

**CMP: INR 112**

**Rating: BUY**

**Target Price: INR 180**

**Stock Info**

NSE	DPABHUSHAN
Bloomberg	DPAL IN
Sector	Gems
Sector	Jewellery
Face Value (INR)	10
Equity Capital (INR mn)	223
Mkt Cap (INR mn)	2,450
52W H/L (INR)	135/70

**Shareholding Pattern %**

(As on June, 2020)

Promoters	74.73
Public & Others	25.27

Stock Performance (%)	3m	1 Yr.
D P Abhushan	7.4	76.5
Nifty	18.7	35.7

**D P Abhushan Price Chart**



D P Abhushan (DPAL) reported robust topline growth of 75% YoY led by festive season demand, continuing wedding season, rise in gold prices and store addition. The bump in sales is largely led by same store sales growth (SSSG) as gold/silver volume increased by 40%/61% YoY led by pent up festive season demand in Q3FY21. In spite of the robust top-line growth, gross margin cracked by 138bps to 6.7% led by increase in cost of sales (largely due to rise in gold prices). EBITDA margin for the quarter expanded by 6bps to 3.8% as operating leverage gains kicked in. EBITDA/PAT for the quarter grew sharply by 78%/111% YoY.

**Robust topline growth driven by festive season demand**

After a weak sales in H1FY21, sales of the company bounced back sharply in Q3FY21 with 75% YoY/141% QoQ at INR 4,413 mn largely led by SSSG. Gold and silver volume recorded strong growth of 40%/61% YoY and 143%/72% QoQ respectively. Company has come out strongly from covid impact on sales and with the further addition of stores and upcoming wedding season, sales growth momentum of the company is expected to continue.

**Higher material cost impacted gross margins**

Company's practice of averaging gold price has kept the material cost lower leading to sharp gross margin expansion in Q2FY21. However, with the rise in gold prices and company's averaging practices with bump up in sales has increased the material cost during the quarter. Thus, gross margin contracted by 138bps YoY. Despite contraction in gross margin, DPAL managed to salvage the EBITDA margins benefitted by operating leverage. EBITDA during the quarter grew by 78% YoY/27% QoQ to INR 156 mn while EBITDA margin expanded marginally by 6 bps YoY at 3.8%. Profit during the quarter grew by 2x YoY and 23% QoQ to INR 87 mn.

**Store addition to drive growth ahead**

As highlighted in our last report on store expansion plan, Company has opened new showroom at Kota (Rajasthan) in Jan'21. With this addition the total store count now stood at 7 across 7 cities in 2 states.

**Valuation and Outlook**

Our broader thesis on DPAL, that company is in sweet spot remains intact as growth picks up with store addition. However, margin of the company will remain in check going ahead. We expect that with gold prices stabilising, demand will gain momentum, driven by preference for physical gold as an investment and a traditionally strong demand for jewellery during festivals/weddings. We upgrade our EPS estimates by ~32%/37% for FY21/22E to factor in store addition sales & volume growth and introduce FY23E. Given the expected growth profile (Company to clock ~17%/32% revenue/PAT CAGR over FY20-23E), DPAL offers significant margin of safety (trading at 6.6x FY23E EPS). We reiterate our Buy rating on the stock with a revised TP of INR 180/share (earlier INR 131), based on implied P/E - 13x FY23E EPS.

**Financial Performance**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	8,121	279	118	5.3	3.4	22.3	21.1
FY20	8,086	327	164	7.4	4.0	23.7	15.2
FY21E	9,137	442	231	10.4	4.8	25.0	10.8
FY22E	10,965	552	308	13.8	5.0	25.0	8.1
FY23E	12,938	652	377	16.9	5.0	23.4	6.6

**Important Update:**

Company has successfully migrated on NSE main board wef 13<sup>th</sup> Nov 2020.

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**Q3FY21 and 9MFY21 Performance:**

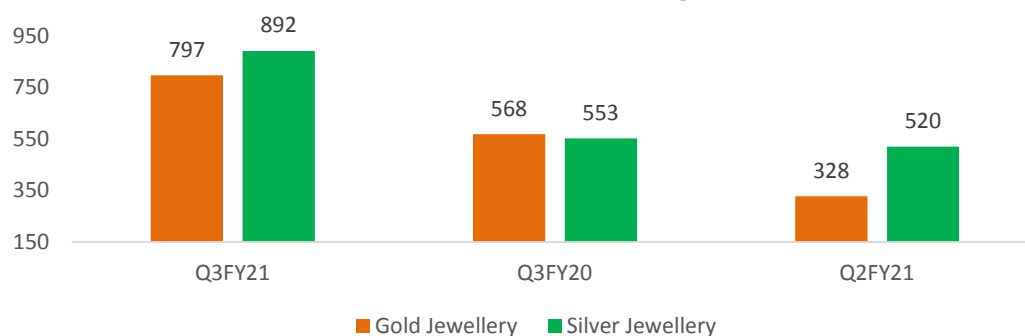
in mn.	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ	9MFY21	9MFY20	YoY	
<b>Net Revenue</b>	<b>4143</b>	<b>2361</b>	<b>75%</b>	<b>1722</b>	<b>141%</b>	<b>6280</b>	<b>5751</b>	<b>9%</b>	<b><u>Q3FY21 Highlights</u></b>
Material Expenses	3863	2170	78%	1531	152%	5703	5278	8%	<b>Net revenue grew by 75% YoY</b>
Gross Profit	279	192	46%	190	47%	577	472	22%	
Gross Profit margin (%)	6.7	8.1	-138bps	11.1	-431bps	9.2	8.2	98bps	
Employee Expenses	36	29	25%	28	30%	86	84	2%	<b>Gold/Silver volumes increased by 40%/61% respectively</b>
Other Operating Expenses	88	76	16%	40	120%	141	151	-7%	
<b>EBITDA</b>	<b>156</b>	<b>87</b>	<b>78%</b>	<b>123</b>	<b>27%</b>	<b>350</b>	<b>237</b>	<b>48%</b>	
Depreciation	9	10	-14%	8	6%	25	22	10%	
EBIT	147	77	90%	115	28%	326	215	52%	<b>Gross margin contracted by 138bps due to rise in material cost.</b>
Other income	0	0	140%	0	-40%	0	0	155%	
Interest Cost	30	21	40%	20	50%	70	68	3%	
PBT	118	56	109%	95	23%	256	147	74%	<b>EBITDA margin expanded by 6bps supported by operating leverage gain</b>
Tax	30	15	104%	24	26%	65	37	76%	
<b>PAT</b>	<b>87</b>	<b>41</b>	<b>111%</b>	<b>71</b>	<b>23%</b>	<b>191</b>	<b>110</b>	<b>74%</b>	

as a % of revenue (%)	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ	9MFY21	9MFY20	YoY	
Material cost	93.3	91.9	138bps	88.9	431bps	90.8	91.8	-98bps	<b>PAT was up by 111% YoY/23% QoQ.</b>
Employee expenses	0.9	1.2	-35bps	1.6	-74bps	1.4	1.5	-10bps	
Other expenses	2.1	3.2	-109bps	2.3	-20bps	2.2	2.6	-38bps	
EBITDA margin	3.8	3.7	6bps	7.1	-337bps	5.6	4.1	146bps	
EBIT margin	3.5	3.3	27bps	6.7	-311bps	5.2	3.7	146bps	
Tax rate	25.8	26.4	-65bps	25.2	57bps	25.4	25.2	22bps	
PAT margin	2.1	1.8	35bps	4.1	-203bps	3.0	1.9	113bps	

**Volume Analysis:**

in Kgs.	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ
Gold Jewellery	797.2	568.1	40%	327.8	143%
Silver Jewellery	891.6	552.9	61%	519.7	72%

Gold and Silver Volume (in Kgs.)



## Financial Statement

### Income Statement

Y/E March (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>8,121</b>	<b>8,086</b>	<b>9,137</b>	<b>10,965</b>	<b>12,938</b>
<i>Change (%)</i>	23.1%	-0.4%	13.0%	20.0%	18.0%
Cost of Goods Sold	7,539	7,436	8,330	9,985	11,782
Employee costs	94	113	128	143	168
<b>Other expenses</b>	<b>210</b>	<b>210</b>	<b>238</b>	<b>285</b>	<b>337</b>
Total operating Expense	<b>7,843</b>	<b>7,759</b>	<b>8,695</b>	<b>10,412</b>	<b>12,287</b>
<b>EBITDA</b>	<b>279</b>	<b>327</b>	<b>442</b>	<b>552</b>	<b>652</b>
Other Income	0	4	4	4	4
Depreciation	18	21	23	24	25
Interest	96	90	114	120	127
<b>PBT</b>	<b>165</b>	<b>220</b>	<b>309</b>	<b>412</b>	<b>504</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>165</b>	<b>220</b>	<b>309</b>	<b>412</b>	<b>504</b>
Tax	47	56	78	105	128
<i>Rate (%)</i>	28.3%	25.4%	25.4%	25.4%	25.4%
<b>PAT</b>	<b>118</b>	<b>164</b>	<b>231</b>	<b>308</b>	<b>377</b>
<i>Change (%)</i>	44.7%	39.5%	40.2%	33.5%	22.4%

Source: Company, Arihant Research

### Balance Sheet

Y/E March (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Sources of Funds</b>					
Share Capital	223	223	223	223	223
Reserves & Surplus	306	471	701	1,009	1,386
<b>Net Worth</b>	<b>529</b>	<b>693</b>	<b>924</b>	<b>1,231</b>	<b>1,608</b>
Long term debt	475	627	683	703	725
Short term debt	496	328	591	638	689
<b>Total Debt</b>	<b>971</b>	<b>955</b>	<b>1,274</b>	<b>1,341</b>	<b>1,414</b>
Deferred Tax & other liabilities	11	15	15	15	15
<b>Capital Employed</b>	<b>1,511</b>	<b>1,663</b>	<b>2,212</b>	<b>2,588</b>	<b>3,037</b>
<b>Application of Funds</b>					
Net Block	269	263	286	296	306
Other Non-Current Assets	10	18	12	12	12
<b>Net fixed assets</b>	<b>280</b>	<b>280</b>	<b>298</b>	<b>308</b>	<b>318</b>
Investments	0	0	0	0	0
Debtors	28	10	38	45	53
Inventories	1,848	2,299	2,556	3,064	3,615
Cash & bank balance	72	23	362	370	419
Loans & advances & other CA	72	99	99	99	99
<b>Total current assets</b>	<b>2,020</b>	<b>2,431</b>	<b>3,054</b>	<b>3,578</b>	<b>4,186</b>
Current liabilities	731	984	1,054	1,184	1,326
Provisions	58	65	87	114	143
<b>Net current assets</b>	<b>1,231</b>	<b>1,382</b>	<b>1,914</b>	<b>2,280</b>	<b>2,719</b>
<b>Total Assets</b>	<b>1,511</b>	<b>1,663</b>	<b>2,212</b>	<b>2,588</b>	<b>3,037</b>

Source: Company, Arihant Research

## Financial Statement

### Cash Flow Statement

Y/E March (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>165</b>	<b>220</b>	<b>309</b>	<b>412</b>	<b>504</b>
Depreciation	18	21	23	24	25
Interest & others	99	93	118	124	130
Cash flow before WC changes	282	335	450	560	660
<b>(Inc)/dec in working capital</b>	<b>128</b>	<b>-196</b>	<b>-214</b>	<b>-385</b>	<b>-418</b>
Operating CF after WC changes	409	139	236	175	241
Less: Taxes	-37	-61	-78	-105	-128
<b>Operating cash flow</b>	<b>372</b>	<b>78</b>	<b>158</b>	<b>70</b>	<b>113</b>
(Inc)/dec in F.A + CWIP	-27	-20	-24	-10	-10
(Pur)/sale of investment	0	0	0	0	0
<b>Cash flow from investing</b>	<b>-26</b>	<b>-22</b>	<b>-23</b>	<b>-10</b>	<b>-10</b>
<b>Free cash flow (FCF)</b>	<b>346</b>	<b>56</b>	<b>134</b>	<b>60</b>	<b>103</b>
Loan raised/(repaid)	-246	-16	319	68	72
Equity raised	0	0	0	0	0
Interest & others	-96	-90	-114	-120	-127
Dividend	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>-342</b>	<b>-106</b>	<b>205</b>	<b>-53</b>	<b>-55</b>
<b>Net inc /(dec) in cash</b>	<b>4</b>	<b>-50</b>	<b>339</b>	<b>8</b>	<b>49</b>
Opening balance of cash	69	72	23	362	370
Closing balance of cash	72	23	362	370	419

Source: Company, Aриhant Research

### Key Ratios

Y/E March (INR Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share (Rs)</b>					
EPS	5.3	7.4	10.4	13.8	16.9
CEPS	6.1	8.3	11.4	14.9	18.0
BVPS	23.8	31.1	41.5	55.3	72.3
<b>Valuation (x)</b>					
P/E	21.1	15.2	10.8	8.1	6.6
P/CEPS	18.3	13.4	9.8	7.5	6.2
P/BV	4.7	3.6	2.7	2.0	1.6
EV/EBITDA	12.2	10.5	7.7	6.3	5.3
<b>Return Ratios (%)</b>					
Gross Margin	7.2%	8.0%	8.8%	8.9%	8.9%
EBIDTA Margin	3.4%	4.0%	4.8%	5.0%	5.0%
PAT Margin	1.5%	2.0%	2.5%	2.8%	2.9%
ROE	22.3%	23.7%	25.0%	25.0%	23.4%
ROCE	17.4%	18.5%	19.1%	20.5%	20.8%
<b>Leverage Ratio (%)</b>					
Total D/E	1.8	1.4	1.4	1.1	0.9
<b>Turnover Ratios</b>					
Asset Turnover (x)	5.4	4.9	4.1	4.2	4.3
Inventory Days	89	113	112	112	112
Receivable Days	1	0	2	2	2
Payable days	23	26	26	26	26

Source: Company, Aриhant Research

**Recommendation and Rating History**

Date	Recommendation	Reco. Price (INR)	TP (INR)	Report Type
16-Feb-21	Buy	112	180	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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