

27 June 2022

Radhika Jeweltech – BUY

CMP : Rs.163.0
Target Price : Rs.203.0
Upside : 25%+
Stop Loss : Rs.134.0 (Closing basis)

Investment Thesis

Recently, the stock price of Radhika Jeweltech Ltd. (Radhika Jeweltech) corrected by ~19% from 52-week high of Rs.201.00 as the company has reported lower-than-expected numbers in the last quarter due to omicron wave in the month of January 2022.

Radhika Jeweltech entered into retail jewellery business with gold and diamond-studded jewellery such as Gold Jewellery, Bridal Collection, Diamond Jewellery, Platinum Jewellery, etc. It offers a wide range of jewellery designs for both men and women. It also provides value-added service of manufacturing custom-made products. It operates a 2,500 sq. ft. showroom in the heart of Rajkot's jewellery market. Radhika Jeweltech generates 85% of its revenue from pure-gold jewellery while the remainder comes from diamond and platinum jewellery items. It generate major of its revenue from repeat customers which shows the strong goodwill the company has established in the market and help it to acquire new customer through referrals by existing customers.

Indian gems and jewellery market is valued at US\$78.5bn in 2021, is expected to grow at a CAGR of 8.4% over 2022 to 2026 to reach US\$ 119.8 bn by the end of the forecast period. Gold and diamond trade contributed 14% of India's total merchandise exports and 7.5% of India's GDP. With rising disposable income, growing working age population and expanding middle class, demand for gems and jewellery is expected to further increase going ahead. With increasing consumerism and awareness, demand for branded as well as certified jewellery products is on the rise. Growing urbanisation, product innovations, designer products, and technological advances in product development are further enabling growth of the Indian gems and Jewellery market, which will be key drivers of future growth.

Financials

- During the past 5 years, revenue of Radhika Jeweltech grew at CAGR of 8.2% while PAT grew at CAGR of 23.9% in the same period.

Standal. (Rs.Mn.)	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,718	1,375	2,328	2,677	3,079
EBITDA	137	270	352	405	466
% growth	-18.3	96.2	30.8	15.0	15.0
PAT	128	255	271	315	369
EPS (INR)	5.4	10.8	11.5	13.4	15.6
P/E (x)	30.0	15.0	14.2	12.2	10.4
RoE (%)	9.3%	15.6%	14.4%	15.4%	16.6%

- Radhika Jeweltech has reported 9.7% YoY de-growth in revenue in Q4FY22 to Rs.531mn due to Omicron variant of Covid-19 and postponement in buying due to steep rise in gold prices in March 2022.

Stock Data

Market Cap (Rs. Mn)	383.0
Market Cap (\$ Mn)	4.89
Shares O/S (in Mn)	23.6
Avg. Volume (3 month)	61,000
52-Week Range (Rs.)	201.00 / 23.60

Shareholding Pattern

Promoters	63.65%
FII's	0.00%
Institutions	1.47%
Others (incl. body corporate)	34.88%

Performance (%)	1M	6M	1Yr
Absolute	-15.6%	40.1%	571%
BSE 500	-3.1%	-8.9%	-1.1%

Key Ratios

Div Yield	0.6%
TTM PE	14.2x
ROE	14.4%
TTM EPS (Rs.)	11.5/-

- Radhika Jeweltech's EBITDA declined by 38.9% YoY in Q4FY22 to Rs.64mn due to lower revenue in the quarter. As a result, EBITDA margin has also declined by 574bps YoY to 12.0% in Q4FY22.
- Radhika Jeweltech has reported 56.8% YoY decline in PAT to Rs.44mn in Q4FY22 against Rs.103mn in Q4FY21.

Key Business Highlights

- Radhika Jeweltech is a retail jeweller dealing in gold and diamond-studded jewellery, operates through a jewellery store in the western Indian city of Rajkot in Gujarat.
- Radhika Jeweltech exclusively sells BIS Hallmark-certified gold and diamond-studded jewellery such as Gold Jewellery, Bridal Collection, Diamond Jewellery, Platinum Jewellery, etc.
- Radhika Jeweltech's retail outlets sell a wide range of jewelry designs for both men and women. It also provides value-added service of manufacturing custom-made products.

Valuation

- Radhika Jeweltech outsources the making of jewellery from specialist manufacturers while the company focuses exclusively on sales. It has established strong relationships with manufacturers that exclusively design and manufacture jewellery pieces for the company. Radhika Jeweltech incentivized manufacturers for providing them enough orders to enable it to run at full capacity while the exclusivity arrangement ensures that other jewellers do not have access to the designs used by Radhika Jeweltech, which remains unique to the Radhika brand. The manufacturing cost of jewellery ranges between Rs.250-350 per gram depending on the market rate of gold and the intricacy of design.
- Radhika Jeweltech has planned a new showroom of 10,000 sq. ft. in Kalawad Road, Rajkot expected to be operational by Q2FY23E. New showroom will be manned by approximately 150 sales representatives and it is expected to drive its revenues to a significantly higher trajectory. By virtue of being located in Rajkot's posh localities, the new showroom is expected to sell a higher percentage of diamond and platinum jewellery products. Radhika Jeweltech has also plans to open showrooms in other major cities such as Bhavnagar, Bhuj, Gandhidham, Morbi and Jamnagar, and subsequently in other areas of and outside Gujarat.
- Radhika Jeweltech has policy to immediately replenishes its gold inventory with the quantity of gold sold once a piece of jewellery is sold to a customer. As the selling price is calculated on the basis of the prevailing market price, the immediate replenishment mitigates the risk of cost of inventory going up due to any rising gold prices. Further, the company settles the bill with manufacturers in physical gold terms as opposed to any cash payments.
- With a wide range of jewellery designs in gold and diamond-studded for men and women, gems and jewellery market is expected to grow at a CAGR of 8.4%, outsources the making of jewellery from specialist manufacturers and new showroom of 10,000 sq. ft. in Rajkot, we value Radhika Jeweltech at 13.0x FY24E EPS of Rs.15.50 to arrive at target price of Rs.203.00, an upside of ~25%.

Risk & Concern

- Any Covid-19 like situation which lead to lockdown may negatively impact demand and revenue of Radhika Jeweltech.
- Any delay in execution of future new showroom may have negative impact on growth of Radhika Jeweltech.
- Radhika Jeweltech operates in highly competitive market where large number of retailers operate. Any intensification of competition may lead to underperformance by the company.

Graphs & Charts

Figure 1: Net Sales Trend

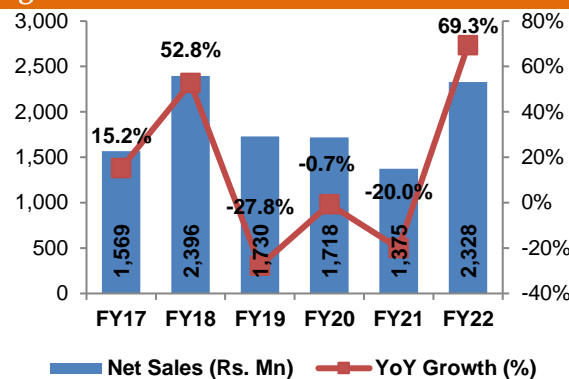


Figure 2: EBITDA & EBITDA Margin Trend

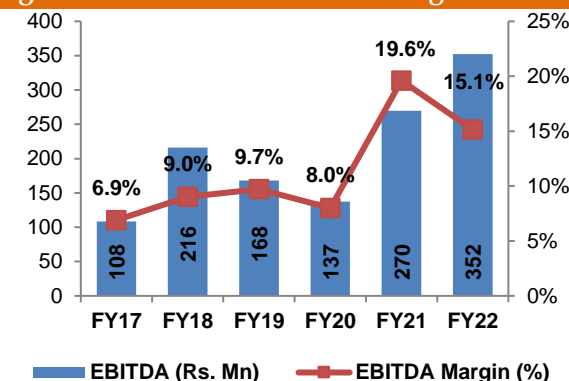


Figure 3: PAT Trend

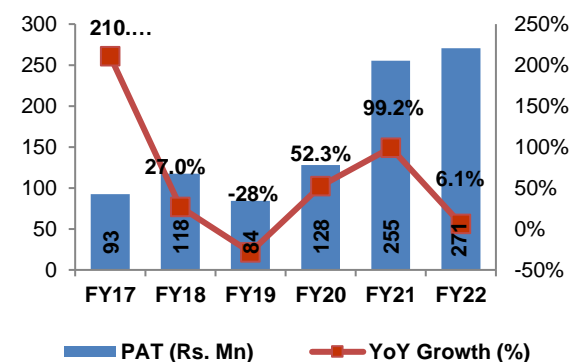
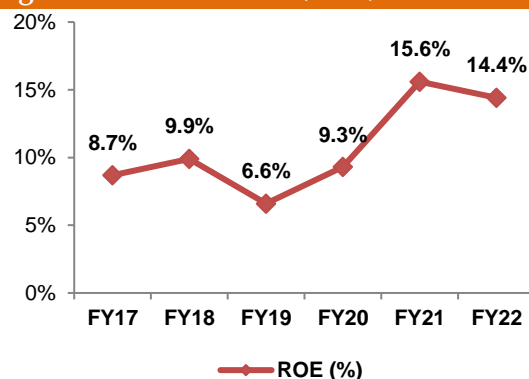


Figure 4: SReturn Ratio (ROE) Trend



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