

CMP: Rs 88

Rating: BUY

Target Price: Rs 120

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)	1,958
52W H/L (Rs)	92/38

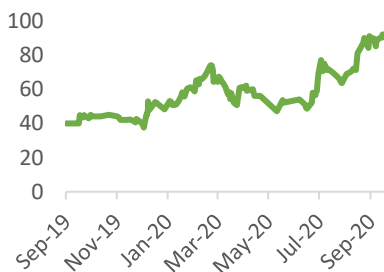
Shareholding Pattern %

(As on Jun, 2020)

Promoters	74.73
Public & Others	25.27

Stock Performance (%)	3m	1 Yr.
D P Abhushan	78.7	113.8
NSE/SME Emerge	18.9	2.2

D P Abhushan Price Chart



Important Update:

Company has filed an application for shifting to NSE main board from NSE-SME segment. Most probably it will shift to main board in next month.

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We had initiated coverage on D P Abhushan Ltd (DPAL) with 'Buy' rating on 2nd July 2020 with CMP of Rs 59 & price target of Rs 92 which got achieved on 3rd September 2020. Recently, we have attended Annual General Meeting (AGM) of the Company through Video Conferencing (VC). Below are the some key takeaways from the meeting.

Store Expansion Status

Management stated that, Company is on expansion mode & is increasing its number of stores. In August 2020, Company has opened new showroom at Ujjain. Another store at Bhilwara will be opened in the last week of October. Store in Kota is expected to be opened in November. Going forward, Company will continue to focus on Tier II and Tier III cities of Madhya Pradesh, Rajasthan and Gujarat as a part of its expansion plan. Currently, company operates 5 stores including Ujjain across 5 cities in 2 states.

Focusing on E-commerce facility

In addition to opening new store, Company is focusing on E-commerce platform by introducing its digital business brand. E-commerce facility will be available for Low ticket size Gold and Silver products in the range of 10-25K (like gifting items etc.).

Increasing focus on Diamond sales

Company is targeting to increase Diamond sales to 15% by the end of this year by increasing market campaign, organizing small events etc. In FY20, Diamond sales ratio in the total sales was at 8.5%. With the rise in Diamond sales, margin of the company is expected to expand as diamond jewellery's margin profile is ~3x more than plain Gold Jewellery.

DP Golden locker facility receiving good response

Company's "DP Golden Locker" facility to convert old jewellery into new designed jewellery under advance jewellery booking facility is receiving good response from the customers.

Valuation and Outlook

We believe DPAL is in a sweet spot, as its initiatives of improving sales channel, increasing store network along with lower average cost of gold due to higher inventory level provides headroom for growth. However, due to Covid situation and delay in wedding season, demand for jewellery products is likely to remain low as compared to previous years. So, we are expecting company to report 20% sales de-growth in FY21. At CMP of Rs 88, DPAL is trading at P/E multiple of 12.2x/9.5x to its FY21/22E. We now value the stock at PE of 13x (10x earlier) to its FY22E EPS of Rs 9.2 and arrive at a target price of Rs 120 (earlier Rs 92) while maintaining our estimates and 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	24.0
FY19	8,121	279	118	5.3	3.4	22.3	16.6
FY20	8,086	327	164	7.4	4.0	23.7	11.9
FY21E	6,469	326	161	7.2	5.0	18.9	12.2
FY22E	7,633	392	206	9.2	5.1	19.4	9.5

Source: Arihant Research, Company

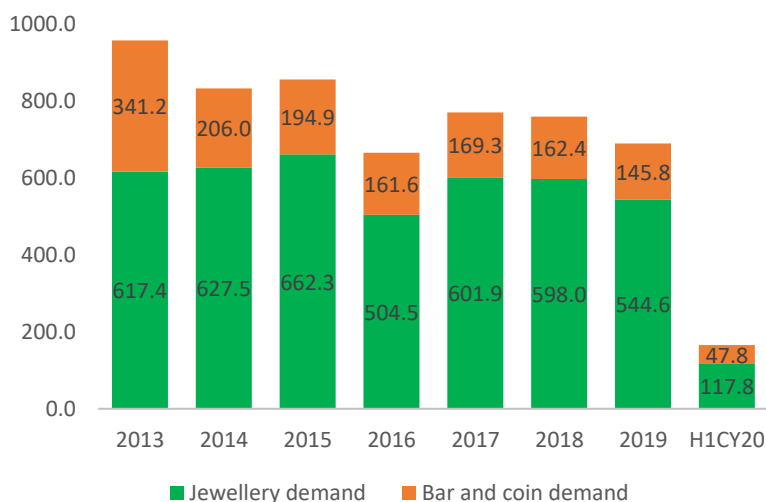
As of June 2020, India's gold holdings stood at 657.7 tonnes.

Sector Outlook

India's gems and jewellery contribute almost 29% to the global jewellery consumption. Gems and jewellery industry is export oriented and labour intensive. However, exports of the Gems and jewellery sector have been recording the decelerating trend since beginning of FY20 due to some global challenges including rise in import duty on diamonds and gems stones, tightening of lending norms by banks and declining demand from export markets. Further, Covid pandemic has created further hurdles for the industry. In FY20, gross exports of gems and jewellery fell by 10% YoY to \$35,531 mn largely due to declining demand of diamonds. Total imports of gems and jewellery declined by 6% YoY to \$24,015 mn.

Considering the factors like economic slowdown impacting low disposable income and lower consumer sentiments, near term prospects of the industry are not too bright. Gradual recovery is expected from Q3FY21 onwards, which marks the onset of the festival and wedding season. However, long term outlook is stable because of cultural affinity towards jewellery especially gold jewellery, increasing purchasing power in Tier II & III cities and growing preference towards diamond jewellery. Online sales are expected to account for 1-2% of the jewellery segment by FY22.

India's demand of Jewellery and Bars & Coins (in tonnes)



Source: World Gold Council

FY20 Performance

FY20 performance of the company was better in terms of earnings growth and margin expansion. Revenue was flat at Rs 8,086 mn vs. Rs 8,121 mn YoY. Gross margin of the company increased by 87 bps YoY to 8% while EBITDA margin expanded by 61bps YoY to 4% due to effective cost management and better price realization. Profit during the year grew by 40% YoY to Rs 164 mn. Inventory turnover ratio of the company declined to 3.59x from 4.53x YoY primarily, because of increase in inventory by the company. Inventory days of the company increased to 113 from 89 YoY. On a segment basis, Sales of gold products decreased by 4% YoY to Rs 7,254 while sales of diamond product grew by 64% YoY to Rs 691 mn. Return ratios of the company continue to be healthy with RoE at 24% and RoCE at 19%.

Financial Statement

Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	6,597	8,121	8,086	6,469	7,633
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
Other expenses	168	210	210	168	199
Total operating Expense	6,378	7,843	7,759	6,143	7,241
EBITDA	219	279	327	326	392
Other Income	2	0	4	4	4
Depreciation	13	18	21	23	24
Interest	95	96	90	91	97
PBT	112	165	220	216	275
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	112	165	220	216	275
Tax	31	47	56	55	70
Rate (%)	27.6%	28.3%	25.4%	25.4%	25.4%
PAT	81	118	164	161	206
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
Sources of Funds					
Share Capital	223	223	223	223	223
Reserves & Surplus	188	306	471	632	837
Net Worth	411	529	693	854	1,060
Long term debt	746	475	627	675	727
Short term debt	471	496	328	341	355
Total Debt	1,217	971	955	1,017	1,083
Deferred Tax & other liabilities	10	11	15	15	15
Capital Employed	1,637	1,511	1,663	1,885	2,157
Application of Funds					
Net Block	261	269	263	286	296
Other Non-Current Assets	10	10	18	12	12
Net fixed assets	271	280	280	298	308
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
Total current assets	1,677	2,020	2,431	2,536	2,908
Current liabilities	270	731	984	862	945
Provisions	41	58	65	87	114
Net current assets	1,366	1,231	1,382	1,587	1,849
Total Assets	1,637	1,511	1,663	1,885	2,157

Financial Statement

Cash Flow Statement

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

Source: Company, Arihant Research

Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
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
Valuation (x)					
P/E	24.0	16.6	11.9	12.2	9.5
P/CEPS	20.7	14.4	10.5	10.6	8.5
P/BV	4.8	3.7	2.8	2.3	1.8
EV/EBITDA	10.5	7.2	7.0	8.5	7.2
Return Ratios (%)					
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%
Leverage Ratio (%)					
Total D/E	3.0	1.8	1.4	1.2	1.0
Turnover Ratios					
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, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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