



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

14th Sept 2017

LYPSA GEMS & JEWELLERY LTD

NSE : LYPGAGEMS

Sector: GEMS & JEWELLERY

BSE: 534532

View - BUY

CMP : Rs. 39

Target Price: Rs 69 (In next 12 to 15 mths)

BUSINESS BACKGROUND

Lypsa Gems and Jewellery Ltd. (Lypsa), was promoted by Mr. Dipan Patwa, and started since 1992 and is engaged in the business of trading, importing, exporting, making and polishing activities of diamonds, gems, other precious stones and diamond jewellery. The company has a capacity of 87,500 stones per month which equals around 5,200 carats of rough diamonds which in turn is equal to around 2,000 carats of polished diamonds per month.

Lypsa is based out of Mumbai sourcing from Antwerp, Dubai and Moscow catering to small and mid-level diamond manufacturers based in Mumbai and Gujarat. Most of the company's rough and polished diamonds output is exported to USA, Belgium, Israel, UAE and Hong Kong. Lypsa has its manufacturing facility at Palanpur, Gujarat. The company has two brands - "Oropel" and "Atelier"

INVESTMENT HIGHLIGHTS

Strong Financials for Lypsa as on Q1 FY18 – Lypsa reported a healthy set of Q1FY18 numbers with net sales at Rs 81.43 crs, as compared to a revenue of Rs 46.30 crs in Q1 last year, with EBITDA placed at Rs 7.20 crs from Rs 3.99 crs in Q1 last year and the PAT in Q1 FY18 grew by 104% YoY to Rs 7.07 crs as compared to Rs 3.47 crs in Q1 last year.

For FY17 the company has recorded net income of Rs 260.70 crs, a EBITDA of Rs 25.39 crs and a PAT of Rs 21.51 crs.

Lypsa has strategically decided to focus on key export markets and the growing mid size domestic markets –

After undergoing a volatile business downward trend in diamond market in last 3-4 years, Lypsa management has adopted a new strategy to expand its horizon of business and focus on high margin profitability growth with presence across value chain through rough trading and jewellery business along with various e-commerce platforms against the earlier strategy of large volume driven business with lower margins.

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Lypsa has a wholly owned subsidiary "LYPSA GEMS AND JEWELLERY DMCC" in Dubai and is also planning to open a wholly owned subsidiary in Antwerp, Belgium. This strategy of focusing more on profitability and less on topline has seen Lypsa ignore topline growth in the last three years but EBITDA growth in the last 3 years starting FY15 onwards has remained strong resulting in EBITDA margins improving to 9.70% in FY17 from 3.90% in FY15

KEY DATA

FACE VALUE	Rs	10.00
DIVID YIELD %		NA
52 WK HI/LOW		54/35
NSE CODE		LYPSAGEMS
BSE CODE		LYPSAGEMS
MARKET CAP		RS 117.20 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	36%
BANKS, MFs & DIIs	-	%
FIIIs	-	%
PUBLIC	-	64%

KEY FUNDAMENTALS

YE	FY18	FY19
Rev Gr%	30	25
EBIDTA Gr%	31	26
PAT Gr%	35	28
EPS Gr%	35	28
EPS (Rs)	9.82	12.56
ROE %	25.2	25.4
ROCE %	25.1	27.1
P/E(x)	4	3



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Lypsa plans to tap the domestic markets in a big way by FY2020 –

Lypsa is entering diamond jewellery segment with 2 prong strategy of capturing the aspirational needs of large middle class population segment in India by having the diamond jewellery in the range of Rs. 7,500 to Rs. 35,000 and on the other hand positioning itself on the comparatively higher segment for the higher income group where the prices range from Rs. 50,000 to Rs. 250,000 per jewellery

Lypsa are in plans to open a chain of retail stores and kiosks, with an initial plan to start with a single store and 5 kiosks and eventually expanding it to 5 stores and 25 kiosks by 2020 in phased manner. The cost of these plans is estimated at Rs 10 crs which will be spent in a phased manner.

Lypsa plans to sell diamond - studded jewellery under its brand „Oropel“. Oropel products will range from Rs.50,000 - Rs. 2,50,000.

Lypsa has also recently tied up with www.Jewelsouk.com - an e-commerce platform of Gitanjali group for selling its affordable diamond jewellery brand „Lypsa Atelier“ in the price range of Rs. 7,500 – Rs. 35,000. Lypsa Atelier products continue being sold on www.Flipkart.com, www.Snapdeal.com, www.Shopclues.com and www.Craftsvilla.com.

Kypsa has recently launched Lypsa ‘Atelier’ - Collection of contemporary diamond studded jewellery in 18K and 14K Gold

Over 150 designs are proposed to be sold through leading Indian E-Commerce platforms as stated above With the Target audience being Women between 18-45 years of age. Lypsa hence remains focused on creating new and attractive designs that are gaining increasing recognition amongst its customers.

Recent Developments –

Design Focus

- Lypsa DMCC launched new diamond studded jewelry collection
- Collection comprises over 100 designs and offers customization option to clients
- Focus on Middle East Market,
- Blend of contemporary design elements with Middle Eastern Design Motifs

New Orders

- Bagged new orders from UAE based customers
- To supply loose diamonds and diamond- studded jewelry worth Rs. 16 crs Jewelry to be set in 18kt gold and VS-SI diamonds



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Lypsa enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain steady going ahead –

Lypsa enjoys a good balance sheet with reasonable debt of around Rs 24 crs as on FY17 as compared to a tangible networth of Rs 92 crs as on March 2017.

We expect that going ahead overall bottomline growth in the next 2 years starting FY17 onwards should easily touch 25-27% and with debt likely to be repaid fully we believe that net cash flows generated will remain healthy going ahead.

Lypsa plans to become debt free in the next 12-15 months –

The Lypsa management has targeted its intention to become debt free within the next 12 to 15 months and expects to utilize its cash flows initially to repay all outstanding debt as on date. In fact the company has already steadily reduced its total debt since the last 3 years starting FY15 as a conscious strategy to de leverage its balance sheet and make its business less risky.

What is Lypsa's key USP and –

Firstly Lypsa has a presence across entire Value Chain with a value added services portfolio

Secondly Lypsa management enjoys three decades of experience, a strong market Reputation and Goodwill and enjoys an established International market with presence across geographies and diverse global customer base.

Thirdly Lypsa enjoys multiple sources for raw material procurement leading to better pricing on rough diamonds and also has a strong capability to buy and process wide variety of roughs

Also Lypsa has a modern diamond cutting and polishing facilities in Chaapi in Gujarat allows us to produce consistent high– quality polished diamonds

Exports accounted for 65% of revenues in 2016-17 and key markets for Lypsa's exports include the US, Belgium, Israel, UAE and Hong Kong.

This is reflective from the fact that Lypsa has sold more than 450,000 carats and Distributed more than 600,000 cts of Polished Diamonds Globally in last 5 years

Overall the Diamond market both in the Global and Domestic markets looks good over the next 2-3 years –

We expect the domestic and export market to remain in a healthy shape with growth remaining in strong double digits. The export market is a very big market currently with Gems & Jewellery sector accounted for US\$ 38.6 bn of exports with Cut and Polished diamonds exports contributing around US\$ 19.96 bn

Lypsa is intending to be a niche player and plans to piggyback on specific demand pockets where it has a strong customer base and where it enjoys good profitability margins. It has no intention to become a large commodity player focussing only on size and has clearly stated that its focus ahead will be cost optimization and niche markets and customers where profitability will be the main parameter.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 340 crs.

On the bottomline level we expect the company to record a PAT of Rs 29 crs in FY18E. Thus on a conservative basis, Lypsa should record a EPS of Rs 9.82 for FY18E. For FY19E our expectation is that earnings traction for Lypsa will continue to remain strong wherein we expect a EPS of Rs 12.56.

The Lypsa management has targeted its intention to become debt free within the next 12 to 15 months and expects to utilize its cash flows initially to repay all outstanding debt as on date. In fact the company has already steadily reduced its total debt since the last 3 years starting FY15 as a conscious strategy to de leverage its balance sheet and make its business less risky

Going ahead we expect Lypsa's earnings to grow at a 18-20% CAGR over FY17-19E led by a rising healthy Topline growth, prudent product shift strategy, controlled input cost and more importantly savings in interest costs as the company plans to repay all debt on its books.

Valuation wise looking at the small earnings and revenue base of Lypsa, we believe the markets would be looking at Lypsa as a turnaround story where earnings growth is expected to remain healthy going ahead. Currently Lypsa gets a market cap to revenue multiple of 0.45x based on FY17 revenue which we believe could easily get re rated to a market cap to revenue multiple of 0.60x going ahead.

Based on this metric we believe a market cap of Rs 205-210 crs over the next 12 to 15 months looks possible as earnings traction is likely to remain strong going ahead also.

The Lypsa stock trades at a P/E of 4x and 3x based on FY18E and FY19E, which looks attractive considering its strong execution capability, consistent financial track record and healthy industry trends in the Gems & Jewellery sector and looking at other comparable peers like Titan, PCJ, and TBZ etc. Also with a ROE and ROCE of around 25% and 26% expected over the next 2 years a rerating is very much possible.

Hence we believe that the Lypsa stock should be purchased at the current price for a price target of around Rs 69 over the next 12 to 15 months.



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FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18E	FY19E
Net Sales	260.7	340.0	425.00
EBIDTA	25.39	33.15	41.65
EBIDTA %	9.74	9.75	9.80
Interest	3.66	1.5	0.00
Depreciation	0.43	0.5	0.65
Non Operational Other Income	0.21	0.2	0.2
Profit Before Tax	21.51	31.35	41.20
Profit After Tax	21.51	29.00	37.1
Diluted EPS (Rs)	10.19	9.82	12.56
Equity Capital	21.1	29.54	29.54
Reserves	70.8	99.80	132.90
Borrowings	24.0	4.00	0.00
GrossBlock	5.4	5.65	5.95
Investments	0.1	0.1	0.1

Source Company our Estimates Bonus of 2:5 declared in 2017

KEY CONCERNS

Volatility in foreign currency could impact Lypsa's earnings as almost 65% revenues come from exports

Any change in demand trends in the domestic markets can also impact Lypsa as it is planning a major retail push here going ahead.



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