

Maintain
BUY

SHREE GANESH JEWELLERY HOUSE

On A Glittering Growth Path



Retail Desk

16 February 2012

Rating	Buy
CMP (₹)	115
Target Price (₹)	170
Upside (%)	48

Key Data	
BSE Code	533180
NSE Code	SGJHL
Reuters code	SHRG.BO
Bloomberg Code	SGJ IN
Sensex	17065
Face Value (₹)	10
Mcap (₹ cr.)	698
52 week H/L (₹)	286/85
2 Wk Avg Qty	93000

Share holding, June '11		Holding %
Indian Promoters		55.7
Foreign Promoter		15.0
DIs		15.9
Bodies Corporate		9.0
Public & Others		4.4

Performance (%)			
	3M	6M	12M
Stock (SGJH)	-11.5	-19.4	-32.9
BSE 200	10.0	7.4	-0.9
BSE 500	9.9	6.7	-1.0

Price Chart: (One-Year)



<http://www.sgjhl.com>

Vijay Dave
vijaydave@sunidhi.com
Ph: 91-22-6636 9669

Technicals by
Niranjan Sane
niranjan.s@sunidhi.com

Company Description:

Shree Ganesh Jewellery House (SGJH) is one of the largest manufacturers and exporters of handcrafted gold Jewellery of India, exporting primarily to countries such as U.A.E., Singapore, and Hong Kong. SGJHL has manufacturing units located in Mondalpara, Manikanchan SEZ which is presently the only jewellery SEZ in West Bengal and Domjur and U.A.E. SGJHL tapped the capital market in March 2010 with an IPO of ₹315 crore priced at ₹260 per share for expansion.

Products & Brands:

The product range include handcrafted and hallmarked gold jewellery, gold enameled jewellery and gold jewellery studded with precious stones such as diamonds, rubies, emeralds, sapphires, pearls, etc and semi-precious stones such as garnet, cubic zirconium, etc. The portfolio includes rings, earrings, pendants, bracelets, necklaces, bangles and medallions. SGJH markets its jewellery products under brand name 'Gaja', 'Sitaare', 'GM', 'Marigiold', 'G Elements', 'Gold Bridals', 'Dianique', 'You' and 'Distar'.

Diverse Portfolio & Design:

The products, designed by a team of highly creative designers, have presence across different price points to cater to all customers across high-end, mid-market and value market segments allowing SGJH to build a large and diverse portfolio of designs.

Exports:

SGJH derives more than 85-88% of its sales from overseas market and primarily exports to the United Arab Emirates (UAE.) Singapore and Hong Kong. SGJH also has plans to expand operations in Africa.

Key strengths:

- Strategic location of manufacturing units
- Strong in-house designing capabilities
- Superior quality of products
- A well-spread marketing network

Key Financial: (Consolidated)

Year-March	9MFY12A	9MFY11A	FY11A	FY12E
Sales	8013.0	4554.1	5837.7	10070.0
PBIDT	366.1	289.7	378.1	488.0
Interest	82.4	45.8	73.5	112.0
PBDT	283.7	243.9	304.6	376.0
Depreciation	16.6	3.2	6.5	27.0
PBT	267.1	240.7	298.1	349.0
Tax	29.0	2.9	3.4	39.0
MAT Credit	(28.7)	-	-	(34.0)
PAT	266.8	237.8	294.7	344.0
Equity			60.7	60.7
Reserves			1013.1	1357.1
Book Value (Rs)			176.9	233.5
EPS (Rs)	44.0	39.2	48.6	56.7
OP Margin (%)	4.6	6.4	6.5	4.8
NP Margin (%)	3.3	5.2	5.0	3.4
P/E			2.9	2.0

(₹ crore)

**Q3FY12 & FY11 Results**

On a consolidated basis (YoY), net profit for Q3FY12 advanced by 17% to ₹5.4 crore (₹1.5 crore) on 133.6% higher sales of ₹2552 crore (₹1221 crore). OP and NP margin stood at 4.5% and 3.3% as against 8.3% and 6.7% respectively in the corresponding period last year.

Margins in Q3FY12 have fallen mainly due to substantial volume growth resulting in higher sales.

For FY11, consolidated net profit advanced by 75.9% to ₹294.7 crore on 68% higher sales of ₹5838 crore. OP and NP margin stood at 6.5% and 5.0% Vs 6.1% and 4.8% respectively in FY10.

FY11 consolidated EPS stood at ₹48.6. A dividend of 30% was paid.

Retail Chains

During October 2011 to January 2012, SGJH set up 18 retail outlets across India under the brand 'GAJA' - taking the total to 44. SGJH expects to set up 50 retail stores in FY2012.

Through its strategic alliance with Bharti Retail for shop-in-shop arrangements in its retail stores run by the name of 'Easy Day', Shree Ganesh Jewellery House Ltd. (SGJHL) opened two outlets at Banaswadi, in Bangalore, in July 2011 and at Bhandup, in Mumbai, in September 2011.

In Q1FY12, SGJHL entered into a strategic alliance with Bharti Retail for shop-in-shop arrangements in its retail stores run by the name of 'Easy Day'. The first outlet opened at Banaswadi, in Bangalore, in July 2011. The second outlet opened at Bhandup, in Mumbai, in September 2011.

The move will improve domestic presence and capitalize on the growth potential in the branded jewellery space. Going forward, SGJH plans to open 250 outlets mostly in tier-II and III cities such as Lucknow, Jodhpur and Kochi to reach out to the rural rich who now shop like high-street consumers.

SGJH is venturing into new territories like Europe, Australia and Africa and exploring retail opportunities in the overseas markets are expected to yield returns in the near future.

Italian Fusion Jewellery

During Q4FY11, SGJHL commenced commercial production of Italian fusion jewellery. Expansion of its product portfolio to include Italian fusion jewellery will not only enable it to cater to a diverse customer base but will also add substantially to volumes going forward. Additionally, in a bid to improve cost efficiencies and enhance margins, SGJH is in the process of installing a gold refinery at Domjur in West Bengal.

Italian Joint Venture

The construction for the ₹100 crore 50:50 JV at SGJHL's integrated jewellery manufacturing complex in Domjur, West Bengal under the name of Oroitalia Chains Pvt. Ltd for a manufacturing unit for machine made light weight gold jewellery with Societa Aretina Lavorazione Preziosi S.P.A. (SALP SPA), is progressing well and is expected to be operational by Q1FY13. This facility will have an initial capacity to manufacture 10 tonnes of lightweight gold jewellery annually.

Gold Refinery

The construction of ₹50 crore gold refining facility of 35 tonnes a year at Domjur, West Bengal is on track with trial production expected to commence in Q4FY12. This would not only optimize operations but also reduce dependence on imported gold and improve margins notably.

Focus on rural and semi-urban markets

Rural and semi-urban markets make up 60% of the country's ₹70,000-crore gold jewellery market, as estimated by the World Gold Council. Branded jewellery accounts for just over 7% of the rural market with sales of ₹3,000 crore and is growing 25-30% a year.

In a recent report, Crisil said that demand for gold jewellery in tier-II and tier-III towns is strong and growing, buoyed by increasing affluence and preference for branded jewellery.



Around 2/3rd of the new outlets that the 63 gold jewellery retailers, which are covered by Crisil, plan to open will be in such small towns in the medium term. The report says these jewellers are expected to get more than half their revenues from small towns by 2012-13 up from around 40% in 2009-10. The 63 jewellery retailers covered in the report collectively accounted for 20% by revenue of the gold jewellery retailed in India in 2010-11.

Acquisition of NBFC-A step into gold loan business

SGJH has entered into loan against gold business by acquiring a Kolkata-based non-banking financial services company (NBFC). The NBFC, which already has an existing portfolio of gold loans, will be a 100 percent subsidiary of SGJH and is expected to operational by December 2011. It will start with 50 branches initially in south and expand gradually. In the first year, the jewellery company wants to have a size of around 125 branches.

Nearly 20,000 tonnes of gold are held by the individuals in the country and close to 10% comes for mortgage, thus total loans position would be around ₹4 trillion. The organized sector of the industry is yet to tap that 10%, so there is huge opportunity in the sector.

Retail boom in India

The Q2FY11 India Retail Report forecasts that total retail sales will grow from ₹19.0 trillion in 2011 to ₹30.23 trillion by 2015. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organised retail infrastructure are key factors behind the forecast growth. India has around 127, 000 millionaire.

There was 50.9% rise in the number of high net worth individuals or those with investable assets of \$1 million or more in 2009 according to Asia Pacific Wealth Report by Merrill Lynch Global Wealth Management Cap Gemini released in September 2010. The McKinsey study had pegged the Indian luxury market size to grow at US\$30 billion by 2015.

Branded Jewellery to grow 40% a year

Industry players have pegged good hope for the branded jewellery market in India, which accounts for around less than 10 percent of the entire domestic jewellery market pie according to Credit Analysis and Research Limited (CARE).

According to a report by McKinsey, the same is likely to witness a growth rate of 40 percent per annum to touch ₹10,000 crore this year. The report predicts sales of non-branded jewellery products to grow at around 12 percent. CARE pegs the domestic jewellery market at US\$ 16 billion.

Gem & Jewellery sector continues to prosper

One of India's leading foreign exchange earning sectors over the year has witnessed a considerable growth in the volume of exports from export figures of US\$ 29.4 billion in the FY 2009-2010, to US\$ 43.1 billion in FY 2010-2011, thus indicating a net increase of 46.9% in the total Gem & Jewellery exports. The performance of this industry is critical as it contributes 16.7% to India's total merchandise exports.

The growth in the sector was primarily driven by Cut & Polished Diamonds which registered an increase of 55% in FY11. The exports grew from US\$ 18.2 billion in 2009-10 to US\$ 28.3 billion in 2010-2011. Cut & Polished Diamonds accounted for 66% of the total exports baskets with Gold jewellery comprising of 30% while Colour Gemstones & other accounted for 4.7%.

Gold jewellery exports have also been on a rise with the figures accounting for a 33.3% increase over FY11. From US\$ 9.7 billion in 2009-2010 to US\$ 12.9 billion in 2010-2011, the increase is apparent. Colored Gemstone exports also increased by 9.7% in dollar terms with sector witnessing a rise from US\$ 286.78 million in 2009-2010 to US\$ 314.54 million in 2010-2011.

FY10-FY11 saw UAE emerge as the largest exporting destination with 47% of exports to the market, followed by Hong Kong with 22% and USA with 11% of exports.

**Gem & jewellery market size to touch ₹ 2.13 lakh crore by 2015**

The size of the Indian gems and jewellery market is expected to touch ₹ 2.13 lakh crore by 2015 on the back of increasing domestic demand, ASSOCHAM said.

Growing at a steady rate of 15% annually, the size of the domestic gems and jewellery market currently stands at ₹ 1.22 lakh crore, the chamber said. Exports of gems and jewellery are expected to cross USD 50 billion by the end of this fiscal.

Gems and Jewellery Industry in India: Road Ahead

The huge growth of the Indian gems and jewellery industry has seen the advent many new branded jewellery shops in various metros of this country. Brands such as Damas Jewellery, Reliance Retail, Swarovski, Shree Ganesh and Joy Alukkas are either opening or have already opened their new branches.

The availability of cheap labour and presence of well skilled people in various states of India is helping in the growth of diamond polishing and gold jewellery markets.

According to experts in the jewelry industry the surge in demand for expensive jewellery in India is a result of the strengthening Indian economy. India will soon overtake the US in the not so distant future, according to a statement given by Rapaport Group, the well known keeper of global diamond related data.

Valuation & Recommendation

Expansion of the product portfolio to include Italian fusion jewellery will enable SGJH to cater to a diverse customer base in-turn adding substantially to volumes.

The technological synergies from the JV with SALP SPA are expected to yield results in the coming quarters. With increasing proportion of high margin studded jewellery to the total revenues, margins are expected to improve going forward.

As SGJH strengthens its retail presence in the domestic market by adding stores under the GAJA brand, retail contribution to total revenues is expected to improve in FY2012. SGJH's venturing into new territories like Europe, China and Africa and exploring retail opportunities in the overseas markets are expected to yield returns.

SGJH is also scouting for diamond and gold mines in Africa. Venturing into new territories like Europe, Australia and Africa and exploring retail opportunities in the overseas markets are expected to yield returns in the near future.

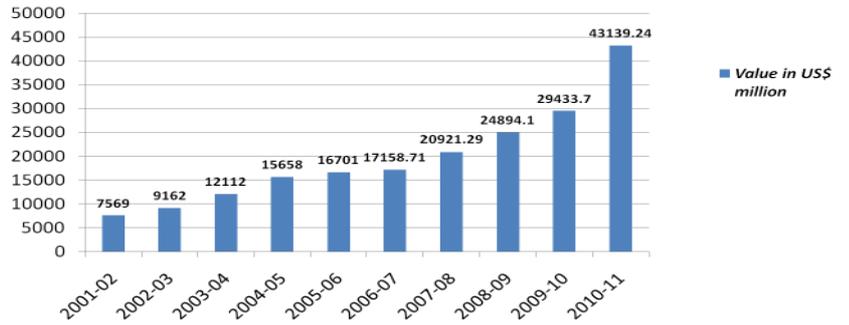
SGJH's continuous efforts to expand the product portfolio, demand for its specialized handcrafted jewellery, long standing customer relations, enhanced contribution of Italian fusion jeweler, foray into gold lending business, processing of gold refinery coupled with healthy demand of its products in the domestic as well as overseas market give strong visibility to revenue and profitability going forward.

At the CMP of ₹ 115, the share is trading at a P/E of 2.0 on FY12E. We maintain BUY with a target price of ₹ 170 in the medium term.



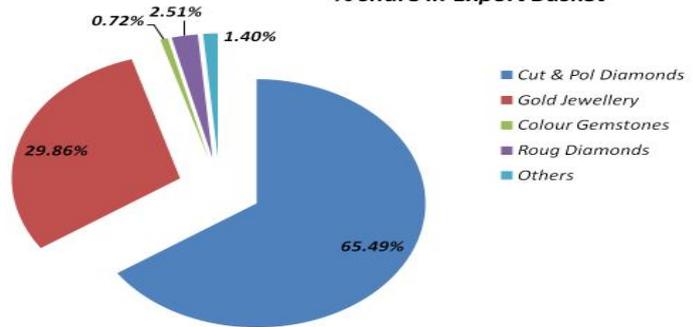
Gold Jewellery Exports-Past Decade

Export Figures from 2001- 2011



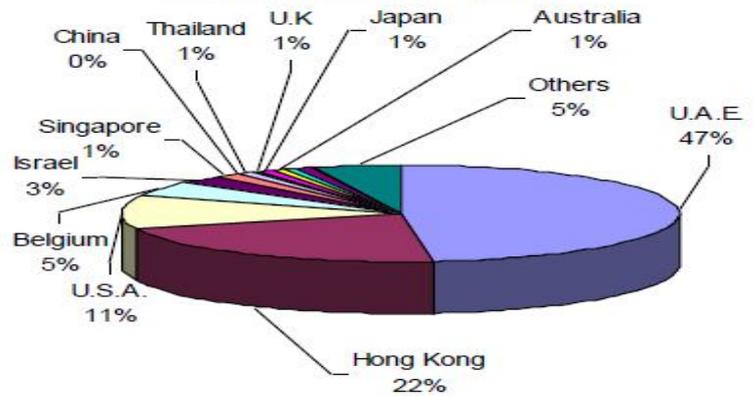
Gem & Jewellery Exports Basket

% share in Export Basket



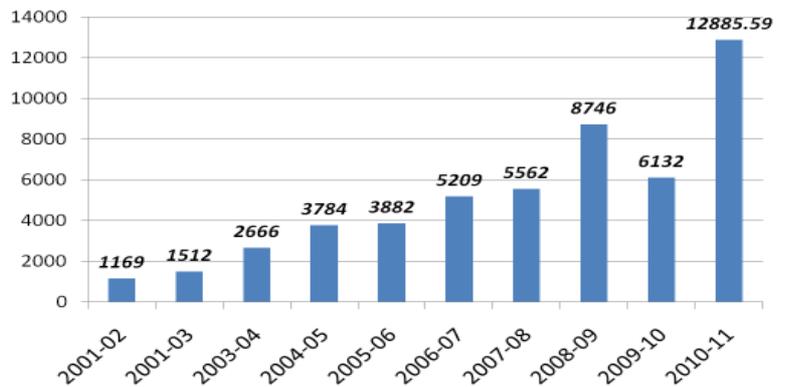
Major Importers/Buyers of Gem & Jewellery

MAJOR BUYERS 2010-11



Gold Jewellery Exports (million)

Export Figures from 2001-11





Technicals - SGJH



Recently, the stock of Shree Ganesh Jewellery has been in a good uptrend. The uptrend took the stock above the ₹110 resistance level which was the bottom made in mid-2010. RSI indicator has given positive indication as the indicator formed higher lows as compared with the prices forming lower lows. The upside target for the stock is ₹160-165 price level.

SUNIDHI SECURITIES & FINANCE LTD

Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021

Tel: (+91-22) 6636 9669 Fax: (+91-22) 6631 8637 Web-site: <http://www.sunidhi.com>

Disclaimer: "This Report is published by Sunidhi Securities & Finance Ltd. ("Sunidhi") for private circulation. This report is meant for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. While utmost care has been taken in preparing this report, we claim no responsibility for its accuracy. Recipients should not regard the report as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without any notice and this report is not under any obligation to update or keep current the information contained herein. Past performance is not necessarily indicative of future results. This Report accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. Sunidhi and its associated companies, directors, officers and employees may from time to time have a long or short position in the securities mentioned and may sell or buy such securities, or act upon information contained herein prior to the publication thereof. Sunidhi may also provide other financial services to the companies mentioned in this report."