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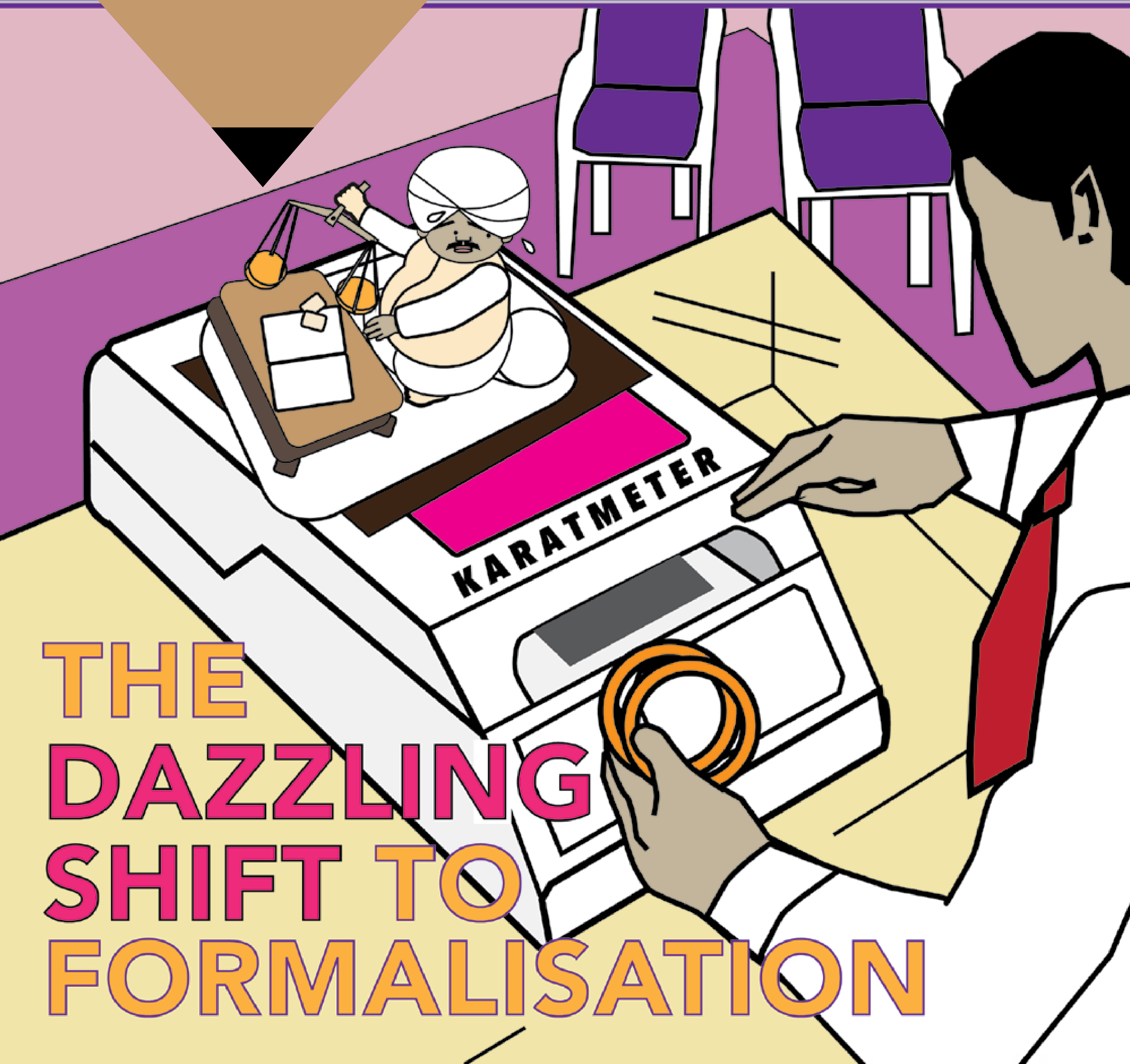
GROUND VIEW



THE DAZZLING SHIFT TO FORMALISATION

PhillipCapital

GROUND VIEW Vol 5. Issue 2. 1 - 30 APR 2018

FOR EDITORIAL QUERIES
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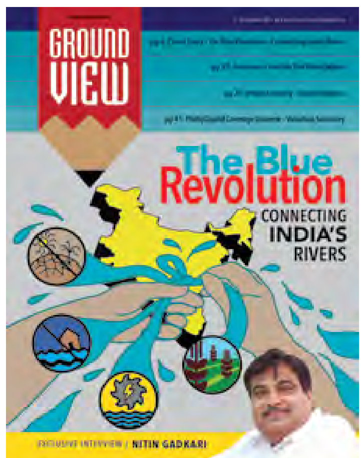

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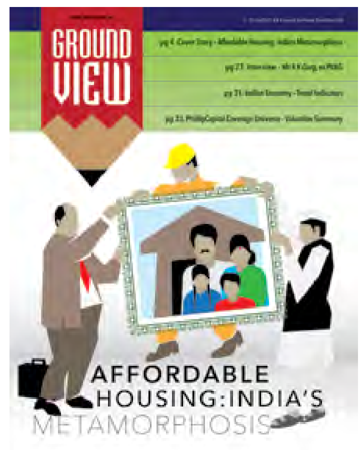

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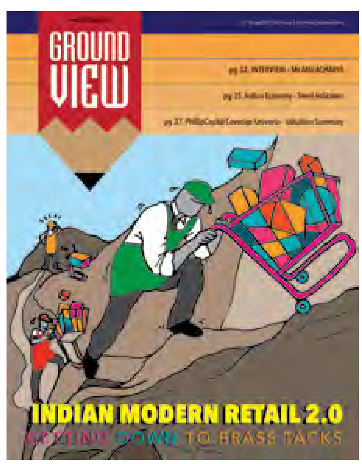

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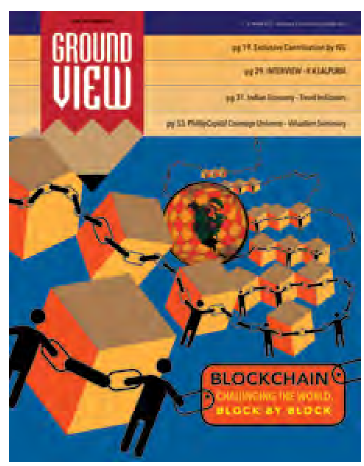


1st March 2017 Issue 2

Letter from the MD

After a 14-year long struggle (almost a *vanvas* one might say) India launched GST at the stroke of midnight, 30 June 2017. Comparisons between current PM Modi's midnight GST speech and PM Jawaharlal Nehru's famous 'tryst with destiny' midnight speech seemed almost inevitable. The impact of GST on all sectors, including jewellery, the focus of this Ground View, has been significant. The government's mandate has been clear – to encourage formalisation across sectors. It has backed this by various other measures such as demonetisation, the voluntary tax compliance scheme, and the passage of the Benami Act.

The US$ 50bn jewellery retail industry holds the maximum potential for 'formalisation' with its currently high share of unorganised players (70% of the market). Within the sector, organised players have already differentiated themselves by adopting best practices and processes, and gaining customers' trust. The government has actively pushed customers towards the organised segment through initiatives like introducing hallmarking (to be made compulsory soon), regulations on the gold deposit scheme, demonetisation, and GST implementation. With the Nirav Modi banking fraud weakening the credibility of the sector in the eyes of financial institutions, banks have become more stringent about providing credit lines to smaller unorganised players, which will accelerate the shift to trusted names in the organised sector.

Our analysts Vishal Gutka and Preeyam Tolia travelled across India to gauge whether this shift is actually happening considering the strong ties that exist between families and their 'family jeweller'. The analysts discovered many more layers and viewpoints. Let them take you on a journey though the bedazzling Indian jewellery landscape and shed light on challenges and opportunities. Their story seeks to answer the key question – do organised players have what it takes to capture dominant market share and if so, where do the key opportunities lie?

Best wishes

Vineet Bhatnagar

CONTENTS

THE *DAZZLING SHIFT* TO FORMALISATION

India's US$ 50bn jewellery sector has seen turbulence over for the past five years, as the government tried every trick in its book to reduce Indians' obsession with gold in order to reduce the flow of unaccounted money into this sector. The government has partially succeeded in curtailing gold consumption (gold demand reduced by 20% over the past five years) through various measures including PAN card disclosure. Due to this, the jewellery industry has not been able to grow to its true potential. However, of late, organised players are seeing healthy growth as the government backs its mandate of formalisation with demonetisation, GST, and hallmarking (to be implemented soon). These measures have led to customers switching to organised jewellers, who offer the advantages of contemporary design, lightweight jewellery, and most importantly, trust.

Meanwhile, unorganised players are facing problems such as their money-lending businesses (significant contributor to profitability) being under pressure, non-availability of gold-on-lease, and limited capital availability, which restricts their ability to invest into their businesses for growth. Their next generations' flagging interest in running the show and increasing family feuds are also major drawbacks.

Organised players have taken a decisive lead over unorganised players via the introduction of differentiated design backed by their path-breaking ad campaigns and celebrity endorsements, gold-exchange programmes offering lower deductions and high caratage, and large-format stores. Additionally, the new generation of karigars (artisans or artists) are more inclined to work for organised players as they provide better salaries, food, accommodation, and other facilities such as schooling for their children. In contrast, unorganised players have a long history of exploiting these karigars.

There are some structural challenges to contend with as well – today, young adults prefer collecting 'experiences' rather than accumulating assets. However, this could be an urban-India phenomenon, that too within a certain segment of the younger generation. Gold is so deeply entrenched in the daily life of Indians that it is unlikely that the jewellery industry will suffer any significant slowdown anytime soon. However, like every other industry, it is changing inexorably. While small unorganised jewellers have an edge in some areas – such as in terms of exchanging gold where customers do not want to pay GST and managing threshold limits under various regulatory acts – these benefits seem transient and will fade once the government increases surveillance. Overall, the advantages are piled high on the side of the organised players.

COVER STORY

BY VISHAL GUTKA & PREEYAM TOLIA

ALL ABOUT THAT BLING

Is India's obsession with gold here to stay?

A glittering love affair!

Indians know and love their gold, always have, always will. The Mahajanapadas, the sixteen kingdoms of ancient India from the 6th to 4th centuries BCE, used to trade in minted punch-marked silver coins in 600 BC and India was one of the first countries in the world to transition from barter system to a money-based trade system, along with the Greeks. During 1-1000 AD, India was the world's largest economy and trade was conducted using gold coins and bars. However, India's love affair with gold has chiefly centred around jewellery,

India's gold stock = Apple's market cap

which is interwoven into the very fabric of its society. Whether it is Raksha Bandhan in north India or Onam in the south, or Akshay Tritiya and Diwali all over the country, people buy gold to mark new beginnings, births, festivals, and weddings. In fact, the World Gold Council estimates that more than 50% of Indian demand for gold is wedding-related. Even today, India's gold stock almost equals the market cap of Apple, the world's largest company in value terms.

THE PRICE OF 10 GRAMS OF GOLD

Source: LBMA, Datastream, BullionDesk/Fast Markets, World Gold Council

Deep-rooted: India's obsession with the yellow metal!

As per the World Gold Council, Indian households own 23,000 -24,000 tonnes of gold (valued at >US$ 800bn), which is almost equivalent to the market capitalisation of Apple, the world's largest company in terms of market cap. Additionally, Indian temples own around 3,000-4,000 tonnes of gold, which is offered to the temple deities by devotees. India consumes 700-800 tonnes of gold annually, with purchases driven by tradition, festivals, and other important family and social occasions. In some communities in India, gold is even handed out on someone's death!

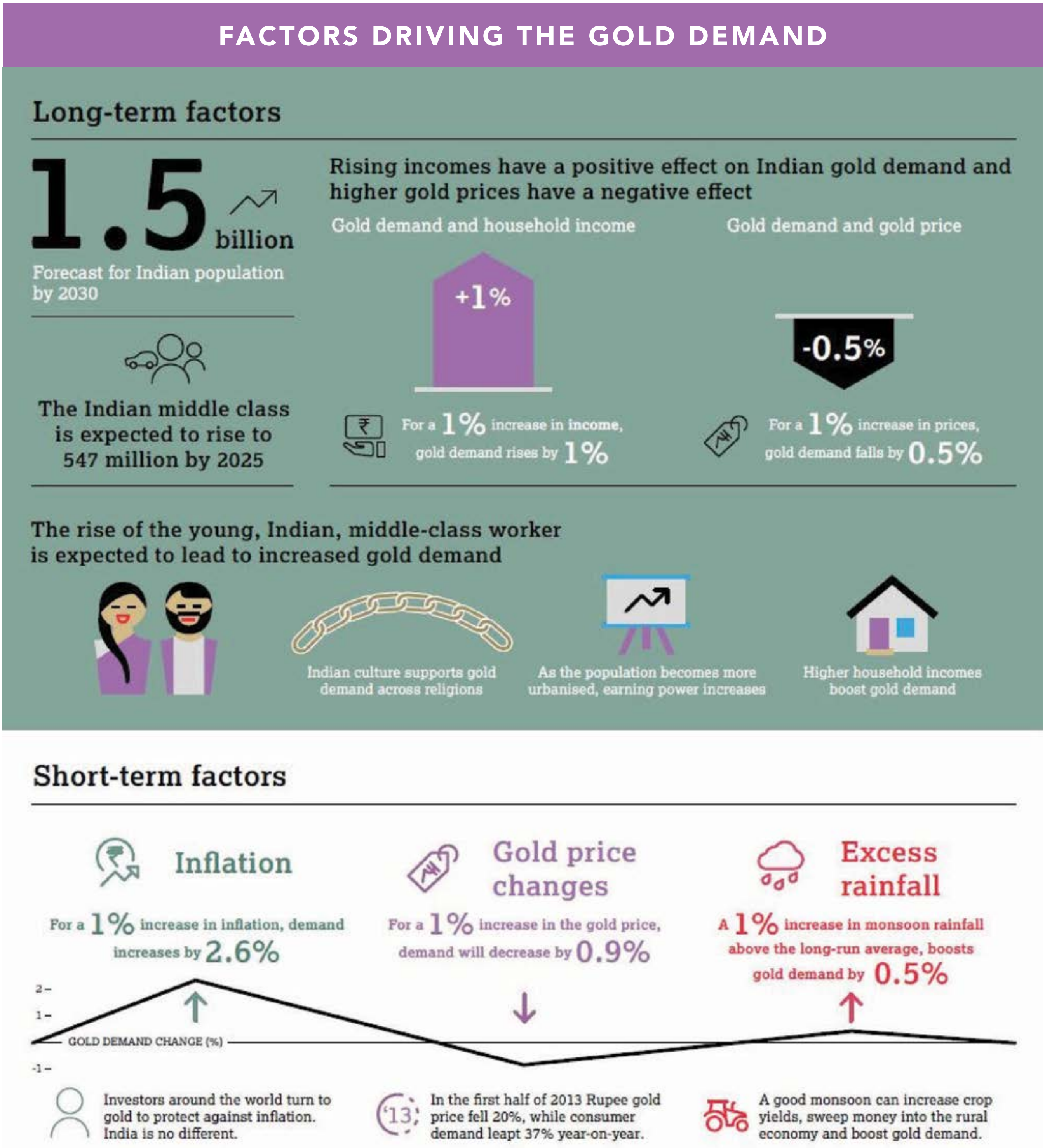
The Indian obsession with gold remains never-ending, despite more than a 7x increase in gold price between 2000 and 2017. This is because gold is deeply rooted in India's culture. Wedding jewellery demand (constituting more than 50% of jewellery demand) remains firm. Buying gold jewellery for an Indian bride is based on the concept of streedhan – loosely translated as the property that a woman should receive at the time of her marriage, in the form of 'bride security'; technically, it is hers to keep.

Wedding jewellery occupies the largest share of the jewellery market

Source: WGC

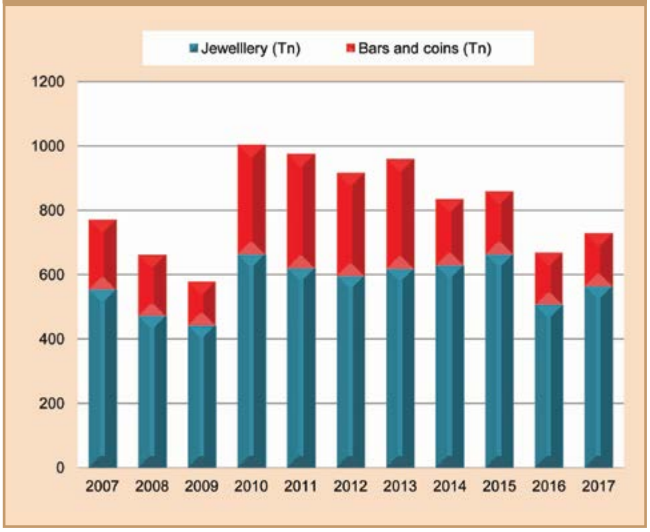
Higher ownership in rural India, which tends to rise with income levels

Rural India (where 70% of India's population resides) invests its savings in gold/ jewellery due to lack of access to banking facilities and the yellow metal's high liquidity. Good harvest along with the wealth effect (increasing land and gold prices) drives rural demand, whereas improved economic sentiment (better job opportunities), an increasing middle-class, and urbanisation drive urban demand.



Source: WGC

The Indian jewellery market (in tonnes) has declined over the past few years due to increasing regulations



Urban vs. rural: Gold ownership (%) based on income level

Income level	Urban	Rural
40,000 -100,000	49	74
100,001 - 400,000	60	76
400,000+	80	93

Source: World Gold Council

Jewellery demand peaks between September and November

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Festivals				Akshaya Tritiya						Dhanteras		
Marriages												
Harvest			Rabi Crops								Kharif Crops	

Arun, 18, a waiter at Sri Ganapathy Hotel in Coimbatore, earns ₹6,000 per month. He has been saving ₹ 2,000 per month for a while so that he can give gold jewellery to his sister when she gets married.

This kind of consumer behaviour is striking and speaks volumes about India's culture, not only in terms of the importance of gold, but also in terms of the importance of these cultural obligations trumping personal desires. It is amazing that at such a young age, this young man, instead of spending on activities that bring him pleasure, has started saving for purchasing jewellery for his sister. In south India in particular, there is a greater inclination towards gold and this region constitutes 40% of India's total gold demand.

Arun, the waiter at Sri Ganapathy Hotel in Coimbatore smiles and serves Vishal Gutka, PC's retail analyst, with a scrumptious breakfast

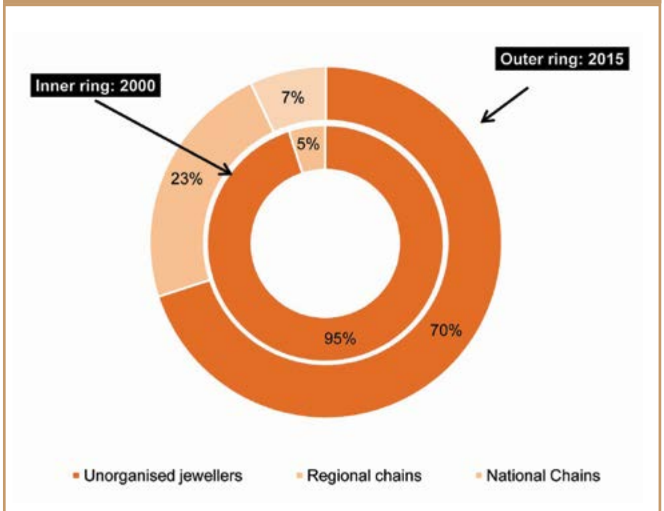
"Organised players are taking away business from smaller players now. Better pricing, guarantee (for every purchase), third-party purity certification, and services such as free repairs and appropriate buyback options swing business in favour of organised players."

– Joy Alukkas, Chairman of the leading eponymous chain from Kerala

An inexorable shift towards organised

Despite its enormous potential (₹ 3,000bn annual jewellery sales), the Indian gold jewellery retail industry continues to remain highly fragmented. Small unorganised jewellers still command a lion's share of the market at 70%, but they have lost considerable share to organised players. Now, the market has three kinds of participants – unorganised, organised regional players, and national players. Regional and national players have been able to increase their market share to 30% in 2015 from just 5% in 2000 based on network expansion, differentiated designs, and providing customers with the best-in-class hallmarked jewellery thereby garnering customers' trust.

Jewellery market landscape in India



All industries are moving towards formalisation, jewellery is no exception

Stock markets have been most bullish about the formalisation theme – and sectors such as brick and mortar retail, jewellery, home-building material, and consumer durables/appliances hold the maximum potential for formalisation.

Incrementally, the government is trying hard to ensure that more sectors join the formal economy via GST implementation, which ensures an audit-trail of all transactions. Out of India's 500mn workforce, 90% is deployed in the unorganised sector and is deprived of social security benefits and minimum wages. In order to encourage formalisation, the government is planning to make a 12% contribution towards employees' provident funds for the next three years for all new jobs across sectors. Retail (US$ 600bn) and jewellery (US$ 50bn) have the maximum growth potential, given their size and higher share of unorganised players.

"When there is suspicion, the industry suffers. Consumers want to go to a safe haven, as in a safe place to buy, like Tanishq. They want to buy clean gold rather than buy gold in cash."

– Bhaskar Bhat, Managing Director, Titan.

Troika pushing customers to organised players, led by hallmarking

Organised jewellers have a long run ahead, as they steadily and rapidly gain market share from unorganised players. The troika – compulsory hallmarking, increased regulations (GST implementation), and structural issues are likely to accelerate this shift in coming years. Structural issues include low-cost gold on lease not being available to unorganised players, their money-lending businesses (at times almost half of their profit comes from this) being under pressure, and their next generation's disinterest in running small business.

Compulsory hallmarking will be another turning point. There is already a trust deficit as far as unorganised jewellers are concerned. When hallmarking becomes compulsory, it will act as even more of key catalyst for the momentum accelerating to the organised sector, because the unorganised sector's advantage of under-karating will disappear, which in turn will force them to increase making charges.

"Buyers with clean money would not want to associate with small, unorganised players anymore. They are moving to organised retailers now, as small, one-shop jewellers are not even able to provide payment options such as digital pay-ins, RTGS, or cheques. Informed buyers insist on 'hallmark' – a gold purity certification in accordance with Indian Standards specifications."

– Surendra Mehta, National Secretary, India Bullion and Jewellers Association.

Hallmarking is already haunting smaller jewellers

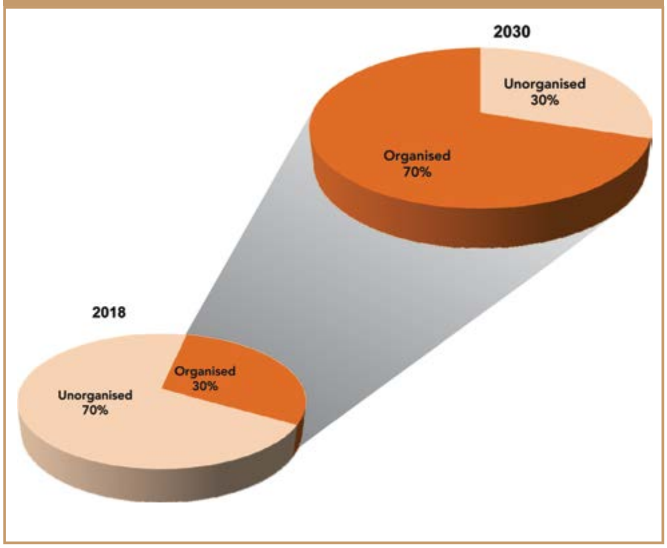
Pratik Jain, 35, runs a shop called Kshitij Jewellers (name changed) in Andheri, a western Mumbai suburb. His family has been in this business for more than 40 years. However, he is not a happy man at the moment. "Musibatton ka pahaad toot pada hai hamare dhande par (a mountain of worries has crashed down on our business)," he lamented, as the government's focus on increasing awareness about hallmarking has led to more customers preferring hallmarked jewellery. "We are forced to stock hallmarked jewellery – it will become mandatory in time," he mused.

Jain openly acknowledged that currently, most small jewellers resort to 'under-karating' of jewellery (i.e., selling gold that is of a less karat than claimed). Apart from demonetisation, GST implementation, Pan Card regulation, increased competition from gold-loan NBFCs/fin-tech companies in money lending, hallmarking will the last nail in the coffin that will "make sure business profitability goes for a toss," said Jain.

Can organised players become dominant by 2030?

The World Gold Council expects the share of organised players to increase to 40% in 2020 from 30% in 2015 due to a combination of factors. It is likely that after 10 more years, organised players command a dominant market share due to the limited ability of unorganised players to match their might and scale.

Organised players will become larger and stronger



Source: WGC, PhillipCapital India

A small Mumbai jeweller openly acknowledged that jewellers of his size resort to under-karating, i.e., selling jewellery and other gold retail products that are less pure than what they should be

Why the shift will happen from un-organised to organised

Is compulsory hallmarking the last nail in the coffin for small jewellers?

Said Pratik Jain, 35, a small jeweller from Mumbai, "Increased awareness on hallmarking has already started affecting margins, as earlier there was a lot of under-caratage." Before hallmarking, by charging lower making charges vs. organised players, he was able to attract customers within his catchment area, despite lacking in terms of design and variety. However, with increased demand for hallmarking, he has increased making charges on a per gram basis by an average 30% in order to compensate for loss of profit from under-cartage. Despite this, his gross margin has come down by 150-200bps in the last one year. Satish Chand Singhvi, President of the Delhi Jewellers' Association concurs with Pratik Jain's view – that jewellers will incur a cost on hallmarking, which they will invariably pass on to consumers.

"Once the government imposes mandatory hallmarking of gold, over two lakh (200,000+) jewellers would virtually be eradicated from the industry. Today, consumers are also swayed by the modern designs and lightweight options offered by organised retailers."

- Surendra Mehta, Secretary of Indian Bullion and Jewellers Association.

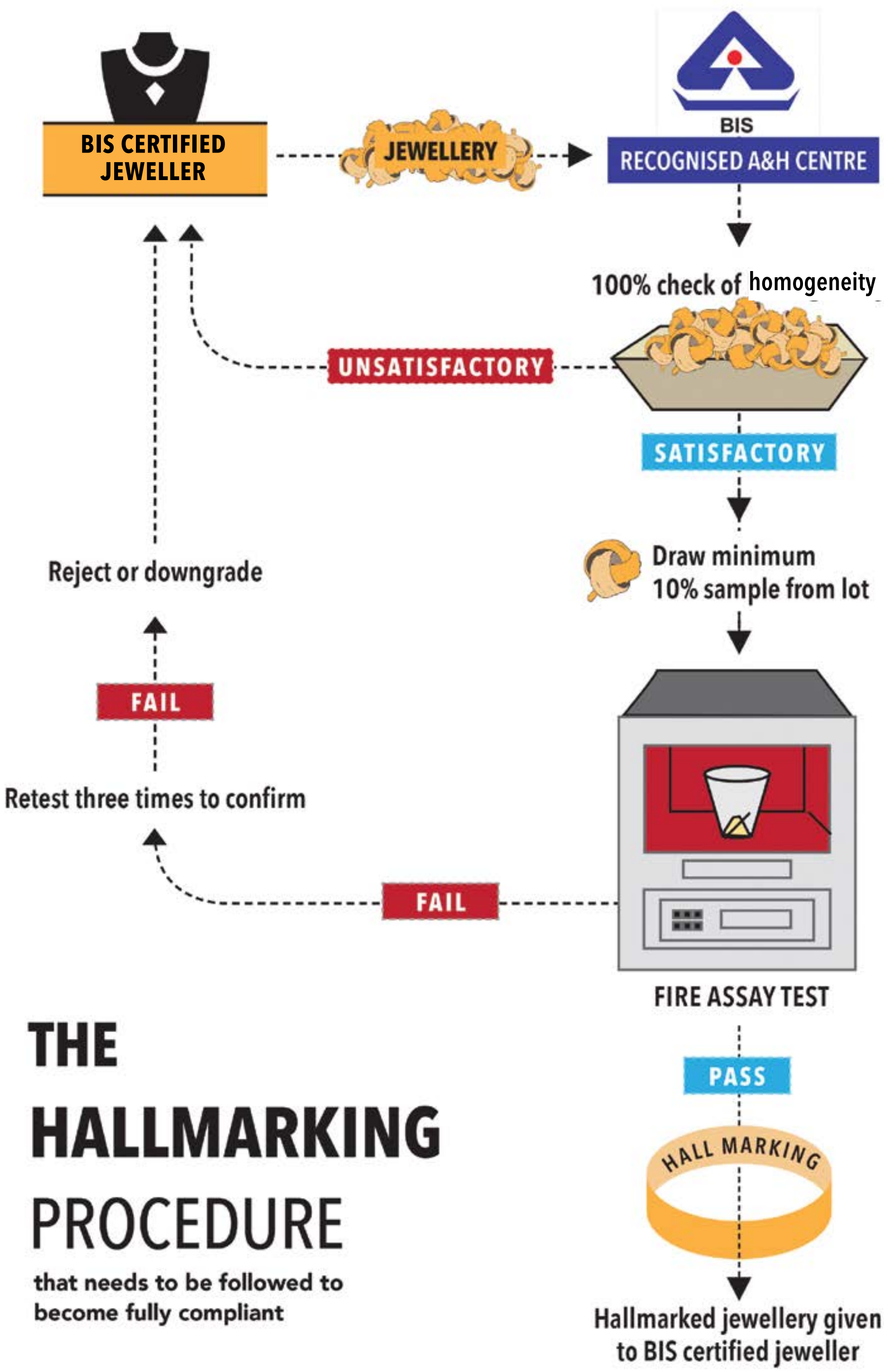
Jeweller Pratik Jain's example for a 10-gram studded ring: Margin impact – before and after hallmarking – Pratik used to resort to under-karating (selling 21 karat gold even if a customer is paying for 22 karat); with hallmarking he will be forced to sell 22 karat only.

Details	Prior	Now
Gold price (A) - 100% purity	30,000	30,000
Carats	21	22
% Purity based on caratage (B)	85%	91.6%
Gold rate based on purity (C = A*B)	25,500	27,480
Pricing premium (D)	15%	10%
Gold rate charged to customer (E = C*(1+D))	29,325	30,118

Hallmarking has started putting pressure on the margins of jewellers

Details	Non - hall-marked	Hallmarked jewellery	% change
Gold rate charged to customer (E)	29,325	30,118	
Making charges per gram	250	325	30%
Total making charges (F)	2,500	3,250	
Making charges (% of gold price)	8.5%	10.8%	
Selling price (G = E+F)	31,825	33,368	
Less : COGS (procured from wholesaler/mfg)	28,250	30,200	
Gross profit	3,575	3,168	
% margin	11.2%	9.5%	-170bps

However, hallmarking on its own is not infallible – in order to develop gold as an asset class, all stakeholders in the supply chain (bullion dealers, manufacturers, wholesalers and retailers, and hallmarking centres) have to comply with norms laid down by the Bureau of India Standard, 2016. In any case, most small jewellers who have gradually started selling hallmarked jewellery over the past few years are not following the norms in their 'true spirit'. Most small jewellers do not have a BIS license, which is pre-requisite for selling hallmarked jewellery. They only put the '916' mark on a piece of jewellery, which is not compliant with the law.



THE HALLMARKING PROCEDURE

that needs to be followed to become fully compliant

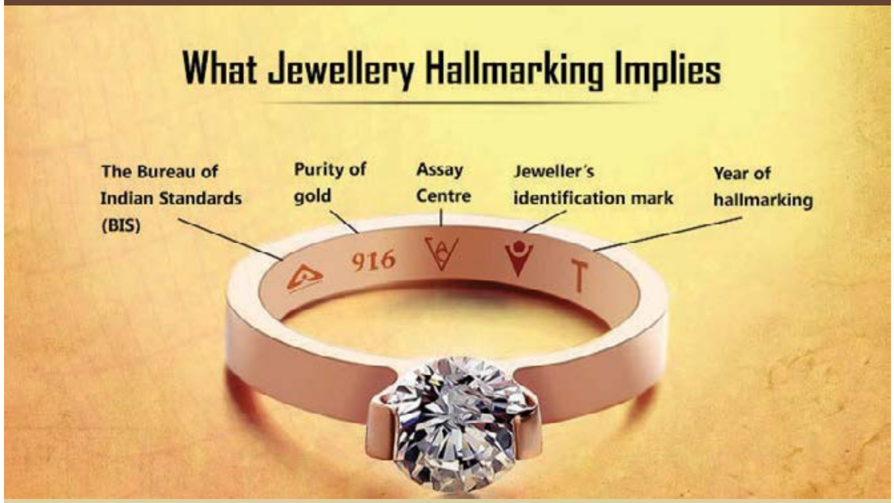
Underutilisation makes matters worse for hallmarkers

Hallmarking centres require a high initial investment of ₹ 100-150mn and these are currently operating at lower utilisation levels of only 15-20%, as a lion's share of unorganised jewellers have yet to move to hallmarking. Because of this, these centres have begun providing their services to jewellers that do not have a BIS license. This makes it an unaccounted business on the hallmarkers' books (they escape the 10% royalty payable to BIS); they resort to this in order to recover their monthly operating expenses of ₹ 300,000-350,000.

Ideally, hallmarking should take 4-5 hours for a single piece of jewellery. However, most hallmarking centres are completing the process in 10-15 minutes by skipping the fire-assaying test. With 60% of hallmarking centres located in densely concentrated jewellery-manufacturing zones, high competition and undercutting complicates matters even more.

Vicky Bafna, 28, who runs a jewellery shop in Virar, a busy suburb on the outskirts of Mumbai, highlighted that he does not have a BIS license (a pre-requisite for selling hallmarked jewellery), but can get his jewellery pieces hallmarked from certain hallmarking and assaying centres. He intends to take a BIS license only when hallmarking becomes compulsory. He also acknowledges that other jewellers might not accept his hallmarked jewellery, because it is not fully compliant. Vicky puts only a "916" stamp and ignores other components because a hallmarking centre cannot write the name of a non-compliant jewellery shop.

BIS hallmarking : components



CERTIFICATION

BIS hallmark:
The BIS hallmark is a hallmarking system for gold jewellery sold in India certifying to the purity of the metal. It certifies that the piece of jewellery conforms to a set of standards laid by Bureau of Indian Standards, the national standards organization of India.

BIS hallmark for gold jewellery consists of several components:

- The BIS logo.
- A Three digit number (out of a set of six pre-defined values) indicating the purity of the gold in part-per-thousand-format viz; 958, 916, 875, 750, 585, 375. Thus a BIS 916 hallmark would certify to a purity of 916 per 1000, that is 91.6%, translating to a 22 carat purity of gold.
- Logo of the assaying centre.
- A code denoting the date of hallmarking.
- Logo/code of the jeweller

Making hallmarking mandatory for manufacturers is a possible solution

Harshad Ajmera, President of Indian Association of Hallmarking Centre has a solution. "If hallmarking is made mandatory at the manufacturers' ends, it will resolve most of the issues for retailers", he suggests. He also said that BIS can conduct surprise audits at hallmarking centres on a regular basis and if a centre is found culpable, its registration should be revoked.

Hallmarking centres (Statewise)

SOUTH	
Andhra Pradesh	32
Telangana	14
Tamil Nadu	65
Karnataka	39
Kerala	53
Puducherry	1
Total	**204**
West	
Maharashtra	96
Gujarat	63
Goa	1
Total	**160**
NORTH	
Punjab	16
Haryana	10
UP (East)	19
Chandigarh	3
J&K	3
Uttarkhand	1
TOTAL	**52**
EAST	
West Bengal	54
Odisha	13
Jharkhand	4
Bihar	11
Chhattisgarh	5
Assam	2
Tripura	1
Total	**90**
CENTRAL	
Delhi	33
UP (West)	4
Rajasthan	22
MP	10
Total	**69**

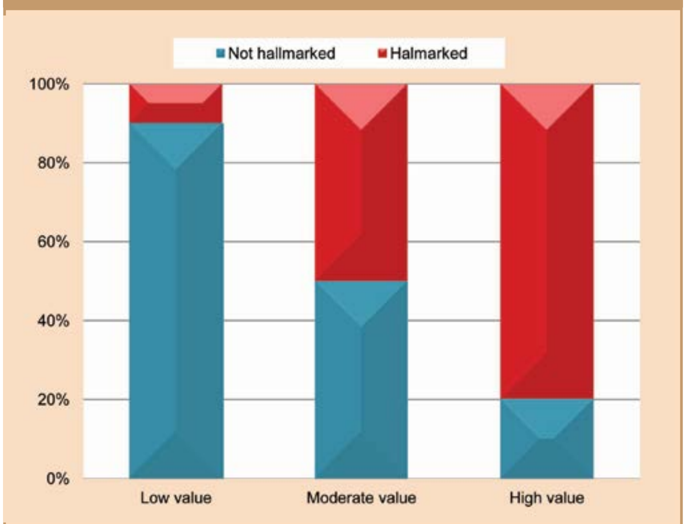
Source: BIS

How much does a BIS license cost jewellers?

Geographical location of jeweller	Fees, if paid annually (₹)	Fees, if paid in one instalment (valid for three years) (₹)
Metros and cities with population of 10 lakhs and above (2011 census)		
-- Turnover > ₹ 1 bn pa	20,000	50,000
-- Turnover < ₹ 1 bn pa	10,000	25,000
Towns with 3-10 lakhs population (2011 census)	**2,000**	**5,000**
Towns with less than 3 lakhs population (2011 census)	**1,000**	**2,500**

Note: It does not cost much to procure a license from BIS and a jeweller has to pay only ₹ 30-35 for getting a piece of jewellery hallmarked, irrespective of the value of jewellery

Not surprising, 80% of high-value jewellery is hallmarked



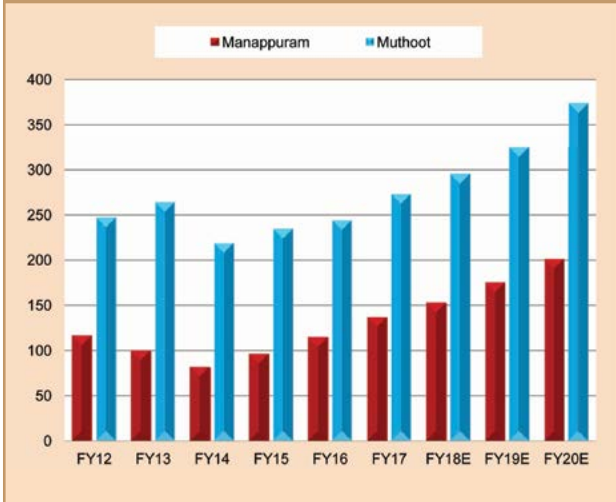
Note: Low value: less than ₹ 15,000. Moderate value: ₹ 15,000 to ₹ 50,000. High value: more than ₹50,000 (per article at current gold prices) Source:: WGC Hallmarking Report

Hallmarking is likely to herald a new era in the Indian jewellery sector and will accelerate a shift to organised jewellers as customer prefer national/regional chains over smaller local stores. This is because the former offer better designs and quality. Once hallmarking becomes mandatory, it will become difficult for small jewellers to escape stringent provisions.

New BIS Act has stringent provisions for jewellers who do not comply with hallmarking rules, such as:

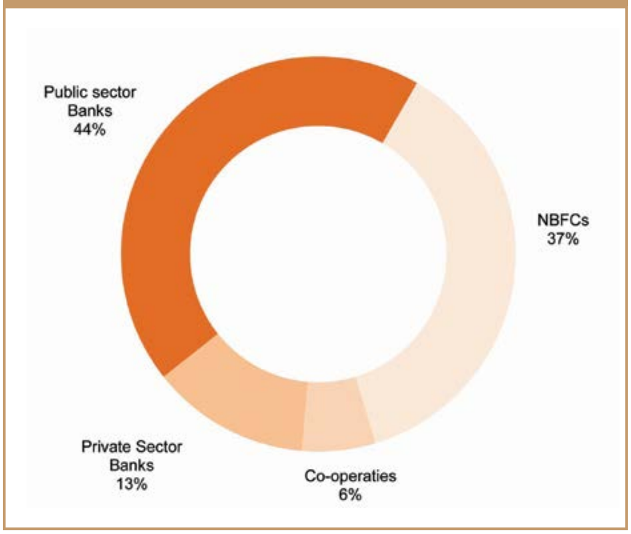
- Use of a hallmarking by non-accredited jewellers will be an offence. Retailers that violate hallmarking rules will be liable for a fine up to 10 times of value of product or imprisonment up to two years.
- If hallmarking of precious metals becomes mandatory and any hallmarked jewellery is found to be of lower cartage than its hallmark, consumers will be able to complain via the BIS website and ask the seller for a replacement.

Gold loan NBFCs are steadily increasing their loan book



Source: Manappuram, Muthoot, PhillipCapital India estimates

Share of organised gold loan market, 2016



Source: Manappuram Finance, World Gold Council

For small jewellers, money lending is faltering
Not only has it not rescued them, it is coming under increasing pressure

With jewellery demand remaining stagnant since the last few years due to various regulatory measures, and hallmarking becoming mandatory in time, small local jewellers were banking on their money-lending businesses for growth. Generally, 30-40% of small jewellers' net profit comes from this business, which is now facing survival issues due to increasing competition from gold-loan companies and emerging NBFC companies.

Is hyper competition killing the golden goose (the moneylending business) of unorganised jewellers?

Keshav Duggar, 42, who runs a wholesale shop called NK Jain Jewellers at Big Bazaar Street in Coimbatore, said, "Takey ke dhande ki bhi waat lag gayi (the money lending business is also ruined)." For Duggar and his comrades, this business has fallen by 30-40% over the past five years due to increasing competition from gold-financing companies, NBFCs, and even banks. Gold-financing companies (such as Muthoot and Manappuram Finance) have made a big comeback in 2015 when the RBI raised LTV (loan-to-value ratio) to 75% from 60%, creating a level playing field between banks and gold loan NBFC, since banks offer gold loan at an LTV of 75-80% .

The only advantages, said Keshav Duggar (not very enthusiastically), are that small unorganised jewellers can disburse faster with less documentation vs. organised players (such as gold-financing companies) and that they can lend against gold coins and bars (while gold-financing companies lend only against gold ornaments). "However, consumers from the lower strata of society generally do not have gold coins or bars and they generally own only jewellery," he added. Often, gold loans are taken for working capital; hence, this business also has remained subdued for a while since SMEs continued to face the heat due to GST implementation and demonetisation.

Jeweller Keshav Duggar's estimated profit and loss statement from moneylending

Bharat Duggar	Prior (5 year back)	Now	% change
AUM (₹ m) – (A)	20	10	
Rolling period (in months) – (B)	8	8	
Actual money lent – (A*B)	13.3	6.7	-50%
Interest rate	36%	24%	
Amount earned (₹ m)	4.8	1.6	-67%

Formal employment, cashless medical policies are hurting moneylending

Vinod Jain, 34, who runs a jewellery shop called Jain & Sons (name changed) in Mahim, Mumbai, said that borrowers draw funds either for medical emergencies or for buying consumer durables in the festival/marriage season. "If customers do not have an immediate need for funds, they will never come to us; gold-loan companies and NBFCs can offer loans at much cheaper rates," he declared.

More potential customers (generally from the lower economic strata) are joining the formal economy, at least in urban areas, according to small jewellers. As a result, these potential customers are getting cashless medical insurance from the companies that they work for, thereby reducing their need to borrow funds from moneylenders for medical emergencies.

The Government of India plans to launch a mega insurance cover under "Ayushman Bharat", which intends to provide insurance cover of ₹ 500,000 (including pre- and post-hospitalisation cost) to over 100mn families. If this scheme is implemented and executed well, it will further reduce the need for borrowing money from small jewellers.

Micro-finance banks provide loans without collateral to borrowers, hurting moneylending

Chandan Dutta, 26, who runs a jewellery shop at Barrackpore, West Bengal, said that he has been forced to reduce his interest rate to 2% per month from 3% since Bandhan Bank expanded very aggressively and started group lending (which is actually individual lending, since other borrowers in the group are guarantors) without asking for collateral. He believes that competition may intensify as Bandhan plans to go for gold-loan, two-wheeler loans, and affordable housing loans after fund raising via IPO. He even quoted Game of Thrones to describe his circumstances – "Winter is coming", he quipped.

Pros and cons: Moneylenders (jewellers) vs. NBFCs

	Moneylenders (jewellers)	Gold-loan NBFCs
LTV	Greater than 75%	Up to 75%
Interest rate	24-48%	18-24%
Mode of disbursal	Cash	Cash/cheque (disbursals more than ₹ 100,000 are via cheque). Average ticket size ₹ 30-35,000, hence few cheque disbursements
Collateral	Gold coins/bars + jewellery	Jewellery only
Documentation required	Hardly any documentation as generally loan is disbursed only to known customers. In case identity is not known, moneylenders generally ask for jewellery bill	Minimal documentation + 1 ID proof required
Working hours	Throughout the day	Business hours (9 AM - 7 PM)
Regulation	No regulation	Regulated by the Reserve Bank of India
Repayment structure / flexibility	Full flexibility ; bullet repayment	No prepayment charges + flexible repayment options. However, customers have to keep paying interest (monthly / quarterly) and renew the loan because the average tenure of the loan is three months

Will the moneylending segment of gold jewellers survive?

Small jewellers' money-lending business is likely to come under threat in coming years due to collateral free lending from micro-finance companies and new-age fintech companies, and lower interest rates/better service offered by gold-loan NBFCs. Visits to the branches of Capital First and Bajaj Finance in Mumbai revealed that to avail an unsecured personal loan, one needs to have proper documentation (Form 16 for salaried individuals and ITR return/gumasta license for professionals/ business persons). PAN and Aadhaar are mandatory for most loans.

Fintech companies and P2P (peer-to-peer) lending platforms (using data-analytics capabilities) are likely to capture significant share from unorganised small jewellers, as borrowers from even the lower economic strata in urban areas have increasingly started using smart phones (with data rates dropping sharply). These companies will give loans without collaterals.

Gold-loan NBFCs are also leveraging technology

"We are the first NBFC to meet the challenge arising from demonetisation. We introduced several digital initiatives for disbursement of loan as well as for collection of interest and principal. Indicatively, in response to the currency crunch faced by customers, we introduced POS machines, prepaid cards, co-branded prepaid cards, IMPS, RTGS/NEFT for disbursement of gold loan, and the mobile app 'iMuthoot'. All these were welcomed by our customers, and the quantum of digital transactions has improved manifold."

– George Alexander Muthoot, MD, The Muthoot Group

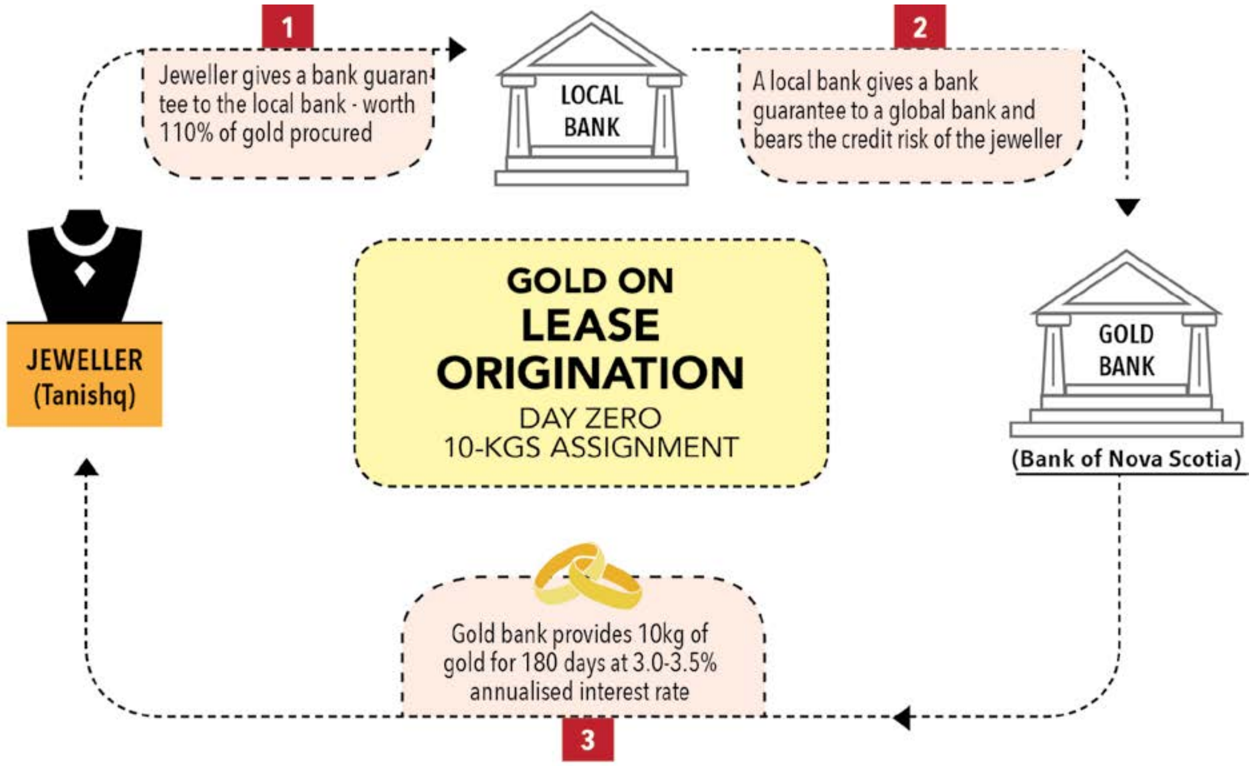
"Over the medium and long term, we expect players in the unorganised sector to concede ground to the organised sector, which will benefit us. We also expect gains for our On-Line Gold Loan (OGL) product, which is totally cashless at our end."

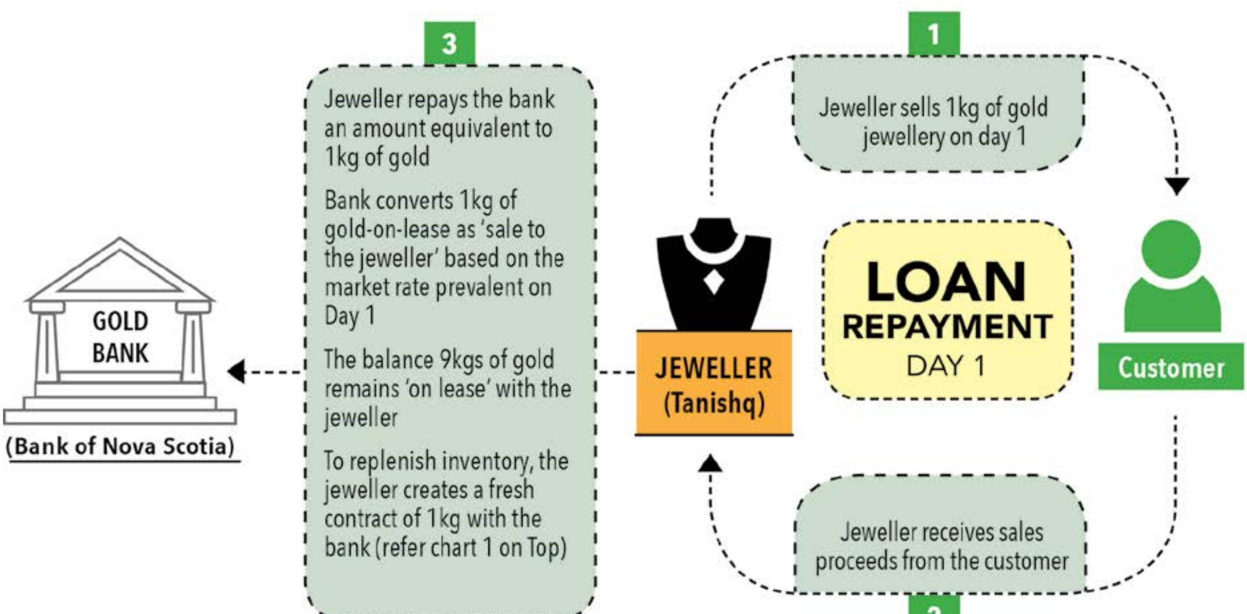
– VP Nandakumar, MD, Manappuram Finance.

Why don't cash-rich small jewellers use gold on lease to expand?

Despite small jewellers having a healthy financial position, they are unable to procure low-cost gold on lease, as banks are not willing to lend to them due to the unfavourable risk-reward ratio because of their small ticket sizes and majority of transactions happening in cash. With weaker balance sheet (as only fraction of the business is accounted in books) and hesitation from highly conservative second-generation family members to take any form of credit, smaller jewellers do not take gold on lease to expand their businesses.

Vicky Bafna, 28, a jeweller from Virar (Mumbai's outskirts) scoffs while explaining, "Hume kaun paisa dega jo Nirav Bhai ne khand kiya (who will lend us money post the Nirav Modi fiasco)." Kevalchand Bafna, 57, his father (sitting beside him) seconds him saying, "Hume bank ki magajmaari me nahi padna hai and aur dukhan ke kaagzaat girwi nahi rakne hai (I do not want to take any credit from bank and keep property related documents as collateral)".


1
Jeweller gives a bank guarantee to the local bank - worth 110% of gold procured
LOCAL BANK
2
A local bank gives a bank guarantee to a global bank and bears the credit risk of the jeweller
JEWELLER (Tanishq)
GOLD ON LEASE ORIGINATION
DAY ZERO
10-KGS ASSIGNMENT
GOLD BANK
(Bank of Nova Scotia)
Gold bank provides 10kg of gold for 180 days at 3.0-3.5% annualised interest rate
3


3
Jeweller repays the bank an amount equivalent to 1kg of gold
Bank converts 1kg of gold-on-lease as 'sale to the jeweller' based on the market rate prevalent on Day 1
The balance 9kgs of gold remains 'on lease' with the jeweller
To replenish inventory, the jeweller creates a fresh contract of 1kg with the bank (refer chart 1 on Top)
1
Jeweller sells 1kg of gold jewellery on day 1
GOLD BANK
(Bank of Nova Scotia)
JEWELLER (Tanishq)
LOAN REPAYMENT
DAY 1
Customer
Jeweller receives sales proceeds from the customer
2

Most of the national and regional players have been able to scale up their business operations in the last few years using low-cost gold on lease (at 3.5-4.0% annual interest). Majority of the investment required towards setting up a store are towards inventory (95%); so availability of low-cost working capital loan makes a lot of difference.

Sabarinath, Chairman of Coimbatore Jewellers Association highlights – "Small jewellers have lagged behind and have not been able to avail of low-cost funding from banks due to two reasons: (1) proper books of account are not maintained, and (2) second-generation hesitation to take any form of bank credit. On the other hand, banks are also not willing to lend money to small jewellers as they do not meet risk-return criteria due to smaller ticket sizes, since most of the transactions for these jewellers happen in cash and banks are not willing to take any risk due to very low rates of interest (3.5-4.0%)."

Mr Sabarinath (President, Coimbatore Jeweller Association) with Vishal Gutka (PC's retail analyst, who hates gold but likes organised jewellers)

One of the senior executives from India's leading private sector banks explained – "Indian banks do not have much gold on their balance sheet to lease out, and in the most cases, they are operating as facilitators (guarantor) for foreign banks. Indian banks get only 1/3rd of the total interest charged to jewellers (Indian banks earn 1.0-1.5% per annum mainly as guarantee commission) with the balance going to foreign banks (2.5-3%)." As a result , banks do not show much willingness to push this product. Moreover, they are risk-averse as far as lending to small jewellers is concerned.

On gold metal loans unavailable to small jewellers

"There is a lot of difference between big and small manufacturers since large players are able to get gold metal loans at low interest rates."

-Nilesh Gupta – President of the Skill Development Council of the IBJA

"This is a serious issue. Manufacturers are losing out on margins and terms of payment. This process will put jewellers under stress. There is an immediate need to extend loans to small jewellers. Gold and rupee deposits too need to checked"

– Surendra Mehta, Secretary, IBJA

"Larger retailers have big showrooms, and they issue advertisements and get a lot of benefits from the government. Small retailers play on their own. Banks are charging 120-150 per cent collateral for letters of credit after the jewellery scams that happened recently"

– Kumar Jain, vice-president, Mumbai Jewellers Association

Smuggled contraband gold being cheap – the biggest myth

The popular belief is that small jewellers (flushed with unaccounted money) are able to easily procure low-cost gold from illegal channels. However, checks revealed that smuggled or contraband gold is actually costlier (despite hefty savings of 13% on taxes) than gold procured from authentic or verifiable sources.

Pratik Jain from, Kshitij Jewellers puts it very simply – "Gold is a liquid asset and is equivalent to cash; hence, unorganised jewellers / manufacturers get only discount of 1% on smuggled/contraband gold vs. the market price, which includes 3% GST. Additionally, most small jewellers do not stock smuggled gold due to fear of being nabbed by authorities."

Additionally, unorganised jewellers earn lower margin if they sell jewellery made out of smuggled gold bars since they cannot avail of the 'setting-off of input tax credit'. Pratik Jain says – "In some cases, customers come to the shop, select a piece of jewellery, and only then they say they do not want a bill. By then, we have already quoted a selling price, and we are not in a position to change this price. We have to sell the selected jewellery despite receiving lower margin (because we have already paid GST on the selected gold/jewellery, which becomes a cost to us). We do this because of higher competition – others are willing to sell without a bill."

Market perception that small jewellers have an advantage over organised players in terms of procurement of gold is completely flawed; they are afraid to procure unaccounted gold because of the constant threat of raids by regulatory authorities

Margins are actually lower if a small jeweller sells in a parallel market

Gold (10 grams coin)	With bill	Without bill
Price	30,000	30,500
GST @ 3%	900	
Landed price to retailer of gold	30,900	30,500

Details	With bill	Without bill
Selling price of 10 grams ring	36,000	36,000
GST @ 3%	1,080	
Consumer price	37,080	36,000
Less : cost of procurement of gold	30,900	30,500
Less : Manufacturing expenses	2,500	2,500
Gross profit	3,680	3,000
% margin	10.2%	8.3%

The gold-deposit scheme: Losing its gilt-edge among small jewellers

What is a gold-deposit scheme?

Under a gold-deposit scheme, customers pay 11 monthly installments (for example ₹ 1,000 per installment) and the 12th installment is generally contributed by the jewellery company. At the end of 11th month, customers are allowed to buy jewellery worth ₹ 12,000 from the stock kept at the store.

Restrictions under Companies Act w.r.t these types of schemes:

- Effective return on deposits cannot be more than 12%
- Term of the deposit cannot exceed 12 months
- Under the amended Deposit Regulations Act, the jewellery company can take deposits upto 35% of its networth, and no more than 10% of its networth can be taken from members of the company.

Tanishq derives c.20% of its revenue from its 'Golden Harvest' gold-deposit scheme. Small jewellers (which derive 10-15% of sales from such schemes), are generally run by partnership firms or proprietorship structure; do not face the restrictions that organised jewellers face under Deposit Regulations of the Companies Act, 2013. Even with this advantage, small jewellers are not very keen on pushing sales via these schemes, as they do not want to get involved in the paperwork (for every deposit they will have to issue receipt and maintain records). Besides, there is the issue of trust – Chandan Dutta, 26, who runs jewellery shop in Barack Pore, West Bengal, revealed that customers are not very comfortable with deposits to small jewellers, as there have been instances of fraud/theft. Small depositors have lost confidence in such schemes after the Saradha and Rose Valley scams at least in West Bengal.

Increasing share of its Gold Harvest Scheme helps Tanishq to up-sell

Unregulated Deposit Bill will benefit listed organised players

The government is planning to pass the 'Unregulated Deposits Bill' in Parliament, which will prohibit jewellers from taking unregulated deposits that are not in compliance with rules and regulations of the Companies Act, 2013. Discussions with the management of Titan and TBZ, suggested that their business will not be impacted since their deposit schemes are already regulated.

"It seems that the Bill is being brought in to not only protect investors from ponzi scheme, but also to ensure that such deposits are regulated through a proper banking channel to strengthen banks' working capital. This will force jewellers to approach banks for financial requirements, making them more accountable and prevent diversion of funds," said Surendra Mehta, secretary, India Bullion and Jewellers Association.

Jayantilal Challani, president, The Madras Jewellers & Diamond Merchants Association, said, "It would not be right to completely ban deposits for the mistake of a few people. Almost 20 per cent of the jewellery business is through savings schemes, which offer better rates than banks. It is a win-win situation for both the jeweller and the customer. The industry is becoming more organised, especially after the GST roll-out. The deposit schemes could be regulated, but should not be banned.

Fragmented land holdings 'concept' prevails in the jewellery sector as well

In India, most small jewellery businesses are operated by joint families, and the personal expenditure of each member is met by funds that this business generates. There are many claimants – and education/marriage related expenses of each family member eats away a significant amount of profit, leaving less capital to invest in the business.

Jeweller Pratik Jain has two younger brothers, and they all are involved in the business. He says, "As our family grows, separation becomes necessary. The patriarch of the family has to arrange funds for setting up jewellery stores for his children in nearby areas. When that happens, because inventory is generally bought upfront, it becomes difficult for the erstwhile store to scale up business operations". This situation is similar to farmers' fragmented landholdings when due to of a division of land because of family partitions, it becomes unviable to carry out farming operations.

Gen-next not interested in running the show

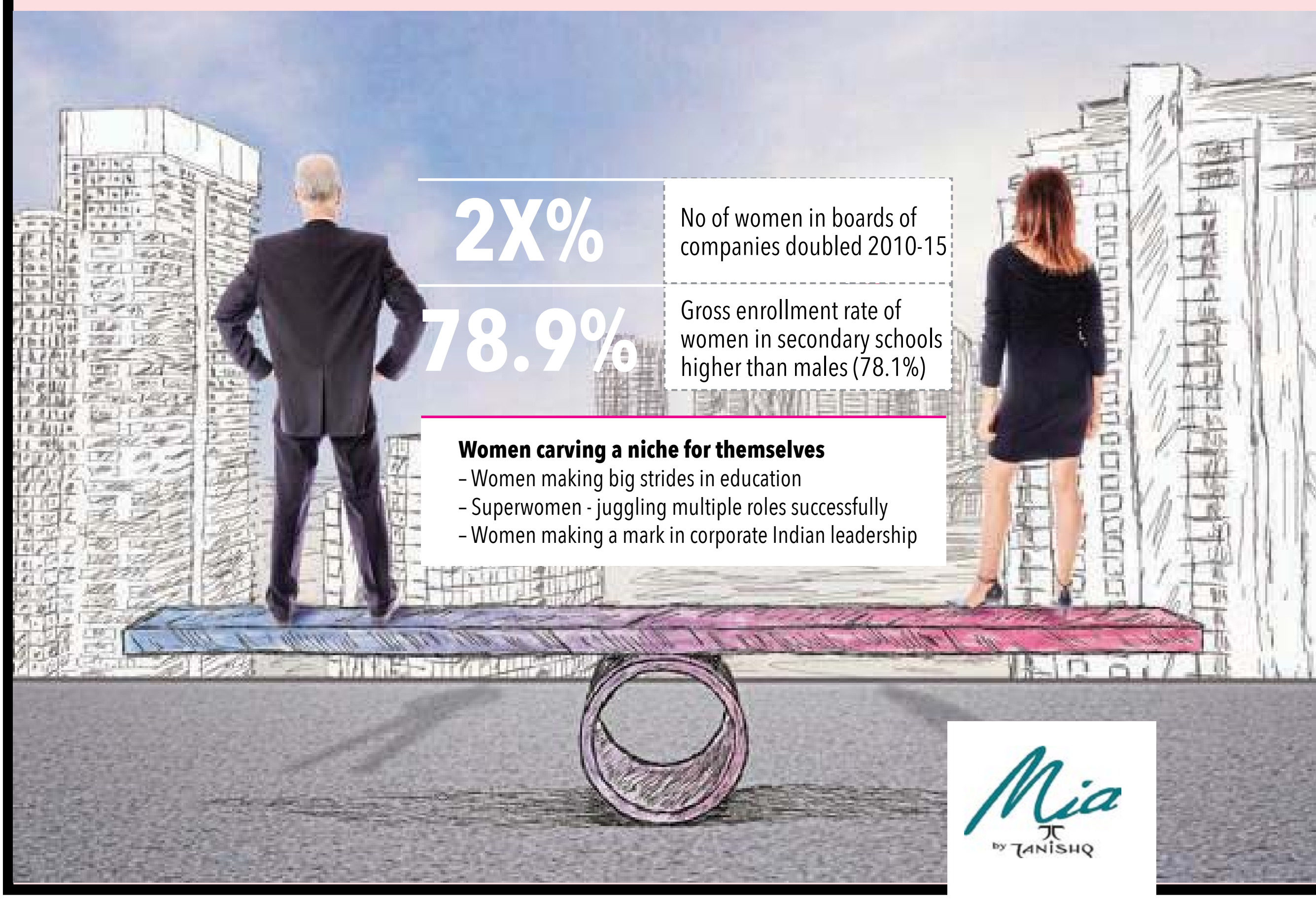
Yogesh Chadawar, 55, a small jeweller based out of Ujjain, Madhya Pradesh, seemed frustrated. He said, "Mai aapne beta ko phadha raha hu, is dandhe mai kuch bacha nahi hain (I am trying my best to educate my son as there is nothing left in this business. Then he won't have to carry forward this legacy business.)" He reckons that after accounting for all opportunity costs such as rent earned from leasing the premises, and interest that he could have earned if his capital was not invested in gold inventory, his business is actually running in deep losses.

Jeweller Vicky Bafna has a contradictory view – he is very keen on continuing with his family business. He believes that out of 250-300 jewellery shops in Virar, 45-50% are on rent and have also borrowed capital to invest in gold inventory. So far, 8-10 jewellery shops have closed down in the last year and in some cases, customers have lost money as unreliable jewellers have run away, taking their deposits with them. However, he believes he is actually benefitting from this trend. His customers from the lower-income group hesitate going to large-format jewellers and prefer player like him (we have been in this business since donkey's years). "With my father retiring, I constantly engage with my customers on Whatsapp and regularly send message showcasing latest jewellery design/ trends."

Women have more say in selecting a life partner; benefits organised players

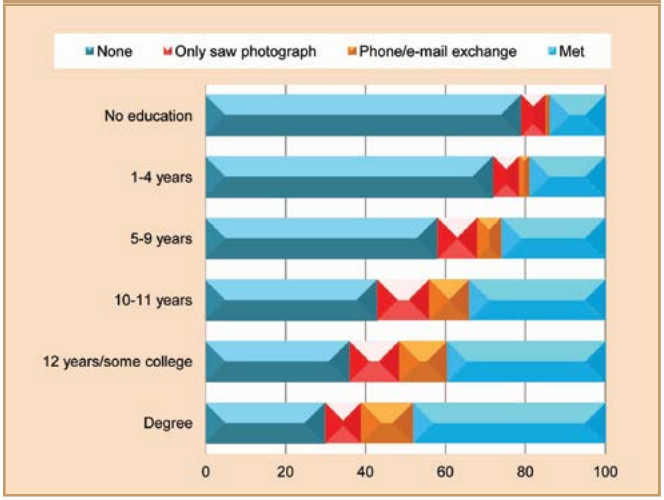
More than 50% educated women have a choice in selecting their own groom in a rather conservative Indian society. Although there is a long way to go, along with education, financial independence is accelerating social change, as more women are willing and able to join the workforce. Every day, more barriers are breaking down, as Indian women choose to enter and excel in varied professions (erstwhile male bastions). A few notable examples – women are now pilots, drivers, bartenders, software programmers and application developers, security personnel, cinematographers, cricketers, boxers, and chefs. As per the findings of the latest National Family Health Survey, in decisions about major household purchases, the percentage of women involved has increased to 73% in 2015-16 from 53 per cent in 2005-06. Globally, women make or influence 80% of buying decisions and control US$ 20tn in spending (source: UN). The government has been actively promoting empowerment for women – the Economic Survey 2017-18 was pink, signifying its support and promotion of the growing movement to target and end violence against women and to promote women's rights.

As they become more educated and financially independent, they are becoming more empowered as consumers too – they have a larger say in what they want to buy and where they want to buy it from. This change has started impacting the choice of jeweller as well – with organised players benefiting the most because of the higher trust factor and their contemporary designs.



Source: Titan Presentation

India: A woman's pre-marriage contact with prospective groom by her education levels



Note: Based on 2011-12 data
Source: India Human Development Survey

"Senior members of families continue to buy from family/ traditional jewellers, but the younger generation is breaking the trend and is looking at buying from well-known brands only."

- Pratik Jain of Kshitij Jewellers

Kajal Rawat, in her late twenties, is a sales executive working with a reputed MNC. She revealed that she prefers branded players because: (1) they have more choices in design, especially in studded jewellery, (2) they are more reliable (I feel safe to buy from them because I know they are genuine in terms of purity, and (3) they have better quality (The finishing of the set is better). "Their designs are simple and elegant, which traditional jewellers are not able to provide," she said.

Mansi Shah, 27, a prospective bride who stays in Grant Road, Mumbai, couldn't stop cracking up when she let slip that she "ditched" her family jeweller and is looking at buying jewellery from Tanishq or TBZ for her wedding. "Variety and design and latest trends are a priority over making charges. After the Nirav Modi fiasco, it has become difficult to trust small jewellers," she chuckles.

Limited space/designs restricts unorganised players' 'right to win'

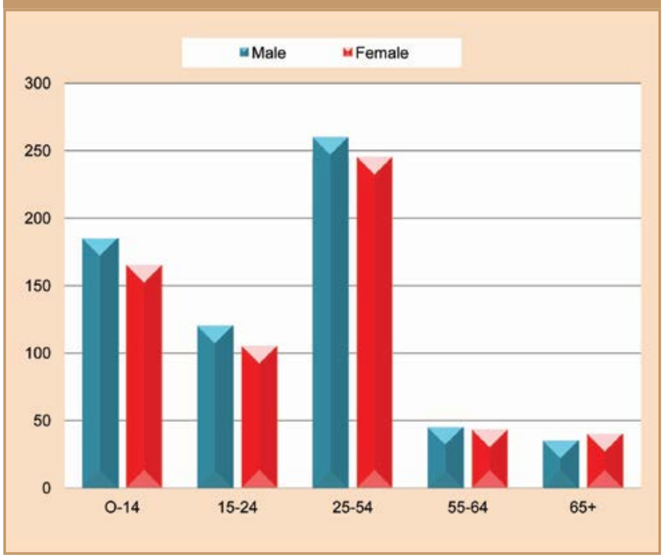
Right to win is a concept that is popularly used in the FMCG industry. It signifies the ability to engage in any competitive market with a better chance of success — not just in the short term, but consistently. It is also applicable in the jewellery industry to a certain extent.

Joint families manage most small jewellery shops and each member may not be highly motivated, since the benefits are shared by all members (even when efforts are put in by only one or two people). With such limitations, smaller jewellers may not have the "Right to Win" beyond their target markets.

What can hold back organised players from gaining market share

First, can THE VERY SURVIVAL of jewellery industry be under threat? India is one of the youngest countries in the world with about half of the population being under the age of 25. With changing times, younger Indians prefer to 'collect experiences' such as travel or to buy gadgets rather than accumulate assets (such as gold or property). "The younger generation of urban shoppers is tempted by other products. As a result, gold is competing with designer and luxury fashion (designer clothes, handbags and shoes, silk sarees), and the ubiquitous Smartphone when it comes to high-ticket purchases." – WGC report.

India's population distribution reveals an abundance of youth (millions)



Source: CIA World factbook 2015, World Gold Council

India's youth – boon or bane for jewellers?

Jewellery retailers are aware of the potential threat and many are trying to lure young customers by positioning light-weight jewellery products as 'aspirational' ones, especially in urban areas. For instance, Titan has launched Mia and Malabar Gold launched Starlet to entice young working women who typically prefer light, simple, and stylish jewellery, which they do not want to stick inside a locker.

Uberisation of jewellery: Not yet a threat

Ahmedabad-based Shreya Jani said, "I take jewellery on rent from my local jeweller since I prefer to wear different jewellery on each occasion and try to save money to spend on leisure activities". In India, jewellery-renting has existed for many decades, but it used to be restricted to known and loyal customers. This is changing, albeit slowly. Well-funded jewellery players such as Eves24.com and rentjewels.com are trying to take this business pan-India. A visit to Eves24.com's Bandra showroom (in Mumbai) showed that renting jewellery was simple, but very expensive. Anyone can rent jewellery for a minimum period of three days at a fee that equal 3% of the value of the piece that is selected; in addition, the customer has to pay a 'deposit' that is equal to the value of the jewellery – which is daunting.

Because of this high upfront payment in the form of a deposit, it is difficult to find takers for high-value jewellery. Besides, in India, there is quite a bit of emotional or sentimental value attached to jewellery, at least for wedding jewellery (which is 50-60% of the overall market). For now, until attitudes towards jewellery changes, rent-seekers will find difficult to thrive in this market.

"Higher gold prices have led to customers exchanging their old jewellery for making wedding-related jewellery; large fresh purchases of gold jewellery happen when gold prices are either declining or stable."

– Manoj Kumar, 31, a manager at Thangamayil Madurai Store

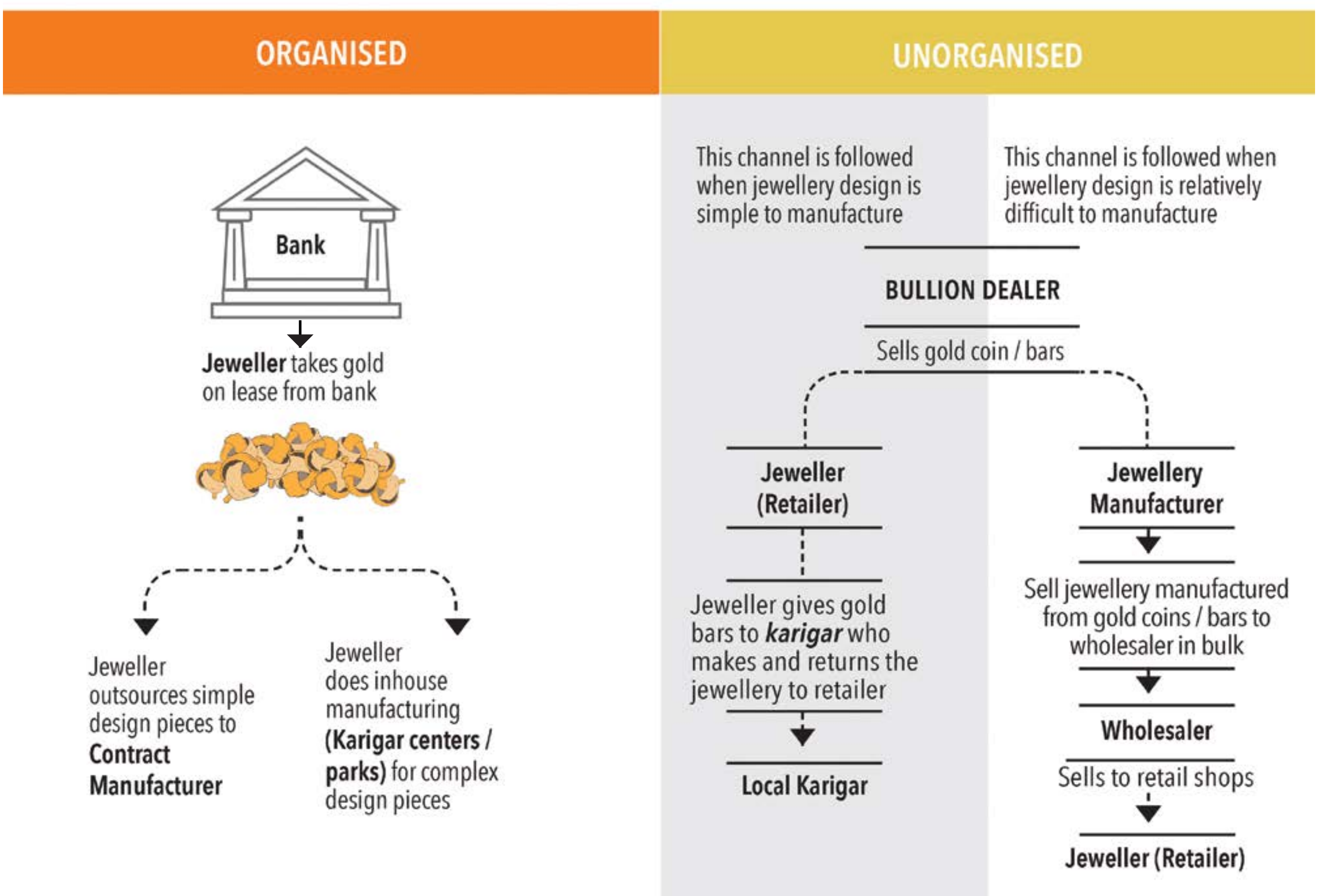
Exchange-gold segment: Still glittering for unorganised players

Under the GST Act, sale of old jewellery by an individual to a jeweller will not attract provisions of Section 9 (4) and the jeweller will not be liable to pay tax under the reverse-charge mechanism on such purchases. However, sale of new jewellery to individuals in consideration for exchange of old jewellery will attract GST.

Some customers do not want to pay tax (3% GST on new gold jewellery) when they exchange old jewellery; some small jewellers are still in a position to oblige, because they haven't paid GST on some of their stock – so they can provide this (GST-free) to such customers. However, this competitive edge is transient. It is likely to last only until small jewellers have such GST-free inventory. Small jewellers can also avoid GST in instances where their jewellery is manufactured directly from artisans / karigar (i.e., bypassing manufacturers – who are mostly fully tax-compliant), for example in cases where the jeweller's source of gold is exchanged gold (melted and reused).

However, once the entire inventory of small jewellers becomes tax-paid (every piece is accounted in the system), it will become difficult for them to make sales that bypass GST (except for jewellery directly made by karigars).

JEWELLERY PROCUREMENT



Ajmer, India. 2016. Jewellers had held rallies across the country to demonstrate against the proposed 1% excise duty on gold and also mandatory PAN card clause for purchases of Rs 200,000 and above

Cat among pigeons: Risk of lower PMLA thresholds ever present

PAN Card disclosure (limited to ₹ 200,000) has not had a major impact on both types of players since employees of organised chains also manage to split bills among relatives and friends. So far, the impact of PAN Card disclosure has been limited to rural and small towns where customers: (1) do not have PAN card, and (2) purchase a single piece of jewellery (for example a kamar-bund – waist belt), which may be above 125-150 grams (valued upwards of ₹ 200,000).

Sabarinath, President of Coimbatore Jewellers Association, said that PAN Card, to some extent, has impacted business in Tamil Nadu since: (1) agricultural income is the main source of income for farmers in Tamil Nadu and most farmers do not have a PAN card, and (2) most of the shoppers are women who do not have a PAN card.

Jewellery demand was severely hit in August 2017, when the government decided to amend PMLA (Prevention of Money Laundering Act) which required disclosing an identity card for any purchase above ₹ 50,000. Demand returned to normal levels in October 2017 after the PMLA Act provisions were revoked. Any government moves to reduce the current disclosure threshold of ₹ 200,000 may dampen demand for organised jewellers.

How small jewellers brilliantly managed to reduce income tax outgo

There was a perception, that small jewellers' direct-tax (income tax outgo) will increase after GST implementation, affecting their margins and leaving less money for them to invest in their businesses. This was because of the number of 'white' (accounted) transactions rising substantially.

However, small jewellers had an ace up their sleeves. Since most of these jewellery shops are managed by joint families, these firms have presented "loans from family members" as source of funds for buying incremental inventory . Therefore, although, the number of their legal transactions rose to 80% from 30% earlier, their PBT has increased only marginally (because now interest cost is being accounted in their books, which was not the case earlier).

DO ORGANISED PLAYERS HAVE WHEREWITHAL TO GAIN MARKET SHARE

"Anytime your competitors know what to do, but find it difficult to copy, you know you have a moat here"

- Herb Kelleher, founder of South West Airlines

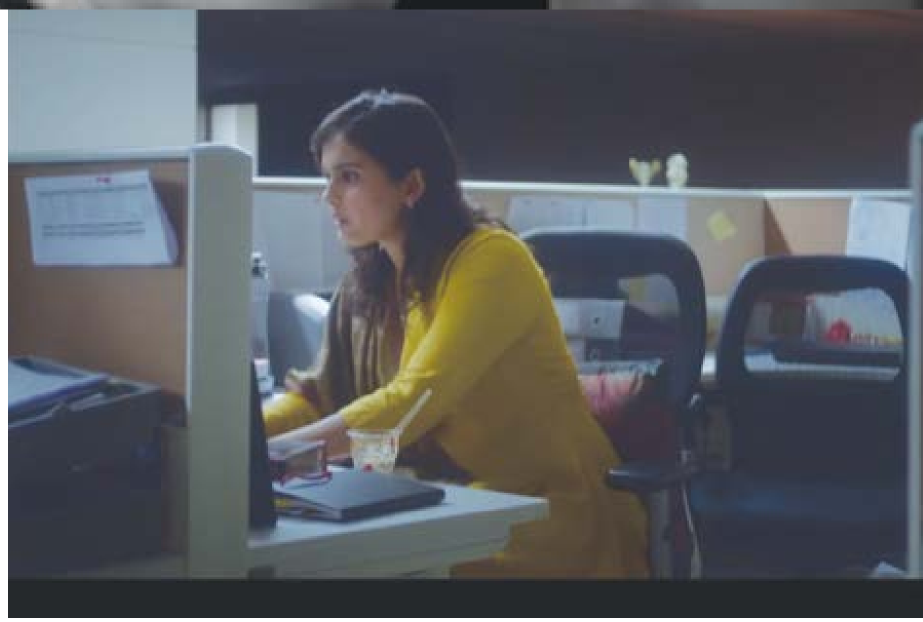
Path breaking ad campaign by Tanishq focusing on working women. Click here to view

How modern jewellers are likely to outsmart traditional jewellers

The government has taken measures to increase the formalisation of the jewellery sector. However, With the unorganised sector (70% of overall market) still occupying a lion's share, it is worth investigating if organised players have the means to gain share in this highly competitive market, where personal rapport with traditional jewellers still holds sway over the contemporary designs of modern jewellers.

Mind-set altering campaigns and celebrity endorsements

Organised players (Tanishq) are either using path-breaking ad campaigns or they are hiring celebrity brand ambassadors (Kalyan Jewellers, Joyalukka's, and Malabar) in order to attract customers. South India (40% of India's gold demand), has the highest share of the organised market, since these jewellers have using celebrities since 1990's to promote jewellery within masses.



Generally, celebrities endorse a brand only when they have full confidence in a jeweller's policies and practices. South-based jewellers have adopted a strategy that FMCG companies usually follow – i.e., appointing a region-specific star for south markets, and a national celebrity for the rest of India.

North-based jewellers such as PC Jewellers, who aim to become pan-India players, are following in the footsteps of south-based jewellers. Explaining the Akshay and Twinkle Khanna deal, Balram Garg, promoter of PC Jewellers had said that – "Much of our marketing and advertising was concentrated on smaller cities during the last few years, but now the company has decided to go for national branding."

Extract from the book Consolidators by Prince Mathews Thomas, which consists of stories of seven second-generation entrepreneurs.

Kalyan Jeweller's first showroom broke many a convention. Built where a popular hotel stood, the new showroom was air conditioned, with dedicated car parking – a complete novelty in Thrissur. Customers were greeted by an artificial waterfall, once inside the large expanse of the store, they were well attended to at the counters by a large staff. The people of Thrissur had never seen so many gold ornaments under one roof before this.

The other crowd-puller for the store was its inauguration itself, which was done by two of the leading cine stars of the Malayalam film industry of the time – Murali and Geetha. The two were still enjoying the success of their 1990 film, Lal Salaam, and the crowds thronged the new store to see them.

It will be unfair to give all the credit to Kalyanaraman for this marketing coup. His father Seetharaman Iyer, in 1972, had successfully employed the same marketing tactic when he got popular playback singer Yesudas to open the textile shop that Kalyanaraman later inherited.

But few would have had the guts to pay cine stars to cut the ribbon at a jewellery store back in 1993. But Kalyanaraman did, and this created a great impact. The opening of the store was well reported and created the hype that generated footfalls. The entrepreneur needed all the attention he could get. He had borrowed money from the banks and from his father, and had also put a large part of his savings into the new venture. The total investment was 75 lakh, and Kalyanaraman had to make sure it didn't turn out to be a damp squib.

He needn't have worried. In the first year, Kalyan Jeweller's first shop in Thrissur clocked ₹ 60 crore in revenues. It was a success that took the businessman himself by surprise, but it emboldened him to do much more.

Most large jewellers are using celebrities to develop trust amongst customers

Jewellers	Brand Ambassador
Tanishq	Deepika Padukone
PC Jewellers	Akshay & Twinkle Khanna
Kalyan Jewellers	Amitabh Bachhan & Aishwariya Rai (Rest of India) ; Manu Warrier (Kerala) ; Nagarjuna Akkineni (AP) ; Shiva Rajkumar (Karnataka) ; Prabhu Ganesan (Tamil Nadu)
Joyalukkas	Kajol (Rest of India) , R Madhavan & Allu Arjun (Tamil Nadu) ; Suresh Gopi (Kerala) ; Sudeep (Karnataka) ; Hiran (West Bengal)
Malabar Gold & Diamonds	Kareena & Karishma Kapoor (Rest of India), Puneet Rajkumar (South India)

Tanishq, along with hiring brand ambassadors, has focused on creating out-of-the-box ad campaigns (featuring second marriage, inter-community marriages) which look at ending stereotypes and luring a progressive audience to its stores. It has backed these ad-campaigns with brands that cater to different audiences – Mia (for working women), Aveer (jewellery for men), and Rivaah (wedding collection).

Tanishq is setting the 'gold standard'

Increasing urbanisation, the rise of nuclear families, and increasing financial independence of women is tilting the shift towards national and organised jewellers over traditional jewellers. National organised players have an edge as far as design is concerned, since jewellery is manufactured using in-house manufacturing facilities (Karigar park) and backed by CAD (design) team, whereas small jewellers procure it from the same vendors and artisans thereby lacking differentiation".

Introduction of Karat meter changed the fortunes for Tanishq

In 1999, Tanishq introduced the 'Karatmeter'. The company was struggling at the time, but this apparatus enabled it to garner enormous trust among customers and enhanced its brand equity. The Karatmeter created a sensation – thousands of women walked into Tanishq showrooms to check their jewellery and when 60% found their gold to be below caratage, it prompted their next purchase from Tanishq.

What is a Karatmeter ?

Karatmeter uses the science of spectroscopy (using X-rays) to measure purity or cartage of gold in three minutes. It is an accurate, non-destructive means of testing the purity of gold and other related elements.

Late Xerves Desai, the first managing director of Titan, called it a "masterstroke by the team". "An obscure scientific laboratory instrument suddenly became the touchstone of our age".

Keshav Duggar, 42, who runs a jewellery shop called 'N K Jain' in Coimbatore said, "I am a small jeweller, and I always face a trust deficit despite selling compliant jewellery. It is not possible for a small-time jeweller to buy Karatmeter, given that it costs a lot (₹ 1.2mn) and there is an annual recurring fee of ₹ 25,000."

Gold exchange programmes offer higher caratage, lower deduction; draw customers

Organised jewellers have been running exchange schemes (Tanishq's is called "19 = 22") since many years. Customers can bring in their old gold jewellery to the stores and get it tested on the karat meter, and if the purity of the jewellery is lower than 22 carat but higher than 19 carat, then customers can exchange it for a 22-carat piece of jewellery (of their choice) by paying only the 'making' charges. Historically, Tanishq has been able to pull significant numbers of customers via this scheme. Currently, it is running a scheme where it offers a 4% deduction if the gold jewellery is below 22 carats and 0% deduction if the jewellery is above 22 karat.

"Gold is a highly penetrated category in India. But, the quality is obviously not the same everywhere. Whenever we go into any new town, we straight away get a lot of business. There are local jewellers, but the quality of their service and experience is not great. So when we go in, their customers move to us," said Sandeep Kulhalli, VP – Retail and Marketing, Tanishq.

Highly motivated employees set the stage for network expansion.

Doing more for employees

Organised players like Tanishq have standard operating procedures in order to ensure that employees receive the best training on customer-relationship management, which helps them remain highly motivated and to cross-sell. Tanishq provides subsidised lunches, late-night drop facility (in case of festive season), a proper incentives system, and a well-defined career path – all this enables an employee to upgrade from customer-executive to store-manager. However, such facilities are not provided to employees in franchisee stores (where the franchisor controls everything).

Employing the right staff: Not all organised players are on target

Organised players such as Tanishq and TBZ are known for their excellent sales service, hospitality, and consistency in service across regions/stores. Conversely, some leading south-based jewellers such as Kalyan Jewellers tend to keep more south-Indian staff in stores in the west and north India, instead of hiring local people – this is in order to keep costs and attrition lower, and these companies tend to trust their native staff more. Also, there are very few sales women (most of the sales staff is men). In a business where the customer and decision maker is a lady, female staff and communication in the local language is an important factor for a store's long-term success.

Ability to converse in the local language and knowledge about local 'taste' helps to understand regional customer needs better. Moreover, it also helps overcome community bias — north Indians may be apprehensive about entering a store with a south-Indian ambience. Already, many national jewellery players face intense competition from strong regional players such as Punjab Jewellers in Indore and Waman Hari Pethe in Mumbai. If national players want to take on these regional players, then they will have to go to another level of localisation/customisation and focus on their core management and marketing capabilities.

"Family jewellers, including regional chains, are traditional in mind-set and management. This does not include certain management and marketing capabilities that an outside player, a corporate marketer like us brings."

– Mr Kulhalli, Senior VP – Retail & Marketing, Jewellery Division, Titan

Large-format stores are doing very well, even in small towns

Large-format stores (10,000+ sq. ft.) can handle higher footfalls and keep varied inventory for different occasions such as weddings, fashion, and daily wear. The mantra of 'more design, higher business' works for these stores. Organised players such as Tanishq can offer a better customer experience in LFS, which will be difficult to match for all smaller players. For example, Lalithaa Jewellery opened an LFS (130,000 sq. ft.) in Hyderabad in 2017 with an investment of ₹ 7.5bn for a single store.

CK Venkataraman, CEO Jewellery Division of Titan Industries said that in Gujarat, women now prefer to buy diamond jewellery rather than gold jewellery. "However, in southern states like Tamil Nadu, gold jewellery is still in fashion. Another major demand is for everyday jewellery, which can be worn to the work place by women. Our latest business initiative is to open such large format stores across the country to cater to a large number of customers."

M Kiran Kumar, Chairman and Managing Director of Lalithaa Jewellery said, "We have items starting from ₹ 1,000 and going up to even ₹ 3 crore. We do not have any exciting offers to attract customers. We observe the best practices in crafting pieces and ensure that making and wastage charges are under 7%. This directly reflects in the price."

Checks revealed that small stores are seeing intense competition from large players in tier 2/3 cities as the latter provide customers with a variety of choices. Well-trained employees are also an advantage. Opening LFS in tier 2/3 cities is more affordable than opening a store in metro cities because of the difference in rental costs and space availability.

Difficult to get franchisee partners, if brand is not well known

Franchise representatives suggest that it does not makes much financial sense to take franchisee rights of a jewellery brand if: (1) the brand is not well known (otherwise competition from strong regional players makes success difficult for franchise partners), (2) the amount of investment required is high, and (3) gold prices are volatile. Most organised players expect franchise owners to have an inventory turnover of 2.0-2.5x and investment of ₹ 120-150mn (assuming store is set up in tier 1/2 cities where competition is lower).

Terms and conditions favour the franchisor

Most organised players do not provide favourable margins to their franchisees and they do not accept any sales returns either. Moreover, franchisees do not receive any help for availing bank credit or low-cost gold on lease facilities – making their businesses quite vulnerable. Therefore, in a volatile gold price environment, their profitability can get hurt. A senior banker from a private bank said that it is not possible to provide low-cost gold on lease facility to franchisee partners "since they are traders".

It will be difficult for organised players (excluding Tanishq since it is a brand from Tata's stable with a nation-wide appeal) to expand beyond their home turfs and attract franchisee partners, given the risks involved. In our view, because of the huge investment required and long payback period, it is difficult for even big players to enter into tier 2-3 cities, where regional/small stores continue to hold sway.

"Thangamayil does not plan to add any store via franchisee route, since current terms and conditions that organised players are offering to franchisee partners are not attractive enough."

– B A Ramesh, Joint MD, ,Thangamayil Jewellery

Karigars (artisans) should be treated as partners, not as bonded labour

Small sized jewellery manufacturers have a short-term cost advantage – most of their karigars stay in hazardous workplaces and use outdated tools and equipment to manufacture jewellery thereby keeping cost of manufacturing low. In Zaveri Bazaar, the 'mecca' of jewellery manufacturing, the plight of the workers is shocking. The living condition of the karigars seemed pathetic – they made jewellery in the same tiny place in which they ate and slept.

Organised players such as Tanishq use indium for soldering jewellery pieces while others use the much cheaper cadmium, which poses long-term health hazards to the karigars and goldsmiths. Indium (₹ 44 000/kg) costs 160x more than cadmium (₹ 270/kg).

DS Rawat, Secretary General of Assocham, said that excessive and prolonged exposure to lethal chemicals

Karigars stay in pathetic conditions

and gases can lead to ailments like lung tissue damage, kidney damage and lung cancer, thereby making the industry less attractive and not an employer of choice for the younger generations. He recommends that the manual methods of cutting, polishing, manufacturing and designing of gems and jewellery be substituted with high-end machines and software "by imparting practical training to the youth in use of laser machines and other modern techniques prevalent globally."

Kalidas Sinha Roy, Secretary of Bengali Swarna Shilpi Kalyan Sangh (karigars association) said – "None of the stakeholders (jewellers/government) are interested in improving living conditions of workers and most of the workers live a life that is undignified and short. They die much earlier than the average Indian because of the toxic chemical and gases that they inhale. On an average, karigars earn only ₹ 50-60 per gram, while retailers charge hefty making charges."

He said that most karigars do not want to come to Mumbai due to lower jewellery volumes in the last two years and are joining big jewellery chains – which give them the status of employees. "The government is planning to set up a mega jewellery park in Navi Mumbai (in order to improve karigars' working conditions – but it does not make sense if traders and retailers do not shift from Mumbai. It is risky to transport high-value gold jewellery over a long distance," he concluded.

Nevertheless, organised players such as Titan, with economies of

Karigars at Piyush's manufacturing facility having lunch together, which is in total contradiction to the plight of karigars in Zaveri bazar

scale, are likely to beat unorganised players in terms of cost by setting karigar parks and centres providing: (1) best food and accommodation, (2) latest tools and machinery, and (3) subsidised land for housing and educational facilities for children. "Tanishq ensures that none of us are working or living in poor conditions. Starting from safety precautions taken in workshops and ending with healthcare facilities, they ensure great living and working conditions!" reads a comment from a karigar on Tanishq's website.

Organised / regional players (except Tanishq) are still very far away from adopting best systems and processes and will have to bring in best governance practices before they approach equity markets for growth capital

Some of the smaller jewellery manufacturers are also moving away from the traditional mind-set and are taking an active interest in the welfare of their karigars. Piyush Vinaykhia, 29, has a manufacturing unit named Parasvanath Jewellers near his house in R S Puram in Coimbatore. He provides food and accommodation to his workers, which in turn helps to improve their productivity. Since these workers stay away from families, he conducts a mini sports festival every Sunday (cricket) for them and even plays with them. He believes it is time for small jewellers to change their mind-set about karigars and treat them as equal partners. "This will help improve their art and creativity".

Will Tanishq continue to glitter?

Can Titan dominate the industry as TCS has done in IT?

TCS became the first company from Tata's stable and from India to join the elite +US$ 100bn league. Tanishq (Titan) and TCS are leaders in their respective fields, with TCS holding a pole position in Indian IT services and Tanishq having the highest market share in the domestic jewellery industry. Both companies have been leaders in their respective space as they have incorporated best-in-class systems and processes, adopting policies that gives equal importance to employees, customers and shareholders.

TCS has been able to take the lead in Indian IT services as it started the concept of onsite billing with work done at offshore offices. Recently it has differentiated its capabilities and heavily invested in its digital business, while other players are still struggling with their legacy businesses. Tanishq literally set the 'gold standard' in the jewellery industry by: (1) introducing 'Karatmeter', (2) launching its differentiated 19=22 gold exchange programme, and (3) focusing on lightweight and studded jewellery, while other players were focusing on plain gold jewellery.

Journey of India's first IT behemoth

Source: Bloomberg

What needs to happen for Titan to become the next TCS?

Reverse DCF (discounted cash flow) analysis suggests that for Titan to reach even half of TCS' current stature in the next 12 years:

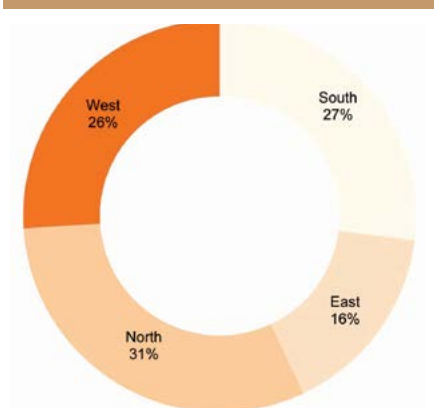
- Its jewellery business will have to generate a CAGR of 18% over FY 19 - 30, gaining market share from unorganised players
- Its EBIT margin shall have to rise to 15% by FY30 from around 11% in FY18, driven by increasing share of studded jewellery, operating leverage, and improved profitability from newly-incubated business
- Its market share in jewellery will have to touch 20% in FY30 from 4% in FY18

If Titan can pursue this scorching path until FY35, it will near the US$ 100bn target

There are several strong tailwinds, and if these are used well, they can propel further growth. Titan has a good chance of taking up an unassailable lead over other organised players.

These include: Network expansion: Tanishq has around 253 stores across 157 cities, with limited presence in south India due to the presence of well-entrenched organised jewellers and customers' limited appetite for studded jewellery, which is Tanishq's forte. Tanishq is in strong position to add stores via the franchise route, which other organised players may find difficult: (1) if the brand is not well known, (2) high investment is needed, and (3) terms and conditions are tilted in favour of the franchisor.

TANISHQ: REGION-WISE STORE MIX



Titan's management has said that it sees potential in at least 400 towns (already present in 157 cities in India), where it believes it can set up at least one Tanishq store. It has launched multiple initiatives to gain market share in cities where it is not in the top-3 despite being present for more than a decade. Although urban India may lose its love for gold/studded jewellery in the medium to longer term, in rural India, with a more entrenched traditional outlook, the growth of the jewellery industry will continue. The government's plan of doubling farmer income by 2022 can support the jewellery industry's growth in rural areas, but in this case, Tanishq will be at a disadvantage, given its focus on studded jewellery.

Aggressive foray into wedding jewellery: A shot-in-the-arm for Tanishq

Tanishq had a laidback approach towards wedding jewellery (+50% of total jewellery demand in India)

Can Titan become the next US$100 bn company from Tata's stable?

Source: Bloomberg

because of lower RoIC and high-ticket value leading to customers becoming reluctance to pay thorough the banking channel. Being a national player, Tanishq also found it difficult to serve regional tastes and preferences. With more than 50% of India's population under the age of 25, India's wedding jewellery segment is likely to only keep rising.

Recognising this, Tanishq has corrected its strategy with the launch of a separate brand Rivaah, for wedding jewellery. Within this, it has launched exclusively focused designs (community wise) within India and create special wedding zones within its retail stores. and increasingly customers have become vary of buying gold from un organised jewellers

"Tanishq (jewellery business) will grow 2.5 times on the back of more stores and increasing our market share in wedding jewellery. The sub-brand 'Rivaah' for wedding jewellery currently contributes around a fourth of our jewellery business." – Mr Bhaskar Bhat, MD, Titan Industries.

Exports – massive opportunity that is yet untapped.

India exports gems and jewellery worth US$ 40bn every year (15% of total exports), marginally lower than its domestic jewellery industry (US$ 50 bn). With a large Indian diaspora residing in key economically developed countries, Tanishq can make significant inroads into these markets.

Compliance with laws will slowly turn into an advantage in India

The government has taken measures such as hallmarking (to be implemented soon), GST (which ensures an audit trail making tax evasion difficult), PAN card requirements (to avoid money laundering and reduce the flow of black money) to increase formalisation within the jewellery sector. With the unorganised sector occupying a lion's share (70%), the government's moves present enormous opportunities for organised jewellers such as Tanishq who are already compliant with laws.

Focus on lightweight jewellery

With the deployment of in-house karigars, a design team, and integrated manufacturing facilities, Tanishq has the advantage of making exclusive design (with economies of scale) – this is difficult for other players to replicate. It has also taken initiatives to increase its market share in the high-value diamond jewellery segment (2/3rd of the overall diamond jewellery market), where its current market share is miniscule. It has been backing these initiatives by path-breaking ad campaigns.

Some organised players are resorting to less-than-best practices

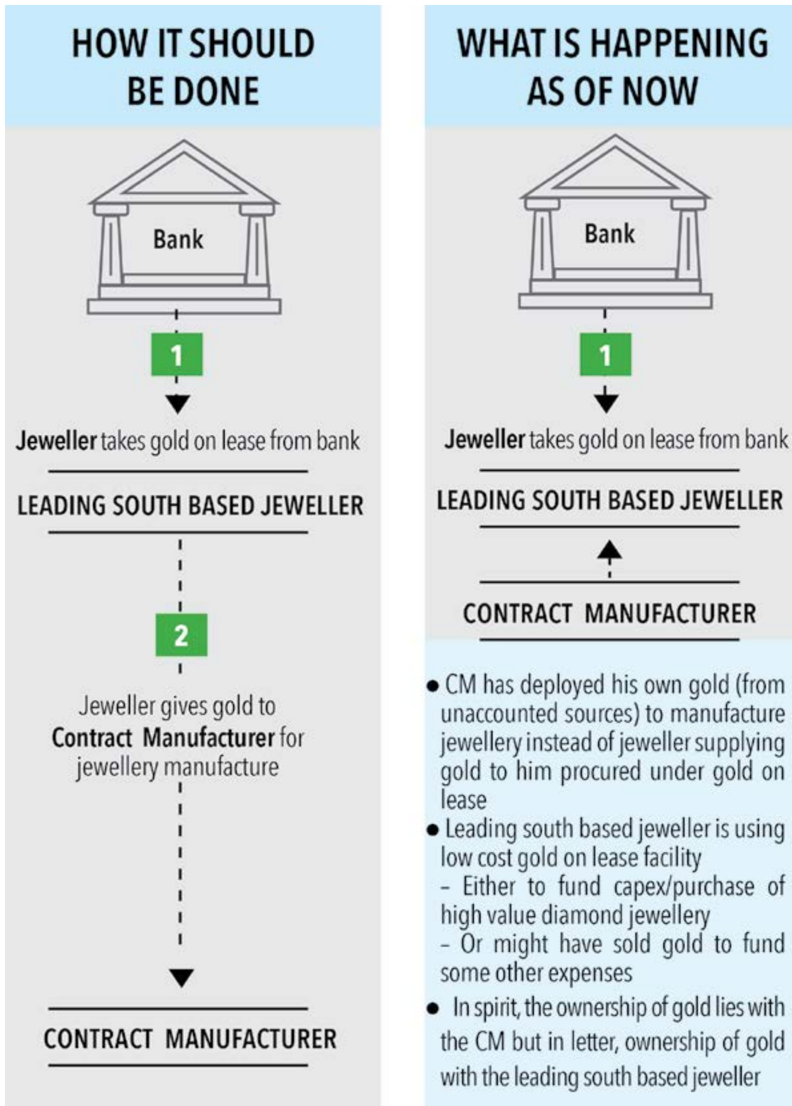
National-level organised players such as Titan follow best-in-class practices (priority – employees first, customers second, and shareholders third). Some of the instances of Titan's best practices:

- Procuring gold from most trusted sources/legal channels. Usage of Indium (which is 160x) costlier vs. cadmium for soldering jewellery pieces
- Providing best equipment, which enables its workers to make world-class jewellery
- Setting up Karigar Parks, providing these skilled workers with subsidised land for housing needs and taking care of their children's education

Some of the organised players, who aspire to tap the capital markets for their expansion needs, will have to clean their books and adopt best practices that are at par with the market leader Tanishq. Only then would they be able to command the desired valuation in the jewellery sector, which is already tainted by multiple scams and fraud.

CASE STUDY 1:

Leading south based jeweller may be facing a liquidity squeeze



As per the law and books of accounts, the jeweller is the owner and custodian of raw gold, but actual ownership (in spirit) of this gold lies with the CM – or contract manufacturer. However, there is a high probability that instead of giving gold to the CM, a south-based jeweller has sold the original gold (procured from the bank on lease) to fund capex or purchase high-value diamonds. This enables the jeweller to expand its retail network faster by misusing the low- cost gold-on-lease facility. If it were to borrow money for expansion from banks, it would have to do so at market rates – the gold-on-lease rates are much lower. However, according to sources, in the medium term, this jeweller might start facing a liquidity squeeze if the contract manufacturer starts demanding the original gold.

There is no smoke without fire

• No sales returns: This particular south-based jeweller has not returned a single piece of jewellery to its CM in the past three years. Generally, 3-4% of goods are returned to the CM due to various reasons including defects.

• CM was stumbled that even if leading south based jeweller decided to melt jewellery on its own instead of returning he will have to bear significant amount of losses since jewellery involves good component of stones.

• The CM receives payment from this leading south-based jeweller in 1.5-2.0 months , which is relatively longer than the market norm of making payments within 15 days. Footfalls at most of the retail outlets of this jeweller are low since it charges higher making charges in the value-conscious southern market.

Why then is this contract manufacturer scoring a self-goal?

The CM, despite being aware of these malpractices, is continuing to associate with this jeweller because the deal is lucrative and there are no real alternatives. "25% of my business comes from this jeweller and I earn higher margin vs. supplying other jewellers, so it is difficult to find a replacement," the CM claimed.

CASE STUDY 2:

Barter system still exists in this era of crypto-currency

Keyur Savla, a jewellery contract manufacturer supplies jewellery to a leading jewellery retailer (who has recently set up the biggest standalone showroom in South India). This jeweller makes payments for making charges in gold terms (bars/coins) to Keyur Savla, instead of money and making these payments off the record. The jeweller has strong political connection and is probably liquidating all its black money accumulated in the form of gold before money laundering norms become more stringent.

Golden era of organised players has just started

As per a WGS report, in 2000, around 95% of the jewellery industry was dominated by unorganised, standalone, family-run businesses. Cut to 2018 and organised players have gained significant market share, even though the unorganised sector still dominates the industry. The point is, the industry is in the middle of a systemic change. By 2020, WGS expects the share of organised players to rise to 35-40%.

The shift to organised players is driven by the difficulties that unorganised players are facing in coping up with increasing rules and regulations. In addition, Gen-Next (the next generation of small jewellers) is showing decreased interest in running family businesses due to high engagement and capital requirements. With a shift in consumer demand (less flashy and more classy jewellery is the trend nowadays) and the younger customers' preference for leisure activities (rather than spending on jewellery, unless there is some occasion such as wedding), many organised players are shifting their focus towards promoting more versatile, simple, and light-weight products.

Despite structural challenges in the business, small jewellers will try to continue with their business. Unorganised players still hold an edge over organised players as far as compliance with laws and rules is concerned (since the former can more easily bypass laws). For now in India, regulatory authorities are not able to ensure that every law is followed by all participants, hence small jewellers get quite a bit of leeway. Of course, this will not continue in the long run.

Challenges – hallmarking not being implemented, a possibility of a lower threshold under the PMLA Act, and slow economic growth – cloud the medium-term potential of the organised jewellery sector. However, in the long run, given benefits of demographic dividend (more marriages) and a strong macro-economic environment, the Indian organised jewellery industry is poised for a dream run.

The key is how this sector will be marketed over the next 20-30 years. While it is unlikely to happen overnight, the way jewellery is consumed in India is assuredly going to change over the next one or two generations. It is very likely that the wedding jewellery craze – for example, young couples could start saving on wedding expenses and invest in a place to live after marriage instead (Love per sq. ft. on Netflix provides great insight into this area). The gold industry is likely to best survive if it is marketed as a combination of investment and adornment.

Indian Economy – Trend Indicators

Monthly Economic Indicators

Growth Rates (%)	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
IIP	1.9	3.8	2.5	2.8	-0.2	0.9	4.5	3.8	1.8	8.5	7.1	7.4	7.1	-
PMI	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7	52.4	52.1	51.0
Core sector	0.6	5.3	2.8	4.1	0.8	2.4	4.4	4.7	5.0	6.9	3.8	6.1	5.4	4.1
WPI	5.5	5.1	3.9	2.1	0.9	1.9	3.2	2.6	3.6	3.9	3.6	3.0	2.5	2.5
CPI	3.7	3.8	3.0	2.2	1.5	2.4	3.3	3.3	3.6	4.9	5.2	5.1	4.4	4.3
Money Supply	6.5	7.3	6.2	7.0	7.4	7.1	7.0	6.0	6.5	7.3	10.2	10.8	10.5	9.9
Deposit	12.1	11.2	9.7	10.3	10.5	9.8	9.7	8.1	8.7	5.4	3.2	4.3	5.3	6.1
Credit	4.4	4.7	3.9	4.7	5.6	5.8	5.9	6.5	6.8	8.7	9.8	10.4	10.4	10.5
Exports	17.5	27.6	19.8	8.3	4.4	3.9	10.3	25.7	-1.1	30.9	12.4	9.1	4.5	-
Imports	21.8	45.3	49.1	33.1	19.0	15.4	21.0	18.1	7.6	21.2	21.1	26.1	10.4	-
Trade deficit (USD Bn)	-8.9	-10.4	-13.2	-13.8	-13.0	-11.4	-11.6	-1.0	25.9	6.3	41.1	64.6	25.8	-
Net FDI (USD Bn)	0.9	0.6	1.8	3.8	1.6	4.0	8.6	1.1	1.6	-1.3	4.3	1.9	4.0	-
FII (USD Bn)	2.5	9.0	2.7	4.7	4.6	3.3	0.6	-1.5	3.1	2.7	-0.4	3.5	-2.4	-
ECB (USD Bn)	2.2	3.3	1.7	1.1	1.6	1.9	1.6	3.5	4.4	3.0	1.3	0.5	3.1	-
Dollar-Rupee	66.7	64.9	64.2	64.5	64.6	64.2	63.9	65.3	64.7	64.5	63.9	63.6	64.4	65.0
FOREX Reserves (USD Bn)	362.8	370.0	372.7	378.8	386.5	392.9	394.6	399.7	398.8	400.7	409.4	417.8	420.6	424.4
NRI Deposits (USD Bn)	111.5	116.9	117.2	117.5	118.1	119.2	118.6	118.0	119.2	120.9	123.3	124.4	124.3	-

Quarterly Economic Indicators

Balance of Payment (USD Bn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Exports	64.9	65.8	66.6	67.4	68.8	77.4	73.7	76.1	77.5
Imports	98.9	90.6	90.5	93.1	102.0	107.1	114.9	108.9	121.6
Trade deficit	-34.0	-24.8	-23.8	-25.6	-33.3	-29.7	-41.2	-32.8	-44.1
Net Invisibles	26.9	24.4	23.5	22.2	25.3	26.3	26.9	25.6	30.6
CAD	-7.1	-0.3	-0.3	-3.4	-8.0	-3.5	-14.3	-7.2	-13.5
CAD (% of GDP)	1.3	0.1	0.1	0.6	1.4	0.6	2.5	1.1	2.0
Capital Account	10.9	3.5	7.1	12.8	6.1	10.4	25.4	16.4	22.1
BoP	4.1	3.3	7.0	8.5	-1.2	7.3	11.4	9.5	9.4

GDP and its Components (YoY, %)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Agriculture & allied activities	-2.1	1.5	2.5	4.1	6.9	5.2	2.3	2.7	4.1
Industry	12.0	11.9	9.0	6.5	7.2	5.5	1.5	7.0	6.8
Mining & Quarrying	11.7	10.5	-0.9	-1.3	1.9	6.4	-0.7	7.1	-0.1
Manufacturing	13.2	12.7	10.7	7.7	8.2	5.3	1.2	6.9	8.1
Electricity, Gas & Water Supply	4.0	7.6	10.3	5.1	7.4	6.1	7.0	7.7	6.1
Services	9.0	9.4	8.2	7.4	6.4	5.7	7.8	6.6	7.6
Construction	6.0	6.0	3.1	4.3	3.4	-3.7	2.0	2.8	6.8
Trade, Hotel, Transport and Communications	10.1	12.8	8.9	7.7	8.3	6.5	11.1	9.3	9.0
Finance, Insurance, Real Estate & Business Services	10.5	9.0	9.4	7.0	3.3	2.2	6.4	6.4	6.7
Community, Social & Personal Services	7.5	6.7	8.6	9.5	10.3	17.0	9.5	5.6	7.2
GDP at FC	7.3	8.7	7.6	6.8	6.7	5.6	5.6	6.2	6.7

Annual Economic Indicators and Forecasts

Indicators	Units	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Real GDP/GVA growth	%	8.6	8.9	6.7	6	5.6	7.1	7.9	6.6	6.5-6.7	7-7.5
Agriculture	%	0.8	8.6	5	1.5	4.2	-0.2	0.7	4.9	2	3
Industry	%	10.2	8.3	6.7	5	4.5	6.5	10.2	7	4.9	5.8
Services	%	10	9.2	7.1	6.1	8.2	9.4	9.1	6.9	8.6	8.8
Real GDP	₹ Bn	45161	49185	52475	85992	90844	97190	104905	111854	119349	127942
Real GDP	US$ Bn	953	1079	1096	1694	1581	1589	1603	1667	1843	1984
Nominal GDP	₹ Bn	64778	77841	87360	99466	112366	124451	136820	151837	167173	186230
Nominal GDP	US$ Bn	1367	1707	1824	1828	1859	2035	2090	2264	2582	2887
WPI (Average)	%	3.8	9.6	8.7	7.4	6	2	-2.5	3.7	3	3.5-4
CPI (Average)		12.4	10.4	8.3	10.2	9.5	6.4	4.9	4.5	3.4	3.7-4.2
Money Supply	%	19.2	16.2	15.8	13.6	13.5	12	10.3	7.3	9.5	10
CRR	%	5.75	6	4.75	4	4	4	4	4	4	4
Repo rate	%	5	6.75	8.5	7.5	8	7.5	6.75	6.25	6	6
Reverse repo rate	%	3.5	5.75	7.5	6.5	7	6.5	5.75	5.75	5.75	5.75
Bank Deposit growth	%	17.2	15.9	13.5	14.2	14.6	12.1	9.7	11.2	8	11
Bank Credit growth	%	16.9	21.5	17	14.1	13.5	12.5	10.7	4.7	9	10
Centre Fiscal Deficit	₹ Bn	4140	3736	5160	5209	5245	5107	5328	5343	5684	5959
Centre Fiscal Deficit	% of GDP	6.4	4.8	5.7	5.2	4.6	4.1	3.9	3.5	3.4	3.2
State Fiscal Deficit	% of GDP	2.9	2.1	1.9	2	2.2	2.6	3.6	3	3.5	3.2
Consolidated Fiscal Deficit	% of GDP	9.3	6.9	7.6	6.9	7.1	6.6	7.5	6.5	6.9	6.4
Exports	US$ Bn	182.4	251.1	309.8	306.6	318.6	316.7	266.4	280.1	299.7	305.7
YoY Growth	%	-3.5	37.6	23.4	-1	3.9	-0.6	-15.9	5.2	7	2
Imports	US$ Bn	300.6	381.1	499.5	502.2	466.2	460.9	396.4	392.6	459.3	470.8
YoY Growth	%	-2.5	26.7	31.1	0.5	-7.2	-1.1	-14	-1	17	2.5
Trade Balance	US$ Bn	-118.2	-129.9	-189.8	-195.6	-147.6	-144.2	-130.1	-112.4	-159.6	-165.1
Net Invisibles	US$ Bn	80	84.6	111.6	107.5	115.2	116.2	107.9	97.1	108.3	116.2
Current Account Deficit	US$ Bn	-38.2	-45.3	-78.2	-88.2	-32.4	-27.9	-22.2	-15.3	-51.2	-48.8
CAD (% of GDP)	%	-2.8	-2.6	-4.2	-4.7	-1.7	-1.4	-1.1	-0.7	-2	1.5-2
Capital Account Balance	US$ Bn	51.6	62	67.8	89.3	48.8	90	41.1	36.5	64.9	82
Dollar-Rupee (Average)		47.4	45.6	47.9	54.4	60.5	61.2	65.5	67	64.8	64.5

Source: RBI, CSO, CGA, Ministry of Agriculture, Ministry of commerce, Bloomberg, PhillipCapital India Research

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Mahindra & Mahindra	Automobiles	740	919,465	457,770	507,104	68,387	76,264	41,988	46,714	71	79	13.9	11.3	10.5	9.4	1.5	1.3	13.7	12.2	14.3	14.3	12.4	12.5
Escorts	Automobiles	873	106,973	47,544	55,196	5,361	7,040	3,366	4,565	28	38	83.2	35.6	30.9	22.8	5.4	4.4	19.7	14.5	17.4	19.2	16.3	18.7
Tata Motors	Automobiles	352	1,118,039	2,782,800	3,122,329	368,187	502,729	93,095	166,158	29	52	56.1	78.5	12.2	6.8	1.7	1.4	4.7	3.3	14.2	20.7	5.3	9.0
Bharat Forge	Automobiles	763	355,201	86,612	100,123	18,376	22,232	9,622	12,324	21	26	69.1	28.1	36.9	28.8	8.3	7.1	20.2	16.6	22.6	24.6	17.4	19.8
Bajaj Auto	Automobiles	2,944	851,766	246,837	285,293	48,270	58,650	42,414	51,964	147	180	10.8	22.5	20.1	16.4	4.4	3.7	17.5	14.3	21.7	22.6	22.0	23.3
Hero MotoCorp	Automobiles	3,556	710,264	312,243	363,552	52,893	60,092	38,371	43,655	192	219	13.6	13.8	18.5	16.3	5.9	4.9	13.2	11.6	31.8	30.1	32.1	30.8
Apollo Tyres	Automobiles	259	148,247	144,418	162,074	17,049	21,907	8,294	11,355	14	20	-24.6	36.9	17.9	13.1	1.9	1.6	10.8	8.3	10.4	12.6	7.1	8.7
Mahindra CIE	Automobiles	231	87,422	65,549	71,450	8,761	10,249	4,435	5,667	12	15	113.0	27.8	19.7	15.4	2.5	2.3	11.0	9.2	12.6	14.6	11.4	14.4
Ceat	Automobiles	1,572	63,598	63,080	73,474	6,459	10,064	3,123	5,173	77	127	-24.2	65.6	20.5	12.4	2.4	2.1	10.9	7.9	11.9	16.9	11.2	16.1
Ramkrishna Forgings	Automobiles	737	24,018	10,900	13,306	2,189	2,803	529	989	16	30	144.3	87.0	45.4	24.3	3.3	2.9	13.5	10.1	7.2	12.0	11.2	13.7
Maruti Suzuki	Automobiles	8,795	2,656,824	766,040	872,874	122,243	141,982	79,475	98,151	263	325	8.3	23.5	33.4	27.1	6.2	5.2	21.7	18.6	18.6	19.3	18.9	19.9
Ashok Leyland	Automobiles	140	410,234	234,197	261,566	22,614	26,604	11,896	14,515	4	5	-24.4	22.0	33.5	27.5	5.6	4.7	18.6	15.7	16.6	17.2	16.0	16.9
BHEL	Capital Goods	90	331,895	298,843	333,782	16,309	30,846	11,086	20,931	3	6	-1.7	88.8	29.9	15.9	1.0	0.9	13.0	5.9	3.3	6.0	3.3	5.4
Larsen & Toubro	Capital Goods	1,301	1,822,404	1,194,390	1,379,457	132,014	157,686	73,790	85,845	53	61	24.4	16.1	24.7	21.3	3.3	2.9	21.1	18.1	13.3	13.9	6.3	6.6
VA Tech Wabag	Capital Goods	549	29,998	34,907	38,142	3,376	3,897	1,624	2,049	30	38	60.1	26.2	18.4	14.6	2.7	2.3	8.7	7.0	14.5	16.0	11.7	12.4
CG Power & Industrial Solutions	Capital Goods	80	50,296	61,911	72,594	5,041	6,960	1,136	2,754	2	4	-35.5	142.4	44.3	18.3	1.4	1.4	11.8	8.6	3.2	7.6	4.6	7.4
GE T&D	Capital Goods	416	106,541	49,713	51,957	4,050	4,836	2,651	3,178	10	12	103.4	19.9	40.2	33.5	8.6	7.3	25.8	21.6	21.5	21.8	23.4	24.9
Voltas	Capital Goods	625	206,704	69,762	77,439	6,339	7,032	4,953	5,412	15	16	12.4	9.3	41.7	38.2	5.7	5.1	32.2	28.5	13.7	13.4	14.1	13.9
Bharat Electronics	Capital Goods	156	382,185	46,203	52,712	2,662	3,911	1,379	2,235	14	22	28.1	62.0	11.4	7.1	1.9	1.7	145.4	98.7	16.2	23.6	11.5	16.9
Engineers India	Capital Goods	168	106,351	16,795	25,060	3,773	5,485	3,550	4,407	6	7	-1.3	24.1	30.0	24.1	4.6	4.4	23.3	15.8	15.4	18.2	18.3	21.3
KEC International	Capital Goods	418	107,527	96,410	111,795	9,767	11,573	4,202	5,355	16	21	25.6	27.4	25.6	20.1	5.5	4.5	12.5	10.6	21.6	22.3	13.6	14.7
Cummins India	Capital Goods	797	221,039	51,373	58,285	7,506	8,923	6,819	7,803	26	28	-1.2	7.5	30.5	28.3	5.5	5.2	29.4	24.6	17.1	18.2	17.3	17.7
Siemens	Capital Goods	1,142	406,778	110,148	132,609	10,512	13,178	6,894	8,809	19	25	10.8	27.8	59.0	46.2	5.3	4.9	34.8	27.3	8.9	10.6	13.3	9.6
ABB India	Capital Goods	1,491	315,849	90,873	112,827	7,361	10,248	4,200	5,887	20	28	18.7	40.2	75.2	53.6	8.8	7.8	41.7	29.9	11.6	14.5	10.6	13.3
Thermax	Capital Goods	1,189	141,617	48,706	53,918	4,655	5,827	2,976	3,827	25	32	0.2	28.6	47.6	37.0	5.2	4.7	29.9	23.4	10.8	12.6	10.8	12.4
India Cement	Cement	153	47,255	61,027	63,870	7,475	9,546	1,206	2,754	4	9	-26.0	128.3	39.2	17.2	0.9	0.9	10.4	7.8	2.4	5.3	3.6	5.2

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
JK Lakshmi Cement	Cement	428	50,375	35,449	39,746	5,042	7,012	1,238	2,787	11	24	53.3	125.0	40.7	18.1	3.3	2.9	12.9	8.9	8.2	16.3	7.8	12.9
JK Cement	Cement	1,013	70,826	43,854	51,242	8,331	9,477	2,996	3,728	43	53	31.8	24.5	23.6	19.0	3.6	3.2	11.2	10.2	15.2	16.9	9.3	10.2
Mangalam Cement	Cement	322	8,582	9,801	11,174	1,407	1,903	535	858	20	32	55.6	60.6	16.1	10.0	1.5	1.4	7.2	4.6	9.4	13.6	9.5	13.5
Dalmia Bharat	Cement	2,664	237,478	84,731	95,211	22,551	26,088	5,577	7,842	63	88	61.7	40.6	42.5	30.2	4.3	3.8	11.9	10.1	10.1	12.5	8.0	8.8
Ambuja Cement	Cement	246	488,667	234,616	267,822	34,684	42,805	17,101	17,189	9	9	32.4	0.5	28.6	28.4	2.4	2.3	12.3	10.0	8.4	8.1	8.1	8.3
Ultratech Cement	Cement	4,095	1,124,518	317,116	429,709	63,928	85,972	26,869	37,491	98	137	-1.0	39.5	41.8	30.0	4.2	3.7	20.3	14.6	10.0	12.5	8.0	8.8
HeidelbergCement India	Cement	154	34,876	20,185	21,394	3,524	3,944	1,356	1,727	6	8	77.9	27.4	25.7	20.2	3.2	2.7	11.2	9.3	12.3	13.5	9.5	10.4
ACC	Cement	1,606	301,614	129,310	147,483	15,583	19,659	9,267	12,118	49	64	44.1	30.8	32.6	24.9	3.2	3.1	17.5	13.9	9.9	12.4	9.8	10.6
Shree Cement	Cement	16626	579,207	100,071	123,447	25,612	32,315	13,215	16,267	379	467	-1.1	23.1	43.8	35.6	7.3	6.3	21.6	17.7	16.6	17.8	16.3	17.0
ICICI Bank	Banks	303	1,949,060	230,063	263,969	225,608	232,800	71,004	84,149	11	13	-34.3	18.3	27.4	23.2	1.9	1.8	8.6	8.4	7.0	8.1	1.6	1.5
State Bank of India	Banks	264	2,274,546	746,079	845,742	562,491	548,792	36,065	171,440	4	19	-285.5	361.3	64.9	14.1	1.2	1.1	4.0	4.1	1.9	8.1	0.1	0.5
Bank of Baroda	Banks	139	319,817	154,992	183,753	122,287	135,628	8,882	40,375	3	14	-43.9	308.5	41.4	10.1	0.9	0.8	2.6	2.4	2.2	8.6	0.1	0.6
Punjab National Bank	Banks	100	242,801	159,466	192,778	136,189	139,172	13,965	31,391	5	11	-17.8	106.0	19.6	9.5	0.5	0.5	1.8	1.7	3.2	5.8	0.2	0.4
LIC Housing Finance	Banks	515	259,826	37,364	42,239	32,587	36,775	19,737	22,866	39	45	2.2	15.9	13.2	11.4	2.1	1.8	8.0	7.1	16.6	16.8	1.2	1.2
Repco Home Finance	Banks	565	35,332	4,308	4,914	3,872	4,400	2,088	2,520	33	40	14.4	20.6	16.9	14.0	2.7	2.3	9.1	8.0	17.1	17.7	2.2	2.3
Canara Bank	Banks	280	167,391	120,126	142,630	109,884	101,671	8,907	15,115	11	16	-60.5	48.2	25.8	17.4	0.6	0.6	1.5	1.6	2.7	3.7	0.2	0.2
HDFC Limited	Banks	1,790	2,959,027	113,256	135,880	176,853	166,817	86,768	95,579	68	67	45.9	-1.8	26.2	26.7	5.1	4.4	16.7	17.7	17.7	15.2	2.5	2.3
AXIS Bank	Banks	525	1,345,587	188,485	224,231	161,700	185,593	34,526	64,950	15	-	-55.5	-	34.1	-	-	-	8.3	7.3	-	-	-	-
Indian Bank	Banks	306	146,849	63,536	75,510	51,104	57,323	15,876	23,341	33	45	13.0	34.7	9.3	6.9	0.9	0.8	2.9	2.6	10.5	13.4	0.7	0.9
HDFC Bank	Banks	1,870	4,850,203	404,190	489,747	328,919	400,385	175,826	217,177	65	81	15.3	23.5	28.6	23.1	4.0	3.5	14.7	12.1	16.3	16.1	1.9	2.0
Indusind Bank	Banks	1,689	1,013,707	75,776	93,857	66,855	81,424	35,810	44,105	60	74	24.9	23.2	28.2	22.9	4.3	3.7	15.2	12.4	16.1	17.2	1.9	1.9
DCB Bank	Banks	163	50,355	10,068	11,967	5,321	6,548	2,522	3,288	8	11	17.4	30.3	19.9	15.3	1.8	1.6	9.5	7.7	10.0	10.9	1.0	1.1
Union Bank	Banks	101	86,217	96,731	112,823	73,700	80,811	-25,611	15,605	-22	11	-373.6	-149.1	-4.6	9.3	0.4	0.4	1.2	1.1	-10.9	5.4	-0.6	0.3
Oriental Bank of Commerce	Banks	98	33,994	47,242	51,947	42,342	43,619	-48,659	2,190	-76	2	139.2	-103.3	-1.3	39.3	0.6	0.6	0.8	0.8	-40.5	1.7	-2.0	0.1
Dewan Housing Finance	Banks	1,395	239,908	19,544	23,486	35,898	20,439	9,270	11,820	-	-	-	-	-	-	-	-	6.7	11.7	14.2	13.9	1.2	1.2
Britannia	FMCG	4,902	588,584	98,714	111,398	14,929	17,310	9,973	11,429	83	95	12.8	14.6	59.0	51.4	17.9	15.0	39.1	33.7	30.3	29.1	32.2	30.8

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Jubilant Foodworks	FMCG	1,998	131,811	29,016	32,884	2,669	3,262	833	1,111	13	17	38.0	33.3	156.9	117.7	14.3	12.8	49.0	39.9	9.1	10.9	9.1	11.0
ITC	FMCG	260	3,173,931	456,580	510,679	161,238	179,493	111,748	124,313	9	10	6.7	11.2	28.0	25.2	6.6	6.4	19.5	17.4	23.5	25.3	22.8	24.6
Hindustan Unilever	FMCG	1,300	2,813,281	352,491	401,078	72,509	96,283	47,278	63,588	22	29	9.1	34.5	59.6	44.3	39.9	32.2	38.5	28.8	67.0	72.7	69.2	81.0
Colgate	FMCG	1,048	285,123	41,546	46,009	10,836	12,268	6,516	7,437	24	27	12.8	14.1	43.8	38.3	18.6	15.7	26.2	22.8	42.5	40.9	46.4	44.3
Glaxo Smithkline Consumer	FMCG	6,717	282,485	41,531	45,902	8,792	10,020	6,854	7,753	163	184	4.4	13.1	41.2	36.4	8.2	7.4	27.9	24.4	19.9	20.4	20.9	21.5
Titan Company	FMCG	809	718,130	154,670	184,581	17,208	21,535	11,992	15,002	14	17	39.7	25.1	59.9	47.9	13.9	11.4	41.0	32.5	23.1	23.8	26.2	27.2
Asian Paints	FMCG	1,106	1,060,825	170,174	191,287	34,036	38,052	22,272	24,862	23	26	10.5	11.6	47.6	42.7	12.1	10.6	30.8	27.5	25.4	24.8	24.6	24.2
Godrej Consumer Products	FMCG	1,075	732,634	99,595	112,237	20,915	24,920	14,474	17,522	21	26	9.7	21.1	50.6	41.8	11.3	9.3	35.6	29.4	22.4	22.3	16.3	17.2
Emami	FMCG	1,098	249,108	25,511	28,271	7,311	7,928	3,384	4,096	15	18	13.7	21.1	73.6	60.8	12.9	11.4	34.1	31.0	17.5	18.8	16.4	18.6
Agro Tech Foods	FMCG	650	15,842	8,150	8,844	674	822	331	439	14	18	33.7	32.7	47.9	36.1	4.2	3.9	23.8	19.3	8.7	10.7	8.3	10.3
Marico Industries	FMCG	309	398,203	64,020	73,387	11,700	13,953	8,437	10,060	7	8	5.6	19.2	47.2	39.6	16.6	16.1	33.8	28.3	35.2	40.7	29.1	33.8
Dabur India	FMCG	325	572,494	78,312	85,760	16,401	17,451	13,834	14,868	8	8	8.4	7.5	41.4	38.5	10.1	8.7	35.2	32.5	24.4	22.6	22.3	21.0
Bajaj Corp	FMCG	481	71,014	8,466	9,585	2,602	3,092	2,314	2,714	16	18	-0.7	17.3	30.7	26.2	15.2	15.2	27.3	22.8	49.4	58.3	50.9	61.5
Parag Milk Foods	FMCG	277	23,258	18,682	21,298	1,942	2,093	891	1,048	11	12	143.9	17.7	26.1	22.2	3.1	2.7	13.1	11.5	11.9	12.3	13.7	13.2
Nestle	FMCG	7,714	743,751	103,361	115,903	20,593	23,864	12,062	14,252	125	148	19.5	18.2	61.7	52.2	22.6	20.5	36.0	30.2	36.6	39.4	37.9	40.9
Sadbhav Engineering	Infrastructure	395	67,762	37,187	43,137	4,165	4,745	2,243	2,314	13	13	19.4	3.1	30.2	29.3	3.6	3.2	19.4	17.1	12.0	11.1	10.1	9.8
KNR Construction	Infrastructure	302	42,452	18,493	22,191	3,421	3,551	2,290	2,039	16	15	36.2	-10.9	18.5	20.8	3.8	3.2	12.7	12.2	22.7	16.7	21.0	16.0
JKumar Infra	Infrastructure	310	23,449	16,962	20,355	2,935	3,460	1,217	1,481	16	20	15.4	21.7	19.3	15.8	1.6	1.4	9.0	7.9	8.4	9.5	8.6	9.3
IRB Infrastructure	Infrastructure	219	77,091	55,430	67,624	26,132	33,706	7,580	8,517	22	24	5.9	12.4	10.2	9.1	1.2	1.1	7.4	6.3	12.2	12.3	3.6	4.6
Ahluwalia Contracts	Infrastructure	372	24,943	16,405	19,686	2,264	2,608	1,228	1,517	18	23	42.8	23.5	20.3	16.4	4.0	3.3	10.6	9.2	21.6	21.8	21.4	21.9
PNC Infratech	Infrastructure	163	41,816	18,580	24,154	2,601	3,382	1,813	1,944	7	8	-13.8	7.2	23.1	21.5	2.4	2.2	16.6	13.5	11.0	10.6	11.0	10.4
Adani Ports & SEZ	Infrastructure	404	836,561	108,330	114,533	69,495	74,041	39,365	42,550	19	21	5.4	8.1	21.3	19.7	3.9	3.3	14.6	13.3	18.4	16.7	12.0	11.5
NCC	Infrastructure	127	76,222	81,955	106,541	8,195	10,121	3,546	4,457	6	7	25.9	25.7	21.5	17.1	1.8	1.6	11.0	9.2	8.3	9.5	9.5	10.4
ITD Cementation	Infrastructure	179	30,733	26,648	31,977	3,064	3,677	1,383	1,837	8	11	26.8	32.8	22.2	16.7	2.8	2.4	10.2	8.6	12.4	14.2	14.7	14.7
Hindustan Construction	Infrastructure	33	33,815	45,316	49,848	6,797	5,982	1,152	2,401	1	2	42.9	108.4	29.2	14.0	1.2	1.1	10.6	9.4	4.2	8.2	7.4	7.5
Ashoka Buildcon	Infrastructure	223	41,650	25,295	30,353	3,162	3,794	2,049	2,279	11	12	11.4	11.2	20.3	18.3	2.0	1.9	13.8	11.8	10.1	10.1	10.8	10.7

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Cyient Limited	IT Services	630	70,942	39,189	43,617	5,523	6,361	4,269	4,830	38	43	15.4	13.1	16.6	14.7	3.1	2.7	11.2	9.4	18.5	18.3	16.4	18.1
L&T Technology Services	IT Services	1,339	137,153	37,033	43,242	5,786	7,316	4,800	5,803	47	57	13.0	20.9	28.4	23.5	7.0	5.6	23.9	18.6	24.7	23.9	25.9	24.6
Tech Mahindra	IT Services	631	617,989	305,681	327,821	45,880	50,882	34,058	31,938	39	36	19.8	-6.2	16.3	17.4	3.2	2.8	13.1	11.6	19.5	16.3	14.5	12.5
HCL Technologies	IT Services	932	1,297,670	506,084	552,208	114,853	128,536	87,228	93,323	63	67	4.6	7.0	14.9	13.9	2.9	2.4	11.2	9.9	23.9	20.9	23.7	22.0
NIIT Technologies	IT Services	880	54,055	29,709	32,935	4,975	5,442	2,772	3,304	45	54	1.7	19.2	19.4	16.3	3.1	2.8	9.6	8.3	16.0	16.9	15.9	16.9
L&T Infotech	IT Services	1,395	239,908	72,648	84,824	12,373	14,836	11,157	12,213	65	72	14.9	9.5	21.3	19.5	6.3	5.1	19.5	16.0	29.4	26.0	29.8	26.7
Persistent Systems	IT Services	821	65,684	30,840	34,422	4,943	5,756	3,354	3,958	42	49	7.2	18.0	19.6	16.6	3.1	2.7	13.1	11.1	15.7	16.4	15.4	16.2
Wipro	IT Services	291	1,316,144	545,951	570,529	110,171	119,394	84,167	89,507	19	20	6.5	6.3	15.6	14.6	2.7	2.4	12.7	11.5	17.4	16.2	15.3	15.7
Mindtree	IT Services	860	140,903	54,411	61,308	7,252	8,854	5,287	5,751	32	35	29.4	8.8	26.6	24.5	5.3	4.6	19.5	15.6	19.8	18.8	20.4	20.4
Tata Consultancy	IT Services	3,106	5,945,490	1,224,576	1,330,948	324,110	357,379	256,407	283,805	134	149	0.6	10.7	23.1	20.9	7.3	6.1	18.2	16.5	31.4	29.4	29.3	30.9
Infosys Technologies	IT Services	1,156	2,524,616	708,113	769,155	191,075	208,272	162,339	157,215	75	72	18.6	-3.2	15.5	16.0	4.2	3.8	11.7	10.5	27.0	23.5	25.1	24.7
Intellect Design Arena	IT Services	195	28,896	10,040	11,187	756	906	299	447	-	-	-	-	-	-	3.2	3.0	41.6	34.9	-	-	2.3	2.9
Majesco	IT Services	467	13,108	8,185	9,883	18	504	-90	226	-4	10	-163.9	-350.3	-121.6	48.6	3.8	3.5	685.5	24.6	-3.1	7.2	-0.7	5.4
Dish TV	Media	70	75,045	29,390	31,790	8,186	9,359	-857	-22	-1	-0	-178.4	-97.5	-87.6	-3,477.2	18.5	18.6	10.7	9.3	-21.2	-0.5	3.5	6.7
DB Corp Limited	Media	344	63,314	24,602	26,994	7,192	8,230	4,325	5,153	24	28	16.0	19.1	14.6	12.3	3.4	3.0	8.2	6.8	23.5	24.7	21.6	23.0
Zee Entertainment	Media	552	530,026	66,023	75,832	20,825	24,556	13,319	16,420	14	17	9.3	23.3	39.8	32.3	6.9	6.0	25.0	21.1	17.4	18.5	14.9	16.7
Hindalco Inds	Metals	230	515,443	1,044,131	1,107,967	142,778	146,545	36,939	41,237	17	19	105.9	11.6	13.8	12.4	1.0	0.9	7.2	6.5	7.2	7.5	7.5	6.2
JSW Steel	Metals	292	704,982	674,006	743,974	136,532	167,679	48,282	68,995	20	29	39.8	42.9	14.6	10.2	2.6	2.1	7.7	6.1	18.0	20.6	10.4	12.6
Tata Steel	Metals	656	655,823	1,297,877	1,348,457	214,952	230,818	88,606	101,651	74	84	77.8	14.7	8.9	7.8	1.6	1.4	5.9	5.2	18.5	18.2	8.2	8.3
Hindustan Zinc	Metals	314	1,325,271	218,492	246,998	126,037	147,832	95,377	110,441	23	26	14.7	15.8	13.9	12.0	3.6	3.0	8.8	7.0	25.7	25.0	31.5	28.5
Vedanta	Metals	316	1,174,262	916,653	1,074,061	248,561	328,075	85,575	135,644	23	36	52.1	58.5	13.7	8.7	1.8	1.5	6.7	4.7	12.8	17.8	10.3	13.7
NALCO	Metals	64	123,418	93,452	98,352	15,481	20,496	6,687	12,854	3	7	-12.4	92.2	18.5	9.6	1.2	1.1	6.2	5.0	6.4	11.9	12.3	10.3
SAIL	Metals	78	322,387	570,369	670,076	43,672	98,392	-5,467	22,261	-1	5	-79.1	-507.2	-59.0	14.5	0.9	0.9	17.5	7.7	-1.6	6.0	0.9	4.9
Praj Inds.	Logistics	88	15,993	4,880	5,517	407	513	111	160	10	15	1,607.5	44.3	8.6	6.0	0.8	0.8	42.0	33.4	9.7	12.9	7.1	8.5
Pennar Inds.	Logistics	58	6,938	17,267	20,048	1,764	1,968	599	733	5	6	28.5	22.2	11.6	9.5	1.2	1.1	5.4	4.5	10.1	11.4	12.3	13.6
Indo Count Industries	Logistics	99	19,562	20,921	23,209	3,009	3,602	1,556	1,977	8	10	-32.9	27.1	12.6	9.9	2.0	1.7	7.1	6.1	15.9	17.5	16.1	17.3

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Sintex Plastic	Logistics	66	38,972	99,494	112,846	17,540	19,500	6,706	7,457	13	14	28.7	11.2	5.1	4.6	0.5	0.4	6.0	5.3	9.5	9.6	5.9	6.3
KDDL	Logistics	370	4,010	4,880	5,517	407	513	111	160	10	15	1,607.5	44.3	36.1	25.0	3.5	3.2	12.5	10.1	9.7	12.9	7.1	8.5
Gateway Distriparks	Logistics	207	22,556	3,977	4,556	867	1,070	774	1,104	7	10	4.5	42.6	29.1	20.4	2.2	2.2	26.0	20.9	7.7	10.8	7.5	10.5
Container Corp Of India	Logistics	1,280	312,044	58,834	68,120	11,739	13,867	10,139	11,628	42	48	6.5	14.7	30.8	26.8	3.3	3.1	24.8	21.0	10.8	11.7	11.2	12.1
Navkar	Logistics	169	25,490	4,383	7,153	1,674	2,657	1,014	1,793	7	12	18.5	76.8	25.1	14.2	1.5	1.3	17.2	10.1	6.0	9.2	5.5	8.6
Allcargo Logistics	Logistics	174	42,714	59,952	65,076	4,206	5,140	2,094	2,649	9	11	-9.7	26.5	20.4	16.1	2.2	2.0	11.3	9.2	10.9	12.6	9.7	11.4
VRL Logistics	Midcap	410	37,369	19,189	21,800	2,429	2,950	993	1,189	11	13	41.4	19.8	37.5	31.3	6.4	5.8	15.8	13.5	17.0	18.5	13.2	14.0
V Guard Industries	Midcap	235	99,837	24,092	27,394	2,305	2,836	1,647	2,065	4	5	8.5	25.4	60.5	48.2	13.0	10.8	43.2	35.1	21.5	22.3	22.4	23.4
Bajaj Electricals	Midcap	547	55,769	46,203	52,712	2,662	3,911	1,379	2,235	14	22	28.1	62.0	40.1	24.8	6.5	5.9	22.8	15.3	16.2	23.6	11.5	16.9
Finolex Cables	Midcap	693	105,964	28,457	30,870	4,260	4,693	3,709	4,083	24	27	17.4	10.1	28.6	26.0	4.8	4.2	24.2	21.5	16.9	16.1	17.9	17.0
KEI Industries	Midcap	379	29,715	33,013	37,726	3,231	3,760	2,908	3,447	37	44	18.1	18.5	10.1	8.6	5.0	3.9	11.3	9.6	48.8	45.7	22.4	24.3
Havells India	Midcap	507	317,044	82,885	95,608	10,379	12,234	6,925	7,839	11	13	16.0	13.2	45.7	40.4	8.6	7.8	30.7	25.9	18.9	19.2	17.8	18.2
Muthoot Finance	NBFC	387	154,787	34,385	41,959	11,705	10,778	7,260	6,373	9	8	115.1	-12.2	44.9	51.1	9.8	8.6	13.2	14.4	24.0	17.9	5.8	4.6
Shriram City Union Finance	NBFC	2,024	133,485	28,000	32,249	17,642	20,243	5,561	7,699	84	117	4.9	38.5	24.0	17.3	2.7	2.4	7.6	6.6	11.7	14.4	2.5	2.9
Cholamandalam Investment and Finance	NBFC	1,454	227,221	24,152	28,544	14,162	17,668	7,187	8,948	46	57	26.3	24.5	31.6	25.4	5.3	4.5	16.0	12.9	18.0	19.0	2.5	2.7
Shriram Transport Finance	NBFC	1,369	310,693	55,613	61,031	43,682	47,627	12,573	18,437	55	81	6.7	46.6	24.7	16.9	2.7	2.4	7.1	6.5	11.7	15.2	1.8	2.3
Mahindra & Mahindra Finance	NBFC	437	269,747	30,732	37,312	19,292	25,973	4,002	8,946	7	14	-40.5	104.3	61.6	30.2	3.8	2.9	14.0	10.4	6.4	11.3	0.9	1.8
Manappuram Finance	NBFC	108	90,974	19,720	20,300	11,705	10,778	7,260	6,373	9	8	115.1	-12.2	12.5	14.3	2.7	2.4	7.8	8.4	24.0	17.9	5.8	4.6
Magma Fincorp	NBFC	159	37,794	12,190	12,482	6,537	6,726	127	2,313	1	10	-94.0	-	296.8	16.3	1.7	1.6	5.8	5.6	0.6	10.2	0.1	1.7
Indiabulls Housing Finance	NBFC	1,238	528,158	39,883	50,764	45,547	57,945	29,086	35,662	-	-	-	-	-	-	-	-	11.6	9.1	25.5	28.0	3.2	3.0
Bharat Financial Inclusion	NBFC	1,028	142,965	11,500	16,436	6,268	9,312	3,888	5,267	28	37	32.8	34.1	36.8	27.5	5.1	4.3	22.8	15.4	14.8	17.0	2.7	2.3
Castrol India	Oil & Gas	201	198,404	38,144	40,853	11,360	11,987	7,688	8,085	16	16	18.4	5.2	12.9	12.3	13.4	12.1	16.6	15.7	103.9	98.3	123.4	117.7
Indraprastha Gas	Oil & Gas	305	213,710	36,908	42,092	11,034	12,546	6,722	7,741	48	55	17.7	15.1	6.4	5.5	1.3	1.1	18.6	16.2	19.8	19.8	17.4	17.5
Gujarat State Petronet	Oil & Gas	204	115,022	11,959	13,006	10,641	11,546	6,537	7,077	12	13	31.6	8.3	17.6	16.2	2.3	2.1	10.5	9.3	13.1	12.9	11.5	11.4
GUJARAT GAS	Oil & Gas	863	118,761	55,989	65,717	10,554	12,705	3,810	5,213	28	38	73.6	36.8	31.2	22.8	6.1	5.1	13.3	10.9	19.7	22.4	8.8	10.5
Gulf Oil Lubricants	Oil & Gas	981	48,761	12,636	14,804	2,103	2,575	1,453	1,685	29	34	20.0	16.0	33.5	28.9	11.1	9.2	22.7	18.4	33.2	31.7	27.5	28.3

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	**Sector**	**₹**	**₹ bn**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Petronet LNG	Oil & Gas	236	353,250	284,599	312,247	33,415	35,000	21,993	23,719	15	16	-35.5	7.8	16.1	14.9	3.7	3.1	10.8	9.9	22.8	21.0	18.1	17.8
Reliance Industries	Oil & Gas	924	5,853,370	3,911,328	4,475,785	571,288	726,271	294,305	311,712	50	53	-50.7	5.8	18.6	17.6	1.9	1.7	14.5	11.4	10.1	9.8	7.0	7.0
Mangalore Refinery & Petrochemical	Oil & Gas	114	199,270	444,981	467,249	45,534	50,348	23,441	27,772	13	16	14.5	18.5	8.5	7.2	1.7	1.5	5.4	4.6	20.3	20.8	14.9	16.1
Chennai Petroleum	Oil & Gas	356	53,027	296,439	317,455	17,923	22,176	8,422	10,198	57	68	-22.8	21.1	6.3	5.2	1.4	1.2	6.0	4.7	21.9	22.6	12.1	13.5
Ipca Laboratories	Pharma	685	86,478	32,330	36,885	4,332	6,787	2,124	3,995	17	32	19.8	88.1	40.4	21.5	3.2	2.8	21.0	13.0	8.0	13.0	6.6	11.3
Aurobindo Pharma	Pharma	601	351,969	165,892	188,075	39,217	45,138	25,339	29,161	44	50	10.3	15.1	13.8	12.0	3.0	2.4	9.5	7.9	21.5	20.0	21.8	21.2
Divi's Laboratories	Pharma	1,012	268,681	40,843	46,981	13,678	17,477	9,589	12,345	36	47	-12.8	28.7	28.0	21.8	4.3	3.6	19.6	14.9	15.2	16.3	-	-
Cadila Healthcare	Pharma	392	401,205	117,580	123,271	27,139	28,318	16,767	18,466	16	18	15.8	10.1	23.9	21.7	4.8	4.1	15.9	15.1	19.5	18.2	13.1	13.4
Sun Pharma	Pharma	760	104,866	15,045	302,642	7,642	75,630	6,671	48,312	48	20	2.9	-58.0	15.8	37.7	0.0	4.1	13.7	-0.3	21.5	11.0	5.6	9.3
Cipla	Pharma	579	466,354	15,857	17,910	4,234	5,140	1,671	2,288	21	29	18.3	36.9	27.8	20.3	3.3	2.9	110.6	90.7	20.0	22.7	-	-
Lupin	Pharma	790	357,208	155,407	167,234	30,850	34,900	14,269	17,129	32	38	-50.8	20.0	25.0	20.8	2.5	2.3	13.4	11.6	9.7	10.7	-	-
Glenmark Pharma	Pharma	551	155,588	91,276	97,171	18,198	20,129	9,497	10,465	34	37	-27.7	10.2	16.4	14.9	2.7	2.3	10.5	9.3	16.3	15.4	11.1	11.1
Dr Reddy's Labs.	Pharma	2,181	361,650	146,466	163,555	27,096	35,001	12,401	18,678	73	110	3.0	50.6	30.0	19.9	2.8	2.5	14.7	11.2	9.3	12.6	5.8	8.3
Biocon	Pharma	623	373,980	40,838	55,576	8,414	13,628	3,706	7,601	6	13	-39.7	105.1	100.9	49.2	8.1	7.3	46.6	29.0	7.5	14.3	7.3	12.8
SRF	Specailty Chem	1,882	108,040	56,332	64,657	9,069	11,768	4,405	5,933	77	103	-9.6	34.7	24.5	18.2	3.1	2.7	14.7	11.3	12.4	14.6	7.9	9.4
Meghmani Organics	Specailty Chem	92	23,295	18,328	21,353	4,160	4,634	1,656	1,811	7	7	142.8	9.3	14.1	12.9	2.6	2.2	6.6	6.1	18.7	17.0	16.5	15.2
Camlin Fine Sciences	Specailty Chem	115	13,972	7,061	9,770	332	1,583	-105	828	-1	7	-20.0	-888.2	-132.7	16.8	3.8	3.1	48.1	10.3	-2.4	22.3	-	-
Aarti Industries	Specailty Chem	1,162	95,412	36,919	42,646	6,978	8,657	3,297	4,436	41	55	5.5	34.6	28.7	21.3	5.9	4.6	16.2	13.3	21.6	22.6	-	-
Vinati Organics	Specailty Chem	808	41,506	7,522	9,812	2,104	3,150	1,351	2,051	26	40	-0.6	51.8	30.8	20.3	5.1	4.1	20.2	14.3	16.6	20.1	-	-
Atul	Specailty Chem	2,667	79,117	33,716	37,898	5,226	6,708	3,195	4,220	108	142	-1.1	32.1	24.8	18.8	3.5	3.0	15.0	11.2	14.0	15.9	-	-
Idea Cellular	Telecom	83	359,790	284,799	302,612	57,395	68,365	-42,950	-45,438	-12	-13	974.4	5.8	-6.9	-6.5	1.5	2.0	15.8	13.5	-21.7	-30.1	-2.7	-2.6
Bharti Airtel	Telecom	421	1,684,704	847,441	920,039	290,296	350,236	8,058	62,807	2	16	-84.9	679.4	209.2	26.8	2.4	2.2	10.2	8.2	1.1	8.2	3.3	5.8
Bharti Infratel	Telecom	339	627,295	93,542	101,747	66,639	73,529	30,998	34,689	17	19	12.7	11.9	20.3	18.1	4.3	4.6	8.7	7.8	21.4	25.6	15.7	18.2
Tata Communications	Telecom	629	179,151	188,796	200,469	28,498	32,949	4,408	7,493	15	26	49.8	70.0	40.6	23.9	18.8	22.4	8.9	7.6	46.4	93.6	4.7	7.2

Source: PhillipCapital India Research Estimates

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