

November 16, 2009

**Shri Umesh Parekh**  
**Managing Director**  
**Shree Ganesh Jewellery House Ltd.**  
Avani Signature, 91A/1, Park Street  
Block - 402, 4<sup>th</sup> Floor  
**Kolkata- 700016**

**Confidential**

Dear Sir,

**Grading of Initial Public Offering (IPO)**

Please refer to our letter dated October 26, 2009 on the captioned subject.

2. The rationale for the grading is attached as ***Annexure - I***. Please note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as ***Annexure - II***.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by Thursday, November 19, 2009, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



**(S. Chakraborty)**  
**Dy. Manager**



**(A. Saha)**  
**Sr. Manager**

Encl. - As above

## Rationale

### IPO Grading

### CARE IPO Grade 3

CARE has assigned a 'CARE IPO Grade 3' grading to the proposed Initial Public Offering (IPO) of Shree Ganesh Jewellery House Ltd. (SGJHL). SGJHL proposes an IPO of around 142.7 lakh equity shares of Rs.10 each. CARE IPO Grade 3 indicates 'average fundamentals'. CARE's IPO grading assigned to any individual issue represents a relative assessment of the fundamentals of the issuer.

*The above grading draws strength from rich experience of the promoters with satisfactory track record, established brand name, internationally accepted designs with strong presence in overseas market, strong skilled craftsmen base, strategic location of manufacturing units at Special Economic Zone (enjoying various tax holidays), significant growth in revenue & profit, comfortable profitability & financial position (including high level of return on networth) and high entry barrier in the gold jewellery market. Company's having got the status of a 'nominated agency' by Govt. of India (GoI) to import gold directly and the presence of experienced professionals in the Board of Directors of the company also support the grading. The grading is however, constrained by the company's concentration on single product, concentration of sales in Middle East, high overall gearing ratio, low margin business, risks associated with implementation of proposed projects, dominance of unorganised sector players in domestic jewellery market, seasonality of demand and slow recovery of the economy after the severe slowdown.*

### **Company Background**

SGJHL, incorporated in August 2002, belongs to Shree Ganesh Group of Kolkata which is engaged in trading and manufacturing & export of gold and gemstone & diamond studded jewellery over the last 70 years. The company markets its jewellery products under the brand name, 'GAJA'. It is the largest exporter of the handcrafted gold jewellery from India. The current promoters of the group are Shri Nilesh Parekh and Shri Umesh Parekh, two brothers, having more than two decades of experience in gold jewellery business.

### **Promoters**

The current promoters are third generation entrepreneurs. The promoters & their family, currently, hold 88.33% of equity of SGJHL. Credit Suisse PE Asia

Investments (Mauritius) Limited and Bennett Coleman & Co. Ltd. hold the balance equity stake in the company. Post IPO, the promoters group is likely to have 70.66% holding in the company, while the stake of Indian public will be 23.52%.

### **Management**

SGJHL has a broad-based eight member Board of Directors (BOD) including the Chairman & Managing Director. The board comprises two members from the promoters' family, four independent and two non independent directors (including one nominee director). The day-to-day affairs of the company are managed by Shri Umesh Parekh, MD, duly assisted by qualified professionals having rich experience in the gem & jewellery industry.

### **Corporate Governance**

All the independent Non-Executive Directors have rich industrial experience. The company is, by and large, in compliance with the applicable provisions of the listing agreement and clause 49 pertaining to corporate governance. SGJHL has formed different committees of Board, like Audit Committee, Remuneration Committee, Investor Grievance Redressal Committee and IPO Committee.

### **Operations**

The company deals in handcrafted and hallmarked gold jewellery, gold enameled jewellery and gold jewellery studded with precious stones and semi-precious stones. Currently, the company has manufacturing capacity of gold jewellery to the tune of 24,000 kgs p.a (maximum) at Manikanchan SEZ (enjoying various tax holidays) and achieved a production of 12,844 kgs of gold jewellery in FY09. Besides, the company has recently opened a new vertical in diamond jewellery manufacturing in the same premises, with installation of a fully integrated casting diamond jewellery unit.

SGJHL has been able to employ skilled craftsmen at cheaper cost with vast traditional knowledge & expertise, as the manufacturing units are located in West Bengal (where skilled labour & craftsmen for manufacture of handcrafted jewellery are abundantly available).

SGJHL caters mainly to the export market (99% of gross sales in FY09). 'Gold jewellery & articles' segment has been the major contributor to SGJHL's total income over the last few years. During FY09, quantity sold & average gross sales price realisation (AGSPR) increased by 16.6% & 36.5% respectively vis-à-vis FY08 on

A handwritten signature in black ink, appearing to be "S. S.", located at the bottom left of the page.A handwritten signature in black ink, appearing to be "A. S.", located at the bottom right of the page.

account of focus on higher valued plain gold jewellery, overall increase in demand of studded jewellery and continuous weakening of rupee vis-a-vis US dollar.

Its major customers are jewellery wholesalers of Middle East countries, with whom the group has more than three decades of business relationship. Since majority of the company's activities revolve around import-export, foreign exchange exposure gets naturally hedged. In case of unhedged exposure, the company generally takes forward cover.

The company has also forayed into retailing in India through tie-ups with large retail chains and it is now planning to open a number of its own retail outlets over a span of next three years. The company currently meets the domestic demand through outsourcing of the entire job from third party manufacturers.

Gold, the major raw material, is generally procured on fixed basis or unfixed basis and the cost of the same is pass through. Hence, the company is insulated from the fluctuation in gold prices. It imports majority of its gold requirement from The Bank of Nova Scotia (BNS), Al Marhaba Trading and through few canalizing agencies mainly State Trading Corporation (STC) and Sparkling Stars. Further, the company has been granted the status of a "nominated agency" under the Foreign Trade Policy of GoI. This allows SGJHL to import precious metals (gold) directly and thereby eliminate the costs on intermediaries.

#### ***Proposed projects***

Identifying the demand for handcrafted gold jewellery, the company is planning to increase its manufacturing capacity through setting up new units (at Domjur & Mondalpara, West Bengal) and expansion in capacity at its existing unit (Manikanchan SEZ). Besides, SGJHL also intends to open 49 retail outlets over the next three years, for retailing of products manufactured in its proposed plants at Domjur & Mondalpara to cash on its strong brand image among the retail customers.

The entire project cost (approx Rs.213 crore) is to be met out of equity proceeds (proposed IPO). All the projects, in entirety, are expected to be completed by November, 2010.

#### **Financial Performance**

Net sales witnessed a phenomenal growth during the fast few years, at a CARG of 157.5% between FY06 to FY09, with y-o-y growth of 68.5% in FY09. This was on



account of company's increasing customer base & reach in the international market and significant increase in gold prices over the said period.

PBILDT grew at a relatively lower CARG of 125.6% over the aforesaid period with a y-o-y increase of 30% in FY09 due to substantial hike in gold procurement price and other manufacturing expenses. Further, higher sales of low margin 'precious & semi precious stones', led to a lower increase in PBILDT level in FY09 vis-à-vis FY08. Consequently, PBILDT margin declined in FY09. However, the profitability margin has generally been low for SGJHL, due to the relatively low value-added nature of jewellery business.

Capital charge increased significantly in FY09 mainly due to higher interest expenses arising out of hardening of interest rates and higher utilisation of bill discounting facility to support incremental business operation.

PAT (after defd. tax) however, witnessed a higher growth (51.9%), despite substantially higher interest expenses, due to significant amount of non-operational income (mainly interest on fixed deposit and foreign exchange gain). Cash generation was at significant level (Rs.134.2 crore during FY09) and there was hardly any long-term debt outstanding. Interest coverage though deteriorated in FY09, was comfortable at 1.98. EPS of SGJHL witnessed a sharp increase over the last two years due to high profit level.

Long term debt equity ratio was almost nil as on the last three account closing dates. Overall gearing ratio was however, deteriorated to 2.21 as on Mar.31, 2009 from 1.41 as on Mar.31, 2008 and was on the higher side because of higher utilisation of bills discounting facility (against which SGJHL maintains a cash FD of around 30%), despite accretion of significant accretion of profit to reserves. RONW, though declined in FY09, remained robust over the last three years.

Current ratio though declined from Mar.31, 2008, was comfortable at 1.37 as on Mar.31, 2009. Although average collection period (including Bills discounted by banks under Sundry debtors) stood at 94 days in FY09, as against 91 days in FY08, the same is in line with credit period offered by SGJHL to its customers.

#### **Industry outlook**

FY09 was one of the difficult years for the export oriented industries in general and Gems & Jewellery (G&J) industry in particular. With major economies of the world in recession, the G&J industry witnessed a flat growth of 1.45% in USD terms during



FY09 with exports to the tune of USD 21.12 bn. Exports of Cut & Polished diamonds declined by 8.24% from USD 14.19 bn in FY08 to USD 13.02 bn in FY09. Gold jewellery exports primarily drove the growth in the sector witnessing a remarkable growth of 23.6% from USD 5.55 bn in FY08 to USD 6.86 bn in FY09. India's major export destination in FY 09 was UAE (31%), followed by Hong Kong (25%) and USA (20%).

Exports have been declining month on month since October 2008 and continues even in FY10. Exports of G&J sector during June 09 declined by 10.69% on yoy basis and amounted to USD 1.70 bn. Exports of C&P diamonds declined by 12.79% to USD 1.08 bn during the same period.

According to CARE Research, the sector will under-perform in the short term especially on the exports front. With consumer spending improving in India, local demand for the G&J sector is expected to improve from current quarter with the onset of the festive and marriage season). However, with elevated gold prices CARE Research expects other products in the sector like diamond studded jewellery, silver jewellery, gemstones to witness higher demand. Use of gold content in jewellery will decline. Organised retailing, branding and certification will be the focus of the sector in urban markets.

### Financial results

Y.E/As on March 31,	(Rs. crore)		
	2007	2008	2009
	(Audited)		
<b>Working Results</b>			
Net Sales	824.5	1,276.0	2,150.0
Total operating income	824.6	1,276.0	2,150.0
Total income	827.2	1,283.0	2,218.2
PBILDT	59.8	102.1	133.3
Depreciation	1.3	1.6	1.8
Interest	8.7	19.3	66.2
Profit before tax	52.4	88.4	133.4
PAT- after defd. tax	50.8	87.2	132.5
Gross Cash Accruals (GCA)	51.8	87.6	134.2
<b>Financial Position</b>			
Equity share capital	21.4	106.4	106.4
Tangible networth	105.4	271.5	401.0
Total capital employed	234.9	653.3	1,288.2
<b>Key ratios</b>			
<b>Growth</b>			
Growth in total income (%)	550.63	55.10	72.89
Growth in PAT (after def. tax) (%)	354.34	71.47	51.93



Y.E/As on March 31,	2007	2008	2009
	<b>(Audited)</b>		
<b>Profitability</b>			
PBILDT / Total operating income (%)	7.25	8.00	6.20
PAT (after defd. tax)/Total income (%)	6.15	6.79	5.97
ROCE (%)	43.47	22.86	13.65
RONW (%)	84.25	57.20	42.11
Average cost of borrowing (%)	11.56	6.51	9.27
<b>Solvency</b>			
Long term debt equity ratio	0.01	0.00	0.00
Overall gearing ratio	1.23	1.41	2.21
Interest coverage	6.76	5.22	1.98
Long term debt/ GCA	0.01	0.01	0.00
<b>Liquidity</b>			
Current ratio	1.44	1.51	1.37
Quick ratio	1.28	1.37	1.30
<b>Turnover</b>			
Average collection period (days)	58	91	94
Average creditors period (days)	25	30	22
Average finished goods inventory period (days)	2	7	7
Average inventory period (days)	10	16	13
Earning per share (Rs.)	38.64	41.82	61.78

#### Adjustments

- Outstanding bill discounted, shown as contingent liability, has been added to bank borrowings and sundry debtors for the above analysis
- Outstanding amount of fully convertible debenture & fully convertible preference share as on the account closing date have been considered as a part of net worth for this analysis as the same were converted into equity in August, 2009.

#### DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.




## Press Release

**CARE assigns 'CARE IPO Grade 3' grading to the proposed Initial public offer (IPO) of Shree Ganesh Jewellery House Ltd. (SGJHL).**

CARE IPO Grade 3 indicates 'average fundamentals'. CARE's IPO grading assigned to any individual issue represents a relative assessment of the fundamentals of the issuer.

SGJHL proposes an IPO of around 142.7 lakh equity shares of Rs.10 each.

### **Grading Rationale**

*The above grading draws strength from rich experience of the promoters with satisfactory track record, established brand name, internationally accepted designs with strong presence in overseas market, strong skilled craftsmen base, strategic location of manufacturing units at Special Economic Zone (enjoying various tax holidays), significant growth in revenue & profit, comfortable profitability & financial position (including high level of return on networth) and high entry barrier in the gold jewellery market. Company's having got the status of a 'nominated agency' by Govt. of India (GoI) to import gold directly and the presence of experienced professionals in the Board of Directors of the company also support the grading. The grading is however, constrained by the company's concentration on single product, concentration of sales in Middle East, high overall gearing ratio, low margin business, risks associated with implementation of proposed projects, dominance of unorganised sector players in domestic jewellery market, seasonality of demand and slow recovery of the economy after the severe slowdown.*

### **Company Profile**

SGJHL, incorporated in August 2002, belongs to Shree Ganesh Group of Kolkata, is engaged in trading and manufacturing & export of gold and gemstone & diamond studded jewellery over the last 70 years. It is the largest exporter of the handcrafted gold jewellery from India. The current promoters of the group are Shri Nilesh Parekh and Shri Umesh Parekh, two brothers, having more than two decades of experience in gold jewellery business. SGHL carries out its manufacturing activities at Manikanchan SEZ Kolkata [100% Export Oriented Unit (EOU)], having capacity to process 24,000 kgs of gold per annum. The company markets its jewellery products under the brand name, 'GAJA'.



SGJHL is planning to implement projects comprising setting up of manufacturing capacities at Domjur & Mondalpara (both in West Bengal), expansion of its existing unit (Manikanchan SEZ) and opening of retail outlets. The entire project cost is proposed to be met out of equity proceeds (proposed IPO). All the projects, in entirety, are expected to be completed by November, 2010.

SGJHL earned a total income of Rs.2,218.2 crore in FY09 (up 72.9% from FY08) mainly due to the higher sales quantity on the back of higher demand particularly in H1FY09. PBILDT grew at a lower rate (30.5%) due to substantial hike in gold procurement price, increased sale of low margin precious & semi precious stones and other manufacturing expenses. PAT (after defd. tax) however, witnessed a higher growth (51.9%), despite substantially higher interest expenses, due to significant amount of non-operational income (mainly interest on fixed deposit and foreign exchange gain). RONW, though declined, remained robust over the last three years.

Debt equity ratio as on Mar.31, 2009 was nil, while overall gearing ratio deteriorated mainly due to higher level of working capital borrowings to fund the increased level of operations. Earning per share of SGJHL witnessed a sharp increase over the last two years due to high profitability.

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

**DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

A handwritten signature in black ink, appearing to be "S.S." or similar.A handwritten signature in black ink, appearing to be "A.S." or similar.