

PC Jeweller

BSE SENSEX

34,592

S&P CNX

10,681

CMP: INR549
TP: INR645 (+17%)
Buy


Stock Info

Bloomberg	PCJL IN
Equity Shares (m)	394.2
52-Week Range (INR)	552/177
1, 6, 12 Rel. Per (%)	20/111/148
M.Cap. (INR b)	216.4
M.Cap. (USD b)	3.3
Avg Val, INRm	754
Free float (%)	39.5

Financials Snapshot (INR b)

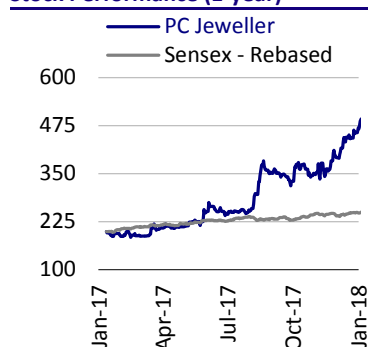
Y/E Mar	2018E	2019E	2020E
Net Sales	103.6	123.9	149.8
EBITDA	10.2	12.1	14.7
PAT	5.9	7.3	9.3
EPS (INR)	15.1	18.4	23.5
Gr. (%)	41.0	22.3	27.8
BV/Sh (INR)	97.7	112.5	131.1
RoE (%)	16.5	17.5	19.3
RoCE (%)	17.5	18.0	19.5
P/E (x)	36.5	29.9	23.4
P/BV (x)	5.6	4.9	4.2

Shareholding pattern (%)

As On	Dec-17	Sep-17	Dec-16
Promoter	60.5	60.5	70.6
DII	3.1	2.4	0.0
FII	30.4	31.0	23.4
Others	6.0	6.1	6.0

FII Includes depository receipts

Stock Performance (1-year)



Demand outlook robust; growth opportunity massive

Domestic jewelry retail business to grow at a CAGR of 25-30% over the next five years

We recently met the management of PC Jeweller (PCJL). Our key takeaways:

- PCJL remains confident of 25-30% CAGR in the domestic jewelry retail business over the next five years.
- The franchisee model is working well so far; going forward, franchisee stores will be ~80% of incremental annual store openings.
- PCJL has massive opportunity to grow at the cost of unorganized players. Though competition from organized players will increase as the salience of the organized segment goes up 3-4 years down the line, the company believes its strengths on design (craft) and low cost manufacturing will serve it well in the long term.
- We have a BUY rating on the stock, with a target price of INR645, valuing the company at 29x December 2018E EPS, 40% discount to Titan. We believe that the valuation gap vis-à-vis Titan will shrink further, once PCJL demonstrates its ability to maintain its revenue and earnings trajectory.

Domestic business can easily grow 25-30% over next five years

Growth momentum continues to be strong in the domestic business, as organized players are gaining share sharply. Earlier, unorganized players were able to evade both direct and indirect taxes and had practices like under-caratage, which is no longer possible. The management expects 25-30% CAGR in domestic business over the next five years, led by 10-15% SSSG and 15% growth through new store additions. Proportion of cash sales has declined from 60% earlier to 35-40%. Another 40% of sales now come from credit cards and 20-25% from gold exchange, indicating changing customer practices. Near-term growth in the exports business is likely to be subdued due to introduction of 5% VAT from January 01, 2018 in UAE (one of the major buyers of Indian jewelry) on the back of 5% customs duty imposed in January 2017. Jewelers are still awaiting clarity on whether VAT will be applicable on re-exported gold jewelry. We believe that sharp growth in the domestic business along with 5-8% growth in the exports business over next five years will lead to the share exports declining down below 20% of the standalone business (34% in FY17 and 32% in 1HFY18).

Franchisee model doing well; will help improve RoCE substantially

The franchisee model is working well so far for PCJL. It is confident of opening its 100th overall store by the end of the current fiscal. It has already done market studies and is ready with the expansion plans for the next two years. Going forward, franchisee stores will be ~80% of annual store openings. Robust systems for control are also in place to support the backend. Franchisees are able to turn over gold jewelry 4x a year and diamond jewelry 2x a year. With RoCEs of 20%, the business is attractive to potential franchisees, who also get gold on lease from banks. Use of technology helps to further lower working capital requirements for PCJL.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

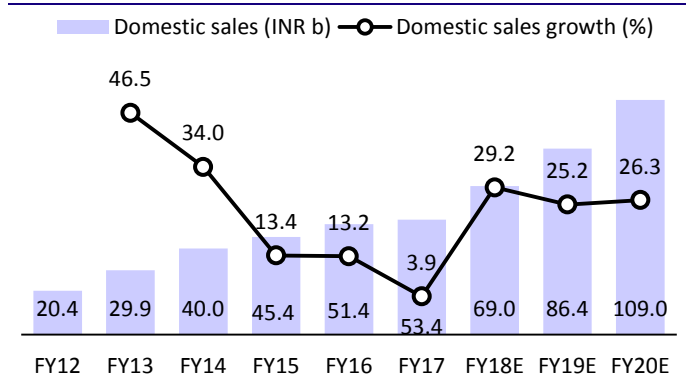
Starting with high-end jewelry initially, virtual reality goggles at stores will enable viewing of merchandise from other stores in the city, other stores in the state and stores in different parts of the country as well, which will then be shipped to the customer. PCJL plans to add virtual stores in airports and malls as well. With the ability to get guidance from experts on suitability, the company will have facilities enabling ordering from these stores as well in two months' time. Expansion through franchisees and high asset turns will help improve PCJL's RoCEs substantially over the next 3-5 years.

Design and manufacturing capabilities to be the key differentiator

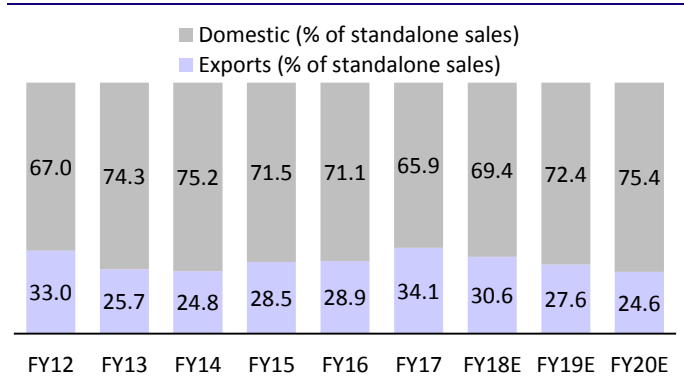
PCJL believes that competition from organized players is not an issue today, but will increase, as the salience of the organized segment goes up (currently 30% of jewelry in India) 3-5 years down the line. Yet, it believes that its design skills and lower cost of manufacturing will act as key differentiators. The company has introduced a range of wedding jewelry (including premium jewelry under the Azva brand) as well as light-weight jewelry to stay ahead of the competition (unorganized and regional organized players). It has also increased its annual ad spends to support the new collection and brand image. Its ad campaign introducing new brand ambassadors, Akshay Kumar and Twinkle Khanna, has received good response. PCJL will have four campaigns a year – two for gold jewelry and two for diamond jewelry, enabling increasing proportion of studded sales. It also aims at own manufacturing (75% of sales) of 100% in 3-4 years, which will help reduce cost of manufacturing and will also give higher control on execution. PCJL currently has four factories in the NCR.

Valuation and view

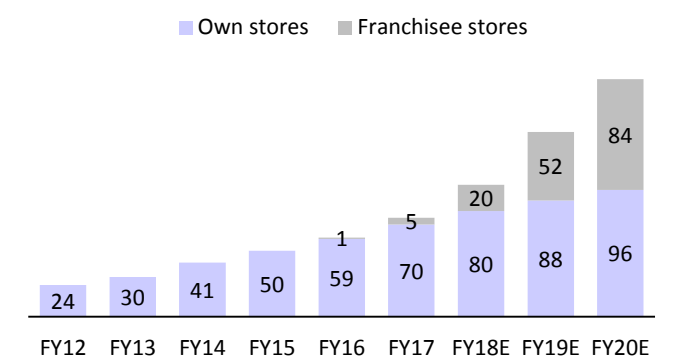
Organized players have only ~30% share of the INR2t jewelry market in India, with the national players having <10% share. However, armed as they are with the advantages of scale, technology, brand trust, superior hedging policies, wider variety and huge marketing muscle, nation-wide players like PCJL 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. We value the company at 29x December 2019E EPS (implying 40% discount to our target multiple of 49x for Titan) and get a revised one-year target price of INR645 for PCJL – an upside of 17%.

Exhibit 1: Domestic business to grow at a CAGR of 26.9% over FY17-20..

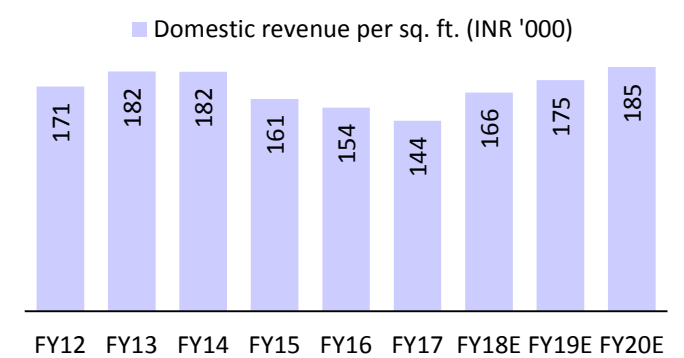
Source: Company, MOSL

Exhibit 2: ..while subdued growth in exports will lead to its mix coming down to 24.6% by FY20 and <20% by FY22

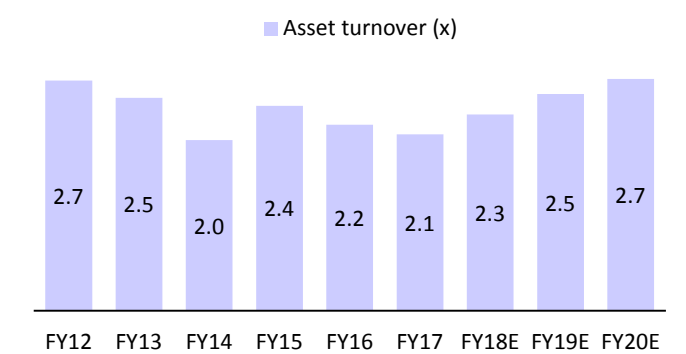
Source: Company, MOSL

Exhibit 3: Franchisee store to be 80% of incremental store openings

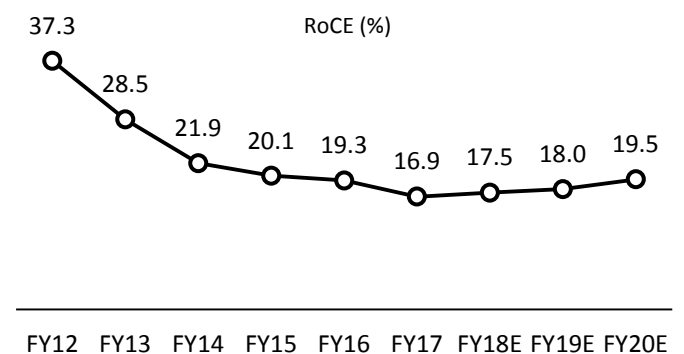
Source: Company, MOSL

Exhibit 4: Store level profitability to improve led by mix and technology

Source: Company, MOSL

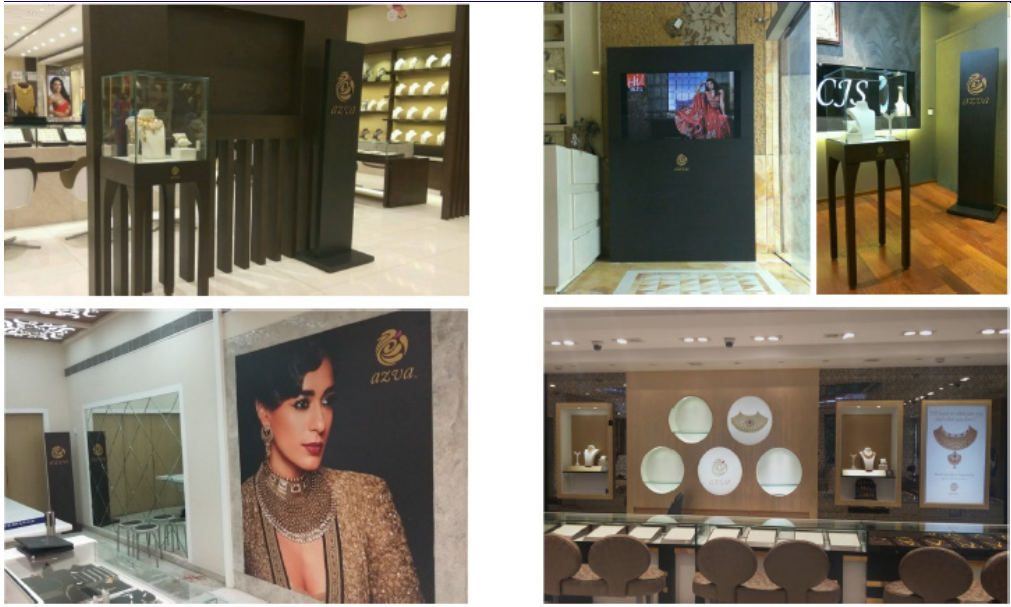
Exhibit 5: Asset turns to improve

Source: Company, MOSL

Exhibit 6: Resulting in improvement in return ratios

Source: Company, MOSL

Exhibit 7: 'Azva' brand lounges and zones



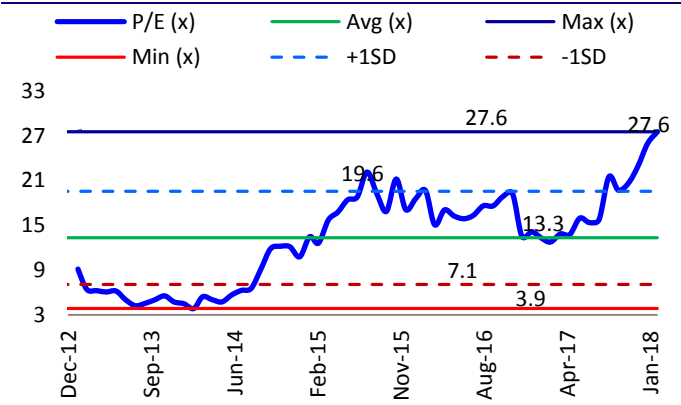
Source: Company, MOSL

Exhibit 8: Brand ambassador for PC Jewellers receiving good initial response



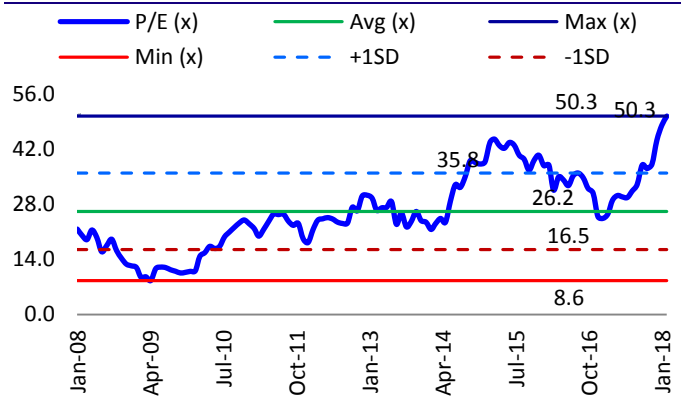
Source: Company, MOSL

Exhibit 9: PC Jeweller P/E (x)



Source: Company, MOSL

Exhibit 10: Retail sector P/E (x)



Source: Company, MOSL

Exhibit 11: Valuation Matrix

Company	Reco	CMP (INR)	Target Price		Mkt Cap		EPS Gr. YoY (%)			P/E (x)			RoE (%)	Div. (%)
			(INR)	Upside (%)	(INR B)	(USD B)	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY18E
Consumer														
Asian Paints	Neutral	1,189	1,282	8	1,140	17.9	2.6	19.8	20.5	55.1	46.0	38.2	26.9	0.8
Britannia Inds.	Buy	4,721	6,098	29	566	8.9	14.7	26.4	25.2	55.9	44.2	35.3	34.0	0.0
Colgate-Palm.	Buy	1,125	1,357	21	306	4.8	10.3	19.8	20.2	48.0	40.1	33.4	48.8	0.9
Dabur India	Buy	360	410	14	634	10.0	6.8	20.0	17.1	46.5	38.8	33.1	26.0	0.7
Emami	Buy	1,311	1,655	26	298	4.7	0.2	25.0	16.1	49.3	39.5	34.0	31.7	0.7
Godrej Cons.	Neutral	984	1,042	6	670	10.5	11.9	15.8	12.0	46.5	40.1	35.8	23.8	0.6
GlaxoSmith C H L	Neutral	6,405	5,785	-10	269	4.2	3.0	13.4	13.2	39.8	35.1	31.0	20.7	1.1
Hind. Unilever	Buy	1,379	1,497	9	2,984	46.9	16.2	21.0	17.3	60.4	50.0	42.6	75.9	1.2
ITC	Neutral	270	276	2	3,279	51.5	8.5	10.2	13.3	29.6	26.9	23.7	23.2	2.1
Jyothy Lab.	Neutral	370	375	1	67	1.1	-25.0	25.2	24.4	43.9	35.1	28.2	14.3	1.6
Marico	Neutral	316	355	12	408	6.4	-1.2	24.3	20.2	50.9	41.0	34.1	32.3	0.9
Nestle India	Neutral	7,856	8,173	4	757	11.9	4.0	14.2	20.9	61.1	53.5	44.2	39.1	0.8
P & G Hygiene	Neutral	9,297	9,461	2	302	4.7	14.0	16.6	18.5	61.4	52.6	44.4	64.8	3.5
Page Industries	Buy	23,066	28,650	24	257	4.0	24.3	39.3	31.8	77.8	55.8	42.4	39.8	0.4
Parag Milk	Neutral	296	314	6	25	0.4	147.7	38.7	35.6	33.2	23.9	17.6	10.8	0.0
Pidilite Inds.	Buy	900	1,044	16	462	7.2	2.9	20.7	15.5	52.3	43.3	37.5	24.1	0.5
United Breweries	Buy	1,180	1,320	12	312	4.9	68.9	22.4	24.2	80.4	65.7	52.9	15.5	0.1
United Spirits	Neutral	3,825	3,449	-10	556	8.7	36.5	53.5	37.3	104.9	68.3	49.8	18.9	0.0
Retail														
Jubilant Food.	Sell	1,927	1,359	-29	127	2.0	114.2	28.0	31.8	89.9	70.2	53.3	16.5	0.1
PC Jeweller	Buy	549	6456	17	213	3.3	41.0	22.3	27.8	36.5	29.9	23.4	16.5	0.2
Titan Company	Buy	907	973	7	806	12.7	37.7	27.7	24.9	73.0	57.1	45.7	23.2	0.4

Source: Company, MOSL

Story in charts

Exhibit 12: Overall revenue to grow at a CAGR of 22.8% over FY17-20

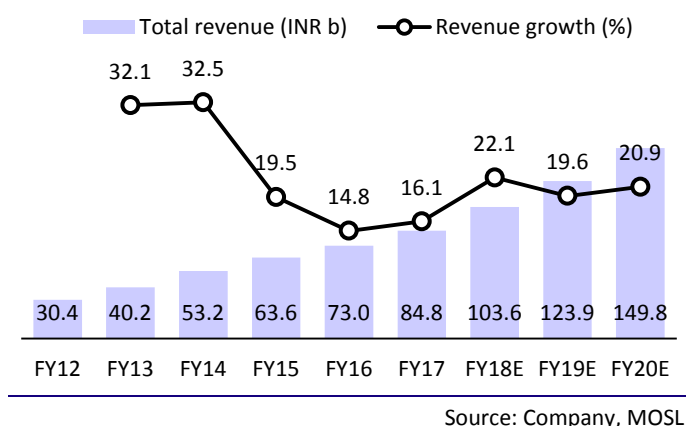


Exhibit 13: Gross margin to expand 100bp over FY17-20

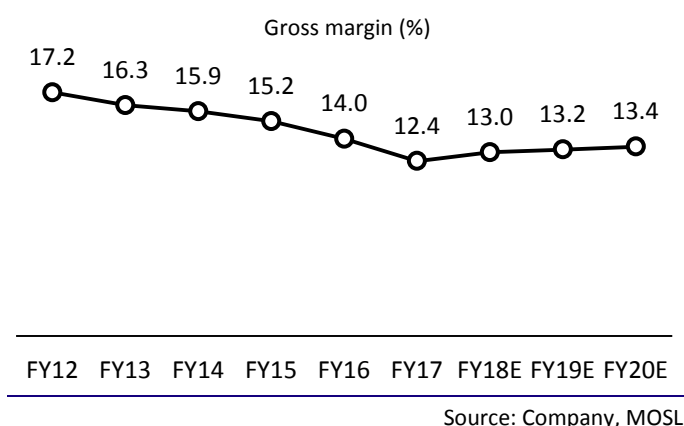


Exhibit 14: Ad spends and marketing expenses combined are expected to increase to 0.9% of sales (currently 0.4%)...

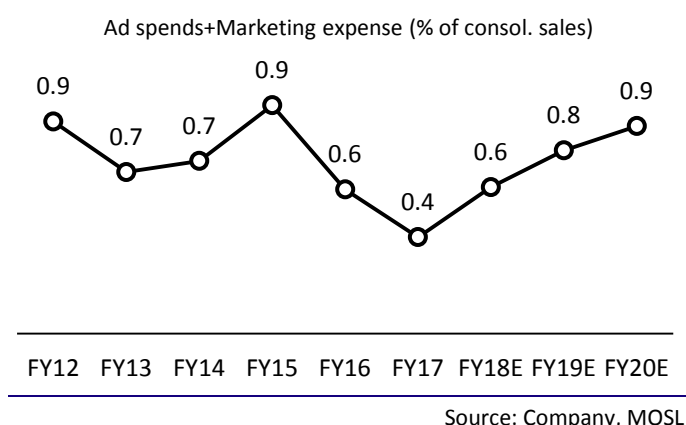


Exhibit 15: ...which will restrict EBITDA margin expansion

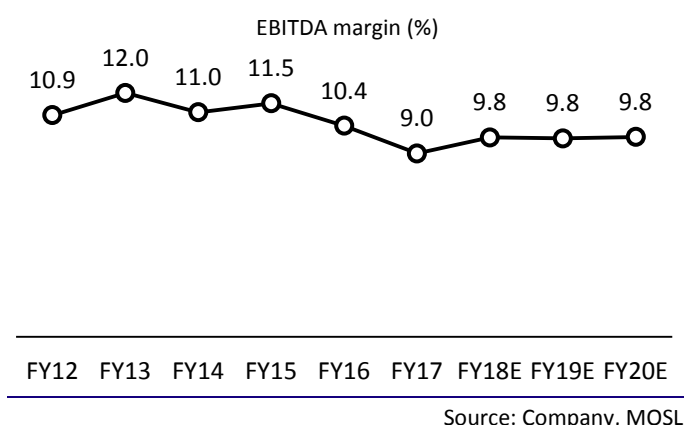


Exhibit 16: EBITDA to grow at a CAGR of 24.4% over FY17-20

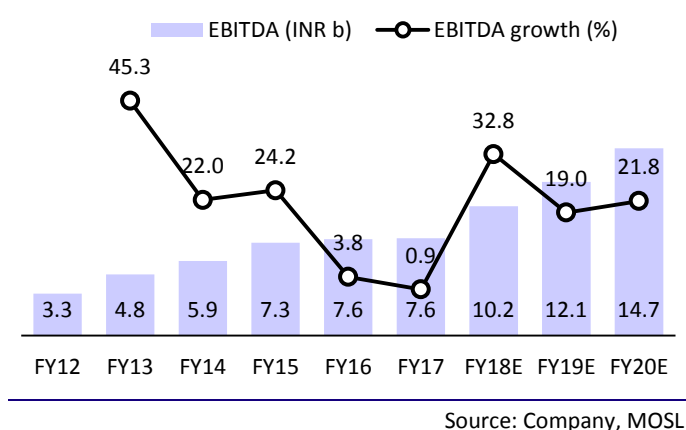
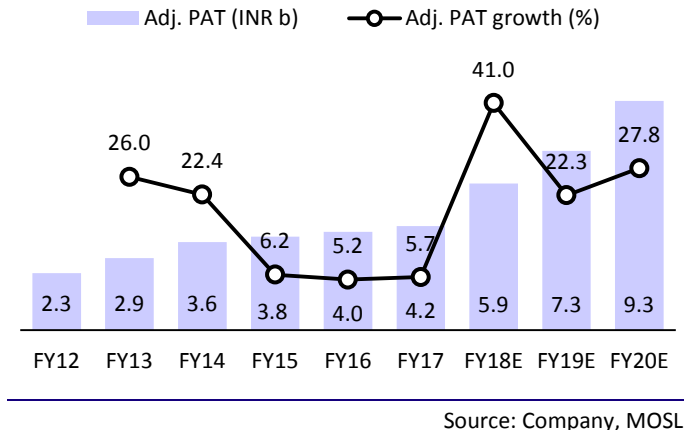


Exhibit 17: Adj PAT to grow 30.1% CAGR over FY17-20



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	427	611
EBIT	7,072	7,355	7,425	9,868	11,663	14,109
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	10,836	13,849
Total Tax	1,611	1,362	1,331	2,544	3,576	4,570
Tax Rate (%)	29.9	25.5	24.0	30.0	33.0	33.0
Reported PAT	3,784	3,982	4,210	5,935	7,260	9,279
Adjusted PAT	3,784	3,982	4,210	5,935	7,260	9,279
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	40,390	47,762
Net Worth	19,906	24,091	33,519	38,501	44,332	51,704
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	49,026	55,398
Gross Block	1,474	1,138	1,333	1,883	2,863	3,923
Less: Accum. Deprn.	578	226	451	740	1,167	1,778
Net Fixed Assets	896	912	882	1,143	1,695	2,145
Capital WIP	0	0	0	550	650	670
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	93,036	108,594
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	9,886	9,789
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	46,587	52,489
Appl. of Funds	26,599	33,676	41,214	45,196	49,026	55,398

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	131.2
DPS	1.5	3.4	1.0	2.0	3.0	4.0
Payout (%)	18.3	40.1	11.3	16.1	19.7	20.5
Valuation (x)						
P/E			51.5	36.5	29.9	23.4
Cash P/E			48.9	34.8	28.2	21.9
P/BV			6.5	5.6	4.9	4.2
EV/Sales			2.5	2.1	1.7	1.4
EV/EBITDA			27.8	21.1	17.5	14.3
Dividend Yield (%)			0.2	0.4	0.5	0.7
FCF per share			18.7	3.0	11.1	7.8
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	43.3	38.2
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	10,836	13,849
Depreciation	230	227	225	289	427	611
Interest & Finance Charges	1,986	1,978	2,132	1,389	827	260
Direct Taxes Paid	-1,289	-1,395	-1,826	-2,544	-3,576	-4,570
(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	5,475	4,150
Others	-64	-126	-574	0	0	0
CF from Operating incl EO	3,327	160	7,565	2,273	5,475	4,150
(Inc)/Dec in FA	-289	-34	-191	-1,100	-1,080	-1,080
Free Cash Flow	3,039	126	7,373	1,173	4,395	3,070
(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	35	118
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
CF from Fin. Activity	-5,648	163	853	-4,378	-5,372	-4,365
Inc/Dec of Cash	-461	576	8,501	-2,169	139	-97
Opening Balance	3,301	2,840	3,416	11,917	9,747	9,886
Closing Balance	2,840	3,416	11,917	9,747	9,886	9,789

NOTES

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Metropolitan Stock Exchange Of India Ltd. (MSE) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://online-reports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf>

Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

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. The matter is currently pending.

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