Rajesh Exports Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**The company operates a massive-scale, high-volume gold refining business with a dominant market presence, evidenced by a 14.85x asset turnover ratio.**	Positive
2	**Revenue surged 40% YoY to ₹3,39,690 Cr, yet the business model remains a commoditized volume play with zero pricing power.**	Neutral
3	***Operational fragility is extreme, with razor-thin PAT margins of 0.42% leaving no margin of safety for price volatility or operational errors.***	Negative
4	***Earnings quality is severely compromised by a decoupling of profit and cash, with a PAT of ₹1,432 Cr translating into a poor CFO/PAT ratio of only 0.32.***	Negative
5	**Balance sheet leverage remains optically conservative with a low Debt/Equity ratio of 0.05 and a robust Interest Coverage ratio of 19.25x.**	Positive
6	***Cash flow remains under significant stress, recording a negative Free Cash Flow of -₹265 Cr as capital expenditures outpace actual cash generation.***	Negative
7	***Capital allocation efficiency is questionable, as an 11% ROCE is being chased through reinvestments that are not currently self-funded by operations.***	Negative
8	***A critical forensic red flag exists in the receivables book, where ₹7,015 Cr (67.7% of total) is aged over six months with zero provisioning.***	Negative
9	***Governance standards are weak, characterized by misleading "debt-free" claims despite ₹723 Cr in borrowings and a significant 85% shortfall in CSR spending.***	Negative
10	***Accounting transparency is low, evidenced by an abnormally low 3% effective tax rate and suspiciously low KMP compensation (~₹0.11 Cr) relative to the scale of operations.***	Negative
11	***The outlook is clouded by the risk that a mere 5% write-off of aged receivables would erode 25% of the company's total Net Worth.***	Negative
12	***Investment View: Avoid; the risk-reward profile is unacceptable until aged receivables drop below 20% and cash conversion exceeds 0.8x.***	Negative

Final research summary: rajesh exports ltd (FY 2023)

1. Business overview

- **Business Segments:** Operates as an ultra-large-scale integrated gold player across the entire value chain, including refining, wholesale manufacturing, and retail through the "Shubh Jewellery" brand.
- **Revenue Drivers:** Revenue is almost entirely driven by high-volume, low-margin gold processing and exports, reaching a consolidated turnover of **₹3,39,689.50 Cr**.
- **Cost Drivers:** Characterized by a massive "Cost of Revenue" (**₹3,37,599.90 Cr**), representing 99.38% of total income, indicating a pure volume-play model.

- **Industry Position:** Claims to be a global leader with the "largest and one of the finest R&D units in the jewellery industry," though qualitative details on proprietary technology or patents are absent.
- **Expansion Plans:** Strategic pivot toward downstream retail expansion to capture higher margins, signaled by the appointment of a Managing Director with two decades of retail expertise.
- **Capacity Additions:** Significant jump in **Capex** (□722 Cr) focused on Plant & Machinery (□1,496 Cr Gross Block) and Buildings (□727 Cr Gross Block).
- **Geographical Presence:** Claims a global presence, though the Directors' Report lists Foreign Exchange Earnings as "Nil," contradicting its identity as an export house.

2. Management commentary & outlook

- Management commentary is characterized by extreme brevity, lacking a formal Chairman’s Speech or detailed Letter to Shareholders.
- The appointment of Mr. Suresh Kumar as Managing Director is the primary signal of a strategic shift toward the "retail expansion program" to leverage back-end integration.
- Demand environment commentary is generic, focusing on "satisfactory performance" while omitting discussion on macro headwinds, gold price volatility, or import duty impacts.
- Management highlights a "robust Enterprise Risk Management framework" but provides only boilerplate descriptions without specific mitigation strategies for gold price or currency risks.
- The company continues to seek waivers from Stock Exchanges for non-compliance with SEBI Regulations 17, 18, and 19 regarding Board and Committee compositions from prior years.
- A 1-day delay in filing Cash Flow statements was noted, suggesting potential under-resourcing in the compliance function.
- Management Tone: Opaque, minimalist, and detached. There is a profound information asymmetry between the scale of operations (□3.4 Lakh Crores) and the depth of qualitative disclosure, with management incentives (remuneration of ~□1.6L) appearing decoupled from the business scale.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	339,690	243,128
Sales Growth %	40	-6
Expenses	338,054	241,949
Material Cost %	99	99
Raw material cost	337,600	241,510
Change in inventory	0	0
Manufacturing Cost %	0	0
Employee Cost %	0	0
Other Cost %	0	0
Operating Profit	1,636	1,179
OPM %	0	0
Other Income	24	40
Exceptional items	0	0
Other income normal	24	40
Interest	81	90
Depreciation	101	91
Profit before tax	1,478	1,038
Tax %	3	3
Net Profit	1,432	1,009
Exceptional items AT	0	0
Profit excl Excep	1,432	1,010
Profit for PE	1,432	1,010
Profit for EPS	1,432	1,009
Profit Growth %	42	20
EPS (□)	48.51	34.18
Dividend Payout %	0	3

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	30	30
Reserves	14,694	12,416
Borrowings	723	815
Short term Borrowings	723	815
Other Borrowings	0	0
Other Liabilities	7,428	10,655
Non controlling int	0	0
Trade Payables	7,157	10,421
Advance from Customers	8	5
Other liability items	262	229
Total Liabilities	22,875	23,916
Fixed Assets	2,038	1,449
Land	60	57
Building	727	555
Plant Machinery	1,496	996
Equipments	44	39
Computers	19	16
Furniture n fittings	10	7
Vehicles	8	6
Intangible Assets	0	0
Other fixed assets	846	775
Gross Block	3,210	2,453
Accumulated Depreciation	1,172	1,003
CWIP	38	6
Investments	1,241	1,113
Other Assets	19,557	21,348
Inventories	6,049	7,669
Trade receivables	10,356	10,709
Receivables over 6m	7,015	4,902
Receivables under 6m	3,341	5,806
Prov for Doubtful	0	0
Cash Equivalents	2,096	1,809
Loans n Advances	0	0
Other asset items	1,056	1,161
Total Assets	22,875	23,916

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	457	-4
Profit from operations	1,659	1,219
Receivables	451	-357
Inventory	1,620	-262
Payables	0	0
Other WC items	-3,244	-575
Working capital changes	-1,172	-1,194
Direct taxes	-30	-29
Cash from Investing Activity	10	86
Fixed assets purchased	-722	-88
Fixed assets sold	0	0
Investments purchased	-128	-72
Investments sold	0	0
Other investing items	860	245
Cash from Financing Activity	-186	-326
Proceeds from borrowings	77	1
Repayment of borrowings	-168	-207
Interest paid fin	-81	-90
Dividends paid	-14	-30
Other financing items	0	0
Net Cash Flow	281	-244
Free Cash Flow	-265	-92
CFO/OP	30	2

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	11	16
Inventory Days	7	12
Days Payable	8	16
Cash Conversion Cycle	10	12
Working Capital Days	10	12
ROCE %	11	9

3.2 Financial analysis summary

- **Revenue** surged by 40.00% to □3,39,690.00 Cr, yet Operating Profit margins remain stagnant at 0.48% as Raw material cost continues to consume 99.00% of the top-line.

- **Net Profit** grew 42.00% to □1,432.00 Cr, but the quality of earnings is weak as CFO of □457.00 Cr represents only 32% of PAT, primarily due to a massive □3,244.00 Cr outflow in Other WC items linked to the reduction of Trade Payables.
- A significant deterioration is observed in **Trade Receivables** quality; while total receivables fell slightly to □10,356.00 Cr, the Receivables over 6m jumped 43% to □7,015.00 Cr, now constituting 67.7% of the total book.
- The company aggressively expanded its **Gross Block** by □757.00 Cr, with Plant Machinery increasing to □1,496.00 Cr, resulting in a negative Free Cash Flow of -□265.00 Cr as Capex of □722.00 Cr outpaced CFO.
- **Total Debt** (Short term Borrowings) was reduced to □723.00 Cr from □815.00 Cr, maintaining a conservative Debt/Equity of 0.05 and improving Interest Coverage to 19.25x.
- **ROCE** improved to 11.00% from 9.00%, driven by higher Asset Turnover (14.85x) rather than margin expansion, sweating Total Assets of □22,875.00 Cr more efficiently.
- The effective tax rate remains abnormally low at **3.00%**, contributing significantly to the Net Profit; earnings would be materially lower under standard corporate tax regimes.
- **Inventory** management released □1,620.00 Cr into the Cash Flow Statement as Inventories on the Balance Sheet were optimized down to □6,049.00 Cr.
- **Synthesis:** Rajesh Exports exhibits massive scale and improving **ROCE** through high Asset Turnover, but financial health is clouded by razor-thin margins, negative Free Cash Flow, and a concerning concentration of long-overdue Trade Receivables.

3.3 Contingent liabilities & commitments

- **CSR Shortfall:** Significant shortfall in CSR spending; only **□16.10 Lakhs** spent against a statutory requirement of □110.76 Lakhs.
- **Regulatory Waivers:** Pending waiver requests with Stock Exchanges for non-compliance with Board and Committee composition regulations (SEBI Reg 17, 18, 19).

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹975 Cr gap driven by massive other WC outflows.	—	Cash flow from operations significantly lags net profit due to ₹3,244 Cr "Other WC items" outflow.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — ageing risk; receivables > 6m rose 43% despite total receivables falling.	—	Significant deterioration in debtor quality with 67% of total receivables now aged over six months.
3	Revenue timing	Neutral — revenue recognition appears immediate; customer advances remain negligible at ₹8 Cr.	—	Revenue recognition policy likely based on point-of-sale given the 99% raw material cost structure.
4	Revenue from related parties %	Neutral — RPT data unavailable in summary; requires full schedule for verification.	—	Management claims no RPTs under Sec 188, which is statistically rare for this scale.
5	Inventory vs revenue growth	Profit ↑ — inventory liquidation; ₹1,620 Cr release supports cash but suggests destocking.	—	Inventory days improved from 12 to 7 days, indicating high velocity or aggressive liquidation.
6	Inventory valuation method change	Neutral — no policy change disclosed; material costs remain constant at 99%.	—	Consistency in material cost margins suggests no aggressive changes in inventory valuation methodology.
7	Exceptional items in operating profit	Neutral — no exceptional items reported; operating profit reflects core business activities.	—	Operating profit of ₹1,636 Cr is entirely derived from standard business operations.
8	Depreciation rate vs useful life policy	Profit ↑ — low depreciation rate; 3.1% charge on gross block suggests long-life assets.	—	Depreciation as a % of Gross Block remains low, typical for land/building heavy asset mixes.
9	Provision reversals boosting PAT	Profit ↑ — lack of provisioning; zero doubtful debt provision despite ₹7,015 Cr old receivables.	—	Forensic concern: No credit loss provisions made despite 67% of receivables being older than 6 months.
10	Tax rate consistency	Profit ↑ — low effective tax; 3% rate significantly below statutory 25% norms.	—	Extremely low tax rate suggests operations through tax-free zones or significant tax incentives.
11	CWIP age and stalling projects	Neutral — CWIP remains immaterial; represents only 1.8% of net fixed assets.	—	Capital work-in-progress is negligible relative to the ₹2,038 Cr fixed asset base.
12	Deferred tax asset recognition	Neutral — DTA/DTL details missing; low tax rate suggests minimal deferred tax impact.	—	Low effective tax rate (3%) reduces the materiality of deferred tax timing differences.
13	RPT quantum and trend	Neutral — RPT trend unverified; lack of specific RPT schedule in provided data.	—	Absence of detailed notes prevents quantitative assessment of related party sales or loans.
14	Dividend paid vs FCF adequacy	Profit ↓ — cash strain; dividend paid despite negative free cash flow of ₹265 Cr.	—	Company is distributing dividends while failing to generate positive free cash flow after capex.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified.
- **Auditor:** M/s BSD & Co. (Re-appointed for a 4-year term).
- **Key Audit Matters:** Not explicitly detailed in snippets; however, the Secretarial Auditor noted a **1-day delay in submitting Cash Flow Statements** and highlighted a significant shortfall in CSR spending (₹16.10L spent vs ₹110.76L required).
- **Compliance Issues:** Previous waiver requests for non-compliance with Regulations 17, 18, and 19 (Board and Committee composition) for FY21 are still pending with the Exchange.

B. Related party transactions

Party	Relationship	Nature	Amount (₹Cr)	Concern
No Material RPTs	—	—	0.00	**Management claims no RPTs under Sec 188**

- **Concern:** The lack of any disclosed related party dealings for a company with ₹339,690 Cr in revenue is statistically rare and warrants skepticism regarding the definition of "materiality" used.

C. Shareholding

Category	% of total
Indian Promoters	54.04
Foreign Institutional Investors	17.47
NRI's / OCB's	13.76
Indian Public/Mutual Funds/FI	14.58
Private Corporate Bodies	0.15

D. Board composition + KMP compensation

- **Total Directors:** 6 (50% Independent).
- **Women Directors:** 2 (Ms. Vijaya Lakshmi, Ms. Asha Mehta).
- **KMP Compensation:**
  - **Rajesh Mehta (Chairman):** ₹0.01 Cr (0.0006% of EBITDA).
  - **Suresh Kumar (MD):** ₹0.02 Cr.
  - **Total KMP Pay:** ~₹0.11 Cr (0.006% of Operating Profit).
- **Analysis:** Compensation is suspiciously low for a ₹3.4 Lakh Cr revenue entity and has remained stagnant (0% growth) despite a 38.76% growth in Operating Profit.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Capex	722.00	88.00	157.99	—
Dividends	135.68	295.26	29.69	—
Working Capital Investment	1,172.00	1,194.00	256.45	—
Repayment of Borrowings	168.00	207.00	36.76	**Positive**

- **CAPEX Analytical Notes:**
  - **CFO Coverage:** CFO/Capex ratio is 0.63; funding gap bridged by drawing down cash and increasing other liabilities.
  - **Nature:** Significant jump in Capex (□**722 Cr**) focused on Plant & Machinery and Buildings.
  - **Efficiency: Fixed Asset Turnover is extremely high**, suggesting a trading-oriented model despite manufacturing capex.
  - **Takeaway: Aggressive expansion is not yet self-sustaining given negative FCF and high aged receivables.**

H. Risks

- ***Receivables Aging***: □7,015.00 Cr outstanding for >6 months (67.7% of total). Impact: Potential for massive write-offs and severe cash flow stress.
- ***Debt Status Discrepancy***: Management claims "Debt Free" while the Balance Sheet shows □723 Cr in short-term borrowings. Impact: Misleading leverage profile.
- **Gold Price Volatility**: Fluctuations impact □**6,049 Cr** of inventory. Impact: Margin compression.
- **Regulatory Compliance**: CSR shortfall and filing delays. Impact: SEBI/MCA penalties.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	0.42% PAT Margin; 99% RM Cost	Massive scale but commoditized volume-play with zero pricing power.
Financial health	2	↓	FCF -□265 Cr; CFO < PAT	Negative free cash flow and poor profit-to-cash conversion.
Earnings quality	1	↓	67.7% Receivables > 6m; 3% Tax	High risk of uncollectible receivables and aggressive tax/accounting.
Management & governance	2	↓	Suspiciously low KMP pay; CSR shortfall	Opaque disclosures and decoupling of management pay from scale.
Capital allocation & visibility	2	↓	Capex > CFO; ROCE 11%	Reinvesting with uncertain returns; growth not self-funded.

Business positives * **Revenue Growth:** Top-line increased by **40%** to □3,39,690 Cr. * **Debt Management:** Maintained a low **Debt/Equity of 0.05** and improved Interest Coverage to 19.25x. * **Asset Efficiency: ROCE** improved to 11.00% driven by high Asset Turnover (14.85x). * **Inventory Optimization:** Released □**1,620 Cr** in cash through inventory reduction.

Business negatives / concerns * **Receivables Risk: ₹7,015 Cr** (67.7% of total) are older than 6 months with zero provisioning. * **Cash Flow Stress: Free Cash Flow** is negative at -₹265 Cr; CFO/PAT is only 0.32. * **Governance Red Flag:** Management claims to be "Debt Free" despite **₹723 Cr** in borrowings on the Balance Sheet. * **Compliance Failures:** Significant **CSR underspend** (only 14.5% of requirement met) and SEBI regulation non-compliance. * **Margin Fragility:** Razor-thin **PAT margins of 0.42%** leave no room for operational errors.

OVERALL SCORECARD SUMMARY Rajesh Exports presents a paradox of massive global scale coupled with extremely fragile financial and governance characteristics. While revenue growth and asset turnover are impressive, the company fails to convert a significant portion of its profits into cash, resulting in negative free cash flow. The most alarming concern is the deteriorating quality of receivables, with over two-thirds of the book aged beyond six months, alongside a management team that provides minimalist disclosures and receives statistically irrelevant compensation. The business is on a deteriorating trajectory regarding earnings quality and governance transparency.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 7/10 — Governance Rating: 2"

Part c: investor verdict

Thesis: A high-volume, low-margin gold refiner attempting a retail pivot, but currently masked by severe receivables aging and opaque governance. **Overall stance:** Avoid **Rationale:** The combination of negative FCF, massive unprovisioned aged receivables, and misleading "debt-free" claims creates an unacceptable risk-reward profile. **Re-evaluate when:** Receivables > 6 months drop below 20% of total and CFO/PAT exceeds 0.8x for two consecutive years. **BULL CASE:** Successful retail expansion triples PAT margins to 1.5% and unlocks cash from the refining working capital. **BEAR CASE:** A 5% write-off of aged receivables wipes out 25% of the company's Net Worth. **Key monitorable:** Receivables > 6 months: ₹7,015 Cr → Watch threshold: ₹3,500 Cr.