P N GADGIL JEWELLERS LIMITED

September 06, 2024

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Jewellers
Offer for sale (Shares)	5,208,333
Fresh Issue (Shares)	17,708,334
Net Offer to the Public	**22,916,667**
Issue Size (Rs. Cr.)	1045-1100
Price Band (Rs.)	456-480
Offer Date	10-Sep-24
Close Date	12-Sep-24
Face Value	10
Lot Size	31 Shares

Issue Composition

	In shares
Total Issue for Sale	22,916,667
QIB	11,458,334
NIB	3,437,500
Retail	8,020,833

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	83.11%
QIB	0.00%	8.44%
NIB	0.00%	2.53%
Retail	0.00%	5.91%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the Net Proceeds towards funding the following objects:

Funding expenditure towards setting up 12 new stores in Maharashtra (New Stores);

Repayment or pre-payment, in full or part, of certain borrowings availed by the Company; and

General corporate purposes.

Book Running Lead Manager

- Motilal Oswal Investment Advisors Limited
- Nuvama Wealth Management Limited
- BOB Capital Markets Limited

Name of the registrar

- Bigshare Services Private Limited

About the company

P N Gadgil Jewellers Limited was established in 2013 and offers a wide range of precious metal/jewelry products including gold, silver, platinum, and diamond jewelry under its brand name "PNG" in various price ranges and designs. As of December 31, 2023, the Company has 8 sub-brands offering gold jewelry collections for various occasions, namely Saptam, Swarajya, Rings of Love, The Golden Katha of Craftmanship, Flip, Litestyle, Pratha and Yoddha, two sub-brands offering diamond jewelry collections, namely Eiina and PNG Solitaire, and two sub-brands offering platinum jewelry collections, namely Men of Platinum and Evergreen Love. The company also offers its customers the option of having jewelry made to measure. As of December 31, 2023, the Company had grown to 33 stores, including 32 stores across 18 cities in Maharashtra and Goa and one store in the US with a total retail space of approximately 95,885 sq. ft. All stores are operated and managed by the company, with 23 stores owned by the company and 10 stores operated by franchisees under the FOCO (franchisee-owned and company-operated) model. Of these stores, 19 are large format (2,500 sq. ft. or more), 11 are medium format (between 1,000 sq. ft. to 2,500 sq.ft.) and 3 are small format (less than 1,000 sq. ft.). As of September 30, 2023, the company had 1,152 employees.

Strength

Well established and trusted legacy brand in Maharashtra: The legacy of the 'PNG' brand has allowed it to be well positioned in Maharashtra. By leveraging the heritage of the 'PNG' brand, P N Gadgil Jewellers has created a contemporary brand which offers a wide spectrum of designs and products for different occasions and purpose. As on July 31, 2024, P N Gadgil Jewellers has expanded to 39 stores, which include 38 stores across 21 cities in Maharashtra and Goa and one store in the U.S. P N Gadgil Jewellers' product offerings cover the unique aesthetics and designs of traditional jewellery for special occasions such as weddings, engagements and festivities and modern and functional jewellery designs for everyday wear purpose, in gold, diamond, silver and platinum. As of July 31, 2024, it had eight sub-brands which cater to gold jewellery collections for different occasions, two sub-brands which cater to the diamond jewellery collections and two sub brands which cater to platinum jewellery collection. These include, 'Saptam', 'Swarajya', 'Rings of Love', 'The Golden Katha of Craftmanship', 'Flip', 'Litestyle', 'Eiina', 'PNG Solitaire', 'Pratha', 'Evergreen love', 'Men of Platinum', and 'Yoddha'. Due to its legacy and experience in jewellery industry, it also understand the changing customer preferences and trends which allow it to have collections that cater to all price points for different occasions.

Second largest organised retail jewellery player and one of the fastest growing brand in Maharashtra: P N Gadgil Jewellers is the second largest among the prominent organised jewellery players in Maharashtra, in terms of the number of stores as on January, 2024, which is the largest market for BIS-registered outlets in India (Source: Technopak Report). P N Gadgil Jewellers is also the fastest growing jewellery brand amongst the key organised jewellery players in India, based on the revenue growth between Fiscal 2022 and Fiscal 2024. Its CAGR for revenue from operations for the period between Fiscal 2022 and Fiscal 2024 was 54.63%. It achieved an EBITDA growth of 39.78% between Fiscal 2022 and Fiscal 2024, which is the second highest in key organised jewellery players in India. P N Gadgil Jewellers also had the highest revenue per square feet in Fiscal 2024 among the key organised jewellery players in India. Maharashtra leads the retail spending in India and accounted for approximately 15% of the overall retail spend on jewellery in India in Fiscal 2023.

Diversified product portfolio across categories and price points: As of March 31, 2024, its product portfolio comprises over 10,000 SKUs in gold, over 1,200 SKUs in silver,

over 2,700 SKUs in platinum and over 24,000 SKUs in diamond jewellery designs, including a wide range of gold, diamond, silver and platinum products across different price points. As of July 31, 2024, it had eight sub – brands which cater to gold jewellery collections for different occasions, two sub – brands which cater to the diamond and two sub – brands which cater to the platinum jewellery collections. Being a part of the 'PNG' brand lineage enables it to leverage the knowledge and understanding of the preferences and needs of consumers in Maharashtra, which allows it to curate a broad portfolio of designs across different ranges and price points, which is specifically targeted to cater to the aesthetic and functional preferences and requirements of consumers in Maharashtra.

Strategy

Expand its retail network in western India by leveraging its brand: The Company believes that its scalable business model, effective operational processes and proven track record of profitable expansion, positions it well to capitalise on the future market opportunity in India, and accordingly P N Gadgil Jewellers intends to further expand its network of stores. Some of the key terms and conditions of its FOCO agreements are set out below:

Tenure: The tenure of its franchisee arrangement is usually five years, which can be extended for a further period as may be agreed mutually.

Consideration: The franchisee pays a management or license fee for operating the FOCO stores. In addition, the franchisee is required to pay royalty to the company. The franchisee is also required to deposit a refundable security deposit for due observance and performance of the terms and conditions of the agreement.

Other covenants: The company requires consent from the franchisee for granting a franchise to any other person/entity within a specified distance of the relevant Franchisee Showroom. Further, the company is prohibited from establishing/opening/running/operating a FOCO store within a certain distance of the premises of the relevant Franchisee Showroom. The franchisees are obligated to obtain relevant government approvals and licenses for operating such FOCO

stores.

Termination: The FOCO agreements can be terminated by the company or the franchisee by giving a six-month prior notice after the expiry of the lock-in period. The FOCO agreement shall be deemed to be terminated without notice on the happening of certain events specified in the relevant agreement.

Continue to invest in its marketing and brand building initiatives: P N Gadgil Jewellers utilises a diverse array of promotional and marketing strategies, including location-based marketing, event focused campaigns, engaging brand ambassadors and digital marketing. During the Fiscals 2024, 2023 and 2022, it incurred expenses of Rs. 41.95 Crore, Rs. 29.96 Crore and Rs. 9.16 Crore, respectively, on advertising and sales promotion representing 0.69%, 0.66% and 0.36%, respectively of the revenue from operations for the respective years / period. it also regularly engages celebrities as brand ambassadors to promote its brand and sub-brands and endorse specific design collections. P N Gadgil Jewellers has currently engaged Madhuri Dixit, actor, as its brand ambassador to promote its brand and its collections such as Saptam, Swarjya and Eiina. It also collaborates and contributes jewellery for Hindi and Marathi movies, and curate marketing campaigns aimed at generating demand for the jewellery designs contributed for such movies. P N Gadgil Jewellers believes its branding strategy and customer oriented incentives and loyalty schemes help it to retain existing customers and attract new customers. P N Gadgil Jewellers intends to continue investing in its marketing initiatives and brand building exercise, including advertising through various media. P N Gadgil Jewellers also continues to provide effective training for its sales personnel in sales techniques and product knowledge.

Focus on increasing footfalls in its existing stores and increasing the average transaction value: P N Gadgil Jewellers' existing store footfall grew by 27.70% between Fiscal 2022 and Fiscal 2024. The average transaction value of its transactions for gold, diamond and silver products increased at a CAGR of for gold jewellery is 16.46%, for diamond jewellery is 22.69% and for silver jewellery is 3.05% between Fiscal 2022 and Fiscal 2024. P N Gadgil Jewellers believes that increasing same store footfall and average transaction value will result in higher profits per store. P N Gadgil Jewellers intends to achieve this by increasing its marketing and outreach programmes and

focusing and increasing the subscription for customers availing its incentive and loyalty schemes. P N Gadgil Jewellers also intends to optimize its product mix and promote premium and higher value products and designs, while at the same time ensuring that it maintains the same level of trust and transparency to ensure strengthen customers' confidence in its brand and ensure repeat purchases.

Increase its digital presence to increase customer base and sales: With the increasing internet usage in India and the increased adoption of online marketplace platforms by consumers in India, it believes that it will be able to expand its customer reach and increase its sales through the digital channel without incurring significant investments. Its increased digital presence also allows to assess demand for its products and assists it in informed decision making in respect of expanding its physical presence in such territories. Further, its digital presence also enhances its brand awareness among internet users and allows it to cater to a wider audience and consumer segments. P N Gadgil Jewellers has launched its online platform, www.pngjewellers.com through which it offers its jewellery products to a diverse range of customers. Further, it also sells its products on websites of various online marketplaces. Additionally, P N Gadgil Jewellers has launched its own mobile application "PNG Jewellers" in March 2022. Its digital presence allows it to keep its customers updated on new designs and collections and familiarize them with its product portfolio, which enhances its customers' in– store experience. P N Gadgil Jewellers aims to continue to increase its presence in the digital space through its online platform as well as through online marketplaces. With the increasing use of the internet in India and the continued development of online channels, P N Gadgil Jewellers believes that it will be able to expand its customer reach and increase its sales through the digital channel with relatively low investments.

Risk factor

- The strength of the brands is crucial to its success.
- The business of the company is primarily concentrated in Maharashtra, especially Pune and it is significantly dependent on top five of its stores located in Maharashtra for revenue generation.
- The company requires significant amounts of working capital for continued growth.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Senco Gold	5339.93	204.71	26.34	44.84	6.72	175.70	10	1181.15	9180.19
Thangamayil Jew.	4088.23	121.19	44.17	49.07	12.06	179.74	10	2167.55	5947.58
Kalyan Jewellers	19708.03	631.23	6.12	107.12	16.13	40.63	10	655.55	67602.43
P N Gadgil Jewellers Limited	6110.95	154.34	11.37	42.20	4.71	102.01	10	480.00	6514.00

***Peer companies financials are TTM based**
****P N Gadgil Jewellers Limited is based on FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.480, the stock is priced at pre issue P/E of 36.70x on FY24 EPS of Rs.13.08. Post issue, the stock is priced at a P/E of 42.20x on its EPS of Rs.11.37. Looking at the P/B ratio at Rs.480 pre issue, book value of Rs. 45.29 of P/Bvx 10.60x. Post issue, book value of Rs. 102.01 of P/Bvx 4.71x.

Considering the P/E valuation, on the lower end of the price band of Rs.456, the stock is priced at pre issue P/E of 34.86x on FY24 EPS of Rs.13.08. Post issue, the stock is priced at a P/E of 40.09x on its EPS of Rs.11.37. Looking at the P/B ratio at Rs.456 pre issue, book value of Rs. 45.29 of P/Bvx 10.07x. Post issue, book value of Rs. 102.01 of P/Bvx 4.47x.

Industry Outlook

The Indian jewellery retail sector's size in FY 2023 was close to USD 70 billion. Within this landscape, organized retail accounted for about 37%, encompassing both national and regional players. The fine jewellery segment in India constitutes about 90% of the overall jewellery market. It is further categorized into gold and non-gold categories, with non-gold encompassing diamond, platinum, silver, platinum, and other materials.

Outlook

The second-largest organized jewelry player in Maharashtra, India, P N Gadgil Jewellers Limited, is also the fastest-growing brand among key organized players in India based on revenue growth between FY21 and FY23. As of December 2023, the company has expanded to 33 stores, including 32 stores across 18 cities in Maharashtra and Goa and one store in the US with an aggregate retail area of approximately 95,885 sq ft. By Fiscal year 2026, the company plans to open 12 more stores. However, the company's business is primarily concentrated in Maharashtra, especially Pune, with significant revenue dependence on its top five stores located in Maharashtra. A long-term investor may consider this issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	10-September-24
BID/ISSUE CLOSES ON	12-September-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	13-September-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	16-September-24
Credit of Equity Shares to Demat Accounts of Allottees	16-September-24
Commencement of trading of the Equity Shares on the Stock Exchanges	17-September-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	6110.95	4507.52	2555.63
Total expenditure	5841.68	4384.79	2444.32
Operating Profit	**269.27**	**122.73**	**111.31**
OPM%	4.41	2.72	4.36
Other Income	8.16	51.79	30.67
Total Net Income	**277.43**	**174.52**	**141.98**
Interest	45.87	34.90	35.14
PBDT	**231.56**	**139.62**	**106.84**
Depreciation	23.19	21.54	21.81
Restated Profit before tax	**208.36**	**118.08**	**85.03**
Tax	54.02	24.38	15.52
PAT	**154.34**	**93.70**	**69.51**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-24	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	150.20	141.51	142.91
Capital work-in-progress	3.52	3.52	3.52
Right of Use of Assets	57.83	40.44	41.57
Goodwill	33.20	25.33	41.50
Other Intangible Assets	0.96	1.07	7.53
Financial Assets			
Investments	0.95	1.15	1.15
Other financial assets	11.08	10.76	6.04
Total non-current assets	**257.74**	**223.77**	**244.22**
Current asset			
Inventories	958.86	596.88	703.54
Financial Assets			
Trade receivables	37.71	39.50	28.82
Cash and cash equivalents	26.09	17.56	12.38
Other bank balances	53.55	31.74	32.90
Loans	0.23	0.16	1.49
Other financial assets	2.12	0.46	0.84
Current tax assets (net)	0.00	3.96	0.00
Other current assets	128.69	148.52	86.06
Total current assets	**1207.24**	**838.78**	**866.02**
Total Assets	**1464.98**	**1062.55**	**1110.24**
Non-current liabilities			
Borrowings	91.94	94.16	76.46
Lease liabilities	45.74	31.26	32.60
Other Financial liabilities	4.32	4.02	3.39
Provisions	0.21	1.92	1.61
Deferred tax liabilities (net)	7.50	6.42	5.63
Total Non- Financial liabilities	**149.70**	**137.78**	**119.68**
Current liabilities			
Financial Liabilities			
Borrowings	304.56	189.05	218.49
Lease liabilities	12.96	9.67	8.06
Trades Payable - MSME	6.42	0.00	0.00
Trades Payable - MESE	142.47	131.75	169.72
Other financial liabilities	7.92	5.21	5.41
Provisions	2.76	2.95	2.44
Current tax liabilities (net)	11.05	0.00	8.75
Other current liabilities	292.76	220.41	295.69
Total Financial liabilities	**780.90**	**559.04**	**708.55**
Total	**930.60**	**696.82**	**828.23**
Net worth represented by:			
Equity Share Capital	118.00	55.20	55.20
Instruments entirely equity in nature	0.00	62.80	62.80
Other equity	416.38	255.53	191.22
Non-controlling interest	0.00	-7.79	-27.21
Net Worth	**534.38**	**365.73**	**282.01**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor ,Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court,Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

Investments in securities market are subject to market risks, read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. The securities quoted are for illustration only and are not recommendatory. SMC is a SEBI registered Research Analyst having registration number INH100001849. CIN : L74899DL1994PLC063609.

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s)in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance if this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.