

**CMP: Rs 102**

**Rating: BUY**

**Target Price: Rs 131**

**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)	2,265
52W H/L (Rs)	104/38

**Shareholding Pattern %**

(As on June, 2020)

Promoters	74.73
Public & Others	25.27

<b>Stock Performance (%)</b>	<b>3m</b>	<b>1 Yr.</b>
D P Abhushan	58.9	131.4

**D P Abhushan Price Chart**



**Important Update:**

Company has obtained NSE's in principle approval to migrate on NSE main board and is expected to be shifted on NSE main board by the first week of Nov'20.

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D P Abhushan (DPAL) surprised positively on profitability front in H1FY21, led by sharp improvement in margins. However, revenue of the company de-grew by 37% YoY, largely due to Covid related lockdown which led shutdown of the stores. Company's practice of averaging gold price, kept material cost lower leading to gross margin expansion of 565 bps YoY to 13.9% during H1FY21. Consequently, EBITDA margin expanded sharply by 451 bps YoY to 8.7%. Profit during H1FY21 grew strongly by 53% YoY to Rs 103 mn. We maintain our Buy rating on the stock with a revised target price of Rs 131.

**Pandemic impacted topline performance**

In the backdrop of Covid related lockdown, company's store were almost shut in April and May month, while some recovery was seen from June month onwards with encouraging footfalls. DPAL's net revenue declined by 37% YoY to Rs 2,137 mn as volume across products declined. Gold jewellery/Diamond jewellery volumes declined by 59%/39% respectively. With further addition of stores and ongoing festive season, sales of the company are expected to pick up in H2FY21.

**Margins improved sharply on the back of lower cost of sales**

Despite sharp de-growth in top-line, DPAL managed to salvage margins led by lower cost of sales. Gross margin of the company increased sharply from 8.3% in H1FY20 to 13.9% in H1FY21. Material cost as a percentage of sales decreased to 86% from 92% YoY. EBITDA during H1FY21 grew by 31% YoY to Rs 186 mn while EBITDA margin expanded sharply by 451 bps YoY to 8.7%. Profit during H1FY21 grew by 53% YoY to Rs 103 mn largely due to better operating profit growth.

**Store expansion status is on track**

As highlighted in our last company update report, DPAL is in expansion mode by opening new stores and it has opened new showroom at Ujjain in August 2020. Another store in Bhilwara and Kota will be opened by the end of Oct/Nov 2020. With addition of these stores, we expect volumes to recover.

**Valuation and Outlook**

Our broader thesis on DPAL, that company is in sweet spot remains intact as of now. H2FY21 will be better for the company, margin expansion continues and store addition will also continue, which provides headroom for growth. With ongoing festive season and wedding season ahead, demand for jewellery products is expected to increase with rise in footfall. In order to factor in margin expansion, we have increased our PAT estimates by 8%/9% respectively for FY21/22E. At CMP of Rs 102, DPAL is trading at P/E multiple of 12.9x/10.2x to its FY21/22E. We continue to value the stock at PE of 13x to its FY22E EPS of Rs 10 and arrive at a target price of Rs 131 (earlier Rs 120) while maintaining our Buy rating on the stock.

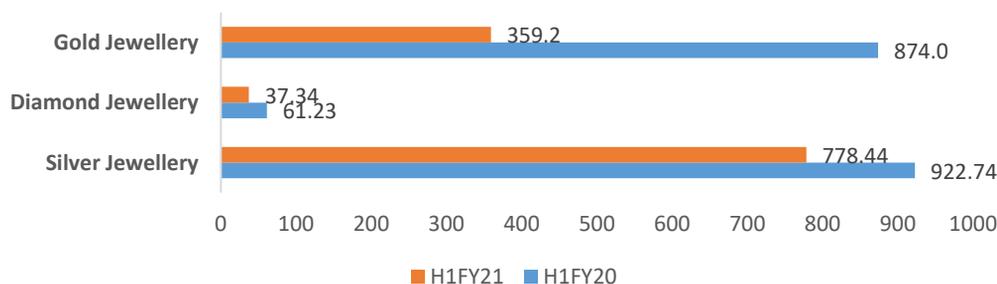
YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	6,597	219	81	3.7	3.3	19.8	27.9
FY19	8,121	279	118	5.3	3.4	22.3	19.2
FY20	8,086	327	164	7.4	4.0	23.7	13.8
FY21E	6,469	345	174	7.8	5.3	20.1	13.0
FY22E	7,633	415	225	10.1	5.4	20.6	10.1

Half Yearly and Yearly Financial Performance:

in mn.	H1FY21	H1FY20	YoY	FY20	FY19	YoY	<i>H1FY21 Highlights</i>
<b>Net Revenue</b>	<b>2137</b>	<b>3389</b>	<b>-37%</b>	<b>8086</b>	<b>8121</b>	<b>0%</b>	<i>Revenue declined by 37%</i>
Material Expenses	1839	3109	-41%	7436	7539	-1%	
<b>Gross Profit</b>	<b>298</b>	<b>280</b>	<b>6%</b>	<b>650</b>	<b>583</b>	<b>12%</b>	<i>Gold/Silver volumes declined by 59%/16% respectively</i>
Gross Profit margin (%)	13.9	8.3	565bps	8.0	7.2	87bps	
Employee Expenses	50	56	-10%	113	94	20%	
Other Operating Expenses	62	83	-25%	210	210	0%	<i>Gross/EBITDA margin expanded by 565 bps/451 bps led by lower input cost</i>
<b>EBITDA</b>	<b>186</b>	<b>142</b>	<b>31%</b>	<b>327</b>	<b>279</b>	<b>17%</b>	
Depreciation	11	8	29%	21	18	16%	
<b>EBIT</b>	<b>175</b>	<b>134</b>	<b>31%</b>	<b>306</b>	<b>260</b>	<b>17%</b>	
Other income	0	0	2714%	4	0	1069%	<i>PAT up by 53% as operating profit growth was better</i>
Interest Cost	37	44	-15%	90	96	-7%	
<b>PBT</b>	<b>138</b>	<b>90</b>	<b>54%</b>	<b>220</b>	<b>165</b>	<b>34%</b>	
Tax	35	22	57%	56	47	20%	
<b>PAT</b>	<b>103</b>	<b>68</b>	<b>53%</b>	<b>164</b>	<b>118</b>	<b>39%</b>	

as a % of revenue (%)	H1FY21	H1F20	YoY	FY20	FY19	YoY
Material cost	86.1	91.7	-565bps	92.0	92.8	-87bps
Employee expenses	2.3	1.6	70bps	1.4	1.2	24bps
Other expenses	2.9	2.4	45bps	2.6	2.6	2bps
EBITDA margin	8.7	4.2	451bps	4.0	3.4	61bps
EBIT margin	8.2	3.9	426bps	3.8	3.2	57bps
Tax rate	25.3	24.8	57bps	25.4	28.3	-299bps
PAT margin	4.8	2.0	283bps	2.0	1.5	58bps

Volume across products (in Kgs.)



## 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>
<i>Change (%)</i>	46.3%	23.1%	-0.4%	-20.0%	18.0%
Cost of Goods Sold	6,122	7,539	7,436	5,865	6,920
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>6,124</b>	<b>7,218</b>
<b>EBITDA</b>	<b>219</b>	<b>279</b>	<b>327</b>	<b>345</b>	<b>415</b>
Other Income	2	0	4	4	4
Depreciation	13	18	21	23	24
Interest	95	96	90	93	94
<b>PBT</b>	<b>112</b>	<b>165</b>	<b>220</b>	<b>234</b>	<b>301</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>112</b>	<b>165</b>	<b>220</b>	<b>234</b>	<b>301</b>
Tax	31	47	56	59	76
<i>Rate (%)</i>	27.6%	28.3%	25.4%	25.4%	25.4%
<b>PAT</b>	<b>81</b>	<b>118</b>	<b>164</b>	<b>174</b>	<b>225</b>
<i>Change (%)</i>	67.4%	44.7%	39.5%	6.0%	28.9%

Source: Company, Arianth 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	645	870
<b>Net Worth</b>	<b>411</b>	<b>529</b>	<b>693</b>	<b>868</b>	<b>1,092</b>
Long term debt	746	475	627	608	590
Short term debt	471	496	328	427	461
<b>Total Debt</b>	<b>1,217</b>	<b>971</b>	<b>955</b>	<b>1,034</b>	<b>1,050</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>1,916</b>	<b>2,158</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	27	31
Inventories	1,479	1,848	2,299	1,928	2,275
Cash & bank balance	69	72	23	511	501
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>2,565</b>	<b>2,907</b>
Current liabilities	270	731	984	860	943
Provisions	41	58	65	87	114
<b>Net current assets</b>	<b>1,366</b>	<b>1,231</b>	<b>1,382</b>	<b>1,618</b>	<b>1,849</b>
<b>Total Assets</b>	<b>1,637</b>	<b>1,511</b>	<b>1,663</b>	<b>1,916</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>234</b>	<b>301</b>
Depreciation	13	18	21	23	24
Interest & others	103	99	93	96	98
Cash flow before WC changes	228	282	335	353	423
<b>(Inc)/dec in working capital</b>	<b>-293</b>	<b>128</b>	<b>-196</b>	<b>231</b>	<b>-269</b>
Operating CF after WC changes	-64	409	139	584	154
Less: Taxes	-30	-37	-61	-59	-76
<b>Operating cash flow</b>	<b>-94</b>	<b>372</b>	<b>78</b>	<b>525</b>	<b>78</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>501</b>	<b>68</b>
Loan raised/(repaid)	235	-246	-16	80	16
Equity raised	166	0	0	0	0
Interest & others	-105	-96	-90	-93	-94
Dividend	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>297</b>	<b>-342</b>	<b>-106</b>	<b>-13</b>	<b>-78</b>
<b>Net inc /(dec) in cash</b>	<b>28</b>	<b>4</b>	<b>-50</b>	<b>488</b>	<b>-10</b>
Opening balance of cash	41	69	72	23	511
Closing balance of cash	69	72	23	511	501

Source: Company, Aриhant 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	7.8	10.1
CEPS	4.3	6.1	8.3	8.9	11.2
BVPS	18.5	23.8	31.1	39.0	49.1
<b>Valuation (x)</b>					
P/E	27.9	19.2	13.8	13.0	10.1
P/CEPS	24.0	16.7	12.2	11.5	9.1
P/BV	5.5	4.3	3.3	2.6	2.1
EV/EBITDA	11.3	7.8	7.8	5.6	4.6
<b>Return Ratios (%)</b>					
Gross Margin	7.2%	7.2%	8.0%	9.3%	9.3%
EBIDTA Margin	3.3%	3.4%	4.0%	5.3%	5.4%
PAT Margin	1.2%	1.5%	2.0%	2.7%	2.9%
ROE	19.8%	22.3%	23.7%	20.1%	20.6%
ROCE	12.6%	17.4%	18.5%	16.9%	18.3%
<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, Aриhant Research

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**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%

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