

Margins improved strongly on a sequential basis

CMP: INR 219

Rating: BUY

Target Price: INR 265

Stock Info

NSE	DPABHUSHAN
Bloomberg	DPAL IN
Sector	Gems
Sector	Jewellery
Face Value (INR)	10
Equity Capital (INR mn)	223
Mkt Cap (INR mn)	4,872
52W H/L (INR)	70 / 219

Shareholding Pattern %

(As on March, 2021)

Promoters	74.73
Public & Others	25.27

Stock Performance (%)

3m 1 Yr.

D P Abhushan	90.0	214.3
Nifty 50	10.3	45.0

D P Abhushan Price Chart



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D P Abhushan (DPAL) reported robust topline growth of 322% YoY to INR 1,753 mn due to lower base of last year. On a sequential basis, sales de-grew by 70% as all stores were closed for approximately 44-50 days during the quarter due to restrictions led by covid. Gold/Silver sales volume during the quarter decreased by 70% QoQ/49% QoQ. Due to decrease in cost of material, gross margin of the company has increased by 422 bps QoQ at 9%. Weighted average cost of gold bullion decreased from INR 4,812/gram to INR 4,587/gram, as a result gross margin has improved. EBITDA for the quarter grew by 53% YoY and de-grew by 36% QoQ to INR 104 mn. EBITDA margin for the quarter expanded by 317bps QoQ at 5.9%. Profit for the quarter increased by 30% YoY to INR 43 mn.

Topline growth was higher due to lower base

Covid 2.0 has affected sales of the company during the quarter due to shutdown of stores. Gold/Silver volume increased by 540% YoY/70% YoY on a lower base and decreased by 70% QoQ/49% QoQ. New stores (Opened during H2FY21) contribution to the overall sales increased from 19% to 27% QoQ. With normalcy in economic activity and forthcoming wedding & festive season, Management is confident on recovery in sales from Q2FY22 onwards. The Company has total seven show rooms with existence in Ratlam, Indore, Bhopal & Ujjain in the state of Madhya Pradesh and Udaipur, Bhilwara & Kota in Rajasthan state and plans to expand its base in other cities also.

Decrease in cost of sales led to improvement in gross margins sequentially

Gold prices during the quarter has increased as compared to the last quarter and company's practice of averaging gold price has kept the material cost lower during the end of Q1FY22, leading to decrease in material cost. Gross margin for the quarter improved by 422bps QoQ at 9%. Year on Year gross/EBITDA margin numbers are not comparable as in Q1FY21 there was very low sales/purchase and also expenses was lower as a % of sales. With the increased in gross margin, EBITDA margin increased by 317bps QoQ.

Valuation and Outlook

Company has performed reasonably well during the quarter, primarily on margins front. Sales remain impacted due to covid and it is expected to bounce back strongly from Q2FY22E with upcoming festive season. We believe, DPAL's initiatives of improving SSSG and increasing sales from new stores along with industry tailwinds provides enough headroom for growth. We increase our topline growth estimate from 12% CAGR to 15% CAGR for FY21-23E as a result our PAT estimate has increased by 5% each for FY22/23E. Company is expected to clock ~15%/29% revenue/PAT CAGR over FY21-23E. We reiterate our Buy rating on the stock with a revised TP of INR 265/share (earlier INR 252), based on P/E of 13x FY23E EPS. Since our coverage (initiated in Jul'20), stock has given a absolute return of 271%. Please see our rating & recommendation history in the last page of report.

Financial Snapshot

YE	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
March (Rs Mn)							
FY19	8,121	279	118	5.3	3.4	22.3	41.3
FY20	8,086	342	167	7.5	4.2	23.9	29.2
FY21	12,182	513	274	12.3	4.2	28.2	17.8
FY22E	14,009	700	381	17.1	5.0	28.2	12.8
FY23E	16,110	806	453	20.4	5.0	25.1	10.8

Q1FY22 Performance:

in mn.	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ
Net Revenue	1753	416	322%	5902	-70%
Material Expenses	1596	308	418%	5621	-72%
Gross Profit	157	107	46%	280	-44%
Gross Profit margin (%)	9.0	25.9	-1688bps	4.8	422bps
Employee Expenses	31	22	37%	43	-28%
Other Operating Expenses	23	17	34%	75	-70%
EBITDA	104	68	53%	162	-36%
Depreciation	12	5	124%	15	-20%
EBIT	92	63	47%	147	-38%
Other income	0	0	-	1	-75%
Interest Cost	35	19	83%	38	-8%
PBT	57	44	32%	110	-48%
Tax	15	11	37%	27	-47%
PAT	43	33	30%	83	-48%

Q1FY22 Highlights

Net revenue grew by 4.2x YoY on a lower base

Gold/Silver volumes contracted sequentially by 70%/46% respectively

Gross margin increased by 422bps YoY due to decrease in material cost.

as a % of revenue (%)	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ
Material cost	91.0	74.1	1688bps	95.2	-422bps
Employee expenses	1.7	5.4	-365bps	0.7	102bps
Other expenses	1.3	4.1	-282bps	1.3	3bps
EBITDA margin	5.9	16.3	-1042bps	2.7	317bps
EBIT margin	5.2	15.1	-982bps	2.5	275bps
Tax rate	25.4	24.4	97bps	24.7	66bps
PAT margin	2.4	7.9	-548bps	1.4	103bps

EBITDA margin expanded by 317bps QoQ

PAT was up by 30% YoY

Volume and Value growth Analysis:

in mn.	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ
Gold Jewellery	1,662	260	540%	5,551	-70%
Diamond Jewellery	70	140	-50%	304	-77%
Silver Jewellery	21	12	70%	41	-49%

in Kgs.	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ
Gold Jewellery	360.6	57.3	529%	1209.7	-70%
Diamond Jewellery	0.6	11.3	-95%	1.5	-61%
Silver Jewellery	315.2	258.7	22%	579.5	-46%

Sector Update:

India's gold demand increased by 19.2% to 76.1 tonne during the April-June quarter this year, largely due to low base effect, owing to the nationwide lockdown that hit economic activity last year as per World Gold Council (WGC) report. However, demand plunged 46% quarter-on quarter as the second wave of COVID-19 hit the nation, according to the report.

In value terms, India's gold demand witnessed 23% growth during April-June quarter at INR 32,810 cr, compared to INR 26,600 cr during the corresponding period of 2020.

Financial Statement

Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	8,121	8,086	12,182	14,009	16,110
Change (%)	23.1%	-0.4%	50.6%	15.0%	15.0%
Cost of Goods Sold	7,539	7,436	11,324	12,818	14,741
Employee costs	94	113	129	182	209
Other expenses	210	195	216	308	354
Total operating Expense	7,843	7,744	11,669	13,308	15,305
EBITDA	279	342	513	700	806
Other Income	0	4	1	1	1
Depreciation	18	30	39	35	38
Interest	96	95	108	156	163
PBT	165	222	366	510	606
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	165	222	366	510	606
Tax	47	56	92	129	153
Rate (%)	28.3%	25.0%	25.2%	25.2%	25.2%
PAT	118	167	274	381	453
Change (%)	44.7%	41.4%	64.3%	39.2%	18.8%

Source: Company, Aриhant Research

Balance Sheet

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	223	223	223	223	223
Reserves & Surplus	306	475	748	1,130	1,583
Net Worth	529	697	971	1,352	1,805
Long term debt	475	627	103	104	105
Short term debt	496	328	1,434	1,541	1,611
Total Debt	971	955	1,538	1,645	1,716
Deferred Tax & other liabilities	11	15	115	115	115
Capital Employed	1,511	1,667	2,624	3,113	3,638
Application of Funds					
Net Block	269	263	280	310	330
Other Non-Current Assets	10	18	154	154	154
Net fixed assets	280	280	434	464	484
Investments	0	0	0	0	0
Debtors	28	10	25	29	33
Inventories	1,848	2,299	3,202	3,624	4,168
Cash & bank balance	72	33	122	293	420
Loans & advances & other CA	72	99	179	179	179
Total current assets	2,020	2,442	3,529	4,126	4,800
Current liabilities	731	984	1,318	1,421	1,553
Provisions	58	72	21	56	95
Net current assets	1,231	1,386	2,190	2,649	3,155
Total Assets	1,511	1,666	2,624	3,113	3,638

Source: Company, Aриhant Research

Financial Statement

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	165	222	366	510	606
Depreciation	18	30	39	35	38
Interest & others	99	98	90	156	163
Cash flow before WC changes	282	350	496	702	807
(Inc)/dec in working capital	128	-196	-697	-324	-416
Operating CF after WC changes	409	155	-201	378	391
Less: Taxes	-37	-61	-92	-129	-153
Operating cash flow	372	94	-294	250	238
(Inc)/dec in F.A + CWIP	-27	-20	-87	-30	-20
(Pur)/sale of investment	0	0	0	0	0
Cash flow from investing	-26	-22	-98	-30	-20
Free cash flow (FCF)	346	72	-380	219	218
Loan raised/(repaid)	-246	-16	583	108	71
Equity raised	0	0	0	0	0
Interest & others	-96	-95	-102	-156	-163
Dividend	0	0	0	0	0
Cash flow from financing activities	-342	-111	480	-49	-92
Net inc /(dec) in cash	4	-39	89	171	126
Opening balance of cash	69	72	33	122	293
Closing balance of cash	72	33	122	293	420

Source: Company, Arianth Research

Key Ratios

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	5.3	7.5	12.3	17.1	20.4
CEPS	6.1	8.8	14.1	18.7	22.1
BVPS	23.8	31.3	43.6	60.8	81.1
Valuation (x)					
P/E	41.3	29.2	17.8	12.8	10.8
P/CEPS	35.8	24.8	15.5	11.7	9.9
P/BV	9.2	7.0	5.0	3.6	2.7
EV/EBITDA	20.7	16.9	12.3	8.9	7.7
Return Ratios (%)					
Gross Margin	7.2%	8.0%	7.0%	8.5%	8.5%
EBIDTA Margin	3.4%	4.2%	4.2%	5.0%	5.0%
PAT Margin	1.5%	2.1%	2.2%	2.7%	2.8%
ROE	22.3%	23.9%	28.2%	28.2%	25.1%
ROCE	17.4%	18.9%	18.9%	22.2%	21.8%
Leverage Ratio (%)					
Total D/E	1.8	1.4	1.6	1.2	1.0
Turnover Ratios					
Asset Turnover (x)	5.4	4.9	4.6	4.5	4.4
Inventory Days	89	113	103	103	103
Receivable Days	1	0	1	1	1
Payable days	23	26	23	23	23

Source: Company, Arianth Research

Recommendation and Rating History

Date	Recommendation	Reco. Price (INR)	TP (INR)	Report Type
14-Jun-21	Buy	158	252	Q4FY21 Result Update
16-Feb-21	Buy	112	220	Q3FY21 Result Update
27-Oct-20	Buy	102	131	H1FY21 Result Update
23-Sep-20	Buy	88	120	Company update
02-Jul-20	Buy	59	92	IC

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Stock Rating Scale

BUY
ACCUMULATE
HOLD
NEUTRAL
REDUCE
SELL

Absolute Return

>20%
12% to 20%
5% to 12%
-5% to 5%
-5% to -12%
<-12%

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