



Investment Research
Miscellaneous Sector

Rajesh Exports Limited

Rs.365.00

SCALING INDIAN HANDICRAFT INDUSTRY TO WORLD CLASS LEVELS.

Company's Profile

Rajesh Exports Ltd. (REL) is engaged in the Manufacture, Export and Wholesale of Gold Jewellery. Currently it is the largest exporter of gold jewellery from India and the largest manufacturer of 22-carat jewellery in the world. Recently, it was awarded a status of FIVE STAR TRADING HOUSE by the Joint director general of foreign trade. It is a 3000 crore company and 77% of sales are exports. REL is also a leading domestic wholesaler and the largest manufacturer of Gold Jewellery. The Company has a widespread marketing network across the four southern states of India and a presence in over five countries worldwide.

The Indian Gold Jewellery Business

Dominated by the unorganized sector due to the inherent nature of the various processes involved in making jewellery. A thorough understanding of the gold business and dealing with skilled craftsmen and artisans has always kept it as a handicraft industry as this knowledge is concentrated in the hands of a few.

The gold jewellery manufacturing entails about seven processes. The business operates via a web of intermediary processors who specialize in each micro step process. There are two kinds of jewellery:

- Handmade
- Casted

Jewellery Making Processes

- Hand made jewellery passes through the various processes of wires and plate drawing, stamping with specific dyes, fabricating, soldering, cleaning, polishing, cutting, final polishing and quality control.
- Casted jewellery passes through the process of metal master making, rubber mould making, wax injection and model making, spurring, burnout, casting, desprueing and prepolishing, setting, final polishing and quality control.

This complex and the cumbersome way of manufacturing jewellery have bred inefficiency and a high cost structure. The consumer is always at the receiving end, as he had to bear the loss in the value of gold he paid for. This amounts to about 2.5% gold wastage. Moreover the consumer has to trust the purity of the gold. Thus the business was concentrated in a few pockets and the business survived on trust and the relationship with the jeweler.

Rajesh Exports redefines the Gold Jewellery Industry

Combining the native wisdom of manufacturing gold jewellery with the latest modern management techniques of human resources and systems management, Rajesh Exports has redefined the industry. It has set up a state of art plant in Bangalore to mass manufacture gold jewellery. The handicraft industry of India has taken off and today due to the scaling of operations, quality manufactured gold jewellery is available throughout India as well as abroad. At present Rajesh Exports mass manufactures this gold jewellery and distributes the same through wholesalers predominantly in South India. Most of the households in the south use this gold jewellery made by Rajesh Exports.

A very difficult business: Two components of the business; **Gold and People**. Productivity and Efficiency are the key factors to achieve profitability. Rajesh Exports has done this very effectively in spite of working on a net profit margin of less than 1%. It has been able to bring down the wastage percent from 2.5% being the industry standard to just 0.4%.

On sales of Rs.3050 crores it has an EBIDTA of Rs.38.54 Crores and a PAT of Rs.24.97 crores. The present book value is Rs.161.36 and the EPS is Rs.39.01. The face value of the share is Rs.10 and the last dividend was Rs.5 per share.

Scaling Of Indian Handicraft Industry To World Class Levels

- REL has set up infrastructure that can parallel the best in the world. It is located at export promotion International Park situated at Whitefield in Bangalore.
- REL has been able to seamlessly integrate the jewellery manufacturing process for both handmade and casted jewellery at its state of art facility in Bangalore.
- It has established powerful systems for production processes and security measures. This has helped REL to bring down the wastage percent from 2.5% being industry standards to 0.4%.
- REL has understood the need for strong HR policies as jewellery manufacturing is predominantly an unorganized sector and retaining a pool of jewellery designers, artisans and technicians is a major task.
- REL has plans to enter into strategic alliance with mining companies, which will help them in backward integration thereby reducing raw material costs.

Rajesh Exports set to Change the Rules of the Game

Efficiency and productivity has enabled Rajesh Exports to grow and at the same time reward its shareholders in spite of a very meager net profit margin of 1%. Being a manufacturer and supplying to the wholesalers is a business model that has worked till today. However the wholesalers, the semi wholesalers, the retailers, the shopkeepers and jewellery stores eat into the margins.

Rajesh Exports has plans to go aggressively into direct retailing of its products and is confident that this will enable it to increase its net profit margins to around 6 to 7% within a span of three years. It has plans to open 100 stores in the next 12 to 18 months in the four southern states of India.

The Retail Game Plan

The inherent nature of the gold jewellery business is all about **trust** of the customer with the jewellery storeowner from where the purchases are made. The storeowner is in direct touch with the customer. However with the globalization, the tastes and preferences of the customers are ever changing. Moreover, with the entry of the big players and shopping malls there is a threat to the survival of these jewellery shops. Here is where Rajesh Exports sees a great opportunity to not only build up its retail base but also give a new lease of life to these fast disappearing jewellery storeowners. Rajesh Exports wants to do away with its existing model of supplying to wholesalers and plunge in to direct retail with branded retail stores.

Now it takes time to do that. Here is where the innovativeness of the management comes into action. Rajesh Exports is in the process of enrolling various retailers in their fold who would become a part of the Rajesh Export franchisee by using their shops to display the Rajesh Exports Brand. They would be Rajesh Exports stores. They would receive the ready-made jewellery from Rajesh Exports and the same would be stacked in their showroom. The owner would be in charge of the shop and would be guaranteed his commissions for running the shop and selling the jewellery to his customers. This suits the owner as he is able to revive his ailing business and as for Rajesh Exports it gets the store infrastructure with the existing clients.

It's a win win situation for both the sides. This game plan reinvents the business model of Rajesh Exports and at the same time keeps the distribution channels intact.

The New Retail Business Model

- REL plans to open 100 stores in the next 12-18 months in the four southern states of India.
- This will be through the route of taking over the infrastructure of existing jewelers who have been identified and are already selling REL products purchased through wholesaler.
- Conversion of existing retailers will bring in a ready retail customer base.
- REL is trying to re-invent the skills of these jewelers rather than displacing them. REL will do this by buying out the entire premises of the jewelers and converting them as franchise.
- Experience of the current distribution network for wholesaler will assist in speedy implementation of supply chain management for retailing.
- REL already has a large database of demand and design requirements along with timings for most of the markets
- REL's global experience will help them in bringing international standards for high customer services and wide range of designs at reasonable prices.

Management

- **Promoter Rajesh Mehta**, aged 40 years is the Chairman of the company. He has an experience of about 20 years in the practical functioning and management of jewellery business. He has traveled extensively and has established good contacts in both domestic and international jewellery trades. Currently he is looking after the overall functioning of the company and is specifically in charge of finance and marketing operations of the company. He is a member of the Export Advisory Committee of Bangalore Jewelers Association, the President of the Jewellery Exporters Association of Karnataka and the Director of Handloom and Handicrafts Export Promotion Corporation of India.
- **Promoter Prashanth Mehta**, aged 42 years is the Managing Director of the company. He has an experience of over 20 years in jewellery business. He is in charge of day-to-day functioning of the company and holds the specific charge of the production unit of the company. He is an authority and a world wide recognized expert in the production of Gold jewellery.
- **Mr. Venu Madhav Reddy**, aged 34 years is a whole time Director. He is a legal advisor and specifically heads the Statutory Requirement Division of the company. He has an experience of more than 10 years in the management of the company.
- **Mr. P. Shivashankar**, aged 46 years is a tax consultant by profession and advises the company on taxation matters.

Risk Management

- **Mr. Shankar Prasad**, aged 44 years is a well-known Company Secretary and advises the company on all company law matters.
- In the interest of company's prosperity, the promoters have forgone their rights to receive DIVIDENDS on their shareholding for the first 10 years of company's existence.

The promoters understanding of their business and their business acumen has helped the company to very proficiently manage the risk inherently attached with the business due to its basic raw materials, gold and humans.

The fluctuations in Dollar-Rupee or Gold price could have affected the company's bottom line but with the \$ loan in place there is a natural and automatic hedge between gold vis a vis the \$.

With the management working on thin margins they are very alert and have all the risk management systems like hedging, insurance, security and physical safe keeping of inventories in place.

Conclusion

REL has been the front-runner in redefining the existing business models and always a step ahead to maintain the leadership status in its field of business.

When the country needed exports REL went ahead in full steam to achieve that goal which rightfully earned it the Star Trading House Status. REL has changed the design of the handicraft industry to a scalable global standard and made its products reach the world.

And now, when reach, market penetration and market share happen to be the dominant pillars of growth, REL is embarking on a major retail thrust to its business model. This will once again redefine the dynamics of the handicraft industry.

Financials

Particulars (Rs crs)	2001-02	2002-03	2003-04
Total Income	273.93	225.96	3052.53
Total Expenses	255.09	210.10	3011.63
Interest	6.83	6.30	12.24
Gross Profit	12.01	9.57	28.66
Depreciation	0.60	1.19	1.35
Income Tax	0.45	1.00	0.00
PAT	10.96	7.38	27.31
Equity	7.00	7.00	7.00
Reserves& Surplus	72.89	79.92	106.03
Net Worth	79.65	86.77	112.95
EPS	15.66	10.54	39.01
Book - Value	113.78	123.95	161.36
Return On Equity	156.56	105.40	390.11
Return On Net worth	13.76	8.50	24.18

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