

Goldiam International

STOCK INFO. **BLOOMBERG**
BSE Sensex: 9,086 GLDM IN
REUTERS CODE
S&P CNX: 2,750 GOLI.BO

27 December 2005

Buy

Rs71

Equity Shares (m) 26.4
52-Week H/L (Rs) 81/43
1,6,12 Rel. Perf. (%) 15/-23/-4
M.Cap. (Rs m) 1876.7
Avg. Daily Vol. ('000) 109

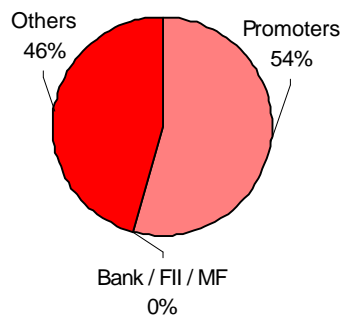
YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES (X)	EV/ EBITDA (X)
3/05A	2,376	267	10.1	42.7	7.0	1.4	18.6	19.6	0.6	4.7
3/06E	2,945	278	10.5	4.1	6.7	1.2	16.1	20.0	0.4	3.7
3/07E	3,535	311	11.8	11.8	6.0	1.0	15.2	19.5	0.3	2.4



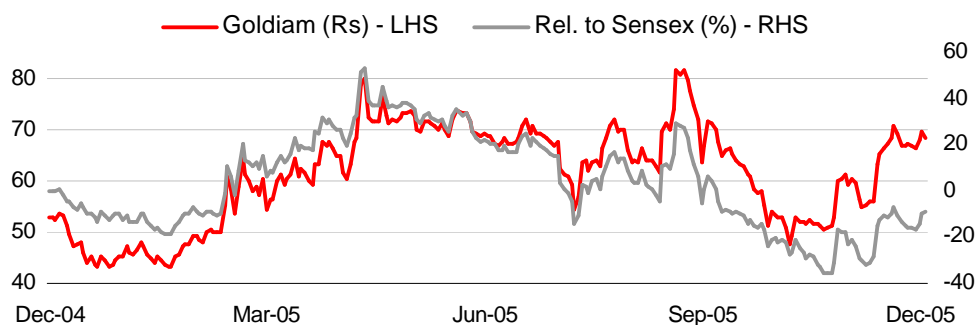
Gilt - Edged

- **Robust Business Model:** Goldiam International (GIL) has a robust business model which caters to different geographies with distinct designing capabilities. Customers include global retail giants like Walmart, J C Penny, Zales etc.
- **Consistent Cash Flows:** GIL has been consistent in generating net positive cash flows from operations even though the working capital requirements of the business have been high.
- **Rewards Shareholders Consistently:** The company has consistently paid dividends to its shareholders for more than ten years.
- **Peer Group Valuations:** GIL, with its strong fundamentals, is currently valued at a discount to its peer amongst the large players in the diamond & jewellery industry.
- **Valuations:** The company is quoting at a consolidated P/E of 6.7x FY06E and 6 FY07E. We recommend a **buy** with a price target of Rs.118, and upside of 66%.

SHAREHOLDING PATTERN



STOCK PERFORMANCE (1 YEAR)



Key Investment arguments

Robust Business Model

Goldiam International (GIL) has a robust business model which caters to different geographies and hence requires distinct designing capabilities. The parent company Goldiam International is primarily focused on the US & European markets, catering to global retail chain stores like Wal-Mart, J C Penny, Sears, Zales etc. while its subsidiaries are catering to other geographies and also at broadening the product portfolio.

GIL has three subsidiaries and one Joint Venture. The details of the holdings are as follows:

Name	Extent of Holding (%)	Investment (Rs.m)	Revenues FY05 (Rs. m)	PAT FY05 (Rs. m)
Diagold Designs Ltd.	50.99%	18.14	567	51.3
Goldiam Jewels Ltd.	50.55%	10.06	-	-
Goldiam Jewellery Ltd.	100.00%	10.00	#	#
Goldiam HK Ktd.	49.00%	21.19	#	#

- Incorporated in April 2005.

Diagold Designs - GIL started its association with Diagold way back in 2001. It is now a subsidiary with the balance held by the Mehta family and is managed by Mr. Milan Mehta, the managing director of the company. Diagold is focused on the Middle East market and has achieved revenues of Rs. 567m and PAT of Rs. 51.3m in FY05.

Goldiam Jewels - A new subsidiary floated in FY05, together with NRI equity participation to enter the business of mechanized jewellery manufacturing. This subsidiary will focus mainly on manufacturing jewellery through the process of continuous casting. The facility will also help to strengthen its product portfolio with entry in the non-precious metals jewellery, which is in vogue currently in markets abroad.

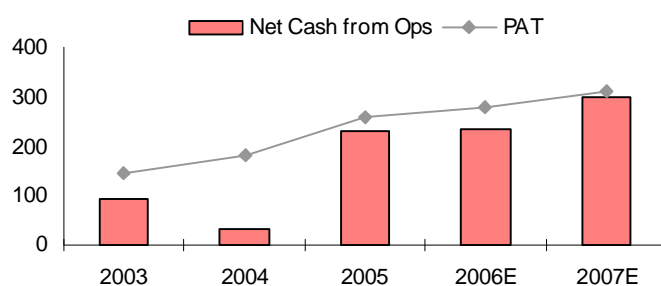
Goldiam Jewellery - A wholly owned subsidiary incorporated recently and registered in SEEPZ with a ten year tax holiday. GIL would use its manufacturing facility to target the US & European markets and increase its capacity to cater to the needs of existing clients.

Goldiam HK - A Joint Venture to established to set-up a manufacturing base in China to take advantage of cost efficiency and the Chinese expertise in Platinum Jewellery. It has already acquired a plant in Panyu province - China for a consideration of 1m USD. Going forward there could be a possibility of converting this JV into a subsidiary in the coming years. (For calculating our estimates we haven't incorporated results from this venture)

Consistent Cash Flows

GIL has been consistent in generating net positive cash flows from operations even though the working capital requirements of the business have been high.

NET CASH FROM OPS



On a consolidated basis

Source: Company / Motilal Oswal Securities

Background

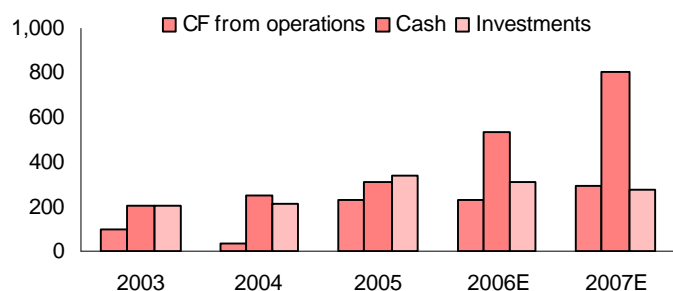
Founded in 1986 by Mr. M R Bhansali and Mr. K R Bhansali, Goldiam International has its roots in the exports of rough and cut diamonds as well as gold studded jewellery. Over the period of years it has evolved as one of the leading exporters of diamond studded jewellery in the country.

Its product line includes around 3500 designs of rings, earrings, pendants, bracelets, bangles and necklaces. It has design teams based out of Hongkong, China and India, which have a capacity to produce an average of 400 designs a month.

Over the period of past few years, it has adopted a subsidiary model to widen its manufacturing capability as well cater to specific geographical markets. In the recent past it has also taken over a factory in China to manufacture Platinum Jewellery and target the Oriental Jewellery market.

On a consolidated basis GIL is a cash rich company with cash balance of Rs.313m and liquid investments of Rs.337m as on March 05 which translates in Rs.24.5 per share of cash. The company has near debt free status with loans outstanding of Rs.126m FY05. The said loans are mainly towards the working capital facilities availed by its subsidiary Diagold Designs. GIL, the parent, has been a debt free company since FY99.

CASH ACCRETION



Source: Company / Motilal Oswal Securities

Excess Cash Deployed Judiciously

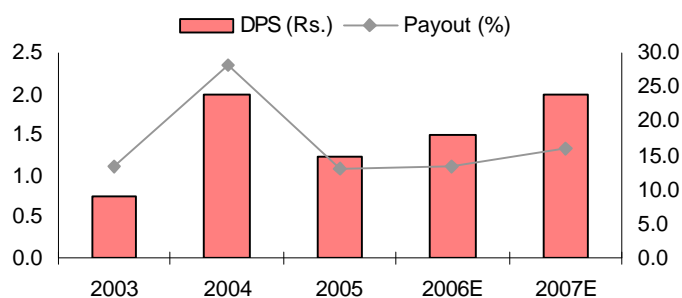
The company has used the excess cash judiciously by deploying it in the capital as well as the debt markets. The liquid investments of the company have grown from Rs. 184m in FY03 to Rs. 337m in FY05. The income derived out of this treasury operations has also increased from Rs.7.1m to Rs.28.78m. The breakup of the investments portfolio as on 31st March 05 is as follows:

Sr. No.	Particular	Amount (Rs. m)
1.	Liquid Funds	242.30
2.	Equity Mutual Funds	84.17
3.	Equity Shares	10.71

Rewards shareholders consistently

The company has consistently paid dividends to its shareholders for more than ten years. The company declared a dividend of 25% for FY05 (payout 13.2%). For the purpose of our estimates we have assumed the dividend to be 15% for FY06 (payout ratio 13.5%) and 20% for FY07 (payout ratio 16%). The expected dividends have been calculated after adjusting for the 1:1 bonus issued in September 2005. The company had also declared a bonus of 1:1 in FY02.

DIVIDENDS



* Figures for FY03 -FY05 are adjusted to incorporate the bonus in Sep' 05

Source: Company / Motilal Oswal Securities

Appears cheap on peer group valuations

GIL, with its strong fundamentals, is currently valued at a discount to its peers in the large players of the diamond & jewellery industry. The following table highlights the comparative valuations amongst peers on various parameters. The ratios dependent on the market prices have been calculated on the closing prices of 26th Dec 05, while the fundamental ratios like D/E, ROE and debtors cycle are based on audited results for FY05.

Company	P/E	P/BV	D/E	Div Yield	ROE	Debtor Days
	X	x	x	%	%	
GIL (Consolidated)	9.1	1.3	0.1	1.83	17.89	119
Classic Diamonds	9.7	0.7	2.2	1.1	8.8	160
Rajesh Exports	7.7	3.2	3.6	1.3	33.0	14
SB & T Intl.	313.7	1.2	0.3	0.7	1.3	71
Suashish Diamond	61.0	0.4	0.5	1.4	3.2	122
Su-Raj Diamonds	7.2	0.5	0.4	1.7	6.5	174
Vaibhav Gems	23.9	6.7	0.4	0.6	26.1	93

Source: Capitaline

Industry Scenario

The Indian Gem & Jewellery sector is one of the most dynamic and fast growing sectors of the Indian Economy. The fact that India is the world's largest source for trained, skilled and adaptive manpower along with liberalised government policies that provide a conducive environment for bi-lateral businesses, is what contributes to the continuous growth of this sector. Contributing around 19% to the total forex kitty of the country (FY05), the industry's growth over the years is commendable.

FOREIGN TRADE - GEMS AND JEWELLERY



Source: Gems and Jewellery export promotion council

From being the world's largest manufacturer of cut and polished diamonds to becoming the leading international trading center, India's gems and jewellery sector is now set on a growth trajectory. The exports grew by 38% to \$14,329.23 million for January-December 2004 period as compared to \$10,392.83 million in the corresponding period the last year. The year 2004-05 was a good year for the global jewellery industry recording a massive growth of 49.23%. Gold & Jewellery Export Promotion Council (GJEPC) has set the target of USD 17.5b for FY07.

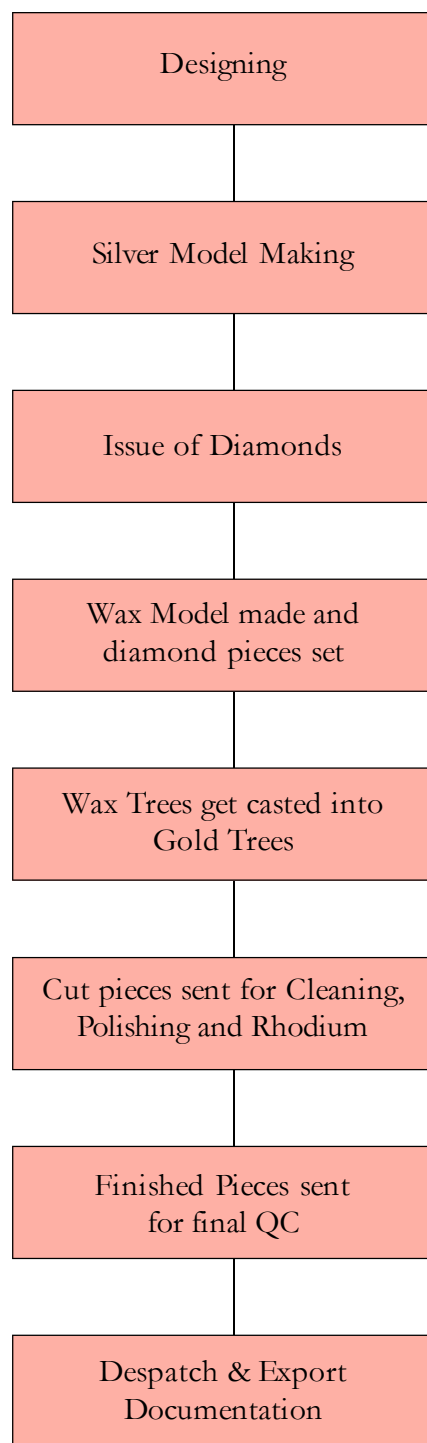
Concerns

- Since the entire business is exports driven, the company is subject to volatility in foreign currency and cyclical of fashions & trends in the foreign markets.
- There may be pressures on margins going forward on the exports due a fiercely competitive market.
- The critical success factor for the business is the designing capability. Hence if the company is not able to retain its key personnel in design and creative function there could be an impact on the operations.
- The industry as a whole operates on a very high credit receivables period. Though GIL operates on a comparative better debtor's turnover ratio, the credit risk of the customers could pose a threat to its balance sheet.
- The business is promoter driven and there could be issues about the second line of management.

Consolidated Valuations

The current price of Rs.71 discounts FY06E consolidated EPS of Rs.10.5 by 6.7x and FY07E EPS of Rs.11.8 by 6x. We recommend a **buy** with a price target of Rs.118, which discounts FY07E by 10x.

Process Flow Chart



INCOME STATEMENT						(Rs M)
Y/E MARCH	2003	2004	2005	2006E	2007E	
Net sales	1,372	1,862	2,376	2,945	3,535	
Change (%)		35.7	27.6	24.0	20.0	
EBITDA	158	182	284	324	424	
Change (%)		14.7	56.7	13.9	30.9	
Depreciation	11	12	18	28	30	
EBIT	147	169	266	296	394	
Interest	0	1	9	17	18	
Other income	8	23	41	85	50	
PBT & EO items	155	192	298	364	426	
PBT	155	192	298	364	426	
Tax	8	4	6	31	50	
Rate (%)	5.4	19	2.0	8.4	11.7	
REPORTED PAT	147	188	292	333	376	
Minority Interest	0	1	25	55	65	
Adjusted PAT	147	187	267	278	311	
Change (%)		27.6	42.7	4.1	11.8	
EBITDA margin (%)	11.5	9.7	12.0	11.0	12.0	
PAT margin (%)	10.7	10.1	11.2	9.4	8.8	

BALANCE SHEET

Y/E MARCH	2003	2004	2005E	2006E	2007E
Equity share capital	132	132	132	264	264
Reserves	895	1,025	1,254	1,355	1,607
Minority Interest	0	19	53	108	173
Networth	1,027	1,176	1,439	1,727	2,044
Loans	0	115	126	175	230
Net deferred tax liability	-2	0	3	3	5
Capital employed	1,025	1,291	1,568	1,905	2,278
Gross fixed assets	139	211	230	260	297
Less: Depreciation	58	77	94	122	152
Net fixed assets	82	134	136	138	145
Capital WIP	0	0	0	0	0
Investments	206	212	342	315	280
Curr. assets	908	1,288	1,520	1,992	2,479
Inventory	153	280	230	295	350
Debtors	503	728	896	1,060	1,182
Cash & bank balance	208	248	313	532	807
Loans & advances	43	31	80	105	140
Current liab. & prov.	169	343	430	540	627
Other Liabilities	0	0	0	0	0
Creditors	139	308	417	510	575
Provisions	30	35	13	30	52
Net current assets	738	945	1,089	1,451	1,853
Application of funds	1,025	1,291	1,568	1,905	2,278

E: Estimates

RATIOS					
Y/E MARCH	2003	2004	2005E	2006E	2007E
Basic (Rs)					
EPS	5.6	7.1	10.1	10.5	11.8
Growth (%)		27.6	42.7	4.1	11.8
Cash EPS	6.0	7.6	10.8	11.6	12.9
Book value	38.8	43.8	52.4	61.3	70.8
DPS	0.8	2.0	1.3	1.5	2.0
Payout (incl.Div.Tax.) (%)	13.5	28.1	12.8	13.5	15.9
Valuation (x)					
P/E	12.8	10.0	7.0	6.7	6.0
Cash P/E	11.9	9.4	6.6	6.1	5.5
Price/Book value	18	16	14	12	10
EV/Sales	1.1	0.8	0.6	0.4	0.3
EV/EBITDA	9.2	8.4	4.7	3.7	2.4
Dividend yield (%)	1.1	2.8	1.8	2.1	2.8
Profitability ratios (%)					
RoE	14.3	15.9	18.6	16.1	15.2
RoCE	14.3	14.6	19.6	20.0	19.5
Turnover ratios					
Debtors (days)	134	143	138	131	122
Asset turnover (x)	13	14	15	15	16
Leverage ratio					
Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1

CASH FLOW STATEMENT

Y/E MARCH	2003	2004	2005E	2006E	2007E
PBT before EO items	155	192	298	364	426
Add : Depreciation	11	12	18	28	30
Interest	0	1	9	17	18
Less : Direct taxes paid	8	4	6	31	50
(Inc)/Dec in WC	-63	-167	-79	-143	-126
CF from operations	95	34	240	235	298
EO, misc. & other items	0	0	0	0	0
CF from oper. incl. EO items	95	34	240	235	298
(Inc)/Dec in FA	-9	-65	-21	-30	-37
(Pur)/Sale of investments	-64	-7	-130	27	35
CF from investments	-73	-71	-150	-3	-2
Inc/(Dec) in networth	-2	16	10	0	2
Inc/(Dec) in debt	0	115	11	49	55
Less : Interest paid	0	-1	-9	-17	-18
Dividend paid	-20	-53	-37	-45	-60
CF from fin. activity	-22	77	-25	-13	-21
Inc/Dec in cash	0	40	65	219	275
Add: Beginning balance	209	208	248	313	532
Closing balance	208	248	313	532	807



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Disclosure of Interest Statement	Goldiam International
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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