

16.02.2017

To,
The General Manager-Listing
Corporate Relationship Department
The BSE Limited, Ground Floor,
P.J. Towers, Dalal Street, Mumbai

To,
National Stock Exchange of India Ltd.
Exchange Plaza,
Plot no. C/1, G Block,
Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051

Scrip Code: 534532

Symbol: LYPSAGEMS

Sub : Analyst Report

Dear Sir/Madam

Pursuant to regulation 30(2) of SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015. Please find enclosed report of Analyst-NVS Wealth Managers Pvt.Ltd.

The Analyst report is being uploaded on the Company's website www.lypsa.in in the investor's tab.

This is for your information and record.

Thanking You

Yours faithfully

For LYPSA GEMS & JEWELLERY LIMITED



Authorised Signatory

Lypsa Gems & Jewellery Ltd.



CMP: 68.90

DIAMONDS ARE FOREVER...

Nifty	8805.05
Sensex	28351.62
Nifty PE	23.15
Sensex PE	22.09

Stock Data

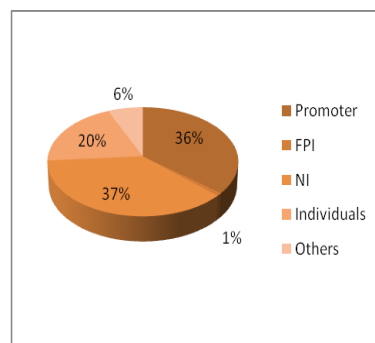
Sector	Gems
BSE Code	534532
NSE Code	LYPSAGEMS
FV	10
Market Cap (Rs. Cr)	145.1
Market Cap (US\$ mn)	21.54
Equity Share Cap.	21.66

Stock Performance (%)

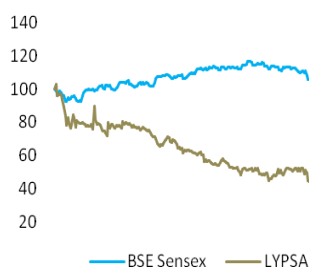
52-week high/low **Rs. 110.60 / 49**

	1M	3M	6M
Absolute (%)	22.88	17.22	6.19

Shareholding Pattern (%)



Sensex and stock movement



- **Lypsa Gems and Jewellery Ltd. (Lypsa)**, a company promoted by **Mr. Dipan Patwa**, was established in the year **1992** and was listed on **BSE** in the year **2012**, is engaged in the **business of trading, importing, exporting, making and polishing activities of diamonds, gems and other precious stones** and has recently forayed into retail of diamond jewellery. The company has a capacity of **87,500 stones per month** which equals around **5,200 carats of rough diamonds** which in turn is equal to around **2,000 carats of polished diamonds per month**.

- **Lypsa** is based out of **Mumbai** sourcing from **Antwerp, Dubai and Moscow** catering to **small and mid-level diamond manufacturers based in Mumbai and Gujarat**. Most of the company's **rough and polished diamonds** output is exported to **USA, Belgium, Israel, UAE and Hong Kong**. **Lypsa** has its **manufacturing facility at Palanpur, Gujarat**. The company has **two brands - "Oropel" and "Atelier"**.

- After undergoing the volatile downward trend in diamond market in last 3-4 years, Lypsa management has adopted a **new strategy to expand its horizon of business and focus on high margin profitability growth** with presence across value chain through rough trading and jewellery business along with various e-commerce platforms **against the earlier strategy of large volume driven business with lower margins**. This strategy would increase the **profitability and margins, enable better utilization of working capital, have a debt light position and should become debt free by FY2017**. In this process, as indicated by the management, **the topline will de-grow whereas there would be a substantial improvements in profitability and margins**.

- We have a reason to believe that the management is in line and the above trend can be witnessed in the company's **Q3FY2017 results**, where the topline saw a de-growth from Rs. 139 cr in Q3FY2016 to Rs. 70 cr but **the profitability margin saw a boost by 487 bps from 4.32% in Q3FY2016 to 9.19%**. Also the same can be found in company's **9MFY2017 results**, where the topline saw a de-growth from Rs. 426 cr in 9MFY2016 to Rs. 181 cr but the **profitability margin improved by 388 bps from 4.15% in 9MFY2016 to 8.03%**. As per our discussion with the management, they have guided that the **company's topline will be around Rs. 265-275 cr for FY2017 (FY2016- Rs. 476 cr) and Rs. 325 cr for FY2018E**. The company will be able to clock **PAT margins in the range of at least 8 - 11%**.

- **To implement this strategy, Lypsa** has a wholly owned subsidiary "**LYPSA GEMS AND JEWELLERY DMCC**" in **Dubai** and is also planning to open a **wholly owned subsidiary in Antwerp, Belgium**. The focus of these subsidiaries will be on designing of polished diamonds whereas the manufacturing and marketing would be outsourced to third party contractors. **These cost saving methods would boost the profitability and margins**.

- **Lypsa** is entering diamond jewellery segment with **2 prong strategy of capturing the aspirational needs of large middle class population segment in India** by having the diamond jewellery in the range of **Rs. 7,500 to Rs. 35,000** and on the other hand positioning itself on the comparatively higher segment for the higher income group where the prices range from **Rs. 50,000 to Rs. 250,000 per jewellery**.

- We believe if the plan of action as mentioned above are well implemented by the management, **Lypsa** would grow at a **CAGR of 15 - 18% in next 4 - 5 years** with topline reaching around **Rs. 500 cr** and a **PAT of around Rs. 45-50 cr by FY2021**.

This offers an attractive investment opportunity and investors can look for a steady growth in their investment.

LYPSA- COMPANY OVERVIEW



(Source: Company's Website)

- **Lypsa Gems and Jewellery Ltd. (Lypsa)**, a company promoted by **Mr. Dipan Patwa**, was established in the year **1992** and was listed on BSE in the year **2012**, is engaged in the business of trading, importing, exporting, making and polishing activities of diamonds, gems and other precious stones and has recently forayed into retail of diamond jewellery. The company has a capacity of **87,500 stones per month** which equals around **5,200 carats of rough diamonds** which in turn is equal to around **2,000 carats of polished diamonds per month**.
- **Lypsa is based out of Mumbai** sourcing from **Antwerp, Dubai and Moscow** catering to **small and mid-level diamond manufacturers based in Mumbai and Gujarat**. Most of the company's output is exported to **USA, Belgium, Israel, UAE and Hong Kong**. **Lypsa has its manufacturing facility at Palanpur, Gujarat**. The company has launched two brands, Lypsa has a custom high end jewellery brand called as **"Oropel"** and **"Atelier"** being their biggest brand.

LYPSA - STRATEGY TO EXPAND MARGINS

- The company has 100% subsidiary **"LYPSA GEMS AND JEWELLERY DMCC"** in **Dubai**. This company will **primarily focus on designing jewellerys** to meet with the prerequisite of Middle East customers, **whereas the manufacturing of rough stones and marketing of jewellery is outsourced**, thereby considerably saving on manufacturing cost, marketing cost, retail establishment cost, employee cost and host of other overheads. ***These cost saving methods would boost the profitability and margins.*** Dubai subsidiary is expected to contribute around **60% of the overall company's profitability**.
- **Lypsa** are in plans to open a **chain of retail stores and kiosks**, with an initial plan to start **with a single store and 5 kiosks** and eventually expanding it to **5 stores and 25 kiosks by 2020 in phased manner**. The retail expansion of **Lypsa** will be funded by **internal accrual** (without any increase in equity share capital), ***this should hugely benefit the equity shareholders in any positive bullish cycle in the gems and diamonds industry.***
- The Company will sell diamond - studded jewellery under its brand **'Oropel'**. **Oropel products will range from Rs.50,000 - Rs. 2,50,000**. Storyltd brings together selected designer products in vogue that are limited and unique. Lypsa has also recently tied up with **www.Jewelsouk.com** - an e-commerce platform of **Gitanjali group** for selling its affordable diamond jewellery brand **'Lypsa Atelier'** in the price range of **Rs. 7,500 – Rs. 35,000**. **Lypsa Atelier** products continue being sold on **www.Flipkart.com, www.Snapdeal.com, www.Shopclues.com and www.Craftsvilla.com**. The company remains focused on creating new and attractive designs that are gaining increasing recognition amongst its customers.

All these indications point to a bright and an exciting future for Lypsa

FINANCIAL PERFORMANCE AT A GLANCE

Particulars (Rs. Cr.)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Net sales	268	327	535	588	476	275	325
EBITDA	12	8	14	24	23	30	36
PAT	2	4	9	18	19	22	26
EPS	2	4	7	9	9	10	12
Equity Capital	14	14	14	21	21	21	21
Reserves	10	13	21	31	51	73	99
Networth	24	27	35	52	72	94	120
Debt	1	21	21	38	32	-	-
BVPS	17	19	25	25	34	45	57
Ratios							
EBITDA Margins(%)	4.3%	2.3%	2.6%	4.1%	4.8%	11.0%	11.0%
PAT Margins(%)	0.8%	1.2%	1.8%	3.0%	3.9%	8.0%	8.0%
Debt /Equity	0.03	0.8	0.6	0.7	0.4	-	-
ROE(%)	0%	16%	31%	34%	26%	23%	22%
ROCE(%)	47%	16%	24%	26%	21%	24%	19%
P/ BV	3.8	4.7	4.3	2.8	2.0	1.5	1.2
P/ E	30.3	22.9	16.1	8.1	7.8	6.6	5.6

Exhibit 1- Net Sales

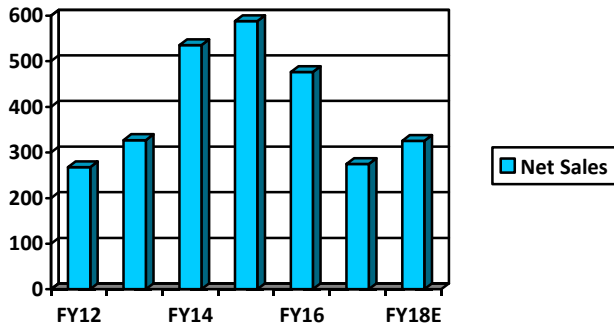


Exhibit 2- EBITDA

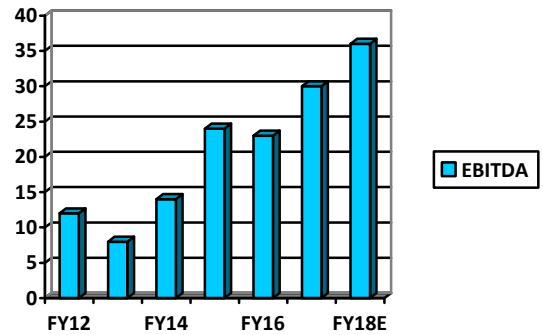


Exhibit 7- PAT

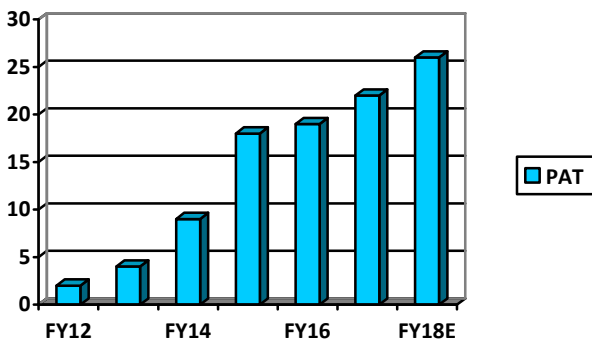
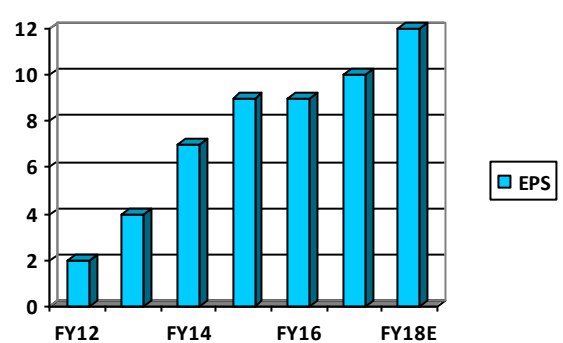


Exhibit 8- EPS



Critical Analysis

- Till FY2012 **Lypsa** saw a strong and consistent financial performance, where the topline **grew at a CAGR of 30%** from **Rs. 268 cr in FY2012 to Rs. 588 cr in FY2015. PAT grew at a CAGR of 105% from Rs. 2 cr in FY2012 to Rs. 18 cr in FY 2015.** The improvement in financial performance was primarily due to growth in **their cutting and polishing business.** Price touched a **low of Rs. 62 per share** (market capitalization of Rs. 87 cr on an equity share capital of Rs. 14.04 cr) in **July 2012 and reached an all time peak of Rs. 154.50 per share** (market capitalization of Rs. 324 cr on an equity share capital of Rs. 21.06 cr) in **January 2016.**
- There was a major de-growth in **FY2016 primarily because of slowdown in demand from China and also there was a demand supply gap which prevailed due to surplus supply in the diamond markets.** Price touched a **low of Rs. 57.65 per share** (market capitalization of Rs. 121 cr) in **July 2015 and an all time low of Rs. 49 per share** (market capitalization of Rs. 103 cr) **in the month of November 2016 due to immediate effect of demonitisation.**
- **Lypsa** has a current **BV per share of Rs. 34 per share** as against **CMP of Rs. 68-70 per share**, making it available at a **decent valuation of 2x** the book value. **It will be interesting to note that PC Jeweller Ltd., one of the peer, has a BV of 3x and is currently trading at Rs. 389-390 per share, indicating that Lypsa has good potential for appreciation from the present level.**
- **Lypsa is one of those very few diamond companies in India who has initiated the procedure to clear off its debt and become a debt free company by FY 2017. This should augur well for the company and market should reward Lypsa with better pricing which is normally applicable to a debt free company.**
- The Major drawback is that the company **has not paid any dividend in FY2016. Company should change this policy from a NO DIVIDEND policy to DIVIDEND FRIENDLY policy to get better valuation.**
- **Lypsa has continued its thrust for optimum utilization of funds by better fund management. This included clearing off debts, strategic parking of surplus funds with banks, advance actions for future fund raising through internal accrual, etc. to meet with its growth objectives.**

PEER COMPARISON

Particulars (In Cr) –FY2016	Lypsa	Gitanjali	PC Jewel
Net sales	476	14,153	7,379
EBITDA	23	904	774
PAT	19	133	400
EPS	9	13	22
Equity Capital	21	102	179
Reserves	51	4,224	2,147
Networth	72	4,326	2,326
Debt	32	8,026	940
BVPS	34	422	130
CMP	69	76	390
Mcap	144	777	6,977
<u>Ratios</u>			
EBITDA Margins(%)	4.8%	6.4%	10.5%
PAT Margins(%)	3.9%	0.9%	5.4%
Debt /Equity	0.4	1.9	0.4
ROE(%)	25.8%	3.1%	17.2%
ROCE(%)	21.4%	7.0%	23.0%
P/ BV	2.0	0.2	3.0
P/ E	7.8	5.7	17.5

* The said companies used for peer comparison has a much larger size and has all India footprint. We have taken them for comparison as all of the above are in the business of diamonds and Jewellery.

Critical Analysis

- **ROE and ROCE of Lypsa is the highest amongst large peers at 25.8% and 21.4% respectively which shows efficient and effective use of capital by the management.**
- **P/E Multiple of Lypsa is 7.8x its FY16 EPS and 6.6x its FY17E EPS , which is very reasonable when compared to its peers.**

TECHNICAL CHART AT A GLANCE



DAILY CHART

- The above chart shows that in the first round, the stock price has gone from its **Rs. 110 levels to a low of Rs. 58 levels in July 2015 and again rose to a high of Rs. 155 levels in January 2016**. The stock witnessed the long correction from January 2016 till November 2016 where it hit an all time low of Rs. 49 per share and has since then started moving upwards. **The stock has the potential to move towards level of Rs. 90 per share as its first target.**

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