

July 3, 2008

SHRENUJ & COMPANY LIMITED (SHRENUJ)

CMP:Rs26; STRONG BUY

In line performance...

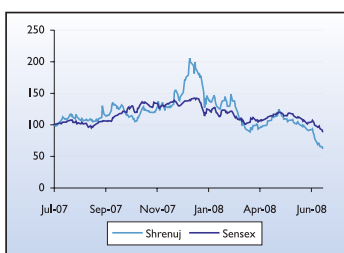
**FY08 Result Update
Target Price: Rs69(Sep'09)**

Bloomberg Code	SJC IN
BSE Sensex	13,665
Nifty	4,093
52-week H/L (Rs)	85/23
Monthly H/L (Rs)	42/24
6 mth avg vol	80,849
Shares O/s (MM)	66.3
MCap (Rs MM)	1,753
MCap (US\$ MM)	41

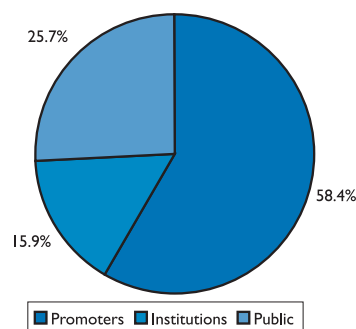
Valuation Parameters (FY10)

P/E (x)	3.1
EV/EBITDA (x)	5.8
EV/Sales (x)	0.6
P/BV (x)	0.5

Price Chart



Shareholding Pattern



Hansraj Singh

91-22-2498 1515

hansraj@primesec.com

KEY HIGHLIGHTS - FY08 V/S FY07

- **Consolidated revenues grew by 25% YoY**, driven by 47% YoY growth in jewellery business, led by Simon Golub & Sons (SGS) acquisition. Growth in diamond business stood at 17.4%.
- **Consolidated EBIT grew by 29% YoY**, led by 0.4% expansion in EBIT margins. This was largely on account of a 1.3% increase in EBIT margins for the diamond business. On the other hand, EBIT margins for jewellery business contracted by 1.3% to 3.7%, on account of post-acquisition integration.
- **Consolidated PAT grew by 32% YoY** on account of lower tax outgo in FY08 (ETR of 29% in FY08, compared to 35% in FY07). Net margins increased by 0.2% to 3.6% in FY08.
- **While the topline performance is in line with our estimates, earnings outperformed by 9%.** We maintain our growth estimate for diamond business at 12%. However, we have cut our estimate for jewellery business to 23% (v/s 30% earlier). While the margins in diamond business is expected to remain stable, jewellery business is likely to witness improvement on account of increased sales in branded jewellery. We have however, pruned our margins assumptions in jewellery business on account of slower than expected integration of SGS and slower than expected improvement in margin profile of the jewellery business. As a result **we have downgraded our FY09 and FY10 EPS by 2% and 8% respectively.**

VALUATIONS AND OUTLOOK

At the CMP of Rs26, the stock is trading at 3.1x P/E and 5.8x EV/EBITDA on our FY10 estimates. Due to the economic slowdown, growth for diamond and jewellery business is likely to get impacted, especially in U.S. and European markets. Due to these concerns, the stock is unlikely to command a multiple of 10x earnings as it has in the past. As such, **we have downgraded our P/E multiple to 8x with a revised TP of Rs69 per share (downgrade of 28%).** We maintain our **STRONG BUY** rating on the stock.

Rs MM	Net Sales	EBITDA	EBITDA %	PAT	PAT %	No. of Shares (MM)	EPS (Rs)	P/E (X)
FY06(A)	6,478	547	8.4	196	3.0	54.5	2.4	10.9
FY07(A)	9,804	939	9.6	340	3.5	62.6	4.2	6.3
FY08(A)	12,254	1,215	9.9	448	3.7	66.3	5.6	4.8
FY09(E)	14,044	1,464	10.4	561	4.0	80.7	6.9	3.8
FY10(E)	16,288	1,724	10.6	694	4.3	80.7	8.6	3.1

Consolidated Financials; (A) Audited; (E) Estimated; FV - Rs 2

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Annexure I: Profit & Loss A/c

Rs MM	Standalone Financials			Consolidated Financials		
	FY07	FY08	Growth %	FY07	FY08	Growth %
Net Sales	8,811	9,874	12.1	9,804	12,254	25.0
Expenditure	7,953	8,873	11.6	8,865	11,039	24.5
Inc/(dec) in stock in trade	(927)	(269)	(71.0)	(1,163)	(990)	(14.9)
Purchases	642	852	32.7	1,674	2,305	37.7
Consumption of raw materials	7,421	7,345	(1.0)	7,169	7,591	5.9
Staff cost	202	183	(9.4)	332	710	114.0
Processing charges	189	301	59.0	198	307	55.5
Other expenditure	426	461	8.2	656	1,116	70.2
EBIDTA	857	1,001	16.7	939	1,215	29.4
<i>EBITDA margin (%)</i>	9.7	10.1		9.6	9.9	
Depreciation	35	37	5.1	53	66	25.4
EBIT	822	964	17.2	887	1,149	29.6
<i>EBIT margin (%)</i>	9.3	9.8		9.0	9.4	
Interest	380	490	29.0	424	548	29.3
Other income	31	5	(85.4)	49	27	(44.2)
PBT	473	478	1.0	512	629	22.8
Tax	172	172	(0.5)	179	184	3.0
Net profit before minority interest	301	306	1.9	334	445	33.5
Allocated (Loss) / Profit of Associate	-	-	-	(5)	2	(148.3)
Share of Loss / (Profit) of Minority	-	-	-	11	1	(94.2)
Net Profit	301	306	1.9	340	448	31.8
<i>Net profit margin (%)</i>	3.4	3.1		3.4	3.6	

Annexure II: Segmental Results

Rs MM	Consolidated Financials		
	FY07	FY08	Growth %
Diamonds			
Revenue	7,267	8,534	17.4
<i>% share</i>	74.1	69.6	
PBIT	788	1,037	31.5
PBIT margin	10.8	12.1	
Studded Jewellery			
Revenue	2,537	3,721	46.6
<i>% share</i>	25.9	30.4	
PBIT	129	140	8.2
<i>PBIT margin</i>	5.1	3.7	
Total			
Revenue	9,804	12,255	25.0
PBIT*	917	1,176	28.2
<i>PBIT margin*</i>	9.4	9.6	

*Excluding un-allocable expenditure

Annexure III: Profit & Loss A/c

Rs MM	FY06(A)	FY07(A)	FY08(A)	FY09(E)	FY10(E)
Net Sales	6,478	9,804	12,254	14,044	16,288
YoY growth		51.3%	25.0%	14.6%	16.0%
Total Expenditure	5,931	8,865	11,039	12,579	14,563
EBITDA	547	939	1,215	1,464	1,724
EBITDA Margin	8.4%	9.6%	9.9%	10.4%	10.6%
Depreciation	42	53	66	71	82
Finance Expenses (gross)	225	435	548	592	642
Other Income	12	61	27	30	30
PBT	291	512	629	831	1,030
Tax	104	178	184	274	340
PAT	187	334	445	557	690
Min. interest & Share in associate's P&L	9	6	3	4	4
Net Profit	196	340	448	561	694
YoY growth		73.6%	31.7%	25.2%	23.8%
NPM	3.0%	3.5%	3.7%	4.0%	4.3%
No. of shares (MM)	54.5	62.6	62.6	80.7	80.7
FDEPS (Rs)	2.4	4.2	5.6	6.9	8.6

(A) Audited; (E) Estimated

Source: Company, Prime Broking

Annexure IV: Balance Sheet

Rs MM	FY06(A)	FY07(A)	FY08(E)	FY09(E)	FY10(E)
SOURCES OF FUNDS					
Shareholders Fund	1,359	1,740	2,126	3,436	4,032
Equity Capital	109	125	125	161	161
Reserves & Surplus	1,250	1,595	1,981	3,275	3,871
Share Warrants	-	20	20	-	-
Minority Interest	22	14	14	14	14
Loan Funds	3,859	6,361	6,896	7,031	8,081
Deferred Tax Liability	47	54	54	54	54
Total Funds Employed	5,287	8,169	9,091	10,536	12,182
APPLICATION OF FUNDS					
Net Fixed Assets	710	899	1,170	1,370	1,570
Investments	91	116	116	116	116
Net Current Assets	4,486	7,153	7,804	9,049	10,495
Current Assets	6,024	9,541	10,795	12,474	14,466
Current Liabilities & Provisions	1,537	2,388	2,991	3,424	3,970
Total Net Assets	5,287	8,169	9,091	10,536	12,182

(A) Audited; (E) Estimated

Source: Company, Prime Broking

Annexure V: Cash Flow Statement

	FY06(A)	FY07(A)	FY08(E)	FY09(E)	FY10(E)
Profit Before Tax	300	519	632	835	1,034
Add -					
Depreciation as per P&L	42	53	66	71	82
Interest Paid	225	435	548	592	642
Less -					
Excess provision written back	11	73	-	-	-
Operating profit before WC changes:	579	1,079	1,245	1,498	1,758
(Inc)/Dec in Debtors	(712)	(662)	(809)	(549)	(689)
(Inc)/Dec in Inventories	(1,038)	(1,609)	(1,150)	(883)	(1,107)
(Inc)/Dec in Loans and advances	(194)	(380)	(135)	(125)	(157)
Inc/(Dec) in Current Liab. (incl. Prov.)	808	850	604	433	546
Inc/(Dec) in Deferred Tax Liability	7	8	-	-	-
Cash generated from operations	(551)	(713)	(245)	375	352
Direct taxes (income tax + dividend tax)	109	187	192	287	354
Net cash from operating activities	(660)	(900)	(437)	88	(2)
Less -					
Change in fixed assets	(122)	(260)	(200)	(200)	(200)
Change in investments	(90)	(26)	-	-	-
Interest Paid	(225)	(435)	(548)	(592)	(642)
Dividend Paid	(38)	(50)	(50)	(73)	(81)
Add-					
Change in Share Capital	-	16	-	36	-
Change in Share Premium	-	-	-	822	-
Proceeds from issue of share warrants	-	20	-	-	-
Change in debt	1,098	2,501	535	135	1,050
Net cash flow for the year	(38)	867	(700)	217	125
Opening Balance	145	107	974	274	491
Closing balance	107	974	274	491	616

(A) Audited; (E) Estimated

Source: Company, Prime Broking

Annexure VI: Ratios

Rs MM	FY06(A)	FY07(A)	FY08(E)	FY09(E)	FY10(E)
EBITDA margin	8.4%	9.6%	9.9%	10.4%	10.6%
EBIT margin	7.8%	9.0%	9.4%	9.9%	10.1%
Net Profit margin	3.0%	3.5%	3.7%	4.0%	4.3%
ROE	13.8%	19.4%	21.1%	16.2%	17.1%
ROCE	9.6%	10.9%	12.6%	13.2%	13.5%
Sales/GFA	7.9	9.8	10.2	10.0	10.2
D/E	2.8	3.7	3.3	2.0	2.0
Current ratio	3.9	4.0	3.6	3.6	3.6
NWC/Sales (excluding cash)	67.6%	63.0%	62.6%	62.6%	62.6%
Debtor days	129	110	112	112	112
Inventory days	185	182	180	180	180

(A) Audited; (E) Estimated

Source: Company, Prime Broking

Annexure VII: Valuations

	FY06(A)	FY07(A)	FY08(A)	FY09(E)	FY10(E)
P/E (x)	10.9	6.3	4.8	3.8	3.1
P/BV (x)	1.2	1.0	0.8	0.6	0.5
EV/Sales (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	9.5	7.5	6.9	6.1	5.8
EV/CE (x)	1.0	0.9	0.9	0.9	0.8

(A) Audited; (E) Estimated

Source: Company, Prime Broking

RESEARCH TEAM

Analyst	Sector	E-mail	Tel.	Extn.
Sonam Udasi	Director - Research	sonam@primesec.com	022-24981515	213
Ashutosh Garud	Capital Goods	ashutosh@primesec.com	022-24981515	208
Avni Shah	Media	avni@primesec.com	022-24981515	212
Bhaumik Bhatia	Auto, Metals, Gems & Jew.	bhaumik@primesec.com	022-24981515	206
Chaitra Bhat	Banking, NBFCs	chaitra@primesec.com	022-24981515	205
Darshan Singh Bagga	Textiles, Retail, Offshore	darshan@primesec.com	022-24981515	207
Hansraj Singh	Logistics, Shipping, Telecom	hansraj@primesec.com	022-24981515	209
Harshal Ajmera	Construction, Realty	harshal@primesec.com	022-24981515	211
Hitesh Avachat	Metals	hitesh@primesec.com	022-24981515	216
Soumitra Chatterjee	Information Technology	soumitra@primesec.com	022-24981515	210

EQUITY SALES / DEALING

TEL.: +91-22-24982525

Vinay Motwani	Head of Sales & Distribution	vinay@primesec.com
Sumit Syal	VP - Equity Sales	sumit@primesec.com
Sumeet Rewari	VP - Equity Sales	sumeetrewari@primesec.com
Amir Merchant	Dealer - Equities	amir@primesec.com
Kamlesh Shroff	Dealer - Equities	kamy@primesec.com
Tejas Shah	Dealer - Equities	tejas@primesec.com
Nitin Shah	Dealer - Equities	nitin@primesec.com

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STOCK OWNERSHIP / CONFLICT DISCLOSURE

Prime / Prime Subsidiaries	Yes
Key Prime Management &/or Other Employees	Yes
Any Other Corporate Finance Conflict of Interest	No

ANALYSTS' RATINGS DEFINITIONS

STRONG BUY	Expect \geq 25% CAGR return
BUY	Expect a CAGR return \geq 15% and $<$ 25%
HOLD	Expect $<$ 15% CAGR return
SELL	Expect \leq 5% CAGR return

Recommendation History

Date	Type	Recommendation	CMPTarget price	Target Date	Target achieved	
8-Feb-08	Initiating Coverage	STRONG BUY	52	95	Sep-09	-
3-Jul-08	FY08 Result Update	STRONG BUY	26	69	Sep-09	-

CONTACT NUMBERS

Dealing: +91 22 24982525

Research: +91 22 24981515

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