

## Veerkrupa Jewellers Limited

### A REVIEW REPORT ON VEERKRUPA JEWELLERS LIMITED IPO

#### IPO Details

<b>Opening Date</b>	June 29, 2022 June 08, 2022 (extended)
<b>Closing Date</b>	
<b>Stock</b>	
<b>Exchange</b>	BSE SME
<b>Lot Size</b>	4000 Shares
<b>Issue Price</b>	₹ 27 per share
<b>Issue Size</b>	30,00,000 Equity Shares
<b>Application Amount</b>	₹ 1,08,000

#### IPO Objective

- To meet the Working Capital Requirements
- General Corporate Purposes

#### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	38,87,768	79.94%
Public	9,75,384	20.06%

#### Company Background

- Company was incorporated in the year 2019.
- Company started its business as a proprietary firm in the year 2001.
- Its product profile includes designer, traditional, modern and combined designs of jewellery.
- Company's jewellery business includes the sale of jewellery made of gold, silver, studded and other jewellery products that include diamond, platinum and other precious and semi-precious stones.
- As on the date of filing this prospectus, the company had a total of 13 employees.

#### Promoter of the Company

1. Mr. Chirag Arvind Shah
2. Mrs. Nehaben Chiragbhai Shah

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## Company Overview

Veerkrupa Jewellers Limited was incorporated in the year 2019 in Gujarat. The company was formed earlier in 2001 as a proprietary firm by Mr. Chirag Arvind Shah. The company is engaged in the business of Jewellery having two showrooms each at Naroda and Narol. The showrooms have a combined area of 1050 square feet. Company's product profile includes designer, traditional, modern and combined designs of jewellery. Company's jewellery business includes the sale of jewellery made of gold, silver, studded and other jewellery products that include diamond, platinum and other precious and semi-precious stones

### **Analysis**

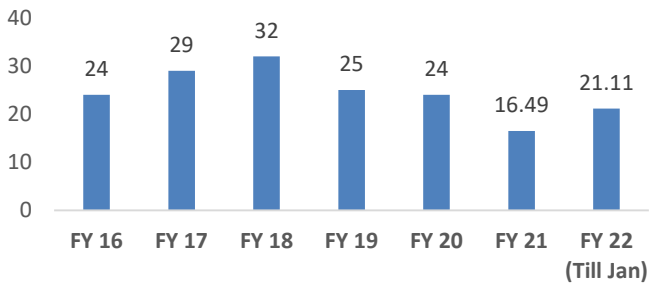
Being established in the year 2001 as a proprietary concern, the company was incorporated on September 13, 2019 suggesting that the company was transformed to private limited with a view to raise public issue. Company deals in trading of Jewellery items in Gujarat and is operating in an industry and area which is highly fragmented. Company just has 2 showrooms, both in Gujarat, which does not seem to be sufficient to compete in such a market with many players existing in the market with good brand name and reputation. Talking about the company's revenue, in FY 18-19, the revenue was Rs. 165.32 lakhs, in FY 19-20 the revenue was 1094.86 lakhs, in FY 20-21 the revenue was Rs. 463.28 lakhs and up to December'21 the revenue is Rs. 1002.64 lakhs showing inconsistency in generating revenue in past few years. The size and market share of the company is very small to demand such a high price from the market.

## Industry Charts

Exhibit 1: Net Exports of Gems and Jewellery (US\$ Billion)

Exhibit 2: Imports of Gems and Jewellers (US\$ Billion)

**Net Exports of Gems and Jewellery (US\$ Bn)**



**Imports of Gems and Jewellery (US\$ Bn)**

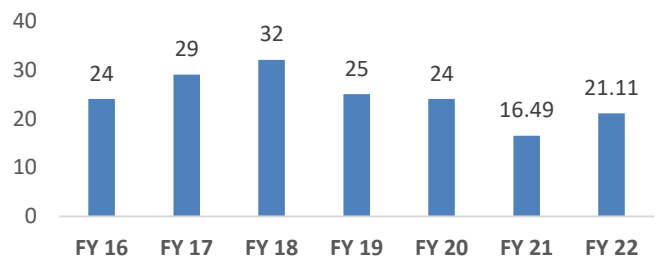
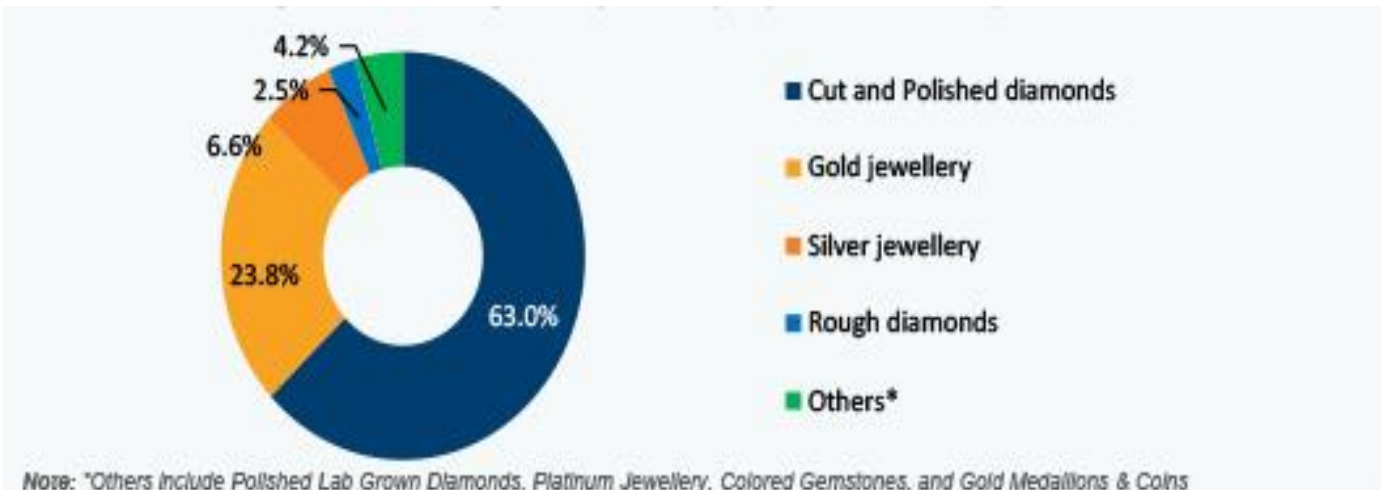


Exhibit 3: Share of various segments in total gems & jewellery exports between April 2021 and October 2021



(Source: ibef.org)

## Investment Overview

### **Gems and Jewellery Industry**

As of February 2021, India's gold and diamond trade contributed ~7.5% to India's Gross Domestic Product (GDP) and 14% to India's total merchandise exports. The gems and jewellery sector is likely to employ ~8.23 million persons by 2022, from ~5 million in 2020. Based on its potential for growth and value addition, the Government declared gems and jewellery sector as a focus area for export promotion. The Government has undertaken various measures recently to promote investment and upgrade technology and skills to promote 'Brand India' in the international market. The Government has permitted 100% FDI in the sector under the automatic route, wherein the foreign investor or the Indian company do not require any prior approval from the Reserve Bank or Government of India. From April 2021-January 2022, India's overall exports of gems grew at 69.13% YoY to US\$ 32.37 billion. India ranks first among the top exporters in cut & polished diamonds, and second in gold jewellery, silver jewellery and lab-grown diamonds.

(Source: ibef.org)

### **Addressable Market for Veerkrupa Jewellers Limited**

Company is majorly catering the market of Gujarat. Company has two showrooms one in Naroda and one in Narol. The company is currently focusing on expanding its business and establishing new showrooms in Ahmedabad and in recent future also targets to expand its business in new regions within Gujarat.

### **Competition**

Company is operating in a highly competitive market. Each of the locations wherein the company is present has well established players who have well-built foot hold on the market. Competition in the industry is based mainly on the trust, quality, design, availability and pricing. Company competes with various well established jewellers such as Kalyan Jewellers India Limited, Malabar Gold Private Limited Titan Company Limited (Tanishq), and Tribhovandas Bhimji Zaveri Limited as well as local jewellers and craftsmen, most of whom are from the unorganised sector.

## **Peer Analysis**

The company has mentioned Vaibhav Global Limited, Goldiam International Limited, Swarnsarita Jewels India Limited and Kalyan Jewellers India Limited as its peers. A comparison of the same has been depicted in the table below –

<b>Company</b>	<b>Veerkrupa Jewellers Limited**</b>	<b>Vaibhav Global Limited</b>	<b>Goldiam International Limited</b>	<b>Swarnsarita Jewels India Limited</b>	<b>Kalyan Jewellers India Limited</b>
Net Profit (INR Cr)	0.21	237.71	105.18	8.07	224.21
EBITDA (INR Cr)	0.26	331.46	154.7	17.91	852.8
Return on Capital Employed	5.13%	47.13%	28.12%	13.42%	16.51%
Return on Equity	4.18%	40.76%	20.23%	7.23%	7.15%
EPS (INR)	1.14	14.00	10.00	3.87	2.00
P/E* (Times)	23.68	21.44	14.48	5.57	26.79

**\*P/E has been calculated as on 28/06/2022**

**\*\* As of 31<sup>st</sup> December 2021**

The company has not been performing to the mark of its peers. The peers are nicely established and is performing well than the company in all measures.

## Promoters' Profile

### Mr. Chirag Arvind Shah



- **Mr. Chirag Arvind Shah** is the Promoter, Managing Director and CFO of the Company.
- After gaining 7 to 8 years of experience in the Industry he established a proprietary firm in the year 2001.
- Since then he has gained more than 2 decades of experience in the industry.
- He has been instrumental in formulating and the implementation of the business strategies of our company.
- He is entrusted with the responsibility of looking after the finances, expansion, overall management and operations of the company

### Mrs. Nehaben Chiragbhai Shah



- **Mrs. Nehaben Chiragbhai Shah** the Promoter and Whole Time Director of the Company.
- She is associated with company since 9 years and is responsible for overall operations related to jewellery soldering.
- She also looks in to the administrative aspect of the company and she also supervises and manages the jewellery designing department of the company.

## **Analysis on the Company's Promoter and Board of Directors**

**Mr. Chirag Arvind Shah** is one of the Promoters, Managing Director and CFO of the Company. He has more than 20 years of experience in the gems and jewellery industry. In the year 2001, he established a sole proprietary firm after being in the industry for around 7 to 8 years working in different jewellery firms. He is a key person for the business handling the operations as well the finance department of the company.

**Mrs. Nehaben Chiragbhai Shah** is also one of the Promoters and a Whole Time Director of the company. She has been associated with the company since 9 years and has been looking after jewellery soldering. She has also been instrumental in looking after the administrative aspect of the company and supervising the jewellery designing department.

**Mr. Pinkeshkumar Jivanlal Shah** is the Non-Executive Director of the company. He has 20 years of experience in gems, diamond and jewellery industry. He is associated with the company since 2019. He is responsible for the purchase, sale, quality check and selection of diamonds jewellery.

The independent directors of the company are well educated and have good experience in their respective fields and can be a great driving force for the company.

Looking at the management and their experience, it can be said that the company is having a managerial team having a good experience in the relevant field of the business. The management outlook looks positive.



## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st Dec, 2021
<b>Profit and Loss</b>			
Revenue from operation	1,094.86	462.76	1,002.55
Other income	-	0.52	0.09
Total Revenue	1,094.86	463.28	1,002.64
Expenses	1,093.48	459.47	976.47
Depreciation and Amortisation Cost	0.67	2.29	1.27
Finance Cost	-	-	-
Total Expenses	1,094.15	461.76	977.74
PBT	0.71	1.52	24.90
EBITDA	1.38	3.81	26.17
EBITDA Margin	0.13%	0.82%	2.61%
Net Profit	0.71	1.07	21.40
Net Profit Margin	0.06%	0.23%	2.13%
<b>Balance Sheet</b>			
Total Borrowings	-	-	42.24
Net Worth	489.73	490.80	512.20
Fixed Assets	3.50	5.89	8.27
Net Working Capital	486.23	484.91	503.93
<b>Financial Measures</b>			
Inventory Turnover Ratio	3.55	1.49	1.34
Receivables Turnover Ratio	8.71	1.64	2.38
Payables Turnover Ratio	15.25	1.83	10.36
Fixed Assets Turnover Ratio	-	78.57	121.23
Return on Capital Employed	0.14%	0.31%	5.13%
Return on Equity	0.14%	0.22%	4.18%
Debt-Equity Ratio	-	-	-

(The data has been taken and calculated from the financials given in the prospectus)

## **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

The EBITDA of the company has grown from Rs. 1.38 lacs in 2020 to 26.17 lacs in Dec'21 growing at a CAGR of 437%. The EBITDA margin up to Dec'21 was 2.61% from 0.13% in 2020. Such a growth in EBITDA and its margin is highly unsustainable. Also the margin does not come up to the mark with its competitors.

## **Net Profit**

The net profit of the company has grown from Rs. 0.71 lacs in 2020 to Rs. 21.40 lacs up to Dec'21 growing at a CAGR of 600%. The net profit margin has grown from 0.06% in 2020 to 2.13% up to Dec'21. The profits have grown substantially and super-normally. Such a growth is highly inconsistent and cannot be expected in the near future.

## **Finance Cost.**

The company has a loan of 42.24 lacs from its Directors and is not paying any interest on the same.

## **Financial Measures/Ratios**

The financial ratios of the company have grown substantially this year. Such a growth just before the IPO raises too many questions.

RoCE of the company up to Dec'21 was 5.13% which is way less than its peers averaging RoCE of 26.29%. The RoCE has also grown substantially this year and is expected to come down with new capital also being introduced.

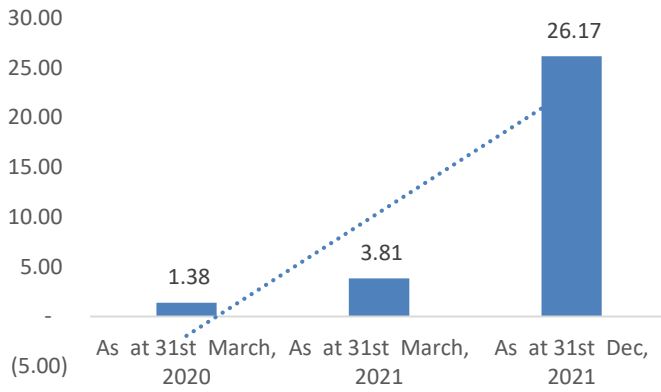
Return on Equity (ROE) of the company is at 4.18% up to Dec'21 which is again very low with its peers' average ROE of 18.84%. Like RoCE, ROE is also expected to come down in the near future as it has grown multi-folds this year showing a growth of 583% in terms of CAGR.

The Receivables Turnover ratio and Payables turnover ratio of the company looks decent and it seems the company is managing its receivables and payables properly.

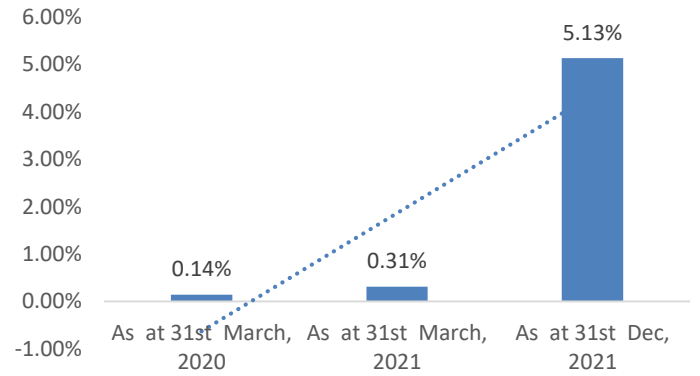
The company is currently operating at zero Debt-Equity ratio increasing its Weighted Average Cost of Capital. Not opting for bank finance to cover its working capital requirements with such a growth in profits raises question whether the company does not find itself in a position to pay the interest cost to be incurred in future.

## Financial Graph

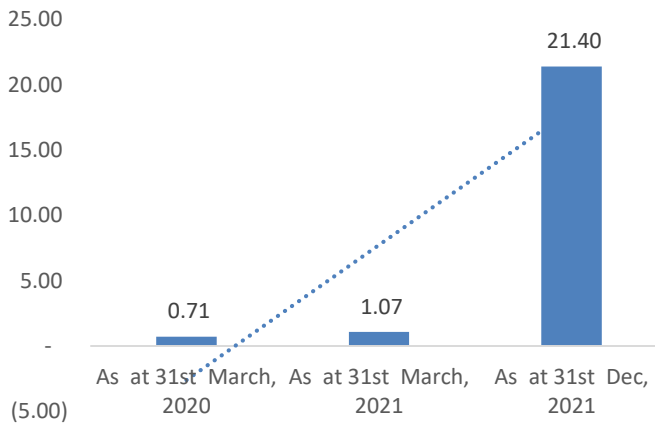
**EBITDA (In Lacs)**



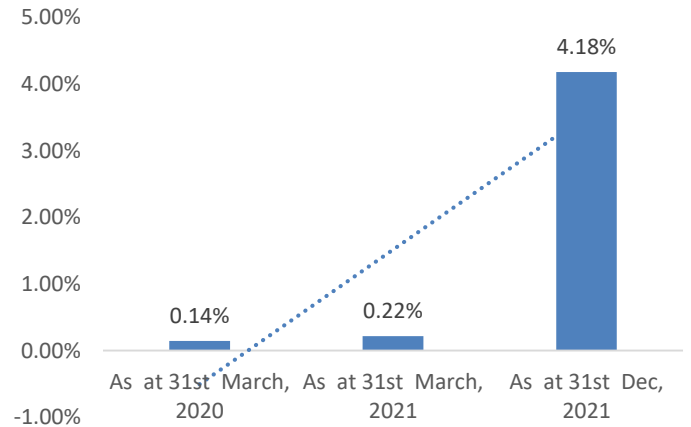
**Return on Capital Employed**



**Net Profit (In Lacs)**



**Return on Equity**



## Key Risk Factors

1. Company is only operating in the north-eastern part of Ahmedabad. Any demographical, geographical or political changes in that region could adversely affect the operations.
2. Company is dependent on third parties for the production and manufacturing of all of its products. Any disruptions at such third-party production or manufacturing facilities, or failure of such third parties to adhere to the relevant quality standards may have a negative effect on its reputation, business and financial condition.
3. Gold, Silver, Diamond and other precious metals are highly fluctuating in prices, so any fluctuation not favouring the company may result in the company incurring losses in future.
4. The company experiences high business in festive seasons generating higher revenue. Any possibility of not being able to perform well in the festive season would adversely affect the profitability of the company.

## Track Record of Merchant Banker/Lead manager

The lead manager to the issue is First Overseas Capital Limited and the previous issue details have been taken from the prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Company	Issue Size (In Cr)	Issue Closing Date	IPO Price/share (INR)	CMP# (INR)
Novateor Research Laboratories Ltd	4.49	13-09-2019	24.00	11.40
Janus Corporation Ltd	7.99	06-02-2020	50.00	7.29
RO Jewels Limited	4.91	25-03-2020	36.00	11.20
Party Cruisers Limited	7.75	05-03-2021	51.00	97.05
BEW Engineering Limited	3.97	16-09-2021	58.00	723.05
Nidan Healthcare & Laboratories Limited	50.00	12-11-2021	125.00	32.85
Precision Metaliks Limited	21.93	01-02-2022	51.00	27.50
Vaidya Sane Ayurved Laboratories Limited	20.22	23-02-2022	73.00	155.25

**#CMP is taken as on 26<sup>th</sup> June 2022**

This is the 9th IPO of the Lead Manager, out of the last 8 listings, 2 opened at par, 1 at discount and rest at premium

## Recommendation

Based on the Business track record, Products/Services, Competitive Scenario, Management Background and Experience, Financial Measures, Peer Analysis and Industry Outlook, we would like to state that one **should avoid** applying in the IPO.

The company is operating in the sector which is highly competitive and preference is given to brand reputation. The company only have two showrooms in Ahmedabad with a combined area of 1050 square feet. Considering the peers its geographical coverage is very small.

The management of the company is experienced in the Gems and Jewellery sector and seems to be the only positive outlook for the company.

The company has highly underperformed considering its peer companies in terms of revenue, profitability and other financial measures.

Also the company is coming up with a P/E of around 23 times based on non-annualized EPS up to Dec'21 and if we take into consideration the Weighted Average EPS of the last 3 financial years the P/E comes to around 155.77 times. Demanding such a high PE considering its size is quite surprising and makes it a risky investment.

So to conclude, this IPO seems to be highly overpriced and premature, and one **should avoid** applying in this public issue.

## Disclaimer

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