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Renaissance Jewellery: Restructured for growth

The shares of Renaissance Jewellery (RJL) **(Code: 532923) (Rs.89)** are recommended for decent gains because of its improving fundamentals. RJL is likely to register an EPS of Rs.23.6 in FY12 while its share is trading at a P/E of just 3.8 has the potential to touch Rs.120 at conservative P/E multiple of 5.

RJL is in the business of designing, manufacturing and sale of studded gold, platinum and silver jewellery for last 15 years with USA being the largest end market. It operates through seven manufacturing units of which six units are located at the SEEPZ-SEZ at Mumbai and one 100% EOU unit is at Bhavnagar in Gujarat.

Apart from its core Jewellery business, RJL has also expanded into the organized Home Retail business through one of its acquisitions this financial year, which includes the home retail brand 'House Full'. It has wholly-owned subsidiaries in USA and UK as its marketing and sales arms. Its portfolio includes rings, earrings, pendants, bracelets, bangles, etc. studded with polished diamonds and other precious stones.

Renaissance takes pride in its modern design studio complete with a state-of-the-art CAD/CAM facility. Its dedicated team of 40 designers is well-versed with the latest global trends and contributes at least 500 innovative designs monthly to their ever-expanding portfolio of over 25,000 styles. The majority of its current models are produced using CAD/CAM to ensure precision.

Its world-class production units consist of 2000+ highly skilled workers with access to the latest tools and machinery including a laser-soldering machine, Nutech J10 casting machine and OTEC Stream Liner machine to mention a few and the production is geared for over 100,000 pieces a month. Its production unit is capable of meeting its clients' most stringent requirements. 'High quality' and 'efficient production' are the bywords on its shop floor.

During FY11, RJL acquired 100% equity of N. Kumar Diamond Exports Ltd., a company engaged in the business of import and export of cut and polished diamonds, along with its wholly-owned subsidiary House Full International Ltd., the fastest growing Home retailer in India. As a result of this acquisition, both N. Kumar Diamond Exports and House Full International have become wholly-owned subsidiaries of RJL.

During FY11, consolidated net profit advanced by 23% to Rs.31 crore on 32% increased sales of Rs.862 crore. During Q3FY12, net profit shot up by 40% to Rs.21.8 crore on 3% lower sales of Rs.792 crore. Its Gold:Silver Jewellery Mix for Q3FY12 was 58:42 as compared to 54:46 in Q3FY11. The rising prices of precious metals have resulted in higher realization per piece for both Gold and Silver Jewellery as compared to Q3FY11. In the categories, Rings and Pendants continue to be the major contributors to revenue. During the 9MFY12, net profit advanced by 103% to Rs.33.5 crore on 29% higher sales of Rs.792 crore loading to a nine monthly EPS of Rs.17.5.

RJL has added one store in Q3FY12 and currently has 26 fully operational stores as of 31st January 2012. The total store area has increased by 41% from Q3FY11 to 180,590 sq. ft. due to the increase in store count. Sales for the same 18 operational stores grew by 12.1% for the period. The average sales/ sq. ft. for the period was Rs.5,993 per sq. ft. on an annualized basis, a growth of 10.3% from Rs.5,433 in the same period in FY11.

Coming to its future prospects, the domestic Gems & Jewellery Industry is estimated to be worth US $28 billion in 2010 and the sector is expected to grow at a compounded annual growth rate (CAGR) of around 13% during 2011-13, on the back of increasing government efforts and incentives coupled with private sector initiatives, according to 'Indian Gems and Jewellery Market Forecast to 2013' by RNCOS.

Jewellery sales in the USA, including watches and fashion jewellery, amounted to $68 billion in 2008, up 4% YoY. The jewellery retail market in the US is highly fragmented and jewellery is sold through various formats such as department stores, discount stores, internet retailers, TV home shopping, and speciality stores. Wal-Mart is the largest jewellery retailer in the country, accounting for 4.6% market share, followed by Signet at 4.2%. Speciality retailers account for 48% of the total jewellery sales and consolidation has been happening in this space. Diamond jewellery accounts for 55% of total jewellery sales in the US market. It has grown at a CAGR of 6.4% over the past 10 years compared to the 4.5% industry growth.

The Q2FY11 India Retail Report forecasts that total retail sales will grow from Rs.19 lakh crore (US $395.96 billion) in 2011 to Rs.30,00,000 crore (US $785.12 billion) 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 this growth forecast. India has around 127,000 millionaires. 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 the Asia Pacific Wealth Report by Merrill Lynch Global Wealth Management that Cap Gemini released in September 2010.

Although the market is highly dominated by unorganized players with an increase in consumer income and economic prosperity, the future of organized branded jewellery in India is very bright. Along with the US and European markets, RJL is currently exploring the domestic market opportunity by selling its products to jewellery retailers.

RJL is expected to achieve sales of Rs.1000 crore in FY12 and earn a net profit of Rs.45 crore, which would yield an EPS of Rs.23.6. At the current market price of Rs.89, the share is trading at a P/E multiple of just 3.8. A conservative P/E ratio of even 5 will take its share price near to Rs.120 and fetch a gain of 35% in the medium-term. The 52-week high/low of the share has been Rs.130/64.