Initiating Coverage | 22 November 2017
Sector: Retail

PC Jeweller

Shining bright

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PC Jeweller

BSE Sensex	S&P CNX
33,562	10,342

CMP: INR361 **TP: INR490 (+36%)** **Buy**

PC Jeweller

Stock Info

Bloomberg	PCJL IN
Equity Shares (m)	394.2
52-Week Range (INR)	399 / 172
1, 6, 12 Rel. Per (%)	-4/51/70
M.Cap. (INR b)	142.5
M.Cap. (USD b)	2.2
12M Avg Val (INR M)	505
Free float (%)	39.5

Financial Snapshot (INR Million)

Y/E Mar	2018E	2019E	2020E
Sales	103.6	123.9	149.8
EBITDA	10.2	12.1	14.7
NP	5.9	7.3	9.3
EPS (Rs)	15.1	18.4	23.5
EPS Growth (%)	41.0	22.3	27.8
BV/Share (Rs)	97.7	112.5	131.1
P/E (x)	24.0	19.6	15.4
P/BV (x)	3.7	3.2	2.8
EV/EBITDA (x)	13.8	11.4	9.3
EV/Sales (x)	1.3	1.1	0.9
RoE (%)	16.5	17.5	19.3
RoCE (%)	17.5	18.0	19.5

Shareholding pattern %

	Sep-17	Jun-17	Sep-16
Promoter	60.5	66.6	70.6
DII	2.4	1.2	0.1
FII	31.0	24.6	21.3
Others	6.1	7.7	8.0

PC Jeweller

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Please click here for Video Link

Shining bright

Play on value migration

- **We see an enormous opportunity unfolding in Indian Jewelry as a result of value migration towards organized players. Among all Consumer categories, Jewelry has the largest share of the unorganized segment, both in absolute terms (at INR1.4t) and percentage terms (at 70%).**
- **PC Jeweller (PCJL), India's second-largest Jewelry Retailer with a strong presence in the North and Wedding Jewelry, is expanding aggressively to leverage the ongoing value migration.**
- **We initiate coverage on PCJL with a BUY rating. Our target price of INR490 implies 36% upside.**

Massive value migration from unorganized to organized

A spate of regulatory changes in the last few years has driven a tectonic shift in the Jewelry sector in India. The industry was already witnessing a gradual shift towards the organized segment, which now constitutes about 30% of the INR2t domestic Jewelry market. The government's initiatives, aimed at protecting customers and clamping down on black money, have added momentum to this shift. Actions such as (1) the levy of 1% excise duty on gold jewelry, (2) requirement of PAN for jewelry purchases of over INR200k, (3) demonetization, and (4) implementation of 3% GST have permanently dented the advantages that unorganized, unbranded and local players had.

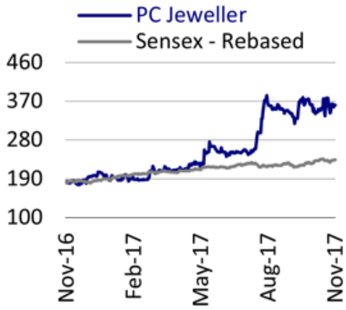
Large nation-wide chains have been taking steps to leverage this shift

Large nation-wide players like Tanishq and PCJL have been taking steps to leverage the enormous opportunity unfolding in Indian Jewelry. Among the initiatives they have taken over the last few years are increased focus on store addition, increasing use of franchisees (particularly true for PCJL), greater focus on studded jewelry (currently ~30% of sales), developing jewelry attuned to regional tastes, higher investments in brand building, and increasing launches of new collections.

PCJL's growth has been remarkable thus far…

PCJL has grown from a small player in 2006 to the second-largest Jewelry Retailer in India. Significant store expansion, opening of large-format destination stores, superior gold hedging policies compared to unorganized players, dedicated focus on Wedding Jewelry and Diamond Jewelry, banking on the trust factor built through best practices and brand investments, wide range to cater to diverse customers have all played a major role in driving rapid sales growth of 22.8% CAGR over FY12-17.

Stock Performance (1-year)



…and its future prospects appear even brighter

For PCJL, we expect strong 27% CAGR over FY17-20 in the domestic business (64% of consolidated sales in FY17) resulting in more than doubling of the segment sales over FY17-20. This results in 21% consolidated sales CAGR, 24% EBITDA CAGR and 30% adjusted PAT CAGR over the next three years. RoCE is likely to improve from 16.9% in FY17 to 19.5% in FY20, mainly led by increasing store-level sales and profitability as well as higher use of franchisees, making the business asset-light. Faster growth in domestic business will also marginalize the lower-margin exports business to 24% of sales by FY20.

Initiating coverage with a Buy rating

Organized players have only ~30% share of the INR2t Jewelry market in India, with the national players having <10% share. However, armed as they are with the advantages of scale, technology, brand trust, superior hedging policies, wider variety and huge marketing muscle, nation-wide players like PCJL will continue to take share away from the unorganized players for whom the pressures of compliance have whittled away at their ability to offer lower rates to consumers. The value migration to organized players is so strong that Titan and PCJL are expected to report by far the highest EPS CAGR over FY17-20 in our Consumer and Retail universe.

While PCJL might not have had the first mover advantage that Tanishq had, it has emerged as India's second-largest Jewelry Retailer in little over a decade. Valuing the company at 22x December 2019E EPS (30% premium to three-year average multiple; implying 50% discount to our target multiple of 45x for Titan), we get a target price of INR490 for PCJL – an upside of 36%. Initiate coverage with BUY.

Exhibit 1: PCJL looks attractive from relative valuation

	Titan			PC Jeweller			TBZ*		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Sales (INR m)	129,789	162,559	199,383	84,796	103,577	123,902	16,998	20,452	25,088
Sales growth (%)	15.1	25.2	22.7	16.1	22.1	19.6	2.7	20.3	22.7
EBITDA growth (%)	23.6	33.9	26.6	0.9	32.8	19.0	87.8	27.4	36.9
EBITDA margin (%)	8.9	9.5	9.8	9.0	9.8	9.8	4.1	4.3	4.8
PAT (INR m)	8,017	11,107	14,102	4,210	5,935	7,259	147	276	530
RoE	20.6	23.4	25.5	14.6	16.5	17.5	3.3	6.0	10.8
P/E	89.9	64.9	51.1	33.8	24.0	19.6	58.8	31.7	16.5

*Bloomberg estimates

Source: Company, MOSL

Big opportunity unfolding for growth

Massive value migration from unorganized to organized

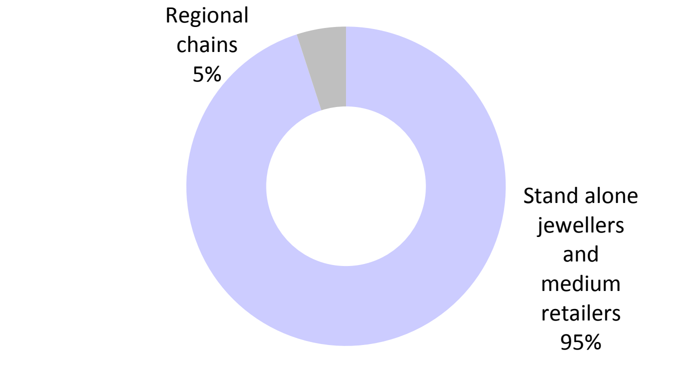
- **Value migration in the Indian jewellery industry**
- **Aggressive expansion plans through franchisee route and small format stores**
- **High growth in domestic business and improvement in store level profitability to aid mix**
- **Getting ready for future– Digitizing inventory, online-offline integration, virtual try-ons, kiosks, etc**
- **EPS CAGR of 30% over FY17-FY20 achievable**

Value migration in the Indian jewellery industry; big opportunity unfolding for organized players

There is a marked shift that is happening in the INR 2t domestic jewelry retailing market. A spate of recent regulations with a view to protect the customer as well as moves to curb black money is leading to a massive value migration towards the organized players.

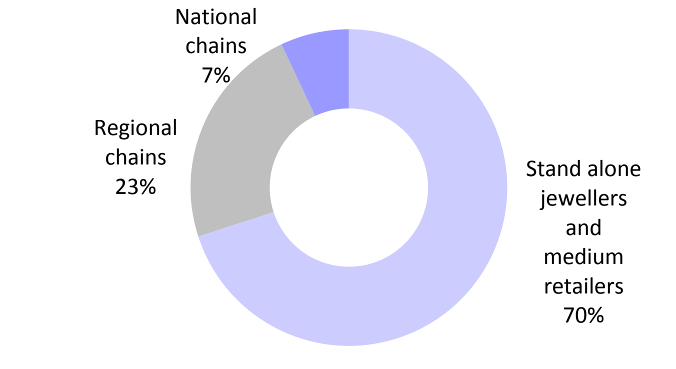
Share of organized jewelers is only ~30% of the domestic jewelry market of which national chains have less than 10% market share (more details in annexure). Thus not only is the unorganized proportion among the highest in percentage terms compared to most consumer plays, but the sheer size of the category at INR 2t (USD 31b) with INR 1.4t (USD 22b) unorganized segment presents a tremendous opportunity for growth.

Exhibit 2: Jewelry market in 2000



Source: WGC, Company, MOSL

Exhibit 3: Jewelry market in 2015

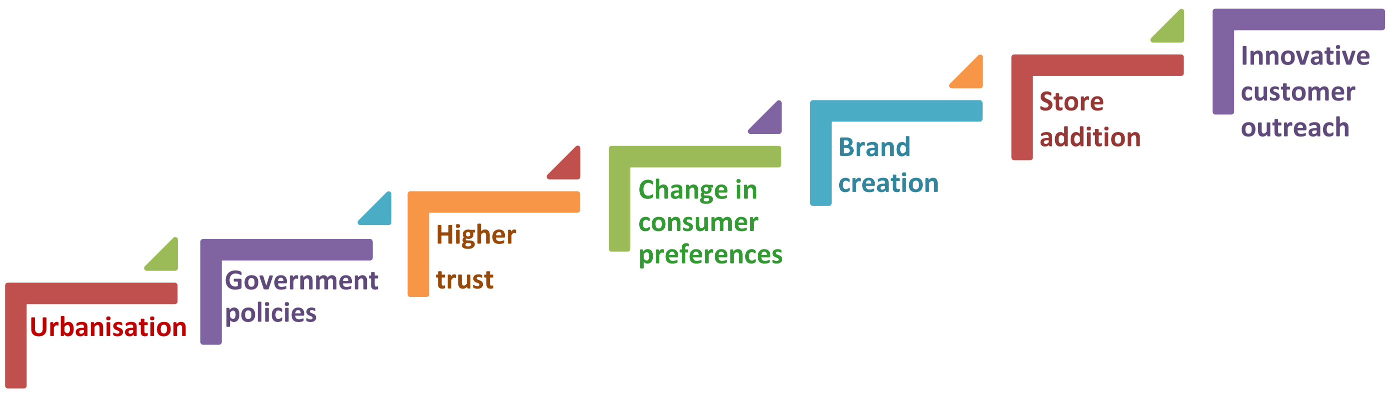


Source: WGC, Company, MOSL

Even if the industry reports moderate or flat growth going forward, the regulations in the last few years including (a) requirement of PAN card for transaction over INR 200,000; (b) demonetization; (c) GST implementation with 3% effective rate, have dealt an enormous blow to the large unorganized segment increasing their cost of compliance thereby affecting their ability to out-price organized players. Likely newer regulations on (a) mandatory hallmarking likely from 1st January 2018 and (b) more stringent provisions under Prevention of Money Laundering Act (PMLA) likely in the next few months will lead to even higher levels of operational difficulty for unorganized players.

Meanwhile the organized players, particularly the national players like Tanishq (Titan) and PCJL have considerably upped the ante on store expansion, wider offerings catering to regional tastes, new collections and massive marketing on national level to take advantage of the plight of the unorganized players thereby trying to ensure a seismic shift in the Indian jewelry segment over the next few years. With both Tanishq and PCJL reporting consistently over 30% growth in the domestic jewelry business over the past 3-4 quarters the momentum is already building up quite well.

Exhibit 4: Reasons for shift in trade to organized segment over the years

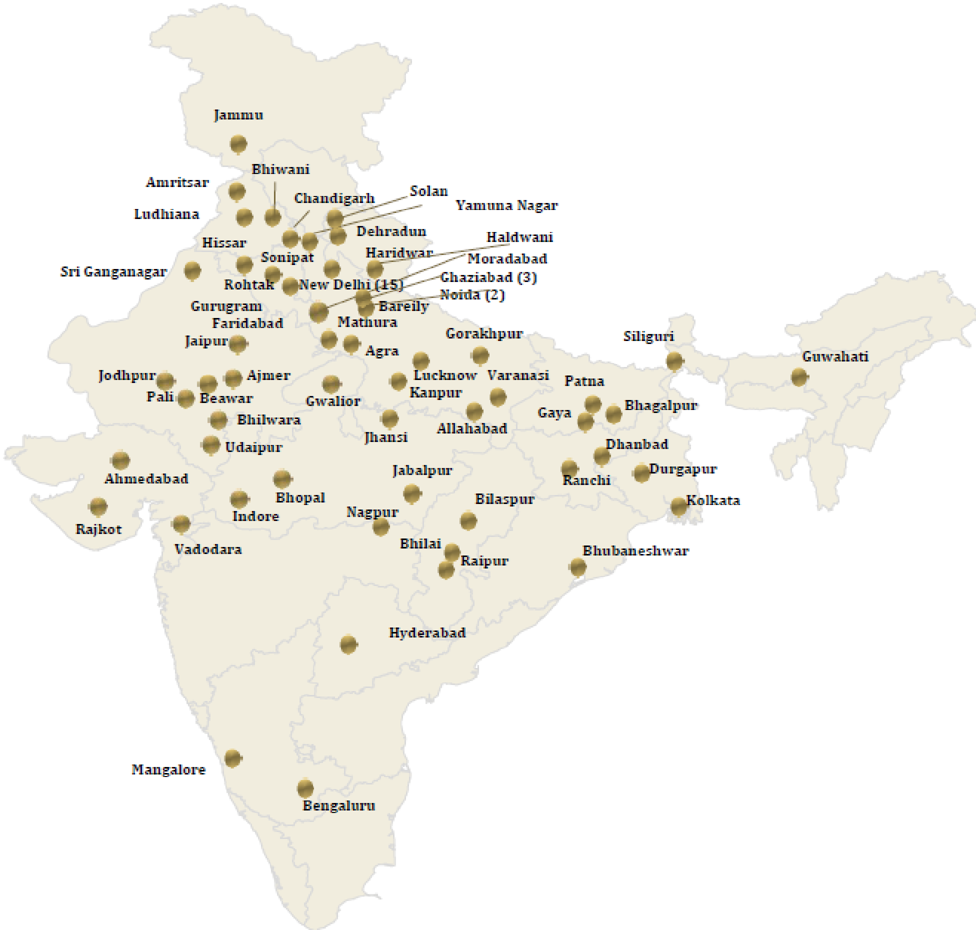


Source: MOSL

Established credentials in north and central India; Banking on small format and franchisee model to reach tier-II/III cities

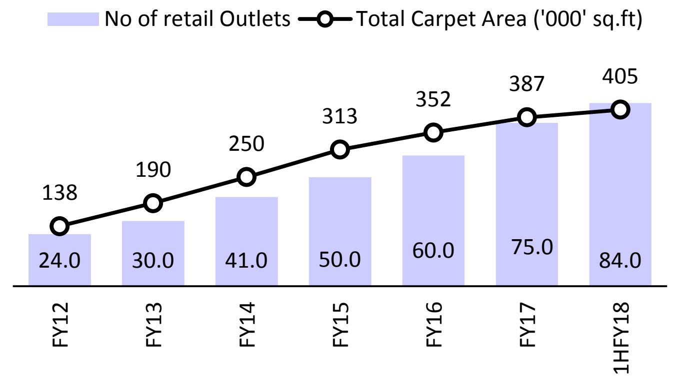
PCJL has opened 54 stores since its IPO, with around half of this stores (~28) added in CY16 and YTDCY17 (including 9 franchisee stores). In YTD FY17, it has added nine stores (including four franchisee stores). It has initially focused on large format showrooms (average size of 5,000sf) to establish a strong presence in the wedding segment. This has proven to be a successful strategy for PCJL to tap this segment, which now contributes 85% of its domestic jewelry sales. Even Tanishq (Titan), has concentrated on opening large format showrooms since FY12.

Exhibit 5: PCJL has expanded its geographical footprint pan India



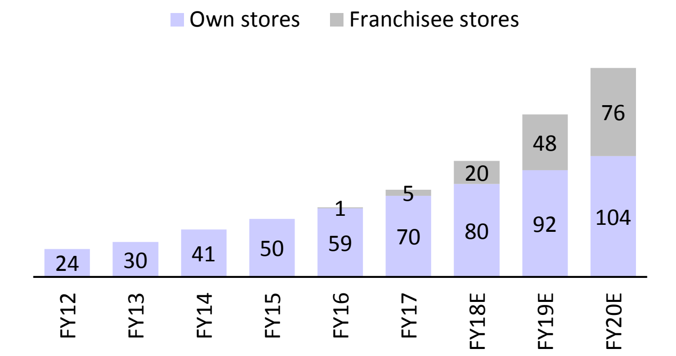
Source: Company, MOSL

Exhibit 6: PCJL has opened 54 stores since its IPO



Source: Company, MOSL

Exhibit 7: PCJL expected to open its 100th store by FY18 end



Source: Company, MOSL

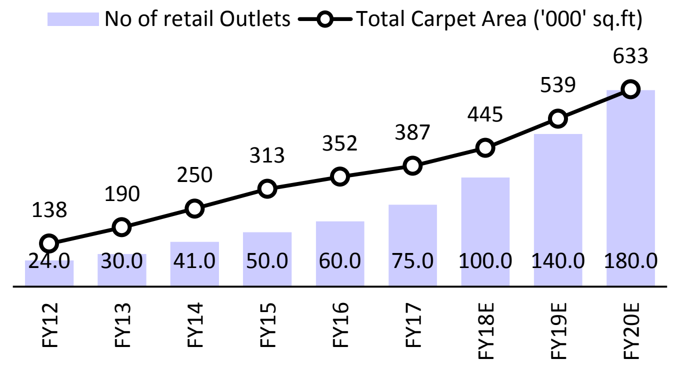
With a massive opportunity opening up as a result of government reforms, PCJL is now adding smaller stores, both in smaller towns and as spokes for larger stores in cities it is already present in. It has an ambitious store addition target (higher focus on North and Central India) and is focusing more on tapping newer mass markets were the opportunity of gaining share from the unorganized segment is high.

PCJL has started opening smaller format stores in tier-II and tier-III locations, with average store size of 1,500-2,000sf. Along with its own stores in these smaller markets, PCJL will also use the franchising model to expand. Traditionally, PCJL has not franchised a lot, but it now sees very high growth opportunity from unorganized players wishing to tie up with large players.

Post demonetization and GST implementation, PCJL has been receiving increased queries for franchising from standalone smaller players. These players are mostly from smaller areas and see no future for standalone stores. Their local expertise and best practices from PCJL will create a win-win situation for both parties. Franchised stores will help PCJL gain scale with less capital expenditure. This will in turn improve return ratios. The franchisees will work on profit-sharing basis, but will have to bear inventory. The franchise owner will be free to decide product mix for his store. Advertisement spends will also have to be incurred by franchise partners. All training will be provided by PCJL and staff uniform will be that of PCJL.

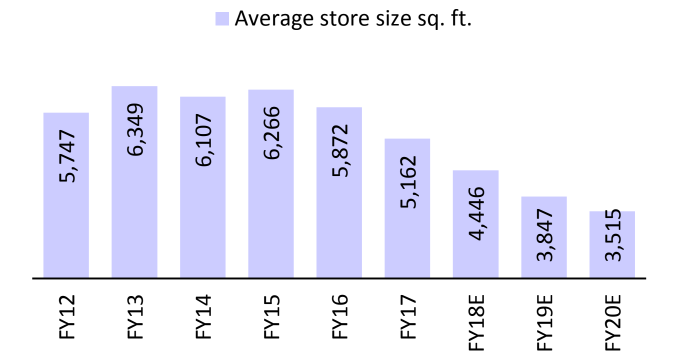
The company has also lined up aggressive expansion plans to diversify its geographic presence and capitalize on the growing consumerism in the branded jewelry space. It aims to add 25 stores in FY18 and 35-40 going ahead every year instead of the historical target of 12-13. Of the 25 stores targeted in FY18, 10 will be owned and the remaining 15 will be franchised (already opened 9 store including 4 franchisee stores in 1HFY18). Going forward 70% of the store additions will be through the franchisee route. As these stores will be opened in tier-II and tier-3 cities, store size will be smaller and thus the average store size will come down even further.

Exhibit 8: The pace of store additions to be much faster going ahead



Source: Company, MOSL

Exhibit 9: Average store size will come as they explore tier II and tier III cities



Source: Company, MOSL

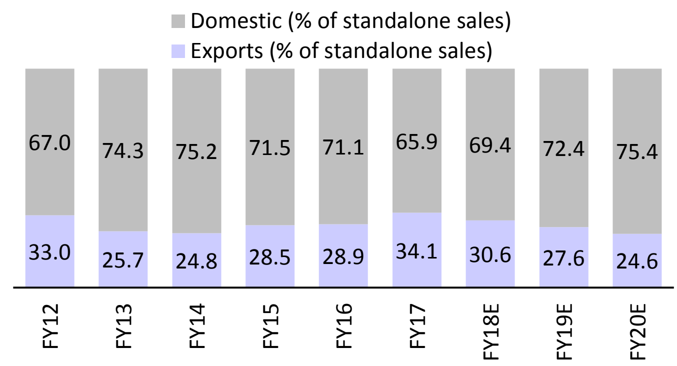
Sales mix and store level profitability set to improve; Branding investments to restrict operating margin improvement

#1 Exports contribution to decline

Apart from retailing jewelry in India, PCJL also exports jewelry to international distributors in Dubai, Hong Kong and Singapore. This was the original business of the promoters, who have over two decades of experience in this business. Exports contributed 36% of consolidated sales (~34% of standalone business) in FY17 and is a low margin business (6-7% EBIT margin) as PCJL exports only plain gold jewelry, where margins are limited. Growth in exports is also muted, but capital employed is low.

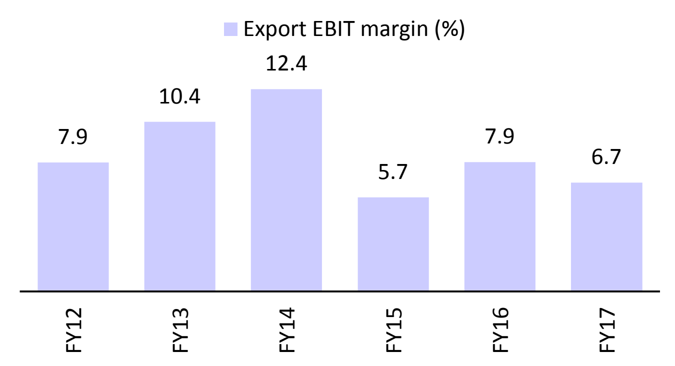
Higher growth in the domestic business will mean than that the relatively low margin exports business contribution to the overall business is set to come down. We expect exports as a percentage of overall business to reduce from current 34.1% (as on FY17) to around 24.6% by FY20. In first half of FY18, the domestic business saw a growth of 31% versus 10% growth posted by the exports business thus the salience of exports came down to 31.8% in 1HFY18 from 35.6% in 1HFY17.

Exhibit 10: Exports contribution to overall standalone business to come down to 24.6% by FY20



Source: Company, MOSL

Exhibit 11: Exports has been a lower margin business historically



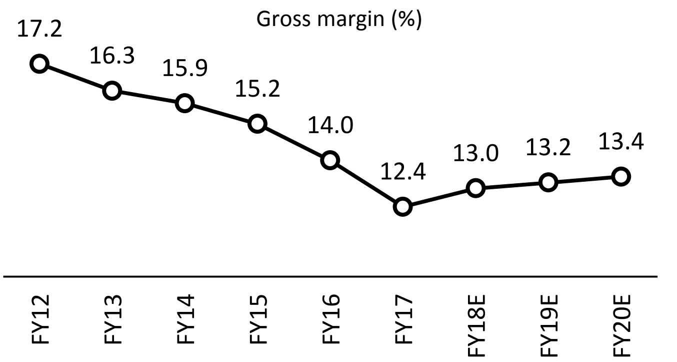
Source: Company, MOSL

PCJL also plans to gradually create more value addition in its exports business. It is exploring newer markets for high end jewellery and is also looking at starting B2C (retail) sales in the US, UK, South East Asian and Gulf countries for its ***Azva*** and ***Flexia*** ranges to improve the margin profile of this business.

#2 Store level profitability to improve

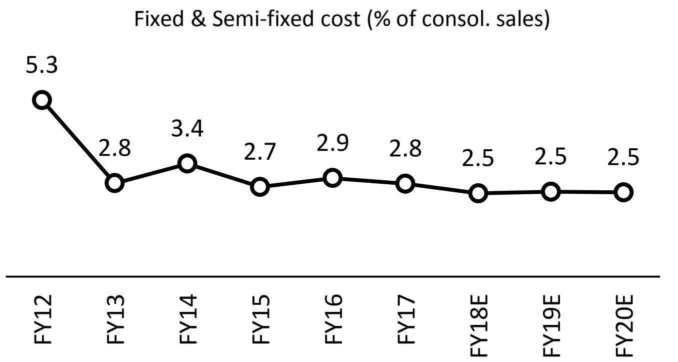
Apart from lower proportion of exports business, margins will also be a driven by operating leverage to some extent and improvement in store level profitability. We expect the benefit from operating leverage to be limited for a business in which raw material contributes ~87% of sales and see improvement in store level profitability as a major factor for gross margin improvement going forward.

Exhibit 12: Gross margin to expand 100bp over FY17-20



Source: Company, MOSL

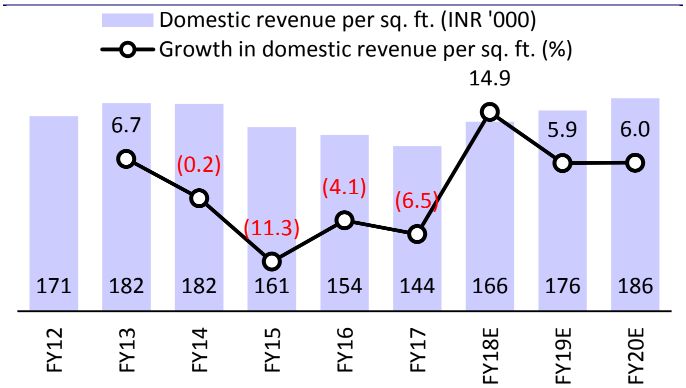
Exhibit 13: Fixed costs as % of sales to come down



Source: Company, MOSL

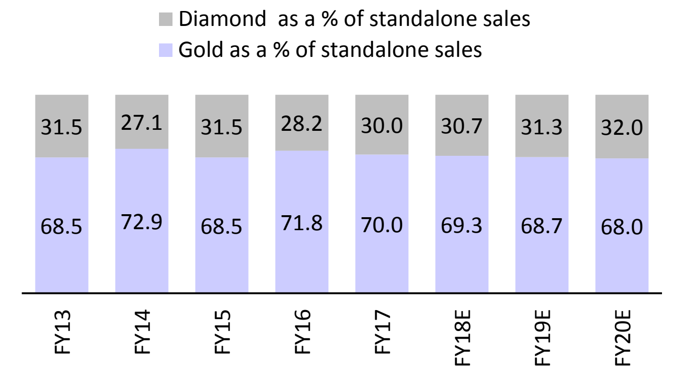
Store level profitability will improve going forward as company increase the share of studded jewellery and high end wedding jewellery. There is a 3.5x gross margin differential between plain gold jewelry and studded jewelry – diamond jewelry enjoys gross margin of ~35%, compared to the 11-12% enjoyed by plain gold jewelry. The contribution of diamond-studded jewelry in PCJL's overall domestic revenue has risen from 17.9% in FY10 to 30% in FY17. The company has improved its retail mix in favor of diamond jewelry faster than peers.

Exhibit 14: Store level profitability improvement led by jewellery mix



Source: Company, MOSL

Exhibit 15: Salience of diamond jewelry to increase, going ahead



Source: Company, MOSL

PCJL's strategy to boost diamond jewelry sales includes: (1) investments in advertising for diamond-studded jewelry, (2) promotion schemes for diamond jewelry, (3) display of diamond jewelry on the ground floor of its multistoried showrooms (already implemented), (4) new launches with penetrative price points to entice even entry-level buyers, and (5) cross-selling of diamond jewelry to gold jewelry customers.

Wedding jewelry accounts for 80-85% of PCJL's domestic jewelry sales and will remain a big component of its sales, as the segment has huge scope in the Indian scenario. India sees 8m-10m weddings a year and the opportunity is huge, with the size of the wedding jewelry market at ~INR1.5tn. The wedding segment constitutes 60-70% of the overall jewelry demand. Focus on large format showrooms has proven to be a successful strategy for PCJL to tap this segment. Even Titan, the leader in the branded jewelry space, has concentrated on opening large format showrooms since FY12 and now sees a big opportunity in the wedding jewelry segment, as well.

Within India, it also intends to take its premium brand, *Azva* (acquired from WGC) to 50 retailers by the end of FY18 (30 currently). High-end diamond jewelry is currently not available in many chained stores, where it is seeking to introduce the *Azva* brand.

Exhibit 16: Premium collection under Azva

Source: Company, MOSL

While diamond and wedding jewelry will remain its key focus area, PCJL does not want to lose out on the huge millennials opportunity. To tap the young generation and also occasions other than weddings and festivals, it has introduced a range of light-weight jewelry collections. It is successfully running collections like *Flexia* – detachable jewelry, *Shakuntalam*, *Inayat*, *Grecia*, *Amalia*, *Mother*, and *Tatvam* among others. It is also in the process of launching smart jewelry in FY18.

Exhibit 17: Flexia collection

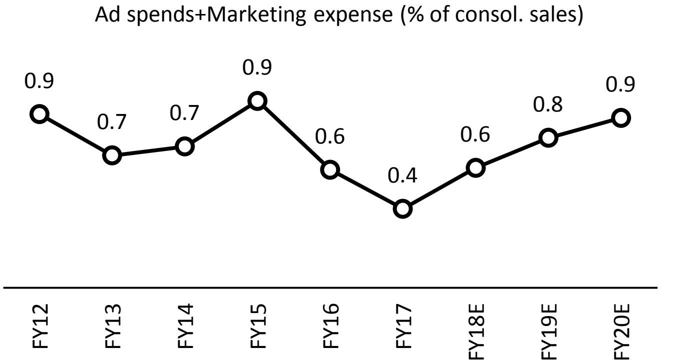
Source: Company, MOSL

Exhibit 18: PCJL Inayat collection

Source: Company, MOSL

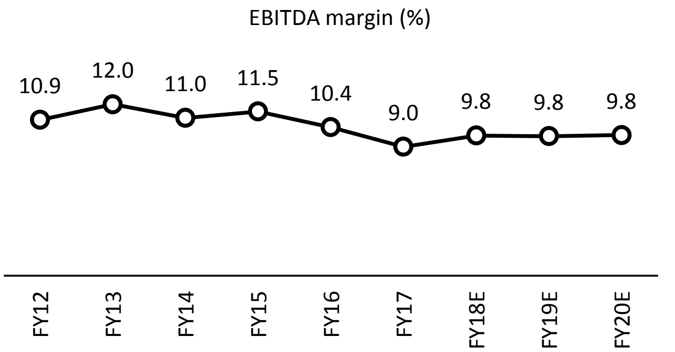
We build in gross margin improvement of 100bp YoY over FY17-20 and also believe that company will use this to increase its advertising, which are lower than listed peers at 0.4% of consolidated sales (ad spends + marketing expenses) as at March 2017. While sales and EBITDA growth will be high, we are not building in any material EBITDA margin expansion, going forward.

Exhibit 19: Ad spends and marketing expenses combined are expected to increase to 0.9% of sales (currently 0.4%)..



Source: Company, MOSL

Exhibit 20: ..which will restrict EBITDA margin expansion



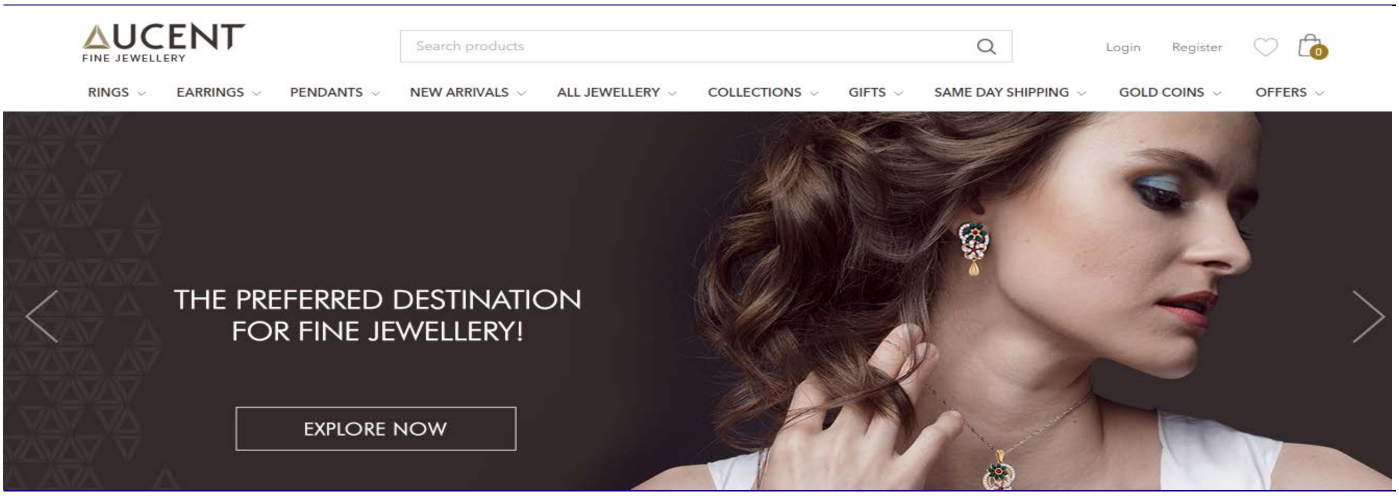
Source: Company, MOSL

Getting ready for the future; leveraging technology for a better consumer experience

PCJL has taken several initiatives to build a future-ready jewelry business. Some of its initiatives are:

- Its e-commerce portal (under WOS-Transforming Retail Private Limited) is integrated with its offline stores and will deliver an omnichannel experience. PCJL recently revamped its online business by rebranding it as www.Aucent.com, now a jewelry-discovery platform. E-commerce foray is also intended to build familiarity and relevance with young buyers, who may migrate from current low-ticket purchases to high-ticket wedding purchases.

Exhibit 21: PCJL's recently revamped online platform "Aucent"



Source: Company, MOSL

- PCJL is looking to leverage technology at the store level by:
  1. Digitizing inventory across stores – It will help PCJL to expand reach without any investment in physical assets like inventory, retail stores, etc, as inventory at all showrooms will be visible to customers at every showroom.
  2. Online kiosks– This will aid online-offline integration.
  3. Virtual try-ons – This will help improve customer experience through augmented reality via tabs. Consumer can try more number of jewellery without actually trying it physically. The company introduced this in Delhi/NCR region on a trial basis and has received positive response.
  4. Virtual reality zones at showrooms – These are aimed at giving consumers a new shopping experience and reducing working capital needs for inventory.
- It is also looking to use technology in manufacturing facilities to increase productivity.
- Investment in advanced CRM systems to improve marketing, communication and targeting strategies – this will help target specific customers based on their buying patterns.
- Focus on digital marketing to be present on consumers' mind through social media, digital branding and youth marketing initiatives.

We are not building in any revenue upside from these initiatives, but believe these are catalysts for future growth in an ever-evolving branded jewelry space.

Key operating numbers of PCJL versus peers

Titan	FY12	FY13	FY14	FY15	FY16	FY17
Domestic revenues (INR mn)	69,898	80,324	86,274	94,206	87,080	102,373
Growth (%)		14.9	7.4	9.2	-7.6	17.6
EBIT (INR mn)	6,232	8,152	8,489	9,348	7,847	10,387
EBIT margin (%)	8.9	10.1	9.8	9.9	9.0	10.1
Share of studded jewelry (%)	26%	28%	30%	31%	28%	29%
No. of showrooms (#)	163	179	198	209	227	239
Retail space (sq. ft.)	387,000	521,000	632,000	718,000	808,000	868,000
Growth (%)		34.6	21.3	13.6	12.5	7.4
Average store size (sq. ft.)	2,374	2,911	3,192	3,024	3,163	3,632
Average revenue/store (INR mn)	429	470	458	463	399	439
Average revenue/sq. ft. (INR)	208,030	176,924	149,652	139,564	114,128	122,163
PC Jeweller						
Domestic revenues (INR mn)	20,395	29,876	40,021	45,387	51,507	54,215
Growth (%)		46.5	34.0	13.4	13.5	5.3
EBIT (INR mn)	2,009	2,629	3,186	4,507	6,174	6,456
EBIT margin (%)	9.9	8.8	8.0	9.9	12.0	11.9
Share of diamond jewelry (%)	27.4	31.5	27.1	31.5	28.2	30.0
No. of showrooms (#)	24	30	41	50	60	75
Retail space (sq. ft.)	137,937	190,472	250,398	313,296	352,313	387,123
Growth (%)		38.1	31.5	25.1	12.5	9.9
Average store size (sq. ft.)	5,747	6,349	6,107	6,266	5,872	5,162
Average revenue/store (INR mn)	850	1,107	1,127	998	936	803
Average revenue/sq. ft. (INR)	170,579	181,947	181,554	161,034	154,767	146,637
TBZ						
Domestic revenues (INR mn)	13,855	16,583	18,181	19,342	16,548	17,002
Growth (%)		19.7	9.6	6.4	-14.4	2.7
EBIT (INR mn)	1,195	1,484	1,346	963	394	719
EBIT margin (%)	8.6	8.9	7.4	5.0	2.4	4.2
Share of diamond jewelry (%)	25.0	23.0	21.0	22.0	22.0	22.0
No. of showrooms (#)	14	25	27	28	30	33
Retail space (sq. ft.)	47,796	82,368	88,093	91,000	98,200	108,948
Growth (%)		72.3	7.0	3.3	7.9	10.9
Average store size (sq. ft.)	3,414	3,295	3,263	3,250	3,273	3,301
Average revenue/store (INR mn)	990	663	673	691	552	515
Average revenue/sq. ft. (INR)	289,872	201,333	206,388	212,549	168,511	156,060

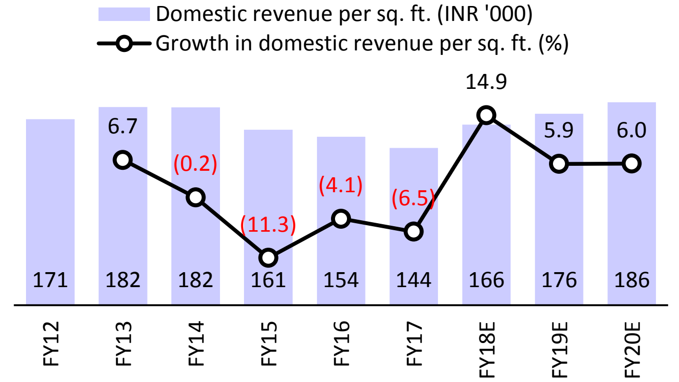
~30% EPS CAGR achievable over FY17-20

RoE to improve to ~19% by FY20 from 14.6% in FY17

PCJL has posted a CAGR of 22.8% in sales, 18.2% in EBITDA, and 12.8% in Adj. PAT over FY12-17. Slowdown in discretionary consumption owing to weak macros and several regulatory headwinds had impacted the jewelry sector over FY14-17. Regulatory constraints seems have eased now.

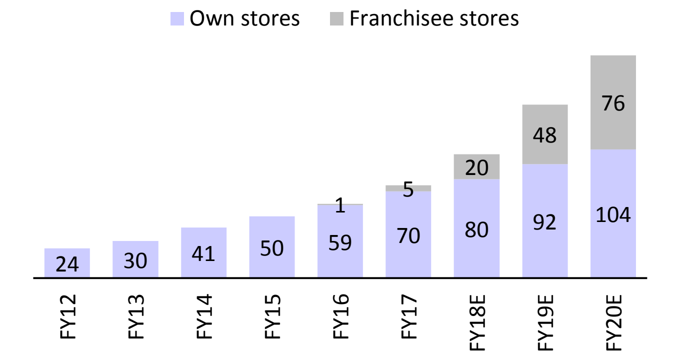
The company targets franchisees to contribute 70% of the new store additions. It has added 9 stores YTD in FY18, including four franchisee stores, and is confident of achieving its FY18 target of 25 stores. We build in 25 store additions (including 15 franchisee stores) for FY18 and 40 stores (including 28 franchisee stores) for FY19 & FY20 each.

Exhibit 22: Revenue/sf to grow sharply, as value migration plays out



Source: Company, MOSL

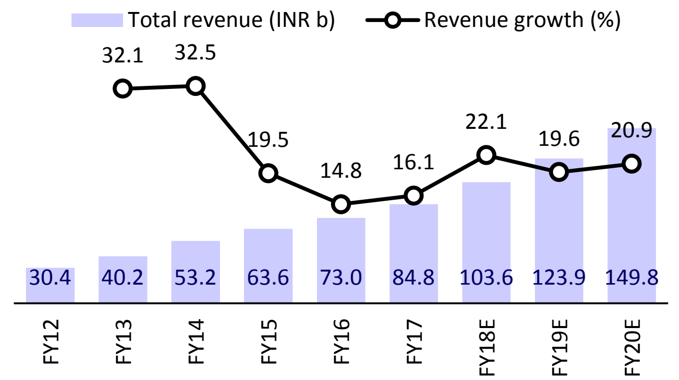
Exhibit 23: Expect PCJL to add 105 (including 71 franchisee) stores over FY17-20



Source: Company, MOSL

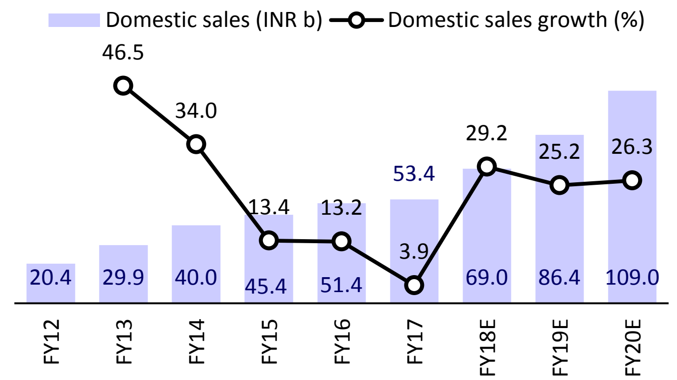
We model healthy improvement in revenue/sf over the next three years, driven by shift from unorganized to organized segment, better macros, improving consumer sentiment and consequent pick-up in discretionary consumption. We expect revenue/sf to grow 14.9% in FY18, 5.9% in FY19, and 6.8% in FY20. Thus giving consolidated sales CAGR of 20.9% led by domestic sales CAGR of 26.9% over FY17-20.

Exhibit 24: PCJL to post 20.9% sales CAGR over FY17-20...



Source: Company, MOSL

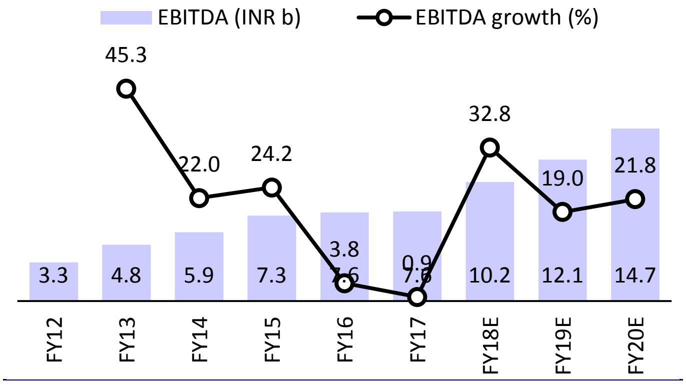
Exhibit 25: ..led by domestic sales CAGR of 26.9% over the same period



Source: Company, MOSL

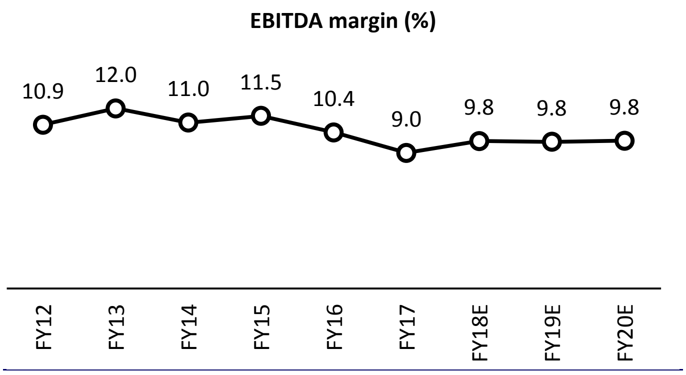
We expect EBITDA margin to expand from 9% in FY17 to 9.8% in FY18, FY19 and FY20, led by high growth in revenue/sf, improving mix, higher ad spends, and higher contribution of studded jewelry. In 1HFY18, EBITDA margins stood at 10.8% (up 80bp YoY) from 10% in 1HFY17. We believe marketing spends will restrict full year EBITDA margin expansion to 9.8%.

Exhibit 26: EBITDA to deliver a CAGR of 24.4% over FY17-20



Source: Company, MOSL

Exhibit 27: …with 80bp EBITDA margin expansion over FY17-20, but flattish over FY18-20, as we expect gross margin benefit to be invested back in advertising and marketing

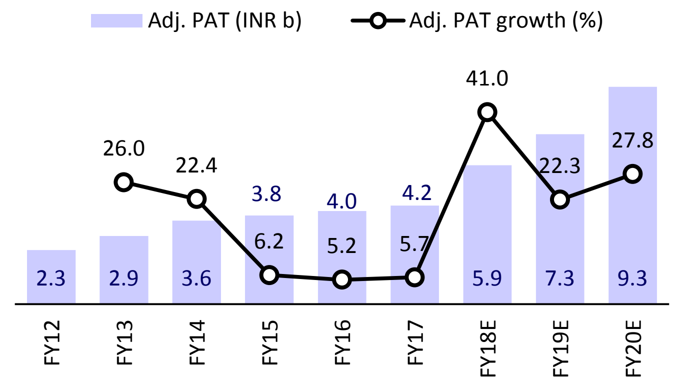


Source: Company, MOSL

PCJL procures gold mostly via gold-on-lease mechanism (70-75%) for the domestic business, and 100% on gold on lease for the exports business. This allows it to keep interest cost and the cost of gold procurement under control.

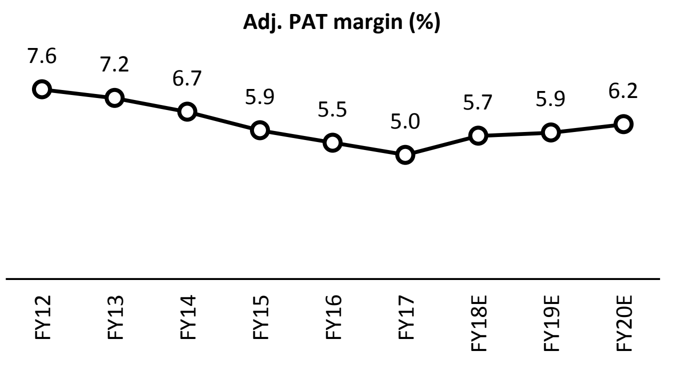
We expect PCJL to deliver a CAGR of 30.1% in Adj. PAT over FY17-20. This will be led by expansion plans and an improvement in sales mix, as diamond jewelry salience moves up from 30% in FY17 to ~32% in FY20. Lower base of FY17 (adjusted PAT grew 5.7%) should aid overall performance.

Exhibit 28: Adj PAT to grow 30.1% CAGR over FY17-20…



Source: Company, MOSL

Exhibit 29: …with 120bp expansion in PAT margin over the same period



Source: Company, MOSL

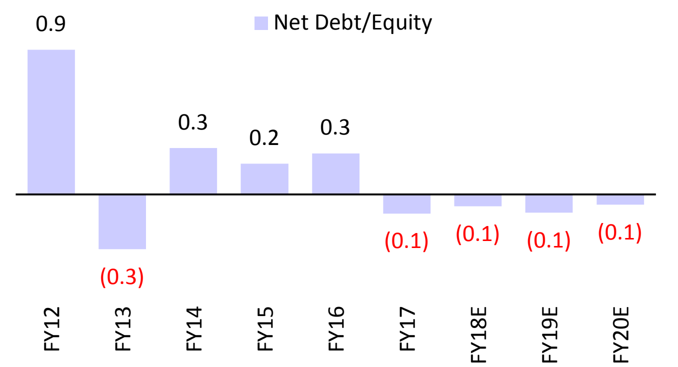
As the proportion of franchisee stores increases in new store additions, we expect an improvement in working capital and capital efficiency ratios. We model net working capital days to reduce from 116 in FY17 to 93 by FY20 and expect RoCE to improve from 16.9% to 19.5% over FY17-20. PCJL has a net-debt-to-equity of -0.1x as at March 2017. We do not see any material changes in this, going forward.

Exhibit 30: Cash conversion cycle to improve

Days	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Inventory days	103	131	140	161	177	173	162	157	148
Debtor days	67	62	44	40	44	54	57	57	60
Creditor days	87	113	100	89	100	111	114	114	115
Cash conversion cycle	**83**	**80**	**85**	**112**	**121**	**116**	**105**	**100**	**93**

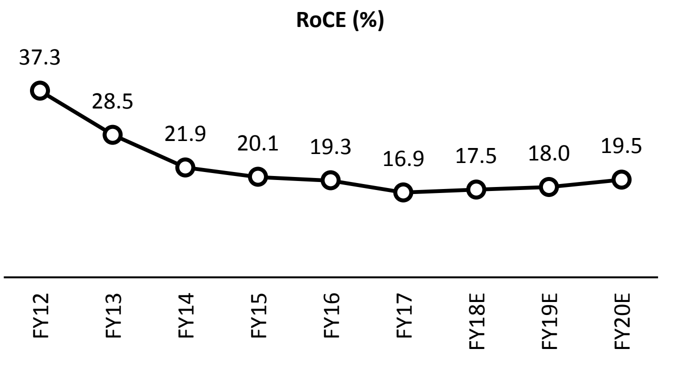
Source: Company, MOSL

Exhibit 31: Material reduction in net debt/equity over FY12-17



Source: Company, MOSL

Exhibit 32: RoCE improvement going forward



Source: Company, MOSL

Initiating coverage with Buy

Valuations imply 50% discount to Titan

- The spate of government regulations aiming to curb black money, GST implementation and increased aggression (in terms of store opening) from the incumbent organized players have fundamentally altered the scenario in the Indian jewelry sector. Organized regional and national players have ~30% share in the INR2t market in India, with national players having less than 10% share.
- Armed with advantages of scale, technology, brand trust, superior hedging policies, wider variety and huge marketing muscle, nationwide players like PCJL will continue to take market share away rapidly from the unorganized players for whom the pressures of compliance have whittled away at their key strength – the ability to offer lower rates to the consumer.
- For PCJL, we expect strong 25-30% growth in domestic business (64% of sales in FY17), resulting in more than doubling of the segment sales over FY17-20. This will drive 21% consolidated sales CAGR, 24% EBITDA CAGR, and 30% Adj. PAT CAGR over the next three years. Faster growth in the domestic business also marginalizes the lower quality exports business to 24.6% of sales by FY20.
- The value migration to organized players is so strong that Titan and PCJL are expected to report by far the highest EPS CAGR over FY17-20 in our consumer and retail universe. While PCJL may not have had the first mover advantage that Tanishq had, in little over a decade, it has emerged as India's second-largest jewelry retailer.
- Valuing the company at 22x December 2019 EPS (30% premium to three year average multiple; implying 50% discount to our target multiple of 45x for Titan), we get a target price of INR490 for PCJ, 36% upside to CMP. Initiate Coverage with BUY**.**

Exhibit 33: PCJL looks attractive from relative valuation

	Titan			PC Jeweller			TBZ*		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Sales (INR m)	129,789	162,559	199,383	84,796	103,577	123,902	16,998	20,452	25,088
Sales growth (%)	15.1	25.2	22.7	16.1	22.1	19.6	2.7	20.3	22.7
EBITDA growth (%)	23.6	33.9	26.6	0.9	32.8	19.0	87.8	27.4	36.9
EBITDA margin (%)	8.9	9.5	9.8	9.0	9.8	9.8	4.1	4.3	4.8
PAT (INR m)	8,017	11,107	14,102	4,210	5,935	7,259	147	276	530
RoE	20.6	23.4	25.5	14.6	16.5	17.5	3.3	6.0	10.8
P/E	89.9	64.9	51.1	33.8	24.0	19.6	58.8	31.7	16.5

*Bloomberg estimates

Source: Company, MOSL

Risks

- **Sharp correction in gold prices**: Gold demand can be adversely affected by high volatility in gold prices. Also, a major correction in gold prices can impact revenue, if not sufficiently compensated by higher volumes.
- **Regulation risk:** Any adverse change in regulations that govern gold procurement could impact the industry's profitability.
- **Execution risk:** We have assumed 25-40 new store additions over FY17-20; any slowdown in demand may force the company to change its expansion plans downward. Losing discipline on store opening parameters in a sectoral upturn is also risk we foresee.
- **Unorganized competition:** If the unorganized segment continues to thrive in the new GST regime by running end-to-end in the parallel economy with a small B2C supply chain, it could pose a threat to the growth and profitability of large, organized players.

Porter's five forces framework analysis

SWOT analysis

Strength

- Established brand - successful expansion in other parts of India
- Experienced management team
- Backward integration with strong manufacturing set-up

Weaknesses

- Presence in exports segment which has lower margins
- Relatively Untested franchisee model

Opportunities

- Value migration towards branded jewelry
- Domestic segment growth remains buoyant with favorable demographics

Threats

- Adverse government regulations
- Adverse gold price movement to revenue forecast
- No synergistic and expensive acquisition
- Increase in supply of smuggled gold

Bull & Bear case

Bull Case

- ☑ In our bull case, we assume strong 30% CAGR In domestic standalone sales (vs 26.9% in our base case) leading to 23% sales CAGR in the consolidated business.
- ☑ We also expect EBITDA margins to increase slightly to 10.4% by FY20E (vs 9.8% in our base case), aided by gross margin improvement to 13.6% (vs 13.4% in our base case).
- ☑ We have also assumed higher store additions at 50 (vs 40 in our base case) for FY19 and FY20.
- ☑ This results in Adj. PAT CAGR of 36% (v/s 30% in our base case) over FY17-20E, with RoE of 21.4% in FY20E.
- ☑ Based on the above assumptions, we value PCJL at INR550 (22x December 2019E EPS) – an upside of 52%.

Bear Case

- ☑ In our bear case, we assume 22.8% CAGR In domestic standalone sales (vs 26.9% in our base case) leading to 18% sales CAGR in the consolidated business.
- ☑ We also expect EBITDA margins to decline to 9.2% by FY20E (vs 9.8% in our base case) with gross margin improvement to be subdued at 13.2% (vs 13.4% in our base case).
- ☑ We have also assumed lower store additions at 30 (vs 40 in our base case) for FY19 and FY20.
- ☑ This results in Adj. PAT CAGR of 22.6% (v/s 30% in our base case) over FY17-20E, with RoE of 16.7% in FY20E.
- ☑ Based on the above assumptions, we value PCJL at INR420 (22x December 2019E EPS) – an upside of 16%.

Exhibit 34: Scenario Analysis – Bull Case

Bull case	FY18E	FY19E	FY20E
Sales (INR m)	104,645	128,040	158,609
Sales growth (%)	23.4	22.4	23.9
Standalone domestic sales (INR m)	70,035	90,503	117,881
Standalone domestic sales growth (%)	31.2	29.2	30.3
Gross Profit (INR m)	13,604	17,157	21,571
Gross margin (%)	13.0	13.4	13.6
EBITDA (INR m)	10,266	13,017	16,560
EBITDA margin (%)	9.8	10.2	10.4
EBITDA growth (%)	34.2	26.8	27.2
Adj. PAT (INR m)	6,018	7,904	10,551
Adj. PAT margin (%)	5.8	6.2	6.7
Adj. PAT growth (%)	43.0	31.3	33.5
EPS (INR)	15.3	20.1	26.8
Target multiple (x)			22
Target Price (INR)			552
Upside/downside			52%

Source: Company, MOSL

Exhibit 35: Scenario Analysis – Bear Case

Bear case	FY18E	FY19E	FY20E
Sales (INR m)	102,510	121,207	139,671
Sales growth (%)	20.9	18.2	15.2
Standalone domestic sales (INR m)	67,899	83,670	98,943
Standalone domestic sales growth (%)	27.2	23.2	18.3
Gross Profit (INR m)	13,326	15,757	18,437
Gross margin (%)	13.0	13.0	13.2
EBITDA (INR m)	10,050	11,456	12,867
EBITDA margin (%)	9.8	9.5	9.2
EBITDA growth (%)	31.4	14.0	12.3
Adj. PAT (INR m)	5,852	6,711	7,766
Adj. PAT margin (%)	5.7	5.5	5.6
Adj. PAT growth (%)	39.0	14.7	15.7
EPS (INR)	14.8	17.0	19.7
Target multiple (x)			22
Target Price (INR)			419
Upside/downside			16%

Source: Company, MOSL

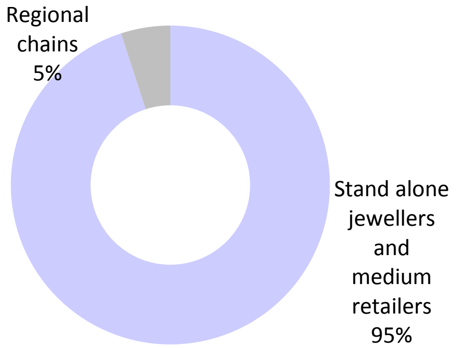
Annexure 1: Fragmentation giving way to consolidation

Huge scope to grow for national players like PCJL

The domestic jewelry industry is estimated to be worth INR2b, but is highly fragmented. Around 400k small standalone jewelers – mostly family jewelers – dominate the market, with ~70% share. India is one of the biggest markets in the world for gold jewelry, which is bought as much for its cultural value as for its investment value. The fragmented nature of the industry is largely due to varied regional tastes and smaller entities' cost competitiveness. Over the years, however, there is a visible shift towards national players and regional chains.

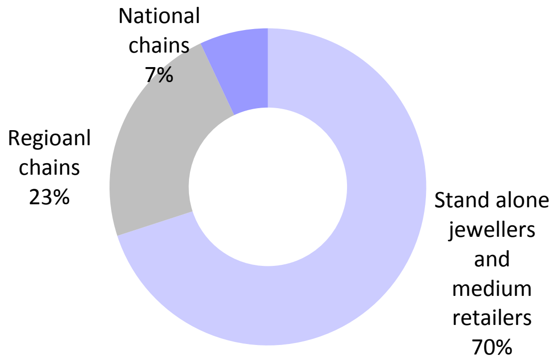
The share of standalone jewelers has declined from 95% of the market in 2000 to ~70% in 2015. Regional chains accounted for 23% and national players for ~7% of the market in 2015. Given the dynamic changes in the industry over the past year and a half, we wouldn't be surprised if the total share of the organized players (regional and national) is closer to 32% now. This share is likely to increase further, with growing acceptance of branded contemporary jewelry.

Exhibit 36: Jewelry market in 2000



Source: WGC, Company, MOSL

Exhibit 37: Jewelry market in 2015

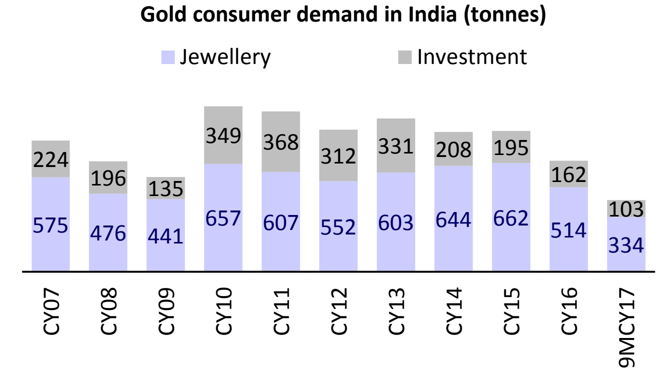


Source: WGC, Company, MOSL

The wide prevalence of under-caratage by the small unorganized players and rising aspirations of Indian consumers have ensured a decisive and durable shift towards the organized trade. The government has imposed several restrictions on cash purchases of jewelry, with mandatory PAN card requirement on cash transactions of over INR200k, imposition of excise duty et al. Demonetization and GST augur well for branded, organized players. These two big reforms along with mandatory hallmarking (expected from Jan'18) will increase the cost of doing business for unorganized players.

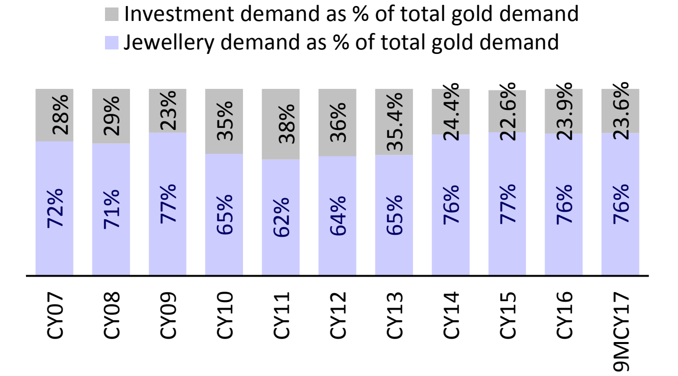
The larger players have been growing faster than their smaller counterparts. Post demonetization and GST, large listed jewelry players have seen even stronger growth, as they were better prepared for GST. Smaller unorganized players continue to face difficulties (a) in transition to the new tax regime due to higher cost of compliance, and (b) due to significantly higher levels of scrutiny by government authorities to curb black money, taking away their pricing power.

Exhibit 38: Consumer demand for jewelry to bounce back



Source: WGC, Company, MOSL

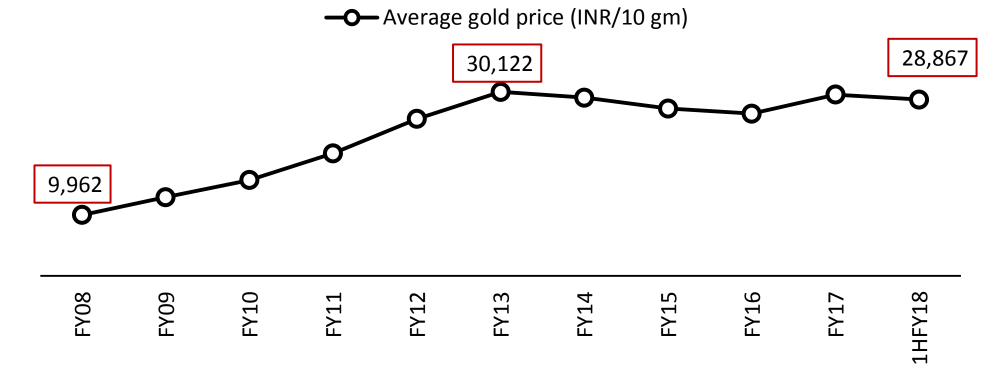
Exhibit 39: Investment demand for gold declining



Source: WGC, Company, MOSL

Demand for gold jewelry is likely to grow faster, going forward. However, demand for gold as an investment could remain stagnant or decline in the near future. It is interesting to note that demand for gold as an investment usually increases when the price of gold rises – seen during the period between 2010 and 2012. In 1HFY18, gold price declined 5% YoY, signaling that demand for gold as an investment might decline or remain stagnant as a share of overall gold demand in the near future.

Exhibit 40: Average gold price down 5% YoY in 1HFY18



Source: WGC, Company, MOSL

Annexure 2: Value migrating to organized segment

Large players like PCJL to benefit

Most big branded jewelry players found it challenging at first to do business in the domestic market, as the consumer did not readily accept the idea of large contemporary stores selling Indian gold jewelry. However, their exports to the Middle East, UK, US and Australia did well, giving them manufacturing scale and the time to re-think their strategy on the domestic business front.

Over the last decade, the Indian gems and jewelry market has seen value migrating from the unorganized to the organized segment. India's organized jewelry market has been growing at 30-40% annually compared to 10% growth for the overall gems and jewelry sector. The share of the organized segment in the jewelry market has grown from 5% in 2010 to 30% in 2015, and is expected to reach 40% by 2020. Growth in the organized market was led by regional chains, whose share grew from 5% in 2010 to 23% in 2015 while the share of national chains grew from 0% to 7%. After the government measures over the past few years and initiatives by organized players, the share of regional and national players would have gone up further.

The shift could also be attributed to the initiatives taken by large pan-India players and regional chains. The big players have been expanding their footprint by adding stores not only in the metros but also in tier-I, tier-II and tier-III cities. This expansion is not only through own stores but also through franchising. Their plans for the current fiscal are also big and the data from the listed players shows that they are actually on track to achieve their internal targets of store expansion.

Exhibit 41: Number of retail outlets in India

Company	FY17	Expected net additions in FY18
Titan (Tanishq + Zoya + GoldPlus)	239	16
PC Jeweller	74	25 (includes 15 franchisee)
TBZ	33	6 (franchisee)
Joyalukkas	66	15
Kalyan Jewellers	82	20
Malabar Gold & Diamond	85	30

Source: Company, MOSL

To support their strong store expansions, the large companies have been spending on advertising and promotion. The largest player, Titan incurred overall advertising expenditure of INR4.6b (includes jewelry, watches and other businesses) in FY17. We assume 80% (share of jewelry in FY17 sales) of this expenditure towards jewelry. Other large listed players, PCJL and TBZ incurred INR3b-4b each in FY17.

In 2012, Kalyan Jewelers signed Mr Amitabh Bachchan to become the most preferred brand in India. In May 2015, Deepika Padukone was named Tanishq's brand ambassador. PC Jewellers signed Akshay Kumar and Twinkle Khanna in October 2017. Joyallukas has roped in Bollywood actress Kajol to promote its brand and pegged marketing & promotion expenses at INR2b for FY19. This huge investment behind brand building has helped create good recall among consumers, who have largely preferred buying the traditional way.

Exhibit 42: Brand ambassador for Tanishq

Source: Company, MOSL

Exhibit 43: Brand ambassador for PC Jewellers

Source: Company, MOSL

Large jewelers also run gold installment schemes (gold purchase schemes or gold savings schemes), which work like bank recurring deposits. Through these schemes, a person can deposit a fixed sum every month with the jeweler for a certain period (usually a year), at the end of which he gets a bonus, usually one or two installments. PCJL runs 'Jewel for Less', Tanishq offers 'Golden Harvest', and TBZ has 'Kalpavruksha'.

Exhibit 44: Gold installment schemes offered by jewelers compared to bank deposits

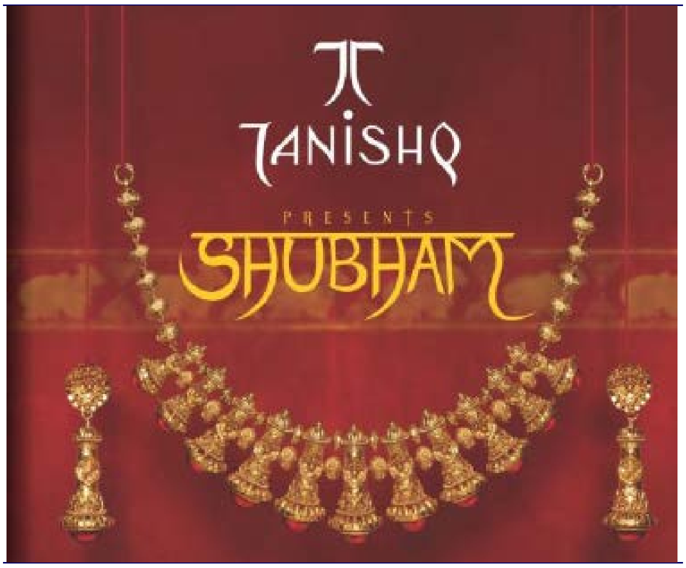
Gold Installment Schemes	Tanishq	PC Jeweller	TBZ	Joyalukkas	Bank
Name of the Scheme	Golden Harvest Scheme	Jewels for less Scheme	Kalpavruksha	Easy Buy Gold Purchase Plan	Recurring Deposit (6.75%)
Investment (INR/Month)	2,000	2,000	2,000	2,000	2,000
Tenure (Months)	12	14	12	12	12
Bonus/interest (INR)	1,500	2,000	2,000	1,800	822
Final Proceeds	25,500	30,000	26,000	25,800	24,822

Source: Company, MOSL

Recycling of gold plays an important role in India's gold supply, fulfilling around 15% of Indian jewelry fabrication needs since 1990. Gold can either be recycled for gold or for cash. In a price conscious market like India, consumers usually sell gold to buy gold jewelry (with added cost for making). Over the years, even organized players have started selling gold jewelry in exchange for gold. Promotional offers, discounts and other incentives are introduced to encourage customers to recycle gold, thus driving footfalls when the price of gold is high.

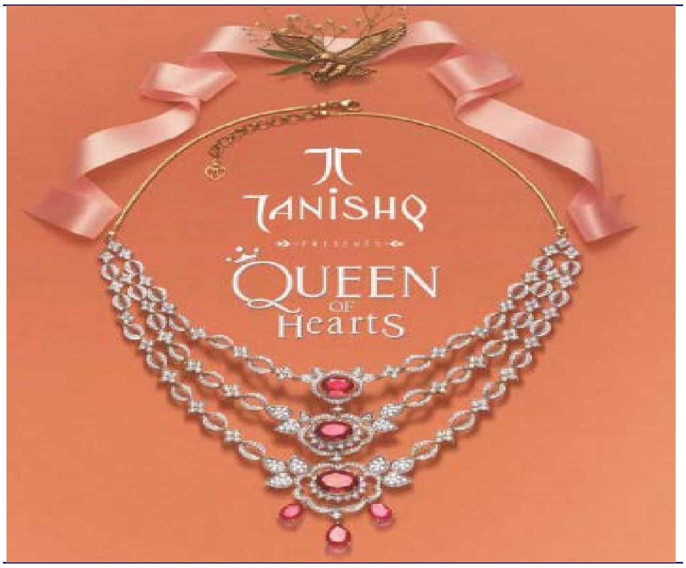
Launch of new collections, reduction in making charges, various activations and effective inventory management (leading to availability of a variety of designs) has also led to these players growing faster than industry, thus gaining market share.

Exhibit 45: New collection by Tanishq (*Shubham*)



Source: Company, MOSL

Exhibit 46: New collection by Tanishq (*Queen of Hearts*)



Source: Company, MOSL

Exhibit 47: Recent new launches by PC Jewellers

Source: Company, MOSL

How Titan (Tanishq) led this value migration

- Titan launched its jewelry division, *Tanishq* in 1996, with a range of jewelry and ornate watches for the European and American markets. However, as demand in the West declined due to slow economic growth followed by recession, *Tanishq* changed its business model and began focusing primarily on the Indian jewelry market, which was primarily unorganized, highly localized, and had no concept of branded jewelry. There were ~200k jewelers in India in late 1990s.
- Since then, Titan has pioneered the branded jewelry concept in India, and has created a sizable leadership presence in the jewelry segment, leveraging on its *Tata* brand equity. Competition exists in the segments, but Titan has continued to gain market share. The following are the key elements that contributed significantly to Titan's value migration journey in the segment:
  1. **Change in product positioning:** After realizing that it had gone wrong in terms of product offering in the initial stages, *Tanishq* changed its brand positioning from that of a westernized offering to an Indian traditional branded jeweler.
  2. **Gaining trust through purity**: There was no organized player in the jewelry business in India before Titan's *Tanishq* first set shop. Directly pitted against traditional jewelers offering similar ornaments, *Tanishq* decided to address the issue of gold purity to gain consumers' trust. In 1999, it introduced the concept of karatmeters in its retail stores to give consumers a more trustworthy method to test the purity of gold than the traditional touchstone method. This enabled it to finally make a dent in the consumers' long-standing relationships with their traditional jewelers.
  3. **Delivering value**: In 2000, *Tanishq* decided to have standard gold prices across its showrooms throughout the country. *Tanishq* had set up an ultra-modern, large-scale manufacturing unit in Hosur, Tamil Nadu, which helped it to charge the same price across the country.
  4. **Creating brand**: Titan has been creating brands over the years, *Tanishq* being the biggest. It caters to India's mid-and-premium jewelry market, with a large footprint of ~239 stores pan-India (including two *Zoya* stores) spread across 111 towns.
  5. **New collections**: Tanishq has been launching new collections almost every quarter and the response to the same has been very good.

Exhibit 48: Changing landscape of Indian jewelry market

Traditional Practice		Emerging Trend	
i.	Gold jewelry 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 jewelry 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 jewelry.	v.	Acceptance of white gold, platinum and diamond-studded jewelry. Even imitation jewelry is gaining acceptance.

Source: Company, MOSL

Annexure 3: Shift accelerated by regulatory changes

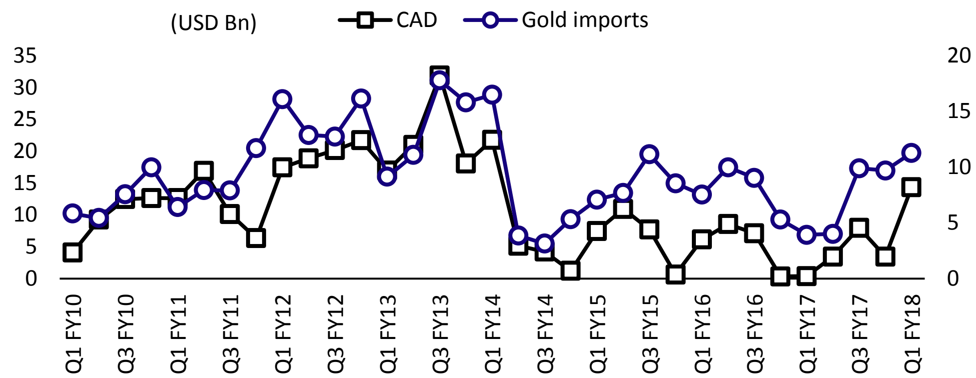
Demonetization and GST key drivers

First phase of regulatory changes was negative…

The Indian jewelry sector was impacted by several punitive measures in FY13, FY14 and 1HFY15. To curb gold consumption, and in turn, current account deficit, the government imposed several restrictions on the Jewelry sector. Key restrictions:

- **Import restrictions via 80:20 rule:** Of the total quantum of imported gold, 20% had to be compulsorily exported. The nominated agency could import the next tranche of gold only after exporting 20% of the lot imported earlier. This resulted in shortage of gold supply, and consequently, higher gold premiums.
- **Import duty hike:** The government increased the import duty on gold from 2% to 10% in 18 months (the last hike being from 8% to 10% in August 2013) to reduce the pressure on the current account deficit.
- **Ban on imports of gold coins and minted bars:** This was one of the many measures to curb demand for bullion (second-biggest import after oil), as the government looked to reduce its record trade deficit in 2013.
- **Ban on gold-on-lease scheme:** The RBI also banned the gold-on-lease scheme. Gold on lease is a low-cost effective hedging tool employed by branded jewelers like Titan and PCJL. Jewelers had to purchase gold by upfront payment without any credit, resulting in higher interest costs, working capital and debt.

Exhibit 49: Movement of India's current account deficit versus Gold import over the years



Source: Company, MOSL

…but the second phase is uniformly positive

The Indian jewelry industry has been highly regulated. The regulatory decisions made by the government over the last few years aim to make the industry more transparent and complaint. Key regulatory changes in the last few years:

- Reversal of 80:20 ruling on gold imports.
- Reversal of abolition of gold-on-lease scheme.
- Mandatory hallmarking (expected from Jan'18).
- Quoting of PAN for jewelry purchases of over INR200k.
- Imposition of 1% excise duty for the first time on the jewelry industry.
- Announcement of demonetization in 3QFY17.
- 3% goods and services tax (GST) from July 01, 2017.

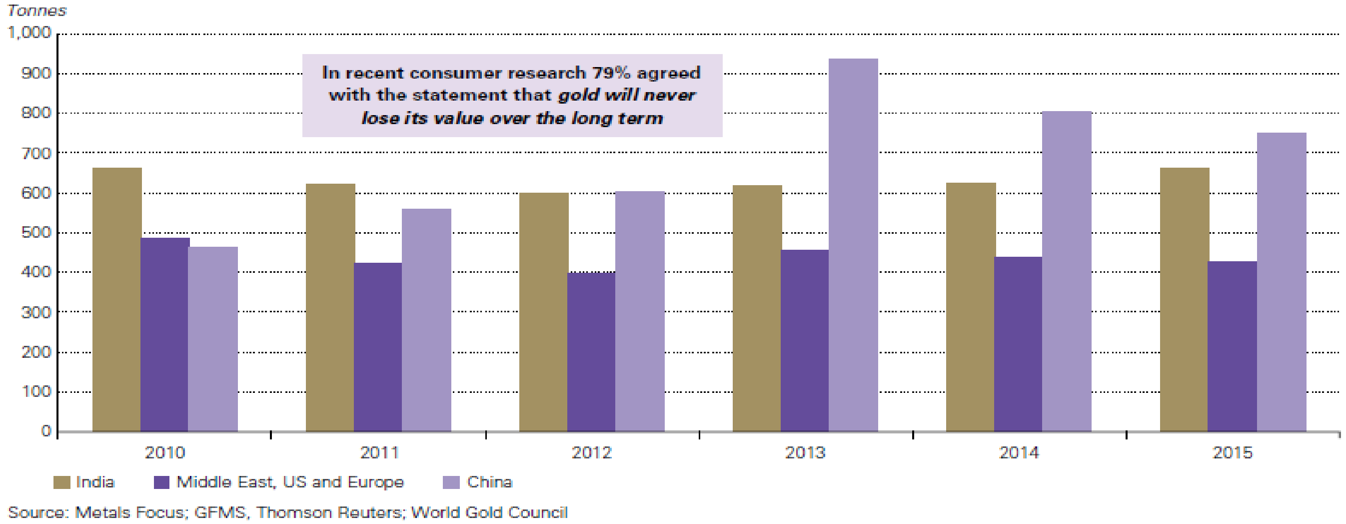
These regulations have made the industry transparent to some extent and also increased the compliance costs of the unorganized players. We believe these changes are structural and will benefit the industry in the longer term. Organized players like Titan and PCJL will be able to unlock huge growth potential in the coming years. PCJL believes that the Indian jewelry market is huge and can easily accommodate another 10-15 organized players.

Annexure 4: Indian gold demand to continue increasing

Demographic factors in favor of the industry

While the shift towards the organized segment is happening (confirmed by companies) and will only accelerate, the category itself presents an inherent growth opportunity, as gold continues to an intrinsic part of the Indian culture. A mix of long-term factors (growing population, rising income levels and higher proportion of millennials) and short-term factors (inflation, gold price movement and excess rainfall) will lead to an increase in gold demand in the country.

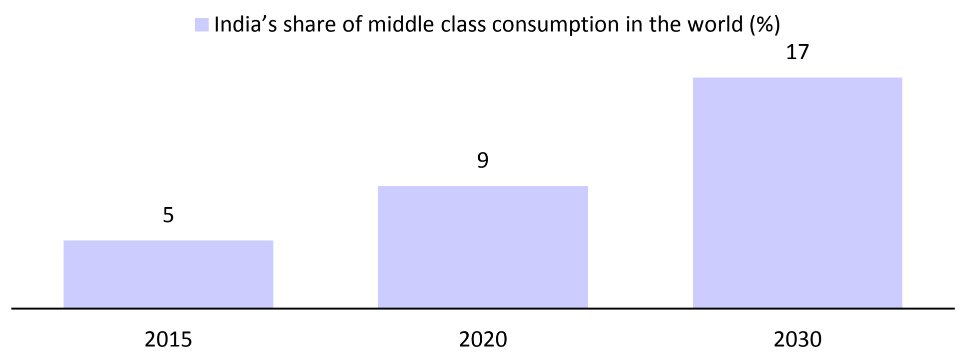
Exhibit 50: India is the second-largest jewelry market in the world



Source: WGC, Company, MOSL

India is the second-largest jewelry market in the world (China is the largest). Gold consumption is ingrained in India's culture – traditions, festivals and other important family and social occasions warrant donning of gold jewelry.

Exhibit 51: Rising share of India's middle class



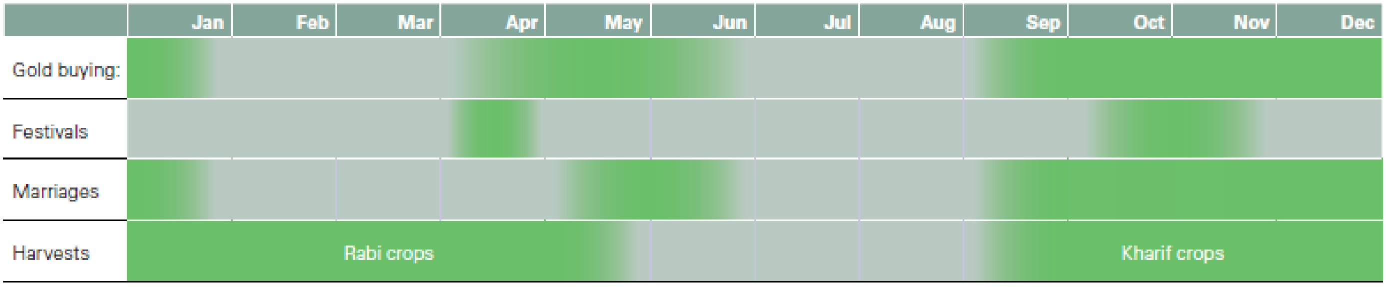
Source: IBEF, Company, MOSL

India is demographically well-placed (increasing middle class population, rising income levels, good population of millennials) for sustained consumption growth. India's current middle class population stands at 200m-250m, which is expected to exceed 500m by 2025. The increasing middle class population symbolizes an increase in income levels of the population, and income is a major driver of demand for gold and jewelry. Income levels are the most significant long-term determinant of consumer gold demand: holding all else equal, a 1% rise in income leads to a 1% rise in gold demand. As income rises, so do savings, and Indians prefer buying gold with their savings. They consider gold as an important form of investment, as it acts as a hedge when other investment avenues underperform.

Exhibit 52: Wedding jewelry holds a major portion of the overall jewelry market

Source: WGC, Company, MOSL

Exhibit 53: Jewelry buying peaks in the second half of the year (CY)



Source: WGC, Company, MOSL

The jewelry market in India is incredibly diverse. Each region is varied in terms of taste and also in terms of the appetite for purchasing gold jewelry. Besides the diversity, the industry is also seasonal. Demand for gold jewelry spikes during the festive season, marriage season and the harvesting season. 22k plain gold jewelry is the most prominent in terms of sales. With a huge population of millennials, the dynamics of the industry are changing. People have become more adventurous and are not afraid of experimenting. In urban India, the share of diamond-studded jewelry has been increasing as has demand for high-value wedding jewelry.

Our base case builds in value migration opportunity in the Indian jewellery sector and does not takes into account any sharp improvement in the industry growth. If there is significant upturn in the domestic jewellery segment then it will be positive risk to our assumed growth.

Annexure 5: PCJL a well-established national player

Set to exploit the opportunity of formalizing of sector

PC Jeweller (PCJL), incorporated in 2005, is a leading organized jewelry retailer, with a strong brand presence in North and Central India. Its operations include manufacturing, retailing and export of jewelry. It has 84 showrooms (including 9 franchisee stores) in >62 cities and >18 states, with an operational space of 405ksf as of October 2017.

Exhibit 54: PC Jeweller – key metrics over FY12-20E (standalone)

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Cumulative store count	50	60	75	100	140	180
Revenues per store (domestic)	998	934	791	788	720	681
Revenue per sqft	161,034	154,415	144,380	165,837	175,672	186,191
Total revenue (INR m)	**63,485**	**72,321**	**81,040**	**99,393**	**119,225**	**144,527**
Growth YoY (%)	19.2	13.9	12.1	22.6	20.0	21.2
Domestic Revenue (INR m)	**45,387**	**51,390**	**53,380**	**68,967**	**86,365**	**109,038**
Growth YoY (%)	13.4	13.2	3.9	29.2	25.2	26.3
Export revenue (INR m)	**18,098**	**20,931**	**27,660**	**30,426**	**32,860**	**35,489**
Growth YoY (%)	36.8	15.7	32.1	10.0	8.0	8.0

Source: Company, MOSL

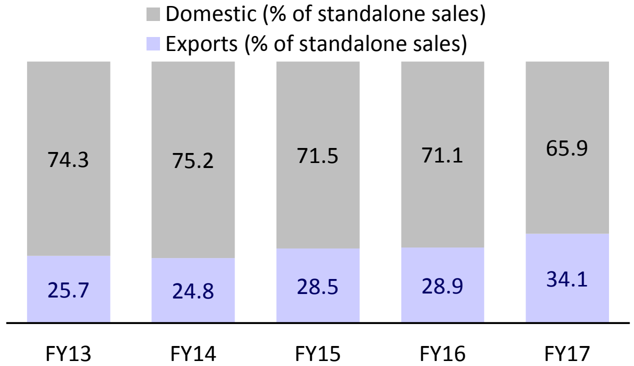
PCJL retails a wide range of gold, diamond and other jewelry, including silver articles, under the brands *PCJ*, *Flexia*, *PCJL Inayat* and *Azva*. Gold jewelry contributes ~70% of its domestic revenue (as at FY17), and diamond jewelry the rest.

Exhibit 55: Key brands - *PCJ*, *Flexia*, *PCJL Inayat* and *Azva,* and e-com portal wearyourshine.com

Source: Company, MOSL

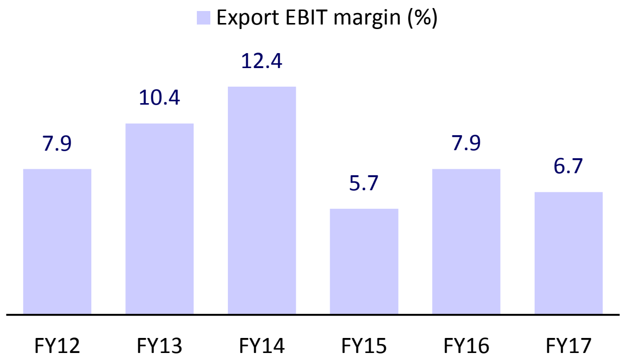
Apart from retailing jewelry in India, PCJL also exports jewelry to international distributors in Dubai, Hong Kong and Singapore. This was the original business of the promoters, who have over two decades of experience in this business. Exports contributed 36% of sales in FY17 and are a low margin business (6-7% EBIT margin) as PCJL exports only plain gold jewelry, where margins are limited. Growth in exports is also muted, but capital employed is low. PCJL is also exploring newer markets and is looking at starting B2C (retail) sales in the US, UK, and South East Asian and Gulf countries for its *Azva* and *Flexia* ranges to improve the margin profile of this business.

Exhibit 56: Exports salience stood high at 34% in FY17 as domestic growth remain muted



Source: Company, MOSL

Exhibit 57: Export EBIT margins are low compared to domestic margins



Source: Company, MOSL

PCJL has five manufacturing units that cater to 65-70% of its domestic retail and export footprint; the remaining 30-35% production is outsourced. It increased its manufacturing capacity by 29% in FY17 to 107ksf and is looking to add further capacity in two years, with an investment of ~INR3b through internal accruals. In 2QFY18, company acquired a 13ksft built up space (expandable to 30ksft) in jewellery manufacturing zone in Jaipur. This facility is expected to be operational by 3QFY18. The company also has plans to add another facility by end of FY18.

It also has a strong in-house designing team, with 60-70 designers, including manual and computer aided designers (CAD). The designers also go on the field to study design trends and competitor offerings to keep PCJL abreast with evolving consumer needs.

Exhibit 58: South Extension store in Delhi

Source: Company, MOSL

Exhibit 59: Noida plant, which has ~350 employees

Source: Company, MOSL

Exhibit 60: Revenues of wholly-owned subsidiaries

Subsidiaries (INR m)	Principal activities	FY15	FY16	FY17
PC Universal Pvt ltd	Jewelry Manufacturing & Export	128	698	3,020
Transforming Retail Private Limited	Online Retail Trading in Jewelry	0	111	97
Luxury Products Trendsetter Private Limited	Jewelry Manufacturing & Trading	0	0	152
PC Jeweller Global DMCC	Jewelry Trading	0	0	581

Source: Company, MOSL

Exhibit 61: Details of Board of Directors

Name	Designation	Description
Mr. Padam Chand Gupta	Chairman	He has more than 20 years of experience in the jewelry industry and is part of the company since incorporation.
Mr. Balram Garg	Managing Director	He is involved in the company since incorporation and has over 20 years of experience in the jewelry industry.
Mr. Manohar Lal Singla	Independent Director	He has 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	He has 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. Suresh Kumar Jain	Independent Director	He has over 36 years of experience as banker in domestic and international markets.
Mr. Ramesh Kumar Sharma	ED & COO	He has over 29 years of experience in foreign exchange, credit and administration services

Source: Company, MOSL

Exhibit 62: Shareholding pattern (as on 30th Sep'17)

Particulars	No of Shares	% of holding
Foreign (Promoter & Group)	**0**	**0.0**
Indian (Promoter & Group)	**238,584,482**	**60.5**
Individuals / Hindu Undivided Family	238,584,482	60.5
Total of Promoter	**238,584,482**	**60.5**
Non Promoter (Institution)	**131,742,925**	**33.4**
Foreign Institutional Investors	122,116,858	31.0
Financial Institutions / Banks	5,525,067	1.4
Mutual Funds / UTI	4,101,000	1.0
Non Promoter (Non-Institution)	**24,027,793**	**6.1**
NRIs/Foreign Individuals/Foreign Nationals	356,745	0.1
Bodies Corporate	8,057,520	2.0
Clearing Members	603,800	0.2
Individuals holding nominal share capital in excess of INR 1 lakh	10,682,352	2.7
Individuals holding nominal share capital up to INR 1 lakh	4,324,536	1.1
Trust & Foundation	540	0.0
Non Promoter Non Institution Others	2,300	0.0
Total Non-Promoter	**155,770,718**	**39.5**
Total Promoter & Non Promoter	**394,355,200**	**100.0**
Custodians (Against Depository Receipts)	**0**	**0.0**
Grand Total	**394,355,200**	**100.0**

Source: Company, MOSL

Financials and valuations

Consolidated - Income Statement						(INR Million)
Y/E March	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Total Income from Operations	**63,613**	**73,032**	**84,796**	**103,577**	**123,902**	**149,766**
Change (%)	19.5	14.8	16.1	22.1	19.6	20.9
Raw Materials	53,946	62,841	74,302	90,112	107,547	129,697
Gross Profit	**9,667**	**10,192**	**10,494**	**13,465**	**16,355**	**20,069**
Margin (%)	15.2	14.0	12.4	13.0	13.2	13.4
Employees Cost	557	727	834	932	1,239	1,647
Other Expenses	1,808	1,883	2,010	2,375	3,026	3,701
EBITDA	**7,302**	**7,582**	**7,650**	**10,158**	**12,090**	**14,720**
Change (%)	24.2	3.8	0.9	32.8	19.0	21.8
Margin (%)	11.5	10.4	9.0	9.8	9.8	9.8
Depreciation	230	227	225	289	429	618
EBIT	**7,072**	**7,355**	**7,425**	**9,868**	**11,661**	**14,102**
Margin (%)	11.1	10.1	8.8	9.5	9.4	9.4
Int. and Finance Charges	2,269	2,511	2,856	2,425	1,942	1,459
Other Income	592	499	973	1,036	1,115	1,198
PBT after EO Exp.	**5,395**	**5,344**	**5,542**	**8,479**	**10,834**	**13,842**
Total Tax	1,611	1,362	1,331	2,544	3,575	4,568
Tax Rate (%)	29.9	25.5	24.0	30.0	33.0	33.0
Reported PAT	**3,784**	**3,982**	**4,210**	**5,935**	**7,259**	**9,274**
Adjusted PAT	**3,784**	**3,982**	**4,210**	**5,935**	**7,259**	**9,274**
Change (%)	6.2	5.2	5.7	41.0	22.3	27.8
Margin (%)	5.9	5.5	5.0	5.7	5.9	6.2

Consolidated - Balance Sheet						(INR Million)
Y/E March	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Equity Share Capital	1,791	1,791	1,791	3,942	3,942	3,942
Total Reserves	18,115	22,300	31,728	34,559	40,388	47,756
Net Worth	**19,906**	**24,091**	**33,519**	**38,501**	**44,330**	**51,698**
Total Loans	6,819	9,704	8,028	7,028	5,028	4,028
Deferred Tax Liabilities	-125	-120	-334	-334	-334	-334
Capital Employed	**26,599**	**33,676**	**41,214**	**45,196**	**49,025**	**55,392**
Gross Block	1,474	1,138	1,333	1,883	2,883	3,979
Less: Accum. Deprn.	578	226	451	740	1,169	1,786
Net Fixed Assets	**896**	**912**	**882**	**1,143**	**1,714**	**2,192**
Capital WIP	0	0	0	550	670	694
Total Investments	**131**	**81**	**94**	**94**	**94**	**94**
Current Investments	131	81	94	94	94	94
Curr. Assets, Loans&Adv.	**46,087**	**56,397**	**72,656**	**80,940**	**92,997**	**108,517**
Inventory	32,299	38,672	41,874	49,909	56,672	64,748
Account Receivables	7,804	9,760	15,380	17,026	21,386	27,902
Cash and Bank Balance	2,840	3,416	11,917	9,747	9,847	9,712
Loans and Advances	3,144	4,549	3,485	4,257	5,092	6,155
Curr. Liability & Prov.	**20,515**	**23,714**	**32,419**	**37,531**	**46,449**	**56,105**
Account Payables	18,220	21,777	29,981	34,552	42,887	51,799
Other Current Liabilities	487	668	1,746	2,133	2,551	3,084
Provisions	1,808	1,269	692	845	1,011	1,222
Net Current Assets	**25,572**	**32,683**	**40,238**	**43,409**	**46,547**	**52,412**
Appl. of Funds	**26,599**	**33,676**	**41,214**	**45,196**	**49,025**	**55,392**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)						
EPS	**9.6**	**10.1**	**10.7**	**15.1**	**18.4**	**23.5**
Cash EPS	10.2	10.7	11.3	15.8	19.5	25.1
BV/Share	50.5	61.1	85.0	97.7	112.5	131.1
DPS	1.5	3.4	1.0	2.0	3.0	4.0
Payout (%)	18.3	40.1	11.3	16.1	19.7	20.6
Valuation (x)						
P/E	37.7	35.8	33.9	24.0	19.6	15.4
Cash P/E	35.5	33.9	32.1	22.9	18.5	14.4
P/BV	7.2	5.9	4.3	3.7	3.2	2.8
EV/Sales	2.3	2.0	1.6	1.3	1.1	0.9
EV/EBITDA	20.1	19.6	18.1	13.8	11.4	9.3
Dividend Yield (%)	0.4	0.9	0.3	0.6	0.8	1.1
FCF per share	7.7	0.3	18.7	3.0	11.0	7.7
Return Ratios (%)						
RoE	20.6	18.1	14.6	16.5	17.5	19.3
RoCE	20.1	19.3	16.9	17.5	18.0	19.5
RoIC	21.9	20.4	19.0	21.6	21.3	22.7
Working Capital Ratios						
Fixed Asset Turnover (x)	43.1	64.2	63.6	55.0	43.0	37.6
Asset Turnover (x)	2.4	2.2	2.1	2.3	2.5	2.7
Inventory (Days)	161	177	173	162	157	148
Debtor (Days)	40	44	54	57	57	60
Creditor (Days)	89	100	111	114	114	115
Leverage Ratio (x)						
Current Ratio	2.2	2.4	2.2	2.2	2.0	1.9
Interest Cover Ratio	3.1	2.9	2.6	4.1	6.0	9.7
Net Debt/Equity	0.2	0.3	-0.1	-0.1	-0.1	-0.1

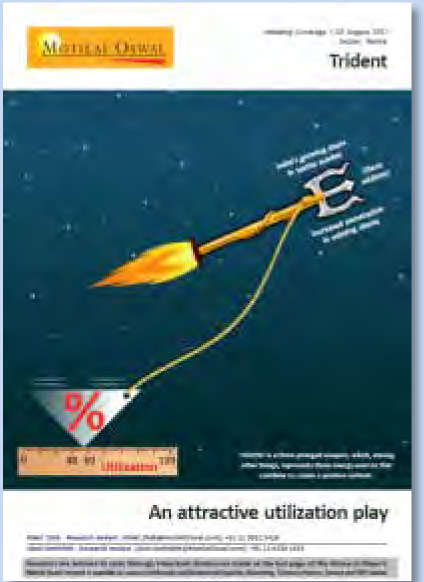
Consolidated - Cash Flow Statement **(INR Million)**

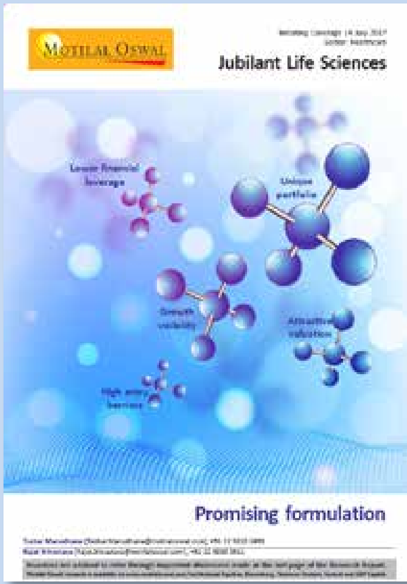
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	5,395	5,344	5,542	8,479	10,834	13,842
Depreciation	230	227	225	289	429	618
Interest & Finance Charges	1,986	1,978	2,132	1,389	827	260
Direct Taxes Paid	-1,289	-1,395	-1,826	-2,544	-3,575	-4,568
(Inc)/Dec in WC	-2,931	-5,867	2,066	-5,341	-3,039	-6,000
CF from Operations	**3,391**	**286**	**8,138**	**2,273**	**5,476**	**4,152**
Others	-64	-126	-574	0	0	0
CF from Operating incl EO	**3,327**	**160**	**7,565**	**2,273**	**5,476**	**4,152**
(Inc)/Dec in FA	-289	-34	-191	-1,100	-1,120	-1,120
Free Cash Flow	**3,039**	**126**	**7,373**	**1,173**	**4,356**	**3,032**
(Pur)/Sale of Investments	1,853	71	-1	0	0	0
Others	295	216	275	1,036	1,115	1,198
CF from Investments	**1,859**	**252**	**83**	**-64**	**-5**	**78**
Issue of Shares	0	0	0	0	0	0
Inc/(Dec) in Debt	-3,228	2,885	4,341	-1,000	-2,000	-1,000
Interest Paid	-2,105	-2,032	-2,766	-2,425	-1,942	-1,459
Dividend Paid	-314	-690	-722	-953	-1,430	-1,906
Others	0	0	0	0	0	0
CF from Fin. Activity	**-5,648**	**163**	**853**	**-4,378**	**-5,372**	**-4,365**
Inc/Dec of Cash	**-461**	**576**	**8,501**	**-2,169**	**99**	**-135**
Opening Balance	3,301	2,840	3,416	11,917	9,747	9,847
Closing Balance	**2,840**	**3,416**	**11,917**	**9,747**	**9,847**	**9,712**

NOTES

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

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Analyst ownership of the stock	No

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