PC Jeweller Ltd. (PCJ). : "SUBSCRIBE"

5th December, 2012

Issue date	December 10 – 12, 2012
Issue size	Rs. 6,092.5 mn at upper end of the price band
FV	Rs.10
Price Band	Rs. 125 - 135 per share
Discount	Rs. 5 to retail investors
Lot size	90 Equity Shares and in multiples of 90 Equity Shares thereafter.
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Type of issue	Fresh Issue: 45.13 mn
Equity shares post issue	179.1mn equity shares
Post issue market capitalization	Rs. 24.17 bn at upper price band
Promoters	Mr. Padam Chand Gupta – Chairman (Non – executive Director) Mr. Balram Garg – Managing Director
Book Running Lead Managers	SBI Capital Markets Ltd., Kotak, IDBI Capital
IPO Grading	Grade 3/5 by CARE indicating average fundamentals
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	93.61	70.02
Bodies Corporate	3.73	2.79
Public & Others	2.66	27.19
Total	**100**	**100**

PCJ is an established jewellery retailer in North India. The company has two jewellery manufacturing facilities in Uttarakhand that cater to the domestic market and two facilities at Noida for the exports market. It also export gold and diamond jewellery on a wholesale basis to distributors in Dubai, Hong Kong and Singapore. Strong brand recall, successful branch expansion (from one to 30 showrooms in the past seven years) and stellar increase in gold prices have added shine to PCJ's topline which has witnessed a CAGR of 69% over the period FY09-FY12. The Company plans to open 20 retail showrooms by utilising funds raised through the IPO.

At the upper band of the issue price, PCJ is valued at 9x – H1FY13 Annualized EPS/share of Rs. 15.82/- at upper end of the price band. With due consideration to factors like a) established brand, b) network of strategically located large format showrooms, c) wide product range with increasing focus on diamond jewellery which would lead to improved margins, d) good demand for gold jewellery in India despite a significant rise in gold prices, e) cheaply valued as against listed peers like Gitanjali Gems, Titan Industries and Tribhovandas Bhimji Zaveri, we believe the stock is priced reasonable. However, concerns like possible decline in gold prices, higher working capital requirement, and significant competition from unorganized and organized players may affect the performance of the company. We recommend investors to "SUBSCRIBE" the issue as it is a proxy for India's consumption story.

Financial summary

Y/e 31 Mar (Rs. mn)	H1FY13*	FY12*	FY11	FY10
Total income	18,557	30,419	19,771	9,848
EBITDA	2,336	3,316	1,989	984.7
EBITDA Margin (%)	12.6	10.9	10.06	10.0
PBT	1,777	2,646	1,631	766
Reported PAT	1,417	2,309	1,477	784
PAT margin (%)	7.6	7.59	7.47	7.96
EPS (Rs.)	15.82**	12.89	8.25	4.38
P/E (x) at upper end of price band	9	10	16	31
Equity Capital	1,339.67	1,339.67	446.56	401.56
Networth	6,977	5,553.5	3256.69	1520.35
Total Debt	3773.5	5773.07	1390.47	812.35
Debt/Equity (x)	0.54	1.04	0.43	0.53
RoNW (%)	-	41.6	45.4	51.6

Source: RHP, Ajcon Research, H1FY13 and FY12 are Consolidated numbers*
*Note: ** Annualised EPS on Post IPO equity, EPS for all the years in the table are calculated on Post IPO equity*

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About the company

PCJ is one of the leading jewellery companies in India in the organized jewellery retail sector. The Company's operations include the manufacture, retail and export of jewellery. The Company has developed a strong brand in northern and central markets of India. It offers a wide range of products including gold jewellery, diamond jewellery and other jewellery including silver articles, with a focus on diamond jewellery and jewellery for weddings. In FY12, domestic gold jewellery, diamond jewellery and other jewellery contributed 72.5%. 26.7% and 0.8% of its revenue from domestic sales. In the six months ended September 30, 2012, domestic gold jewellery, diamond jewellery and other jewellery contributed 67.1%, 32.6% and 0.3%, respectively, of our revenue from domestic sales.

As of September 30, 2012, it has 30 showrooms under the "*PC Jeweller*" brand located across 23 cities in north and central India with an aggregate area of approximately 164,572 sq.ft. All of these showrooms are operated and managed by the Company, with the exception of its Chandigarh showroom, which is operated and managed by a third party. Of these showrooms, 27 showrooms are large-format (with an area of 3,000 sq.ft. or more), including 11 showrooms which have an area of more than 5,000 sq. ft., of which four showrooms are more than 10,000 sq.ft..

It plans to further expand its showroom network across India, including in southern and western parts of India. PCJ intends to open an additional 20 showrooms by fiscal 2014, all of which are proposed to be financed through the Net Proceeds.

In addition to the sale of jewellery through PCJs showrooms, it also sells gold and diamond jewellery through online sales on its website. It also exports gold and diamond jewellery on a wholesale basis to international distributors in Dubai and Hong Kong.

In fiscal 2010, 2011, 2012 and for the six months ended September 30, 2012, its export sales represented 33.5%, 34.4%, 33.0% and 32.6%, respectively, of its revenue from operations in these periods.

The Company has established its own jewellery manufacturing facilities. It has two jewellery manufacturing facilities in Selaqui, Dehradun, Uttarakhand that cater to its sales in India. It has also set-up two jewellery manufacturing facilities at the Noida SEZ, Uttar Pradesh, that cater to our export sales. In addition, in November, 2011, it commenced manufacturing operations at an additional 34,000 sq.ft. jewellery manufacturing facility in Noida, Uttar Pradesh, to further increase its manufacturing capabilities. In fiscal 2012 and for the six months ended September 30, 2012, 4,831.96 kg and 2,725.47 kg, of gold, respectively, was processed at its own manufacturing facilities.

Objects of the Issue (Rs. in mn)

S. No.	Particulars	Total Estimated Fund Requirement	Estimated utilization in FY13	Estimated utilization in FY14
1	To finance establishment of new showrooms	5,168.5	1,408.75	3,759.76
2.	General Corporate Purposes	-	-	-

Source: RHP, Ajcon Research

Industry concerns

Challenges to Jewellery Retail Growth

According to the CARE Report, some of the key challenges facing the jewellery retailing industry, are: Limited availability of high-end real estate; Adapting to changing consumer preferences including regional preferences; Increase in diamond prices by approximately 35-40% on average between January 2011 and June 2011 primarily due to a supply shortfall; Increase in competition from China which is expected to become the biggest manufacturer of jewellery in a few years; Synthetic diamonds and other artificial jewellery sales may reduce the popularity of real diamonds amongst consumers as diamond prices continue to rise and consumers become more price conscious; An increase in the popularity of competing luxury products could reduce jewellery sales; and Long gestation period for organized jewellery retailing for building its brand and trust among consumers.

Volatility in raw material prices

According to CARE Research, Indian consumers have a tendency to postpone their purchases until the prices seem reasonable and restrain from panic buying. It has been observed that consumers lay emphasis on stability of gold prices rather than absolute prices of gold to make their purchases. Retailers who quote making charges as a percentage of the raw material cost may be negatively impacted by a significant decline in gold or diamond prices.

High inventory requirements, low risk of inventory obsolescence

Jewellery retailers have high capital requirements for inventory, as the business requires a minimum range and amount of jewellery items to be stocked and these are high value items. But risk of inventory obsolescence is much lower as compared to other retail businesses. The metals and the gems can be reused and redesigned and there is no natural wear and tear.

Long gestation period

Retailers across verticals typically face long gestation periods for their projects. This is mainly because retailing (including jewellery retailing) is a low margin business. According to CRISIL Research, in case of jewellery retailing, profits earned by large organized players are exclusively on making charges.

Company specific Risk and concerns

1) PCJ obtains most of its gold under gold loan schemes, which are governed by specific conditions of the Ministry of Commerce and Industry, Government of India, and the applicable RBI regulations. Any adverse change in the regulations that govern such arrangements or any event due to which the Company is notable to procure gold under the gold loan schemes using non-fund based credit facilities may materially and adversely affect its business, financial condition and results of operation
2) The Company extends significant credit terms to its customers for its export business, and any deterioration in such customers' financial position and their ability to pay or its inability to extend credit in line with market practice could adversely impact its sales.

3) It has significant working capital requirements and if PCJ is unable to secure adequate working capital loans on commercially reasonable terms it could have a material adverse effect on its business, financial condition and results of operations.

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