

26th July 2022

Thangamayil Jewellery Ltd.

CMP :1,111
Target Price :1418
Upside : 28%
Stop Loss :Rs.952 (Closing basis)

Investment Rationale

Thangamayil Jewellery Limited (TMJL) a 2400 Crores turnover company is in the business of manufacturing and retailing Gold Ornaments, Silver Articles and diamond products and mainly operating out of 50 retail outlet (including TMJL Plus) spread across southern and western districts of Tamil Nadu. A powerful brand in the areas of operation having large customer base of well over 15 lakhs customers and the brand is a household name in the southern and western Districts of Tamil Nadu. T.JL dominates the organised gold jewellery retailing in Tier II/III towns of Tamil Nadu while penetration of organised gold jewellery retailing is still low in tier II/III towns with market share around 40% in Tamil Nadu. T.JL offers value for money gold ornaments which are preferred by people in South are quite simple in designs and less likings towards stones and diamonds. T.JL charges wastage charge in the range of 5%-15% while Tanishq charges minimum wastes charge of 16% that is a differentiation point for the company. Reduction in making charges for a selected jewellery range (to 10-12% from 12-15%). The company sells 22k gold in all stores having gross margins of 10%, management expects further improvement in gross margins by rationalizing of purchase costs, better product mix and increase in house productions. At present, company has 40% in house production and 60% production from karigers. Highest Inventory turn in the industry: T.JL has a highest inventory turns of 6 x as compare 4.3x of average industry. The company has reduced its inventory to 1,000 kg gold from 1,650 kg gold. Based on following steps 1.) After SAP implementation, everyday inventory is monitored in all stores, 2.) Slow moving products in particular store are shifted to other stores as per demand 3.) Heavy weight products have been reduced and produced as per demand 4.) Launch of E-catalogue in every store. The company has launched 3 eleven months schemes as saving products for customers are doing well, where the company received advances from customer. Rise in cash crop production has increased rural income which is the main consumer base of TMJL. Like FY22 expect strong growth in the second half this year even the management expects double digit growth in FY23 indicating likely pickup in demand.

Financials.

Particulars	FY20	FY21	FY22	FY23E	FY24E
Revenue	1692.0	1818.6	2193.1	2522.0	2925.6
EBITDA	97.7	141.0	86.2	163.9	198.9
EBITDA margin	5.8%	7.8%	3.9%	6.5%	6.8%
Net profit	45.7	86.6	38.5	88.3	111.2
EPS	33.3	63.1	28.1	64.3	81.0
ROE	22.1%	33.4%	12.4%	24.0%	23.7%
ROCE	24.2%	27.3%	13.5%	21.7%	22.8%

Stock Data

Market Cap (Mn)	Rs. 15,000
Market Cap (\$ Mn)	\$ 187.70
Shares O/S (in Mn)	14
Avg. Volume (1 month)	4782
52-Week Range (Rs.)	1520 / 789

Shareholding Pattern

Promoters	66.66%
FII's	0.16%
DII's	11.49%
Public	21.69%

Performance (%)	1M	6M	1Yr
Absolute	19.16%	-17.39%	34.21%

Key Ratios

Div Yield	0.92%
TTM PE	38.9x
ROE	12.4%
TTM EPS (Rs.)	28.1/-

Business Verticals

The company after a period of consolidation opened four retail outlets during the financial year 2022 namely, Nagercoil on 15th October 2021, Surandai on 27th October, Kalavasal Madurai on 14th November 2021 and Pudukottai on 11th February 2022. The company opened its 52nd branch at Trichy, own premises on 14th April 2022. Apart from the gold price escalation contributing to value terms in turnover, the volume of gold ornaments sold also increased from 3,433 kgs to 4,054 kgs registering an increase of 15%. Due to reduction in EBITDA profits for reasons stated above all the derivative financial indicators also resulted in lower levels. You may observe that our top line growth increased over a five-year period at a compounded annual growth rate (CAGR) of 12%. It could have been better but for the severe impact of COVID in the last two years. The overall stock turnover ratio also increased from 2.80 times to 3.13 times due to continuous monitoring on the inventory with the help of technology support.

Valuations

Due to covid 19 the company didn't open a single store in last fiscal year. TMJL plans to resume store addition this fiscal year. TMJL opened 4 new stores in FY22. Store expansion is likely to accelerate in FY23 once the business situation normalize currently TMJL is focusing on further strengthening its presence in Tamil Nadu where it has strong hold on their loyal customer. TMJL is enhancing its product portfolio with focus on high margin value added jewellery item such as wedding jewellery, studded diamond jewellery, precious stones and other value added products, share of value added product has almost doubled over the past 5 years with their contribution to 9.1% with rising income level and increasing awareness share of value added product is expected to improve further. Covid second wave severely affected operation of unorganized players with liquidity issue, smaller unorganized players are facing difficulties to sustain operations. There has been shift towards the organized players such as TMJL with implementation of mandatory hallmarking pricing gap between unorganized and organized segment will shrink further resulting in an advantage of organized segment. TMJL also has strong return ratios in excess of 20%. Organized players like TMJL has strong potential for market share gains from unorganized segment which is highly fragmented and forms about 70% of industry. With the improvement in gross margins and fall in interest costs, prime facie except PE(x) of 18x in FY24E as compare to 30x-40x industry PE(x) With attractive PE valuation close to 18x FY23E given strong return ratios and healthy growth prospect. Stock would continue to re-rate going forward. Given good produce and increased crop prices in south we expects healthy earnings trajectory resume.

Key Risks

Inventory is very important in a jewellery business as it is like a retail business; they make money on churning over inventory fast. Business like this tends to stay at low PE's because the margins are low and a lot of money is tied in working capital due to this reason operating cash flow low. I have compared Titan and Thangmayil where I have found thangamayil in better position. Inventory management a remains a key area of concern for the business and needs constant monitoring by the management. Competition -- Recently Madurai has seen the entry of bigger local players like Joy Alukkas, Lalithajewellers, Bhimajewellers, KalyanJewellers, etc which can impact the market share of the company. Demand for gold jewellery with sustained increase in the prices of gold and higher inflation, the demand of gold jewellery which is a discretionary spend is likely to witness some pressure.

Graphs & Charts

Figure 1: Net Sales Trend

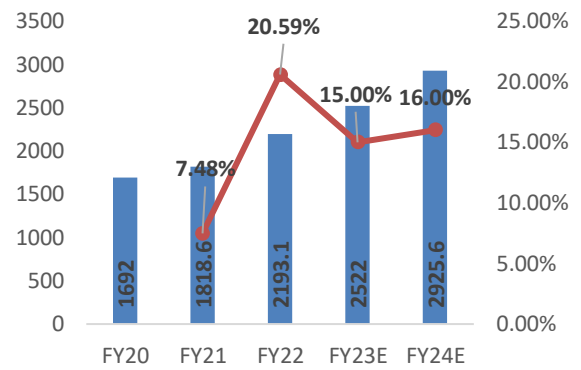


Figure 2: EBITDA & EBITDA Margin Trend

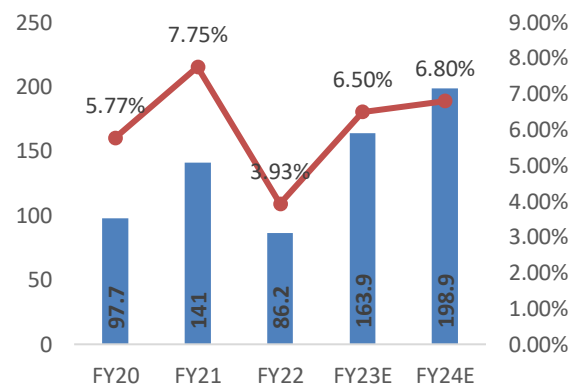


Figure 3: PAT & PAT Margin

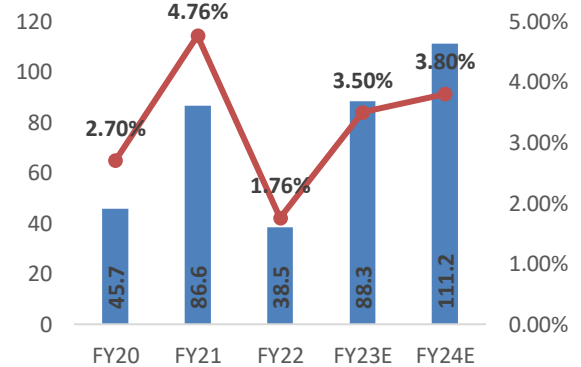
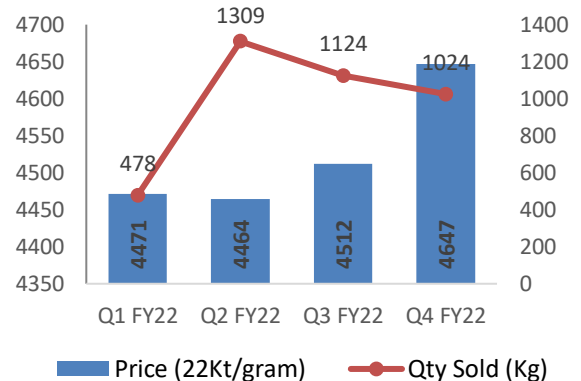


Figure 4: Gold Privevs Qty. Sold



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