

TARA JEWELS LIMITED (TJL)

Stock Performance Details

Current Price	: Rs. 161.00**
Face Value	: Rs. 10 per share
52 wk High / Low	: Rs. 245.4 / Rs. 160.0
Total Traded Volumes	: 190 shares**
Market Cap	: Rs. 395.74 crore**
Sector	: Other Apparels & Accessories
EPS (FY2012)	: Rs. 30.07 per share
P/E (TTM)	: 7.3 (x)^
P/BV (TTM)	: 0.9 (x)^
Financial Year End	: 1 st April - 31 st March
BSE Scrip Name	: TARAJEWELS
BSE Scrip Code	: 534756

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

Background

- Tara Jewels Ltd (TJL), is an integrated player in the industry with experience ranging from designing to retailing of jewellery. The company's operations are divided into three segments namely, Manufacturing, Exporting and Retailing.
- The company has four manufacturing units of which one is located in Panyu, China and other three are located in Mumbai, India out of which two units are situated in SEEPZ and one in MIDC. The units are spread over an area of 84,584 sq. ft employing 35 designers and 955 craftsmen as on 30th September, 2012.
- Its product portfolio comprises gold, platinum, honeydium, pristinium and silver jewellery with or without studded precious and semi-precious stones. Thus catering to customers across various price points and market segments in any particular geography.
- As on May 31, 2012, the company operated 30 existing stores spreading over an aggregate area of 29,949.01 sq. ft. and the company intends to launch 20 project stores in India by 31st March, 2013.
- The company exports studded jewellery to jewellery chains such as Christ Uhrean & Schmuck and to other jewellery retailers such as Walmart, JC Penny, J.K.B International, Matsumoto Industrial Ltd, Sterling Jewellers, Zale Corp and Dicia Jewellery to name a few. The company primarily exports to Australia, China, Canada, European Union, South Africa, UAE, UK and USA.
- The company has three overseas sales and marketing offices; one in each major continents for their products namely, Europe, Australia and USA.
- The company allotted 1.8 million shares at a price of Rs. 225 per equity share to Crystalon Finanz AG by way of a Pre-IPO placement.

Shareholding Details - December 2012

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	1,47,59,998	60.10
Total Institutional Holdings (FIIs & DIIs)	51,01,217	20.77
Public Holdings	46,99,654	19.13
Total	2,45,60,869	100.00

IPO Objectives

Particulars	Amount (Rs. Million)
Establishment of Retail Stores	664.80
Repayment or Pre-payment of Loans	500.00
General Corporate Purposes	335.20
Total	1,500.00

Financial Snapshot

Particulars	Consolidated (Rs million)			
<u>Income Statement</u>	FY 2012	FY 2011	FY 2010	FY 2009
Income from Operations	13,990.8	11,422.9	8,044.2	7,541.6
Y-o-Y Growth (%)	22.4	42.0	6.6	-
EBITDA	1,318.2	970.5	668.1	554.5
Y-o-Y Growth (%)	35.8	45.2	20.5	-
EBITDA Margin (%)	9.4	8.5	8.3	7.35
Net Profit	541.2	406.8	241.1	70.4
Y-o-Y Growth (%)	33.0	68.7	242.5	-
NPM (%)	3.87	3.56	3.00	0.93
<u>Balance Sheet</u>				
Cash and Bank Balances	223.3	271.8	259.5	266.0
Inventories	5,889.7	4,342.7	3,076.8	3,393.4
Short Term Borrowings	5,508.1	4,498.0	2,816.5	3,434.7
Net Working Capital	2,022.8	1,477.3	1,134.8	944.2
Net Worth	2,772.6	2,213.1	1,777.5	1,536.4
<u>Balance Sheet Ratios</u>				
ROCE (%)	16.0	15.3	12.2	13.3
RONW (%)	21.3	19.9	14.8	5.8
Debt : Equity Ratio (x)	2.0	2.0	1.6	2.2

Source : RHP, Capitaline; Company Financials

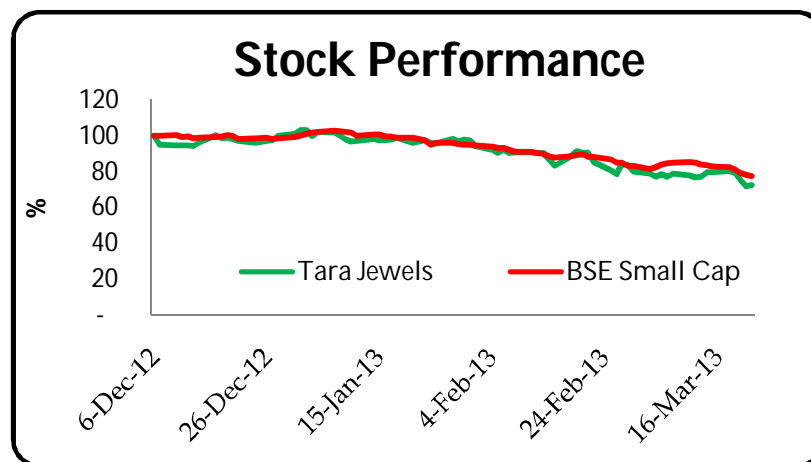
From the Research Desk of LKW's Gurukshetra.com

- The total revenues of the company have grown from Rs. 11,422.9 million in FY11 to Rs. 13,990.8 million in FY12. This is primarily on account of increase in income from retail operations of the company. The same increased from Rs. 932.6 million in FY11 to Rs. 1,834.8 million in FY12. Additionally, revenues from exports which constitute over 90% of total operational incomes increased by 22% y-o-y. The same stood at Rs. 11,334.5 million in FY2012 from Rs. 9,261 million in FY2011.
- The Other Income increased by 54% to Rs. 19.6 million for FY2012 from Rs. 12.7 million for FY2011. This has increased primarily on account of rise in interest income on fixed deposits, miscellaneous income and profit on sale of investments.
- At the operating level, the margins improved from 8.3 per cent in FY 2010 to 9.4 per cent in FY12. This could be attributed, the rise in prices of gold and decline in cost of raw material on account of increased consumption of silver especially for its export operations.
- The bottomline for FY12 also increased to Rs. 523.7 million as compared to Rs. 395.7 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 project stores, 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 61.8% and for 2M FY13 the same stood at 4.5%.
- The finance costs of the company increased in FY2012 by 44.6% to Rs.470.5 million from Rs. 325.3 million in FY2011 on account of increase in working capital limits during the year. The

working capital limit increased from Rs. 4349.6 million in FY2011 to Rs. 5357.5 million in FY2012 to fund its export operations.

- The company also faces risk of concentration of revenues in the hands of its top 10 customers. As in FY2012 the top 10 customers accounted for 70% of the revenues while, in FY2011 and FY2010 it stood at 54% and 52.6% respectively. Thus loss of any single customer could significantly impact the operational performance of the company. Additionally, as Tara Jewels is export dependent any slowdown in the country to which it exports its products could impact the topline as well as the bottomline.
- Further, reliance on exports also exposes the company 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 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.

(Rs. In million)

Particulars	Tara Jewels	Gitanjali Gems	Rajesh Exports	TBZ
Income from Operations	13,990.8	77,554.4	2,56,538.5	13,803.9
EBIDTA	1,318.2	4,058.9	6,068.2	1,169.7
Net Profit	541.2	2,486.3	4,124.4	571.9
EBIDTA Margins (%)	9.4	5.2	2.4	8.4
PAT Margins (%)	3.9	3.2	1.6	4.1
P/E (x)**	18.2	18.8	9.4	22.8
P/BV (x)**	1.35	1.9	2.0	4.2
ROCE (%)	16.2	11.8	17.1	34.4
RONW (%)	21.3	10.8	23.0	42.8

Source : Capitaline; Company RHP; ** as on Dec 2012 (TTM Basis)

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.

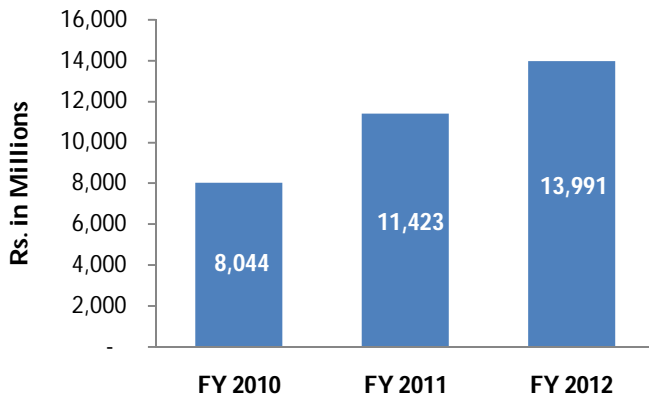
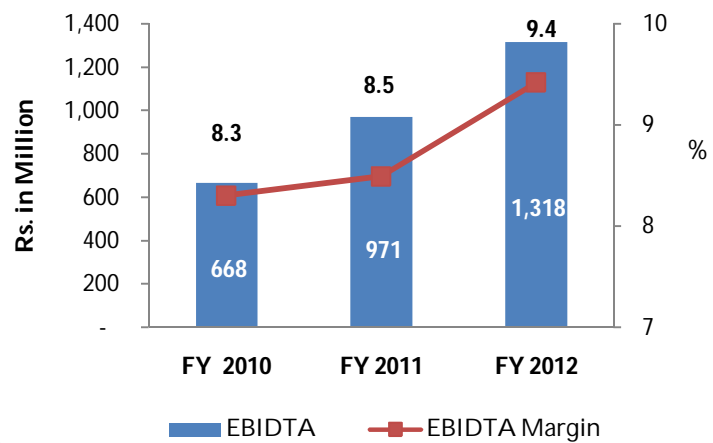
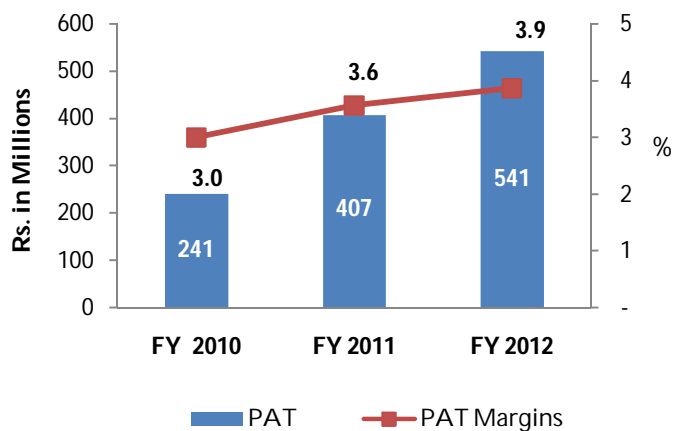
Currently, the organized retailers account for about 4% of the total jewellery retail market. This is because of consumers preference to purchase jewellery from the local goldsmith. However, the organized retail jewellery market is bound to grow going forward on account of increased preference for standardized, 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


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