserves	1,119	2,810	4,215	6,915	9,850	12,520	15,786	19,919
Net Worth	**1,520**	**3,257**	**5,554**	**13,888**	**16,822**	**19,492**	**22,759**	**26,891**
Loans	835	1,396	5,783	2,331	10,042	11,018	9,027	9,026
Long term provisions	3	3	6	12	18	27	32	38
Deferred Tax	8	5	4	50	107	107	107	107
Capital Employed	**2,350**	**4,650**	**11,339**	**16,181**	**26,775**	**30,430**	**31,711**	**35,848**
Gross Block	207	317	795	860	1,176	1,416	1,736	2,056
Less: Accum. Depn.			138	232	337	510	694	898
Net Fixed Assets	**207**	**317**	**657**	**628**	**839**	**907**	**1,043**	**1,158**
Intangibles	8	8	10	10	11	11	11	11
Long term loans and adv.	80	223	621	800	876	895	922	951
Curr. Assets, L&A	**6,826**	**10,236**	**19,680**	**32,864**	**40,492**	**45,141**	**49,227**	**56,993**
Inventory	3,782	5,495	11,724	17,137	23,771	30,823	37,876	44,811
Account Receivables	2,495	4,248	6,866	6,748	6,232	7,338	8,068	8,938
Cash and Bank Balance	420	232	830	7,226	5,242	3,906	196	140
Others	129	260	260	1,753	5,246	3,074	3,088	3,105
Curr. Liab. and Prov.	**4,772**	**6,133**	**9,630**	**18,121**	**15,443**	**16,524**	**19,492**	**23,265**
Current Liabilities	4,731	6,085	9,382	17,563	14,469	15,440	18,214	21,883
Provisions	40	48	248	557	974	1,084	1,278	1,382
Net Current Assets	**2,054**	**4,102**	**10,051**	**14,743**	**25,049**	**28,617**	**29,735**	**33,728**
Application of Funds	**2,350**	**4,650**	**11,339**	**16,181**	**26,775**	**30,430**	**31,711**	**35,848**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Basic (INR)								
EPS	**5.0**	**10.8**	**17.2**	**16.2**	**19.9**	**18.1**	**22.1**	**28.0**
BV/Share	37.9	72.9	41.5	19.9	24.1	28.0	32.6	38.6
DPS	0.0	0.0	0.0	1.0	3.0	2.7	3.3	4.2
Payout %	0.0	0.0	0.0	6.4	15.0	15.0	15.0	15.0
Valuation (x)								
P/E			16.0	17.0	13.9	15.3	12.5	9.9
EV/Sales			1.8	1.1	1.0	1.0	0.9	0.8
EV/EBITDA			16.4	9.2	9.1	9.1	7.6	6.2
P/BV			6.7	13.9	11.4	9.9	8.5	7.2
Dividend Yield (%)			0.0	0.4	1.1	1.0	1.2	1.5
Return Ratios (%)								
RoE	64.3	60.8	52.4	30.0	21.9	16.6	17.4	18.6
RoCE			31.4	31.7	24.5	22.1	26.0	28.0
Working Capital Ratios								
Debtor (Days)	92	78	82	61	43	49	46	42
Asset Turnover (x)	4.2	4.3	2.7	2.5	2.0	1.8	2.0	2.1
Leverage Ratio								
Debt/Equity (x)	0.5	0.4	1.0	0.2	0.6	0.6	0.4	0.3

E: MOSL Estimates

Cash Flow Statement **(INR Million)**

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit after Tax	665	1,453	2,309	2,917	3,677	3,238	3,962	5,012
Profit/Loss on sale of assets	0	0	0	0	9	0	0	0
Depreciation & Amort.	19	30	69	100	123	173	184	204
Incr in WC	-705	2,236	5,351	-1,704	12,289	4,905	4,827	4,050
CF from Operations	**1,388**	**-753**	**-2,973**	**4,721**	**-8,480**	**-1,494**	**-681**	**1,167**
Extraordinary Income	0	-4	0	-7	-114	0	0	0
Incr in FA	119	110	478	63	299	240	320	320
Incr in deposits	34	140	397	225	133	19	27	28
CF from Invest.	**153**	**254**	**875**	**281**	**318**	**259**	**347**	**348**
Issue of Shares	180	45	893	5,633	0	0	0	0
Incr in Debt	-1,349	561	4,387	-3,452	7,711	976	-1,991	-1
Dividend Paid				-210	-629	-568	-695	-880
Others	112	213	-834	-16	-269	9	5	6
CF from Fin. Activity	**-1,057**	**819**	**4,446**	**1,956**	**6,814**	**417**	**-2,681**	**-874**
Incr/Decr of Cash	**178**	**-188**	**598**	**6,396**	**-1,983**	**-1,337**	**-3,710**	**-56**
Add: Opening Balance	242	420	232	830	7,226	5,242	3,906	196
Closing Balance	**420**	**232**	**830**	**7,226**	**5,243**	**3,906**	**196**	**140**

E: MOSL Estimates

NOTES

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