

Annexure I
Grading Rationale
Tara Jewels Limited

Grading Assigned

Particulars	Amount to be raised (Rs. crore)	Grading ¹	Remarks
IPO Grade	Rs.220	CARE IPO Grade 3 [Grade Three]	Assigned

Grading Rationale

The grading of Tara Jewels Limited (TJL) reflects the experience of the promoters in the Gems & Jewellery (G&J) industry, fully-integrated operations with established marketing and distribution channel and established relationship with the clients. The grading also takes into account the consistent growth in the operating income and the company's diversified product profile.

The grading is constrained by TJL's high operating risk arising out of the customer and geographical concentration of sales, working capital intensive operations, susceptibility to volatility in raw material prices and foreign exchange fluctuation risk. The grading also factors TJL's planned expansion in highly competitive jewellery retail business in India and economic uncertainty in the company's major export market.

Background

TJL was incorporated in 2001 as Tara Ultimo Pvt Ltd (TUPL) by Mr Rajeev Sheth. In FY09 (refers to the period April 1 to March 31), Tara Ultimo Pvt. Ltd. (TUPL) was merged with T Two International Pvt. Ltd. (TTIPL), trader of diamond and jewellery, and Tara Jewels Exports Pvt. Ltd. (TJEPL), engaged in cutting and polishing of diamonds for the Tara group. Post-merger, TUPL was renamed 'Tara Jewels Pvt Ltd.' (TJPL). In September 2010, the company was converted into a public limited company and the name was changed to its present form-Tara Jewels Ltd. (TJL). TJL has been accorded Star Trading House status by GoI and subsequently also been designated as a nominated agency under foreign trade policy by the Ministry of

¹ Complete definition of the grading assigned is available at www.careratings.com and in other CARE Publications

Commerce. TJJ is now eligible to import precious metals directly from foreign suppliers. The manufacturing facilities of TJJ are located in India and China.

Management

Tara Jewels Limited (TJJ), part of the Tara Group is promoted by Mr Rajeev Sheth (Chairman and MD). He holds a diploma in gemology from Gemological Institute of America and has over three decades of experience in the jewellery business. He started his career by promoting Rose International in 1981, and thereafter, became the promoter and Managing Director of Inter Gold India Private Limited from 1989 to 1999. He is supported by Ms Alpana Deo (Director) who has approximately 18 years of experience in the jewellery business, respectively. They are well supported by professional executives having extensive experience in their respective fields.

Corporate Governance

The board of TJJ comprises nine Directors including five Non-Executive Independent Directors. As per Draft Red Herring Prospectus (DRHP), TJJ has complied with the corporate governance code in accordance with clause 49 of listing agreement in relation to appointment of Independent Directors on Board and constitution of the Audit committee, the Shareholders' grievance committee and the Remuneration committee.

Litigations

As per Draft Red Herring Prospectus (DRHP), the pending litigation against TJJ are mentioned below

Sr. No.	Details of the Matter	No. of Cases	Amount Involved (Rs. Crs)
1	Civil cases	4*	8.51
2	Tax cases	20**	

*includes custom cases

**arising out of assessment order served for an assessment year

Operations

TJJ is an integrated player in the jewellery industry with presence ranging from designing to manufacturing to retailing of diamond studded jewellery. Its business can be divided into three operations, namely, manufacturing, exporting and retailing. The portfolio of the products includes gold, platinum, honeydium, and silver jewellery with or without studded precious and semiprecious stones catering to customers across high-end, mid-market and value market

segments. TJJ entered the jewellery retail business in October 2008, and as on August 31, 2012, the company had 30 retail stores under the name 'Tara Jewellers'.

TJJ's export revenues are concentrated with USA and Hong Kong accounting for approximately 40% and 35% of export sales, respectively, in FY12; balance being exported to the European region, Australia, South Africa, etc. Its top 10 customers accounted for approximately 70% of export sales in FY12. However, established long-term relationship with reputed customers like Walmart, Sterling Jewelers Inc., Zale corporation, etc mitigates concentration risk to some extent. With exports forming a significant proportion of its revenue, TJJ's margins remain susceptible to the risk of foreign currency fluctuation.

Gold is procured on a loan basis from bullion suppliers such as Bank of Nova Scotia, Bank of India, State Bank of India, etc. TJJ fixes the price of gold on the date of receipt of the order from the customer, thereby minimizing the risk relating to gold price fluctuations. Diamond is purchased on the credit from the secondary market. TJJ is exposed to fluctuation in the prices of gold and diamonds; however, the risk of volatility in margins is mitigated to an extent as TJJ follows order-based manufacturing policy.

IPO Details

TJJ is coming out with a Public issue aggregating to Rs.220 crore which comprises fresh issue aggregating to Rs.150 crore and offer for sale aggregating to Rs.70 crore. The proceeds of the IPO issue would be utilized as mentioned below:

Utilization of proceeds	Amount (Rs. crore)
Establishment of retail stores	66.30
Repayment or pre-payment of loans	50.00
General corporate purpose	33.70
Total	150.00

Project Risk

TJJ proposes to expand its retail presence by establishing 20 project stores partly utilizing IPO proceeds. All the project stores will be operated by TJJ and the premises for the stores will be taken on lease or leave and license. The average size of the Project Store is proposed to be approximately 1,000 square feet. Estimated cost has been derived on the basis of the same.

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Cities proposed (for new retail stores)	Total Cost (Rs. Crore)
Mumbai, New Delhi, Gurgaon, Noida, Lucknow, Allahabad, Kanpur, Varanasi, Jaipur, Udaipur, Kota, Mohali, Chandigarh, Amritsar, Ludhiana, Jalandhar, Raipur, and Dehradun.	66.30

The total cost of establishment of the stores is Rs.16.30 crore. In addition, total estimated cost for maintaining inventory at stores will be Rs.50 crore. The project is estimated to be completed by January 31, 2013. Fund requirements and deployment thereof are based on the estimates of the management and have not been appraised by any bank or financial institution or independent third party entity.

According to CARE Research, organized players would witness a higher growth rate in topline during 2012 compared with the overall industry growth as there is significant opportunity for organized retailers to create additional value by selling branded and designer jewellery. The organized retailers have increasingly resorted to aggressive marketing and brand promotion activities such as endorsing products through Bollywood celebrities, sponsoring events, etc in an effort to create awareness and create a brand image of their product; however, this would also entail additional costs.

Financials

Net sales, during FY12, increased by approximately 22% to about Rs.1,400 crore and net profit to about Rs.54 crore, an increase of approximately 30% over FY11 due to steady demand from the overseas market coupled with capacity expansion-aided retail presence in the domestic market. Despite TJL's best efforts to enhance its in-house manufacturing facilities, it continues to outsource supplies and in FY12, the income from outsourcing contributed approximately 44% of the total operating income. Exports and retail sales contributed approximately 81% and 13%, respectively, of its total income in FY12 compared with 81% and 8%, respectively, in FY11. Sales breakup between exports division and retail division in the last three years is as follows:

Particulars (Rs. Crores)	Export division			Retail division		
	FY10	FY11	FY12	FY10	FY11	FY12
Sales	800	923	1133	14	93	183
PBILD	67	85	108	1.82	12	24
PAT	24	36	42	0.29	5.74	11.72
PBILD margin (%)	8.35	9.21	9.51	12.76	12.66	13.14
PAT margin (%)	3.03	3.85	3.70	2.01	6.15	6.39

PBILDT margin improved to 9.48% in FY12 as compared with 8.59% in FY11 on account of improvement in the margin in export as well as retail division due to better demand from export as well as domestic market. PAT margins improved slightly to 3.84% in FY12 as compared with 3.61% in FY11 primarily on account of higher PBILDT.

As on March 31, 2012, overall gearing stood at 2.05x. Interest coverage, however, deteriorated to 2.83x in FY12 as compared with 3.03x in FY11 due to increase in interest outgo to Rs.47.05 crore in FY12 as compared with Rs.32.53 crore in FY11 on account of higher utilization of working capital facilities which remained almost fully utilized. Working capital cycle continued to remain elongated and has further increased to 200 days in FY12 from 183 days in FY11 primarily on account of the increase in the average inventory period, as the company is expanding its retail stores across India and has to maintain high levels of inventory.

Industry

The Indian Gems & Jewellery (G&J) industry is one of the most prominent industries in India and is primarily export driven. The domestic demand for gold jewellery is estimated at approximately 80% of the Indian jewellery market, while the balance comprises diamond-studded jewellery and other fabricated jewellery.

The Indian G&J industry is highly fragmented and characterised by high level of competition from both the organized and largely unorganized players. During FY12 and Q1FY13, overall G&J exports from India declined marginally by 0.4% y-o-y and 7.3% y-o-y, respectively, primarily due to decline in the value of export of cut and polished diamonds due to sluggish demand in the western markets of Europe and USA. However, in June 2012, G&J exports have increased by 7.4% y-o-y owing to increase in the exports of gold jewellery. Furthermore, the prices of rough diamonds and gold have exhibited high volatility in the past one year which can have an adverse impact on the margins of G&J entities.

However, the luxury market in India is growing at a brisk pace and jewellery sales form a major driver for luxury items. The major driver for luxury jewellery is wedding related, primarily bridal jewellery, which forms over 50% of the jewellery sales. Going forward, CARE Research expects that luxury jewellery exports from India and the demand of luxury jewellery in domestic market will grow given number of factors like talented pool of jewellery designers and artisans, low-cost but quality base and understanding the likes and dislikes of end-user market. The unique

characteristic of luxury jewellery like any hand-crafted product is that it can command premium and earn high margins as the price of the product is marked significantly over and above the intrinsic value of gold and diamonds used in the making.

Financial Performance (consolidated)

(Rs. Crore)

<i>For the period ended March 31</i>	<i>2009</i>	<i>2011</i>	<i>2012</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
Working Results			
Net Sales	814.16	1142.18	1399.02
Total Income	815.95	1148.25	1405.17
PBILDT	68.60	98.68	133.15
Interest and Finance Charges	27.28	32.54	47.05
Depreciation	10.99	12.38	14.23
PAT (After Deferred Tax)	24.53	41.39	53.89
Gross Cash Accruals	35.15	53.33	67.98
Financial Position			
Equity Share Capital	11.85	18.00	18.00
Tangible net worth	179.17	220.59	272.43
Total Capital Employed	463.91	677.47	837.88
Ratios			
Growth (%)			
Growth in Total income (%)	2.08	40.73	22.38
Growth in PAT [after Def. Tax] (%)	172.53	68.79	30.20
Profitability (%)			
PBILDT / Total operating Income (%)	8.41	8.59	9.48
PAT / Total Income (%)	3.01	3.61	3.84
ROCE (%)	11.93	15.09	15.76
RONW (%)	14.71	20.71	21.86
EPS (Rs.)	20.70	23.00	29.94
Solvency (times)			
Long-term Debt Equity ratio	0.05	0.06	0.09
Overall Gearing Ratio	1.57	2.05	2.05
Interest Coverage	2.52	3.03	2.83
Term Debt / Gross Cash Accruals	0.23	0.23	0.35
Total Debt / Gross Cash Accruals	8.02	8.47	8.23
Liquidity			
Current Ratio	1.28	1.14	1.22
Quick Ratio	0.61	0.69	0.55
Turnover			
Average Collection Period (Days)	123	138	142
Average Creditors (Days)	101	85	90
Average Inventory (Days)	164	129	147
Operating cycle (Days)	186	182	199

Disclaimer

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Annexure II

Press Release

**CARE assigns 'CARE IPO Grade 3' to the proposed Initial Public Offering of
Tara Jewels Limited**

Grading Assigned

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stores in the name 'Tara Jewellers'. The manufacturing facilities of TJL are located in India and China.

During FY12 (Consolidated), TJL reported net sales of Rs.1,399.02 crore and a PAT of Rs.53.89 crore as compared with net sales of Rs.1,142.18 crore and PAT of Rs.41.39 crore in FY11.

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