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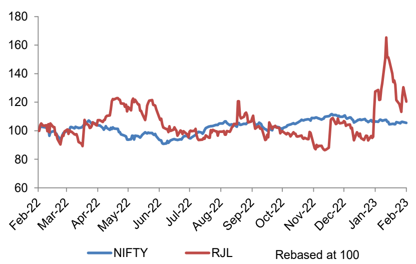
Radhika Jeweltech Limited

14 February 2023

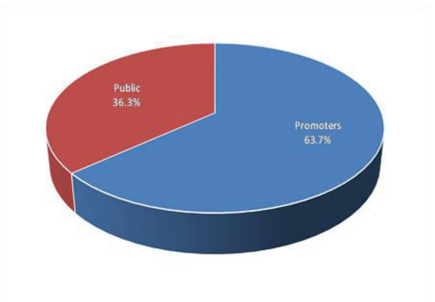
Ramp-up of ops at new store will drive growth and earnings to new highs — BUY

Sector	: Gems & Jewellery
Target Price	: ₹290
Last Closing Price	: ₹193
Market Cap	: ₹456 crore
52-week High/Low	: ₹290/123
Daily Avg Vol (12M)	: 95,795
Face Value	: ₹10
Beta	: 0.95
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 540125
NSE Scrip Code	: RADHIKAJWE
Bloomberg Code	: RADJL IN
Reuters Code	: RDHI.BO
Nifty	: 17,771
BSE Sensex	: 60,432
Analyst	: Research Team

Price Performance



Shareholding Pattern



3Q FY23 Update

Results Analysis

- Radhika Jeweltech Limited (RJL) reported flattish sales on a y-o-y basis whilst recording solid sequential growth in 3Q FY23. Revenues were up 3.3% y-o-y and 66.2% q-o-q to Rs 95.0 crore. The muted y-o-y growth is attributable to a high base-effect with a strong turnaround in sales seen in 3Q FY22, driven by pent-up demand as the second wave of Covid-19 waned.
- 3Q FY23 EBITDA remained flat on a y-o-y basis whilst jumping by more than 2.5x sequentially to Rs 15.2 crore as EBITDA margin expanded by 865 bps q-o-q to 16.0%.
- Quarterly PAT was lower by 3.7% y-o-y as it went up by 2.3x q-o-q and 129.9% q-o-q to Rs 10.9 crore. PAT margin fell by 82 bps y-o-y whilst expanding by 572 bps to 11.4%.
- 9M FY23 revenue growth was healthy whilst profits expanded by a fair margin.

Outlook & Valuation

The most important driver for RJL's growth in the near-to-medium term is its new and second showroom which opened in late November. Expected to be serviced by 150 sales representatives at near-term optimum capacity, 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. As sales ramp up from the new store, we expect robust growth in FY24. 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 6.7x. The stock nearly achieved our price target of Rs 295 when it crossed Rs 290 on 25 January this year. Based on an unchanged target multiple of 10x FY24E EPS, we reiterate a BUY rating with a price target of Rs 290, informing an upside of 50% from current levels.

Key Financial Metrics

₹ crore	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	171.8	137.4	232.8	337.5	585.9
Growth		*-20.0%*	*69.4%*	*45.0%*	*73.6%*
EBITDA	13.7	23.1	35.2	53.0	94.6
EBITDA margin	*8.0%*	*16.8%*	*15.1%*	*15.7%*	*16.2%*
PAT	12.8	22.6	27.1	39.1	68.3
PAT margin	*7.5%*	*16.5%*	*11.6%*	*11.6%*	*11.7%*
Diluted EPS (₹)	5.43	9.58	11.47	16.57	28.96

Source: Company data, Khambatta Research

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Financial Performance

₹ crore	3Q FY22	2Q FY23	3Q FY23	Y-o-Y	Q-o-Q	9M FY22	9M FY23	Y-o-Y
Operating revenue	92.0	57.2	95.0	3.3%	66.2%	179.6	213.2	18.7%
EBITDA	15.1	4.2	15.2	0.1%	262.5%	28.9	32.4	12.3%
EBITDA margin	*16.5%*	*7.3%*	*16.0%*	*-50 bps*	*865 bps*	*16.1%*	*15.2%*	*-86 bps*
PAT	11.3	3.3	10.9	-3.7%	232.6%	22.6	24.3	7.6%
PAT margin	*12.3%*	*5.7%*	*11.4%*	*-82 bps*	*572 bps*	*12.6%*	*11.4%*	*-117 bps*
Diluted EPS (₹)	4.78	1.38	4.60	-3.7%	233.3%	9.58	10.31	7.6%

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**	**337.5**	**585.9**
Growth		*-0.7%*	*-20.0%*	*69.4%*	*45.0%*	*73.6%*
Cost of goods sold	144.6	143.8	102.1	185.2	267.7	463.2
Gross profit	28.4	28.0	35.3	47.6	69.8	122.7
Gross margin	*16.4%*	*16.3%*	*25.7%*	*20.4%*	*20.7%*	*21.0%*
Operating expenses	11.9	14.3	12.2	12.3	16.9	28.1
EBITDA	**16.5**	**13.7**	**23.1**	**35.2**	**53.0**	**94.6**
EBITDA margin	*9.6%*	*8.0%*	*16.8%*	*15.1%*	*15.7%*	*16.2%*
Depreciation & amortization	0.3	0.2	0.1	0.3	1.8	3.1
EBIT	19.6	16.4	29.9	36.9	53.6	94.2
Interest expense	4.3	2.5	0.3	0.5	1.2	2.8
PBT	15.3	13.9	29.6	36.4	52.5	91.4
Tax expense	6.9	1.1	7.0	9.3	13.4	23.0
PAT	**8.4**	**12.8**	**22.6**	**27.1**	**39.1**	**68.3**
PAT margin	*4.9%*	*7.5%*	*16.5%*	*11.6%*	*11.6%*	*11.7%*
Diluted EPS (₹)	**3.56**	**5.43**	**9.58**	**11.47**	**16.57**	**28.96**

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.

Stock ratings

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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