

PC JEWELER LIMITED. (PCJ)

Stock Performance Details

Current Price	: Rs. 111.65**
Face Value	: Rs. 10 per share
52 wk High / Low	: Rs. 194.9 / Rs. 97.0
Total Traded Volumes	: 82,226 shares**
Market Cap	: Rs. 1,999.65 crore**
Sector	: Other Apparels & Accessories
EPS (FY2012)	: Rs. 17.26 per share
P/E (TTM)	: 8.6 (x)^
P/BV (TTM)	: 1.7 (x)^
Financial Year End	: 1 st April - 31 st March
BSE Scrip Name	: PCJEWELLER
BSE Scrip Code	: 534809

**as on 7th May, 2013; ^ as on Dec, 2012

Background

- PC Jewelers Ltd (PCJ) which is based in North India operates in the organized retail Jewellery segment of the gems and jewellery sector.
- The company's operations include manufacturing, retailing and exports of jewellery. It offers wide range of products made of gold, diamond, silver, and other precious metals. The company's focus is on providing its customers with diamond jewellery and jewellery for weddings.
- In addition to sales through showroom, the company also sells diamond and gold jewellery through online sales on the website.

It also exports gold and diamond jewellery to international distributors in Dubai and Hong Kong. The company has set up their own manufacturing units in Uttrakhand at Selaqui and Dehradun which cater to sales in India. And, the units at Noida SEZ & Uttar Pradesh cater to the export sales.

- As on 30th September, 2012 the company had 30 showrooms under the PC Jeweler brand located across 23 cities in north and central India. The aggregate area of these showrooms stood at 1,64,572 sq. ft. All of these showrooms are operated and managed by the company except for the Chandigarh showroom.
- The company raised funds of about Rs. 603 crore through the primary market during December 2012. The objective for raising funds was to be able to finance its plans of opening 20 additional showrooms by FY 2014 and also to expand its showroom network in the Southern & Western regions of India.

Shareholding Details - December 2012

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	12,54,04,500	70.02
Total Institutional Holdings (FIIs & DIIs)	2,72,23,994	15.20
Public Holdings	2,64,71,506	14.78
Total	17,91,00,000	100.00

IPO Objectives

Particulars	Amount (Rs. Million)
Establishment of New Showrooms	5,168.5
General Corporate Purposes & Issue Expenses	844.3
Total	6,012.8

Financial Snapshot

Particulars	Standalone Financials (Rs million)			
	FY 2012	FY 2011	FY 2010	FY 2009
Income Statement				
Income from Operations	30,419.2	19,770.5	9,848.4	6,227.3
Y-o-Y Growth (%)	53.8	100.7	58.1	93.7
EBITDA	3,312.9	1,989.0	984.7	494.7
Y-o-Y Growth (%)	66.6	102.0	99.1	121.9
EBITDA Margin (%)	10.9	10.1	10.0	7.9
Net Profit	2,300.4	1,476.8	783.9	190.6
Y-o-Y Growth (%)	55.8	88.4	311.2	60.4
NPM (%)	7.6	7.5	8.0	3.1
Balance Sheet				
Cash and Bank Balances	112.9	190.5	407.7	241.3
Inventories	11,724.1	5,494.9	3,781.8	2,042.8
Short Term Borrowings	5,751.1	1,376.5	791.6	2,156.3
Net Working Capital	4,287.2	2,678.6	1,227.6	403.9
Net Worth	5,557.1	3,256.6	1,520.3	546.0
Balance Sheet Ratios				
ROCE (%)	42.9	60.6	45.1	30.5
RONW (%)	52.4	60.6	64.3	68.7
Debt : Equity (x)	1.04	0.43	0.53	3.96

Source : RHP, Capitaline

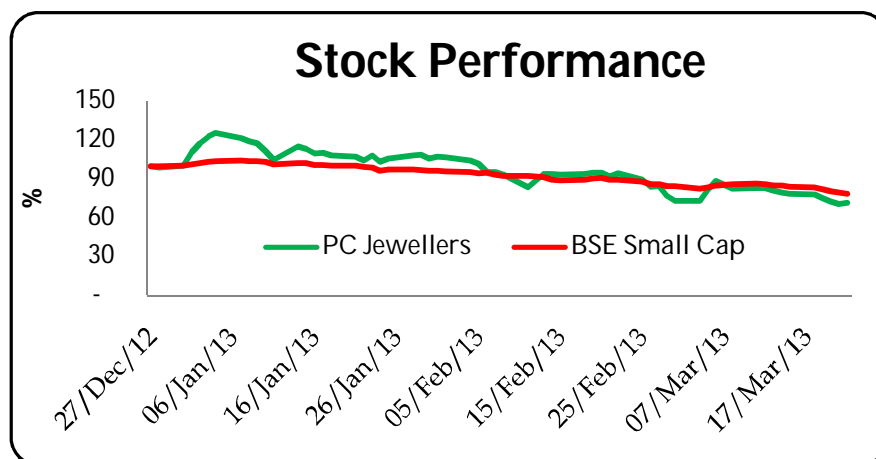
From the Research Desk of LKW's Gurukshetra.com

- The total revenues of the company have grown from Rs. 19,770.5 million in FY11 to Rs. 30,419.2 million in FY12. Of these the domestic sales contributed about 67% of the total sales from operations while, the balance was contributed from exports. The increase in Net Operational Income has been on account of expansion of showrooms for the period under review which contributed to the overall improvement in topline. Exports which constitute about 33% of total operational incomes increased by 47% y-o-y. The same stood at Rs. 10,024.4 million in FY2012 from Rs. 6,792.4 million in FY2011.
- As the company's business is dependent on the prices of gold any fluctuation in the same is likely to have a significant impact on the input costs as Gold remains the key raw material for the products it manufactures. As a result of relatively higher gold prices during FY 2012 the cost of materials for the company stood at 102% of the Net Revenues from Operations. The same stood at Rs. 31,273.5 million in FY2012 as compared to Rs. 18,339.4 million in FY 2011. However, with the recent decline in gold prices, the revenues could be impacted.
- At the operating level, the margins improved marginally from 10 per cent in FY 2010 to 10.2 per cent in FY 2012. This could be attributed, the rise in prices of gold for the period under review.
- The bottomline for FY12 also increased to Rs. 2,300.4 million as compared to Rs. 1,476.8 million for FY11. This could be due to the increased top line and also due to a good operating performance.
- Maintaining inventory is one of the major operating costs incurred by the company, with the launch of new stores to expand its operations, the company will maintain higher inventory of jewellery at these retail stores. In order to maintain inventory the working capital may increase substantially and thereby reducing profits. For FY12 inventory as a percentage of

Net Sales stood at 20.2%. The same as on the date of the balance sheet 31st March, 2012 stood at Rs. 11,724 million in FY 2012 as compared to Rs. 5,494.9 million in FY 2011.

- The finance costs of the company increased in FY2012 by 57.8% to Rs.782.5million from Rs. 496.02 million in FY2011 on account of increase in loans for the period under review. Moreover, the company borrows on a floating rate basis and hence any increase / decrease in the interest rates by RBI could have an impact on the net interest payments of the company. Now, during 2012, the RBI had resorted to hawkish interest rates which could be attributed to increased interest outflow for the company.
- As the company has a significant presence in Northern India, the risks of revenue concentration appear to be high as it is dependent on the northern Indian region for majority of its revenues. However, its strategy to expand into the western and southern Indian region would help it diversify the geographic concentrations risks.
- Further, with exports contributing over one-third of the revenues till FY2012, the company is also exposed to risks arising out of currency fluctuations. Thus in a scenario where rupee undergoes sharp depreciation against US Dollar as witnessed in second half of fiscal FY13, the revenue receipts would be impacted thereby pressurising the EBIDTA and PAT Margins in an industry which is characterized by high degree of fragmentation and competition.
- Noteworthy, is a fact that the company intends expanding its presence in the domestic markets where there exist large better known players such as Tanishq, Gitanjali Gems, TBZ, Tara Jewels etc. in the organised segment while, in the unorganised segment other than small sized local players it also faces stiff competition from large players such as Popley Sons, Orra, Waman Hari Pethe to name a few.

Performance on the Bourses



Peer Comparison

The company operates in a highly competitive industry which is characterized by the presence of organized as well as large number of fragmented players in the unorganized segment. Below mentioned tables provides a snapshot of the financial performance of the company for FY 2012 against some of the better known and well established players in the industry.

Particulars	PC Jewellers	Tara Jewels	Gitanjali Gems	TBZ
Income from Operations	30,419.2	13,990.8	77,554.4	13,803.9
EBIDTA	3,312.9	1,318.2	4,058.9	1,169.7
Net Profit	2,300.4	541.2	2,486.3	571.9
EBIDTA Margins (%)	10.2	9.4	5.2	8.4
PAT Margins (%)	7.6	3.9	3.2	4.1
P/E (x)**	40.08	18.2	18.8	22.8
P/BV (x)**	2.3	1.35	1.9	4.2
ROCE (%)	42.9	16.2	11.8	34.4
RONW (%)	52.4	21.3	10.8	42.8

Source : Capitaline; Company RHP; ^ as on Dec 2012 (TTM Basis); Rs. In Million

About the Industry

India is the largest consumer of gold as over 95% of the gold which is imported is used for jewellery. India has imported gold to the tune of 970.7 tonnes in fiscal 2011. In addition to being the largest importer of gold, India is also the largest processor of diamond on account of cost benefits offered by Indian diamond processors. Approximately 60% of global polished diamonds market in terms of value and more than 90% in terms of pieces

The gems and jewellery industry is highly raw material intensive and the raw material costs of the companies in the manufacturing space stood at about 65 - 70% of their operating income. Whereas for companies engaged in diamond trading the raw materials cost is about 85 - 90% of their operating income. Indian Being the largest importer of gold and other precious metals, the raw material requirements domestically are met by imports.

In addition to being raw material intensive, the industry is also labour intensive as skilled labour is required to ensure uniqueness of the jewellery being crafted. Almost 95% of gold imported is for jewellery.

However, the performance of the companies engaged in the gold gems and jewellery industry is directly dependent on the discretionary spends. Thus in the current situation where inflation is high and consumer discretionary spending is curtailed, the companies in this sector have been impacted. Further, this industry is export driven with majority of the exports to countries such as United States, Europe, UAE, Hong Kong, Singapore, Switzerland, Belgium, Germany etc.

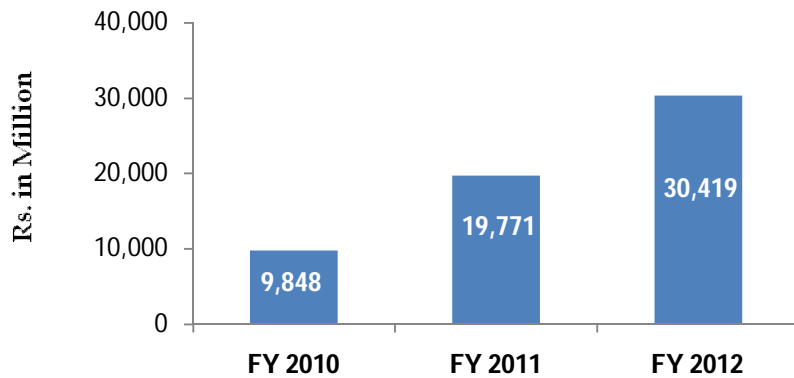
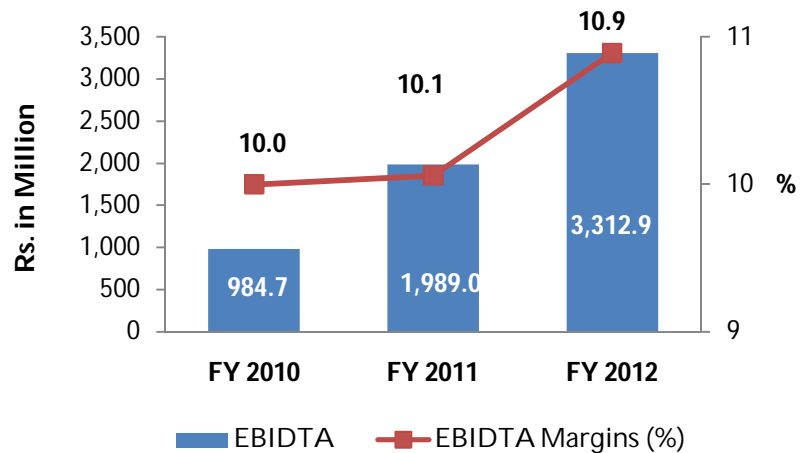
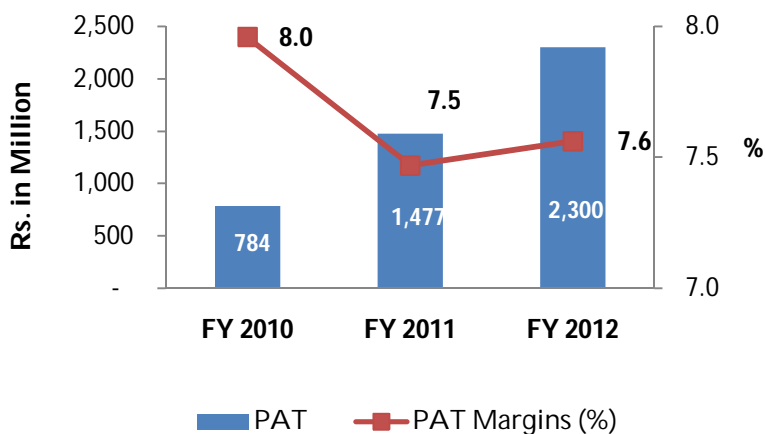
Currently, the organized retailers account for about 4% of the total jewellery retail market. This is because of consumers preference to purchase jewellery from the local goldsmith. However, the organized retail jewellery market is bound to grow going forward on account of increased preference for standardized, hallmark certified jewellery and fine quality of jewellery in addition to rising discretionary spending.

On the flip side however, this industry comprises of large number of unorganized local players which pose serious competitive threat to the players in the organized segment. In addition to this, the fortunes of the industry and the companies therein are directly dependent on the performance of gold prices and currency fluctuations and more importantly changing customer tastes and preference for designs.

Outlook

While, the company is one of the leading players in the gold and diamond industry with significant amount of revenues being generated from exports, the competitive pressures, rupee depreciation as witnessed in the current scenario, decline in consumer discretionary spend on account of high inflations and rising competition are some of the key areas which merit attention. Further, volatility witnessed in the prices of gold in recent times too is a factor which will need to be monitored over the longer period of time given that the company's fortunes are directly dependent on the price of gold.

Nevertheless, increased demand for jewellery from the organised sector, rising income levels in the urban cities like metros and tier I regions would aid the performance in the longer term.

Financial Graphs
Net Income From Operations

EBIDTA & EBIDTA Margins

PAT & PAT Margins


Disclaimer

All information contained in the document has been obtained by LKW's Gurukshetra.com from sources believed to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided as is without any warranty of any kind, and LKW's Gurukshetra.com in particular makes no representation or warranty express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and LKW's Gurukshetra.com shall not be liable for any losses incurred by users from any use of this document or its contents in any manner. Opinions expressed in this document are not the opinions of our company and should not be construed as any indication of our recommendation to buy, sell or invest in the company under coverage.

Disclosure

Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest.



The report has been sponsored and published as part of Initiative of BSE's Investors' Protection Fund

About Us

LOTUS KNOWLWEALTH (LKW), commenced business in 1990 and is currently engaged in providing WEALTH ADVISORY, CORPORATE ADVISORY and ECONOMIC & FINANCIAL RESEARCH & CONTENT services.

LKW's ECONOMIC & FINANCIAL RESEARCH & CONTENT division currently generates Reports on *Economic & Industry Trends, Global & Indian Equity Markets, Fundamental Analysis of IPOs, Companies & Industries, Management Meeting Reports, Balance Sheet & Financial Analysis Reports* and an *Economic Political and Sentiment Barometer*. LKW also conducts Capital Market related **Training Programs** and has cutting edge expertise in *Mutual Fund Analysis* and specializes in **Grading of Mutual Fund Schemes and IPOs**.

GURUKSHETRA.com is an online initiative of LKW that focuses on Personal Finance while theIPOguru.com is India's Premier Primary Market (IPO) Portal.

Contact Us**LOTUS KNOWLWEALTH Pvt. Ltd.**

Regd. Office : B Wing, 505-506, Fairlink Centre,
Off Andheri Link Road, Andheri (W),
Mumbai – 400 053

Email : consulting@lotusknowlwealth.com

Tel : 022- 4010 5482 | 4010 5483

Website : www.lkwindia.com | www.gurukshetra.com |