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Entering
A GOLDEN ERA

Thangamayil Jewellery

INSTITUTIONAL RESEARCH

Thangamayil Jewellery

Entering a golden era

BUY

CMP *(as on 29 Aug 2024)*	INR 2,030
Target Price	INR 2,500
NIFTY	25,152

KEY STOCK DATA	
Bloomberg code	TJL IN
No. of Shares (mn)	27
MCap (INR bn) / ($ mn)	56/664
6m avg traded value (INR mn)	67
52 Week high / low	INR 2,148/1,140

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	62.4	48.2	61.4
Relative (%)	52.2	34.9	35.2

SHAREHOLDING PATTERN (%)	Mar-24	Jun-24
Promoters	67.32	67.32
FIs & Local MFs	11.52	12.08
FPIs	0.98	1.08
Public & Others	20.18	19.52
Pledged Shares	1.60	1.60

Source : BSE

Pledged shares as % of total shares

Entering a golden era; initiating coverage with a high-conviction BUY: We believe Thangamayil Jewellery, a leading jewellery player in Tamil Nadu, is set to achieve 26%, 33%, and 41% revenue, EBITDA, and PAT CAGR, respectively, over FY24-27. This growth will be driven by the benefits of formalisation, accelerated store expansion, its value-for-money offerings, and the easy availability of capital at competitive interest rates. We view TJL as the D-Mart of Tamil Nadu's jewellery retail sector, applying principles of "high inventory turns and reasonable margins," in contrast to other listed jewellery players who focus on "high operating margins and low inventory turns" to generate respectable return ratios. We initiate coverage with a high-conviction BUY and a target price of INR 2,500 (25x September 2026 EPS, representing a 25% premium to its 5-year one-year forward average PE). We anticipate significant rerating, as TJL's ROE improves from 18% in FY23 to 32% in FY27, substantially surpassing that of Titan, the market leader in the organised jewellery space.

- **Store expansion opportunity—just getting started:** We expect TJL to add 30 large-format stores over FY25-27, nearly doubling its existing store area, and anticipate a 26% sales CAGR over FY24-27, supported by favourable external and internal tailwinds. Historically, management has been conservative in store expansion, adding only 19 stores over a decade from FY14 to FY24.
- **External tailwinds**: Formalisation within the jewellery industry has accelerated following the implementation of hallmarking norms starting in June 2021. Additionally, the recent Union Budget's import duty cut from 15% to 6% in July 2024 is expected to further benefit the sector. We believe organised jewellers like TJL are poised to capture a significant share of the Tamil Nadu market. In the initial phase, many customers are likely to shift from small, traditional jewellers to value-focused retailers. This shift is driven by the latter's ability to offer a better customer experience, a wide range of products in larger store formats, reasonable making charges, and access to finance at competitive interest rates (with the average borrowing cost decreasing from 6.7% in FY20 to 4.8% in FY24).

Financial Summary (INR mn)

Year Ending March	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	28,766	36,908	46,285	60,590	74,181
EBITDA	1,290	1,922	2,776	3,759	4,669
APAT	630	1,066	1,633	2,326	2,980
Diluted EPS (Rs)	23.0	38.9	59.5	84.8	108.6
P/E (x)	88.9	52.5	34.3	24.1	18.8
EV / EBITDA (x)	47.1	31.3	22.4	16.5	13.2
Core RoCE (%)	10.3	13.7	16.9	18.5	19.7

Source: Company, HSIE Research

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- **Internal tailwinds**: In addition to external tailwinds, management believes that the company is well-positioned for aggressive store expansion due to: (a) its competitive edge of offering "value for money" with the lowest making charges; (b) its managerial bandwidth, with significant senior-level hires made in recent years to manage large-scale operations; (c) easy access to low-cost gold on lease and advance purchase schemes, providing ample room for growth; (d) strong brand recall, supported by Satellite advertising across Tamil Nadu; and (e) limited competition from mainstream jewellery brands, which find it challenging to operate in Tier 2 and Tier 3 cities, where over 70% of its current stores are located. We believe TJL will be a major beneficiary as customers are unlikely to migrate directly from small, traditional stores to large mainstream jewellers. Instead, they are more likely to gravitate towards mid-end jewellers like Thangamayil, which offer a more personal and engaged customer experience.

Is the balance sheet strong enough to support aggressive expansion?

- Jewellery retailing is a highly capital-intensive industry, making it crucial to assess whether the balance sheet has the strength to support an aggressive store expansion strategy. We expect the net debt-to-equity ratio to decline from 1.21x in FY23 to 0.5x in FY27, primarily due to:

  (a) The majority of the expansion is being funded through internal accruals and advance purchase schemes. (b) The easy availability of low-cost gold metal loans for top-quality borrowers, especially as several jewellers defaulted on mark-to-market requirements during the COVID-19 pandemic. (c) TJL's creation of a backup plan in case banks tighten credit to curb gold imports, including funding via an advance purchase scheme, which funded 35% of inventory in FY24 and is expected to sustain at current levels over the next few years, as well as the "Digi Gold" app, which could help the company reduce its capital requirements.

- TJL had previously undertaken a significant expansion, growing from 4 stores in FY09 to 31 stores in FY14, without having the appropriate systems, processes, and quality manpower in place. However, over time, TJL has achieved the right balance between family members and highly experienced professionals. The second-generation members are now fully in the driver's seat, effectively managing the company's operations.

Margins to move northwards

- We expect EBITDA margins to increase from 5.2% in FY24 to 6.3% in FY27, driven by the dual benefits of gross margin improvement and operating leverage. In our view, gross margins should see an improvement of approximately 100 basis points over FY24-27 due to:

  a) Increased contribution from high-margin studded jewellery. b) Economies of scale and opportunistic increases in making charges for plain gold jewellery. c) A reduction in benefits offered under the EMI-based purchase scheme (with making charges waivers reduced from 100% to 75%).

- EBITDA margins should see a more significant improvement of 110 basis points over FY24-27 as the benefits of accelerated store expansion begin to materialise. We anticipate a 41% CAGR in PAT over FY24-27, with only a marginal increase in interest costs due to the rising contribution of low-cost gold-on-lease. Additionally, ROE is expected to increase significantly, rising from 24% in FY24 to 33% in FY27, which is notably higher than that of Titan, the market leader in the organised jewellery space.

All ducks in a row for a multiple rerating

- We consider the following things for a multiple rerating: (a) longevity and stability in revenue as well as profitability growth rates besides hygiene like corporate governance checks; b) improvement in return ratio; c) doing the former (combined points a and b) without taking excessive balance sheet risk. Moreover, relative financial outperformance vs other peers will be an added advantage and ensure decent multiple rerating from a medium-term perspective.

- TJL is trading at 30x on a 1-year forward basis, a 50% premium to its 5-year average one-year forward PE multiple. We believe this premium is justifiable and expect the premium to inch up further as it is expected to see – a) 41% EPS CAGR over FY24-27, which is far higher than the 10% EPS CAGR seen over FY11-FY24, thereby significantly uplifting earnings profile; b) 20%+ revenue growth from a medium-term perspective, given aggressive store expansion and market share gains on account of mid to high single digit SSSg; c) RoE is expected to notch up to 32% in FY27 from 24% in FY24.

- Titan is trading at 50x FY27 EPS but at an earnings CAGR of 21% over FY24-27, given increased competitive intensity, as more and more organised players cruise ahead with their capital-raising plans. In our view, if we're to account for constraints related to Thangamayil i.e. (a) single state presence; (b) gold inventory not completely hedged (c89% hedging as of 31st March,24) leaving it to vagaries of gold price fluctuations; (c) blend of professionals and promoters to handle the business operations, one cannot justify a discount of more than 60% vs Titan. As a result, we are more comfortable in allocating 25x multiple to the company, a 60% discount to the market leader i.e. Titan.

Thangamayil has an edge over Titan across all parameters

	Titan	Thangamayil
Revenue (FY24-FY27E CAGR %)	15.2	26.2
PAT (FY24-FY27E CAGR %)	21.3	40.8
FY24 ROE (%)	32.9	24.2
FY27E ROE (%)	31.4	32.1

Source: Bloomberg, Company, HSIE Research

Industry Overview

- India consumes c.700-800 tonnes of gold annually, and it is believed that Indian households cumulatively hold c.23-24,000 tonnes of gold – this despite the jewellery industry facing many regulatory and structural challenges. Gold jewellery has not meaningfully lost its lustre and India's demand for gold remains insatiable.

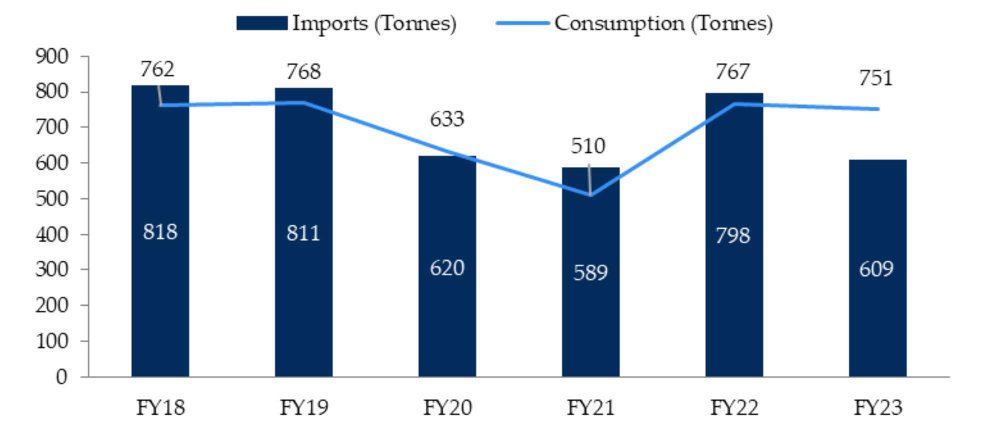
- Gold jewellery is deeply intertwined in the life of every Indian – it is given to a bride at her wedding (in the form of Stree Dhan), and it is given on festivals, and special occasions.

Wedding jewellery occupies a lion's share of the overall demand in India

Source: WGC report, HSIE Research

- Although demand for gold remains broad-based across India, south India has the highest share and constitutes 40% of total gold demand. People in the south are relatively more conservative (lower risk appetite) and prefer gold jewellery/real estate over other investments. Moreover, in the south, devotees give a lot of gold jewellery to temples as offerings to deities.

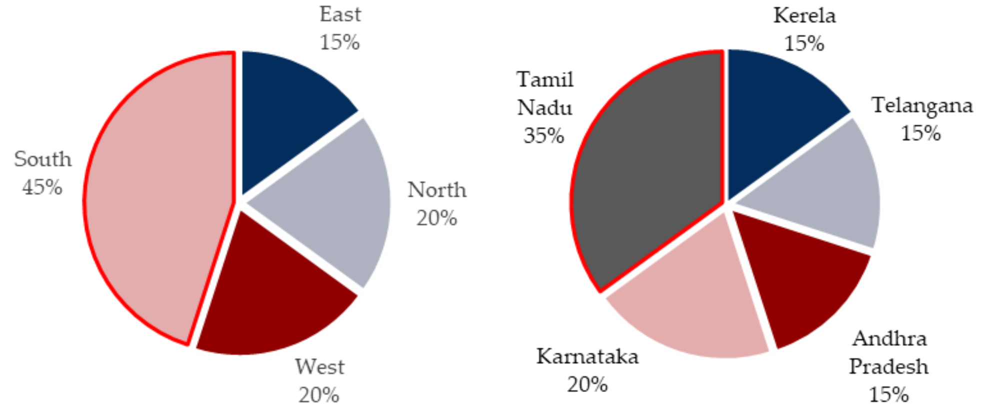
India on an average imports 700-800 tonnes of gold annually



Source: WGC report, Ministry of Commerce & Industry, CRISIL MI&A Research, HSIE Research

- Within South India, Tamil Nadu holds the highest share of the gold jewellery market due to economic prosperity and a larger area vs. other states. TN is the second-largest state economy in India and the largest in south India with a GDP of US$ 321bn, led by services at c.53%, manufacturing at c.34%, and agriculture at c.13%.

South constitutes meaningful chunk of India's gold demand ; Tamil Nadu has highest salience within South India

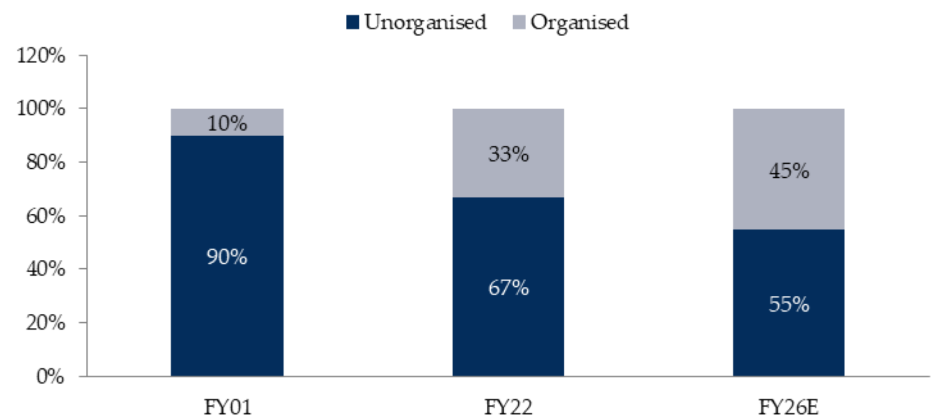


Source: WGC report, HSIE Research

External tailwinds

- Formalisation within the jewellery industry has sped up post-implementation of hallmarking norms with effect from June 2021. Moreover, import duty cut from 15% to 6% in the recent Union Budget in July 2024 is likely to add further cherry on the cake. We believe organised jewellers such as TJL are likely to take away meaningful pie within the Tamil Nadu market, given most of its prospective customers, in the initial phase, are likely to switch from mom-and-pop jewellers to value jeweller retailers, given the latter has the ability to offer better customer experience and varied range of products within the large store format at reasonable making charges and ability to do so given its access to finance at competitive interest rates (the average cost of borrowing has come down from 6.7% in FY20 to 4.8% in FY24).
- Management highlighted that above-average rainfall shall bode well for Thangamayil, given more than 65-70% of business comes from rural and semi-urban areas.

Goldilocking formalisation



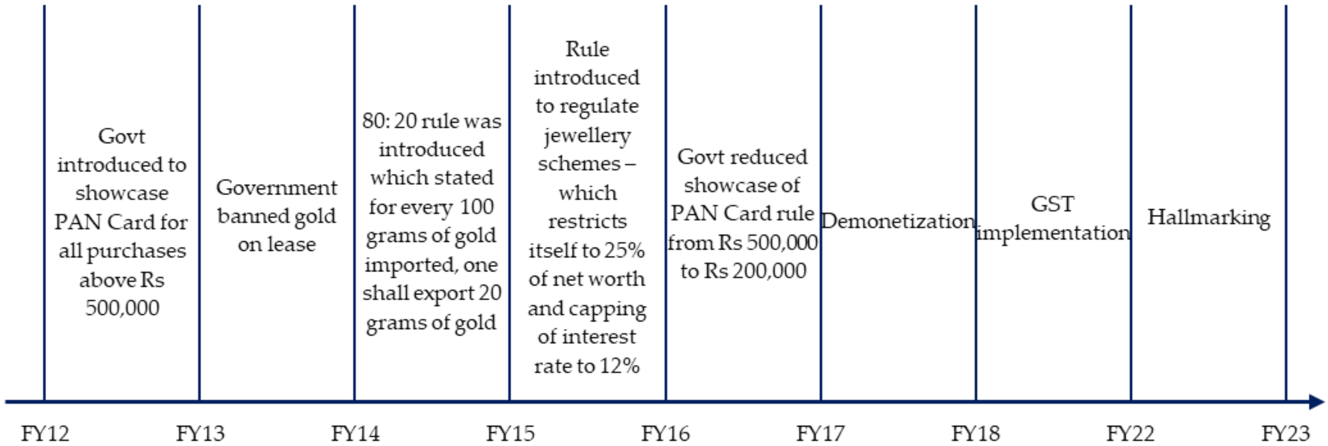
Source: Industry, CRISIL MI&A Research, HSIE Research

Why will organised players continue to gain market share?

- Mom-and-pop jewellers have a very strong footing in a particular area, as they charge lower making charges (compared to organised players), and at the same time, frequently resort to under-karatage (for example, they dupe customers by marketing 22-carat jewellery which must have a purity of 91.6% and actually selling 20-carat jewellery with a purity of 83.3%). They do this to maintain profitability, among other reasons.
- With the imposition of strict hallmarking norms and the recent cut in customs duty from 15% to 6%, these small jewellers will have to significantly increase making charges, thereby providing a competitive edge to large retailers, who have always had the advantage of range, design, and superior customer experience.
- Organised players have a clear "right to win" over hordes of mom-and-pop jewellery stores mainly due to two reasons – a) larger store area – which gives them the ability to stock up a range of jewellery designs, which significantly increases consumer delight as jewellery is high ticket value – customers love to have choices and touch-and-feel before making such a big purchase decision; b) ability to procure gold inventory at highly competitive interest rate (blended cost of 5-6%), which is significantly lower than average cost of capital of minimum of 11-12% for small players. Incrementally, better service quality, supply chain efficiencies and enhanced transparency provide them with an edge over standalone jewellers.

Moreover, regulations which transpired over the last few years have strengthened organized players and we believe hallmarking was the nail in the coffin which further accelerated the shift towards organised industry.

Regulatory changes in favour of formalisation



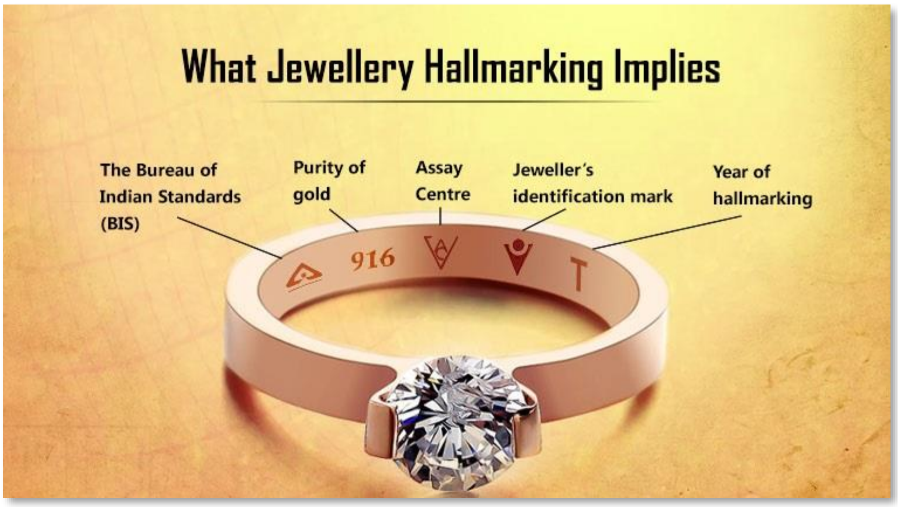
Source: HSIE Research

Is hallmarking a harbinger of formalisation?

What were the hallmarking norms before mandatory implementation in June 2021?

- Here, we provide a brief overview of old hallmarking guidelines prevalent before it became mandatory on 15th June 2021.

Earlier hallmarking norms



Source: HSIE Research

BIS hallmark for gold jewellery consists of the following five components (read this from Left to right):

1. BIS Stamp – the BIS logo.
2. Purity of the gold – a three-digit number indicating the purity of the gold in part per thousand formats. A 916 hallmark would certify a purity of 916 per 1000, that is 91.6%, translating to a 22-carat purity of gold.
3. Assay centre – the logo of the assaying centre.
4. Jeweller's identification mark – logo/code of the jeweller.
5. Year of hallmarking – a code denoting the date of hallmarking.

- Despite hallmarking regulations being in place, most jewellers just implemented them in letter, and not in spirit, as hallmarking norms were not mandatory at that time. Moreover, our channel checks revealed the following three challenges:

  1. **Exchange-ability/illiquidity challenge:** Since hallmarking was not legally mandatory, jewellers were not willing to accept hallmarked pieces of other jewellers, due to the lack of trust and the way hallmarking was carried out. Most mom-and-pop jewellers were going ahead with certifying jewellery with a '916 stamp' proclaiming it as hallmarked jewellery, without complying with other conditions of hallmarking and without a BIS license. By law, a jeweller must register with BIS and procure a license for selling hallmarked jewellery. Moreover, due to low awareness/education amongst customers on hallmarking, this practice continued for a significant period.
  2. Due to the above issues, customers had to exchange their old, hallmarked jewellery only with the jeweller from where they purchased the product.
  3. There was no audit trail since the quantum of hallmarked gold was never properly reported to BIS.

What has changed after the mandatory implementation of hallmarking norms?

Latest hallmarking norms

Source: HSIE Research

- Before we conclude that the new hallmarking regulations are likely to change the game forever in favour of organised jewellers, it is worthwhile to understand what Hallmarking Unique ID (HUID) is all about.
- HUID is a unique 6-digit code that will be given to every piece of jewellery at the time of hallmarking, which will help identify the jeweller or the Assaying and Hallmarking Centres (AHCs) which have hallmarked the jewellery.
- Earlier, the hallmarking stamp had five symbols — the BIS logo, purity in carats (K) and fineness, the identification mark of the AHC and jeweller stamp, and the year of hallmarking. The six-digit alphanumeric HUID, with which every article would have to be separately tagged, will replace the last three stamps, with the first two stamps remaining the same.

How do the government and customers benefit from new hallmarking norms?

- **Trail can be easily established:** With hallmarking unique ID (HUID), the government has embarked on a mission to track each piece of gold that is sold in the country. The government wants to do so by attaching unique identification numbers to them.
- Hypothetically, this HUID for gold is like a PAN or Aadhar number for an individual. HUID will give a unique identity to each piece of gold in the country. It will help track down the entire journey of that piece of gold from the point of sale to the time after it's been purchased.
- However, the government has stated that it will limit HUID rules to hallmarking centres only (i.e., jeweller manufacturers), but jewellers and consumers will not be traced via HUID.
- We have a slightly different take on this. We believe if the government can capture one leg of the transaction, i.e., the quantum of jewellery hallmarked by manufacturers, then subsequent sales will be much easier to track since all banking and financial systems (GST number, bank account details) will be integrated.

Reduction in gold smuggling to majorly raise organised jewellers' competitiveness

- Hallmarking has compelled all jewellers to procure gold through a legal route since gold purchased can be tracked right from procurement to manufacturing. Earlier, there used to be a difference of 12-15% between the landed price of legal and illegal gold before the announcement of the recent union budget, with illegal gold being cheaper. We believe the recent cut in customs duty from 15% to 6% will further aid formalisation, as there is no point in procuring gold through a non-authorised route, and the market for illegal gold and unorganised manufacturers has completely vanished.

How advantageous is hallmarking for customers?

Hallmarking is advantageous to customers because of the following reasons:

- Significant increase in liquidity: Hallmarked jewellery, as per new norms, can be easily liquidated across jewellers since the content and purity of gold will be 100% compliant, as there is a stricter penalty in case of non-compliance.

- Increased transparency will lead to significant improvement in willingness to spend: We believe new hallmarking norms will significantly increase the confidence of consumers, as they are now able to get 100% of their worth. Our ground checks suggest that if hallmarking norms are implemented in the true spirit, then the organised jewellery market is set for healthy growth in the medium term.

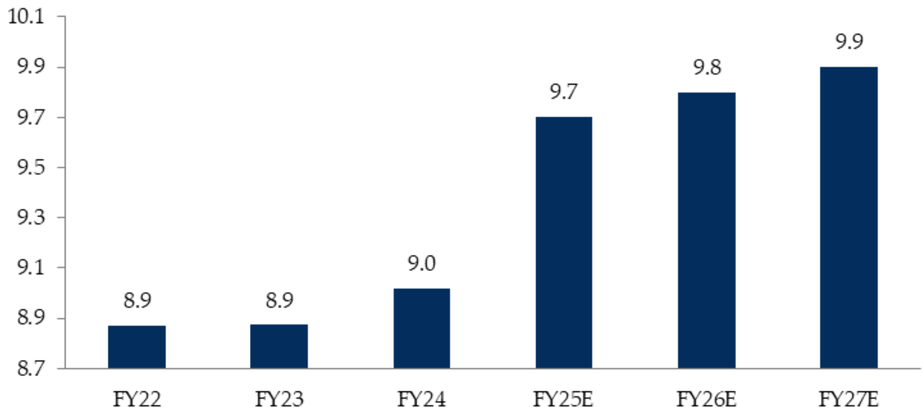
Internal tailwinds

- Apart from external tailwinds, management believes that it is ripe for aggressive store expansion, given its (a) moat of "value for money" offering via charging the lowest making charges; (b) managerial bandwidth, given that the majority of hiring is done at senior level over the past few years to handle such massive scale; (c) easy access to low-cost gold on lease and advance purchase scheme, thereby providing enough headroom for growth; (d) significant brand recall, as it is doing Satellite advertising for entire Tamil Nadu; and (e) lesser competition from mainstream jewellery brands, as they find difficult to operate in T2/T3 cities, where more than 70% of its current store are located. In our view, TJL will be the biggest beneficiary as customers are unlikely to migrate directly from mom-and-pop stores to large and mainstream jewellers and are likely to find solace with mid-end jewellers such as Thangamayil, whom they find much more connected and engaging at a personal level.

Positioning as a value-for-money jeweller

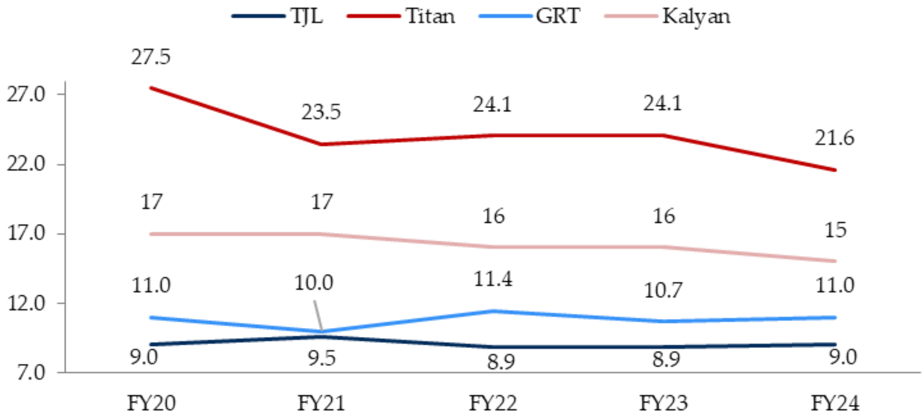
- Its positioning as a "Value Jeweller" creates a flywheel effect, ensuring customer loyalty through its commitment to the concept of "Everyday Low Prices." The majority of TJL's customers belong to SEC B and SEC C, where price competitiveness serves as a significant moat for the company. Thangamayil is able to charge reasonable making charges due to several factors: a) best-in-class inventory management practices, b) low operating costs, with the majority of the staff based in Madurai, and c) the involvement of family members who bring varied and extensive experience to the business.

Gross margins to inch up over time



Source: Company, HSIE Research

Gross margins of TJL are considerably lower than all competitors, as they embody principles of D-mart

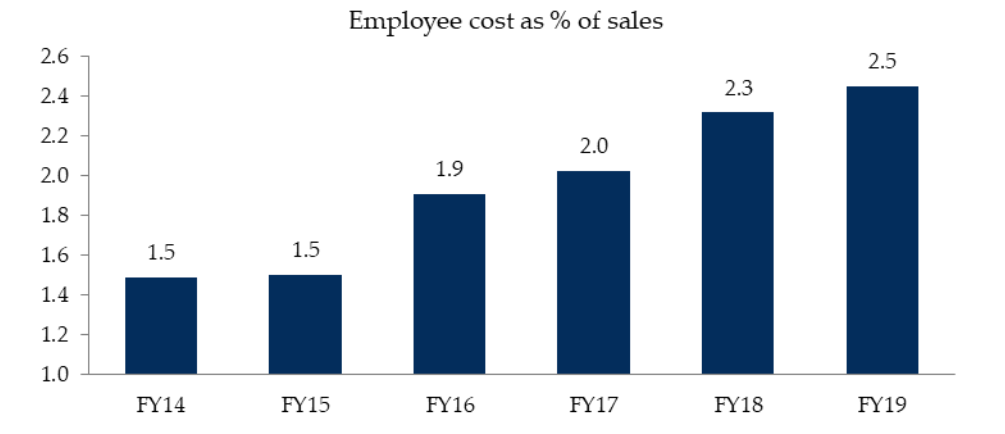


Source: Company, HSIE Research

Managerial bandwidth

- TJL's revenue grew at a 32% CAGR over FY08-14, driven by a) capital raised from its IPO (₹350 million) and b) soaring gold prices. Consequently, the number of stores expanded from 4 in FY09 to 31 in FY14. However, post-FY14, TJL faced numerous regulatory challenges (as highlighted in the earlier table), prompting the management to rethink their strategy and consolidate business operations before moving to the next stage.
- However, the challenge with this kind of rapid expansion was twofold: a) there were no systems and processes in place to manage such a massive scale, and b) very little gold was hedged, leading the company to report losses over two consecutive years (FY14 and FY15) due to regulatory interventions.
- In response, the company took decisive actions: a) it brought in a series of professionals to manage the enhanced scale of operations, and b) it adopted a gold hedging policy, with almost 90% of gold hedged in FY24 compared to a negligible proportion previously.

TJL significantly enhances its managerial talent from FY14-19 reflected in higher employee costs



Source: Company, HSIE Research

What is the long-term roadmap for professionalising the management (as of now, key positions are being held by the family)?

- Although the organisational and store structure is in place, with store managers, zonal managers, and branch managers overseeing operations, there are also separate professional heads for various categories, such as wedding collections, kids' collections, diamond purchases, and lightweight jewellery.
- Currently, key functions like finance, supply chain, marketing, IT, and procurement are managed by the promoter's family, to appoint professionals as needed in the future.

Recent additions to the team

Name	Yr. of joining	Designation	Department/ Area
Sivakumar R	2013	Assistant GM	Digi Gold
Raghuram R	2016	Senior Manager	Silver Sourcing
Manojkumar Chandrashekharan	2017	Assistant GM	Diamonds
Suresh Kumar D	2018	Senior Manager	Sales & marketing
Karthik M Eyan	2021	Regional Manager	Trichy

Source: LinkedIn, HSIE Research

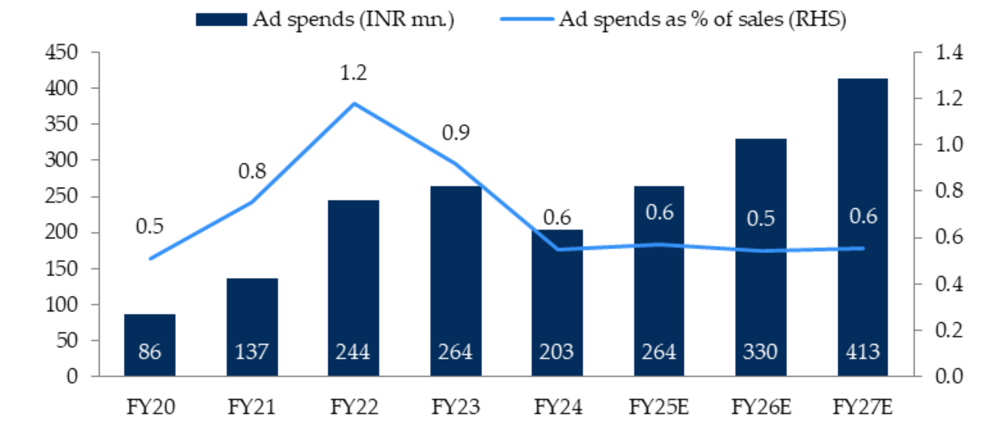
Why TJL is quickly able to ramp up its new stores

Thangamayil Jewellery has hit revenue of INR 400,000/per sq ft quickly within 12-18 months after the store was launched due to the following reasons**:**

- **Under-penetration provides an enormous opportunity for growth** despite strong brand recall: The brand is now very well known in the western and southern parts of Tamil Nadu. With incremental expansion being carried out in the same area after a lag of 7-8 years, given its under-penetrative nature, it is able to garner a run rate of INR 400,000/sq ft within 12-18 months of being launched.
- **State level satellite advertising vs local advertisement earlier done in cable channels.** Through this medium, it is targeting the Cauvery region and the mainstream Chennai market. Given the strong brand recall, there is latent demand for TJL products – however, since stores were not available in the vicinity, the company was losing these customers.
- **Continuous promotional and marketing activities post-relaunch**: Once a store is launched, it conducts a range of activities to increase footfall, such as 1) The "Happy Sunday" program, where customers with birthdays within the week are invited to the store on Sunday, 2) Hosting art and craft programs for kids, and 3) Inviting senior citizen groups for singing and engagement activities.

- **High focus on inventory turns:** With Goldratt (Israel-based consultant hired for inventory management) coming into the picture, inventory turns have improved – thereby predicting the right amount of inventory to be kept at a store – since their model enables a better understanding of the taste of customers in that region.

Thangamayil making right moves in strengthening its brand recall

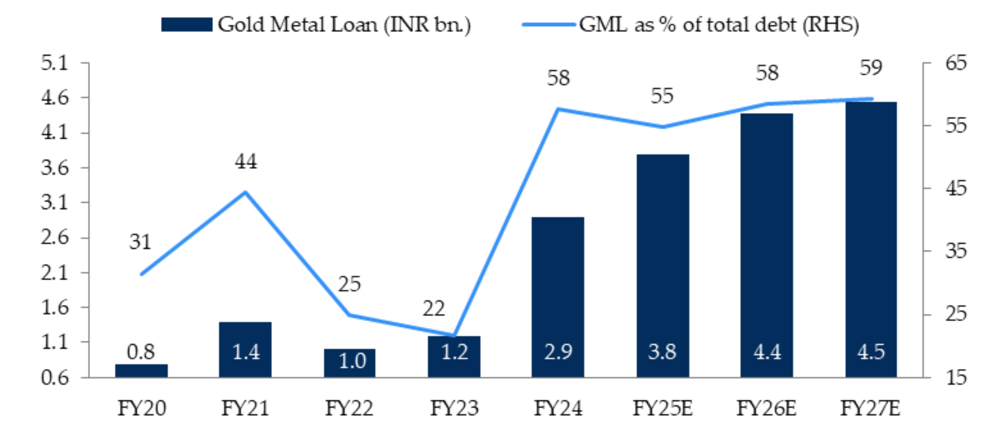


Source: Company, HSIE Research

Can TJL fund store expansion through internal accruals?

- Does the company have the balance sheet strength and management bandwidth to support this kind of aggressive expansion? Given that jewellery retailing is highly capital intensive, it is crucial to assess whether the balance sheet can support such rapid store expansion. We expect the net debt-to-equity ratio to decline from 1.21x in FY23 to 0.5x in FY27 due to: (a) healthy internal accruals, (b) the availability of low-cost gold metal loans to high-quality borrowers, as many jewellers defaulted on mark-to-market requirements during the COVID-19 pandemic, and (c) TJL's backup plans, including funding through the Advance Purchase Scheme (which financed 35% of inventory in FY24 and is expected to maintain similar levels) and the "DigiGold" app, which could help reduce reliance on traditional banking channels.

Easy access to low-cost gold on lease and advance purchase plan room to grow



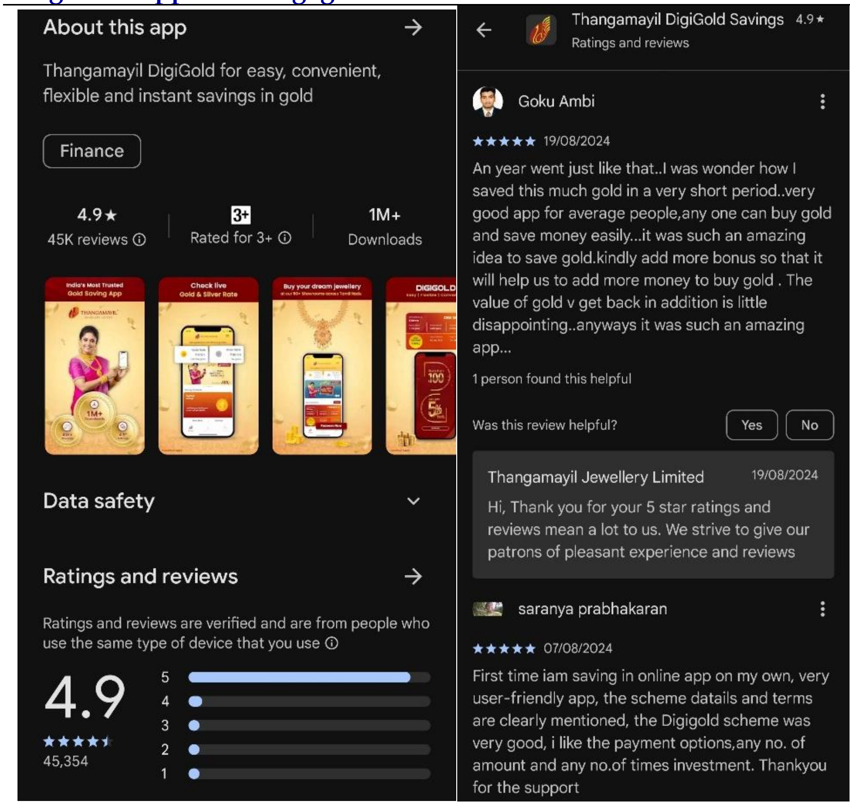
Source: Company, HSIE Research

- To reduce its reliance on bank funds, the company has significantly upped the ante on money collected through the advance purchase scheme. Moreover, it has also started the process of collecting deposits virtually through the "DigiGold" app; as earlier deposits collected through the Thangamayil advance purchase schemes were restricted to existing customers of Thangamayil and only where the company had branches.

Can the DigiGold app be a potential game-changer?

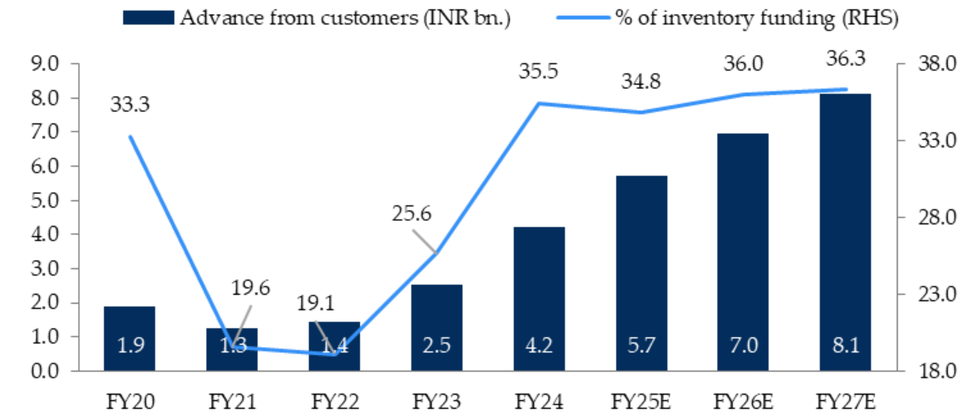
- We believe the DigiGold app has the potential to be a game changer, offering significant opportunities to increase the volume of deposits collected through the app. This potential arises from (a) the ability for customers to conduct transactions virtually anywhere in Tamil Nadu, and indeed across India; (b) the flexibility in instalment amounts, unlike the fixed monthly deposits required by the Advance Purchase Scheme; and (c) the option for customers to deposit any amount at their convenience within 11 months, as opposed to the Advance Purchase Scheme, which requires deposits to be made at the start of each month.

DigiGold app receiving good consumer feedback



Source: Company, HSIE Research

Advance purchase schemes funding meaningful part of inventory requirements



Source: Company, HSIE Research

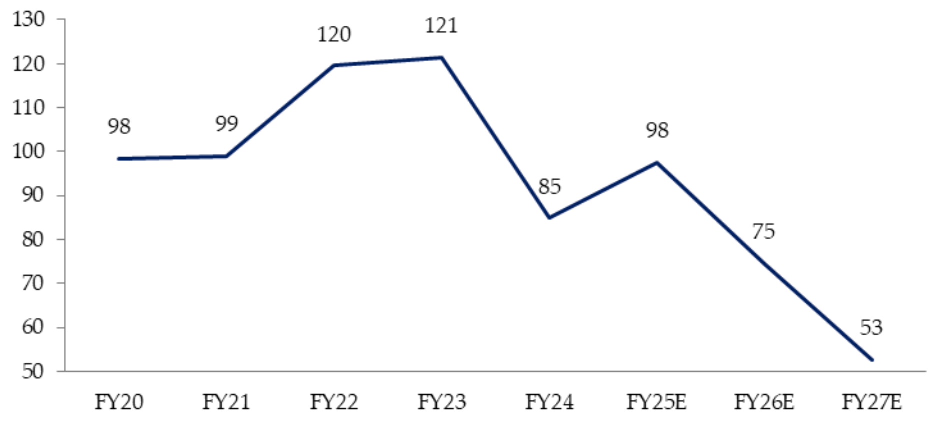
How does the company plan to fund its incremental inventory requirements ?

Fund flow statement

Particulars	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sq ft	60,686	60,686	68,181	80,181	88,518	1,20,018	1,45,018	1,70,018
Large format stores	34	34	38	40	50	59	69	80
Inventory	5,639	6,492	7,500	9,823	11,892	16,380	19,380	22,380
Incremental inventory	599	853	1,008	2,323	2,069	4,488	3,000	3,000
Funded by								
Internal accruals	11	826	(83)	(200)	847	1,100	1,134	1,693
Advance Purchase schemes	(117)	(608)	164	1,085	1,699	1,489	1,266	1,157
Debt	704	635	928	1,438	(478)	1,899	600	150
Net profits	457	866	385	797	1,233	1,633	2,326	2,980
Less : Dividend	82	137	137	165	274	327	465	596
Retained profits	374	729	248	633	958	1,307	1,861	2,384

Source: Company, HSIE Research

Net debt/equity ratio on a declining trend



Source: Company, HSIE Research

Store expansion—it is just getting started

- TJL underwent a massive expansion, growing from 4 stores in FY09 to 31 stores in FY14, without having the appropriate systems, processes, and quality manpower in place. However, over time, TJL has achieved the right balance of family members and highly experienced professionals. The second-generation members are now fully in the driver's seat, managing the business effectively.

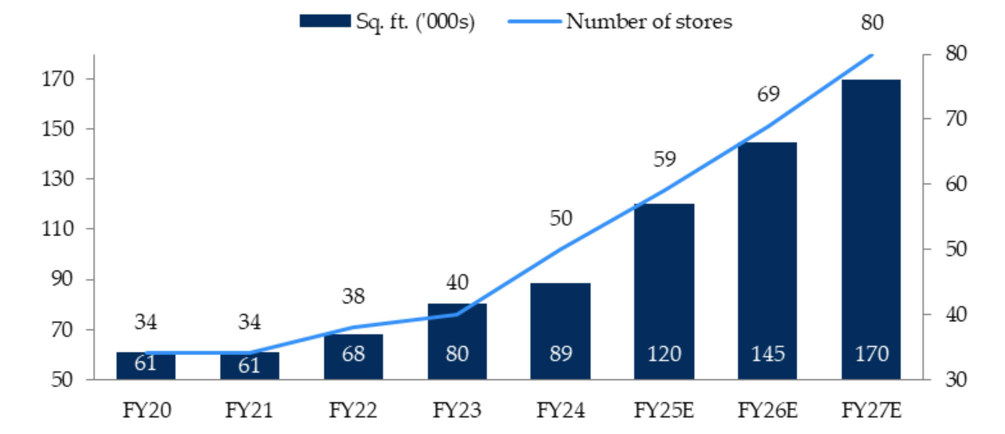
- We expect store expansion to accelerate and the number of large format stores to go up from 50 stores in FY24 to ~80 stores in FY27, with meaningful expansion planned in Chennai. Chennai constitutes ~40% of the Tamil Nadu market, but unfortunately, the company has not had a presence in this city so far. Notably, the company also does not have a presence in nearby cities as well—Vellore, Kanchipuram, Tiruvallur, Tindivanam, Ambur, Tiruvannamalai—which are a drive of 2-3 hours from Chennai.

Flagship store in Chennai (which is currently under construction) expected to be operational from January, 2025

Source: HSIE Research

- We expect the retail area to increase from 50 large format stores (88,518 sq ft area) in FY24 to 80 large format stores (1,70,000 sq ft area) in FY27.

Large format store openings to continue aggressively



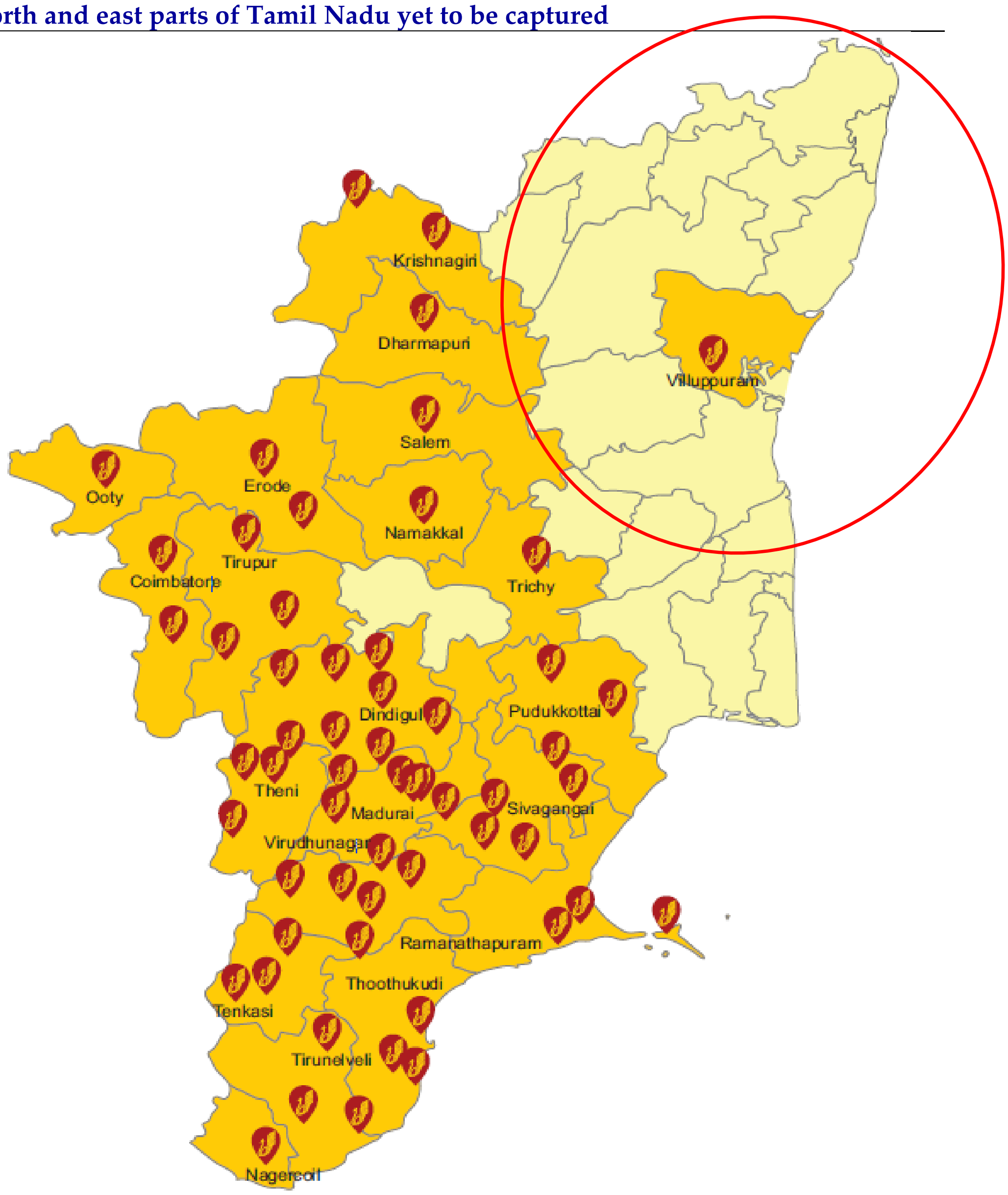
Source: Company, HSIE Research

Large potential markets in Tamil Nadu yet untapped; c40% of market by GDP yet to be tapped

District	FY24E GDDP (Rs. Bn.)	Number of Stores (FY24)	Non-penetrated districts' Contribution to Tamil Nadu GSDP
Thiruvallur	2,476		9.1%
Chennai	2,252		8.3%
Coimbatore	2,061	2	
Kancheepuram	1,891		6.9%
Vellore	1,384		5.1%
Erode	1,244	2	
Tiruchirapalli	1,169	1	
Thiruppur	1,049	3	
Salem	1,036	1	
Madurai	1,036	6	
Namakkal	944	1	
Thirunelveli	936	6	
Krishnagiri	855	2	
Kanniyakumari	759	1	
Cuddalore	758		2.8%
Virudhunagar	757	5	
Thanjavur	740		2.7%
Villupuram	725	1	
Thoothukudi	664	4	
Dindigul	630	6	
Thiruvannamalai	524		1.9%
Dharmapuri	484	1	
Pudukkotai	412	2	
Nagapatinam	358		1.3%
Karur	356		1.3%
Ramanathapuram	333	3	
Theni	321	4	
Sivagangai	300	6	
The Nilgiris	255	1	
Thiruvarur	236		0.9%
Ariyalur	184		0.7%
Perambalur	97		0.4%
Total	**27,225**	**58**	**41.3%**

Source: DES Tamil Nadu, Tamil Nadu Budget, Company, HSIE Research

North and east parts of Tamil Nadu yet to be captured



Source: Company, HSIE Research

Unit economics per store

Capex	
Average store size (A)	2500
Capex per Sq ft (B)	7000
Core capex (A * B)	17.5
Inventory requirement per store	
Assumed Gold rate (for 10 grams) (A)	70,000
Gold inventory (in Kgs) (B)	50
Gold inventory (A * B)	350
Diamond + Silver	32.5
Total inventory required per store	383
Capex (Rs mn)	17.5
Working capital (Rs mn)	383
Total investments per store	400

Store level Unit economics	
Gross margin	9.7%
Employee costs	1.0%
Rent	0.2%
Other operating costs	0.3%
Advertisement costs	0.6%
Store operating margin	7.6%

Particulars	Inventory Turns (x)			
	3.0	3.5	4.0	4.5
Revenue (Rs mn)	1,200	1,400	1,600	1,800
Store operating margin	7.60%	7.65%	7.70%	7.75%
EBITDA	91.2	107.1	123.2	139.5
Depreciation	(2.2)	(2.2)	(2.2)	(2.2)
EBIT	89.0	104.9	121.0	137.3
ROCE (%)	22%	26%	30%	34%
Capex (Rs mn)	400	400	400	400
Payback period (in years)	4.5	3.8	3.3	2.9

Source: Company, HSIE Research

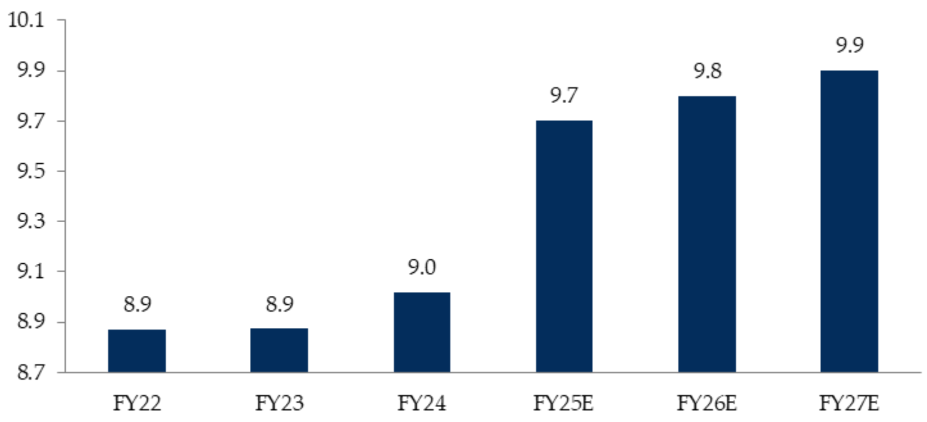
Rules of thumb

1. For every 100 sq ft of space, TJL requires 2 kg of gold. A 2,500 sq ft store will therefore require 50 kg of gold.
2. Each kilogram of gold requires at least one store employee. A store holding 50 kg of gold will need a minimum of 50 employees.
3. Store breakeven: The store reaches breakeven once it achieves an inventory turn of 2x.

Margins to move northwards

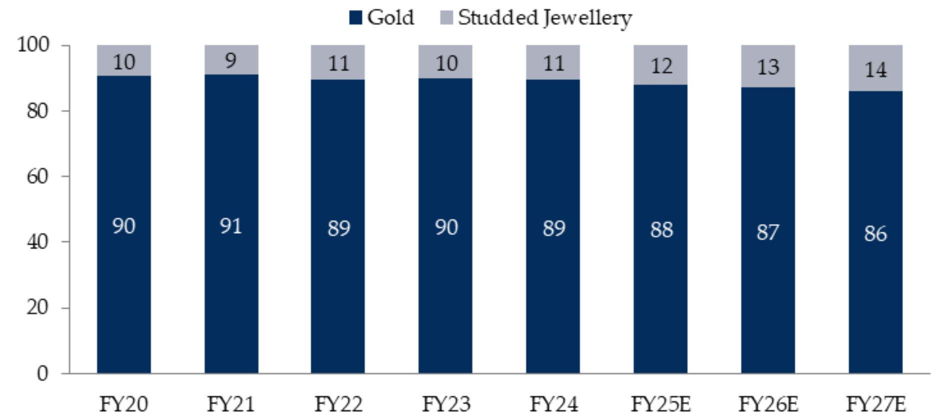
- Gross margins are expected to improve by ~100 bps over FY24-27 due to: (a) increased contribution from high-margin studded jewellery as the company expands into metro and Tier 1 cities and focuses on enhancing the mix of value-added jewellery; (b) economies of scale and opportunistic increases in making charges for plain gold jewellery; (c) a reduction in benefits provided under the Advance Purchase Scheme, with the making charge waiver reduced from 100% to 75%; and (d) the redemption of deposits collected through the Digi Gold app, which we believe is relatively high margin since the company does not have to provide a waiver on making charges, though this is partially offset by the 4-5% incentives offered for driving deposits.

Gross margins to expand moving ahead



Source: Company, HSIE Research

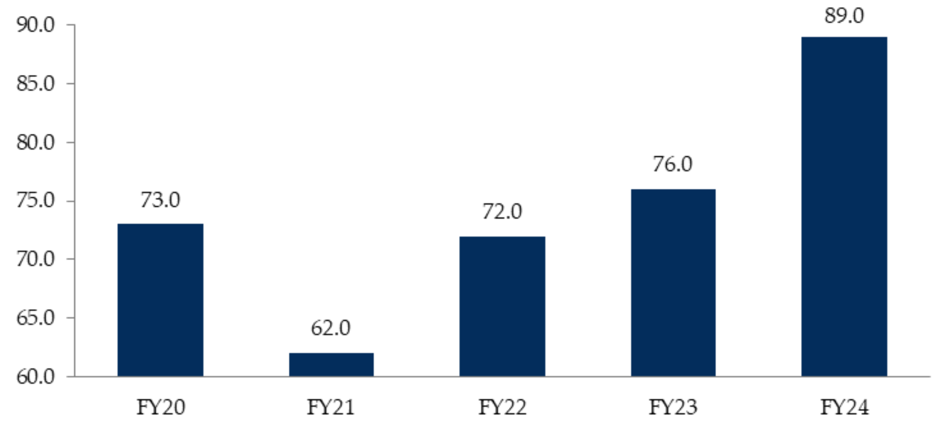
Studded share to move up as it focusses on metro/T1 cities and driving sales



Source: Company, HSIE Research

- We expect the gross margin to remain stable and trend upward, without being significantly affected by fluctuations in gold prices.

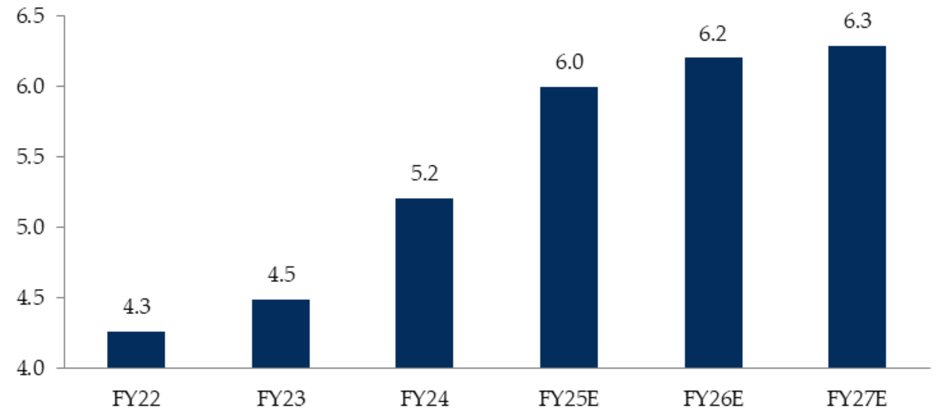
Gross margin to remain stable from here onwards as c90% of inventory was hedged in FY24



Source: Company, HSIE Research

- EBITDA margin should see a bigger bump-up (120 bps) over FY24-27 as benefits of accelerated store expansion start flowing through.

Adjusted EBITDA margin on a positive trajectory

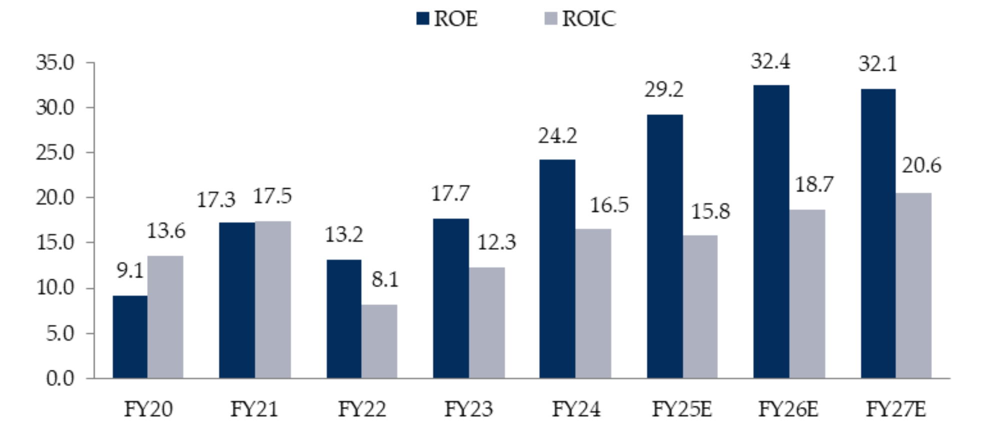


Source: Company, HSIE Research

Operating + financial leverage to drive c40% PAT CAGR over FY24-27

- We expect a 41% PAT CAGR over FY24-27, as interest costs see only a marginal uptick due to the increasing contribution of low-cost gold-on-lease. As its ROE improves significantly—from 24% in FY24 to 32% in FY27—it will surpass that of Titan, the market leader in the organised jewellery space.

Healthy ROE and ROIC growth

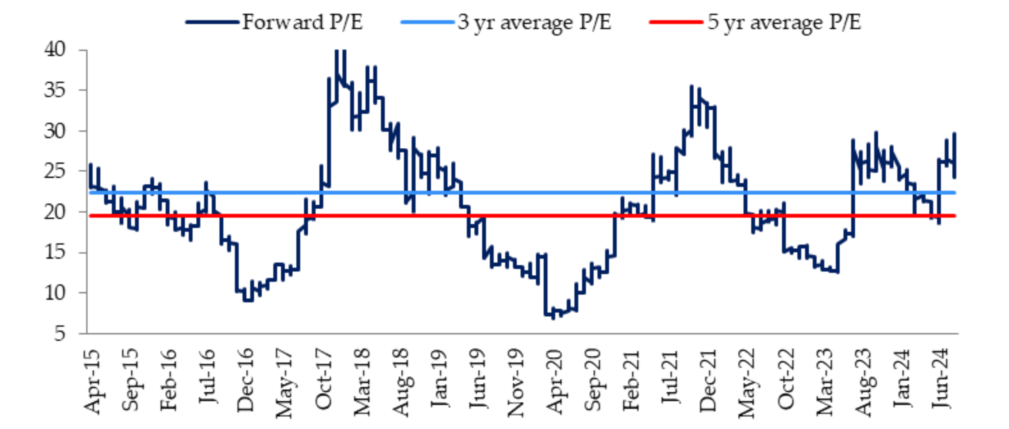


Source: Company, HSIE Research

All ducks in a row for multiple rerating

- We consider the following things for multiple rerating – a) longevity and stability in revenue as well as profitability growth rates besides hygiene corporate governance checks; b) improvement in return ratio; c) doing the former, without taking excessive balance sheet risk. Moreover, relative financial outperformance vs other peers will be an added advantage and ensure decent multiple rerating in the medium term.
- TJL is trading at 30x FY27 EPS, a 50% premium to its five-year average one year PE multiple. We believe this premium is justifiable and expect it to inch up further as it is expected to see – a) a 41% EPS CAGR over FY24-27, which is far higher than the 10% EPS CAGR seen over FY11-FY24, thereby significantly lifting the earnings profile; b) 20%+ revenue growth from a medium-term perspective, given aggressive store expansion and market share gains on account of mid to single digit SSSg; c) ROE is expected to notch up to 32% in FY27, from 24% in FY24.
- Titan is trading at 55x FY27 EPS; however, it has an earnings CAGR of 18% over FY24-27, reflecting the increased competitive intensity as more organised players advance with their capital-raising plans. In our view, considering the constraints faced by Thangamayil—namely (a) its single-state presence, (b) gold inventory that is not fully hedged (with 89% hedging as of March 31, 2024), leaving it exposed to gold price fluctuations, and (c) the blend of professionals and promoters managing business operations—a valuation discount of more than 60% compared to Titan cannot be justified.

Thangamayil is trading at 30x PE on one year forward basis, a premium of 50% to its five-year average



Source: Company, HSIE Research

Du Pont Analysis

Du Pont Analysis	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Profit Margin (%)	1.1	2.5	2.0	2.2	2.9	3.5	3.9	4.1
Asset Turnover	4.0	3.4	3.1	3.5	3.8	4.0	4.2	4.4
Financial Leverage	2.0	2.1	2.2	2.3	2.2	2.1	2.0	1.8
ROE (%)	**9.1**	**17.3**	**13.2**	**17.7**	**24.2**	**29.2**	**32.7**	**32.5**

Source: Company, HSIE Research

- We expect the ROE to improve from 24% in FY24 to 32% in FY27 (a) owing to a c100bps improvement in EBITDA margin; b) a reduction in working capital intensity (75 days in FY24 to 68 days in FY27), owing to better inventory management and increased advances from customers.
- The inventory turnover ratio is expected to move up from 3.1x in FY24 to 3.3x in FY27 despite significant store addition (doubling of retail area). Notably new stores are inventory turnover ratio dilutive since it takes at least 2-3 years before stores achieve maturity.

Thangamayil trades at a decent discount to peers

Company	FY24-FY27E CAGR (%)			P/E		ROE (%)	
	Revenue	EBITDA	PAT	FY24	FY27E	FY24	FY27E
Titan	15.2	19.6	21.3	89.7	50.2	32.9	31.4
Thangamayil	26.2	34.4	40.8	52.5	18.8	24.2	32.1
Kalyan	28.3	24.9	39.2	105.3	39.6	15.3	23.0
Senco	18.4	22.0	26.0	45.7	21.5	15.8	17.8

Source: Bloomberg, Company, HSIE Research

Working capital requirements to moderate

Cash conversion cycle (days of sales)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Inventory	122	130	132	125	118	129	117	110
Debtors	0	1	0	0	0	0	0	0
Payables	8	3	1	3	2	2	2	2
Advances from customers	40	25	25	32	42	45	42	40
Working capital (days of sales)	73	103	106	91	75	83	73	68

Source: Company, HSIE Research

Risks to our call

- **Family Disputes:** The promoter shareholding of the company is equally divided among three brothers, making the company vulnerable to disruptions in day-to-day operations in the event of family disputes. Currently, there are no signs of discord among the current or next-generation family members. To mitigate this risk, the promoters intend to transfer their family holdings into a trust to ensure that, in the event of a dispute, minority shareholders are not adversely affected.

- **Persistent Rally in Gold Prices:** After remaining relatively flat for nearly a decade (2010-2020), gold prices have surged dramatically, rising from approximately Rs 30,000 per 10 grams to Rs 70,000 per 10 grams. If this upward trend continues at an unprecedented rate, it could significantly dampen end-consumer demand, particularly among low- and middle-income families, who form the majority of the customer base.

- **Irrational Competition:** Over two-thirds of the company's stores are located in Tier 2 and Tier 3 cities, where mainstream large jewellers have minimal presence due to the challenges of operating in the highly competitive, value-conscious South Indian jewellery market. If these larger brands were to enter these markets aggressively under different brand names, the company’s store expansion and revenue growth momentum could slow down.

- **Stringent Regulations:** Government efforts to curb gold imports, as seen from 2012-2017, could impact the organized industry, as these players are compliant with regulations. However, historically, stringent regulations have ultimately benefited large, organised players in the long run.

FAQs about the company

Why has TJL not opted for the asset-light franchisee route, which most of the recently-listed organised jewellers have chosen to drive aggressive expansion?

- No plans to pursue the franchisee route in the short term: TJL has decided not to expand via the franchisee route, unlike other organised players who are increasingly adopting this strategy. The management believes that the current capital structure provides sufficient strength for TJL to open new stores independently. Additionally, since 90% of sales come from plain gold jewellery, TJL would not be able to offer the competitive trade terms to franchisee partners that its competitors can.

How does the company plan to compete in the highly competitive Chennai market?

- **High decibel satellite advertising:** TJL already has developed a state-level brand via satellite advertising and is ready to leverage this brand equity in the core market of Chennai. Earlier, it used to advertise only on local cable channels.

- **Data collection initiated ahead of Chennai store opening in FY25:** Groundwork to capture potential customer data for the upcoming Chennai store has already commenced. Out of the total 15,000 sq ft at the store level, 9,000 sq ft will be operational upon opening. Many relatives of existing TJL customers reside in Chennai, and TJL is offering small gifts as incentives for these customers to provide leads. Notably, only 20% of Chennai's population is native, with the remaining 80% having relocated from other cities within Tamil Nadu, making the brand already well-recognised to some extent.

- Stock turns of 3x required to achieve breakeven in the Chennai market due to high operating costs: The Chennai store will need to achieve a stock turn of 3x to reach breakeven, a target we believe is highly attainable given that Chennai accounts for 40% of the Tamil Nadu market.

Have the promoters bought and offloaded shares through an offer for sale (OFS)?

- **Promoters have consistently reinvested in the company in the form of loans**: They have diluted their stake a couple of times in the past to external investors, with the entire proceeds from these sales being provided as loans to the company at a nominal rate of 6%.

- On November 24, 2021, the promoters sold shares worth INR615 million, of which INR506 million was reinvested as a loan to the company, with the remaining amount used for personal needs. Previously, on November 20, 2017, the promoters sold shares worth INR204 million and reinvested the entire amount as a loan to the company.

Have any stores closed so far and what is the reason for such store closure?

- To date, TJL has closed only one store in its entire history of operations, and it exhausts all options before deciding to close a store. The reason for this closure was that customers in this small town preferred products to be freshly made and delivered to the store. The underlying thought was that if a single piece is specially made and ordered, it must be hallmarked, thereby ensuring 100% purity. Typically, hallmarking occurs in batches, which can lead to customers having doubts about the product's purity.

- During monthly and weekly review meetings, if a store's inventory turns are less than 2x, immediate corrective action is taken to improve performance.

- Management is willing to allow a leeway of three years before deciding on store closures.
- In Karur, the company is reluctant to open a store despite the area's prosperity, as customers in this region tend to purchase from nearby cities like Coimbatore or Madurai rather than from a local Karur store.

Why is gold not completely hedged? What is the hindrance with regards to taking 100% gold through GML?

- As a matter of principle, TJL plans to hedge 85-90% of its inventory requirements. Any volatility beyond the hedged price requires the company to bring in additional capital, making it challenging to operate. This may necessitate either reducing inventory or securing more capital, as any significant movement in prices could demand a substantial capital infusion.
- The company keeps one-third of its inventory unhedged to allow for additional capital infusion if needed in a rising gold price scenario.
- Additionally, it maintains 10% of its working capital limits unutilised, ensuring that extra capital can be accessed if the situation requires it.
- Management intends to eventually hedge 100% of its inventory, which will become feasible as the balance sheet strengthens over time.

How is inventory managed or what work has Gold Ratt done?

Three modules of gold Ratt – 1) Bestsellers 2) Variety and 3) Flow. Goldratt is a policy-based software and time and again one has to review and reset policies to ensure everything is adhered to and complied with.

There are about 15,000 SKUs as far as the jewellery business is concerned.

- **Bestsellers module – is only 1% of the total SKU; however, it achieves 40% of sales. The much easier part is to stock bestsellers.**
- **Variety Module (Belly to Bottom):** The store must maintain sufficient inventory to satisfy customers and demonstrate a competitive range compared to other brands. This module is the most complex, as it comprises 80-90% of SKUs. The critical aspect here is deciding what not to stock to maintain healthy inventory turns. For example, if a particular type of necklace has inventory turns of less than 2x, it is best not to replace that type of jewellery. Margins for specific jewellery types are evaluated in the context of inventory turns. Machine-made chains may have the lowest gross margin (4-5%), but higher inventory turns (8-10x) will ensure a solid ROCE.
- **Flow Module (10% of total SKU):** This module ensures the movement of inventory from non-performing stores to performing ones. The company previously struggled with this, but the advent of the Gold Ratt software now facilitates smooth inventory flow among stores.

About Thangamayil Jewellery Ltd. (TJL)

Background and scope of operations

- One of the leading south-based jewellery manufacturers and retailers.
- Was called Balu Jewellery earlier. Began operations in 1984 as a manufacturer and trader of jewellery and later ventured into jewellery retailing in 2001 by setting up its flagship showroom at Madurai (11,416 sq. ft.).
- TJL is a family run organisation, with each of co-promoters handling a specific responsibility. The second generation has been already inducted, with each of the members given charge of an independent function.
- 50 stores spread across Tamil Nadu. Most of its stores (c.70% of total sq. ft.) are in tier-2 and 3 cities, where competition from other big south-based jewellers is lower.

Operations and revenue

- Revenue mainly comes from plain gold jewellery (c.90%) – because its customers prefer value products. The preference of its customers is different from the customers of listed peers in metro cities or tier-1 cities who have a marked penchant for studded jewellery.
- It currently manufactures 40% of its requirements and its factories are in Madurai and Coimbatore.

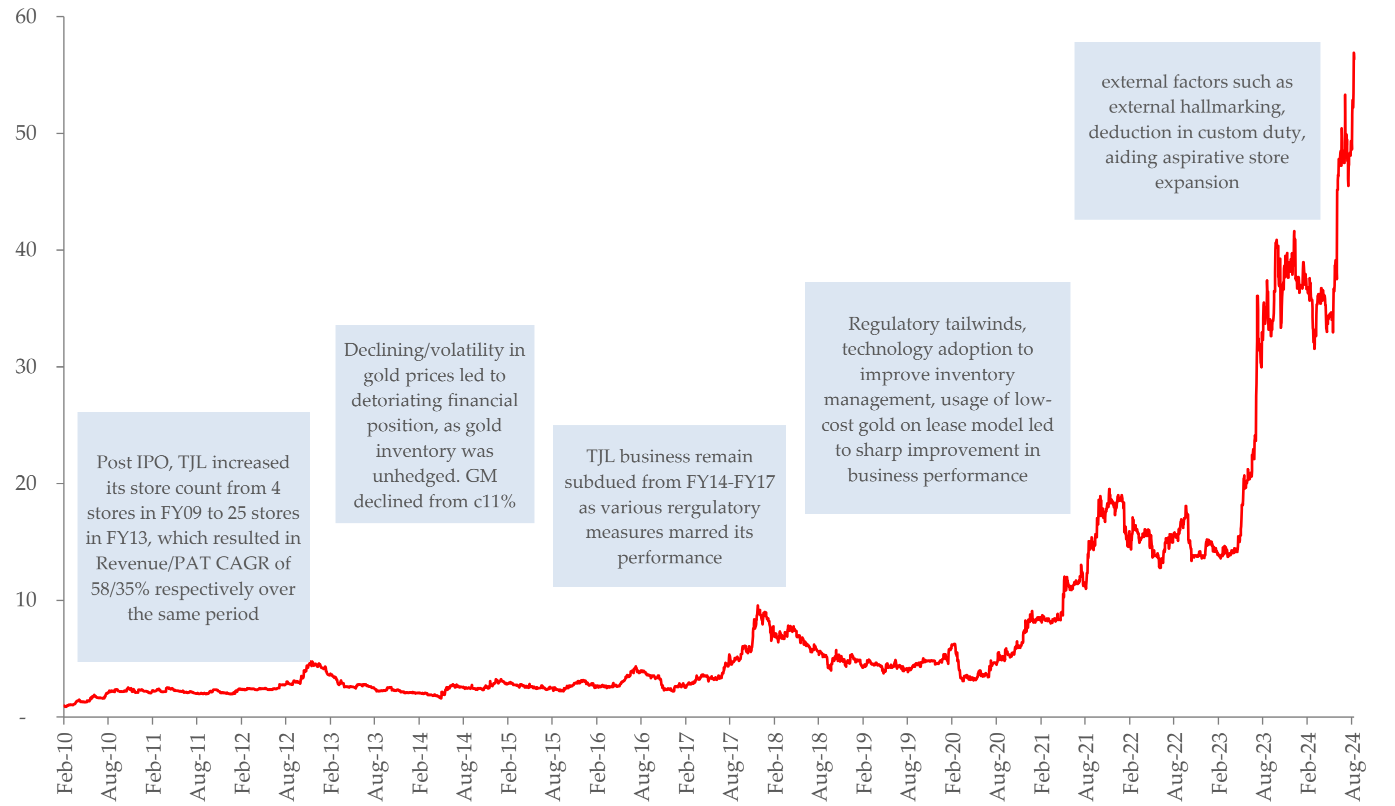
Despite being a family-managed enterprise, TJL believes that it is 'fairly organised' as far as store operations are concerned. It follows a similar structure to other jewellery retailers, which is – (1) the store manager handles store executives and (2) each individual store executive is incentivised to push jewellery sales.

Key family members who look after day to day operations

Name	Designation	Qualification	Details
Mr. Balarama Govinda Das	Co-founder and MD	B.Com	• Has been the MD since inception • 30 years of experience in manufacturing and trading jewellery • Eldest among three siblings — the other two are B A Ramesh and NB Kumar
Mr. B A Ramesh	Co-founder and Jt. MD	H.Sc	• Involved in the family business since he was 18 years old • Played key role in nurturing and modernising the business
Mr. N B Kumar	Co-founder and Jt. MD	H.Sc	• Manages the everyday affairs of the company • Specific focus on HR and marketing
Mr. B Rajesh Kanna	CFO	Diploma in Gemology	• With the company since 2006; eldest son of Mr Balarama Govinda Das
Mr. R Gokul	General Manger – Finance	BBM, M.sc in Finance & Risk Management	• With the company since 2014
Mr. N B Arun	General Manger - Sales	B.Com; CS and MBA – HR	• With the company since 2014
Mr Kishorelal		B.com	• With the company since 2020 • Looks after flagship store

Source: Company, HSIE Research

Journey of TJL after its IPO in 2010



Source: Company, HSIE Research

Standalone P&L

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	**16,920**	**18,186**	**20,731**	**28,766**	**36,908**	**46,285**	**60,590**	**74,181**
Growth (%)	17.2	7.5	14.0	38.8	28.3	25.4	30.9	22.4
Material Expenses	15,395	16,449	18,892	26,213	33,580	41,795	54,652	66,837
Employee Expense	422	333	451	584	682	832	1,068	1,329
Other Expenses	362	329	504	678	724	941	1,176	1,428
EBITDA	**740**	**1,075**	**883**	**1,290**	**1,922**	**2,776**	**3,759**	**4,669**
EBITDA Growth (%)	**15.7**	**45.3**	**(17.9)**	**46.0**	**49.0**	**44.4**	**35.4**	**24.2**
EBITDA Margin (%)	**4.4**	**5.9**	**4.3**	**4.5**	**5.2**	**6.0**	**6.2**	**6.3**
Depreciation	102	95	97	134	164	178	213	238
EBIT	**638**	**981**	**787**	**1,156**	**1,759**	**2,598**	**3,546**	**4,430**
Other Income	(3)	(2)	(1)	-	-	-	-	-
Interest	212	229	262	349	363	416	438	449
PBT	**424**	**750**	**524**	**807**	**1,395**	**2,183**	**3,108**	**3,982**
Tax	238	304	135	282	418	549	782	1,002
Profit from minority/associates	(3)	(2)	(1)	-	-	-	-	-
RPAT	**457**	**866**	**385**	**797**	**1,233**	**1,633**	**2,326**	**2,980**
Adjustment	-	-	-	-	-	-	-	-
Adjusted PAT	**189**	**448**	**410**	**630**	**1,066**	**1,633**	**2,326**	**2,980**
APAT Growth (%)	**(8.9)**	**136.8**	**(8.4)**	**53.7**	**69.3**	**53.2**	**42.4**	**28.1**
Adjusted EPS	**6.9**	**16.3**	**14.9**	**23.0**	**38.9**	**59.5**	**84.8**	**108.6**
EPS Growth (%)	**(8.9)**	**136.8**	**(8.4)**	**53.7**	**69.3**	**53.2**	**42.4**	**28.1**

Source: Company, HSIE Research

Standalone Balance Sheet

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital - Equity	137	137	137	137	274	274	274	274
Reserves	2,064	2,842	3,105	3,751	4,657	5,964	7,825	10,208
Total Shareholders Funds	**2,201**	**2,979**	**3,243**	**3,888**	**4,932**	**6,239**	**8,099**	**10,483**
Minority Interest	(3)	(2)	(1)	-	-	-	-	-
Long Term Debt	(3)	(2)	(1)	-	-	-	-	-
Short Term Debt	2,481	3,116	4,044	5,483	5,005	6,904	7,504	7,654
Total Debt	**2,478**	**3,114**	**4,043**	**5,483**	**5,005**	**6,904**	**7,504**	**7,654**
Net Deferred Taxes	(4)	(9)	(11)	(24)	(25)	(25)	(25)	(25)
Other Non-current Liabilities & Provns	(3)	(2)	(1)	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**4,670**	**6,081**	**7,273**	**9,347**	**9,912**	**13,117**	**15,578**	**18,111**
APPLICATION OF FUNDS								
Net Block	801	784	842	1,201	1,535	1,728	1,840	1,927
CWIP	20	23	68	16	24	24	24	24
Other Non Current Assets	(3)	(2)	(1)	-	-	-	-	-
Total Non-current Assets	**818**	**805**	**910**	**1,217**	**1,559**	**1,752**	**1,864**	**1,950**
Inventories	5,639	6,492	7,500	9,823	11,892	16,380	19,380	22,380
Debtors	1	26	26	32	43	43	43	43
Other Current Assets	367	243	435	606	474	563	642	716
Cash & Equivalents	314	169	166	764	818	821	1,435	2,039
Total Current Assets	**6,322**	**6,930**	**8,127**	**11,225**	**13,227**	**17,807**	**21,500**	**25,178**
Creditors	370	128	74	198	175	254	332	406
Other Current Liabilities & Provns	2,100	1,526	1,690	2,897	4,699	6,188	7,454	8,611
Total Current Liabilities	**2,470**	**1,654**	**1,764**	**3,095**	**4,874**	**6,442**	**7,786**	**9,018**
Net Current Assets	**3,851**	**5,276**	**6,363**	**8,129**	**8,352**	**11,365**	**13,714**	**16,161**
TOTAL APPLICATION OF FUNDS	**4,670**	**6,081**	**7,273**	**9,347**	**9,912**	**13,117**	**15,578**	**18,111**

Source: Company, HSIE Research

Standalone Cash Flow

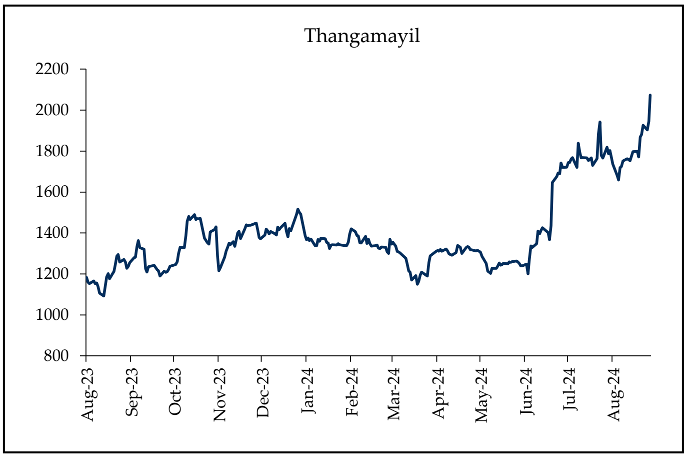
(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	694	1,170	520	1,080	1,651	2,183	3,108	3,982
Non-operating & EO Items	1	0	(0)	12	10	-	-	-
Interest Expenses	183	222	250	321	314	-	-	-
Depreciation	102	95	97	134	164	178	213	238
Working Capital Change	(1,370)	(660)	(1,483)	(1,173)	1,584	(3,010)	(1,734)	(1,843)
Tax Paid	(174)	(275)	(175)	(269)	(419)	(549)	(782)	(1,002)
OPERATING CASH FLOW (a)	**(563)**	**552**	**(791)**	**105**	**3,304**	**(1,199)**	**804**	**1,375**
Capex	(86)	(58)	(160)	(314)	(371)	(371)	(325)	(325)
Free Cash Flow (FCF)	(649)	493	(951)	(210)	2,933	(1,569)	479	1,050
Investments	137	228	(63)	(578)	25	-	-	-
Non-operating Income	28	7	12	28	49	-	-	-
INVESTING CASH FLOW (b)	**79**	**176**	**(211)**	**(864)**	**(297)**	**(371)**	**(325)**	**(325)**
Debt Issuance/(Repaid)	817	(346)	1,307	1,258	(2,393)	1,899	600	150
Interest Expenses	(199)	(216)	(248)	(327)	(343)	-	-	-
FCFE	(1,102)	1,290	(2,061)	(1,690)	5,743	(3,468)	(121)	900
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(165)	(82)	(123)	(151)	(192)	(327)	(465)	(596)
Others	(39)	-	-	-	-	-	-	-
FINANCING CASH FLOW (c)	**414**	**(645)**	**935**	**780**	**(2,928)**	**1,572**	**135**	**(446)**
NET CASH FLOW (a+b+c)	**(70)**	**84**	**(66)**	**20**	**79**	**3**	**614**	**604**
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	20	103	37	57	136	139	753	1,358

Ratios

KEY RATIOS	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)								
GPM	9.0	9.5	8.9	8.9	9.0	9.7	9.8	9.9
EBITDA Margin	4.4	5.9	4.3	4.5	5.2	6.0	6.2	6.3
EBIT Margin	3.8	5.4	3.8	4.0	4.8	5.6	5.9	6.0
APAT Margin	1.1	2.5	2.0	2.2	2.9	3.5	3.8	4.0
RoE	9.1	17.3	13.2	17.7	24.2	29.2	32.4	32.1
RoIC (or Core RoCE)	7.4	11.3	9.0	9.6	13.9	18.1	20.0	21.9
RoCE	6.7	10.8	9.0	10.3	13.7	16.9	18.5	19.7
EFFICIENCY								
Tax Rate (%)	56.1	40.5	25.7	35.0	30.0	25.2	25.2	25.2
Fixed Asset Turnover (x)	11.6	13.2	13.9	15.5	16.7	17.9	20.8	22.9
Inventory (days)	121.7	130.3	132.1	124.6	117.6	129.2	116.7	110.1
Debtors (days)	0.0	0.5	0.5	0.4	0.4	0.3	0.3	0.2
Other Current Assets (days)	7.9	4.9	7.7	7.7	4.7	4.4	3.9	3.5
Payables (days)	8.0	2.6	1.3	2.5	1.7	2.0	2.0	2.0
Other Current Liab & Provns (days)	45.3	30.6	29.8	36.8	46.5	48.8	44.9	42.4
Cash Conversion Cycle (days)	76.3	102.5	109.1	93.5	74.5	83.2	74.0	69.5
Net D/E (x)	1.0	1.0	1.2	1.2	0.8	1.0	0.7	0.5
Interest Coverage (x)	3.0	4.3	3.0	3.3	4.8	6.3	8.1	9.9
PER SHARE DATA (Rs)								
EPS	6.9	16.3	14.9	23.0	38.9	59.5	84.8	108.6
CEPS	10.6	19.8	18.5	27.8	44.8	66.0	92.5	117.3
Dividend	2.5	5.0	5.0	6.0	10.0	11.9	17.0	21.7
Book Value	80.2	108.6	118.2	141.7	179.7	227.4	295.2	382.0
VALUATION								
P/E (x)	296.3	125.1	136.6	88.9	52.5	34.3	24.1	18.8
P/BV (x)	25.4	18.8	17.3	14.4	11.4	9.0	6.9	5.3
EV/EBITDA (x)	78.6	54.8	67.8	47.1	31.3	22.4	16.5	13.2
EV/Revenues (x)	3.4	3.2	2.9	2.1	1.6	1.3	1.0	0.8
OCF/EV (%)	(1.0)	0.9	(1.3)	0.2	5.5	(1.9)	1.3	2.2
FCF/EV (%)	(1.1)	0.8	(1.6)	(0.3)	4.9	(2.5)	0.8	1.7
FCFE/Mkt Cap (%)	(2.0)	2.3	(3.7)	(3.0)	10.3	(6.2)	(0.2)	1.6
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.5	0.6	0.8	1.1

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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