



PC Jeweller Limited

Q2 FY 2014 Results Update
11th November 2013

Disclaimer

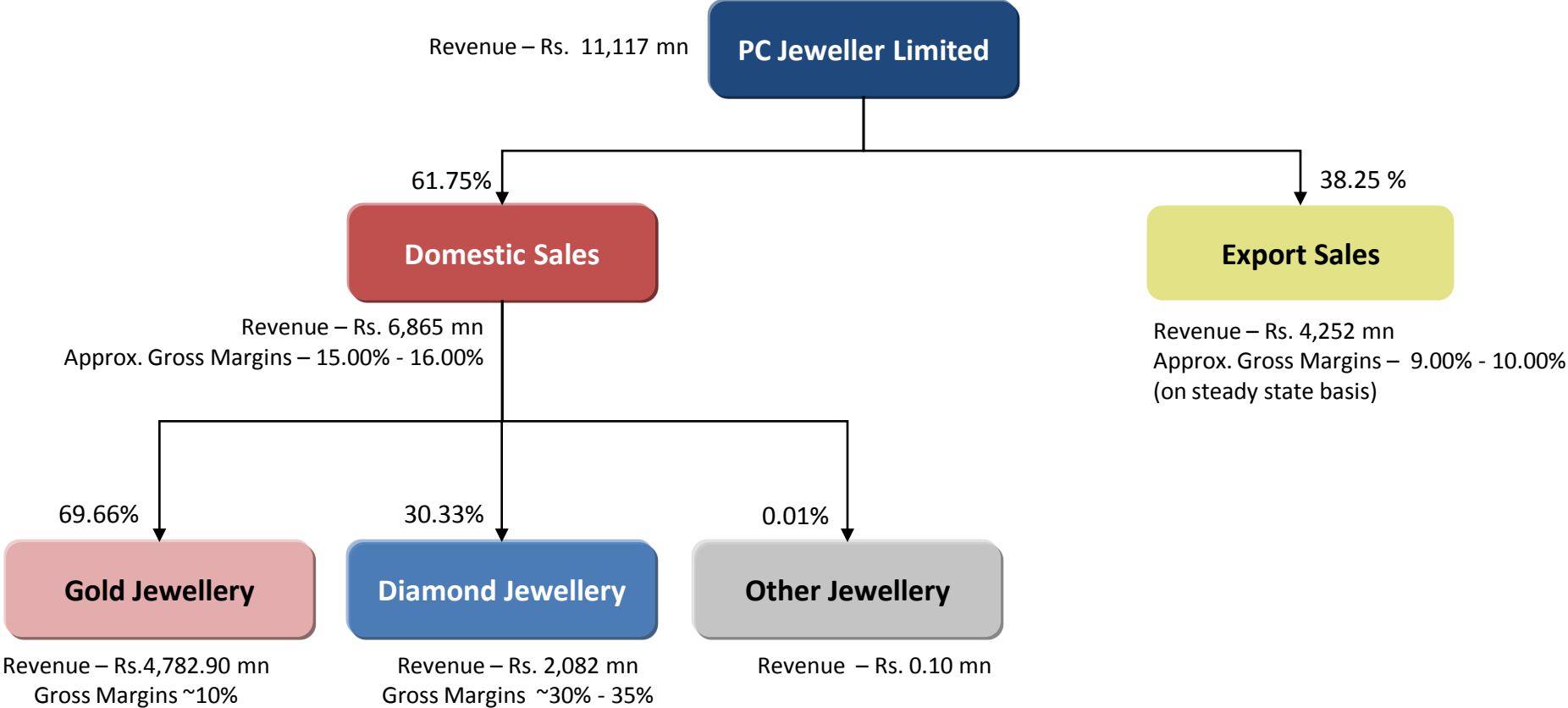
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Q2 FY 2014 Results Analysis



Retail Sales Analysis (Quarterly Trend)

	Q2 FY 14	Q1 FY 14	Q4 FY 13	HY 14	HY 13
Operational stores as on	36	36	30	36	30
Total Domestic Sales (Rs. mn)	6,865	11,780	8,848	18,645	12,506
Volume of Gold sold (Kgs.)	1,584.14	2,987.86	2,195.51	4,572.00	3,415.00
Percentage of Diamond jewellery sold (Domestic)	30.33%	25.72 %	32.15 %	27.42%	32.33%
Number of JFL customers	55,980	52,766	54,904	55,980	50,582
Amount (Rs. mn)	1,054.29	995.55	988.18	1,054.29	696.16

Margin Analysis

Particulars	Q2 FY 14 (3 months)	Q1 FY 14 (3 months)	FY 14 (Apr - Sep)	FY 13 (Apr - Sep)
Revenue from Operations	11,117	13,790	24,907	18,557
Domestic Operations	61.75%	85.42%	74.86%	67.39%
Export Operations	38.25%	14.58%	25.14%	32.61%
Gross Margins	17.28%	13.55%	15.22%	15.97%
Domestic Operations	15.95%	13.25%	14.24%	15.92%
Export Operations*	19.43%	15.31%	18.11%	16.08%
<i>*The export gross margins are 9.00% - 10.00% on a steady state basis. However, these keep on varying in line with the MTM position as well as Re/\$ exchange rate on the Balance Sheet date</i>				
Major expenses (% of total Revenue)				
Employee Cost	1.01%	0.73%	0.85%	0.82%
Advertisements	0.84%	0.98%	0.92%	0.71%
Rentals	0.62%	1.04%*	0.85%	0.56%
EBITDA Margins	14.31%	10.80%	12.37%	12.76%
PBT Margins	11.32%	8.37%	9.69%	9.56%
PAT Margins	9.25%	6.52%	7.74%	7.63%

* The rental expenses for Q1 FY 14 include straight lining of lease rent of Rs 81.60 mn as per AS 19.

Management Discussion & Analysis – Q2

DEMAND SITUATION :

- The domestic demand for jewellery is always on a lower side in Q2 as compared to other quarters.
- This year, the demand in Q2 has also been affected by unprecedented demand jump in Q1.
- The company however, does not foresee any demand decline in H2 due to economic slowdown etc, as it operates in the wedding segment. The jewellery demand for wedding and related occasions is expected to remain largely unaffected by adverse economic factors.

SUPPLY SITUATION :

- The gold supply for domestic operations was disrupted during Q2 due to various RBI instructions.
- There were however, no disruptions in the supply position for SEZ division and the company continued to import gold directly for its export operations, as before.
- During Q2, none of the bullion banks were able to commence bullion imports under the new 20 : 80 rule.
- The company was however, able to maintain its operations by getting gold from some Public sector banks, as well as encouraging recycling of gold from its customers.
- As on date, Bank of Nova Scotia is supplying gold under the new 20 : 80 rule.

PROFITABILITY :

- The percentage of diamond jewellery sold has increased significantly from 25.72% to 30.33% in Q2 vis a vis Q1, which has helped the company increase its profitability in its domestic operations.
- The company has been able to maintain its profitability in the domestic segment in Q2 in spite of opening 6 large format showrooms in Q1.
- The company has been able to improve its domestic profitability due to :
 - ✓ Increase in percentage of diamond jewellery sold during Q2.
 - ✓ Improving margins on diamond jewellery by procuring cut and polished diamonds at more competitive prices.
- In the export operations, the gross margins have improved in Q2 due to Re depreciation and the positive impact of MTM. However, the steady state margins in export operations remain at approximately 10%.

OTHER DEVELOPMENTS IN Q2 :

- The company has completely revamped and renovated its flagship store at Karol Bagh. It has also created lounges for its HNI customers at Karol Bagh and a special range of high value jewellery for sale at lounges.
- The company has hired AON Hewitt for devising its HR policies which can serve the company for the next decade and take care of its future HR needs and requirements.

- The company has been rated as A/A1 (stable) by CRISIL during July 2013.
- The company has employed CRISIL for conducting audit of its stores. This audit assess the complete systems and procedures followed by the stores as well as complete stock verification. The CRISIL audit is in addition to its existing internal audit carried out by an independent Chartered Firm.
- The company continues to strengthen its designing and manufacturing capabilities as it continues to expand in newer regions.

THE WAY FORWARD :

- The company would continue to focus on its expansion plans as it feels that jewellery demand in India would continue to remain strong.
- This is specially so as the decline in the market share of unorganised/ family run jewellers is continuing to happen at a fast pace. The organised jewellery retail therefore has a huge growth potential.
- The export operations have suddenly become very crucial for the jewellery industry because of the new 20 : 80 rule for gold supply. The company will therefore continue to focus on its export operations in the coming months with new items, new designs as well as new markets. The company would however, continue to focus on domestic markets as it foresees huge growth potential in the same..

- The company will continue its existing business model of opening large format stores on high streets. The company will also continue its focus on high value wedding jewellery with special emphasis on diamond jewellery.
- As per its existing expansion plans, the company would be opening 5 new stores during Q3. Out of which, it has already opened stores at Rajkot (Gujarat) and Hyderabad (Andhra Pradesh). Its other locations are Bangalore Mangalore (both in Karnataka) and a 2nd store in Ahmedabad (Gujarat).
- The company feels that the new gold procurement rules for its domestic operations would result in increasing debt levels and increasing pressure on finance costs. However, the company plans to take several measures to mitigate the effects of increased finance costs and is confident that it would be able to protect its bottom-line.

Statement of Assets & Liabilities

Particulars	Rs in million	
	As at	As at
	30 September 2013 (Unaudited)	31 March 2013 (Audited)
A. Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital	1,791.00	1,791.00
(b) Reserves and surplus	14,024.62	12,097.06
Sub-total - Shareholders' funds	15,815.62	13,888.06
2. Non current liabilities		
(a) Long term borrowings	6.58	11.99
(d) Long term provisions	13.79	12.44
Sub-total - Non current liabilities	20.37	24.43
3. Current liabilities		
(a) Short term borrowings	4,381.34	2,309.26
(b) Trade payables	18,526.58	16,250.43
(c) Other current liabilities	1,665.92	1,322.47
(d) Short term provisions	839.02	557.31
Sub-total - Current liabilities	25,412.87	20,439.47
Total – Equity and Liabilities	41,248.85	34,351.96

Statement of Assets & Liabilities

Particulars	Rs in million	
	As at	As at
	30 September 2013 (Unaudited)	31 March 2013 (Audited)
B. Assets		
1. Non-current assets		
(a) Fixed assets	701.54	638.00
(b) Non current investments	0.50	0.50
(c) Deferred tax assets(net)	89.20	50.06
(d) Long term loans and advances	975.01	800.28
(e) Other non current assets	90.74	148.89
Sub-total - Non current assets	1,856.98	1,637.73
2 Current assets		
(a) Current investments	2,307.49	4,428.84
(b) Inventories	21,138.65	17,137.03
(c) Trade receivables	7,726.95	6,747.83
(d) Cash and bank balances	5,739.62	2,648.56
(e) Short term loans and advances	2,392.88	1,699.83
(f) Other current assets	86.29	52.14
Sub-total - Current assets	39,391.87	32,714.23
Total – Assets	41,248.85	34,351.96

BALANCE SHEET ITEMS :

LIABILITIES

- Short term borrowings :- These have increased due to stoppage of lease model for domestic gold procurement after Q1.
- Trade payables :- These have increased due to:-
 - ✓ Procurement of inventory for new stores in Q1.
 - ✓ Almost 15% depreciation in Re value.
 - ✓ Procurement of raw material for export purposes on lease model as earlier.
- Other current liabilities :- consists of liability towards JFL deposit scheme and other miscellaneous liabilities.
- Short Term Provisions :- consists of tax related provisions.

ASSETS :-

- Long Term loans & Advances :- Have increased due to additional security deposit for new stores.
- Current investments :- Decline is due to utilisation of IPO funds and shifting of funds from MF to FD's
- Inventory :- This has increase is due to :-
 - ✓ Opening of 6 new stores in Q1
 - ✓ Advance procurement of raw materials for upcoming stores.

- ✓ Building up inventory for festive season.
- Trade receivables :- These are mainly export receivables and though their dollar value is more or less constant, their amount is higher as on 30th September 2013, due to nearly 15% depreciation in Re value vis a vis dollar.
- Cash and Bank Balances : Due to shifting of funds from MF to FD's
- Short term loans and advances :- Mainly consists of advance payments given for raw material procurement. The increase is due to natural increase in business operations.

Thank You