

Getting ready for retail brand launch ‘ORIGEM’

GIL’s 1QFY25 consolidated revenue grew by 38%, driven by greater penetration in its key customer segments with LGD jewelry now contributing 68% of overall revenue vs 33%/54% in 1QFY24/4QFY24. Gross margins continued to remain around ~32%, 228 bps lower than last year but similar to 4QFY24 levels. Despite drop in gross margin, EBITDA margins saw an improvement of ~200 bps QoQ on increased contribution from LGD jewellery & lower other expenses. While average realization for LGD dropped from 858\$/792\$ in 1QFY24/4QFY24 to 709\$, there has been substantial volume growth of 242% on YoY basis for LGD jewellery. Natural diamond jewellery saw a decline in average realization as well as volume to the tune of -8%/-30% respectively.

Management clear focus is on growing topline & surpassing historical growth levels with expectations of closing the year with >15-20% revenue growth (1Q grew +38% YoY) while keeping EBITDA margins in the range of 18-20%. Management believes the drop in LGD prices is largely done with news articles flashing outdated posts & doesn’t expect any inventory hit for both natural diamonds as well as lab grown diamond jewellery. Total order book till date stands at Rs.1.8bn. GIL has renamed its brand name to “ORIGEM” & guided to open 3-5 COCO stores by 3Q & 15 COCO stores by end of fin yr (initial store opening in Mumbai, Bangalore & NCR region). ORIGEM (retail brand) will largely be focused on modern day daily wear having 100% studded - fine jewellery of 14/18kt with higher gross margins compared to traditional B2B business (> ~32% GM) with store capex ~Rs.4.2 crs capex/store (~Rs.2.7-3.2 crs ; Rs.50 lakhs each for store capex & rental deposits).

Financial Summary

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net sales	3,645	4,060	6,877	5,332	6,029	7,146	8,930	10,910
EBIDTA	443	783	1,302	1,040	1,143	1,357	1,671	2,128
Margins	12.2	19.3	18.9	19.5	19.0	19.0	18.7	19.5
PAT (adj)	470	511	1,052	844	910	1,007	1,227	1,548
Growth (%)	-2.8	48.1	58.0	-19.6	6.7	10.7	21.9	26.3
EPS	4.24	5.50	9.65	7.75	8.52	9.43	11.49	14.50
P/E (x)	56	43	25	31	28	25	21	16
P/B (x)	6	6	5	4	4	4	3	3
EV/EBITDA (x)	55	30	18	23	19	17	14	11
RoE (%)	12	12	21	15	15	15	16	17
ROCE (%)	15	18	30	21	20	20	21	23
RoIC (%)	22	26	34	25	28	21	21	22

Source : Company, Dalal & Broacha Research

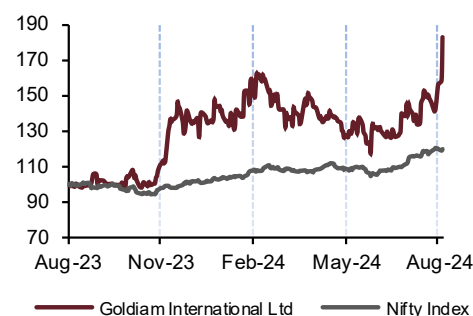
Rating	TP (Rs)	Up/Dn (%)
BUY	260	10

Market Data

Current price	Rs	237
Market Cap (Rs.Bn)	(Rs Bn)	25
Market Cap (US\$ Mn)	(US\$ Mn)	294
Face Value	Rs	2
52 Weeks High/Low	Rs	237 / 120.05
Average Daily Volume	('000)	1,624
BSE Code		526729
Bloomberg		GLDM.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	64.26	64.26
Public	35.74	35.74
Total	100	100

Source: BSE

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Store break even target of Rs.30 lacs/store/month with initial sales target of Rs.40 lacs/store/month which can be readily scaled to Rs.1cr/store/month. Price of 2 carat lab grown diamond jewellery is ~Rs.1 lac vs Rs.12-15 lac in natural diamond. 1 carat wholesale rate is ~Rs.20k whereas at retail level it is ~Rs.50k.

GIL is a play on value migration in diamond jewelry industry from natural diamonds to lab grown diamonds which are available at 1/10th cost with strong distribution moats & unlocking value with its own Lab-grown diamond (LGD) brand in India.

- Revenues at ₹1659Mn, 38.5%YoY/12.2%QoQ
- EBITDA (Excl OI) at ₹303Mn, 35.1%YoY/26.4%QoQ
- PAT at ₹221Mn, 27.5%YoY/17.6%QoQ
- Gross Margin came in at 32% vs 32.1% YoY/34.3% QoQ
- EBITDA Margin (Excl OI) came in at 18.3% vs 18.7% YoY/16.2% QoQ
- PAT Margins came in at 13% vs 14.3% YoY/11.8% QoQ

Concall KTAs

Lab-Grown Diamond Segment

- The lab-grown diamond segment now contributes 68% of revenue, a significant increase from 33% in Q1FY24 and 54% in Q4FY24.
- GIL continues to see strong demand from large U.S. retail customers, with a shift in consumer preferences towards lab-grown diamond jewelry.
- Despite discussions about declining prices of lab-grown diamonds, GIL believes the market has stabilized. The oversupply issue is correcting itself, and current market prices are stable.
- No significant inventory hit was taken in Q1 or is expected in Q2, as prices have stabilized. GIL had already adjusted inventory prices last year.
- The wholesale rate for one-carat lab-grown diamonds is Rs. 20,000-25,000, with a 60% gross margin at the retail level.
- **US vs. India Market:** The US market has seen quicker adoption of lab-grown diamonds (LGDs), driven by large retailers embracing the trend early. In contrast, the Indian market is still in the early stages, with awareness and acceptance gradually increasing.
- GIL is looking at expanding its B2B presence, particularly in the U.S. and potentially Europe and the Middle East, by increasing its footprint with retail partners. They have already seen positive results in some regions by capturing market share from competitors.
- While there are no long-term contracts with US retailers, the business model relies heavily on SKUs that perform well. Reorders for successful designs are locked in, providing a steady stream of business.

India Retail Venture - Origem Lab Diamonds

- **Launch Plans:** GIL plans to launch its India B2C operations with the new brand, **Origem Lab Diamonds** (Renamed from "Erah"), in Q3FY25, with 3 to 5 stores initially in Mumbai, Bangalore, and NCR.
- **Expansion Strategy:** GIL aims to scale rapidly and become the largest organized retailer of lab-grown diamonds in India with focus to open 15 stores by end of this financial year
- **Product Offering:** The retail brand will focus on lab-grown diamond-studded jewelry in fine metals (18k or 14k gold), targeting modern-day customers with AM to PM diamond jewelry pieces.
- **Capex per Store:** For their new retail brand, Origem, the estimated capital expenditure per store is around ₹37 to ₹40 Mn, which includes inventory, store deposits, and fit-out costs.
- **Revenue Targets:** Initial revenue targets per store are around ₹40 lakhs monthly, with potential to reach ₹1 crore or more for well-performing stores.
- **Break-Even Analysis:** The break-even point is expected to be around ₹30 lakhs per month per store, indicating a healthy margin if targets are met.

- **Revenue Potential per Store:** GIL is targeting monthly sales of around ₹30-40 lakhs per store to break even, with the potential for higher sales depending on customer reception and brand strength.
- The India retail venture will be company-owned and operated (COCO) with no immediate plans for franchise models or international retail expansion.
- **Team Expansion:** GIL has hired around 9-10 professionals to help build the Origem brand, with plans to onboard more sales personnel as they open new stores.
- While there might be increased competition in the Indian retail space, especially in the LGD sector, GIL is confident that with scale, their margins should remain sustainable. They believe that even with significant operating expenses related to head office costs, marketing, and brand building, their gross margins in B2C will be higher than in B2B.
- **Pricing Strategy:** GIL mostly follows a cost-plus model, factoring in the costs of metal, stones (natural or lab-grown), and labor. While there is a convergence of margins between natural and lab-grown diamonds over time, GIL expects to maintain a higher margin profile for lab-grown diamond jewelry.

Order Book Status

- As of June 30, 2024, the order book stood at Rs. 1,500 Mn & till date order book stands ~Rs.1,800 Mn.
- GIL secured orders worth Rs. 1,400 million for gold-studded diamond jewelry, with a notable single purchase order worth Rs. 500 Mn from a large U.S. retailer.

Design and Distribution as Differentiators

- Goldiam's focus on design and deep distribution channels is highlighted as a significant entry barrier. Competitors may have similar manufacturing capabilities, but without strong distribution, they struggle to capture value from the supply chain.

Forex Policy

- **Natural Hedge:** Goldiam imports gold and diamonds and exports products in foreign currencies. For every rupee spent on imports, they earn about 1.25 rupees from exports. This natural balance helps them manage currency fluctuations to some extent.
- **Hedging Policy:** To handle any extra currency risk, they hedge 25% of their unprotected foreign exchange exposure using forward contracts.
- If they anticipate that the rupee will become stronger, they might decide to hedge more, up to 50%, but currently, the 25% hedge is working well for them.

Exhibit 1: Total Revenue Breakup (LGD vs Natural Diamond jewellery)

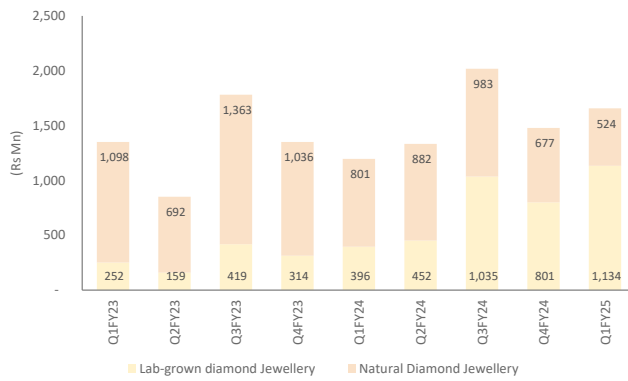


Exhibit 2: Increasing LDG contribution to overall revenue from 19% in 1QFY23 to 68% in 1QFY25

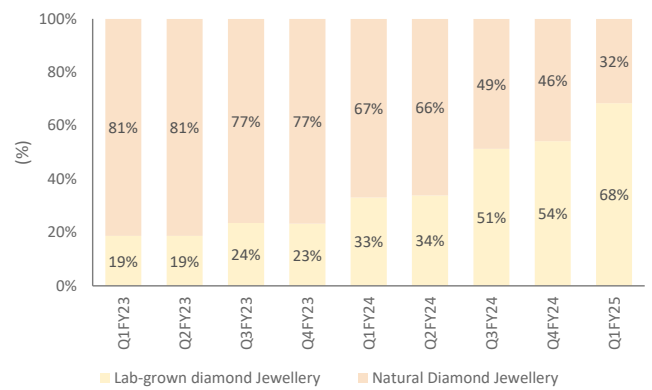


Exhibit 3: Instore vs online store revenue mix (%)

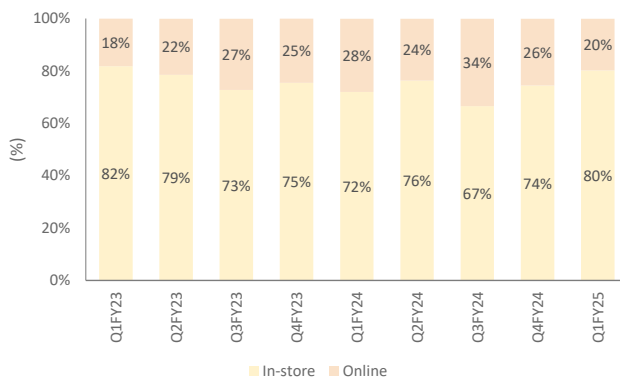


Exhibit 4: Average realisation of LGD vs Natural Diamond Jewellery (Per piece in US\$)

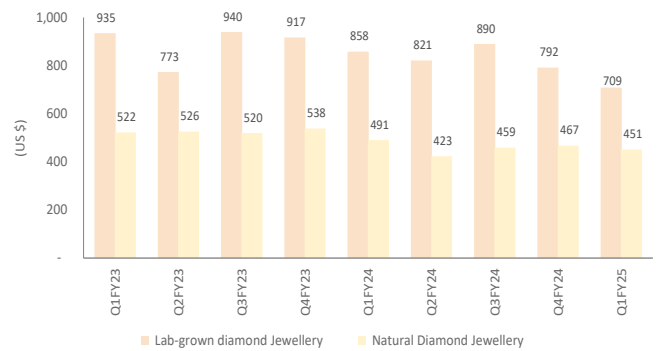


Exhibit 5: Average Realisation per piece in INR (Rs'000)



Exhibit 6: Volume (Qty in units ; jewellery pieces sold)

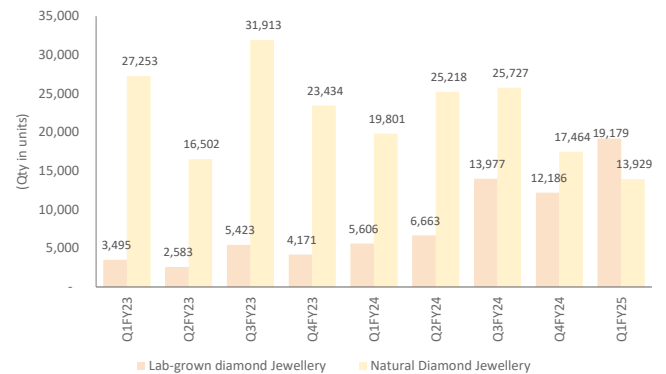


Exhibit 7: Inventory Breakup (%)

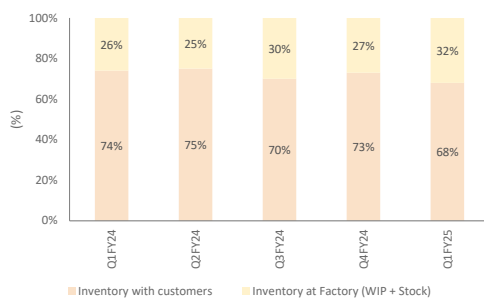


Exhibit 8: Order Book (Rs.Mn)

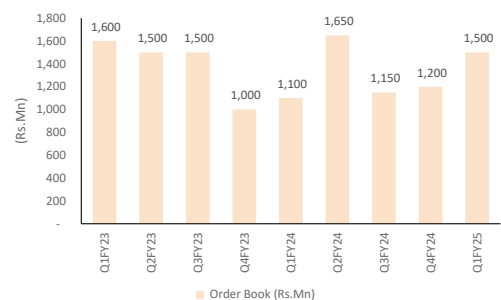
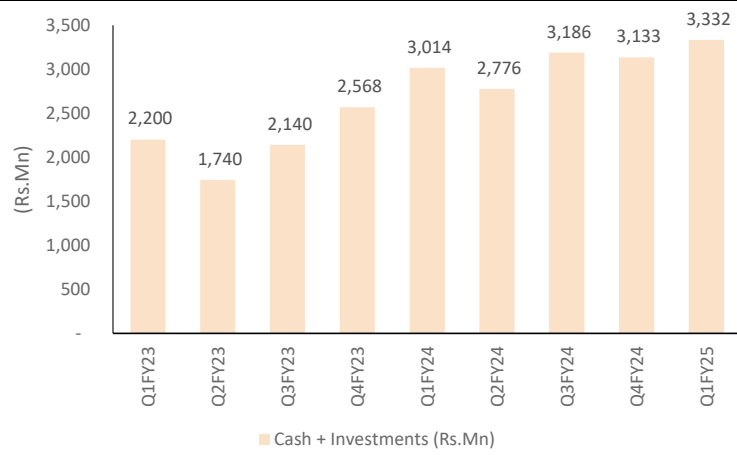


Exhibit 9: Cash + Investments (Rs.Mn)



Source: Dalal & Broacha Research, Company

Quarterly Financials

(Rs.Mn)	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue from Operations	1,658	1,198	38%	1,479	12%
Other Income	39	14	179%	35	14%
Total RM Cost	1,116	814	37%	972	15%
Employee Benefits Expense	68	55	24%	60	13%
Other Expenses	172	105	63%	208	-17%
Total Expenses	1,356	974	39%	1,239	9%
EBITDA (Excluding Other Income)	302	224	35%	239	26%
Depreciation and Amortisation Expenses	15	13	13%	17	-13%
EBIT / PBIT	327	225	45%	257	27%
Finance Costs	0	0	-38%	(0)	-122%
EBT/ PBT	327	225	45%	257	27%
Tax Expense	107	52	105%	70	53%
Net Profit after Tax	220	173	27%	188	18%
Adj Earning Per Share	2.06	1.59	30%	1.67	24%
Margins (%)			(In bps)		(In bps)
Gross Margins	32.0%	32.0%	-4	34.3%	-228
EBITDA Margins (Excl Other Income)	18.2%	18.7%	-46	16.2%	205
PAT Margins	13.0%	14.3%	-131	11.8%	120
Tax rate	32.6%	23.1%	952	27.1%	550
As a % to sales					
RM as a % to sales	67.3%	68.0%		65.7%	
EE Cost as a % to sales	4.1%	4.6%		4.0%	
Other exps as a % to sales	10.3%	8.8%		14.0%	
Key Operational Metrics			(In bps)		(In bps)
Lab-grown diamond jewellery mix (%)	68.0%	33.0%	3500	54.2%	1380
Order wins for FY25 (Rs.Mn)	1,400				
Total Order Book (As per latest Qtr closing)	1,500				

Source : Company

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.

We believe Goldiam is well placed to capture the growing penetration of lab grown diamonds in USA & India. With its strong balance sheet & healthy cash position of Rs.3332 Mn even after distributing Rs.2,246 Mn in dividends & buybacks in last 6 years company stands out in the small cap space. Stock has achieved our previous target of Rs.230 on 13th Aug 24. GIL currently trades at 16x FY27e EPS of Rs.14.5. We maintain our BUY rating on the stock & roll over our earnings estimate to Jun'26 & value the company at 20x Jun'26 EPS of Rs.13 arriving at a target price of Rs.260 (+10% upside to current market price).

Financials

P&L (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net Sales	3,645	4,060	6,877	5,332	6,029	7,146	8,930	10,910
Operating Expenses	-2,733	-2,717	-4,865	-3,528	-4,086	-4,859	-6,072	-7,418
Employee Cost	-133	-159	-269	-243	-257	-331	-422	-483
Other Expenses	-336	-401	-441	-520	-543	-599	-765	-880
Operating Profit	443	783	1,302	1,040	1,143	1,357	1,671	2,128
Depreciation	-25	-36	-54	-74	-61	-56	-56	-58
PBIT	418	747	1,248	966	1,082	1,301	1,615	2,070
Other income	221	72	246	211	139	45	25	-
Interest	-20	-5	-8	-3	-0	-0	-0	-0
PBT	620	814	1,486	1,175	1,221	1,345	1,640	2,070
Profit before tax	620	972	1,486	1,175	1,221	1,345	1,640	2,070
Provision for tax	-167	-301	-427	-323	-312	-339	-413	-522
Profit & Loss from	-	-	-	-	-	-	-	-
Reported PAT	453	671	1,060	852	909	1,006	1,226	1,548
MI	17	-61	-8	-8	1	1	1	-
Owners PAT	470	610	1,052	844	910	1,007	1,227	1,548
Adjusted Profit	470	511	1,052	844	910	1,007	1,227	1,548

Balance Sheet (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Equity capital	222	222	218	218	214	214	214	214
Reserves	3,878	4,426	4,981	5,639	6,091	6,947	7,990	9,306
Net worth	4,100	4,648	5,199	5,857	6,305	7,161	8,204	9,520
MI	54	165	61	65	50	49	48	47
Non Current Liabilities	-23	22	47	67	65	17	18	19
Current Liabilities	892	1,301	1,014	1,060	923	1,120	1,337	1,577
TOTAL LIABILITIES	5,023	6,136	6,322	7,048	7,343	8,347	9,607	11,163
Non Current Assets	736	828	651	668	583	453	427	396
Fixed Assets	201	412	402	406	402	379	352	321
Right of Use Assets	-	-	-	27	48	0	1	1
Financial Assets	517	395	220	189	119	61	61	61
Deferred Tax Asset	-	-	-	25	13	13	13	13
Advances	18	20	30	21	-	-	-	-
Assets	-	-	-	-	-	-	-	-
Current Assets	4,287	5,308	5,671	6,380	6,761	7,894	9,180	10,767
Current investments	1,534	1,798	1,181	1,190	1,624	1,643	1,663	1,682
Inventories	935	1,072	1,769	2,483	2,226	3,524	4,404	5,380
Trade Receivables	996	1,292	1,787	1,473	1,427	1,958	2,447	2,989
Cash and Bank Balances	546	916	866	1,189	1,448	731	624	668
Advances	276	208	47	18	21	21	21	21
Other Financial Assets	-	-	-	-	-	-	-	-
Other Current Assets	1	23	21	27	15	17	22	26
TOTAL ASSETS	5,023	6,136	6,322	7,048	7,343	8,347	9,607	11,163

Cashflow (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
PBT	620	972	1,486	1,175	1,221	1,345	1,640	2,070
Depreciation	25	36	54	74	61	56	56	58
Net Chg in WC	266	-103	-1,090	-197	69	-1,633	-1,153	-1,279
Taxes	-144	-254	-382	-382	-315	-339	-413	-522
Others	-94	-160	-167	-18	33	56	-4	-4
CFO	673	491	-98	652	1,070	-515	126	323
Capex	-21	-303	-36	-92	-66	-	-	-
Net Investments made	-284	-35	956	65	-305	-19	-19	-20
Others	65	221	29	10	96	-	-	-
CFI	-241	-117	950	-18	-276	-19	-19	-20
Change in Share capital	-126	-5	-456	-	-331	-	-	-
Change in Debts	-189	148	-198	-27	-	-	-	-
Div. & Div Tax	-149	-147	-139	-284	-129	-151	-184	-233
Others	-60	-	-110	-0	-75	-47	-24	-19
CFF	-523	-3	-902	-311	-535	-199	-209	-251
Total Cash Generated	-90	370	-50	323	259	-733	-103	52
Cash Opening Balance	636	546	916	866	1,189	1,448	731	624
Cash Closing Balance	546	916	866	1,189	1,448	731	624	668
Ratios	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
OPM	12.2	19.3	18.9	19.5	19.0	19.0	18.7	19.5
NPM	12.2	12.4	14.8	15.2	14.8	14.0	13.7	14.2
Tax rate	-27.0	-31.0	-28.7	-27.5	-25.5	-25.2	-25.2	-25.2
Growth Ratios (%)								
Net Sales	-18.3	11.4	69.4	-22.5	13.1	18.5	25.0	22.2
Operating Profit	-20.7	76.7	66.2	-20.1	9.9	18.6	23.2	27.4
PBIT	-9.9	78.6	67.1	-22.6	12.0	20.2	24.1	28.2
PAT	-2.8	48.1	58.0	-19.6	6.7	10.7	21.9	26.3
Per Share (Rs.)								
Net Earnings (EPS)	4.24	5.50	9.65	7.75	8.52	9.43	11.49	14.50
Cash Earnings (CPS)	4.46	5.83	10.15	8.43	9.09	9.95	12.02	15.04
Dividend	6.50	8.00	3.60	2.00	1.21	1.41	1.72	2.17
Book Value	36.98	41.92	47.71	53.74	59.03	67.05	76.82	89.14
Free Cash Flow	5.27	2.46	-1.73	3.99	8.77	-5.73	0.82	2.82
Valuation Ratios								
P/E(x)	56	43	25	31	28	25	21	16
P/B(x)	6	6	5	4	4	4	3	3
EV/EBIDTA(x)	55	30	18	23	19	17	14	11
Div. Yield(%)	2.74	3.38	1.52	0.84	0.51	0.60	0.73	0.92
FCF Yield(%)	2.22	1.04	-0.73	1.68	3.70	-2.42	0.35	1.19
Return Ratios (%)								
ROE	12%	12%	21%	15%	15%	15%	16%	17%
ROCE	15%	18%	30%	21%	20%	20%	21%	23%
RoIC	22%	26%	34%	25%	28%	21%	21%	22%

Source: Dalal & Broacha Research, Company

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