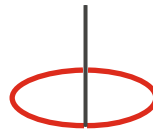


Initiating Coverage

8th January 2024



DALAL & BROACHA
STOCK BROKING PVT. LTD.



Sparkling Diamonds



Goldiam International Limited

Diamond is forever to  is for everyone

Sparkling Lab



Grown Diamonds



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Goldiam International Ltd (GIL)

Initiating Coverage | Jewelry | Retail

The sustainable diamond

Goldiam International Ltd (GIL) operates as an integrated manufacturer and supplier of high-quality diamond jewelry, distinct from commodity offerings, serving prominent retailers and wholesalers in the USA. Positioned at the forefront of a transformative shift in the diamond jewelry market, GIL is strategically embracing the shift from natural diamonds to eco-friendly and cost-efficient Lab-grown diamonds, offering comparable properties at just 1/10th of the cost.

Taking a leap into the Indian retail market with its proprietary jewelry brand, GIL aims to unlock substantial value in this new venture. The company has consistently rewarded shareholders, disbursing Rs. 2.1 bn over the past 6 years through dividends and buybacks. Remarkably, GIL maintains a robust cash position of Rs. 2.7bn in H1FY24, showcasing financial strength and resilience uncommon for a company of its size and stature. The aspiration to own a solitaire is significant among the expansive millennial population of 41 crore Indians, equivalent to the entire population of the USA. While diamonds were historically linked to affluence, the advent of Lab-grown Diamonds (LGDs) has shifted the perception of "diamonds forever" to "diamonds for everyone."

Did You Know ?



India is home to 90% of the world's diamond cutting and polishing industry, but only 6% of diamonds (NDs) are consumed in India, catering to less than 5% of Indian women.

Financial Summary

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Net sales	3,645	4,060	6,877	5,332	5,374	6,430	8,086
EBIDTA	443	783	1,302	1,040	1,043	1,294	1,671
Margins	12.2	19.3	18.9	19.5	19.4	20.1	20.7
PAT (adj)	470	511	1,052	844	843	1,008	1,230
Growth (%)	-2.8	48.1	58.0	-19.6	-0.2	19.4	21.9
EPS	4.24	5.50	9.65	7.75	7.89	9.43	11.52
P/E (x)	43	33	19	24	23	19	16
P/B (x)	5	4	4	3	3	3	2
EV/EBITDA (x)	41	23	14	17	16	13	10
RoE (%)	12	12	21	15	14	14	15
ROCE (%)	15	18	30	21	18	19	21
RoIC (%)	22	26	34	25	25	22	22

Source: Dalal and Broacha



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

8 January 2024

Rating	TP (Rs)	Up/Dn (%)
BUY	230	26

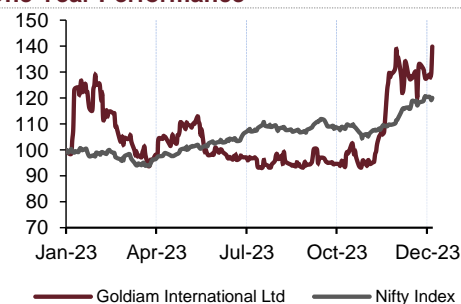
Market Data

Current price	Rs	183
Market Cap (Rs.Bn)	(Rs Bn)	20
Market Cap (US\$ Mn)	(US\$ Mn)	240
Face Value	Rs	2
52 Weeks High/Low	Rs	193/120
Average Daily Volume	('000)	368
BSE Code		5,26,729

Bloomberg

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Aug-23
Promoters	64.26	66.60
Public	35.74	33.40
Total	100	100

Source: Bloomberg

Investment Rationale:

❖ 3 Avenues of revenue growth

1. Maximizing wallet share with current partners

GIL has yet to unlock its full potential with existing customers, presenting an opportunity to expand its wallet share. Preliminary estimates indicate that GIL currently represents around 1% of the Signet Group's total procurement, a percentage that can be readily increased to 3% in the upcoming years, implying a robust revenue CAGR exceeding 30% from current levels of US\$30Mn. GIL currently represents a substantial 25% share in JCPenney's bridal procurement of ~US\$15Mn, underscoring GIL's impressive capabilities. GIL aims to broaden its scope by expanding beyond bridal jewelry to include fashion jewelry, thereby diversifying its product offerings for existing clients implying a growth rate of 15% & its share with JCPenney's procurement from current levels of 9% to 12% over next few years. (Refer Exhibit 29:)

2. India retail business

GIL aspires to become a part of India's consumption story, recognizing the enormous desire for solitaires among the mass public. With plans to open 5 stores under its proprietary brand by FY25, GIL seeks to cater to the significant demand for diamonds in the Indian market.

Long-term vision:

The objective is to position GIL as a formidable national retail brand, aiming for revenues of Rs. 10 billion by expanding its footprint to encompass over 250 stores in the next 8-10 years.

3. Foray into newer geographies:

GIL is actively exploring untapped markets such as Europe, Australia, and the Middle East for its B2B operations, aiming to establish partnerships with prominent jewelry retailers for their product sourcing.

❖ Distribution, the Ultimate Business Moat:

GIL has cultivated robust partnerships with major retailers and wholesalers in the USA, which accounts for 60% of the country's jewelry market. Serving as a vendor for jewelry procurement by industry giants like Signet Group and JCPenney, gaining entry onto their exclusive vendor lists poses a formidable challenge, creating substantial entry barriers. Typically collaborating with 50 vendors, of which typically 20-25 are of scale, underscoring the competitiveness of vendor selection. Preliminary estimates reveal that GIL presently comprises around 1% of Signet Group's total procurement, with a projected scalable to 3% in the near future. This trajectory suggests an annualized growth rate surpassing 30% in the coming years. Furthermore, GIL's noteworthy contribution of 25% to JCPenney's overall bridal collection underscores its exceptional relationship capabilities in the market. A robust pipeline of differentiated designs and an optimal price point serve as additional distinguishing factors.

❖ Forefront of value migration from Natural Diamonds (NDs) to Lab grown diamonds (LGDs):

GIL is strategically embracing the shift from natural diamonds (NDs) to eco-friendly and cost-efficient Lab-grown diamonds (LGDs), having comparable properties at just 1/10th of the cost. GIL now generates approximately 35% of its revenue from Lab-grown Diamonds (LGDs), a significant shift from 0% just five years ago. The company expects this trend to persist, projecting a 50% revenue mix from LGDs by 4QFY24.

❖ LGD Mix to drive margins:

The current revenue composition, with LGDs contributing ~35% and NDs constituting ~65%, is expected to undergo a gradual transformation. The strategic shift aims to balance the LGD to ND ratio at 50:50. This evolution in product mix is forecasted to elevate overall EBITDA margins to exceed 21%, reflecting a positive increase of 50 bps. A key assumption supporting this trajectory is that the prices of both LGDs and NDs have reached a bottom and are not anticipated to experience further declines.

❖ GIL in a sweet spot (Upselling to drive revenue & margins):

Positioned strategically for upselling to boost revenue and margins, GIL navigates a pricing advantage. The average selling price (ASP) for Natural Diamonds (NDs) stands at approximately ~US\$400-450, while for Lab-grown Diamonds (LGDs), it rises to ~US\$800 which in turn is sold to end consumer by retailers at 3x markup at ~US\$ 1,200-2,400\$. The key driver for this upselling opportunity is the consumer preference for solitaire diamonds over cut diamonds. In the context of NDs, solitaires were often unaffordable, leading consumers to opt for cut diamonds set in solitaire form.

This transition presents a superb opportunity for companies like GIL, targeting the mass market. In contrast, high-end brands like Cartier, Harry Winston, and Tiffany, with an average selling price of ~US\$50,000-80,000, face a challenge in down selling to migrate to LGDs.

❖ Navigating Genetic Transformation in a Commoditized Market

Transitioning from a commodity-focused approach to value addition, GIL has showcased remarkable resilience. Evolving from a diamond trader to a jewelry manufacturer and shifting from Natural Diamonds (NDs) to Lab-grown Diamonds (LGDs), the company is poised for further transformation. Looking ahead, GIL is set to value add from a Business-to-Business (B2B) model in USA to Business-to-Consumer (B2C) in India, reflecting its dynamic and strategic adaptation to changing market landscapes.

❖ The sustainable diamond

LGDs provide eco-friendly advantages, significantly reducing environmental impact. With a carbon footprint 6 times lower than mined diamonds (Frost & Sullivan), they exemplify sustainability. Water usage is minimal at 0.0075 gallons per carat, compared to 126 gallons for mined diamonds (Carnegie Mellon University), showcasing substantial water conservation. Ethical sourcing eliminates concerns of child labor and human rights violations, while choosing LGDs contributes to preserving natural habitats, avoiding the environmental disruption caused by traditional mining. Energy efficiency is evident, using 250 million joules per carat compared to 5700 million joules for mined diamonds (Frost & Sullivan), reflecting a greener production process.

❖ Next-Gen Succession in place

Mr. Anmol Bhansali, son of Rashesh Bhansali, brings 6 years of experience to GIL, elevating management bandwidth for the next phase of growth. Mr. Anmol Bhansali has completed Bachelors of Science in Business Administration from Wharton School, University of Pennsylvania. Mr. Anmol Bhansali possesses extensive expertise in the diamond industry, demonstrating proficiency in manufacturing, trading, and the export of jewelry.

Valuation & Outlook:

During Titan's 2QFY24 conference call, it was revealed that bridal engagement rings make up 40% of the US jewelry market. Notably, 50% of this segment has shifted to Lab-Grown Diamonds (LGDs), comprising a substantial 20% volume share in the overall USA jewelry market. This underscores a transformative trend in the diamond jewelry sector, signaling a notable shift in consumer preferences within the jewelry industry. Lab-Grown Diamonds (LGDs) are revolutionary products, possessing properties comparable to natural diamonds but are accessible at only 1/10th of the cost.

GIL stands at the forefront of the current shift in value within the diamond jewelry sector, bolstered by robust distribution advantages derived from its partnerships with major retailers in the USA.

Backed by a robust management pedigree and demonstrated financial prudence, GIL stands apart compared to other entities in the diamond jewelry sector, some of which are perceived as dubious companies. The company has consistently rewarded shareholders, disbursing Rs. 2.1 bn over the past 6 years through dividends and buybacks. Remarkably, GIL has “zero debt” & a robust cash position of Rs. 2.7bn in H1FY24, showcasing financial strength and resilience uncommon for a company of its size and stature (MCap : ~Rs.19bn).

Over time, GIL has shifted its focus from being a commodity player to a value-added participant. GIL exclusively focuses on jewelry manufacturing and abstains from engaging in the commoditized trading of cut and polished diamonds. Key drivers of its robust revenue growth include **maximizing wallet share with retailers in USA, venturing into the Indian RETAIL Lab Grown Diamond Jewelry Market with its proprietary brand, and expanding into new geographical territories.**

As the acceptance of Lab-Grown Diamonds (LGD) continues to rise in the USA, we anticipate this trend to extend to India. Given that India boasts the largest consumer market with approximately 41 crore millennials, the shift towards LGDs is likely to gain traction in the country. We believe GIL possesses robust jewelry manufacturing capabilities, and it has the financial resources on its books, which it can leverage to reinvest and establish a formidable proprietary brand.

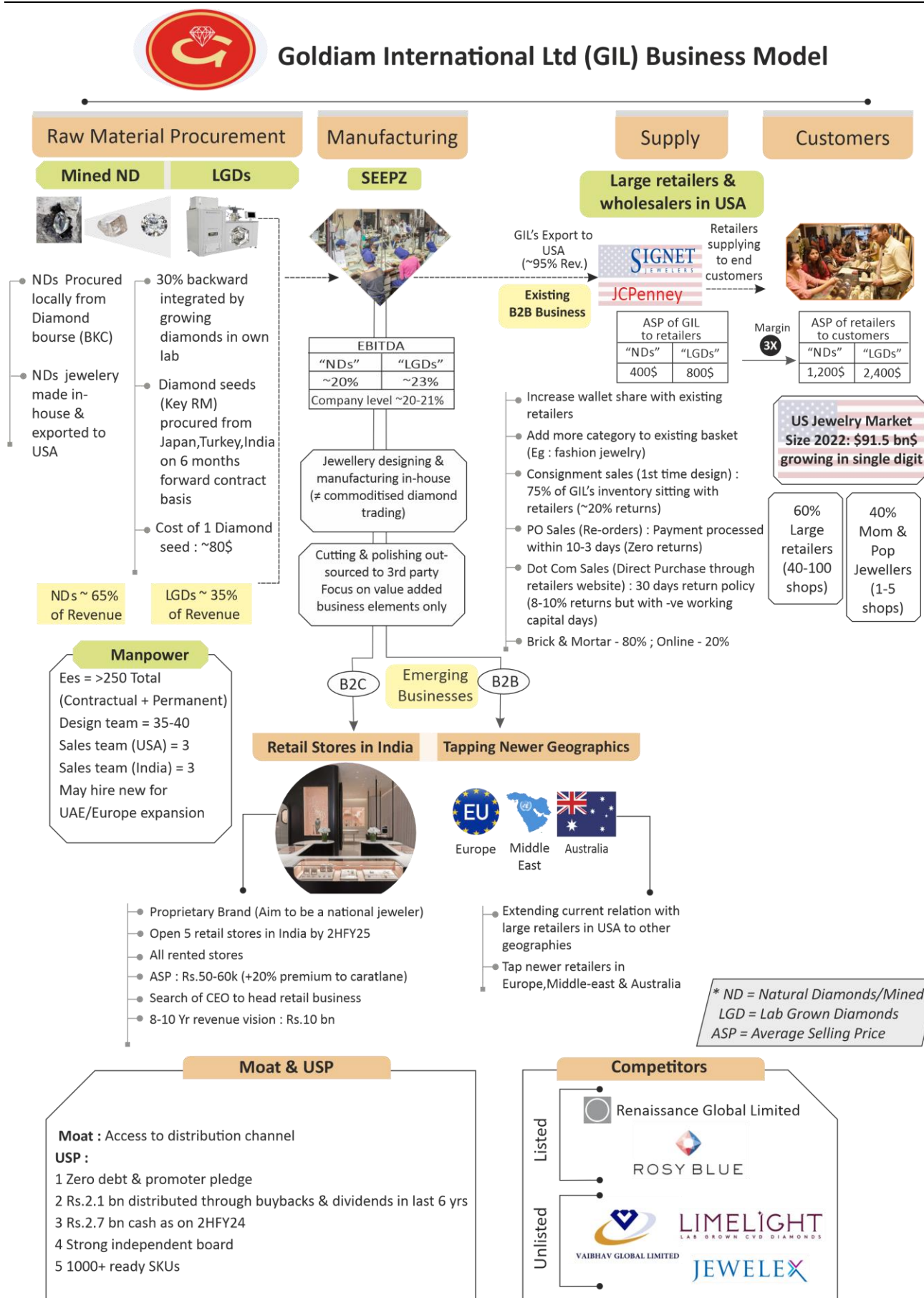
Currently GIL trades at 16x FY26e EPS of Rs.11.5, we assign "BUY" rating to the stock with a valuation multiple of 20x FY26e EPS arriving at target price of Rs.230 (>26% upside to CMP).

(Refer [Exhibit 31](#): on “how value gets created” for more details)

Risks:

- Revenue concentration: The top 5 customers contributing 50-55% of the overall revenue.
- Delay in venturing into retail business
- Product obsolescence (mined diamond jewelry)
- Increased competition leading to drop in margins.
- Price fluctuations distorting revenue & inventory valuation
- Promoter stake sell.

Exhibit 1: Snapshot of GIL's Business Model



Source: Company, Dalal & Broacha Research

Market Focus:

Aims to become the premier OEM for fine jewelry manufacturing by focusing on top retailers and wholesalers in the USA. Now entering Indian retail market with its own proprietary brand.

[1] B2B Existing Business: GIL provides 360 degree service to major retail corporations based in USA, Europe and other countries for sourcing diamond jewelry that adorns the shelves of major departmental stores like Signet group, JCPenney, Macy's, Bluenile etc. Gaining inclusion in the vendor roster of major retailers in the USA proves to be a formidable challenge. These retailers generally maintain lists with around 50 vendors, engaging actively with approximately 20-25 of them. Notably, GIL has secured a spot on the vendor lists of prominent retailers with store counts of 40-100 such as Signet Group (the world's largest diamond jewelry retailer) and JCPenney, collectively representing 60% of total jewelry retail sales in the USA (~\$91.5 bn USD). The remaining 40% of sales transpire through smaller, independent stores, often served by substantial wholesalers with store counts of 1-5 stores. GIL strategically provides jewelry to these wholesalers as a precautionary measure to mitigate payment risks associated with smaller entities.

[2] India Retail Business: Capitalizing on the Indian consumption story. Plans to open 5 stores under its own brand by 2HFY25. The objective is to position GIL as a formidable national retail brand, aiming for revenues of Rs. 10 billion by expanding its footprint to encompass over 250 stores in the next 8-10 years.

Product:

GIL operates as a comprehensive jewelry manufacturer and does not participate in the trading of rough or polished diamonds. The company's business model represents an optimal fusion of value addition within a commoditized market, bolstered by robust distribution advantages. At present, GIL's revenue composition is comprised of approximately 65% from natural diamonds (NDs) and around 35% from laboratory-grown diamonds (LGDs). There is an anticipated shift in this revenue mix, with expectations for it to evolve to a more balanced ratio of 50:50 between natural diamonds and laboratory-grown diamonds in the future.

Geographical Mix:

~95% of GIL's revenue is generated through the export of finished fine jewelry.

Raw material Procurement:

Natural Diamonds (NDs): GIL acquires rough diamonds for ND Jewelry from various sellers at competitive prices from Diamond bourse. NDs are predominantly imported from Russia, then undergo the process of cutting and polishing in India before being distributed in the wholesale market.

Lab-grown Diamonds (LGDs): In the case of LGDs, GIL is approximately 30% backward integrated, producing significant-sized diamonds in-house, while procuring the remainder from the market at competitive prices. The primary raw material for Lab-grown Diamonds (LGDs) is the diamond seed, traditionally procured from countries like Japan and Turkey. Presently, these seeds are also locally sourced in India. Furthermore, advancements in technology have enabled the cultivation of diamond seeds through machine-based processes. GIL has a six-month forward contract for diamond seed procurement, avoiding any volatility in prices. Also, the Indian government has removed the 5% customs duty on seeds utilized in the manufacturing of rough lab-grown diamonds.

Consignment sales:

Companies such as GIL present various designs to prominent retailers, who then approve specific designs and display them on their shelves on a consignment basis. Approximately 75% of the inventory held by GIL on books is physically present with customers. Typically, about 20% of consignment sales are returned, and this is factored into the profit margin & pricing is decided accordingly. In contrast to perishable products, diamond jewelry is reusable due to the reusability of diamonds and gold; only the cost of labor remains irrecoverable.

(Interesting Fact: Currently, 40-45% of the inventory of GIL is comprised of Lab-Grown Diamonds.)

PO Sales :

Following the sale of designs, at the close of each month, retailers furnish sales data to GIL, which is then documented by the company. If there is notable demand for those specific designs, retailers may initiate the reordering of consigned goods through purchase orders, with payment usually processed within a 10-30 day timeframe & negligible returns.

Channels :

Brick-and-mortar sales constitute ~80% of the overall mix, while the e-commerce/online segment makes up ~20%, a notable contrast to the industry average of 5-10%. GIL played a pivotal role in early and substantial investments in expanding the sales channel, enabling them to achieve an e-commerce mix of around 20%.

Sales Return Policy:

[1] Purchase order PO based sales: Zero to no returns [2] Consignment sales : ~20-25% sales return [3] Dot com sales – 30 days return policy with estimated 8-10% returns with negative working capital days

Presence: Office & manufacturing units present in India & USA. Currently, GIL receives ~95% revenue from exports to USA.

Employees: >250 total employees (Permanent + Contractual); 35-40 design team; Sales team : 3 in India, 3 in USA & may hire new sales personnel for UAE/Europe expansion

Margin focused & frugal:

GIL has consistently prioritized margins and RoCE as key focal points in its business strategy. The margins between traditional and e-commerce sales channels are similar except payment conditions.

Integrated Manufacturing and Supply Chain:

Engages in the manufacturing of fine diamond jewelry. Integrates the supply chain to provide end-to-end solutions.

Inventory Management:

In the case of natural diamonds (NDs), the procurement process involves purchasing NDs only after a purchase order (PO) is received. Additionally, GIL maintains approximately 70-75% of its inventory on the books with customers.

Inventory is susceptible to price fluctuations, and GIL has experienced a substantial inventory loss amounting to \$2Mn (~Rs.150-160 Mn). This loss is attributed to a decline in the prices of LGD, particularly in solitaires, due to increase in supply of LGDs leading to fall in overall retail prices.

Strategic Positioning:

At the forefront of the transition from Natural Diamonds (NDs) to Lab-grown Diamonds (LGDs). Seizes upselling opportunities by offering LGDs at a fraction of the cost of NDs without cannibalizing its own product.

Global Expansion:

Forays into newer geographies like Europe, Australia, and the Middle East. Collaborates with large jewelry retailers for jewelry manufacturing in B2B partnerships.

Revenue Diversification:

Aims to shift from B2B to B2C, expanding its market reach and revenue streams.

Financial Strength:

Strong track record of rewarding shareholders with dividends and buybacks. Maintains a robust cash position, demonstrating financial resilience.

Competitors:

Listed – Renaissance (focused more on fashion jewelry with ASP of ~200\$), Vaibhav Global (focused on imitation jewelry with ASP of ~30-40\$; brass plated metal) ; Unlisted – JewelX ; Jewelry division of Rosy Blue

Chinese competition:

The impact is not substantial, primarily because they do not engage in vendor financing, given the size and self-sufficiency of the local market.

Logistics:

Typically, the delivery is executed with tagging under the retailer's FedEx account, and the associated costs are not incurred by GIL.

GIL Dividend Policy: 50% of standalone profits

Best Qtr of the year: 3Q (due to Christmas & thanksgiving)

Moat:

In a commoditized market, GIL's most significant competitive advantage lies in its access to major retailers, with distribution serving as its primary barrier to entry. Forwarding integration to create its proprietary brand.

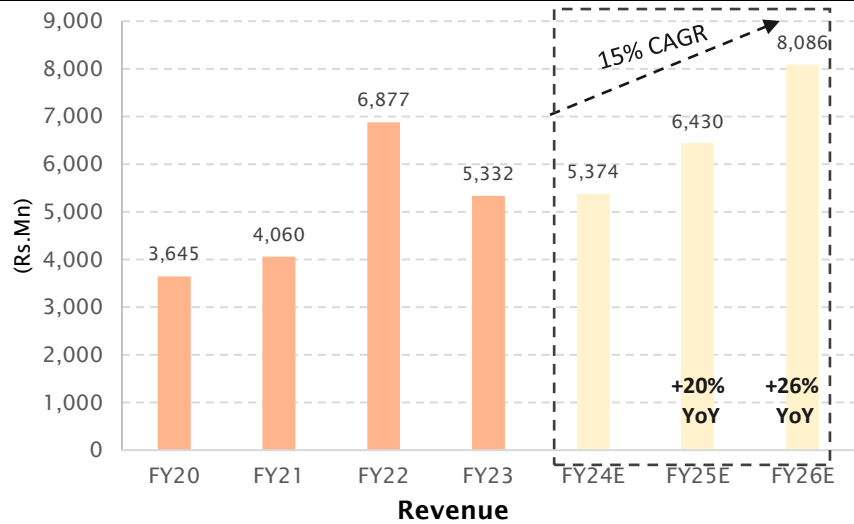
Other USPs :

Dominant in engagement and bridal jewelry with 1000 ready SKUs, ensuring on-time delivery (~6-7 days). Large jewelry retailers seek collaborating with a financially robust player capable of executing significant orders.

Did You Know ?

According to Titan's 2QFY24 conference call, 40% of the total jewelry market in the USA consists of **bridal engagement rings**. Of this, 50% has transitioned to LGDs (Lab-Grown Diamonds), accounting for 20% of the total jewelry market by volume.

Exhibit 2: 3 Avenues of revenue growth



Source: Company, Dalal & Broacha Research

Avenue 1: Foray into newer geographies of EU,Australia & Middle-east (Extending relationship with Signet group in USA to Europe as well)

Avenue 2: Increasing wallet share with existing retailers in USA like Signet, JCPenney etc. Preliminary, estimates indicate that GIL currently represents around 1% of the Signet Group's total procurement, a percentage that can be readily increased to 3% in the upcoming years, implying a robust revenue CAGR exceeding 30% from current levels of US\$30Mn.GIL currently represents a substantial 25% share in JCPenney's bridal procurement of ~US\$15Mn, underscoring GIL's impressive capabilities. GIL aims to broaden its scope by expanding beyond bridal jewelry to include fashion jewelry for existing clients implying a growth rate of 15% & its share with JCPenney's procurement from current levels of 9% to 12% over next few years.

(Refer Exhibit 29:)

Avenue 3: GIL aims to incorporate high-end fashion jewelry into its product offerings. The increasing affordability of Lab-grown Diamonds (LGDs) has played a crucial role in making fashion jewelry more accessible in the USA, contributing to GIL's plans for diversification and product expansion.

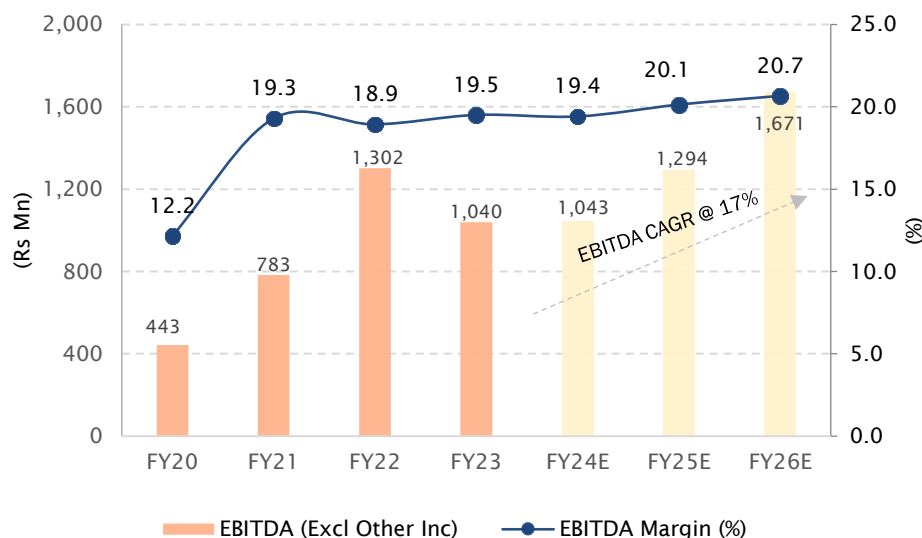
Did You Know ?



Signet Jewelers is the **world's largest retailer of diamond jewelry** with an annual sale closer to **\$7.8 bn & 2,800 operational stores.**

Source :<https://www.signetjewelers.com/investors/default.aspx>

Exhibit 3: Operating Margins to sustain with changing product mix despite initial retail store opex



Particulars	(As a % of SP)	LGDs margin on SP (%)	NDs margin on SP (%)
Diamond	70	23	18
Gold	20	10	10
Labour	10	50	50
Overall margin (%)	100	23	20
Contribution to overall revenue (%)		35	65
Company level EBITDA margin (%)			21

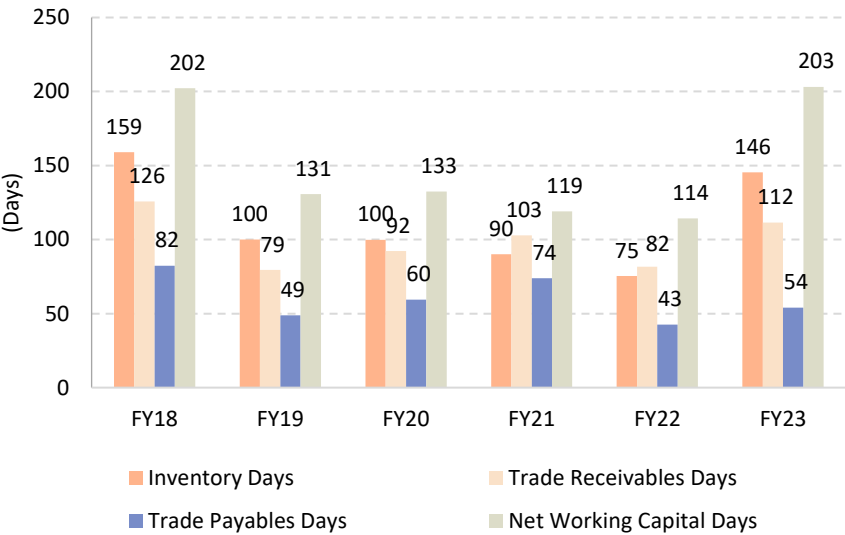
Source: Company, Dalal & Broacha Research

Over the years, margins have expanded by more than 700 basis points, rising from a low of 12% in FY20 to approximately 19% by the end of FY23. The primary factor contributing to margin expansion is the shift in export emphasis over the last 5-7 years, moving from wholesalers to direct retailers. Furthermore, a strategic concentration on specific categories of diamond qualities has empowered GIL to effectively manage returns, minimize inventory impacts, and facilitate timely redesign and replenishment of new stock. Another key driver behind this margin expansion is a shift in the product mix from natural diamonds (NDs) to laboratory-grown diamonds (LGDs) which are higher-margin products.

Moving ahead, there will be a slight impact on EBITDA attributable to the initial costs associated with opening retail stores in India. However, this impact is anticipated to be offset by the enhancement of the laboratory-grown diamond (LGD) mix in the overall product portfolio, aiming to maintain overall EBITDA margins at approximately 20-21% level.

The provided exhibit elucidates the margin characteristics of NDs compared to LGDs and the company-level EBITDA.

Exhibit 4: Working Capital (an important matrix to track ; Mix of online sales to improve WC)

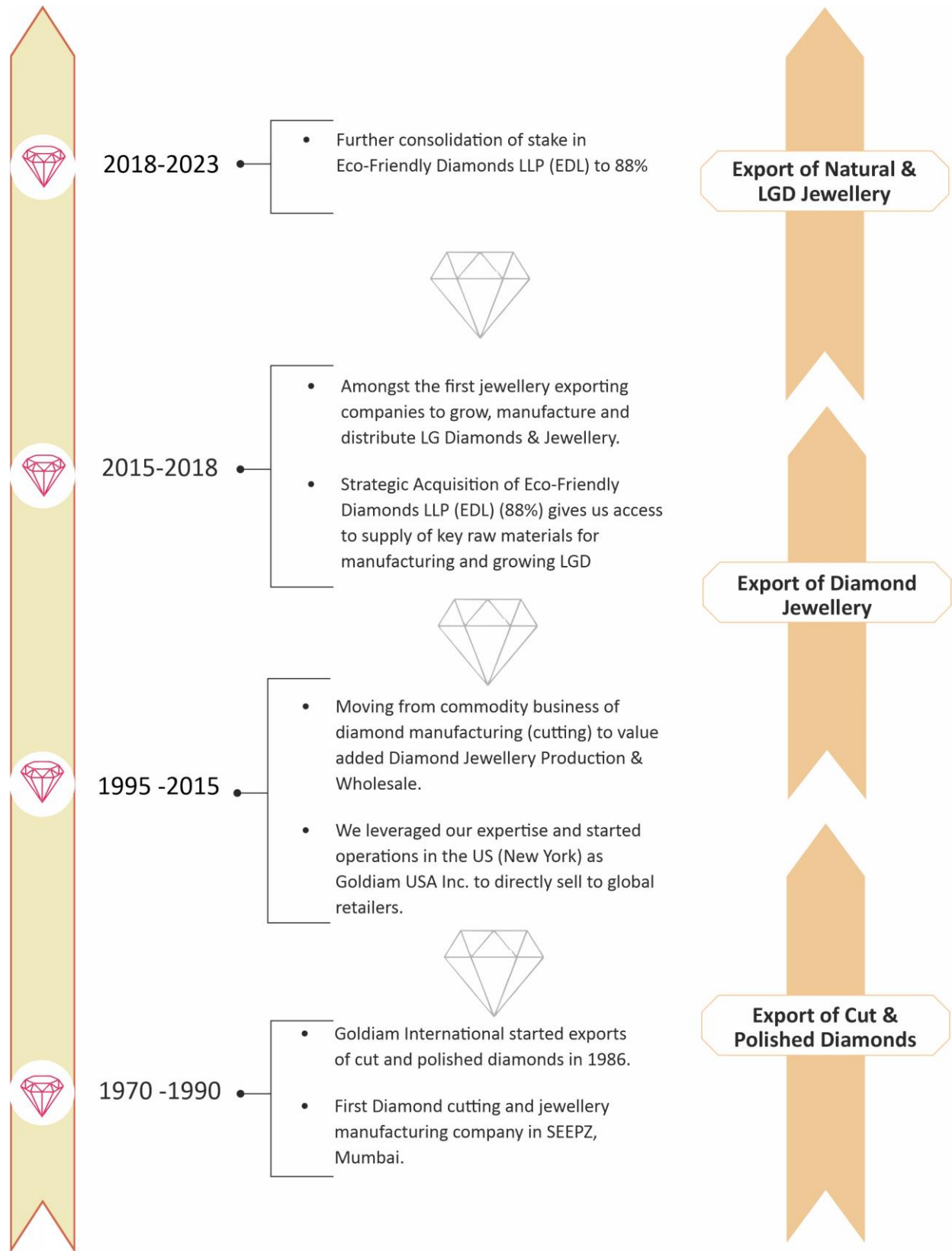


Source: Company, Dalal & Broacha Research

Brick-and-mortar sales constitute ~80% of the overall mix, while the e-commerce/online segment makes up ~20%, a notable contrast to the industry average of 5-10%. GIL played a pivotal role in early and substantial investments in expanding the sales channel, enabling them to achieve an e-commerce mix of around 20%.

As the Ecom mix is projected to expand consistently, it is anticipated that there will be a decrease in the overall number of working capital days, given the negative working capital days associated with Ecom businesses.

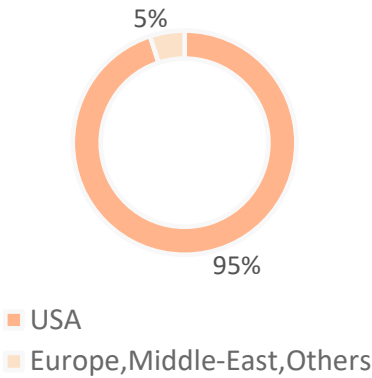
Exhibit 5: Timeline of GIL : Genes to pivot at every stage, commodity-focused to value-added strategies



Source: Company, Dalal & Broacha Research

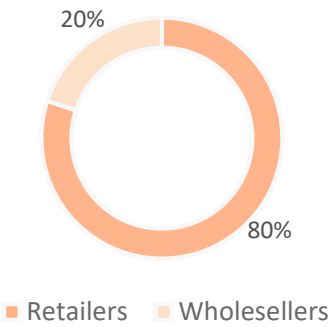
GIL underwent a transformation from being an exporter of cut and polished diamonds in the 1990s to becoming a value-added jewelry manufacturer for both NDs and LGDs. Currently, the company is moving forward by integrating into retail stores under its own brand.

Exhibit 6: Regionwise sales distribution



Presently, GIL derives approximately 95% of its revenue from the USA. In an effort to diversify, the company is actively expanding its network in Europe, the Middle East, and Australia.

Exhibit 7: Customer Breakup



GIL faces a notable customer concentration risk, with its top 5 customers contributing 50-55% of the overall revenue. To mitigate this risk, the company is actively pursuing diversification strategies by expanding its presence and engaging with new retailers in Europe, the Middle East, and Australia.

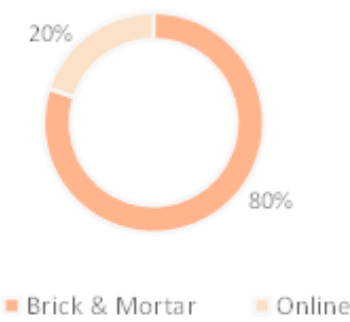
Exhibit 8: .GIL’s Product Basket with its ASP



According to the management commentary, GIL anticipates a shift in its revenue mix, with the proportion of revenue from LGDs increasing from the 35% level in 2QFY24 to reaching 50% by 4QFY24. This transition suggests that LGDs are gaining traction in the USA for the company.

GIL specializes in the manufacturing of fine diamond jewelry and does not involve itself in the commoditized trading of cut and polished diamonds, whether they are NDs or LGDs..

Exhibit 9: Sales Channel Mix



Brick-and-mortar sales constitute ~80% of the overall mix, while the e-commerce/online segment makes up ~20%, a notable contrast to the industry average of 5-10%. GIL played a pivotal role in early and substantial investments in expanding the sales channel, enabling them to achieve an e-commerce mix of around 20%.

Exhibit 10: Folly to Natural Diamantaires & High end jewellers ; GIL in a sweet spot (Right product market fit : Upselling for midsize players & downselling for luxury brands)



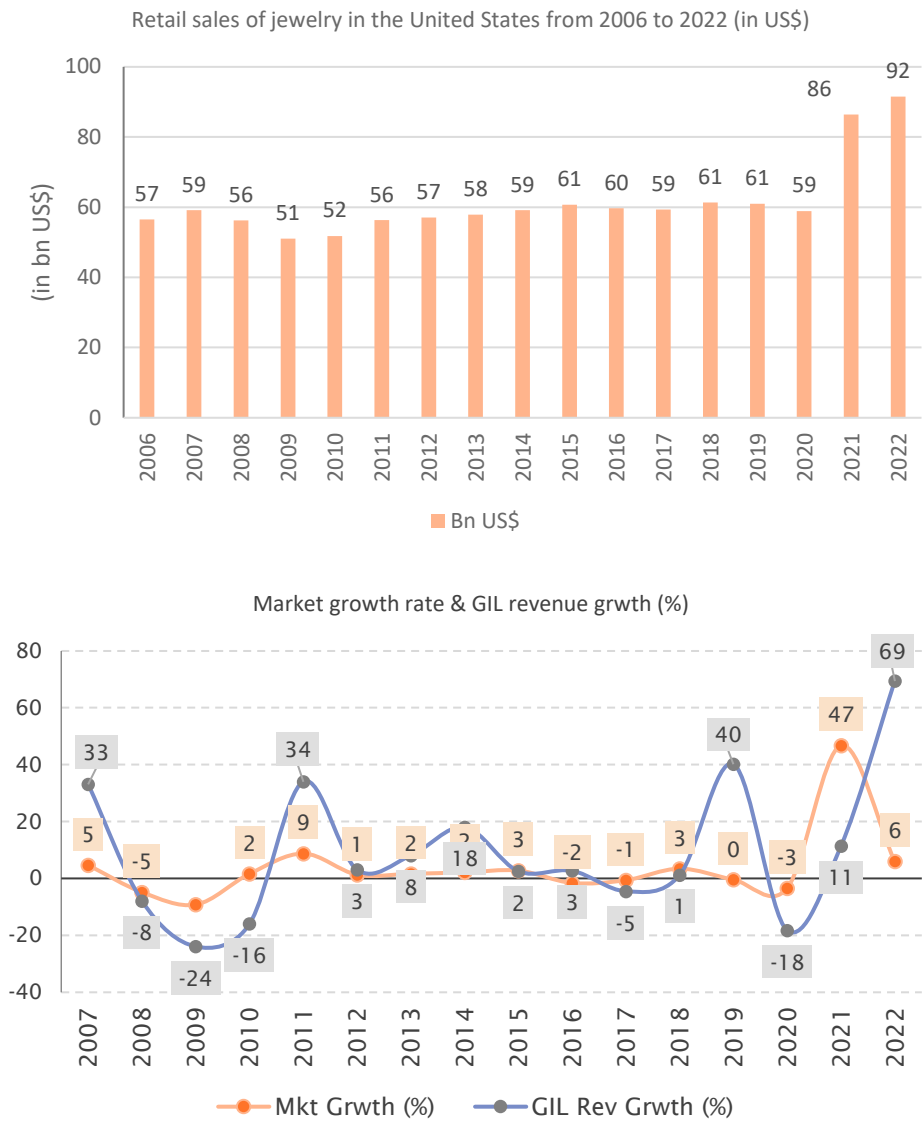
Source: Company, Dalal & Broacha Research

Positioned strategically for upselling to boost revenue and margins, GIL navigates a pricing advantage. The average selling price (ASP) for Natural Diamonds (NDs) stands at approximately ~US\$400-450, while for Lab-grown Diamonds (LGDs), it rises to ~US\$800 which in turn is sold to end consumer by retailers at 3x markup at ~US\$ 1,200-2,400\$. The key driver for this upselling opportunity is the consumer preference for solitaire diamonds over cut diamonds. In the context of NDs, solitaires were often unaffordable, leading consumers to opt for cut diamonds set in solitaire form.

This transition presents a superb opportunity for companies like GIL, targeting the mass market. In contrast, high-end brands like Cartier, Harry Winston, and Tiffany, with an average selling price of ~US\$50,000-80,000, face a challenge in down selling to migrate to LGDs.

GIL typically markets 2-3 carat Natural Diamonds (NDs) or Lab-grown Diamonds (LGDs) to mass-market US retailers, with average selling prices of approximately \$450-\$500 and \$800-\$1200, respectively. The key driver for this upselling opportunity is the consumer preference for solitaire diamonds over cut diamonds. In the context of NDs, solitaires were often unaffordable, leading consumers to opt for cut diamonds set in solitaire form. GIL primarily focuses on bridal rings, where diamonds serve as the central stones, minimizing reliance on discretionary spending and reducing volatility. The company places less emphasis on pendants and earrings, further reinforcing its resistance to discretionary spending fluctuations. As part of its strategic expansion, GIL aims to incorporate high-end fashion jewelry into its product offerings. The increasing affordability of Lab-grown Diamonds (LGDs) has played a crucial role in making fashion jewelry more accessible in the USA, contributing to GIL's plans for diversification and product expansion.

Exhibit 11: Industry Dynamics : Retail sales of jewelry in the United States from 2006 to 2022 (In bn US\$)
Market size & opportunity in USA & India



Source: Statista, Dalal & Broacha Research

According to Statista, end jewelry retail sales in the USA have been reported to be around \$91.5 billion. Interestingly, there appears to be a low to no correlation between the growth in retail sales of jewelry in the USA and the sales to retailers by GIL. This lack of correlation is attributed to factors such as differences in product mix, the nature of relationships with retailers, and variations in inventory management, all contributing to distinct COGs for GIL in comparison to the overall retail sales growth in the jewelry market.

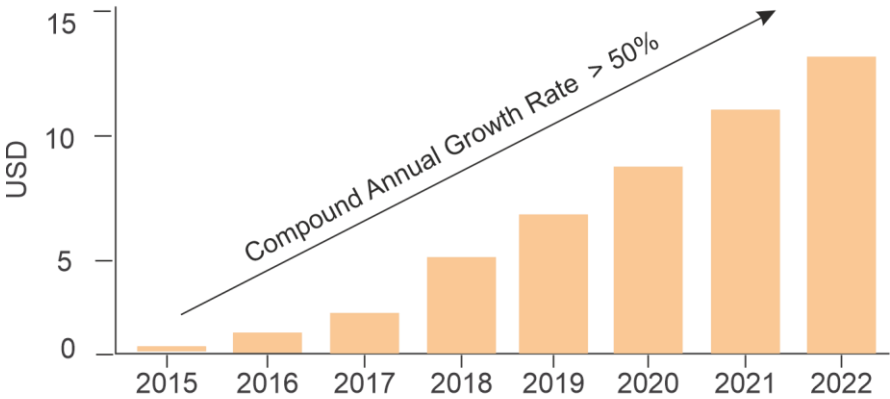
As indicated by Allied Market Research, the global market for lab-grown diamonds reached a valuation of \$22.3 billion in 2021. Projections suggest that this market is expected to grow substantially, reaching an estimated value of \$55.6 billion by 2031. The anticipated compound annual growth rate (CAGR) from 2022 to 2031 is approximately 9.8%

Exhibit 12: LGD : Shift to persist ; LGDs gaining market share from 3% in 2020 to now ~11% of total USA fine jewelry market

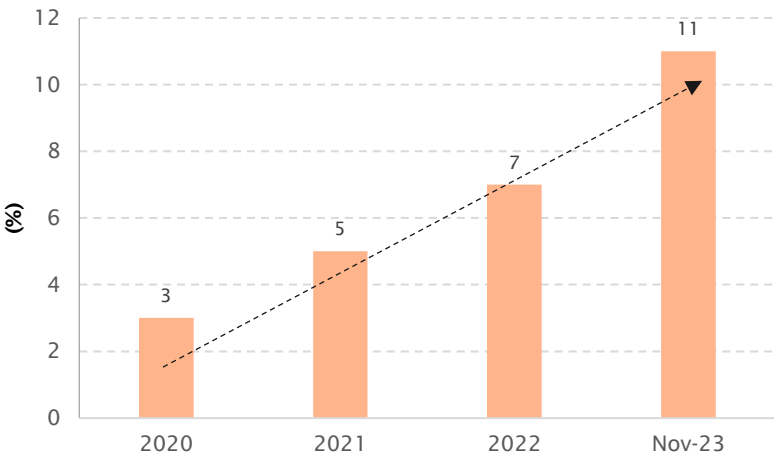
Size of Global Lab Diamond Jewelry Market

Market Estimated at ~ \$12bn in 2022

Billions in USD sold to end -consumer globally (complete jewelry)



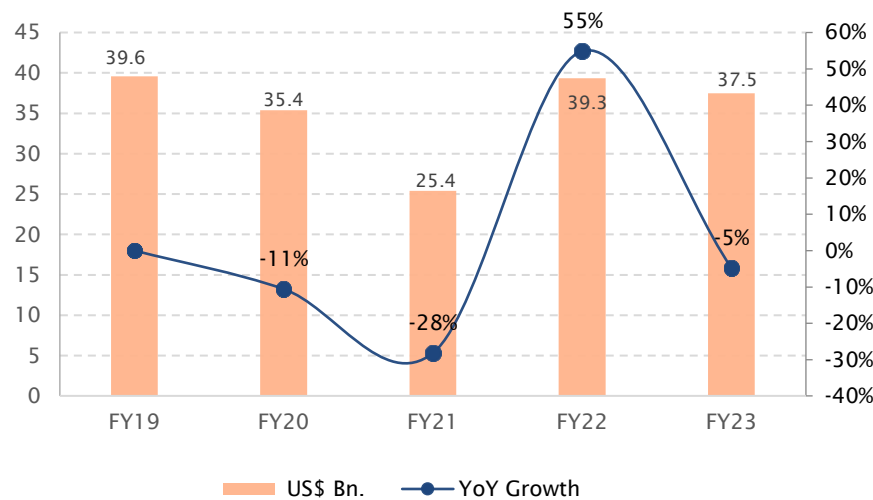
Market Share of LGDs in USA fine jewelry market



Source: Paul Zimnisky (<https://www.paulzimnisky.com/Lab-Diamond-Sales-Grow-as-Prices-Fall>), Statista, Tenoris, Dalal & Broacha Research

As an early entrant into the LGD business approximately seven years ago, GIL demonstrated the foresight to anticipate the shifting trend in the diamond jewelry market.

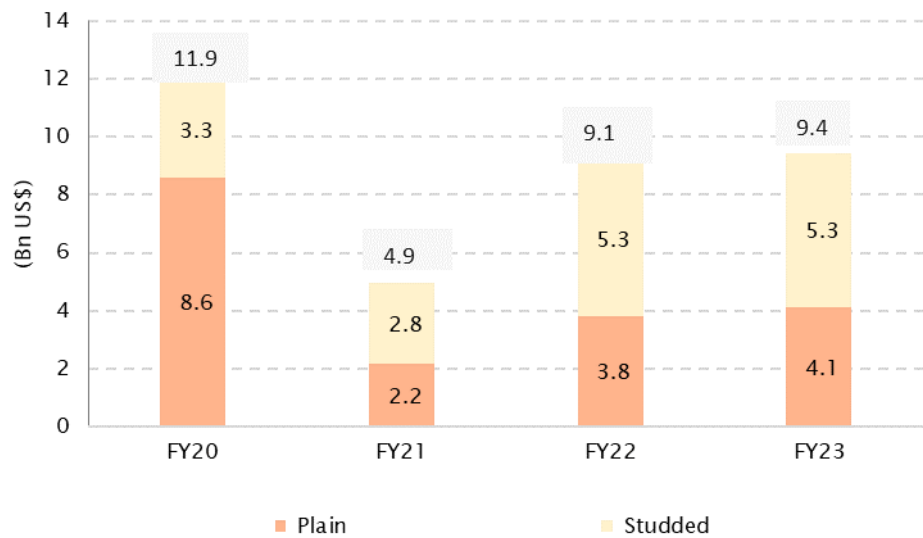
Exhibit 13: Overall Gems & Jewelry exports from India



Source: GJEPC, Dalal & Broacha Research

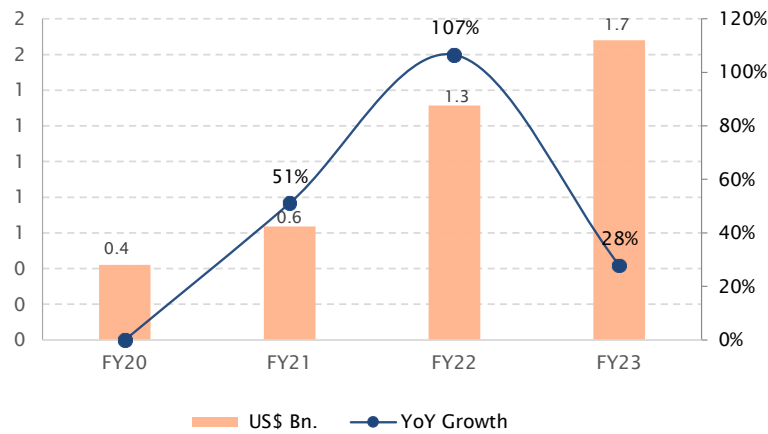
India holds the position of being the third-largest global exporter of Gems & Jewelry, with its total exports amounting to ~\$39.3 bn in FY22. While a significant portion is attributed to cut and polished diamonds, approximately \$5.3 bn (~13%) is represented by studded jewelry. This suggests ample opportunities for export companies to add value by transitioning from polished diamonds to jewelry manufacturing.

Exhibit 14: Total Gold Jewelry exports from India (Plain & studded)



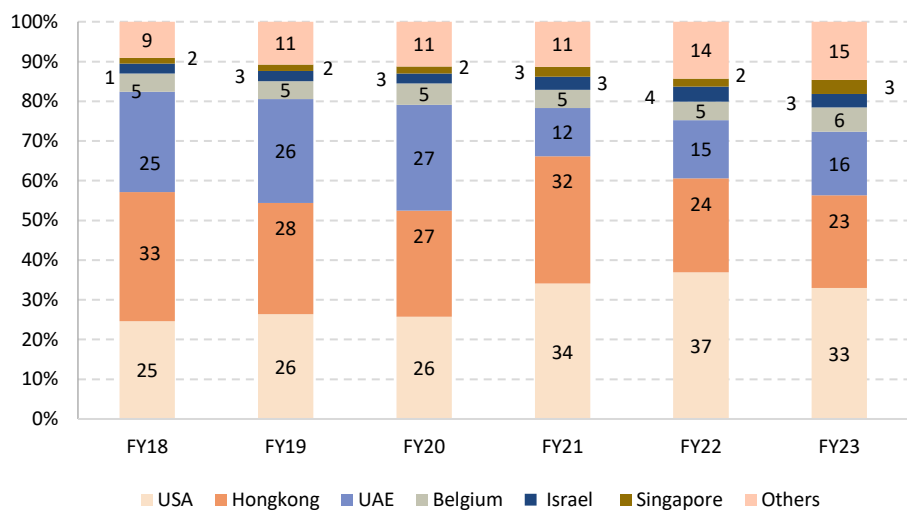
Source: GJEPC, Dalal & Broacha Research

Exhibit 15: Overall Polished Lab Grown Diamonds (≠ jewelry) exports from India



Source: GJEPC, Dalal & Broacha Research

Exhibit 16: Total countrywise exports from India (% contribution)



Source: GJEPC, Dalal & Broacha Research

The combined exports to the USA and Hong Kong constitute ~50% of India's total Gems & Jewelry exports. A significant portion of India's Gems & Jewelry exports to Hong Kong is primarily intended for the USA, often indirectly routed through Hong Kong suggesting a strategic supply chain or distribution channel where Hong Kong serves as an intermediate destination before the products reach their final market in the USA. (Duty beneficial).

Exhibit 17: Indian gems & jewellery market snapshot (7% contributor to India’s GDP)



MARKET SIZE



Market Size:
US\$ 100 bn by 2027



> 3 lac gems and
jewellery players



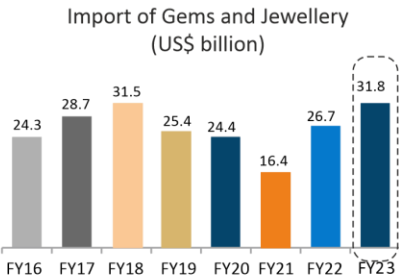
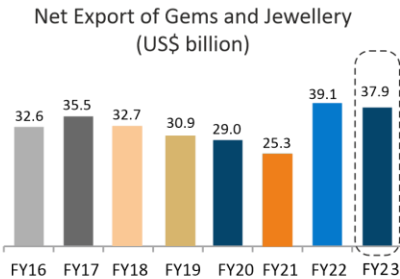
Contributes about
7% to India’s GDP



Employs over
~4.6 Mn people



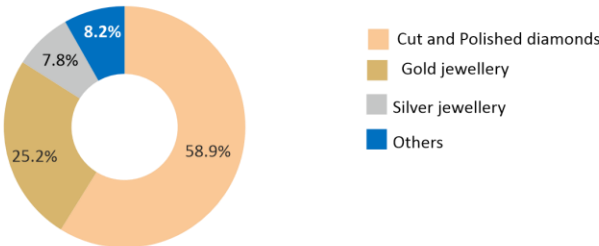
SECTOR COMPOSITION



Share of various segments in total gems & jewellery exports in FY22-23



Key Trend



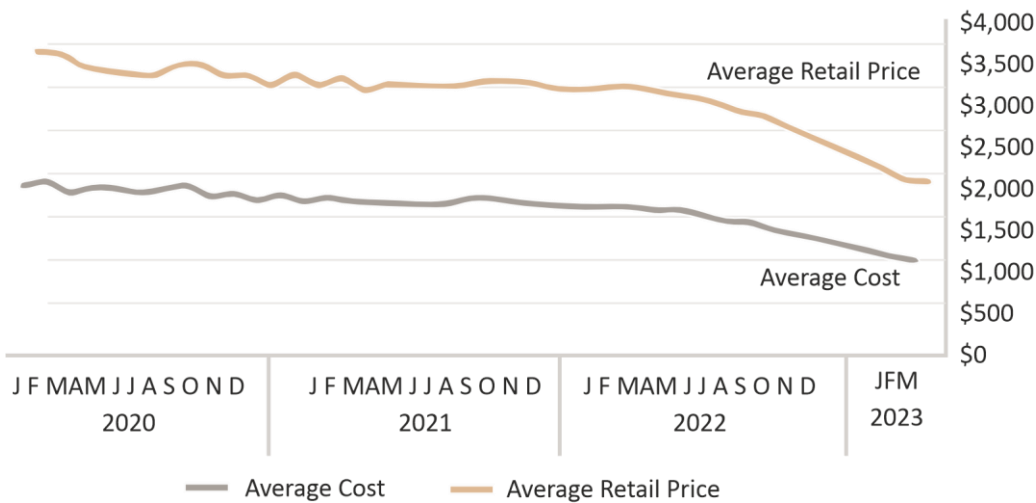
ADVANTAGE
INDIA

- **Growing demand:** From April-March 2023, India's gems and jewellery exports were at US\$ 37.95 billion. In 2022, India ranks first among the top exporters in cut & polished diamonds, and second in gold jewellery, silver jewellery and lab-grown diamonds.
- **Increasing Investments:** Cumulative FDI inflows in diamond and gold ornaments in India stood at US\$ 1,213.06 million between April 2000-March 2022, according to the Department for Promotion of Industry and Internal Trade (DPIIT). In September 2021, Malabar Group invested Rs. 750 crore (US\$ 100 million) in a gold refinery and jewellery unit in Hyderabad.
- **Policy support:** The Government has reduced custom duty on cut and polished diamond and colored gemstones from 7.5% to 5% and NIL.
- **Attractive opportunities:** The FDI inflows in the gems and jewellery sector increased by 60.78% in FY22 on a year-over-year basis.

Source: Ibef.org, Dalal & Broacha Research

Exhibit 18: NDs & LGDs Price trend in USA

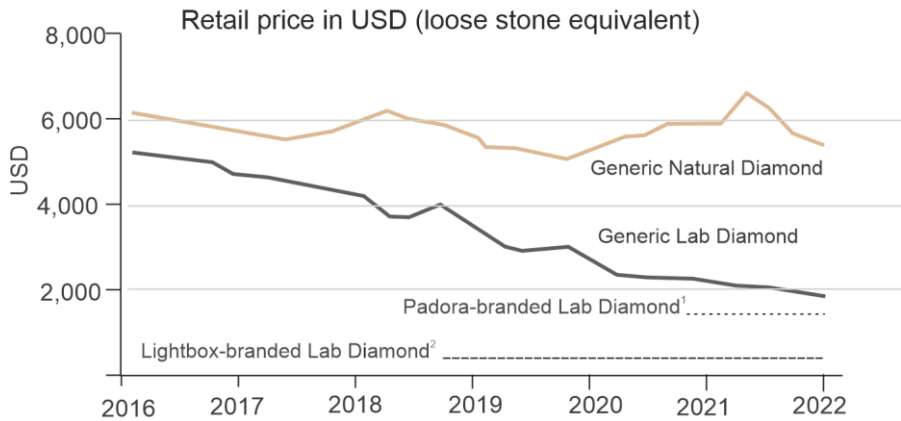
Average Lab-Grown Diamond Price and Cost



Retail Prices of Natural Diamonds are trending up Despite A May Softening
Loose Natural Diamond Retail Price Trend



Price Evolution of Natural vs. Diamond
Carat Round VS-Clarity, Near-Colorless



¹Only sold as set jewelry, price based on estimated cost of loose stone. Debuted in 2021.

²Price set at a linear \$800 per carat. Debuted in 2018.

Source: Paul Zimnisky analysis and estimates.

Source: Tenoris.BI, Paul Zimnisky, Dalal & Broacha Research

Exhibit 19: Price simulation of NDs vs LGDs

[Click to open the link for video.](#)


Source: Paul Zimnisky, Dalal & Broacha Research

Analyzing the historical price trends of Natural Diamonds (NDs) and Lab-Grown Diamonds (LGDs) provides valuable insights into how their prices have evolved over the years.

Exhibit 20: LGD Machine Matrix & fall of LGD prices are near bottom (Green shots visible)

Unit Matrix	Scenario 1 Yr back	Current Scenario
Particulars	Rs.Lacs	Rs.Lacs
Cost of 1 Machine	100	80
Ancillary Cost	20	20
Total Cost of 1 operational LGD Machine	120	100
Output of 1 ct rough diamonds per month	100	100
Rough to Polish diamond conversion per month (Rough to polished typically has a conversion ratio of 30%)	30	30
Avg realisation 1 ct of polished diamond in wholesale market (VS Quality F Colour) (Based on channel check ; Prices may vary based on size,shape & colour)	300-350\$ Rs.24000/ct	175-200\$ Rs.14000/ct
Revenue of 30 polished diamonds per month	7	4
Revenue of 360 polished diamonds p.a.	86	50
Less : Costs		
Diamond Seed costs p.a. (~80\$ per seed)	16	16
Electricity costs p.a.	10	10
Cutting,Polishing costs p.a.	12	12
Gas,Ancillary Production cost,Admin & other general expenses p.a.	5	5
Total Profit	43	7
Gross Profit Margin for manufacturer of LGD(%)	50%	15%
Pre-tax RoCE (%)	36%	7%
If debt is taken to fund capex	120	100
Avg cost of borrowings	8%	8%
Finance Cost	10	8
Total Profit after financing cost	34	-1
Pre-tax RoCE (%)	34%	-1%

Source: Company, Dalal & Broacha Research

GIL currently operates approximately 25 LGD (Lab-Grown Diamond) machines, all of which are fully operational with 100% capacity utilization. The cost of one machine is Rs.80 lakhs, along with an additional Rs.20 lakhs for ancillary expenses. While larger diamond growers typically have a range of 200 to 1000 machines, GIL's current setup involves a smaller but efficiently utilized number of machines.

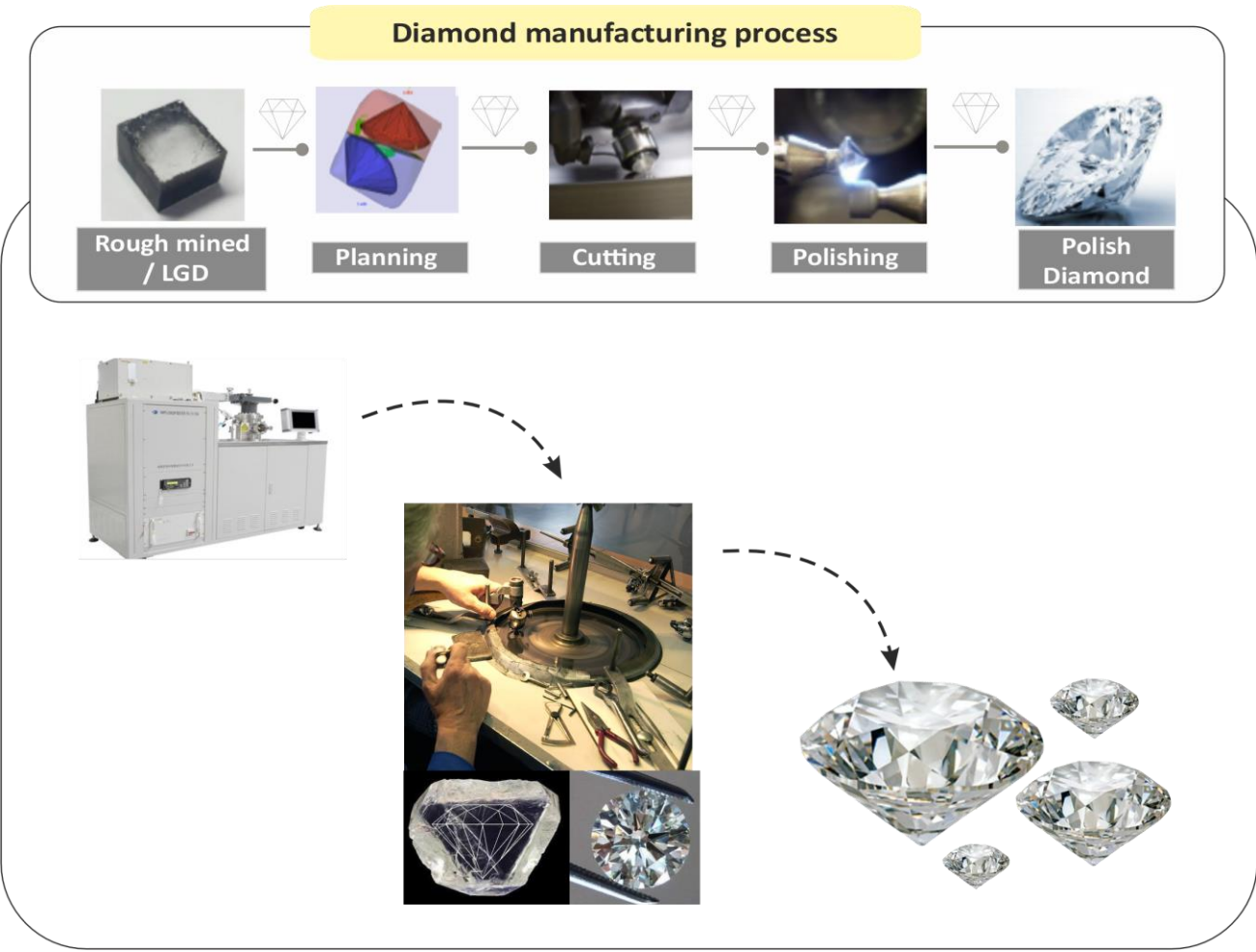
Importantly, the LGD production process employed by GIL is environmentally friendly, as it does not emit any greenhouse gases. The process relies solely on basic chemicals and electricity, making it a 100% eco-friendly method of diamond cultivation.

The reasons behind Lab-grown Diamond (LGD) prices nearing the bottom and a potential stabilization are outlined below:

Return on Capital Employed (RoCE) at All-Time Low: RoCEs have reached historically low levels, making it financially unviable to continue selling Lab-grown Diamonds below this threshold. Below this price point, the cost of capital is no longer sustainable for producers, leading to a potential floor for LGD prices.

Limited Capacity Addition in the Last 6 Months: The absence of significant capacity additions in the last six months has contributed to the stabilization of LGD prices. The unviability of RoCEs has deterred large-scale capacity expansion, limiting the supply of Lab-grown Diamonds. This lack of oversupply could prevent further downward pressure on prices, and any distress selling may be temporary, with prices eventually bouncing back.

Exhibit 21: Process of growing LGDs



Source: Company, Dalal & Broacha Research

The process of Lab-grown Diamond (LGD) creation involves several key steps:

Seed Introduction (Step 1): A tiny 0.3mm diamond seed is carefully placed into a specialized machine.

Carbon Deposition (Step 2): Methane (CH₄) is introduced into the machine, and with the application of electricity, carbon slowly accumulates on the diamond seed over the course of a week. This process results in the gradual growth of carbon, extending vertically on the seed and forming the rough diamond.

Rough Diamond Formation (Step 3): Once the carbon deposition is complete, a rough diamond is formed. This rough diamond is then carefully sliced from the diamond seed. The extracted rough diamond undergoes additional processes, including cutting and polishing, to achieve the desired shape, size, and quality. The usual conversion ratio from rough to polished diamonds is approximately 30%.

Jewelry Integration: Finally, the cut and polished Lab-grown Diamond is ready to be studded onto jewelry pieces. The diamonds are integrated into various jewelry designs, contributing to the growing market for Lab-grown Diamond jewelry.

Did You Know ?



"Here's an interesting fact: **Just 2% of the world's mined diamonds fall into the category of type II A diamonds**, known for being the purest form of diamonds, free from impurities and other chemicals. They are highly prized for their optical transparency and exceptional quality. In contrast, all **LAB-GROWN DIAMONDS** are classified as **type II A** because they are created in a **controlled environment devoid of impurities**, making them a superior substance compared to natural diamonds."

Exhibit 22: NDs vs LGDs

Properties	Natural Dimonds (NDs)	Lab Grown Diamonds (LGDs)
Formation	Formed naturally over millions to billions of years deep within the Earth's mantle under high pressure and temperature conditions. They are brought to the surface through volcanic eruptions.	Created in a controlled laboratory environment using one of two methods- High Pressure High Temperature (HPHT) or Chemical Vapor Deposition (CVD). These processes replicate the conditions under which natural diamonds are formed
Origin	Mined from diamond mines around the world, often in locations with kimberlite pipes or alluvial deposits.	Produced in laboratories, eliminating the need for mining and reducing the environmental impact associated with traditional diamond extraction.
Timeframe	Formed over an extended geological timescale.taking millions to billions of years.	Created within weeks to a few months. depending on the growth method used.
Inclusions and Flaws	May contain natural inclusions. which are internal imperfections formed during the diamond's natural growth process.	Can have inclusions. but they may differ from those found in natural diamonds. Inclusions can also be minimized during the growth process.
Cost	Generally more expensive due to the rarity of natural diamonds and the cost associated with mining.	Often more affordable since production costs are generally lower.
Market Perception	Traditionally associated with rarity, luxury, and symbolism. Mined diamonds are often seen as a store of value.	Increasingly accepted as a sustainable and ethical alternative. Their environmental and social impact is often perceived as lower than that of mined diamonds.

Did You Know ?



Diamonds are recognized as the hardest natural substance on Earth. It is renowned for its exceptional hardness and is used in various industries, including jewelry, cutting tools, and industrial applications, due to its unmatched ability to resist scratching and abrasion. The hardness of a material is typically measured on the **Mohs scale**, and diamond tops the scale with a **hardness of 10**, making it the hardest known material.

Did You Know ?



Prime Minister Narendra Modi presented a 7.5-carat lab-grown green diamond to U.S. First Lady Jill Biden during a private dinner at the White House

Exhibit 23: NDs vs LGDs



Source: Company,Market Research, Dalal & Broacha Research

Exhibit 24: Methods to make LGD : CVD (Chemical Vapor Deposition) vs. HPHT (High Pressure High Temperature)

Process	CVD	HPHT
Conditions	Utilizes hydrocarbon gases in a controlled environment, allowing carbon atoms to deposit on a substrate to form diamond crystals.	Mimics the natural diamond formation process, subjecting carbon to extremely high pressure and temperature conditions.
Growth Rate	Conducted at moderate temperatures (700-1200°C) and low pressure.	Requires specialized equipment to create high pressure (5-6 GPa) and high temperature (1400-1600°C).
Energy Consumption	Considered energy-efficient, conducted at lower temperatures.	Requires significant energy due to high temperatures and pressures.
Applications	Widely used for industrial applications and increasingly for gem-quality diamonds.	Traditionally used for industrial diamonds and also for gem-quality diamonds, especially larger stones.
Cost	Generally more cost-effective, benefiting from economies of scale.	May involve higher production costs due to energy requirements and equipment.
Size and Purity	Well-suited for growing relatively large and pure diamonds.	Suitable for larger diamonds but may have more inclusions; common for fancy colored diamonds.
Market Presence	Gaining popularity, especially for smaller diamonds in the gemstone market.	Established method with a longer history in both industrial and gemstone applications.
Environmental Impact	Traditionally associated with rarity, luxury, and symbolism. Mined diamonds are often seen as a store of value.	Involves high energy consumption and extreme conditions, potentially contributing to a higher environmental impact.

Source: Company, Dalal & Broacha Research

Chemical Vapor Deposition (CVD) and High Pressure High Temperature (HPHT) are two primary methods used for the production of lab-grown diamonds. The average size that can be produced in a Lab-grown Diamond (LGD) machine typically ranges from 0.5 carats to 5 carats.

In China, the predominant method for producing Lab-grown Diamonds (LGDs) is the High-Pressure High-Temperature (HPHT) process. This is mainly due to the extensive availability of HPHT machines, originally utilized in cutting tool industry, which were later repurposed for jewelry manufacturing as the LGD industry expanded.

In contrast, India has opted for the Chemical Vapor Deposition (CVD) route for Lab-grown Diamond production. This choice is driven by cost efficiency and the capability to grow larger caratage jewelry compared to the HPHT method.

Exhibit 25: How to identify NDs vs LGDs



Source: Company, Dalal & Broacha Research

Gemological laboratories employ various advanced techniques to distinguish between natural and lab-grown diamonds:

Spectroscopy: FTIR and UV-Vis spectroscopy analyze infrared features and light absorption.

X-ray Imaging: Radiography and XRF reveal growth patterns and elemental composition.

Luminescence: PL and CL examine luminescence patterns under different wavelengths.

UV Light Testing: Identifies fluorescence under ultraviolet light.

Raman Spectroscopy: Analyzes crystal lattice structure.

Microscopic Examination: Examines inclusions, blemishes, and growth patterns.

Diamond View: Uses shortwave UV light to reveal fluorescence differences.

While some portable devices claim identification, certification from reputable gemological labs remains the most reliable method.

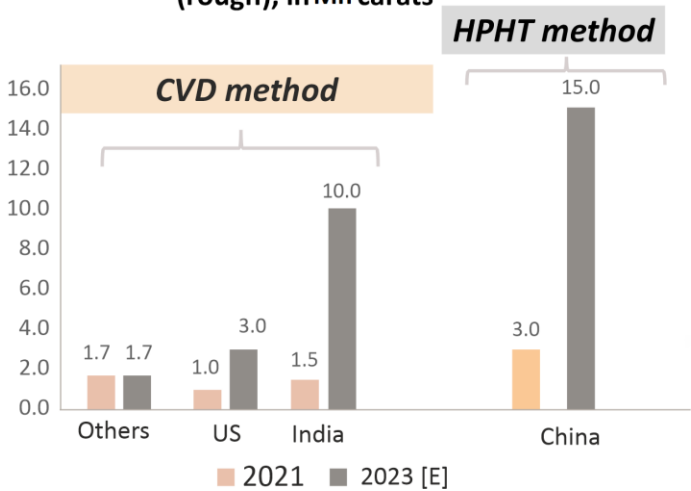


Did You Know ?

Diamonds do not sparkle; instead, they refract light, creating the sparkling effect.

Exhibit 26: India is the largest producer of rough diamonds via CVD route

Annual production of lab grown diamonds (rough), in Mn carats

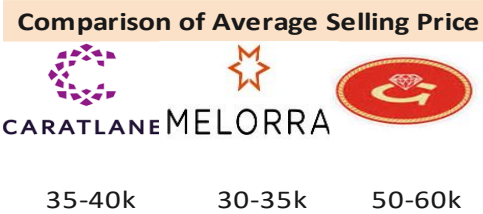


	India	Global
Rough Prod. in 2021 (Cts) (Bain & Co report, 2021*)	15 Mn (All CVD)	7 Mn (CVD & HPHT)
Current Estimated (Cts)	10 - 12 Mn (All CVD)	25 - 30 Mn (CVD & HPHT)
Machines	~6,000	~10,000

Source: *https://www.bain.com/globalassets/noindex/2021/bain_report_diamond_report-2020-21.pdf

India stands as the primary global producer of Lab-Grown Diamonds (LGDs) through the Chemical Vapor Deposition (CVD) method, commanding 60% of the world's capacity. In contrast, China continues to lead in the High-Pressure High-Temperature (HPHT) route. China's dominance in HPHT is attributed to the widespread availability of HPHT machines, initially employed in the cutting tool industry and later repurposed for jewelry manufacturing as the LGD sector expanded. India's preference for the CVD route is motivated by its cost-effectiveness and the ability to cultivate larger caratage jewelry compared to the HPHT process.

Exhibit 27: Maths of India Retailing (True value unlocking)



GIL Brand Name not yet decided

Source: Company, Dalal & Broacha Research

GIL is set to expand its retail footprint by opening 5 stores under its proprietary brand name by 2HFY25. Targeting the mid-premium market segment, these stores will be strategically located in Mumbai suburbs such as Andheri, Lokhandwala, and Seawoods. GIL aims to cautiously explore the market, experimenting with different retail formats, and subsequently determining the strategies that prove successful and those that do not. The objective is to position GIL as a formidable national retail brand, aiming for revenues of Rs. 10bn by expanding its footprint to encompass over 250 stores in next 8-10 years.

Product segment will focus between value & accessible luxury. The company is actively looking to recruit a CEO to lead this venture and plans to make a substantial investment, earmarking an estimated Rs. 1.4-1.5 bn over the next few years (GIL has adequate cash balance of Rs.2.7 bn as on 30th Sept 23 to fund this expansion). The product pricing strategy is positioned slightly higher compared to competitors like Caratlane, Melora, Bluestone with an average selling price (ASP) ranging between approximately Rs. 50,000 to Rs. 60,000. Focusing exclusively on LGD studded jewelry enables GIL to enhance its upselling potential when compared to global brands like Caratlane and Melora. This advantage stems from the emphasis on higher caratage pieces and the utilization of full solitaires rather than smaller cut diamonds.

GIL intends to establish rented retail outlets, anticipating an average interior cost of Rs. 5000 per sq ft, resulting in a total store expenditure ranging from Rs.50-65 lacs. These stores, spanning an average size of 700-1000 sq ft, will exclusively feature 100% LGD studded jewelry. Effective inventory management is deemed crucial for the retail venture. Preliminary calculations indicate that GIL could maintain an inventory valued at Rs. 2-2.5 cr, with an investment approaching 1-1.25 crs, expecting a stock turnover of 2x.



Exhibit 28: How are LGD brands are scaling in India & globally



Source: Company, Dalal & Broacha Research

Whenever there is a technological shift, there is ample space for nimble new entrants willing to adapt and seize market opportunities (Adapt, change, or face obsolescence). However, none of the prominent traditional jewelry retailers have ventured into the realm of lab-grown diamonds. Possible explanations include [1] Established traditional jewelers in India adhere to buyback policies for natural diamonds, which may pose challenges if they were to introduce a similar product at a fraction of the cost [2] The introduction of lab-grown diamonds could potentially cannibalize their natural diamond business, significantly impacting their revenue [3] The lab-grown diamond market is still in its early stages in India, with scalability being tested and considerable awareness efforts required, unlike the United States where lab-grown diamonds are already well-established.

Exhibit 29: How big are some of the retailers in USA

Approx Jewelry revenue of large retailers in USA FY23	JCPenney ~ \$500mn	SIGNET JEWELLERS ~ \$7bn	★macy's ~ \$800mn	blue Nile ~ \$500mn
 GIL as a % of retailer's sales	~9%	<1%	—	—
 GIL as a % of bridal collection	~25%	—	—	—

Source: Company, Dalal & Broacha Research

Preliminary, estimates indicate that GIL currently represents around 1% of the Signet Group's total procurement, a percentage that can be readily increased to 3% in the upcoming years, implying a robust revenue CAGR exceeding 30% from current levels of US\$30Mn. GIL currently represents a substantial 25% share in JCPenney's bridal procurement of ~US\$15Mn, underscoring GIL's impressive capabilities. GIL aims to broaden its scope by expanding beyond bridal jewelry to include fashion jewelry for existing clients implying a growth rate of 15% & its share with JCPenney's procurement from current levels of 9% to 12% over next few years.

Key Concepts worth reading**Buyback Policy of Diamond Jewelry (Marketing gimmick likely to fire back)**

Major retailers in India, including Titan, Senco, Malabar, and Kalyan Jewelers, currently provide a buyback policy for diamonds. This policy might pose challenges if the acceptance of Lab-Grown Diamonds (LGD) becomes widespread. Typically, these retailers offer two diamond policies: [1] Exchange Policy, allowing customers to exchange their old diamonds based on the invoice caratage, and [2] Buyback Policy, enabling customers to return diamonds at the prevailing price with a deduction of 10-20%, depending on the retailer's policy. Even after accounting for various charges, individuals can potentially obtain 8-9 times more caratage in LGD compared to natural diamonds. Deductions may include making charges, quality deterioration, and government taxes.

As of now, major retailers have factored in less than 1-3% in returns for natural diamonds. However, this paradigm shift towards Lab-Grown Diamonds (LGDs) has the potential to completely alter the existing scenario.

Business with virtually no capacity constraint

In contrast to other industries where a sudden increase in demand can be limited by capacity constraints, the nature of jewelry manufacturing allows for outsourcing to numerous small manufacturers in India. This flexibility enables the fulfillment of increased demand.

Aspiration to own 1 ct solitaire

The aspiration to own a solitaire is significant among the expansive millennial population of 41 crore Indians, equivalent to the entire population of the USA. While diamonds were historically linked to affluence, the advent of Lab-grown Diamonds (LGDs) has shifted the perception of "diamonds forever" to "diamonds for everyone."

Will the allure of diamonds diminish with the widespread availability of Lab-Grown Diamonds (LGDs) as a mass-market product?

It's premature to draw conclusions. While Lab-Grown Diamonds (LGDs) are becoming more accessible to the general public, they are still a far cry from being considered akin to imitation jewelry. Moreover, with an average retail price of Rs. 40,000 for a 1-carat LGD, they may not be extremely inexpensive but are becoming more affordable compared to natural diamonds.

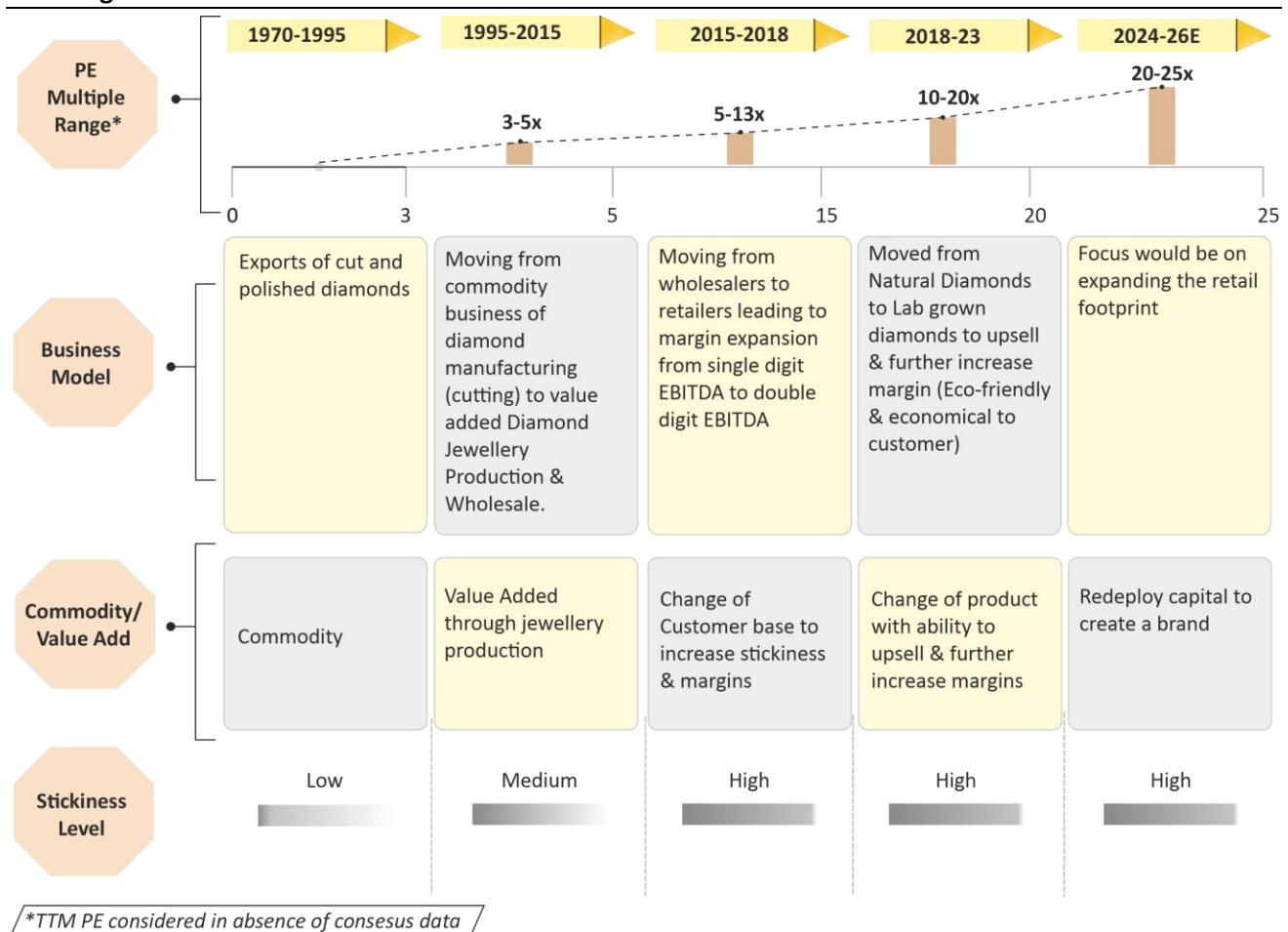
Exhibit 30: GIL positioning v/s competition (Peer comparison)

Company Name	CMP (₹)	Mcap (₹ Bn)	Revenue (₹ Mn)					EBITDA (₹ Mn)					PAT (₹ Mn)				
			FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
Vaibhav Global Ltd	419	71	18,140	19,865	25,401	27,524	26,909	2,174	2,764	3,879	3,032	2,273	1,542	1,903	2,718	2,371	1,051
Renaissance Global Ltd	113	10	26,928	27,102	21,030	23,168	23,400	1,238	1,704	1,156	2,065	1,779	772	878	463	1,065	878
Rajesh Exports	371	110	17,57,631	19,56,002	25,83,057	24,31,279	33,96,895	18,617	15,564	11,266	12,192	16,600	12,921	12,058	8,449	10,092	14,323
Goldiam	187	19	4,464	3,645	4,060	6,877	5,332	559	443	783	1,302	1,040	497	470	511	1,052	844

Company Name	CMP (₹)	Mcap (₹ Bn)	Adj EPS					PE					Revenue CAGR (FY19- 23e)	EBITDA CAGR (FY19- 23e)	EPS CAGR (FY19- 23e)
			FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23			
Vaibhav Global Ltd	419	71	9.4	11.8	16.7	14.5	6.4	44.5	35.5	25.1	28.9	65.4	10%	1%	-9%
Renaissance Global Ltd	113	10	8.2	9.4	4.5	11.2	9.2	13.8	12.0	25.1	10.1	12.3	-3%	9%	3%
Rajesh Exports	371	110	43.8	40.8	28.6	34.2	48.5	8.5	9.1	13.0	10.9	7.7	18%	-3%	3%
Goldiam	187	19	1.6	4.2	5.5	9.7	7.7	115.4	44.1	34.0	19.4	24.1	5%	17%	48%

Source: Company, Dalal & Broacha Research

Exhibit 31: How value gets created (A true indicator of re-rating) ; Timeline of Value Migration & PE Multiple re-rating



Source: Company, Dalal & Broacha Research

Exhibit 32: Annual Report Analysis (Bird's eye view of latest Annual reports)

	AR19-20	AR20-21	AR21-22	AR22-23
Year of Incorporation - "1986"	33rd year since incorporation	34th year since incorporation	35th year since incorporation	36th year since incorporation
Auditor	J.D. Zatakia & Co	J.D. Zatakia & Co	J.D. Zatakia & Co	Pulindra Patel & Co
Auditor since	2017-18	2017-18	2017-18	2022-23 (was there prior to 2017-18)
Auditor remuneration (₹ Mn)	0.49	0.59	0.59	1.05
Growth (%)		20%	0%	78%
CFO	Darshana Faldu	Darshana Faldu	Darshana Faldu	Darshana Faldu
CFO Remuneration (₹ Mn)	1.2	1.4	1.8	2.1
Growth (%)		15%	29%	18%
CS, Compliance Officer	Pankaj Parkhiya	Pankaj Parkhiya	Pankaj Parkhiya	Pankaj Parkhiya
CS, Compliance Officer Remuneration (₹ Mn)	1.1	1.0	1.3	1.4
Growth (%)		-8%	32%	5%
Directorship				
Rashesh Bhansali	1) Goldiam Jewellery Ltd	1) Goldiam Jewellery Ltd	1) Goldiam Jewellery Ltd	1) Goldiam Jewellery Ltd
	2) Diagold Designs Ltd	2) Diagold Designs Ltd	2) Diagold Designs Ltd	2) Diagold Designs Ltd
Anmol Bhansali	Goldiam Jewellery Ltd	Goldiam Jewellery Ltd	Goldiam Jewellery Ltd	Goldiam Jewellery Ltd
(MD w.e.f 09.08.23)				
Compensation (₹ Mn)				
Rashesh Bhansali				
Salary	12.0	10.9	12.0	12.0
Commission	2.3	11.9	27.3	26.0
Anmol Bhansali				
Salary	4.70	7.74	12.00	12.00
Commission	9.40	15.10	27.30	26.00
Total KMP Remuneration	28.4	45.6	78.6	76.0
Growth (%)		61%	72%	-3%
Business Structure*				
Goldiam USA	100%	100%	100%	100%
Goldiam Jewellery Ltd (SEEPZ)	100%	100%	100%	100%
Diagold Designs Ltd	51%	51%	51%	51%
Eco Friendly Diamonds LLP - Partnership	KMP has Significant Influence	51%	88%	88%
Sunshine Exp HK Ltd (Goldiam HK Ltd)	50%	Associate upto 30-Mar-21	NA	NA
M.R Bhansali & Co	KMP has Significant Influence	KMP has Significant Influence	KMP has Significant Influence	KMP has Significant Influence
Business Segment				
Jewellery Manufacturing	93.8%	92.5%	93.1%	91.7%
Investment in Capital markets	6.2%	7.5%	6.9%	8.3%

	AR19-20	AR20-21	AR21-22	AR22-23
Locations				
Diamond Procurement Office	Bandra (East)	Bandra (East)	Bandra (East)	Bandra (East)
Registered Office & Plant	MIDC SEEPZ Andheri (East)	MIDC SEEPZ Andheri (East)	MIDC SEEPZ Andheri (East)	MIDC SEEPZ Andheri (East)
Sales Regions 100% Export				
Countries	USA, Europe & others	USA, Europe & others	USA, Europe & others	USA ,Europe, UK, Hongkong, UAE
Other Points				
Gems and Jewellery Industry's Contribution to India's GDP	7.00%	7.50%	7.50%	6-7%
India's anticipated GDP growth rate for upcoming FY	NA	NA	NA	6.5%
India's aggregate exports revenue from the gems and jewellery industry (US Mn \$)	35,370	25,310	39,240	38,080
Import Duty on rough diamonds	12.0%	12.0%	7.5%	NIL
100% FDI under Automatic Route	Allowed	Allowed	Allowed	Allowed
Dividend for the year	₹ 6.5 per share	₹ 8 per share	₹ 1.2 per share (sub division - 5 :1)	₹ 2 per share (sub division - 5 :1)
Buyback	791,703 sh @ ₹ 156		38,00,000 sh of @ ₹ 1200	21,79,493 sh of FV Rs 2 @ ₹ 150
Inventory Valuation				
RM, WIP, FG, Traded Goods	Lower of Cost or NRV (Cost- FIFO)	Lower of Cost or NRV (Cost- FIFO)	Lower of Cost or NRV (Cost- FIFO)	Lower of Cost or NRV (Cost- FIFO)
Cut, Polished Diamonds	Lower of Cost or NRV (Valuation report from Govt approved Valuer)	Lower of Cost or NRV (Valuation report from Govt approved Valuer)	Lower of Cost or NRV (Valuation report from Govt approved Valuer)	Lower of Cost or NRV (Valuation report from Govt approved Valuer)
Related Party Transactions (₹ Mn)				
Payables				
Rashesh Bhansali (KMP)	3.3	14.4	45.5	33.8
Anmol Bhansali (KMP)	9.6	15.8	28.0	26.7
Ami Bhansali (KMP)	0.3	8.2	23.0	12.8
Kunal Vora (KMP)	0.2	0.6	0.6	0.6
Tulsi Gupta (KMP)	0.1	0.1	0.2	0.2
Receivables				
Shobhana Bhansali (Relative of KMP)	0.0	0.0	0.0	0.0
Nipa Utpal Sheth (KMP)	0.0	0.0	0.0	0.0
Rashesh Bhansali (KMP)	3.3	14.6	0.0	0.0
Anmol Bhansali (KMP)	9.6	15.8	0.0	0.0
Ami Bhansali (KMP)	0.3	8.2	0.0	0.0
Kunal Vora (KMP)	0.2	0.6	0.0	0.0
Tulsi Gupta (KMP)	0.1	0.1	0.0	0.0
			0.0	0.9
Sale of goods				
Shobhana Bhansali (Relative of KMP)	0.0	0.0	1.2	0.0
Nipa Utpal Sheth (KMP)	0.0	0.0	0.0	1.7
Professional Charges				
Nehal Vora (Relative of KMP)	9.9	11.3	18.4	8.5
Commission				
Nehal Mehta (Relative of KMP)	1.1	0.0	0.0	0.0

Source: Company, Dalal & Broacha Research

* Goldiam USA is involved in marketing to retailers in USA

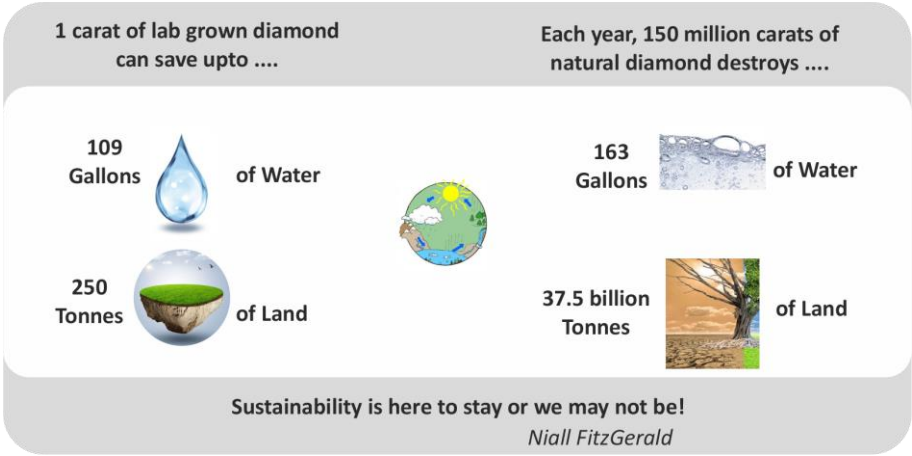
Diagold Designs Ltd and Goldiam Jewelry are both engaged in manufacturing , designing of jewelry

In FY 21-22 , Co acquired additional 37% , totaling to 88% of Eco Friendly Diamonds LLP (EDL)

It is engaged in growing and manufacturing lab created diamonds via CVD method

Manufacturers, Wholesalers & exporters of exquisite diamond & Color stone Studded Gold Jewelry

Exhibit 33: Sustainability is here to stay or we may not be! ; ESG benefits of LGDs



Source: Company, Dalal & Broacha Research

Exhibit 34: GIL Group structure









Source: Company, Dalal & Broacha Research

Exhibit 35: Checklist (Tick on all parameters)

- ☒ Strong Promoter quality with Zero pledge
- ☒ Debt Free Status
- ☒ Rewarding shareholders through buy-backs & dividends
- ☒ Strong independent board with Mrs Nipa Utpal Shah, director and founder of trust group on its board
- ☒ Strong inventory & debtor management policy

Source: Company, Dalal & Broacha Research

Exhibit 36: Board Composition

Name of the Director	Designation	Description
 Rashesh Bhansali	Executive Chairman	Mr Rashesh Bhansali has over 28 years of rich and exhaustive experience in the field of diamonds & jewellery.
 Anmol Rashesh Bhansali	Managing Directors	Mr Anmol Bhansali has completed Bachelors of Science in Business Administration from Wharton School, University of Pennsylvania. Further, he also acquired GEM130 and GEM230 certifications, constituting two thirds of 'Diamonds and Diamond Grading' course, from Gemology Institute of America 2017. With an experience of more than 6 years, Mr Anmol Bhansali has acquired rich experience in Diamond Business and have engaged in Manufacturing, Trading and Jewellery exports.
 Ruchi Shrinath Pandya	Non-Executive Independent Director	Mrs. Ruchi Shrinath Pandya is a BSL.LLB-Mumbai & Solicitor (UK & Wales) by profession. She is admitted as Advocate on the Rolls of Bar Council of Maharashtra & Goa-2005 & as Solicitor (UK & Wales)-2006. She has more than 17 years of experience. Her main areas of practice include- General Corporate law, Real Estate, Project Finance, Commercial Litigation, Arbitration and Dispute Resolution.
 Pannkaj Chimanlal Ghadiali	Independent Director	Mr Ghadiali is a practicing Chartered Accountant since 1979. Presently he is Managing Partner of P C Ghadiali and Co. LLP and specializes in Direct & Indirect Tax, and Information Technology. He was also the Chairman of Western India Regional Council of The Institute of Chartered Accountants of India for the year 1988-89.
 Nipa Utpal Sheth	Independent Director	Mrs. Nipa Sheth is the director and founder of Trust Group, a leading full-service financial services house and a leader in the Indian Bond Market. She has been an integral part of the fixed income market for over 20 years.
 Tulsi Gupta	Independent Director	Mrs. Gupta is a certified jewellery designer from Gemmological Institute of America (GIA) and has completed Business School MSc(Hons) in Innovation, Entrepreneurship and Management from Imperial College of London. Over the years, she has acquired wide knowledge & experience in the field of diamonds & jewellery.

Source: Company, Dalal & Broacha Research

Exhibit 37: One Year Forward Rolling P/E



Source: Dalal & Broacha Research

Valuation and Outlook

During Titan's 2QFY24 conference call, it was revealed that bridal engagement rings make up 40% of the US jewelry market. Notably, 50% of this segment has shifted to Lab-Grown Diamonds (LGDs), comprising a substantial 20% volume share in the overall USA jewelry market. This underscores a transformative trend in the diamond jewelry sector, signaling a notable shift in consumer preferences within the jewelry industry. Lab-Grown Diamonds (LGDs) are revolutionary products, possessing properties comparable to natural diamonds but are accessible at only 1/10th of the cost.

GIL stands at the forefront of the current shift in value within the diamond jewelry sector, bolstered by robust distribution advantages derived from its partnerships with major retailers in the USA.

Backed by a robust management pedigree and demonstrated financial prudence, GIL stands apart compared to other entities in the diamond jewelry sector, some of which are perceived as dubious companies. The company has consistently rewarded shareholders, disbursing Rs. 2.1 bn over the past 6 years through dividends and buybacks. Remarkably, GIL has "zero debt" & a robust cash position of Rs. 2.7bn in H1FY24, showcasing financial strength and resilience uncommon for a company of its size and stature (MCap : ~Rs.19bn).

Over time, GIL has shifted its focus from being a commodity player to a value-added participant. GIL exclusively focuses on jewelry manufacturing and abstains from engaging in the commoditized trading of cut and polished diamonds. Key drivers of its robust revenue growth include **maximizing wallet share with retailers in USA, venturing into the Indian RETAIL Lab Grown Diamond Jewelry Market with its proprietary brand, and expanding into new geographical territories.**

As the acceptance of Lab-Grown Diamonds (LGD) continues to rise in the USA, we anticipate this trend to extend to India. Given that India boasts the largest consumer market with approximately 41 crore millennials, the shift towards LGDs is likely to gain traction in the country. We believe GIL possesses robust jewelry manufacturing capabilities, and it has the financial resources on its books, which it can leverage to reinvest and establish a formidable proprietary brand.

Currently GIL trades at 16x FY26e EPS of Rs.11.5, we assign "BUY" rating to the stock with a valuation multiple of 20x FY26e EPS arriving at target price of Rs.230 (>26% upside to CMP).

(Refer [Exhibit 31](#): [Exhibit 31](#): on "how value gets created" for more details)

Goldiam & lab grown diamonds related FAQs



► Why lab grown diamonds?

Lab-grown diamonds are appealing mainly because they're much cheaper, costing only 1/10th of natural diamonds. Besides being more affordable, they're also a greener option, having the same look and properties as natural diamonds.

► Are man-made or lab grown diamonds real?

Lab-grown diamonds are authentic with 100% carbon and the same chemical composition as earth-mined diamonds, distinguishing them from counterfeits.

► Is a cubic zirconia (CZ) the same as a lab grown diamond?

Cubic Zirconia (CZ) lacks carbon and differs significantly from lab-grown diamonds. CZ, being weaker, lacks the brilliance and sparkle inherent in lab-grown diamonds, with a lower refractive index of 2.2 compared to a diamond's 2.42.

► Is moissanite equivalent to a lab-grown diamond?

A moissanite "diamond" isn't a true diamond; it differs in hardness, scoring 9-9.5 on the Mohs scale compared to a diamond's perfect 10. Moissanite's higher refractive index (2.65-2.69) results in a vibrant, dazzling reflection, potentially overwhelming some individuals.

► How long does it take to “Grow” a diamond?

The production timeline for lab-grown diamonds spans approximately 6 to 10 weeks within a laboratory environment.

► Are lab diamonds graded by diamond grading institutions?

Gemological laboratories like GIA, SGL, or IGI certifies almost all lab-grown diamonds.

IGI - The International Gemological Institute (IGI) was established back in 1975, and now has headquarters all over the globe.

GIA - The Gemological Institute of America established in 1931 is considered the world's leading geological research institute.

SGL - Established in 2007, SGL Labs is a British-American diamond certification and authentication laboratory network which is co-headquartered in London and New York.

LGDR, A digital-only detailed report is provided for lab-grown diamonds with an evaluation of 4C's in-depth by GIA.

► How can you distinguish between a lab diamond and a natural diamond?

Distinguishing between the two requires specialized equipment, as even a seasoned gemologist may not discern a visible difference. The most reliable method is to verify the diamond's certification.

► Should you buy a lab diamond or a natural diamond?

Addressing this question universally proves challenging, given diverse buyer priorities. For those placing paramount importance solely on appearance, whether a diamond is man-made or natural may be inconsequential. The distinction is often imperceptible unless explicitly disclosed.

► Can we resell a lab grown diamond?

Both natural diamonds and lab-grown diamonds have a resale market offering two options: Exchange and Refund.

► Will LGD price fall forever?

In the past 4-5 years, lab-grown diamonds were 15-20% cheaper than natural diamonds, but now their value is only 1/10th of natural diamond's price. Companies producing lab-grown diamonds operate with minimal profit margins, and their prices have reached a practical floor. In an ideal scenario, there shouldn't be significant capacity additions in the future because the difference between production costs and selling prices is minimal at current rates.

► What is the future of lab grown diamonds?

The man-made diamond market is forecast to reach \$18 billion in total value by 2024 (As per CNBC)

► Do man-made diamonds last forever?

The answer is a resounding "yes" due to their remarkable durability. Lab diamonds really do last forever, and their brilliance remains untarnished over time.

► Do celebrities wear lab grown diamonds?

In recent years, the trend of lab-grown diamonds has garnered favor among celebrities, including American actresses Rooney Mara and Jennifer Hudson, singer Rihanna, as well as Indian actresses Deepika Padukone and Ananya Pandey.

► Does a diamond exhibit a shine?

Diamonds lack inherent luminosity, as they don't emit light like the sun. Instead, their brilliance emanates from the reflection of light from external sources.

► What are the anticipated changes in the price and demand for natural diamonds?

Over the mid to long term, the prevalence of lab-grown diamonds (LGD) is poised to grow, resulting in a diminishing share of natural diamonds. Despite this trend, both types are expected to coexist. The price of natural diamonds has already decreased and is likely to remain relatively stable.

► What government initiatives are in place to promote lab-grown diamonds in India?

- The duty on seeds for rough LGDs is reduced from 5% to nil. (Budget 2023)
 - The Commerce Ministry in Feb 2023 approved the establishment of the India Centre for Lab-Grown Diamonds (InCent-LGD) at IIT Madras at an estimated cost of Rs243 crore over the next five years.
 - During his visit to the United States, Prime Minister Narendra Modi presented an eco-friendly lab-grown 7.5-carat diamond as a gift to U.S. First Lady Jill Biden.
-

► How does the challenge of consumer perception affect the market for lab-grown diamonds?

Despite the growing popularity of lab-grown diamonds, a substantial segment of the population remains unfamiliar with them. Some consumers perceive these diamonds as lower in quality or less valuable than mined diamonds, posing challenges for producers in market competition.

► Insolvency Case of WD lab grown diamonds

In October 2023, the second-largest lab-created diamond producer in the US, M7D Corporation, filed for bankruptcy. WD Lab Grown Diamonds, utilizing the chemical vapor deposition method since 2008, attributed the bankruptcy to heightened competition with Chinese and Indian producers, coupled with declining profit margins clearing stating that Indian cost of production remains highly competitive beating competition by miles.

Important websites for reference to track the company

Company website	http://www.goldiam.com/
Gems & Jewelry Association	https://giepc.org/statistics.php
Statistics & Facts	https://www.paulzimnisky.com/home https://www.tenoris.bi/ https://www.edahngolan.com/ https://www.cnbc.com/2023/12/22/indias-lgds-are-cheaper-but-natural-diamonds-will-still-be-in-demand.html#:~:text=India%20is%20currently%20the%20second,could%20soon%20be%20No.%201. https://www.cnbc.com/2023/11/08/natural-diamonds-may-still-be-worth-the-cost-despite-lab-grown-boom.html#:~:text=The%20rise%20of%20lab%20grown%20diamonds&text=The%20man%20made%20diamond%20market,to%20attract%20a%20different%20consumer.
Government Initiatives	https://www.cnbctv18.com/economy/india-lab-grown-diamonds-unit-to-be-set-up-in-iit-madras-commerce-ministry-16018711.htm https://www.business-standard.com/budget/article/budget-initiative-to-boost-lab-grown-diamond-sector-cheers-surat-industry-123020100881_1.html
Social Media Reference Links	https://www.youtube.com/watch?v=fVJtVVwbME&pp=ygUWZ29sZGlhbSBpbmRlcm5hdGlubmFslA%3D%3D
Financial website reference links	https://www.moneycontrol.com/news/videos/business/commodities/live-can-diamonds-made-in-a-lab-replace-natural-ones-commodities-corner-11474931.html
WD Lab bankruptcy case	https://oilprice.com/Metals/Commodities/Glut-Of-Synthetic-Diamonds-Sparks-Trouble-For-Lab-Grown-Producers.html
Goldiam Related Blogs	https://uncommonprofits.home.blog/2022/01/03/goldiam-international-ltd-the-real-diamond-in-the-rough/ https://www.smartsyncservices.com/wp-content/uploads/2023/04/SSS-5-min-Goldiam.pdf

Financials

P&L (Rs mn)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Net Sales	3,645	4,060	6,877	5,332	5,374	6,430	8,086
Operating Expenses	-2,733	-2,717	-4,865	-3,528	-3,573	-4,244	-5,296
Employee Cost	-133	-159	-269	-243	-275	-331	-409
Other Expenses	-336	-401	-441	-520	-482	-561	-710
Operating Profit	443	783	1,302	1,040	1,043	1,294	1,671
Depreciation	-25	-36	-54	-74	-29	-29	-30
PBIT	418	747	1,248	966	1,014	1,265	1,641
Other income	221	72	246	211	126	95	17
Interest	-20	-5	-8	-3	-3	-3	-3
PBT	620	814	1,486	1,175	1,137	1,357	1,654
Profit before tax	620	972	1,486	1,175	1,137	1,357	1,654
Provision for tax	-167	-301	-427	-323	-286	-342	-417
Profit & Loss from	-	-	-	-	-	-	-
Reported PAT	453	671	1,060	852	850	1,015	1,237
MI	17	-61	-8	-8	-8	-8	-8
Owners PAT	470	610	1,052	844	843	1,008	1,230
Adjusted Profit	470	511	1,052	844	843	1,008	1,230

Balance Sheet (Rs mn)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Equity capital	222	222	218	218	214	214	214
Reserves	3,878	4,426	4,981	5,639	6,380	7,237	8,282
Net worth	4,100	4,648	5,199	5,857	6,594	7,450	8,496
MI	54	165	61	65	72	80	87
Non Current Liabilites	-23	22	47	43	43	43	43
Current Liabilites	892	1,301	1,014	1,060	793	912	1,100
TOTAL LIABILITIES	5,023	6,136	6,322	7,024	7,501	8,485	9,726
Non Current Assets	736	828	651	644	614	633	628
Fixed Assets	201	412	402	433	404	422	417
Right of Use Assets	-	-	-	-	-	0	1
Financial Assets	517	395	220	189	189	189	189
Deferred Tax Asset	-	-	-	-	-	-	-
Advances	18	20	30	21	21	21	21
Assets	-	-	-	-	-	-	-
Current Assets	4,287	5,308	5,671	6,380	6,887	7,852	9,098
Current investments	1,534	1,798	1,181	1,319	1,332	1,346	1,359
Inventories	935	1,072	1,769	2,483	2,208	3,171	3,988
Trade Receivables	996	1,292	1,787	1,473	1,472	1,762	2,215
Cash and Bank Balances	546	916	866	1,060	1,829	1,524	1,478
Advances	276	208	47	18	18	18	18
Other Financial Assets	-	-	-	-	-	-	-
Other Current Assets	1	23	21	27	27	32	40
TOTAL ASSETS	5,023	6,136	6,322	7,024	7,501	8,485	9,726

Cashflow (Rs mn)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
PBT	620	972	1,486	1,175	1,137	1,357	1,654
Depreciation	25	36	54	74	29	29	30
Net Chg in WC	266	-103	-1,090	-197	9	-1,133	-1,083
Taxes	-144	-254	-382	-382	-286	-342	-417
Others	-94	-160	-167	-18	3	-2	-5
CFO	673	491	-98	652	891	-90	180
Capex	-21	-303	-36	-92	-	-	-
Net Investments made	-284	-35	956	-64	-13	-13	-13
Others	65	221	29	10	-	-	-
CFI	-241	-117	950	-146	-13	-13	-13
Change in Share capital	-126	-5	-456	-	-4	-	-
Change in Debts	-189	148	-198	-27	-	-	-
Div. & Div Tax	-149	-147	-139	-284	-104	-154	-188
Others	-60	-	-110	-0	-	-47	-24
CFF	-523	-3	-902	-311	-108	-201	-212
Total Cash Generated	-90	370	-50	194	769	-305	-46
Cash Opening Balance	636	546	916	866	1,060	1,829	1,524
Cash Closing Balance	546	916	866	1,060	1,829	1,524	1,478

Ratios	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
OPM	12.2	19.3	18.9	19.5	19.4	20.1	20.7
NPM	12.2	12.4	14.8	15.2	15.3	15.4	15.2
Tax rate	-27.0	-31.0	-28.7	-27.5	-25.2	-25.2	-25.2
Growth Ratios (%)							
Net Sales	-18.3	11.4	69.4	-22.5	0.8	19.7	25.8
Operating Profit	-20.7	76.7	66.2	-20.1	0.3	24.1	29.1
PBIT	-9.9	78.6	67.1	-22.6	4.9	24.8	29.7
PAT	-2.8	48.1	58.0	-19.6	-0.2	19.4	21.9
Per Share (Rs.)							
Net Earnings (EPS)	4.24	5.50	9.65	7.75	7.89	9.43	11.52
Cash Earnings (CPS)	4.46	5.83	10.15	8.43	8.16	9.71	11.79
Dividend	6.50	8.00	3.60	2.00	0.95	1.42	1.73
Book Value	36.98	41.92	47.71	53.74	61.74	69.76	79.55
Free Cash Flow	5.27	2.46	-1.73	4.33	7.46	-1.54	1.46
Valuation Ratios							
P/E(x)	43	33	19	24	23	19	16
P/B(x)	5	4	4	3	3	3	2
EV/EBIDTA(x)	41	23	14	17	16	13	10
Div. Yield(%)	3.56	4.38	1.97	1.10	0.52	0.77	0.95
FCF Yield(%)	2.89	1.35	-0.95	2.37	4.08	-0.84	0.80
Return Ratios (%)							
ROE	12%	12%	21%	15%	14%	14%	15%
ROCE	15%	18%	30%	21%	18%	19%	21%
RoIC	22%	26%	34%	25%	25%	22%	22%

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Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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