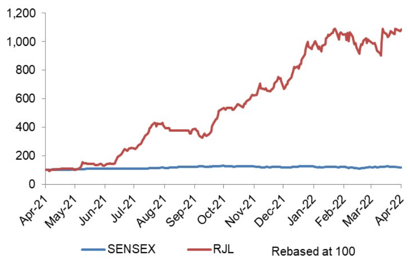
Radhika Jeweltech Limited

21 April 2022

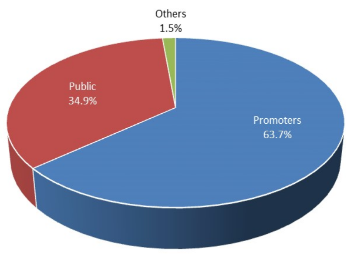
Truly worth its weight in gold! BUY

Sector	: Gems & Jewellery
Target Price	: ₹303
Last Closing Price	: ₹177
Market Cap	: ₹418 crore
52-week High/Low	: ₹178/15
Daily Avg Vol (12M)	: 49,090
Face Value	: ₹10
Beta	: 0.65
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 540125
NSE Scrip Code	: N/A
Bloomberg Code	: RADJL IN
Reuters Code	: RDHI.BO
Nifty	: 17,393
BSE Sensex	: 57,912
Analyst	: Research Team

Price Performance



Shareholding Pattern



Initiating Coverage

Investment Summary

- Radhika Jeweltech Limited (RJL) is a retail jeweller dealing in gold and diamond-studded jewellery, operating through a retail store in the western Indian city of Rajkot in Gujarat.
- With 35 years' rich experience in gold and jewellery entrepreneurship, the promoters of RJL have in-depth knowledge of the industry as well as the local jewellery market of Rajkot. With operational presence for over 3 decades, the name Radhika has considerable goodwill with customers. RJL's 2,500 sqft showroom in the heart of Rajkot's jewellery market attracts footfalls of over 200 customers a day on average.
- Rajkot is the primary socioeconomic urban centre of the Saurashtra region and a major one in the state of Gujarat. Going forward, rapid urbanisation, an expanding working-age population, growing economic opportunities, and rising disposable income along with the tradition of buying/investing in gold will drive demand for jewellery.
- RJL outsources the making of jewelleries from specialist manufacturers while the company focuses exclusively on sales. RJL has established strong relationships with manufacturers that exclusively design and manufacture jewellery pieces for the company, thereby allowing RJL to focus on its core operational strength of sales.
- The most important growth driver for RJL in the near-to-medium term is 10,000 sqft new showroom, expected to launch by 2Q FY23. Located in the city's upmarket Kalawad Road neighbourhood, the new store will increase the company's total retail space to 5x its current area and leapfrog RJL's revenues to a significantly higher trajectory.
- Instantaneous inventory replenishment and settlement of trade with the manufacturer through physical gold act as a natural hedge against gold price swings.
- The RJL stock currently trades at an attractive forward P/E of 5.8x FY24E EPS. Assigning a target multiple of 10.0x FY24E EPS, our valuation generates a price target of Rs 303, informing an upside potential of 71%, as we initiate coverage on RJL with a BUY rating.

Key Financial Metrics

₹ crore	FY20A	FY21A	FY22E	FY23E	FY24E
Operating revenue	171.8	137.5	273.9	443.2	596.0
Growth		*-20.0%*	*99.3%*	*61.8%*	*34.5%*
EBITDA	13.7	27.0	44.8	68.9	94.3
EBITDA margin	*8.0%*	*19.6%*	*16.4%*	*15.5%*	*15.8%*
PAT	12.8	25.5	34.5	52.4	71.5
PAT margin	*7.5%*	*18.6%*	*12.6%*	*11.8%*	*12.0%*
Diluted EPS (₹)	5.43	10.81	14.61	22.18	30.28

Source: Company data, Khambatta Research

Company Profile

RJL operates one store in Rajkot, managed by 35 sales representatives

Radhika Jeweltech Limited (RJL) is a retail jeweller dealing in gold and diamond-studded jewellery. Founded in 1987 as a proprietary firm called Radhika Jewellers, the business incorporated as a Public Limited Company in 2016. RJL operates through a jewellery store in the western Indian city of Rajkot in Gujarat. The company exclusively sells BIS Hallmark-certified jewellery with it opting for the Hallmark certification since the introduction of the system. RJL's quality assurance team monitors and examines the standard of the jewellery it procures from dedicated manufacturers so that quality is maintained throughout. The company employs over 40 professionals, out of whom about 35 are engaged in sales. The multilingual sales team has customer-handling experience and possesses in-depth knowledge of gold jewellery.

Earlier RJL's promoter family ran a small-scale gold jewellery wholesale business in Rajkot, which was discontinued as they ventured into the retail segment in 1987. Experiencing rapid growth, RJL has transformed from a small 200 sqft shop in Rajkot's Soni Bazaar to a 2,500 sqft showroom in the city's jewellery hub of Palace Road.

RJL's management is led by its promoter family. Chairman and Managing Director, Mr. Ashok Zinzuwadia founded the business and possesses over 35 years' experience in the jewellery sector. With over 25 years' experience, Whole Time Director, Mr. Haresh Zinzuwadia focuses on introducing the latest on-trend designs in RJL's product portfolio. Whole Time Director Mr. Darshit Zinzuwadia has been a part of RJL's management team for 4 years. A commerce graduate from Rajkot's Christ College and a diploma holder in Graduate Diamonds Program from Gemological Institute of America (GIA), Mumbai campus, Mr. Darshit Zinzuwadia is in charge of overall management of the business and manpower.

Industry Overview

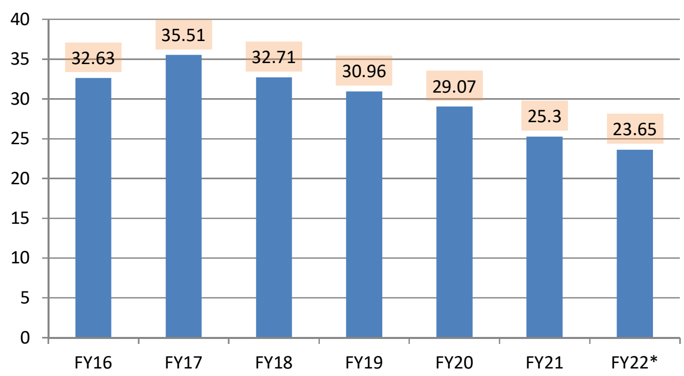
The Indian jewellery market's value stood at Rs 3 lakh crore in 2016 and was estimated to nearly double by 2021

Jewellery is an indispensable part of Indian culture. Buying gold/jewellery on religious/cultural festivals and for marriage and other life events is an essential custom cutting across religions and regions of India. The Indian jewellery market's value, which stood at over Rs 3 lakh crore in 2016, was estimated to nearly double by 2021 *(source: Statista)*. Jewellery products in India are primarily made from gold, silver and gems including diamonds. While a large section of the market is dominated by traditional designs that are typical to different regions of the country, modern designs are increasingly gaining popularity, especially in the metro and Tier I cities. The most popular jewellery items include ornaments for the hair, nose, neck, hands, waist and ankles. Gold is the most preferred material and forms a major part of traditional Indian jewellery. Gold jewellery is often intricately-designed and sometimes comprises 'heavy' pieces with large quantities of gold and gems. While some major jewellery brands have been marketing platinum jewellery over the last couple of decades, it still constitutes a niche market with a relatively insignificant share of the market when compared to gold. While silver sales volumes are higher than platinum, gold is by far the most popular and widely-used material for jewelleries, in both volume and value terms.

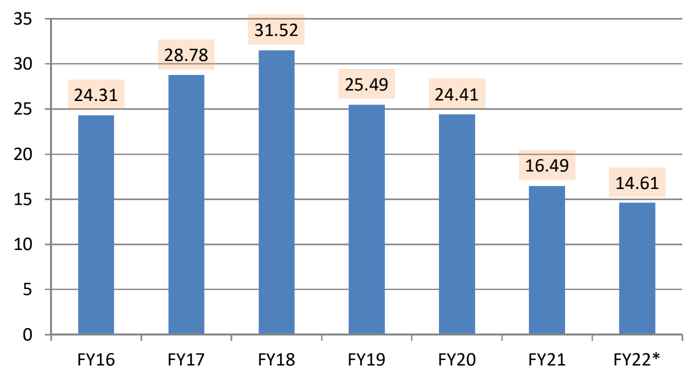
The Indian gems and jewellery market is expected to grow at a CAGR of 8.34% over FY2023 to FY2027 to reach US$ 119.8 bn

As of February 2021, gold and diamond trade contributed 14% of India's total merchandise exports and 7.5% of India's GDP. The gems and jewellery sector is estimated to employ over 8 million people by 2022, up from approximately 5 million in 2020. *(Source: IBEF).* The Indian gems and jewellery market, valued at US$ 78.5 bn in FY2021, is expected to grow at a CAGR of 8.34% over FY2023 to FY2027 to reach US$ 119.8 bn by the end of the forecast period *(source: Research and Markets)*. The primary drivers for gems and jewellery sales are rising disposable income, growing working-age population, and an expanding middle class. Further, buying gems and jewellery have a strong connection with religio-cultural festivals and important life events in the Indian society, and buying jewellery and precious metals/stones is an established cultural trait shared by Indians across religions and regions. With increasing consumerism and awareness, demand for branded as well as certified jewellery products is on the rise. Growing urbanisation, product innovations, designer products, and technological advances in product development are further enabling growth of the Indian gems and Jewellery market, and set to be key drivers of future growth. Increased product offerings and innovation in men's jewellery and the use of gemstones in men's clothing are a new source of incremental growth. Modern materials such as white gold, platinum and rose gold as well as modern designs are witnessing increasing adoption, primarily amongst working women looking for lighter and comfortable jewellery for their regular use.

India's net export of gems and jewellery (US$ bn)



India's import of gems and jewellery (US$ bn)



**Up to October 2021; source: IBEF*

India's gems and jewellery export sector is one of the world's largest, contributing 27% of the global jewellery consumption. With the global gems and jewellery sector expected to grow to US$ 103.1 bn by 2023, India's gems and jewellery exports are seen reaching US$ 100 bn by 2025.

(Source: IBEF). Gems and jewellery exports were amongst the earliest sectors to recover from the pandemic-induced slowdown with Indian exports reaching pre-Covid levels around November-December 2020, driven by rising demand from key markets such as the US *(source: Gem and Jewellery Export Promotion Council – GJEPC)*. India was the world's top exporter of diamonds with a share of 20.6% in 2020. Policy reforms such as the revamped gold monetisation scheme, reduction in import duty of gold, and hallmarking are expected to act as growth enablers for the industry. The Government of India (GoI) has set a jewellery export target of US$ 70 bn for 2025, double the US$ 35 bn achieved in 2020. In FY21, Indian gems and jewellery exports stood at US$ 25.3 bn. Gems and jewellery exports were valued at US$ 23.7 bn in FY22 until October, compared to US$ 11.5 bn recorded during the same period in FY21. The GJEPC set an ambitious export target for the sector at US$ 44 bn for FY22. In FY22 until October 2021, cut and polished diamonds accounted for the highest share (63.1%) of gems and jewellery exports, followed by gold jewellery (22.9%) and silver jewellery (6.5%). In FY21, cut and polished diamonds accounted for 67.8% of the total gems and jewellery exports. Gold jewellery accounted for the second-highest share at 19.9% while silver jewellery accounted for 9.6% in FY21. Rough diamonds accounted for 1.4% of India's gems and jewellery exports in FY21. On the other hand, India's imports of gems and jewellery, and diamonds, stood at US$ 16.5 bn and US$ 10.9 bn, respectively in FY21. *(Source: IBEF).*

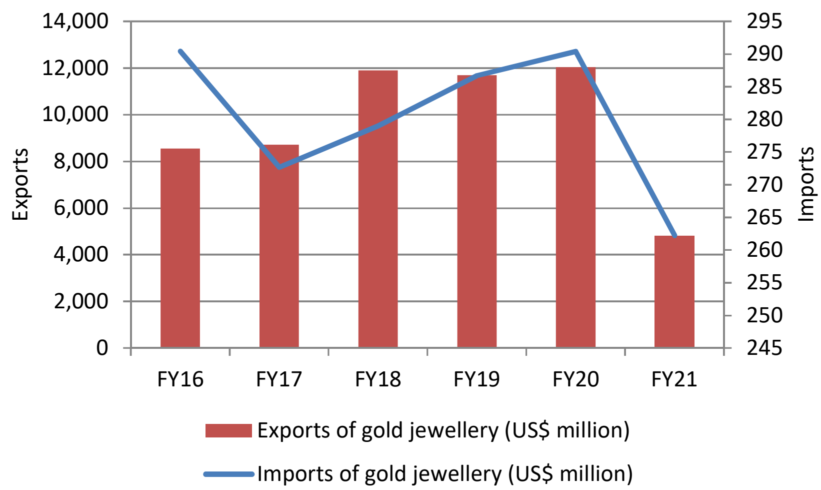
The Government of India has set a jewellery export target of US$ 70 bn for 2025

During April to December 2020, gold bars accounted for 6.8% (US$ 678.8 mn) and gold jewellery 1.8% (US$ 181.5 mn) of India's total gems and jewellery imports *(source: GJEPC)*. According to the World Gold Council (WGC), India's gold demand stood at 446.4 tonnes in 2020. The festive and wedding seasons revived consumer demand for jewellery in 4Q FY20 to 137.3 tonnes. Investment demand increased by 8% to 48.9 tonnes during the quarter. As the lockdown eased up and economic activity gradually picked up, imports increased by 19% y-o-y in 4Q FY20, driven by pent-up demand. Gold demand in terms of volume increased by 37% y-o-y to 140 tonnes and 57% y-o-y to Rs 58,800 crore (US$ 7.9 bn) in value terms in 1Q CY21. Subsequently, in 2Q CY21, gold demand increased by 19% y-o-y to 76 tonnes and 23% y-o-y to Rs 32,180 crore (US$ 7.9 bn) in volume and value terms, respectively. 2Q CY21 was less disruptive for businesses as they were better prepared than before for lockdowns and restrictions, unlike during the beginning of the pandemic in 2020. Total jewellery demand in volume terms increased by 25% y-o-y to 55 tonnes in 2Q CY21. *(Source: WGC).*

The cumulative foreign direct investment (FDI) inflows in diamond and gold ornament businesses stood at US$ 1.2 bn between April 2000 and March 2021. The GoI allows 100% FDI under the automatic route in the gems and jewellery sector. Under the automatic route, foreign investors do not require any prior approval for investing in gems and jewellery units in the country. The government reduced import duty for gold and silver from 12.5% to

7.5%, and for platinum and pallidum from 12.5% to 10%, with the intent of bringing down the prices of precious metals in the local market and enabling the country's jewellery sector to become more competitive. There are 10 special economic zones (SEZs) for gems and jewellery units across India with over 500 manufacturing facilities, contributing 30% of the country's total exports. Indian exports of gems and jewellery comprises various items such as cut and polished diamonds, silver and gold jewellery, gold medallions and coins, rough diamonds, and coloured gemstones. India is the world's leading exporter of cut and polished diamonds while ranking second in gold jewellery, silver jewellery and lab-grown diamonds. *(Source: IBEF).*

India's export and import of gold jewellery (US$ million)



Source: IBEF

The online gold market in India was at a nascent stage with 1-2% of market share in 2020

Indian jewellery retailers are looking to expand into new product categories to attract urban consumers. Indian jewellery retailers are re-evaluating the brick-and-mortar distribution model as they plan to implement omni-channel approaches with a focus on digital strategy to boost future sales. According to the 'Online Gold Market in India' report by The World Gold Council, the online gold market in India was at a nascent stage with 1-2% of market share in 2020. Having said that, the gold e-commerce market is witnessing a strong push from both digital players that see this as a credible market opportunity as well as large jewellery retailers that view the online channels as a necessary addition to their brick-and-mortar model to retain and further drive growth momentum in the future.

Investment Thesis

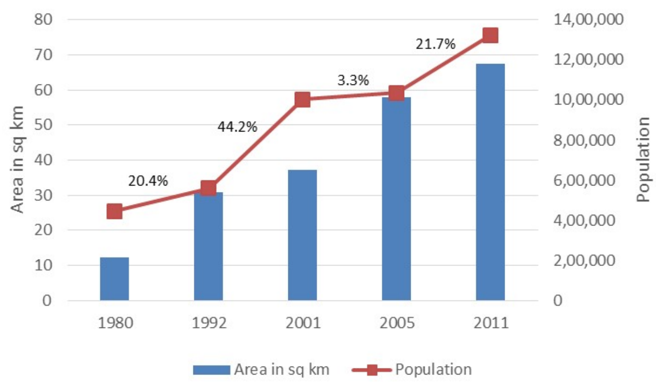
RJL's 2,500 sqft showroom in the heart of Rajkot's jewellery market attracts footfalls of over 200 customers a day

Goodwill and customer loyalty are cornerstones of RJL's business model. With rich experience in gold and jewellery entrepreneurship, the promoters of RJL have in-depth knowledge of the industry as well as the jewellery market of Rajkot. Starting out as a bullion trader and subsequently running a wholesale jewellery business, Mr. Ashok Zinzuwadia entered the retail jewellery trade in 1987 when he realised that there were limited jewellery retailers operating in the Rajkot market, which presented a strong opportunity for potential new entrants. With presence in the market for over 3 decades, the name Radhika has established itself as a trusted establishment in the minds of consumers in Rajkot city. RJL's 2,500 sqft showroom in the heart of Rajkot's jewellery market attracts footfalls of over 200 customers a day on average. The sales ticket size ranges from as low as Rs 10,000 and up to Rs 5 lakhs in the upper end. Gold being traditionally the preferred material for jewellery for the Indian customer, 85% of RJL's sales is generated from pure-gold jewelleries while the remainder comes from diamond items. Many of the buyers are returning customers, helped by the strong goodwill the company has established in the market. This not only generates customer loyalty but also aids in new customer acquisition through referrals by existing customers and promotion by word-of-mouth.

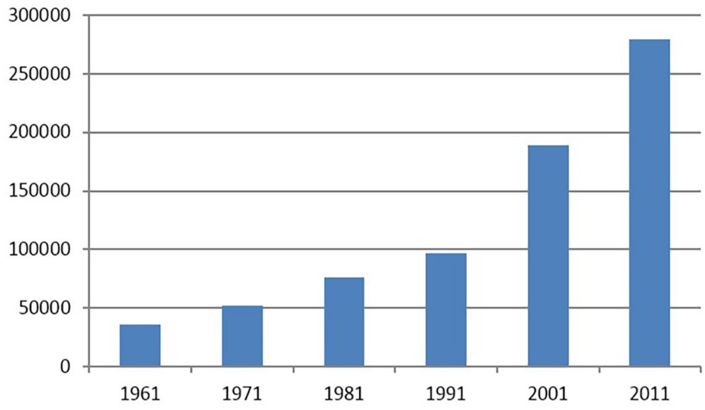
Rajkot city has spatially expanded with the area under the municipal corporation almost doubling from 1992 to 2011

Rajkot's strong growth potential will continue to drive demand for jewellery going forward. Rajkot is the primary urban centre for social, cultural, commercial, educational, political and industrial activities in the Saurashtra region and a major one in the state of Gujarat. A manufacturing and trade hub, Rajkot city had an estimated population of 14 lakh and per capita GDP of US$ 10,385 as of 2015 *(source: Metroverse, The Growth Lab, Harvard University)*. During 2001 to 2011, greater Rajkot witnessed a decadal population growth rate of 32.1%. Further, the city has spatially expanded with the area under Rajkot Municipal Corporation almost doubling in the 2 decades from 1992 to 2011. The population is estimated to increase by 16.5% between 2011 and 2022 to 15.0 lakh in Rajkot city and 16.2 lakh in the metropolitan area *(source: IndiaCensus.net)*. The number of households in greater Rajkot has seen a rapid rise over the past decades to approximately 2.8 lakh in 2011 (compared to 1.9 lakh in 2011). The number of families is estimated to have further increased to over 3.5 lakh by now. Driven by rapid urbanisation, Rajkot's urban density has increased over the past decades, leading to an exponential expansion of the city's economy. Both Rajkot district and city have high rates of literacy at 82.2% and 87.8%, respectively. The city is also a part of the Union Ministry of Urban Development's Smart City Mission. Going forward, rapid urbanisation, an expanding working-age population, growing economic opportunities, and rising disposable income along with the tradition of buying/investing in gold will drive demand for jewellery.

Greater Rajkot's urban growth



Number of households in Greater Rajkot



Source: Urban Growth Analysis of Rajkot City Applying Remote-Sensing and Demographic Data, Shaily Raju Gandhi, CEPT University, Ahmedabad, 2020

Outsourcing from dedicated manufacturers allows RJL to focus on its core operational strength of sales. RJL outsources the making of jewelleries from specialist manufacturers while the company focuses exclusively on sales. RJL has established strong relationships with manufacturers that exclusively design and manufacture jewellery pieces for the company. The manufacturers are incentivised by providing them enough orders to enable them to run at full capacity while the exclusivity arrangement ensures that other jewellers do not have access to the designs used by RJL, which remains unique to the Radhika brand. The manufacturing cost of jewellery ranges between Rs 250 and Rs 350 per gram depending on the market rate of gold and the intricacy of design (roughly 4% to 7% of the cost of gold). Further, the gold used is purchased directly by the manufacturer while RJL settles the bill for the purchase of jewelleries in gold as opposed to any rupee transaction. RJL, like other retailers, adds a mark-up to the manufacturing cost depending on the design.

The manufacturing cost of jewellery ranges between Rs 250 and Rs 350 per gram of gold

New showroom in the upmarket neighbourhood of Kalawad Road with an area 4x the existing store will be the most important driver of future growth. The most important driver for RJL's growth in the near-to-medium term is a planned new showroom that is expected to start operating by 2Q FY23. The 10,000 sqft showroom, located in the city's upmarket Kalawad Road neighbourhood, will increase the company's total retail space to 5x its current area. The new showroom will be manned by approximately 150 sales representatives and it is expected to leapfrog RJL's revenues to a significantly higher trajectory. By virtue of being located in one of the city's poshest residential localities, the new showroom is expected to sell a higher percentage of diamond jewellery products compared to the existing showroom. The existing showroom will continue to be operational. We expect footfalls in the new showroom to pick up through FY23 with further growth in FY24. This 500% increase in the retail floor area will enable RJL to expand its topline multiple times in the medium term. The company has

RJL is set to launch a new 10,000 sqft showroom in Rajkot's upmarket neighbourhood of Kalawad Road in 2Q FY23 long-term plans of opening showrooms in other major urban centres of Saurashtra such as Bhavnagar, Bhuj, Gandhidham, Morbi and Jamnagar, and subsequently in other areas of and outside Gujarat. However, as these plans have not taken a concrete shape yet and are not part of our forecast horizon, we have not factored them into our outlook and forecasts.

RJL settles the bill with manufacturers in physical gold terms as opposed to cash payments

Instantaneous inventory replenishment and settlement of trade with the manufacturer through physical gold act as a natural hedge against gold price swings. Once a piece of jewellery is sold to a customer, RJL replenishes its gold inventory with the quantity of gold sold almost instantaneously. The maximum time the company takes to replenish the inventory is 2 days while in most cases the sold quantity of gold is replaced the same day. As the selling price is calculated on the basis of the prevailing market price, the immediate replenishment mitigates the risk of cost of inventory going up due to rising gold prices. Further, the company settles the bill with manufacturers in physical gold terms as opposed to cash payments. Whatever gold goes out of inventory on account of sales or payments to manufacturers is replenished in terms of physical gold. Consequently, RJL maintains a fixed inventory of gold in terms of kg. While movements in gold prices result in mark-to-market (MTM) gains or losses in the books of accounts, the company's inventory replenishment strategy acts as a natural hedge against potential transaction losses and keeping any booked losses on gold price variation restricted to translation losses.

Peer Comparison

RJL competes with several jewellery retailers in the local market where it is a leading player. We compare RJL with the following listed jewellery companies that do not necessarily compete with RJL in the same geographical market.

Peer Comparison: Key Financials Metrics, FY21

₹ crore	RJL	Thangamayil Jewellery	PC Jeweller	TBZ
Net operating revenue	137.5	1,818.6	2,826.3	1,341.9
EBITDA	27.0	147.0	444.0	121.8
EBITDA margin	*19.6%*	*8.1%*	*15.7%*	*9.1%*
PAT	25.5	86.6	62.0	43.3
PAT margin	*18.6%*	*4.8%*	*2.2%*	*3.2%*
Diluted EPS (₹)	10.81	63.11	1.53	6.48
ROCE	18.0%	32.2%	N/A	12.6%
ROE	15.6%	33.4%	1.5%	8.6%
Current market cap	417.6	1,610.6	1,182.1	478.8

Source: Company data, Bloomberg, Khambatta Research

Valuation

At 10.0x FY24E EPS, we initiate RJL with a BUY based on a price target of Rs 303 and an upside potential of 71%. RJL's sales in 9M FY22 more than doubled on a y-o-y basis on the back of a robust revival in demand with progressive improvement after a weak start to the financial year. With FY21 and 1Q FY22 witnessing a demand slump due to Covid outbreaks and ensuing lockdowns, 2Q FY22 and 3Q FY22 came around stronger as Covid cases and related restrictions abated, and as economic activity gained traction. We expect full year revenues to almost double up in FY22. Going forward, the primary driver of RJL's growth will be the expansion of its operations with the opening of a second store 4x the current retail space. We have modelled a gradual pick up of sales from the new showroom through FY24. RJL has low debt levels of approximately Rs 24 crore, which is a gold loan the company has raised from the promoters and attracts a very low 2% rate of interest. The RJL stock currently trades at an attractive forward P/E of 5.8x FY24E EPS. Assigning a target multiple of 10.0x FY24E EPS, our valuation generates a price target of Rs 303, informing an upside potential of 71%, as we initiate coverage on RJL with a BUY rating.

Profit & Loss Account

₹ crore	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating revenue	**173.0**	**171.8**	**137.5**	**273.9**	**443.2**	**596.0**
Growth		*-0.7%*	*-20.0%*	*99.3%*	*61.8%*	*34.5%*
Cost of goods sold	144.6	143.8	102.1	215.7	351.0	471.1
Gross profit	28.4	28.0	35.4	58.2	92.2	124.9
Gross margin	*16.4%*	*16.3%*	*25.7%*	*21.2%*	*20.8%*	*21.0%*
Operating expenses	11.9	14.3	8.4	13.3	23.3	30.6
EBITDA	**16.5**	**13.7**	**27.0**	**44.8**	**68.9**	**94.3**
EBITDA margin	*9.6%*	*8.0%*	*19.6%*	*16.4%*	*15.5%*	*15.8%*
Depreciation & amortization	0.3	0.2	0.1	0.3	0.5	0.4
EBIT	19.6	16.4	33.8	46.5	70.5	96.0
Interest expense	4.3	2.5	0.3	0.5	0.5	0.5
PBT	15.3	13.9	33.5	46.1	70.0	95.5
Tax expense	6.9	1.1	7.9	11.6	17.6	24.1
PAT	**8.4**	**12.8**	**25.5**	**34.5**	**52.4**	**71.5**
PAT margin	*4.9%*	*7.5%*	*18.6%*	*12.6%*	*11.8%*	*12.0%*
Diluted EPS (₹)	**3.56**	**5.43**	**10.81**	**14.61**	**22.18**	**30.28**

Source: Company data, Khambatta Research

Abridged Balance Sheet

₹ crore	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total share capital	126.6	138.0	163.5	195.6	245.6	314.7
Total debt	49.3	24.0	24.3	24.3	24.3	24.3
Total current liabilities	***5.8***	***5.7***	***9.8***	***12.2***	***14.9***	***16.1***
Total equity & liabilities	**181.8**	**167.7**	**197.6**	**232.2**	**284.8**	**355.2**
PP&E	0.8	0.6	0.4	2.3	2.1	1.7
Inventory	110.1	119.2	134.4	161.8	210.6	238.4
Cash & cash equivalents	44.8	18.5	51.3	50.9	53.6	93.3
Total current assets	***160.8***	***147.0***	***196.9***	***229.6***	***282.5***	***353.1***
Total assets	**181.8**	**167.7**	**197.6**	**232.2**	**284.8**	**355.2**

Source: Company data, Khambatta Research

Ratio Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
ROCE	11.1%	10.1%	18.0%	21.2%	26.1%	28.3%
ROE	6.6%	9.3%	15.6%	17.6%	21.3%	22.7%
Debt-equity ratio	0.39x	0.17x	0.15x	0.12x	0.10x	0.08x

Source: Company data, Khambatta Research

Key Risks

- Our growth forecasts are primarily driven by RJL's expansion plan. Inability to execute the expansion in line with the plan and slow take-off of the new showroom present risks to our forecasts.
- RJL operates in a highly competitive market where a large number of retailers operate and the entry barrier is relatively low. Intensification of competition in the market, especially driven by larger organised players, can lead to underperformance of our expectations.
- Changes in consumer behaviour with a significant movement of market share to online retailers pose risks to our expectations.
- Further severe waves of Covid-19 or it remaining around for an extended period of time, can potentially dampen demand for gold/jewellery, leading to underperformance of our forecasts.

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

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