

SIHL Smart Picks

Gitanjali Gems Ltd.

Rating: Buy

CMP: Rs.124.5

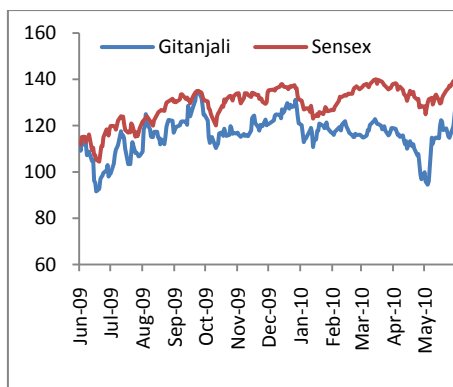
Target: Rs. 174

Market Data as on 28th June 2010

Sector	Diamond & Jewellery
Market Cap (Mn)	10,491
Free Float (%)	48.53
52 Week range	86.55-138.0
Face Value (INR)	10
Bloomberg	GITG IN
Reuters	GTGM.BO
NSE	GITANJALI
BSE	532715

SHAREHOLDING PATTERN

Promoter	51.48%
Foreign	25.72%
Institution	0.46%
Public & Others	22.36%



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Investment View**Well Defined Expansion Strategy**

GGL is planning to invest Rs 400 crore in next 18 months for expanding its retail business in India and overseas. The company, which currently has 150 owned stores across India, is planning to increase it by three fold and double the outlets it owns in US, China and Middle-East. It has more than 500,000 sq ft of retail space and is planning to increase it up to 1.5 million sq ft within the next three years. This will drive the revenue further and will improve the earning quality forward.

Robust growth expected in Industry

The domestic jewellery market pegged at US\$ 16 billion, which includes gold, diamond, platinum and others is expected to grow to US\$ 25.2 billion in two-to-three years. Gitanjali Gems being a larger player is likely to be benefited.

Strong Portfolio of Brands

Gitanjali Group boasts of a strong portfolio of brands like Gili, Nakshtra, Asmi, D'damas, Maya, Vivaaha, Giantii, which cover products ranging from loose diamonds, diamond and other stone-studded jewellery in gold, silver and combinations, as well as high-end watches, jewellery-watches, luxury artifacts' and accessories. These recognized brands will make the company's presence stronger.

Inorganic Growth

Gitanjali have acquired 51% stake in Diamlink, 70% stake in Mobile NXT, 100% stake in Alliance Jewelleries, 76% stake in Salasar Retail and additional stake in Spectrum Jewellery. These strategic acquisitions will help the company to grow significantly.

Hardening of Diamond prices

The raw diamond prices has increased by 25%-35% in last 1 year due to strong demand of Jewellery and supply constraints, however Gitanjali being an important site holder in Africa is not going to be impacted as compared to other players in the Industry.

Valuation

Gitanjali's ongoing efforts, well defined expansion strategy, strong portfolio of brands will improve the earning quality forward. Gitanjali Gems have posted an EPS of Rs 23 in FY10 and likely to post Rs 29 in FY11. At the CMP of Rs 124.5, the share is trading at a P/E of 5.5 on FY10E and 5.5x on FY11E. We recommend BUY with a target of Rs 174 in the medium term.

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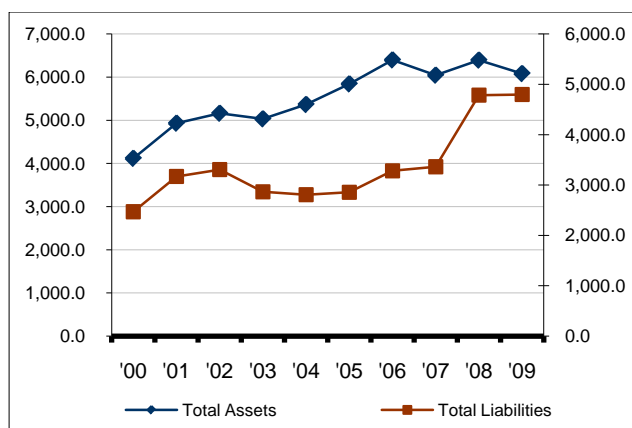
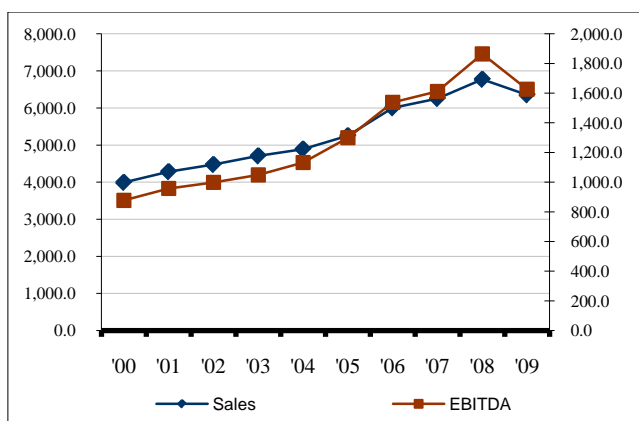
Business Description

Gitanjali Gems Limited engages in the manufacture and retail of diamonds and jewellery in India and internationally. The company operates in two segments, Diamond and Jewellery. The Diamond segment engages in the manufacture, export, and sale of cut and polished diamonds. The Jewellery segment involves in the manufacture, export, and sale of plain gold and diamond studded jewellery. The company markets its products primarily under the brand names of Gili, Nakshatra, Asmi, Sangini, D'damas, Vivaaha, and Giantti. As of March 31, 2009, its retail and distribution network comprised approximately 2,000 outlets, including 200 distributors, 94 exclusive stores, and 63 franchisee stores. It has operations in the United States, the United Kingdom, Belgium, Italy, the Middle East, Thailand, South East Asia, and Japan. Gitanjali Gems Limited was founded in 1966 and is based in Mumbai, India.

Summary

Consolidated Income Statement

	2008	2009	2010
Net Revenue	48,317	50,889	65,276
Revenue growth	39%	5%	28%
EBITDA	2,554	2,877	4,391
EBITDA Margin	5%	6%	7%
EBIT	2,353	2,541	3,946
EBIT Margin	5%	5%	6%
Adjusted PAT	1,607	1,506	2,002
PAT margin	3%	3%	3%



Outlook

Gitanjali's ongoing efforts, well defined expansion strategy, strong portfolio of brands will improve the earning quality forward. Gitanjali Gems have posted an EPS of Rs 23 in FY10 and likely to post Rs 29 in FY11. At the CMP of Rs 124, the share is trading at a P/E of 5.5 on FY10E and 5.5x on FY11E. We advise investors to buy GGL at CMP of Rs: 124.5 with the target price of Rs: 174 (time horizon of 12 months) which is 40% upside from current level. At present valuation Gitanjali is quoting at attractive valuation being its strong presence in retail segment and we expect a paradigm shift to continue towards branded jewellery from traditional jewellers and Gitanjali being a leader is likely to be benefited by this transition. Overall, we remain very positive about the long-term prospects of the industry and expect 15% CAGR for the next 2 years.

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	P&L Consolidated				
	2008A	2009A	2010A	2011E	2012E
Net Revenue	48,317	50,889	65,276	77,026	88,580
Revenue growth	39%	5%	28%	18%	15%
Cost of revenue	41,669	42,383	55,253	64,317	74,407
Operating Exp	4,094	5,630	5,632	7,703	8,149
Total Expenditure	45,763	48,012	60,885	72,019	82,557
EBITDA	2,554	2,877	4,391	5,007	6,023
EBITDA Margin	5%	6%	7%	7%	7%
Depreciation	201	336	445	517	629
EBIT	2,353	2,541	3,946	4,489	5,394
EBIT Margin	5%	5%	6%	6%	6%
Interest	448	978	1,724	1,895	2,347
Other Income	45	22	26	28	32
PBT	1,950	1,585	2,247	2,622	3,079
Tax	213	32	232	344	436
PAT	1,737	1,553	2,015	2,278	2,643
Less: Minority Int	143	47	14	12	18
Add: Profit from Associates	13	-	-	-	-
Adjusted PAT	1,607	1,506	2,002	2,266	2,625

Quarterly Performance

- Total revenue grew by 9.4% to Rs.1,602 crores
- Jewelry segment revenue grew by 16%, accounting for 58% of total revenue
- Diamond segment revenue grew by 1%, accounting for 42% of total revenue
- India revenues grew by 2.6% to Rs.623 crores, reflecting market Weakness
- Exports and overseas revenues grew by 14% to Rs.982 crores
- Return from Jewelry segment (before adjustment) reduced to 7.5% in FY 2009-10 from 8.1% in FY 2008-09 due to gold price volatility
- Return on Diamond segment (before adjustment) improved to 3.2% in FY 2009-10 from 2.6% in FY 2008-09

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Technical Corner



The stock is made all time high of Rs: 490 in Dec 2007, then corrected more than 90% and made a low of Rs: 34 in March 2009, however post may 2009 the stock has been trading in the range of Rs: 90 - Rs: 130. The stock has recently made a short term up move of Rs: 132. We expect stock to cross this range as MACD is showing positive divergence while stock has been witnessing very good volumes at current levels. If stock manage to trade above Rs: 135 we may see new higher levels. Traders can enter into the stock around Rs: 120-Rs: 125 levels. Aggressive buying is recommended only if stock trade above Rs: 135 levels. Currently stock is trading above its 50 and 200 DMA indicating medium / long term bullishness in the counter.

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