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Report - Akash

Gitanjali Gems is engaged in the booming jewelery business. Out of the total Jewelery market of Rs 40,000 crores a major part is in the unorganized space with the organized sector making only 2% of the market. The scope for growth as with all companies that I like to follow is HUGE. The company sells jewelery in brands like DDmas , Gili, Asmi Nakshatra and Sangini.

Well-established brands could help the company take advantage of the shift in preference towards branded jewelery and ramp-up sales. The company is also engaged in Jewelery exports. **Rising income levels and availability of affordable diamond jewelery (entry price is as low as Rs 5,000) could drive sales**. Gitanjali's plans to expand through brand kiosks in malls could provide its brands higher visibility.

Opening up retail outlets in smaller cities will provide access to a relatively untapped market for branded jewelery. The company has an aggressive retail growth plan over the next few years. Clearly with organized retail taking off Gitanjali should be benefited.

The company has also obtained a SEZ approval from the government for a project at Hyderabad . The total investment outlay is at Rs 1200 crore estimated to be deployed over a period of next three years. Once completed the project should yield an annual income of Rs 250 – 300 crores Gitanjali has appointed Jurong of Singapore to execute the development plan which is expected to take off in this month.. The first phase will get completed in a year's time.

The company buys gold against a line of credit from Banks and Institutions. **As a policy they are always hedged against gold price movements. Thus the company would not benefit in case gold prices went up and would similarly they will be protected on the downside.** The managements says that Gold price fluctuation do not affect jewelery sales.

Financial Snapshot	
C.M.P	**Rs 170**
Market Capitalization	**Rs 1003 crores**
Sales Fy 07 Q1	**Rs 498.15 crores**
Net profit Fy 07 Q1	**Rs 21.10 crores**
EPS Fy 07 (E)	**18**
PE	**9.5 times**

The company came out with stunning numbers for the June quarter. Profits doubled from the March quarter inspite of higher marketing costs and the management sees the strong trend in growth continuing . The sales have gone up by 50% from Rs 332 crore to Rs 498.15 crore and Profit after tax has gone up from Rs 9 crore to Rs 21 crore.

The jewelery sales went up by 140% and contribute to about 30% to the top line and more than 50% to the bottom-line.

Jewelery sales and luxury item sales rise by about 50% during the during the festival/marriage season October – March. Assuming that the company will show a flat September quarter the EPS for the first half should be around Rs 7. Assuming a 50% jump in sales the second half should reflect an EPS of Rs 11 giving an annualized EPS of Rs 18

As a part of their retail initiative the company has announced a joint venture with Modern India. This JV shall expand the retail operations of the company. The company also announced the signing of a new joint venture agreement with Sanghavi Exports under which it will become a 50-50 partner in Spectrum Jewelery. T **he joint venture will manufacture and market the Sangini brand of diamond jewelery**. The management says that in the changing retail scenario, there is a huge potential for growth in the branded jewelery segment,

Recommendation: While the business model is excellent and the company does own some very valuable brands Gitanjali **gem's proposed diversification into SEZ's (exclusively for the gems and jewelery section) is adiversification that needs to be closely observed.** I prefer companies that are focused and stick to their core activities. How Gitanjali can derive sunergies from this SEZ remains to be seen. **On the other hand this venture if completed should add Rs 50 to the EPS that is Rs 500 at least to the stock price.As indicated above the management hopes to make Rs 250 - 300 crores each year from the SEZ venture.**

Gitanjali trades at a current year PE of less then 10 compared to Titan's (Tanishq). PE of 32.The **RoE is how – ever very low** but that could be because the IPO proceeds are yet to be deployed. **There is a scope for a PE re-rating and the stock could handsomely reward shareholders.** The stock also trades at a market **cap to sales ratio of less then 0.5 for the current yea**r. It could therefore be categorized as a **growth cum value play which coulkd be a significant multibagger in the making.**