

# Gitanjali Gems Ltd

Shining bright

Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Gems and jewellery/specialty retail

Gitanjali Gems Ltd (Gitanjali) is an integrated gems and jewellery player with a prominent presence in cut and polished diamond exports as well as jewellery retailing. Having started as a diamond trader in 1966, the company is now a leading exporter of cut and polished diamonds. Also, it was one of the first to enter the branded jewellery space in India with the Gili range. We are positive about the prospects of branded jewellery retailing in India and Gitanjali's track record of successful retail expansion. However, we believe that the working capital-intensive diamond business will continue to put pressure on earnings and cash flows. We assign a fundamental grade of **3/5**.

## Prominent player in cut and polished diamond exports

Gitanjali is one of the largest exporters of polished diamonds, manufacturing 400,000 stones per month. In an intensely competitive and fragmented diamond processing industry, Gitanjali accounts for 3% of India's exports. The company exports 83% of its polished diamonds to the US, Belgium and China. We expect diamond prices to remain firm over FY12-14; Gitanjali stands to gain from the same.

## Pioneer in the branded jewellery segment in India

With the introduction of Gili in 1994, Gitanjali entered the branded jewellery space in India. It has also launched the Nakshatra and Asmi brands in collaboration with DTC and D'Damas with Damas LLC UAE. In FY11, these four major brands grossed Rs 23 bn.

## Long working capital cycle puts pressure on cash flows

For diamond processing, Gitanjali pays upfront for rough diamonds and extends about six months of credit. At the same time, it stocks about three months of rough diamond inventory, stretching the working capital cycle. While we expect the revenue mix to change in favour of jewellery, diamonds will likely have a significant share in the overall revenue mix and, hence, will continue to stress the working capital position. In the jewellery business, the distributor-focussed model necessitates inventory of two months and credit of three-four months, stretching the cycle further. We expect cash from operations to remain negative till FY14, though the quantum will be low.

## Revenues to grow at 20% CAGR, margins to remain stable

We expect overall revenues to grow at a three-year CAGR of around 20% to Rs 165 bn in FY14. We expect EBITDA margins to remain stable at ~7% over the next three years, higher than the past five years' average of 6.4%, due to change in revenue mix. We expect RoCE to improve from the current 11.7% to ~13% in FY12 and FY13 and further to 14% in FY14.

## Valuations – the current market price has strong upside

We have valued Gitanjali by the sum of parts method. We initiate our coverage on Gitanjali with a fair value of Rs 555 per share. At the current market price of Rs 394, the company is trading at 7.2x FY13E EBITDA and 6.0x FY14E EBITDA. Our valuation grade is **5/5**.

## KEY FORECAST

(Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Operating income	65,296	94,648	122,253	140,505	165,398
EBITDA	4,485	6,690	8,505	9,708	11,513
Adj PAT	2,003	3,359	4,660	5,310	6,731
Adj EPS-Rs	23.8	39.6	51.1	58.3	73.9
EPS growth (%)	25.7	66.5	29.2	14.0	26.8
Dividend yield (%)	1.7	1.2	0.9	1.0	1.5
RoCE (%)	9.0	11.7	13.3	13.2	14.2
RoE (%)	9.2	13.9	16.3	15.7	16.9
PE (x)	5.0	6.3	7.7	6.8	5.3
P/BV (x)	0.4	0.8	1.1	1.0	0.8
EV/EBITDA (x)	7.6	7.1	7.8	7.3	6.1

Source: Company, CRISIL Research estimate

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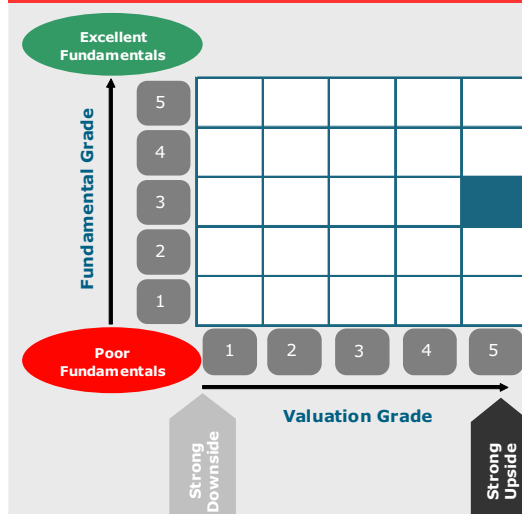


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Fair Value Rs 555

CMP Rs 394

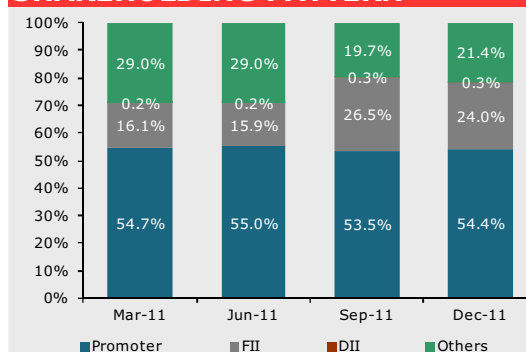
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	5607/18429
NSE/BSE ticker	GITANJALI
Face value (Rs per share)	10
Shares outstanding (mn)	91.1
Market cap (Rs mn)/(US\$ mn)	35,879/729
Enterprise value (Rs mn)/(US\$ mn)	61,960/1,259
52-week range (Rs)/(H/L)	387/171
Beta	1.5
Free float (%)	45.6%
Avg daily volumes (30-days)	1,265,718
Avg daily value (30-days) (Rs mn)	388.7

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Gitanjali	29%	17%	29%	67%
NIFTY	11%	17%	16%	2%

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