

# D. P. Abhushan Ltd

Store Expansion Plan to Drive Growth; Initiate with Buy



**CMP: Rs 59**

**Rating: BUY**

**Target Price: Rs 92**

**Stock Info**

NSE SME	DPABHUSHAN
Bloomberg	DPAL IN
Sector	Gems
Sector	Jewellery
Face Value (Rs)	10
Equity Capital (Rs mn)	223
Mkt Cap (Rs mn)	1,324
52W H/L (Rs)	74/38

**Shareholding Pattern %**

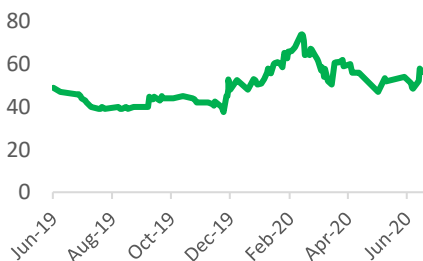
(As on Jun, 2020)

Promoters	74.73
Public & Others	25.27

**Stock Performance (%)**

	3m	1 Yr.
D P Abhushan	-4.7	26.6
NSE SME Emerge	12.4	-19.5

**D P Abhushan Price Chart**



**Important Update:**

Board meeting of the Company has been scheduled on 3<sup>rd</sup> July 2020 for passing resolution to migrate to NSE main board from NSE-SME segment.

**Raju Barnawal**

[Raju.b@arihantcapital.com](mailto:Raju.b@arihantcapital.com)

022 4225 4870

*Kataria family promoted D. P. Abhushan Ltd (DPAL) is engaged into the retail business of Gold and Diamond Jewellery & Ornaments. At present, company has four showrooms situated at various places from where it operates its Jewellery stores. Company has high growth potential in organised Indian jewellery sector backed by : 1) Strong Brand image; 2) Store Expansion plan 3) Improving gross margins due to better sales mix and lower cost of sales. We estimate DPAL to record PAT CAGR of 12% over the period of FY20-22E backed by improvement in gross margin. FY21 performance of the company will be impacted on account of lower sales due to Covid-19 outbreak. However, margins improvement is a silver lining. We initiate coverage on DPAL with 'Buy' rating having a target price of Rs 92, which gives a potential upside of 57%.*

India's Gems and Jewellery sector is one of the largest sector in the world contributing 26% to the global Jewellery consumption and 7% of the country's GDP. As per Industry Estimates, Indian Gems and Jewellery sector is expected to reach at \$100 bn by 2025 from \$75 bn as of 2018.

**Store expansion plan to drive growth**

DPAL is embarking on store expansion plan to drive growth during next year. The company which currently operates 4 stores across 4 cities in 2 states (Average carpet area of 28,200 sqft.), plans to add 2 new showrooms by the end of CY20, which would take the total number of showrooms to 6 (total Avg. carpet area ~34,320 sqft.) within the same states.

**DPAL witnessed strong sales growth during FY17-20**

DPAL posted a strong improvement in its performance during the period FY17-20, recorded 21% CAGR in sales to Rs 8,086 mn in FY20. This was on the back of rise in Diamonds sales. Its revenue per sqft remained flat on YoY basis with Rs 287,990/sqft in FY19 to Rs 286,743/sqft in FY20.

**Margins are Expected to Expand**

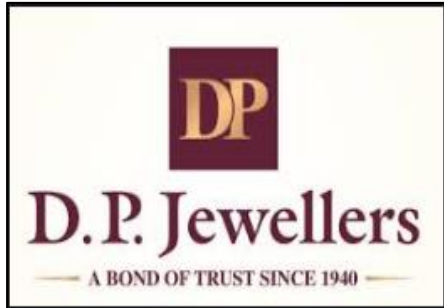
With the revival of the product mix by inclusion of high margin products such as diamond jewellery (with margin profile of ~3x more than plain Gold Jewellery), We expect DPAL's EBITDA margin to improve to ~5% by FY22E (vs. 4% in FY20). Share of Diamond Jewellery in the total sales was at 8.5% as on FY20.

**Valuation and Outlook**

At CMP of Rs 59, DPAL is trading at P/E multiple of 8.2x/6.4x to its FY21/22 earnings estimates. We value the stock at a PE multiple of 10x to its FY22 estimated EPS of Rs 9.2 to arrive at a target price of Rs 92 which gives potential upside of 57% from current level. We initiate coverage on the stock with a 'BUY' rating.

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	6,597	219	81	3.7	3.3	19.8	16.1
FY19	8,121	279	118	5.3	3.4	22.3	11.1
FY20	8,086	327	164	7.4	4.0	23.7	8.0
FY21E	6,469	326	161	7.2	5.0	18.9	8.2
FY22E	7,633	392	206	9.2	5.1	19.4	6.4

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg



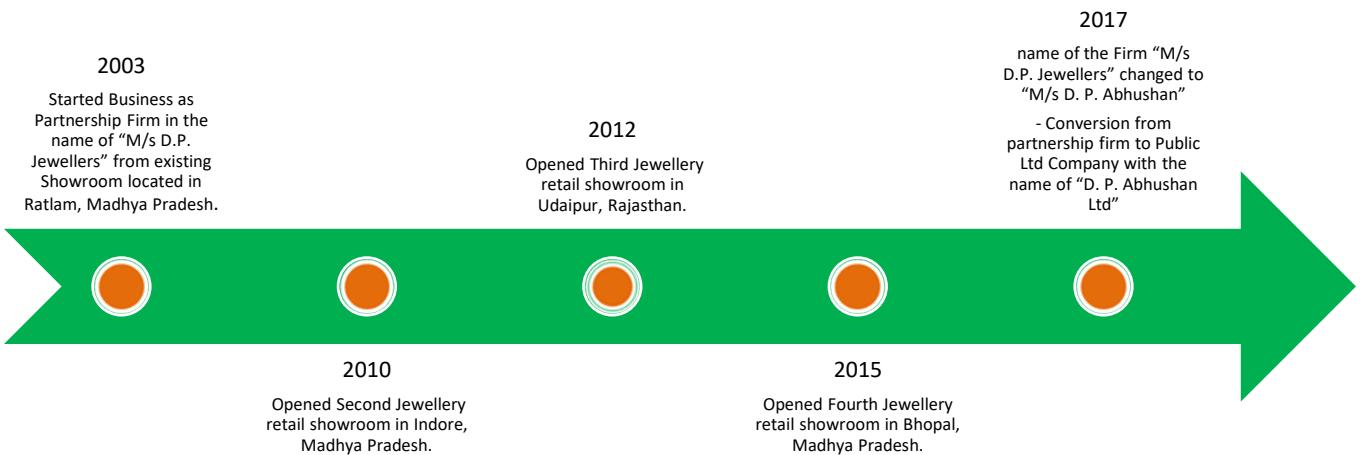
### Company Background

DPAL was incorporated in 2017 by conversion of a partnership firm “M/s D. P. Abhushan (formerly known as M/s D.P. Jewellers)’ into the Company as ‘D.P. Abhushan Ltd’. The forefather of the promoter started jewellery business in 1940. Currently the fourth generation is taking the business on the path of growth. It is engaged into the retail business of Jewellery & Ornaments. The company sells Jewellery products in its stores while manufacturing of the products is done through the third party. At present, Company has four showrooms in 4 cities within 2 states, with a total carpet area of ~28,200 sqft. Its product portfolio includes Rings, Earrings, Armlet, Pendants, Gajrahs, Nose Rings, Bracelets, Chains, Necklaces, Bangles and other wedding Jewellery. The company is also engaged into the business of power generation through windmill.

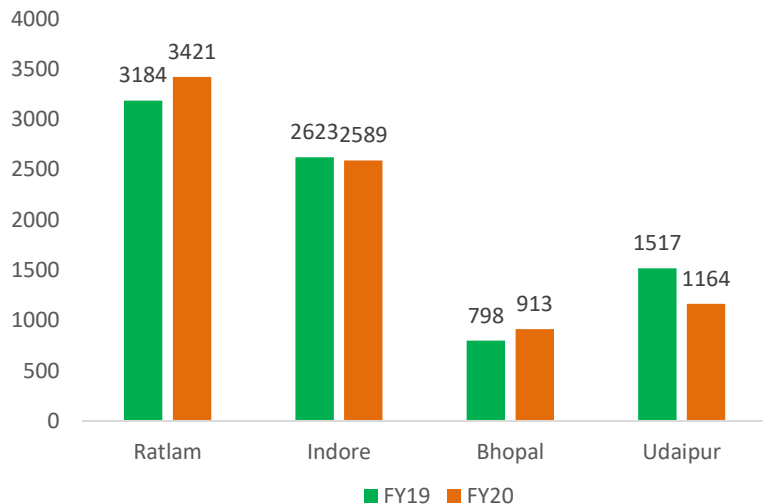
Location	State	No. of Stores	Avg. Carpet Area
Chandni Chowk, Ratlam	Madhya Pradesh	1	2,100 Sqft.
Lad Colony, Indore	Madhya Pradesh	1	15,000 Sqft.
Nyaya Marg, Udaipur	Rajasthan	1	5,100 Sqft.
Bhopal	Madhya Pradesh	1	6,000 Sqft.

Source: Company, Arianth Research

### Exhibit 2 : Key Milestones of the company



### Exhibit 3 : Store Wise Revenue Details (Rs in mn)



Source: Company, Arianth Research

**Top three stores accounts for ~89% of the total revenue i.e Ratlam, Indore and Udaipur**

**Ratlam’s sales includes Mumbai’s sales also which is B2B market.**

**India is a high potential market for Organized Gold Jewellery sector**

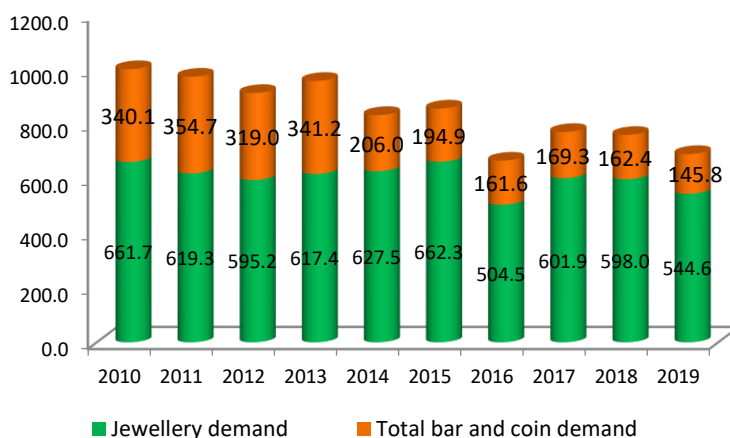
India's gems and Jewellery sector is one of the largest sector in the world contributing 26% to the global Jewellery consumption and 7% of the country's GDP. As per Industry Estimates, Indian gems and jewellery sector is expected to reach at \$100 bn by 2025 from \$75 bn as of 2018.

**India - the largest market for Gold Jewellery**

India has been the largest consumer of Gold Jewellery (in tonnage terms) around the globe over several decades. According to the World Gold Council (WGC), demand for gold in India stood at 690.4 tonnes in CY 2019, lower by 9% as compared to 760.4 tonnes in CY2018.

**In 2019, India accounted for 26% of total global gold jewellery consumption, 17% of total consumer bar and coin demand**

The share of organized jewellery market in India has increased from 5% in 2000 to 23% in 2015, and it is expected to touch 35% to 40% by 2020. According to a CRISIL Report, the organised jewellery segment grew 11.9% from 2016 to 2019. Going ahead, it is expected to continue to grow at a rate of 10% to 11% until 2022, maintaining its current growth rate, on estimates of increase in wedding and festival sales to drive volume growth.

**Exhibit 4 : India's demand of Jewellery and Bars & Coins (in tonnes)**

Source: World Gold Council, Arihant Research

During 2019, India's Gold demand had witnessed a de-growth largely, due to steep rise in the gold prices, domestic economic slowdown, muted rural demand etc.

**Exhibit 5 : Global Trend of Gold Jewellery and Bars & Coins (in tonnes)**

Tonnes	2018	2019	Trend	Year-on-year % change
<b>Jewellery</b>				
World total	2,240.2	2,107.0	▼	-6
India	598.0	544.6	▼	-9
Greater China	743.0	681.1	▼	-8
<b>Bar &amp; Coin</b>				
World total	1,093.6	870.6	▼	-20
India	162.4	145.8	▼	-10
Greater China	315.4	217.6	▼	-31

Source: World Gold Council, Arihant Research

## Gold Sector Outlook

With decreasing volume growth of gold jewellery/bars & coins largely due to volatility in gold prices, weaker consumer sentiment and economic slowdown, the near term growth outlook is likely to remain muted.

However, rising middle class population and increasing income levels to remain the key drivers for the demand of Gold and other Jewellery in India. Going forward, growth in Gems and Jewellery sector would be largely contributed by the development of large retailers/brands (Organized market). The organized players in India will be the primary beneficiary of the rising opportunity in the domestic jewellery market as they are able to charge a premium from consumers by offering quality products and services. On the other hand, the unorganized jewellery market in India is overcrowded (with ~300,000 players).

In addition to this, the traditional demand drivers like wedding and festival season continue to be in place (forming ~50-55% of the overall demand for jewellery in the country).

### Exhibit 6 : Gold Prices Trend (in \$/Oz)



Source: Bloomberg, Arianth Research

## Diamond

India is the world's largest centre for cut and polished diamonds in the world and exports 75% of the world's polished diamonds. India exported \$39.67 bn worth of cut and polished diamonds during 2018-19 and \$13.41 bn in FY20P (as of November 2019 Provisional). It contributed 76.96% of the total gems and jewellery exports.

## Investment Rationale

### Store expansion to drive growth

DPAL is embarking on store expansion plan to drive growth during next year. The Company which currently operates about 4 stores across 4 cities in 2 States (Average carpet area of 28,200 sqft., plans to add 2 new showrooms by the end of CY20, which would take the total number of showrooms to 6 (total Avg. carpet area ~34,320 sqft.) within the same State.

### Exhibit 7 : Store Expansion Plan

	Current	Aug, 2020	Oct, 2020	Total
<b>No. of Showroom</b>	4	1	1	6
<b>Carpet Area (Sq. ft)</b>	28,200	2,120	4,000	34,320
<b>City</b>		Ujjain	Bhilwara	
<b>No. of Cities</b>	4	1	1	6
<b>No. of States</b>	2			2

Source: Company, Aриhant Research

### Initial business expansion plan in known geographies would increase the probability of success

DPAL's currently has a presence in Madhya Pradesh and Rajasthan. Including Company's future store expansion plans in the same geographies (as shown in Exhibit 7), majority of the Company's space about ~68% to be in Madhya Pradesh and ~32% in Rajasthan. Therefore, the initial phase of expansion plan into a familiar geography with good brand strength increases the probability of smooth operations and success for the Company.

### Strong branding and advertising practices to aid growth

DPAL 's has strong efficiency in marketing and sales of its products. Company is doing advertisement of its brand regularly through different channels like TV, Newspaper, Social media platforms and via hoardings & Exhibitions etc. Company is also branding Dee Beers Group brand 'Forevermark & Divine Solitaire' as they are entitled to sale these brands products at its own showrooms. Company's advertising expense as on FY20 stood at Rs 43.6 mn, which is 0.67% of the total sales. Company is also planning to launch online sale of Jewellery products which will further increase the revenue growth.

### Wide Range of Products with Innovative Designs

DPAL sells wide range of Gold, Diamond and Platinum studded Jewellery products such as Rings, Earrings, Armlet, Pendants, Gajrahs, Nose rings, Bracelets, Chains, Necklaces, Bangles. Its portfolio consists of jewellery collections such as Bridal, Rajasthani, Junagadhi, Calcutti, Polka, Fine Pearl and other antique jewellery items. Company's product offerings caters to diverse customer segments, from high-end to mid-market segments. The company has a dedicated team of experienced personnel who have strong experience in Jewellery industry.

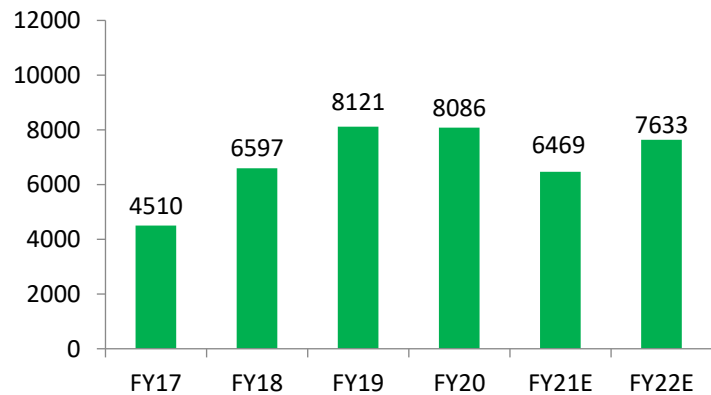
The Company also continuously introduces new design products to drive sales and to maintain strong relationships with their customers. Also, it is maintaining the quality of its products, and follow strict procedures to ensure quality control and timely delivery in a competitive prices.

### Financial Performance Analysis

#### Revenue is expected to de-grow due to Covid-19 related disruption

DPAL had posted 21% CAGR growth in its sales over FY17-20. This was primarily on account of rise in diamonds sales. Sales of the company is expected to witness de-growth in FY21 due to Covid-19 related lockdown which has impacted business operation of the company. We are estimating sales to register 3% CAGR de-growth over the period of FY20-22E.

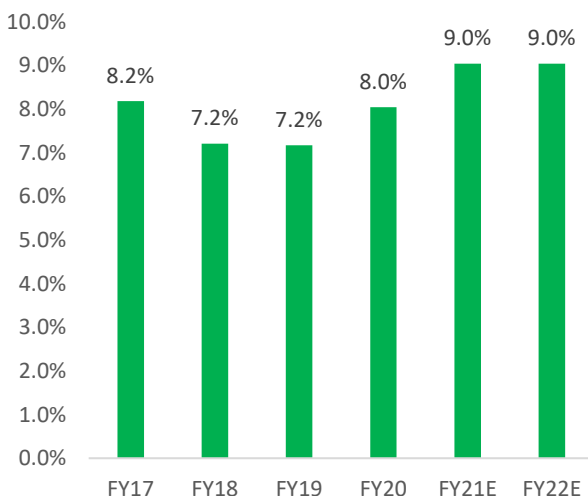
**Exhibit 8 : Revenue Chart (Rs in mn)**



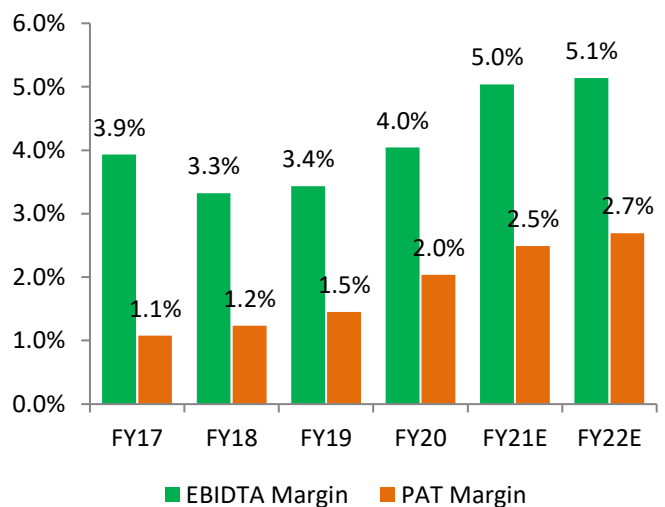
#### Margins of the Company are expected to expand

With change in product mix by inclusion of high margin products such as Diamond studded Jewellery (with margin profile of ~3x more than plain Gold Jewellery) and lower cost of sales. We expect DPAL's EBITDA margin to expand to 5.1% in FY22E (vs. 4% in FY20). Share of Diamond Jewellery in the total sales has increased to 8.5% in FY20 from 5.2% in FY19. Gross margin of the Company stood at 8% as on FY20 vs. 7.2% in FY19. We are expecting gross margin to improve to 9% by FY22E driven by improving cost of sales.

**Exhibit 9 : DPAL's Gross Margin Trend**



**Exhibit 10 : DPAL's Profitability Trend**



#### Company Keeps on adding Gold to hedge volatility in gold prices

Company follows a policy of Accumulation/Addition of Gold at every level to keep inventory and to hedge against volatility in gold prices. Due to continuous addition of gold, the average price of the gold comes down and it remained lower for the company as compared to market price.

## Valuation and Outlook

At CMP of Rs 59, DPAL is trading at P/E multiple of 8.2x/6.4x to its FY21/22 earnings estimates. We value the stock at a PE multiple of 10x to its FY22 estimated EPS of Rs 9.2 to arrive at a target price of Rs 92 which gives potential upside of 57% from current level. We initiate coverage on the stock with 'BUY' rating.

Exhibit 11 : PE band chart

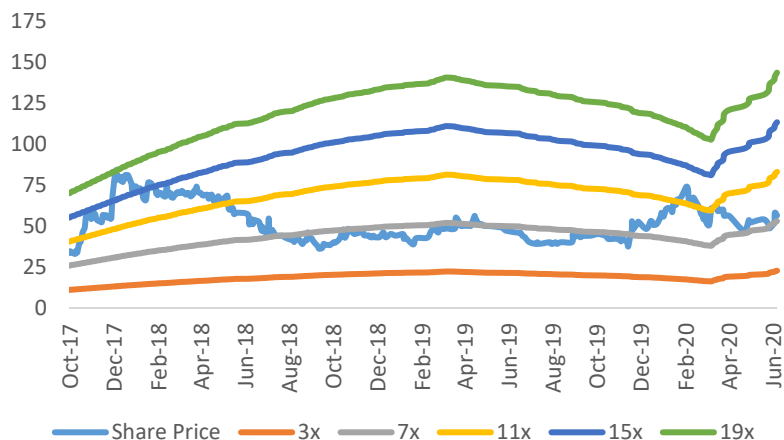


Exhibit 12 : Peer Comparison Table

Particulars (in mn.)	D. P. Abhushan Ltd	Thangamayil Jewellery Ltd	Tribhovandas Bhimji Zaveri Ltd
CMP (as on 1st Jul 2020)	59	255	30
Revenue	8,086	16,920	18,101
PAT	164	457	219
<b>Margins</b>			
Gross Margin	8.0	11.5	14.0
EBITDA Margin	4.0	6.0	6.2
PAT Margin	2.0	2.7	1.2
<b>Return Ratios</b>			
ROE (%)	23.7	20.6	4.5
ROCE (%)	18.5	13.2	15.3
<b>Leverage</b>			
Debt- Equity (x)	1.4	1.1	1.1
<b>Valuation</b>			
EPS	7.4	33.0	3.3
P/E	8.0	7.7	9.0

\*Financials are as on FY20



## Financial Statement

## Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>6,597</b>	<b>8,121</b>	<b>8,086</b>	<b>6,469</b>	<b>7,633</b>
Change (%)	46.3%	23.1%	-0.4%	-20.0%	18.0%
Cost of Goods Sold	6,122	7,539	7,436	5,884	6,943
Employee costs	88	94	113	91	99
<b>Other expenses</b>	<b>168</b>	<b>210</b>	<b>210</b>	<b>168</b>	<b>199</b>
Total operating Expense	<b>6,378</b>	<b>7,843</b>	<b>7,759</b>	<b>6,143</b>	<b>7,241</b>
<b>EBITDA</b>	<b>219</b>	<b>279</b>	<b>327</b>	<b>326</b>	<b>392</b>
Other Income	2	0	4	4	4
Depreciation	13	18	21	23	24
Interest	95	96	90	91	97
<b>PBT</b>	<b>112</b>	<b>165</b>	<b>220</b>	<b>216</b>	<b>275</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>112</b>	<b>165</b>	<b>220</b>	<b>216</b>	<b>275</b>
Tax	31	47	56	55	70
Rate (%)	27.6%	28.3%	25.4%	25.4%	25.4%
<b>PAT</b>	<b>81</b>	<b>118</b>	<b>164</b>	<b>161</b>	<b>206</b>
Change (%)	67.4%	44.7%	39.5%	-2.1%	27.6%

Source: Company, Arian Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>					
Share Capital	223	223	223	223	223
Reserves & Surplus	188	306	471	632	837
<b>Net Worth</b>	<b>411</b>	<b>529</b>	<b>693</b>	<b>854</b>	<b>1,060</b>
Long term debt	746	475	627	675	727
Short term debt	471	496	328	341	355
<b>Total Debt</b>	<b>1,217</b>	<b>971</b>	<b>955</b>	<b>1,017</b>	<b>1,083</b>
Deferred Tax & other liabilities	10	11	15	15	15
<b>Capital Employed</b>	<b>1,637</b>	<b>1,511</b>	<b>1,663</b>	<b>1,885</b>	<b>2,157</b>
<b>Application of Funds</b>					
Net Block	261	269	263	286	296
Other Non-Current Assets	10	10	18	12	12
<b>Net fixed assets</b>	<b>271</b>	<b>280</b>	<b>280</b>	<b>298</b>	<b>308</b>
Investments	0	0	0	0	0
Debtors	23	28	10	38	45
Inventories	1,479	1,848	2,299	1,934	2,283
Cash & bank balance	69	72	23	464	482
Loans & advances & other CA	107	72	99	99	99
<b>Total current assets</b>	<b>1,677</b>	<b>2,020</b>	<b>2,431</b>	<b>2,536</b>	<b>2,908</b>
Current liabilities	270	731	984	862	945
Provisions	41	58	65	87	114
<b>Net current assets</b>	<b>1,366</b>	<b>1,231</b>	<b>1,382</b>	<b>1,587</b>	<b>1,849</b>
<b>Total Assets</b>	<b>1,637</b>	<b>1,511</b>	<b>1,663</b>	<b>1,885</b>	<b>2,157</b>

## Financial Statement

## Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>112</b>	<b>165</b>	<b>220</b>	<b>216</b>	<b>275</b>
Depreciation	13	18	21	23	24
Interest & others	103	99	93	95	101
Cash flow before WC changes	228	282	335	334	400
<b>(Inc)/dec in working capital</b>	<b>-293</b>	<b>128</b>	<b>-196</b>	<b>215</b>	<b>-272</b>
Operating CF after WC changes	-64	409	139	549	128
Less: Taxes	-30	-37	-61	-55	-70
<b>Operating cash flow</b>	<b>-94</b>	<b>372</b>	<b>78</b>	<b>494</b>	<b>58</b>
(Inc)/dec in F.A + CWIP	-175	-27	-20	-24	-10
(Pur)/sale of investment	0	0	0	0	0
<b>Cash flow from investing</b>	<b>-174</b>	<b>-26</b>	<b>-22</b>	<b>-23</b>	<b>-10</b>
<b>Free cash flow (FCF)</b>	<b>-270</b>	<b>346</b>	<b>56</b>	<b>470</b>	<b>48</b>
Loan raised/(repaid)	235	-246	-16	62	66
Equity raised	166	0	0	0	0
Interest & others	-105	-96	-90	-91	-97
Dividend	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>297</b>	<b>-342</b>	<b>-106</b>	<b>-29</b>	<b>-31</b>
<b>Net inc /(dec) in cash</b>	<b>28</b>	<b>4</b>	<b>-50</b>	<b>441</b>	<b>18</b>
Opening balance of cash	41	69	72	23	464
Closing balance of cash	69	72	23	464	482

Source: Company, Arianth Research

## Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	3.7	5.3	7.4	7.2	9.2
CEPS	4.3	6.1	8.3	8.3	10.3
BVPS	18.5	23.8	31.1	38.4	47.6
DPS					
<b>Valuation (x)</b>					
P/E	16.1	11.1	8.0	8.2	6.4
P/CEPS	13.9	9.6	7.1	7.1	5.7
P/BV	3.2	2.5	1.9	1.5	1.2
EV/EBITDA	7.6	4.9	5.0	6.5	5.5
<b>Return Ratios (%)</b>					
Gross Margin	7.2%	7.2%	8.0%	9.0%	9.0%
EBIDTA Margin	3.3%	3.4%	4.0%	5.0%	5.1%
PAT Margin	1.2%	1.5%	2.0%	2.5%	2.7%
ROE	19.8%	22.3%	23.7%	18.9%	19.4%
ROCE	12.6%	17.4%	18.5%	16.2%	17.2%
<b>Leverage Ratio (%)</b>					
Total D/E	3.0	1.8	1.4	1.2	1.0
<b>Turnover Ratios</b>					
Asset Turnover (x)	4.0	5.4	4.9	3.4	3.5
Inventory Days	88	89	113	120	120
Receivable Days	1	1	0	2	2
Payable days	8	23	26	26	26

Source: Company, Arianth Research

### Awards and Accolades

The Company has been recognized by many prestigious awards and trophies. Below is the list of awards.

Sr. No.	Date	Award Details
1	23-Dec-16	Best Bridal Jewellery Of The Year (Under 15 Lakh)
2	01-Jan-17	Recognised By Iconic Brand Of Mewar
3	24-Jan-17	Trusted Brand Of The Year Jewellery
4	16-Mar-17	Best Promising Gems & Jewellery Company 2017
5	01-Dec-17	India's Most Preferred Jewellers In Regional Jewellers (M.P & Rajasthan )
6	17-Dec-17	Special Excellence Award
7	23-Dec-17	Best Ring Design Of The Year (Under 2.5 Lakh)
8	06-Jan-18	Best Business Ethics Excellence Award
9	21-Feb-18	Best Brand Of The Year : DP Jewellers
10	10-Aug-18	Gold Jewellery Of The Year 2018 (Bangle,Bracelet & Armlet)
11	27-Feb-19	Special Excellence Award
12	30-Jul-19	Most Prestigious Jewellery Brand Of The Year In Madhya Pradesh
13	10-Aug-19	Best Bridal Diamond Jewellery Of The Year 2019
14	29-Sep-19	Most Innovative Marketing Campaign -Print
15	20-Dec-19	Best Ring Of The Year 2019
16	14-Jan-20	Recognized By Times Icons Of Madhya Pradesh 2020
17	25-Jan-20	Best Lifestyle Excellence Awards Indore-2020

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park  
 Building No. 10, 1<sup>st</sup> Floor  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E)  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**Stock Rating Scale**

BUY  
 ACCUMULATE  
 HOLD  
 NEUTRAL  
 REDUCE  
 SELL

**Absolute Return**

>20%  
 12% to 20%  
 5% to 12%  
 -5% to 5%  
 -5% to -12%  
 <-12%

**Research Analyst  
Registration No.**

INH000002764

**Contact**

SMS: 'Arihant' to 56677

**Website**[www.arihantcapital.com](http://www.arihantcapital.com)**Email Id**[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

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Arihant Capital Markets Ltd.  
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880