

Rajesh Exports

 Bloomberg: **RJEX_IN**

Consumer Discretionary: Gold Jewellery Manufacturer

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|------------------|------------|
| Target Price | Rs. 800.00 |
| Current Price | Rs. 482.20 |
| Upside Potential | 66% |

| | |
|--------------------|---------------------------|
| Market Cap. | Rs. 142,400mn \$ 2.2bn |
| Shares Outstanding | 295mn |
| Free Float (FF %) | 77mn / 26% |
| 52 Week Range (Rs) | 117.35 / 556.70 |
| Avg. Daily Value | Rs. 383mn \$ 6mn |
| SENSEX Index Level | 27,563 |
| Insider Holding % | 53% |

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|-----------|--------------------|
| Net Cash | 65% of market cap. |
| P/E | 15.5x (FY03/2017E) |
| EV/EBITDA | 4.72x (FY03/2017E) |

Acquisition of Valcambi is 10% EPS Accretive

Rajesh Exports acquired 100% stake in Valcambi, the world's largest gold refiner with a capacity of 2,000 tpa, in an all cash deal with a total investment of \$ 400 million. The acquisition is funded partly by way of cash [around \$250 million] and the remaining by way of loan taken from Credit Suisse. The acquisition price implies 12.1x current year EBITDA which seems reasonable to us given the positive synergies expected from the merger [see details later in the report]. Additionally, management noted that Valcambi is a zero debt company with approximately \$200 in net cash and investments on its balance sheet. Factoring this into the price, the net acquisition cost looks even more reasonable. The acquisition of Valcambi is a paradigm shift for Rajesh Exports and looks approximately 10% EPS accretive this year, in our view. Overall, the acquisition looks positive to us and going forward, we expect operating synergies in revenue and operating profitability for both the companies. The combined company will have 40% global market share in gold refining.

Significant Growth Opportunity

Valcambi is London Bullion Market Association (LBMA) accredited and is in the refining business for the past 53 years. The company remains profitable and continues to pay dividends. Valcambi has a capacity to refine 2,000 tons of precious metal [1,600 tons of gold and 400 tons of other precious metals] per annum. However, Valcambi has processed and sold 945 tons of gold and 325 tons of silver for last three years on an average. Rajesh Exports expects to make optimum utilization of this spare capacity by way of entering the gold retail business in India and worldwide. Due to the credibility of Valcambi in the international market, management is also planning to start E-retail of gold bars, jewelry and value added products in the years to come.

Risk: Above Average

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Strengthening of Value Chain

Rajesh Exports currently has a capacity to manufacture 250 tons of gold and has refining capacity of around 200 tons. Procurement of gold from gold mining companies has been a concern for the company so far and used to erode margins to some extent. However, the acquisition will help Rajesh

Exports in resolving this issue to a large extent as Valcambi already has fixed supply contracts with Newmont for ~500 tpa of gold for the next five years. The company will also look to gain LBMA accreditation for its Indian refinery which will further open up newer growth avenues for the company.

Increasing Price Target to Rs 800

Following the acquisition, our EPS estimate for FY03/2017 is likely to increase by 10% to Rs 31 per share. As a result, we are increasing our 12 months price target on the stock to Rs 800 which suggests a 26x P/E and 65% upside potential from current levels. We will update our earnings model once we have more details on Valcambi's balance sheet and cash flows.

Strong Management @ Valcambi

Valcambi CEO, Mr. Michael Mesaric has experience of more than 20 years in Foreign Exchange, Money Market and Precious Metal Trading having previously worked with industry leader Credit Suisse as Head of Precious Metal Trading Team. Michael Mesaric believes that coming together of REL and Valcambi would help Valcambi improve its share of gold business, by opening up new markets in India, Middle East and China. Valcambi would also focus on forward integration and on innovative gold products in the European Market, by utilizing technical expertise of Rajesh Exports Ltd.

Rajesh Exports CEO, Mr. Rajesh Mehta has experience of more than 30 years in the functioning and management of jewelry industry and has strong track record to emerge as leading exporter of gold jewelry from India to reach revenue of RS 500000 mn with market share in India of almost 40%. Rajesh Mehta believes that acquisition is historic moment for REL. The coming together of REL and Valcambi would expand the global gold business and would prove very productive for global plans of the group. The acquisition is also in the national importance of India, as India is the largest consumer of gold in the world.

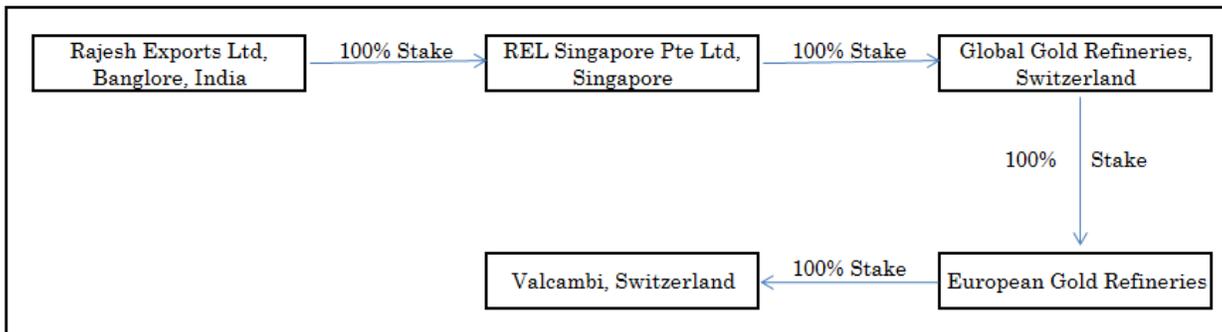
Scope for Margin Expansion Over Time

Valcambi generated revenue in excess of \$ 38 bn (RS 236,500 Crore) and EBITDA of \$ 33 Mn (RS 205 Crore) on an average per year during the last 3 years. The company operates at an EBITDA margin of 0.01% which is quite low as compared to the margin of Rajesh Exports which operates at EBITDA margin of 2.5%. However, there is an opportunity to increase margins over time by cutting costs and adding higher margin products to Valcambi's existing range. Considering the accreditation, credibility and its strong presence in the international market, we expect that with the start of the gold retail business and utilization of spare capacity should help lift Valcambi's overall

margins going forward.

Acquisition Hierarchy

Rajesh Exports has set up a 100% subsidiary in Singapore “REL Singapore Pte Ltd (RELS)”, for global acquisitions and procurement of raw gold from mines. RELS has set up 100% subsidiary in Switzerland called as “Global Gold Refineries Ltd (GGR). European Gold Refineries holds 100% stake in Valcambi. GGR has acquired 100% stake in European Gold



Source: Evaluate Research

About Valcambi

Valcambi has the world’s largest and the most efficient integrated metal refining operations and is a world leader in precious metals refining technology, serving all sectors of the global market for gold, silver and platinum group metals. The company was founded by a group of Swiss Entrepreneurs in 1961 and is located on southern part of Switzerland, in Balerna. Valcambi was fully owned by Credit Suisse between the years 1983 to 2003. With the objective to focus only on its core banking business, Credit Suisse divested Valcambi in December 2003 to Newmont the U.S based world’s second largest mining company and to several Swiss based investors. Among the investors were also the former founders of Valcambi.

Newmont based in the United States is one of the world’s largest gold and copper mining companies and is listed and publicly traded on the New York stock exchange since 90 years. Apart from being the partial owner of Valcambi, Newmont also has gold refining contracts with Valcambi for refining gold produced in its mines.

Valcambi is 53 years old, consistently profit making and dividend paying company. Valcambi has a capacity to refine 1600 tons of gold or altogether 2000 tons of precious metals per annum which accounts for almost 40% of global gold demand.

Valcambi's refinery is LBMA accredited and Valcambi's gold bars are accepted as gold delivery bars across all the official commodity exchanges of the world like COMEX, NYMEX etc. Valcambi produces a wide range of products in gold, silver, platinum and palladium for themselves and for other market participants. Every bar which contains Essayeur Fondeur Hallmark (CHF) has been manufactured by Valcambi. Valcambi produces gold bars in various purities ranging from 995 up to 999.99 parts per thousand. Valcambi produces minted bars from 0.5g up to 1000g and cast bars from 20g up to the LBMA Good Delivery Standard Bar (12500 g). Valcambi also produces gold coins of various denominations and has produced gold coins for some of the most prestigious events and names across the world.

Valcambi is known worldwide for its innovations. The company produced the world's first minted 1 ounce 999.9 gold bar, introduced to the world the first minted 1 kilo 999.9 gold bar. Over the years Valcambi has introduced several such products, latest being, in the year 2013 Valcambi introduced the CombiBar™. Combi bars have been made in gold, Silver, Platinum and Palladium. Many of the products manufactured by Valcambi are globally unique and are only manufactured by Valcambi. Innovations continue at Valcambi, Just a couple of days ago Valcambi launched its latest new product, the gold Armillary Coins (A'coins). The Armillary Coins are one ounce investment bars containing four ¼ ounce 999.9 Legal Tender gold coins.

Valcambi is most probably the only refinery in the world producing gold bars by fully automated robotic processes without human intervention, enabling Valcambi to produce guaranteed purity gold bars with unique finishing. Valcambi has also started to produce laser cut bars in regular production processes which is so far very little known in the precious metals industry. Valcambi has a sophisticated research and development facility which is continuously working on developing guaranteed and unique new gold products.

Valcambi bars and coins are the most sought after in the world which guarantee excellent quality of Swiss Workmanship along with accurate fineness of gold desired by precious metals connoisseurs and investors alike.

5-Year Price Chart



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