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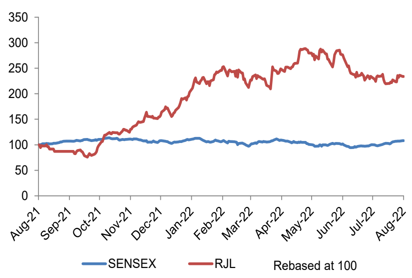
Radhika Jeweltech Limited

10 August 2022

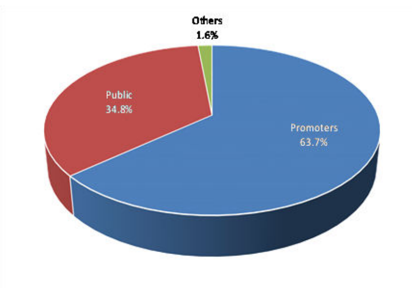
A solid quarter looks to pave the way for expansion-driven future growth — BUY

Sector	: Gems & Jewellery
Target Price	: ₹295
Last Closing Price	: ₹160
Market Cap	: ₹379 crore
52-week High/Low	: ₹201/52
Daily Avg Vol (12M)	: 51,317
Face Value	: ₹10
Beta	: 0.79
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 540125
NSE Scrip Code	: RADHIKAJWE
Bloomberg Code	: RADJL IN
Reuters Code	: RDHI.BO
Nifty	: 17,525
BSE Sensex	: 58,853
Analyst	: Research Team

Price Performance



Shareholding Pattern



1Q FY23 Update

Results Analysis

- Radhika Jeweltech Limited (RJL) reported solid numbers in 1Q FY23. Revenues were up 168.1% y-o-y and 14.7% q-o-q to Rs 61.0 crore. The robust y-o-y growth is attributable to a relatively lower base of 1Q FY22, which coincided with the second wave of Covid-19 in the country, the abatement of the epidemic in India since March of this year, and strong sales by the company.
- EBITDA increased by 321.3% y-o-y and 105.6% q-o-q to Rs 13.1 crore as EBITDA margin expanded by 780 bps y-o-y and 949 bps to 21.5% in 1Q FY23. The exponential growth in EBITDA and EBITDA margin is attributable to a higher gross margin and operating leverage.
- PAT went up by 269.9% y-o-y and 129.9% q-o-q to Rs 10.2 crore with PAT margin improving by 461 bps y-o-y and 839 bps to 16.8% in 1Q FY23, following the direction of margin accretion at the operating level.

Outlook & Valuation

After witnessing a temporary blip in sales momentum in 4Q FY22, a quarter marked by the Omicron (third) wave of Covid-19 in India and a sharp spike in gold and other commodity prices due to the Russia-Ukraine conflict, RJL came back with strong sales and earnings numbers in 1Q FY23. The most important driver for RJL's growth in the near-to-medium term is the planned new showroom that is expected to start contributing revenues by 3Q FY23. Serviced by 150 sales representatives, the 10,000 sqft showroom in Rajkot city's upmarket Kalawad Road neighbourhood will increase the company's total retail space to 5x its current area, pushing RJL's revenues to a significantly higher trajectory. With a history of over 3 decades in Rajkot, the Radhika brand has built considerable goodwill amongst its customers and in the local market. The RJL stock currently trades at an attractive FY24E forward P/E ratio of 5.4x. Based on unchanged forecast and target multiple of 10.0x FY24E EPS, we reiterate a price target of Rs 295 and a BUY rating with an upside of 84%.

Key Financial Metrics

₹ crore	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	171.8	137.4	232.8	432.4	581.5
Growth		*-20.0%*	*69.4%*	*85.8%*	*34.5%*
EBITDA	13.7	23.1	35.2	66.5	91.6
EBITDA margin	*8.0%*	*16.8%*	*15.1%*	*15.4%*	*15.8%*
PAT	12.8	22.6	27.1	50.6	69.5
PAT margin	*7.5%*	*16.5%*	*11.6%*	*11.7%*	*12.0%*
Diluted EPS (₹)	5.43	9.58	11.47	21.46	29.47

Source: Company data, Khambatta Research

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Financial Performance

₹ crore	1Q FY21	4Q FY22	1Q FY23	Y-o-Y	Q-o-Q
Operating revenue	22.7	53.1	61.0	168.1%	14.7%
EBITDA	3.1	6.4	13.1	321.3%	105.6%
EBITDA margin	*13.7%*	*12.0%*	*21.5%*	*780 bps*	*949 bps*
PAT	2.8	4.4	10.2	269.9%	129.9%
PAT margin	*12.1%*	*8.4%*	*16.8%*	*461 bps*	*839 bps*
Diluted EPS (₹)	1.17	1.89	4.33	270.1%	129.1%

Source: Company data, Khambatta Research

Profit & Loss Account

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	**173.0**	**171.8**	**137.4**	**232.8**	**432.4**	**581.5**
Growth		*-0.7%*	*-20.0%*	*69.4%*	*85.8%*	*34.5%*
Cost of goods sold	144.6	143.8	102.1	185.2	342.5	459.6
Gross profit	28.4	28.0	35.3	47.6	89.9	121.8
Gross margin	*16.4%*	*16.3%*	*25.7%*	*20.4%*	*20.8%*	*21.0%*
Operating expenses	11.9	14.3	12.2	12.3	23.4	30.2
EBITDA	**16.5**	**13.7**	**23.1**	**35.2**	**66.5**	**91.6**
EBITDA margin	*9.6%*	*8.0%*	*16.8%*	*15.1%*	*15.4%*	*15.8%*
Depreciation & amortization	0.3	0.2	0.1	0.3	0.4	0.3
EBIT	19.6	16.4	29.9	36.9	68.2	93.5
Interest expense	4.3	2.5	0.3	0.5	0.5	0.5
PBT	15.3	13.9	29.6	36.4	67.7	93.0
Tax expense	6.9	1.1	7.0	9.3	17.1	23.4
PAT	**8.4**	**12.8**	**22.6**	**27.1**	**50.6**	**69.5**
PAT margin	*4.9%*	*7.5%*	*16.5%*	*11.6%*	*11.7%*	*12.0%*
Diluted EPS (₹)	**3.56**	**5.43**	**9.58**	**11.47**	**21.46**	**29.47**

Source: Company data, Khambatta Research

Abridged Balance Sheet

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Total share capital	126.6	138.0	163.4	188.1	236.3	303.5
Total debt	49.3	24.0	24.3	22.2	23.5	24.9
Total current liabilities	***5.8***	***5.7***	***28.0***	***23.1***	***24.8***	***26.5***
Total equity & liabilities	**181.8**	**167.7**	**191.4**	**211.1**	**261.1**	**330.1**
PP&E	0.8	0.6	0.4	1.7	1.6	1.3
Inventory	110.1	119.2	134.4	161.5	205.5	290.7
Cash & cash equivalents	44.8	18.5	51.3	42.2	47.3	30.7
Total current assets	***160.8***	***147.0***	***186.0***	***204.5***	***254.5***	***323.7***
Total assets	**181.8**	**167.7**	**191.4**	**211.1**	**261.1**	**330.1**

Source: Company data, Khambatta Research

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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.

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Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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