

Rajesh Exports Limited..... Sparkling Story

Buy Rs 347.90

Investment Summary

- Rajesh Exports Ltd, a Rs. 3050 crore company which has grown by leaps and bounds in FY04, will be one of the largest retail jewellers in the next two years with its own branded gold and diamond jewellery. Initially the company plans to set up 100 retail stores and would gradually move on to 1000 retail stores. These stores would have 5 - 6 inhouse brands of jewellery.
- The USP for this company is that once its expansion plans are over it will be one of the few companies which will be fully integrated having presence in the entire value chain from Mining stage to the Selling stage making it tough for other players to compete.
- The company has grown significantly from a turnover of 220 crores in FY03 to 3000 crores in FY04. It had margins of around 1 %, it now plans to concentrate on its bottom line and increase the margins to about 3% to 5% in the next 3 years.
- With its healthy order book position of Rs. 1100 - 1200 crores to be executed in the next six months, its past performance, and its ambitious plans getting materialized we are confident that it will do very well in the future.

STOCK DATA

CMP	347.9
Par Value	Rs 10
52 week high/low	362.9/124.35
Average Volume BSE	10418
Average Volume NSE	15761
Industry	Gems and Jewellery

CODES

NSE Code	RAJESHEXPO
BSE Code	531500
Reuters Code	REXP.BO
Bloomberg Code	RJEX@IN

DESCRIPTION

% HOLDING

Foreign	0.21
Institutions	3.27
Corporate Holding	1.35
Promoters	72.74
Public & Others	22.43
Totals	100

Financial Summary

Y/E Mar	Sales (Rs. Mn)	EBIDTA (Rs. Mn)	PAT (Rs. Mn)	EPS (Rs.)	EBITDA (%)	PATM (%)	RONW (%)	ROCE (%)
FY04	30501.50	385.60	273.10	39.01	1.26%	0.90%	24.17%	9.17%
FY05	36000.00	657.00	364.94	51.11	1.83%	1.01%	24.79%	11.48%
FY06	39000.00	1101.75	636.40	82.65	2.83%	1.63%	30.15%	13.07%
FY07	41000.00	1465.75	902.68	117.23	3.58%	2.20%	30.42%	13.43%

Valuation Summary

Y/E Mar	EV (Rs. Mn)	M-Cap (Rs. Mn)	BV (Rs.)	PER (X)	P/B (X)	EV/EBITDA (X)	EV/EARNINGS (X)	M-Cap/Sales (X)
FY04	3908.80	2435.30	161.43	8.92	2.16	10.14	14.31	0.08
FY05	....	....	206.14	6.81	1.69	5.95	10.71	0.07
FY06	....	....	274.13	4.21	1.27	3.55	6.14	0.06
FY07	....	....	385.36	2.97	0.90	2.67	4.33	0.06

Recommendation

At CMP of Rs. 347.90, the scrip discounts its estimated FY06 earnings of Rs.82.65 by 4.21 times and FY07 earnings of Rs.117.23 by only 2.97 times, which we believe is very attractive. Considering the future prospects of the company we recommend a strong buy on the scrip with a price target of Rs.520 on an investment horizon of one year.

Analyst : Shobha Saigal

+ 91 22 2288 2152

E-mail-shobha@mafatlalsecurities.com

Rajesh Exports– An Introduction

<i>Largest manufacturer of 22- carat gold jewellery in the world.....</i>	Background The company is engaged in the manufacture, export and sale of gold jewellery. Rajesh Exports Limited, which started as a jewellery manufacturing and export company, has become the topmost jewellery exporting company in the country. The company is the largest manufacturer of 22 – carat gold jewellery in the world and also is the largest exporter of gold jewellery from the country. It has set up the world’s largest jewellery manufacturing facility with a capacity of processing of 250 tons of gold into world-class jewellery.
<i>Nominated as a five star trading house.....</i>	The company over a period of time has, acquired expertise in the manufacture of gold jewellery and is currently in a position to provide the finest gold jewellery in the world at the most competitive price. It is the only trading house which has been recognized by government of India in the field of gold jewellery and has received several central and state government awards for its excellent performance in exports.
<i>Exports form a significant portion of the turnover.....</i>	Until FY 2002 it concentrated only on exports, However looking at the potential of the domestic market, it has now started concentrating on domestic market as well. In FY2004 domestic sales contributed about 21% of the total turnover whereas the exports contributed 79 % of the total turnover. The company’s exports accounts for 34 % of the total gold jewellery exports from India. In the export market the company caters only to the wholesale/large distributor channel which in turn supplies to the large retailers or independent stores. The company has two to three distributors in each of its main markets like the US, UK, UAE, Singapore and Australia.

Exports Break up of Clients - Rajesh Exports Ltd.

Countries	Percentage of Exports
UAE	45%
US	25%
UK	10%
Singapore	10%
Australia	10%

INDUSTRY SCENARIO

Global Market

Currently India contributes to less than 1 % of the international market....

Globally gold and diamond market is estimated to be 85 billion US dollars; out of which 75 billion dollars is gold jewellery market where as 10 billion dollars is diamond jewellery market. The global gold jewellery market in terms of quantity is 5000 tonnes and is growing at the rate of 10 %.

The international market is not very organized. Italy, USA, Turkey are the major players in the global market. Currently India's export market share in the global jewellery market is less than 1 %.

Indian gold jewellery market – Rs.50,000 crores... A very unorganized and fragmented market....

Indian Market

The gems and jewellery market in India is Rs.70, 000 crores, whereas the total Indian gold jewellery market is estimated to be about 10 billion US dollars i.e. 44,000 crores and is growing at the rate of about 10 % over the last five years. The Indian gold jewellery market in quantitative terms is approximately 850 tonnes which is predominantly for 22-carat jewellery. Almost 98 per cent of the domestic market is in the unorganized sector, fragmented between one million-odd jewellers spread across the country. Of late organized trading and quality awareness has started in the Indian market and this change is due to growing consciousness of Indian consumers.

India's Exports of gems and jewellery products Rs. (Millions)

ITEMS	Apr-Dec 04	April - Dec 03	Var (%)
	2004-05	2003-04	
Cut-Polished Diamonds	266569	244659	9%
Gold Jewellery	95180	81243	17%
Coloured Gem Stones	5131	5557	-8%
Rough Diamonds	9085	19139	-53%
Pearls	94	110	-15%
Synthetic Stones	11	15	-27%
Non - Gold Jewellery	2979	3322	-10%
TOTAL	379049	354045	7%

(Source: GJEPC)

Exports of gold jewellery registered the highest growth of 17 % in the nine months ended December 2004 period.

FUTURE PLANS

The company wants to emerge as a fully integrated player with focus shifting to retailing. Rajesh exports Ltd has its business strength in its manufacturing facility, R&D lab, infrastructure, and financial strength. Leveraging on its strengths it will be one of the strongest player in the Gems and Jewellery sector in the next two years both in retailing and exports.

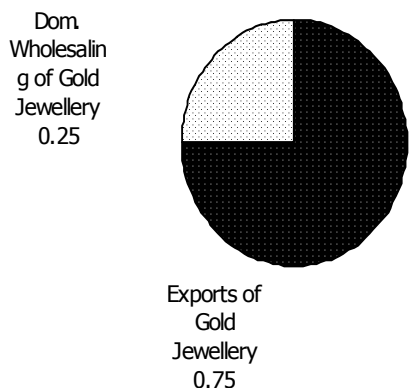
Business Model

The company has changed its business model. The company till 2002 only concentrated on the export market. Then looking at the potential of the domestic market started concentrating on domestic market. The company was only into wholesaling of gold jewellery but is now venturing into diamonds and gradually in to retailing. In the next 5 years the company wants its revenue mix to change and expects 70% of its revenue to come from retailing and 30% from its wholesaling business.

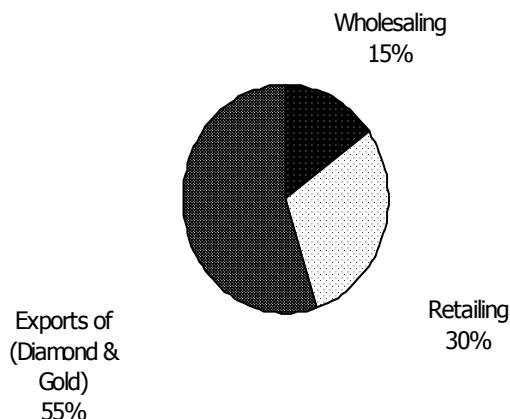
Once its retailing business begins, i.e. by 2006 the sales break up would be as follows:

- Retailing : 35%
- Diamond Wholesaling: 15%
- Exports of Diamond & Gold Jewellery : 50%

Current Break up of Sales



Sales break up in FY07



Capex Plans

Ambitious plans ahead...

The company has a total capex plan of about Rs. 700- 750 crores for the next two years. The company wants to become a fully integrated company investing about Rs.150 crores for backward integration, Rs.450 crores for retailing, around Rs.100 crores in diamond business. Out of Rs.750 crores about Rs. 450 crores is tied up with banks and for the rest it plans to use its internal accruals.

Healthy Order Book Position

Repeat order from a dominant player in Singapore...

The company is booked for the next six months. The company has an order book position of Rs.1100 to 1200 crores to be executed in the next six months. It has bagged a new order for supply of studded Gold jewellery worth Rs 1460 million to M/s Gold Star Jeweller Pvt. Ltd, a dominant player in the Singapore market. As per the terms of agreement this order has to be executed over a period of 3 months. The Company is globally known for its consistent quality and timely delivery schedules, due to which this second major order is

placed by M/S Gold STAR Jeweller within a period of 5 months. The Company has consistently been the largest exporter of gold jewellery from the country for the last eight years and has won several awards from the State and the Central Government for its sterling export performance since the last ten years.

*Backward
integration
Expected soon.....*

Backward integration

The company has allotted approximately Rs.150 crore for backward integration. There has been news about company tying up with some of companies in South Africa, Australia for purchase of mines. The main purpose of the having a Joint venture with a gold mining company is that it will help the company to import gold easily and save valuable time.

*Diamond brands in
next 3 months....*

BRANDING

The company which is into wholesaling of gold jewellery to other companies in the country is now foraying into diamonds and is planning to launch its branded jewellery in the next 3-4 months. The initial launch of branded jewellery will be in diamonds. There will be 2 brands of jewellery, one for the international market and one for the domestic market. The company also plans to launch its branded gold jewellery within 1 year.

*Plans to enter
international
retailing arena in
the next 3 years....*

Retail Project

The retail stores would keep 5- 6 in-house brands. Out of those 6 brands, 2 will be diamond brands, and the remaining 4 would be gold brands. These brands would target different occasions, different age and different class of target audience at various price ranges. Unbranded quality jewellery will also be available in these shops.

The company does not want to be targeted as a niche store, but wants to have products for everyone who aspires to wear jewellery. In india the organised jewellery market is 1% of the total market. The company realizes it and hence plans to hold 60% of the inventory as branded jewellery and remaining 40% would be unbranded jewellery.

The company expects 25% to 35% of turnover to come from retailing in the next 18 months. Rajesh Exports would initially start with 100 retail outlets and would gradually move to about 1000 stores in the next 3 years. The initial 100 stores would be confined to the four southern states. Rajesh exports has a capex plan of Rs 350 crores for these shops. The company has identified 100 jewellery shops in the 4 southern states. These shops will be taken over completely; the company will empty out the stocks, re do the shops and thus have completely new shops at a reasonable cost.

*Has been awarded a
five star export
house status - which
according to EXIM
is at par with
nominated agency...*

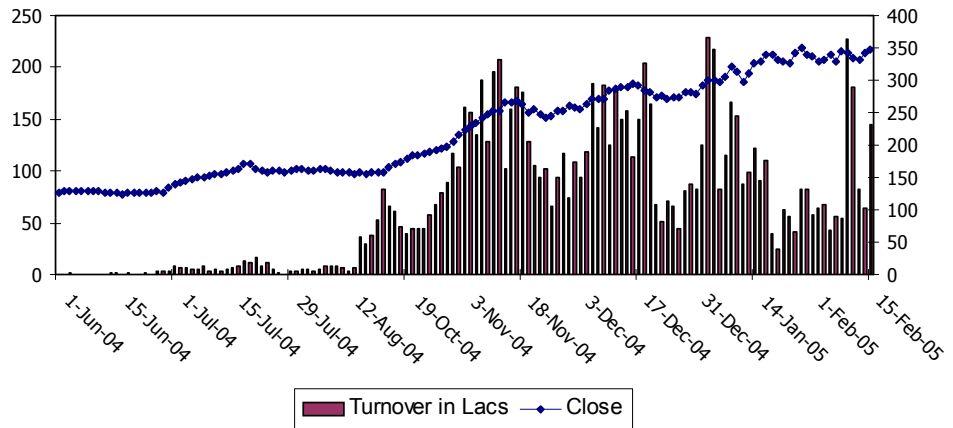
GOLD TRADING

The company has been awarded a five star export house status. The EXIM policy allows Rajesh Exports to be treated at par with the nominated agency. Once the company becomes the nominated agency the company becomes free to import gold and does not require a third party i.e. bank to import gold. However they are waiting for clearance from the RBI. Once it gets the clearance the company would get into gold trading. Gold trading is a volume business but has lesser margins. The company might float a subsidiary and do gold trading business through that company.

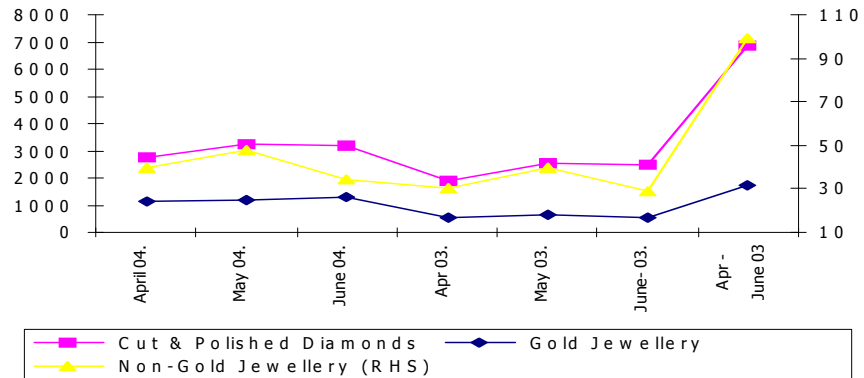
Improvement on Operational front

The company which processed 5 tonnes of gold in FY03, 55 tonnes of gold in FY04 is now concentrating on its bottom line. The company which had a turnover of 220 crores grew to 3050 crores in FY04 and had margins of around 1 % plans to increase these margins to about 3% to 5%. The company is entering business having higher margins thus helping it to improve its bottom line.

Share Price movement



Jewellery Outsourcing



Outsourcing orders from well known retail chains a great Possibility...

THE J.C. Penny's and the Wal-Marts are looking to source from India not just textiles, but jewellery as well. The advantage of skilled artisans in India, availability of advanced technology, favorable Government policies, has brightened the prospects for domestic manufacturers. The Government has allowed duty free import of raw material and recently lifted curbs on direct gold imports. Taking advantage of the opportunity, Indian jewellery manufacturers are increasing their capacities and also trying new ways to expand their presence abroad including direct retailing. The company would enter into Retailing Business Internationally in the next 3 years. We strongly sense outsourcing opportunities for Rajesh Exports. There have been inquiries from some top retail chains in US. In fact they have been supplying to some of the retail chains who in turn brand the jewellery and sell it. Once they launch their brands they are planning to approach them directly and sell their branded jewellery through such retail chains.

Earnings Estimates & Valuations

Income Statement

Rs.Millions	FY04	FY05 (E)	FY06 (E)	FY07 (E)
INCOME :				
Gross/Net				
sales	30501.50	36000.00	39000.00	41000.00
(Growth %)	1284%	18%	8%	5%
Other Income	23.80	27.00	29.25	30.75
Total Income	30525.30	36027.00	39029.25	41030.75
(Growth %)	1251%	18.02%	8.33%	5.13%
EXPENDITURE				
OPM	361.80	630.00	1072.50	1435.00
(Growth %)		74.12%	70.24%	33.80%
PBDIT	385.60	657.00	1101.75	1465.75
Interest	122.40	235.56	334.56	445.56
PBDT	263.20	421.44	767.19	1020.19
Depreciation	13.50	37.29	97.29	70.00
EBIT	372.10	619.71	1004.46	1395.75
Profit Before Tax	249.70	384.15	669.90	950.19
Tax	-23.40	19.21	33.49	47.51
Profit After				
Tax	273.10	364.94	636.40	902.68
(Growth %)	270%	34%	74%	42%
Cash Profit	286.60	402.23	733.70	972.68
EPS	39.01	51.11	82.65	117.23
CEPS	40.94	56.34	95.29	126.32
Margins				
OPM (%)	1.19%	1.75%	2.75%	3.50%
PBDITM (%)	1.26%	1.83%	2.83%	3.58%
PATM (%)	0.90%	1.01%	1.63%	2.20%
ROCE	9.17%	11.48%	13.07%	13.43%
RONW	24.17%	24.79%	30.15%	30.42%
BV	161.43	206.14	274.13	385.36

Balance Sheet

Rs. in Millions	FY04	FY05 (E)	FY06 (E)	FY07 (E)
SOURCES OF FUNDS :				
Share Capital	70.00	71.40	77.00	77.00
Reserves Surplus	1060.00	1400.44	2033.77	2890.25
Total	1130.00	1471.84	2110.77	2967.25
SH.Funds	1130.00	1471.84	2110.77	2967.25
Secured Loans	2926.00	3926.00	5546.00	7376.00
Unsecured Loans	0	0	30.00	50.00
Total Debt	2926.00	3926.00	5576.00	7426.00
Total Liabilities	4056.00	5397.84	7686.77	10393.25
APPLICATION OF FUNDS :				
Gross Block	393.10	1243.10	3243.10	5243.10
Less Accum.				
Depreciation	37.60	74.89	172.19	242.19
Net Block	355.50	1168.21	3070.91	5000.91
Investments	50.20	54.00	58.50	61.50
CA, L&A				
Inventories	764.80	923.08	1098.59	1301.59
Sundry Debtors	2020.90	2250.00	2363.64	2645.16
Cash/Bank Bal	1452.50	1563.36	1599.40	1876.06
Loansa Advances	106.60	303.57	398.37	532.19
Total CA, L&A	4344.80	5040.00	5460.00	6355.00
TCA	4238.20	4736.43	5061.63	5822.81
Less:Current Liab. & Prov.				
Current Liabilities	695.87	862.96	900.60	1021.32
Provisions	7.03	10.92	11.40	12.93
Total Current Liabilities	702.9	873.88	912.01	1034.25
Net CA	3641.90	4166.12	4547.99	5320.75
Misc Exp not w/o	8.20	9.52	9.36	10.09
Total Assets	4056.00	5397.84	7686.77	10393.25

Valuation Summary

Y/E Mar	EV (Rs. Mn)	M-Cap (Rs. Mn)	BV (Rs.)	PER (X)	P/B (X)	EV/EBITDA (X)	EV/EARNINGS (X)	M-Cap/Sales (X)
FY04	3908.80	2435.30	161.43	8.92	2.16	10.14	14.31	0.08
FY05	....	....	206.14	6.81	1.69	5.95	10.71	0.07
FY06	....	....	274.13	4.21	1.27	3.55	6.14	0.06
FY07	....	....	385.36	2.97	0.90	2.67	4.33	0.06

Recommendation

At CMP of Rs. 347.90, the scrip discounts its estimated FY06 earnings of Rs.82.65 by 4.21 times and FY07 earnings of Rs.117.23 by only 2.97 times, which we believe is very attractive .It has a BV of 161.43 and P/BV of 2.16. The company is now entering high value business and would replace it with its low margin business thus improving its bottom line. Looking at its strategic plans of entering the retail arena and becoming a fully integrated player and given its healthy order book position we believe that the growth momentum will continue and recommend a strong buy at 347.90.

