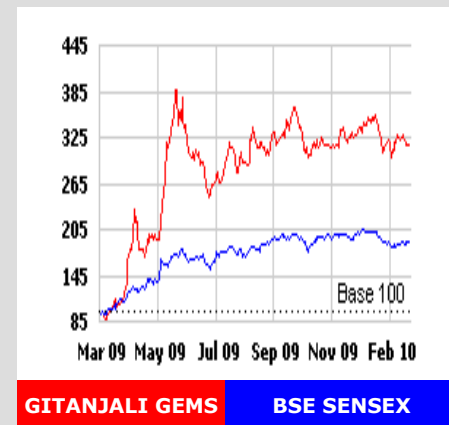


EQUITY RESEARCH**Gems & Jewellery Industry****CMP: Rs.118.00
(As on March 02, 2010)****March 02, 2010****INDIA****Market Cap
Rs.9943.86mn****BUY****Target Price: Rs 136.00****GITANJALI
GROUP****Gitanjali Gems Limited**

- Gitanjali Gems is one of the largest integrated diamond and jewellery manufacturers and retailers in India.
- The company became first to produce the world's smallest heart shaped diamond (0.03 carat) and developing some 25 patented facet patterns.
- Gitanjali Group, the jewellery maker and exporter, is planning to invest Rs 400 crore in next 18 months for expanding its retail business in India and overseas markets.
- Gitanjali Gems' wholly owned subsidiary, Gitanjali Lifestyle has decided to set up a joint venture company in India in collaboration with Damas LLC, Dubai.
- The company, which currently has 150 stores across India, is planning to increase it by three fold and double the 140 outlets it owns in US, China and Middle-East.
- The company's Net Sales & PAT are expected to grow at a CAGR of 18% & 8% over FY08 to FY11E.

One-year comparative graph with BSE**B.Harikrishna
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Chief Research Officer
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Key Financials	FY08	FY09	FY10E	FY11E	Key Data	
Net Sales (Rs.mn)	48317.3	50888.7	69155.0	79528.3	Face Value	Rs 10.00
EBIDTA (Rs.mn)	2599.38	2898.93	4197.28	4811.85	Shares Outstanding	84.27mn
Margin %	5.38%	5.70%	6.07%	6.08%	Exchange	BSE
PAT (Rs.mn)	1737.40	1552.79	1885.05	2207.09	52 wk. High/Low (Rs.)	149.00/ 32.50
Margin %	3.60%	3.05%	2.73%	2.78%	2 wk avg. volume	117000
					BSE Code	532715

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TABLE OF CONTENTS

1. Peer Group Comparison	03
2. Company Updates	03
3. Company Profile	08
4. Company Business	09
5. Financials	10
6. Charts	12
7. Valuation	14
8. Industry Overview	15



Peer Group Comparison

Name of the Company	52 wk. High/Low(Rs.)	CMP(Rs.)*	EPS(Rs.)	P/E(x)
Gitanjali Gems Ltd	149.00/32.50	118.00	17.70	6.67
Rajesh Exports	110.80/21.60	102.00	4.05	25.19
Asian Star	1999.00/753.00	1009.90	12.48	80.92
Shrenuj and Co	45.60/13.00	40.60	2.62	15.50

*As on 02/03/10

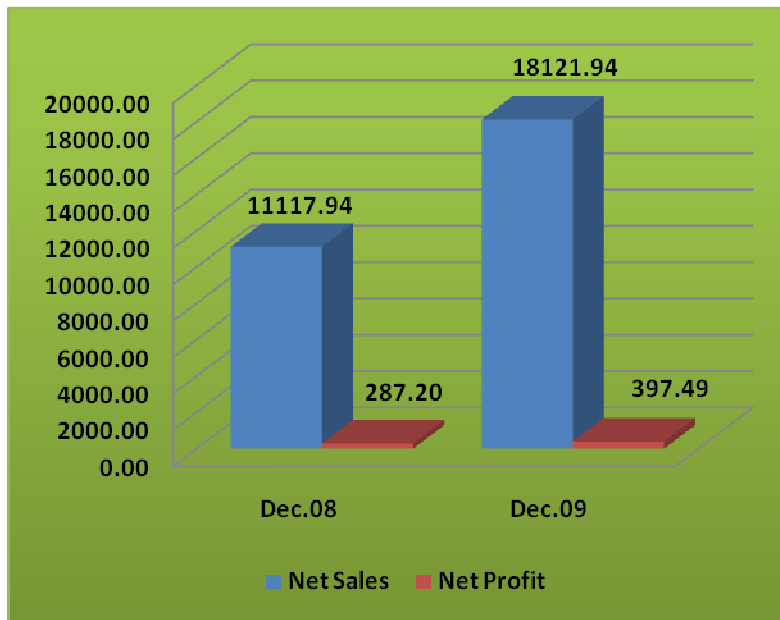
Company-Updates

- **Q3 FY10 Results Update**

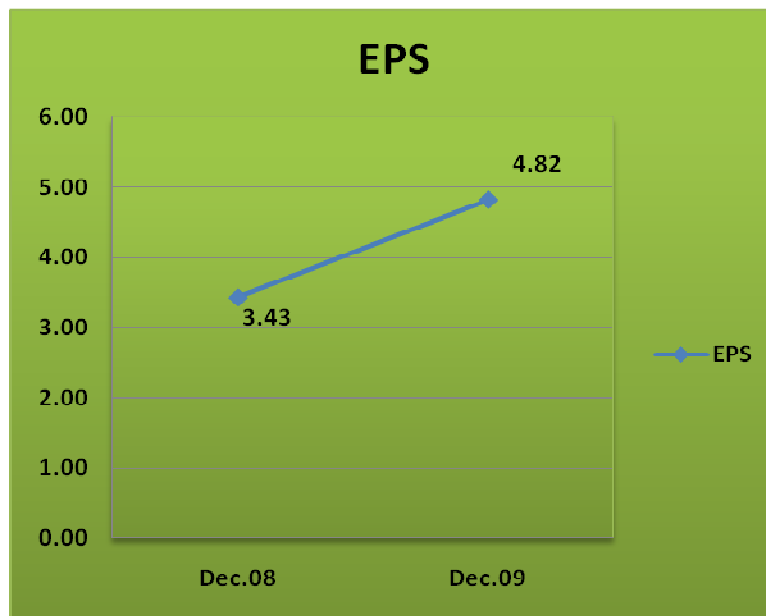
Gitanjali Gems reported a rise of 39.41% in consolidated net profit for the quarter ended Dec 2009. During the quarter, the profit of the company went up to Rs 406.42 million from Rs 291.52 million in the same quarter previous year. Net sales increased by 63% to Rs 18,121.94 million, while total income for the quarter climbed by 63.12% to Rs 18,135.71 million compared with the prior year period. The Company posted earnings of Rs 4.82 a share during the quarter, registering 40.73% growth over previous year period. Interest cost increased 48.55% to Rs 440.65 million while depreciation cost decreased 7.75% to Rs 84.48 million over previous year period.

Quarterly Results - Consolidated (Rs in mn)			
As at	Dec - 09	Dec - 08	%Change
Net Sales	18,121.94	11,117.94	63.00
Net Profit	406.42	291.52	39.41
Basic EPS	4.82	3.43	40.73

Net Sales & Net Profit Growth



EPS Growth

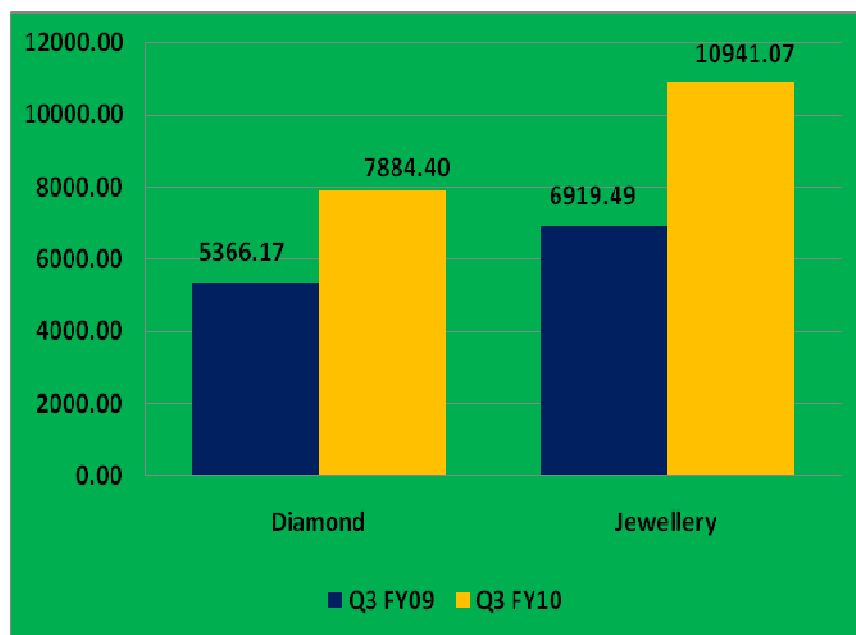


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Segment-wise Performance

Particulars (Rs.mn.)	Q3 FY09	Q3 FY10
Diamond	5366.17	7884.40
Jewellery	6919.49	10941.07
Total	12285.66	18825.47



- **Extension of interest subvention to boost growth in gems and jewellery sector**

The overall thrust of the budget is positive and it will provide a boost to domestic consumption and growth. The revised tax rates will certainly mean greater disposable income for domestic consumption. Specific to the gems and jewellery sector, the extension of the interest subvention for another year is welcome. This will provide an important stimulus to the export sector and boost growth and revival after the slowdown of last year.

Regarding the hike in customs duty on precious metals, the increase in the duties on gold and platinum (from Rs 200 per 10 gms to Rs 300) is on par with the rise of prices of these metals. However the hike in duty rates on Silver from Rs 1000 per kg to Rs 1,500 per kg is excessive. Also



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we welcome the reduction from 10% to 2% on the import of rhodium which is a raw material used in manufacturing and the reduction in the duties on raw gold to Rs 280 per 10 gms.

- **Acquires balance 50% stake in Morellato India**

In a move aimed at rationalizing the business plan, Gitanjali Gems has strategically acquired the balance 50% stake in the Indian joint venture (JV) company 'Morellato India'.

The company continues to hold on exclusive basis, the rights of marketing, promotion, sale and distribution of products of the erstwhile JV partner under the brand names e.g. Morellto, Sector (non-Swiss made collection), Roberto Cavalli, Just Cavalli and Miss Sixty etc.

Gitanjali Gems is one of the largest integrated diamond and jewellery manufacturers and retailers in India. Its operations include sourcing of rough diamonds from primary and secondary source suppliers in the international market, cutting and polishing the rough diamonds for export to its international markets, and the sale of diamond and other jewellery through its retail operations in India, as well as in international markets.

- **Buys majority stake in Salasar Retail**

Gitanjali Gems has acquired 76% stake in Salasar Retail. The acquisition was routed through wholly-owned subsidiary of the company, Gitanjali Lifestyle. Salasar Retail is engaged in the business of retailing, selling, trading and distributing all kinds of cloth, cotton, synthetics, silk yard, readymade garments etc. Meanwhile, the company has not disclosed the value of this deal.

- **Acquires additional stake in Spectrum Jewellery**

Gitanjali Gems has acquired additional stake in Spectrum Jewellery. Earlier, Spectrum Jewellery was a 50:50 joint venture between Gitanjali Gems and Sanghavi Exports but following this deal, the company has become the majority stakeholder in the former. Spectrum Jewellery is owner of the 'Sangini' trademark, a leading brand in India. The company is engaged in the business of manufacturing and dealing of diamonds and diamond studded jewellery.

- **Gitanjali Gems to double value of 4 major brands**

Gitanjali Gems and manufacturing companies, conducted brand valuation for four of its brands viz. Nakshatra, Gili, D'damas and Asmi. The company undertook the brand valuation exercise during the last quarter. Brand Finance, a renowned UK-based firm in marketing and brand valuation was commissioned to evaluate four of these major Gitanjali brands. The total worth of these four brands currently stands at Rs 1,502 crore, as per the valuation exercise. The company is gearing towards improving the value of the brand and not just improving sales but is also looking at multiplying the value of these brands by 1.5 to 2 times by 2011-2012. The study revealed that the value generation is driven by retail business, major drivers being heavy advertisements and promotions that contributed substantially to the increased demand and aspirations for the company's branded diamond jewellery in the last 10-15 years.

The company's objective was to understand what the valuation of these brands would be; the identification of the demand drivers and this exercise will help the Gitanjali Group to enhance these



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values through improvement in the operations on these brands. Apart from Nakshatra, Gili, D'damas and Asmi, Gitanjali's others brands like Giantti, Sangini, Maya Gold, Gold Expression, Collection G, Diya and Gitanjali as a mother brand also remains to be valued. Gitanjali Gems is focused on maximizing value from its existing brands and looks forward to becoming an iconic brand in the country.

- **Acquires entire stake in Alliance Jewelleries**

Gitanjali Gems has acquired 100% stake in Alliance Jewelleries through Brightest Circle Jewellery, a wholly-owned subsidiary of the company. Alliance Jewelleries is engaged in the business of manufacturing of gold and diamond studded jewellery etc.

- **Gets 'Star Trading House' status**

Gitanjali Gems has received 'Star Trading House' status from the government of India. In line with the provisions of Foreign Trade Policy, 2004 - 2009 and on the basis of its export performance, the company has been recognized as a 'Star Trading House' by ministry of commerce & industry. Apart from this, the company has also been designated as 'Nominated Agency' for the purpose of direct import of gold, silver and other precious metals in accordance with Foreign Trade Policy, 2009 - 2014.

- **Gitanjali Gems arm acquires 51% stake in Diamlink Inc**

Gitanjali Gems' wholly owned subsidiary, Gitanjali USA Inc, has acquired 51% stake in Diamlink Inc (Diamlink) -- a New York-based corporation. Following this, Diamlink Inc has become a step down subsidiary of the company. Diamlink Inc is engaged in the business of diamond and diamonds studded Jewellery.

- **Acquires 70% stake of MobileNXT**

Gitanjali Gems is going to acquire 70% stake in Bangalore-based mobile retail chain operator MobileNXT through its wholly-owned subsidiary, Gitanjali Lifestyle (GLL). GLL has entered into an investment cum shareholder's agreement with MobileNXT for the same. MobileNXT is present across 21 stores in southern parts of the country and in tier 2 and 3 cities and its stores are a one-stop shop-offering host of telecom related products and services.

However, as per the terms of agreement all the MobileNXT stores will be reinstated as 'Hoop' stores and will display 'personal fashion accessory' that offers a wide range of fashion jewellery, watches, eyewear and the latest as well as trendy mobile phones and accessories at affordable prices. The products would be targeted at the youth and young adult both female and male.

- **Hives off stake in Ivida Technologies**

Gitanjali Gems has sold its entire investment in Ivida Technologies (ITPL) -- a private limited company. ITPL was founded in 2007 as 100% subsidiary to deal in software, technology and telecom business. The gloomy performance of technology sector as well as the company's intention to focus on its core area of business has been attributed as the main reasons behind the decision.



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- **Gitanjali Gems to form JV with Damas LLC**

Gitanjali Gems' wholly owned subsidiary, Gitanjali Lifestyle has decided to set up a joint venture company in India in collaboration with Damas LLC, Dubai. The JV will be engaged in retail trading of all kinds of jewellery and related accessories. Damas LLC, Dubai has received necessary approval from Foreign Investment Promotion Board for setting up the said JV in India.

- **Business Expansion**

Gitanjali Group, the jewellery maker and exporter, is planning to invest Rs 400 crore in next 18 months for expanding its retail business in India and overseas markets. The company, which currently has 150 stores across India, is planning to increase it by three fold and double the 140 outlets it owns in US, China and Middle-East. The funds for the expansion will be met through internal accruals. It is targeting a 30% growth on revenues to touch Rs 6,500 crore in the financial year 2009-10.

Company Profile

Gitanjali Gems, incorporated in 1986, is one of leading players in jewellery segment. Founded in 1966, it was the first group company to engage in cutting and polishing of diamonds in Surat, Gujarat. Today this \$900 million multinational group is one of largest manufacturer, retailers and exporters of diamonds.

In the year 1990 company commissioned Gitanjali Creations -- a 100% export-oriented unit located at Borivli, Mumbai. The company became first to produce the world's smallest heart shaped diamond (0.03 carat) and developing some 25 patented facet patterns.

Gitanjali Group's has operational presence starting from sourcing of rough diamond, cutting, polishing and distributing, to jewellery manufacturing, which includes designing, mould making, wading, casting, sprue grinding, filing, polishing and setting. The company was first to offer diamond studded jewellery at reasonable prices.

The company uses latest CAD and CAM processes and equipment for creating designs for jewellery. The company is bestowed with more than 50 awards from the ministry of commerce as an acknowledgement of its export performance under diamond and jewellery. Gitanjali Gems has presence in like namely USA, UK, Belgium, Italy and the Middle East to Thailand, South East Asia China, and Japan.

Future Strategy

Gitanjali Gems is constructing the Rajiv Gems Park, which is intended to become one of the largest Gems and Jewellery SEZs in India. This is the first jewellery SEZ in India that is privately owned and managed by a company. Under this the company has already completed the construction of diamond cutting and polishing units spread over on 1 lakh sqft of area. The company is developing jewellery manufacturing facility spread across on an area of 2 lakh sqft of area.



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Company Business

Businesses

Diamonds- Under this, the company is engaged in every part of diamond processing. For its diamond export the company has received various awards from international organization as well as from Government of India.

Jewellery- The company offers a wide range of jewellery under gold, diamond and platinum segment. Company's designs include Indian traditional, ethnic, classic, contemporary and casual.

Retailing- The company is also engaged in retailing its diamonds and jewellery. Currently the company markets over 40 brands that are owned and franchised under its retail chain Gitanjali Lifestyle.

Infrastructure- Gitanjali plans to develop seven SEZs to be operationalised in 7-8 years and the company has already bought land in Panvel, outside Mumbai, and has approvals for five more SEZs.

Company Brands

Currently, it has brands that includes loose diamonds, diamond and other stone-studded jewellery (natural and synthetic), in gold, silver, steel and combinations, high-end watches, jewellery-watches, luxury artefacts and accessories. The company markets its products through store chain namely Bezel, Giantti, World of Solitaire and Gitanjali Lifestyle.

Under jewellery, the company has a portfolio of brands namely Nakshatra, Lucera, D'Damas, Calgaro, Sangini, Rivaaz, Desire, Kashvi, Asmi, Maya, Diya, Ezee Diamonds and Stephan Hafner. Under watches, it retails brands like Philip, Sector, Marvin, Umbro, Miss Sixty, Roberto Cavalli, Iris, Morelaato and Just Cavalli. Under Home accessories, the company retails brand -- Greggio Argentio. Gitanjali Gems has a distribution network of 112 distributors and 1250 outlets in India.



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Financials

Results Update

12 Months Ended Profit & Loss Account (Consolidated):

Value(Rs. in million)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	48317.36	50888.76	69155.05	79528.31
Other Income	44.96	22.36	36.50	40.15
Total Income	48362.32	50911.12	69191.55	79568.46
Expenditure	-45762.94	-48012.19	-64994.28	-74756.61
Operating Profit	2599.38	2898.93	4197.28	4811.85
Interest	-448.42	-978.40	-1696.53	-1951.01
Gross Profit	2150.96	1920.53	2500.74	2860.83
Depreciation	-200.97	-335.96	-320.70	-352.77
Profit before Tax	1949.99	1584.57	2180.04	2508.06
Tax	-212.59	-31.78	-294.99	-300.97
Profit after Tax	1737.40	1552.79	1885.05	2207.09
Minority Interest	-130.45	-46.96	-12.13	-12.74
Net Profit	1606.95	1505.83	1872.92	2194.36
Equity Capital	850.63	850.63	842.70	842.70
Reserves	17683.38	19624.42	21509.47	23716.57
Face Value (Rs)	10.00	10.00	10.00	10.00
Total No. of Shares	85.06	85.06	84.27	84.27
EPS (Rs)	18.89	17.70	22.23	26.04



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Quarterly Ended Profit & Loss Account (Consolidated):

Value(Rs. in million)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3m	3m
Net Sales	13521.64	17577.34	18121.94	19934.13
Other Income	5.58	2.69	13.77	14.46
Total Income	13527.22	17580.03	18135.71	19948.59
Expenditure	-12586.16	-16441.82	-17128.54	-18837.76
Operating Profit	941.06	1138.21	1007.17	1110.84
Interest	-359.55	-433.65	-440.65	-462.68
Gross Profit	581.51	704.56	566.52	648.15
Depreciation	-72.49	-75.03	-84.48	-88.70
Profit before Tax	509.02	629.53	482.04	559.45
Tax	-52.34	-74.18	-84.55	-83.92
Profit after Tax	456.68	555.35	397.49	475.53
Minority Interest	-2.21	-27.96	8.93	9.11
Net Profit	454.47	527.39	406.42	484.64
Equity Capital	850.63	848.49	842.70	842.70
Face Value (Rs)	10.00	10.00	10.00	10.00
Total No. of Shares	85.06	84.85	84.27	84.27
EPS (Rs)	5.34	6.22	4.82	5.75

Key Ratios:

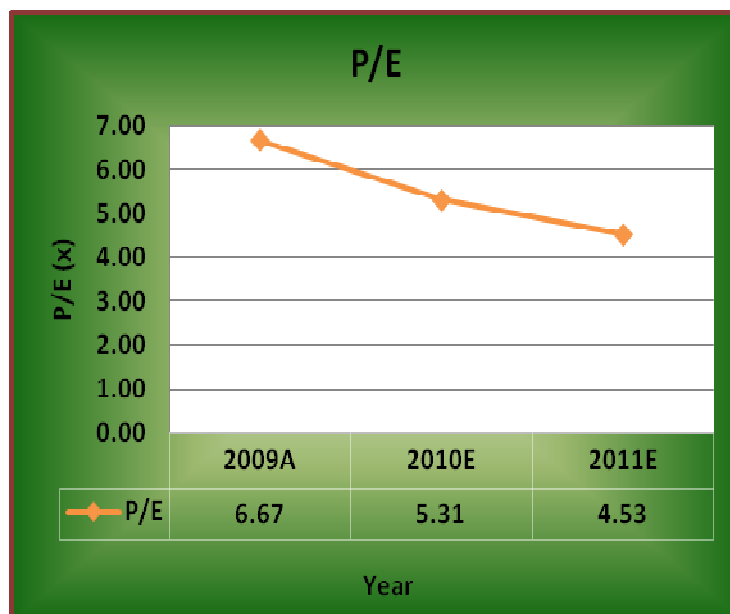
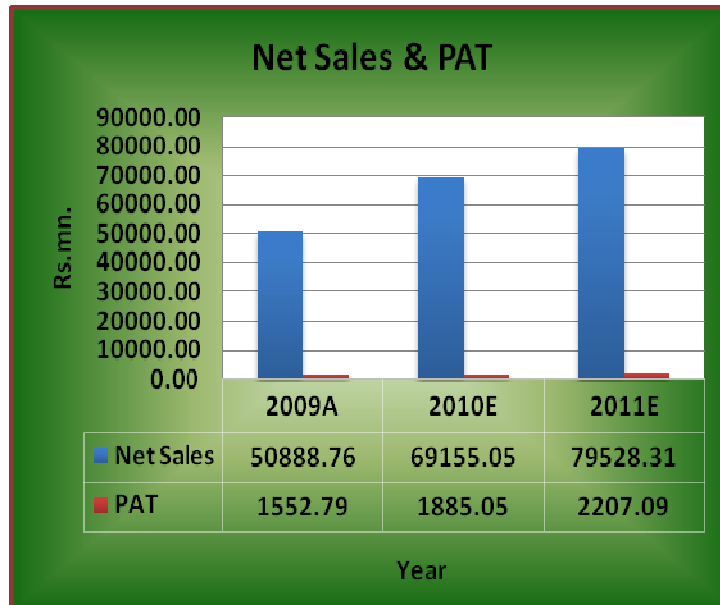
Particulars	2008(A)	2009(A)	2010(E)	2011(E)
EBITDA Margin (%)	5.38%	5.70%	6.07%	6.08%
PAT Margin (%)	3.60%	3.05%	2.73%	2.78%
P/E (x)	6.25	6.67	5.31	4.53
ROE (%)	9.37%	7.58%	8.43%	8.99%
ROCE (%)	8.28%	7.71%	10.65%	11.15%
EV/EBITDA (x)	3.86	3.46	2.37	2.07
Debt Equity Ratio (x)	0.56	0.62	0.63	0.63
Book value (Rs)	217.89	240.70	265.24	291.44
P/BV (x)	0.54	0.49	0.44	0.40

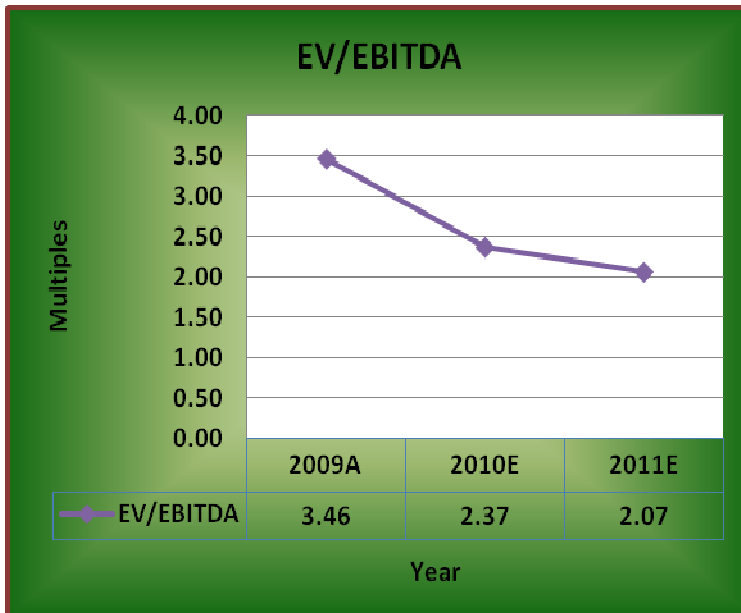
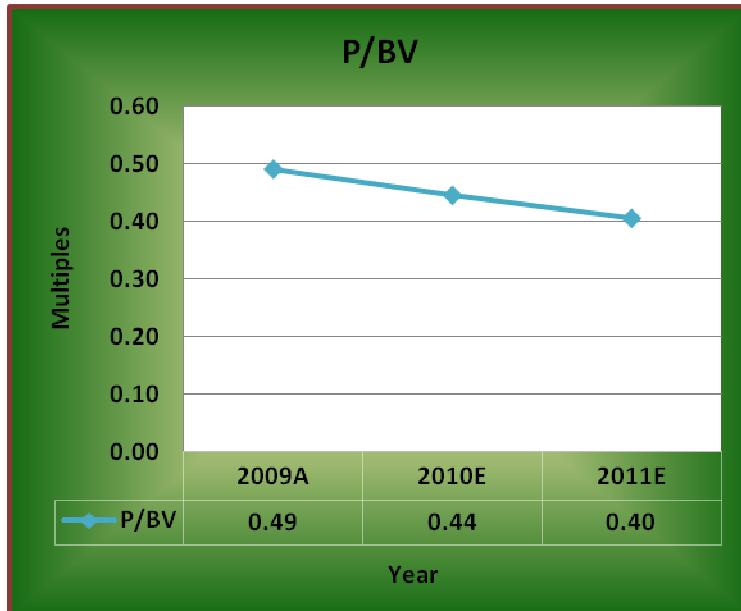


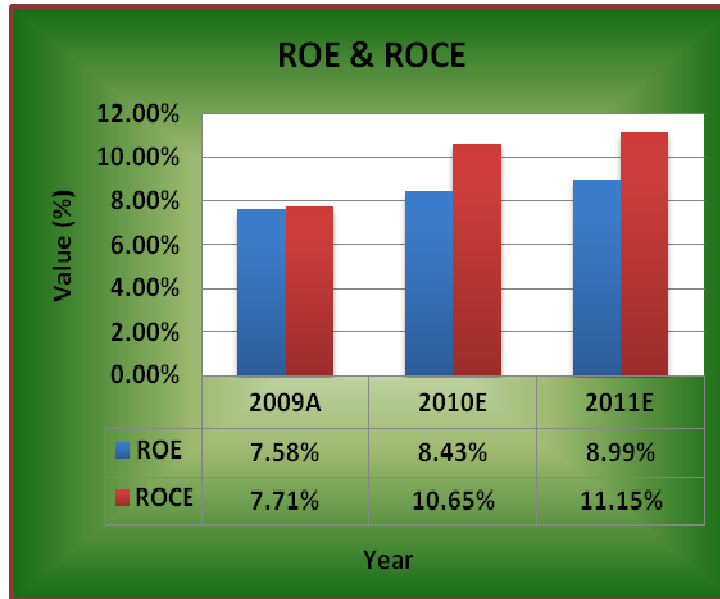
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Charts







Valuation

- At the current market price of Rs 118.00, the stock is trading at a 5.31x FY10E EPS of Rs.22.23 and 4.53x FY11E EPS of Rs.26.04 respectively.
- On the basis of EV/EBDITA, the stock trades at 2.37x and 2.07x for FY10E and FY11E respectively.
- Price to book value of the Company is expected to be at 0.44x and 0.40x for FY10E and FY11E respectively.
- The company's revenue is expected to grow at a CAGR of 18% over FY08 to FY11E.
- Gitanjali Gems to acquire 70% stake in Bangalore-based mobile retail chain operator MobileNXT through its wholly-owned subsidiary, Gitanjali Lifestyle (GLL).
- Gitanjali Group, the jewellery maker and exporter, is planning to invest Rs 400 crore in next 18 months for expanding its retail business in India and overseas markets.
- Gitanjali Gems' wholly owned subsidiary, Gitanjali Lifestyle has decided to set up a joint venture company in India in collaboration with Damas LLC, Dubai.



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- In a move aimed at rationalizing the business plan, Gitanjali Gems has strategically acquired the balance 50% stake in the Indian joint venture (JV) company 'Morellato India'.
- The company is gearing towards improving the value of the four major brands and not just by improving sales but is also looking at multiplying the value of these brands by 1.5 to 2 times by 2011-2012.
- The Extension of interest subvention for another year will boost growth in gems and jewellery sector.
- Gitanjali Gems is constructing the Rajiv Gems Park, which is intended to become one of the largest Gems and Jewellery SEZs in India.
- We recommend 'BUY' in this particular stock with a target price of Rs.136.00 for medium to long term investment.

Industry Overview

The US\$ 27 billion Indian gems and jewellery industry is the fastest growing jewellery market in the world. Recognized as the diamond polishing capital of the world, the country is gaining prominence as an international sourcing destination for high quality designer jewellery with global retail majors such as Wal-Mart and JC Penney procuring jewellery from India. The presence of highly skilled, low-cost labour enables India to design and make high volumes of exquisite jewellery at relatively low cost. The domestic jewellery market is pegged at US\$ 16 billion, which includes gold, diamond and platinum.

Industry structure

The Indian gems and jewellery industry is the fastest growing jewellery market in the world. Recognized as the diamond polishing capital of the world, the country is gaining prominence as an international sourcing destination for high quality designer jewellery with global retail majors such as Wal-Mart and JC Penney procuring jewellery from India. The presence of highly skilled, low-cost labour enables India to design and make high volumes of exquisite jewellery at relatively low cost.

Now, with consumer consciousness increasing, the future of organized retail in India is very bright. The organized sector within the gems and jewellery industry in India is estimated to grow at 40 per cent per annum to US\$ 2.2 billion by 2010. The increasingly savvy Indian consumer is becoming partial to branded jewellery which is associated with better services, premium quality products and attractive exchange policy. The growing popularity of machine-made jewellery over traditional handcrafted jewellery is also spurring the growth of the organized retail segment.

The number of gold retailers in the country has increased by 40 per cent since the year 2000, with 150 domestic and over 65 internationally established brands.

India dominates the diamond processing trade with 11 out of 12 diamonds being cut and polished in India. India also dominates gold and silver consumption globally, with consumption of about 800 tonnes per annum. The industry provides employment to 1.3 million people.

Gold

According to the World Gold Council's latest, "Gold Demand Trends Report", gold tonnage off-take in the fourth quarter of 2009 totalled 180.7 tonnes worth US\$ 6.39 billion, up 17 per cent from 154.4 tonnes in the previous quarter and up 13 per cent from 159.6 tonnes in the fourth quarter of 2008.

- India is the largest consumer of gold jewellery in the world, accounting for about 20 per cent of global gold consumption.
- India bought 200 metric tonnes of gold worth US\$ 6.7 billion from the International Monetary Fund.
- A small village town called Chavakkad in central Kerala, a southern Indian state, consumes 20 per cent of all gold sold in the country. It has more than 115 glittering gold jewellery shops.

Diamond

Surat is India's diamond processing hub, contributing over 80 per cent of the country's diamond processing industry with annual revenue of around US\$ 13.03 billion. In recent years, Dubai, being a port location, had developed into a diamond distribution centre in West Asia. According to industry estimates, 10-15 per cent of India's total polished diamond exports go through Dubai. The cost per carat for cutting and polishing diamonds was US\$ 10 in India as compared to US\$ 17 in China and US\$ 150 in Belgium. India is the largest resource hub in diamond cutting and processing. The low cost of labour involved in the production of finished diamonds has gained global attention.

- India is the largest diamond cutting and polishing centre in the world
- It accounts for 60 per cent value share, 82 per cent by carats and 95 per cent share of the world market by number of pieces
- It is the third largest consumer of polished diamonds after the US and Japan.

Exports

According to The Gem and Jewellery Export Promotion Council, exports of gems and jewellery from India, rose 45 per cent over December 2008 to touch US\$ 1.89 billion in December 2009.

Exports during the April-December 2009 period, increased to US\$ 19.6 billion from US\$ 19.1 billion a year earlier. Exports of cut and polished diamonds in the April-December 2009 period stood at US\$ 12.06 billion as compared to US\$ 11.5 billion in the corresponding period in the previous year.

The UAE, led by Dubai, is the largest destination for India's gems and jewellery, accounting for 31 per cent of the country's total exports, followed by Hong Kong (25 per cent) and the US (20 per cent).

Moreover, now The Gem And Jewellery Export Promotion Council is looking at tapping newer markets for diamonds and diamond jewellery, such as China, the Middle East and Russia.

Government Initiatives

The Indian government has provided an impetus to the booming gems and jewellery industry with favourable foreign trade policies:

- 100 per cent foreign direct investment (FDI) in gems and jewellery through the automatic route is allowed
- The government has lowered import duty on platinum and has exempted rough coloured precious gem stones from customs duty
- Rough, semi-precious stones are also exempt from import duty
- Duty-free import of consumables for metals other than gold and platinum up to 2 per cent of freight on board (f.o.b) value of exports
- Duty-free import entitlement for rejected jewellery up to 2 per cent of f.o.b value of exports
- Import of gold of 18 carat and above under the replenishment scheme
- Setting up of SEZs and gems and jewellery parks to promote investment in the sector
- In May 2007, the government abolished import duty on polished diamonds
- The government has raised the limit value of jewellery parcels for export through foreign post office (including via speed post) from US\$ 50,000 to US\$ 75,000 and the time period for re-import of branded jewellery remaining unsold has been extended from 180 days to 365 days
- The export of coloured gemstones on a consignment basis has been allowed.

The government has announced a series of measures to help gems and jewellery exports in the Foreign Trade Policy 2009-14.

- It has been decided to neutralize duty incidence on gold jewellery exports, to allow duty drawback on such exports.
- In an endeavour to make India an international diamond trading hub, it has been planned to establish "Diamond Bourses".
- A new facility to allow import of cut and polished diamonds on a consignment basis for the purpose of grading/certification purposes, has been introduced.
- To promote export of gems and jewellery products, the value limits of personal carriage have been increased from US\$ 2 million to US\$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has been increased from US\$ 0.1 million to US\$ 1 million.

The Road Ahead

- The Indian gems and jewellery sector is expected to cross US\$ 26 billion by 2012, driven by availability of huge base of skilled labour and improving lifestyle, according to a research report .
- Due to various government efforts and incentives, coupled with private sector initiatives, the Indian gems and jewellery sector is expected to grow at a CAGR of around 14 per cent from 2009 to 2012.
- The consumption of diamond jewellery in India is expected to touch US\$ 6.41 billion in 2012.
- State-run National Mining Development Corp (NMDC) plans to produce close to 100,000 carats of diamonds from the Panna diamond mines in Madhya Pradesh by 2010-11.

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