

Goldiam International Ltd | Fair Value:185

Shining Bright



MONARCH
NETWORK CAPITAL

We present an investment idea on Goldiam International Limited, a thinly researched stock with a fair value of Rs.185. Fortified by more than three decades of experience, the company is a leading supplier of exquisitely designed and luxurious diamond jewellery. The company has become the manufacturer of choice for many leading global branded retailers, departmental stores and wholesalers across America. Goldiam's fortune changed when it became one of the first movers to grow and distribute lab-grown diamonds (LGD), which today contributes close to 20% of its overall topline. LGD has immense potential as we move towards an alternative to natural diamonds.

- Moving away from traditional channels to affluent channels-** Goldiam International has always been ahead of the competition on innovation and overall strategy. What started as pure commodity play of cutting and polishing diamonds progressed to manufacturing diamond studded and gold jewellery. In short, it went from a wafer-thin margin business to a margin-accretive business. What changed the company's fortune was when it moved from traditional wholesale to retail channels. The traditional channel has a long credit cycle and lower margins, while a retail strategy is capital efficient and ensures quick turnaround and a better margin profile.
- Lab-based diamonds - shining bright-** The company was one the first movers to lab-based diamonds and is one of few fully backwards-integrated companies. It currently contributes close to 20% of the overall revenue of the company (Natural Diamond margins-20% and LGD~35%). Lab-based diamonds enjoy higher margins and are currently the fastest-growing trend in the jewellery market. Due to their features, lab-based diamonds are similar to natural diamonds (certified as real diamonds) but cost significantly less, making them the preferred choice for many first-time and aspirational buyers.
- Stands out in an industry with a besmirched reputation -** The jewellery industry has had its fair share of instances of value destruction (Gitanjali Gems, Winsome Diamonds, Nirav Modi etc.), the common thread being unmanageable debt and abysmal inventory management. In contrast, Goldiam is debt-free, has a strong dividend payout policy (50% of standalone PAT), done frequent buybacks and has a strong, independent board. It focuses more on the e-commerce channel with low credit and inventory risk.
- Valuation & Risks-** Goldiam has a presence both in natural and lab-based diamonds, catering to the US, the most prominent jewellery market in the world. The company's innovative strategy to focus on direct retail and e-commerce platforms has paid rich dividends with robust growth in its margin profile. Its decision to move towards lab-based diamonds early has made it one of the most preferred vendors to US retailers. We expect the company to post revenue growth of 12% CAGR over FY22-25E to Rs.9,775mn, with lab-based diamonds to grow at 42% and natural diamonds at 2% over the same period. EBITDA over the same period is expected to grow at 25% CAGR to Rs.2,525mn, while OPM is expected to improve by 690bps to 25.8%. PAT is expected to grow at 25% CAGR to Rs. 2,065mn. We currently value the stock at 11x Sept 24 EPS of Rs.16 to arrive at our fair value target of Rs.185, a potential upside of 48% from current levels.

Fair value	185	Key Data		
		Bloomberg Code	GLDM:IN	
CMP*	125	Curr Shares O/S (mn)	108.9	
		Diluted Shares O/S(mn)	108.9	
Upside	48%	Mkt Cap (Rsbm/USDmn)	13.65/171.3	
Price Performance (%)		52 Wk H / L (Rs)	217/117	
		3M Average Vol.	126211	
		1M	6M	1Yr
GOLDIAM	2.5	-5.9	-37.3	
Nifty	5.5	8.8	-0.4	

Source: Bloomberg, ACE Equity, MNCL Research

Shareholding pattern (%)

	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	66.39	66.39	66.39	66.39
DII's	NIL	NIL	NIL	NIL
FII's	NIL	NIL	NIL	NIL
Others	33.53	33.61	33.61	33.61

Source: BSE

Why should you read this report?

- How the E-commerce segment is changing the fortunes
- Why lab-based diamonds
- How India is the chosen country for lab diamonds

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	4,060	11.4%	781	19.2%	671	48.1%	6.2	14.4%	16.5%	20.4	14.3
FY22	6,877	69.4%	1,300	18.9%	1,060	58.0%	9.7	20.4%	24.7%	12.9	9.0
FY23E	5,785	-15.9%	1,349	23.3%	1,160	9.5%	10.6	19.6%	22.9%	11.8	7.8
FY24E	7,533	30.2%	1,859	24.7%	1,556	34.1%	14.3	22.7%	27.6%	8.8	5.6
FY25E	9,775	29.8%	2,525	25.8%	2,065	32.7%	18.9	25.7%	32.2%	6.6	4.0

Source: Company, MNCL Research estimates, Consolidated Financials

FAQS

What does Goldiam do?

Goldiam International Ltd was incorporated in 1986 and deals in the export of fine natural diamond studded jewellery, lab-grown diamonds, and lab-grown diamond studded jewellery. The company has three manufacturing plants in SEEPZ (SEZ in Andheri, Mumbai). The company was founded by the Late Mr Manhar Bhansali and is currently managed by his Son Mr Rashesh Bhansali (Chairman), and his grandson Mr Anmol Bhansali (Whole Time Director). Mr Rashesh Bhansali has been involved in the family business for the last 28 years and has vast experience in the field of Diamonds and Jewellery. Mr Anmol Bhansali is a Wharton School (University of Pennsylvania) graduate and has also acquired GEM130 and GEM230 certifications, constituting two-thirds of the 'Diamonds and Diamond Grading' course, from the Gemology Institute of America 2017. He has been in the business for the last six years.

What is the company's business model?

Goldiam International has a niche business model in jewellery; it is an OEM to renowned global retailers. Goldiam manufactures the latest trend, high-value diamond-studded jewellery (engagement and anniversary rings, wedding bands, bridal sets, fashion pendants, necklaces, earrings) in various designs and types and sells to leading global retailers, with a chain of stores as well as jewellery wholesalers, who, in turn, sell to smaller retailers.

The company manufactures jewellery in-house and is among the few players with a patent for the laboratory-manufacturing process of diamonds.

Goldiam is focusing on the e-commerce platform to enable it to reach a more extensive section of retailers and reduce its dependence on wholesalers. Besides the enhanced reach, e-commerce has higher margins and lower working capital days (10-30 days compared to 120-150 days for traditional sales channels).

Having a presence in lab-grown diamond manufacturing further, Goldiam is the only prominent integrated exporter of lab-grown diamond studded jewellery. Currently, the company derives nearly 80% of its revenue from natural diamonds and 20% from lab-grown diamonds.

What are lab-based diamonds?

Lab-grown diamonds are diamonds that were grown by scientists in a lab. They share the same chemical makeup as natural diamonds and are optically identical. The most significant differences between natural and lab-created diamonds are how they're made and how rare they are.

Are they Real?

Laboratory-grown diamonds share an identical chemical makeup to natural diamonds, consisting of pure carbon in a cubic crystalline form. The difference between lab-grown diamonds and natural diamonds is how they are formed. Natural diamonds form below the earth's surface over millions of years, whereas lab-grown diamonds can be created in a lab for a few weeks.

Cost difference

There is a huge cost difference between natural diamonds and LGD, with the latter being almost 60% cheaper than natural diamonds.

Market size and opportunity

LGDs market share is forecast to amount to 10% of the diamond market worldwide by 2030 from the current 3%.

- US\$ 29.2 billion – Market value of LGDs by 2025.
- India witnessed a sharp rise in lab-grown diamond exports worth \$443 million, which rose 102 per cent yearly. At the start of 2020, lab-grown diamond exports in India were up 60%, while natural diamond exports were down by 41%. Diamonds grown in labs represent a small portion of the market currently -- India shipped nearly \$24 billion of polished diamonds mined naturally last year.
- Currently, there are a few select companies which have the capabilities like Goldiam, which is fully backward integrated

How does the company stand out in an industry with a fair share of bad apples?

We believe the company is one of the rarest companies to be found in this space, which has seen huge value destruction (Gitanjali Gems, Winsome Diamonds, Nirav Modi etc).

The biggest reasons for the downfall for all the above companies, apart from various questionable activities, were that they were all heavy in debt, did not manage their inventory well and did not have a professional independent board.

Let's look at Goldiam and why they tick the boxes for so many reasons.

- The company has always been cash positive
- The company is debt free
- The company has a track record of rewarding shareholders with higher dividends and share buybacks. (50% of standalone profit is declared as a dividend, as a policy)
- Strong independent board, with the likes of Ajay Manharlal Khatlawala (senior partner at Little & Co and Mr Nipa Utpal Shah, director and founder of trust group on its board)
- Further, the company has strong policies in place in terms of inventory management and debtor days (in line with Seepz policy)
- Zero promoter pledge
- Promoter salary and commission within statutory levels

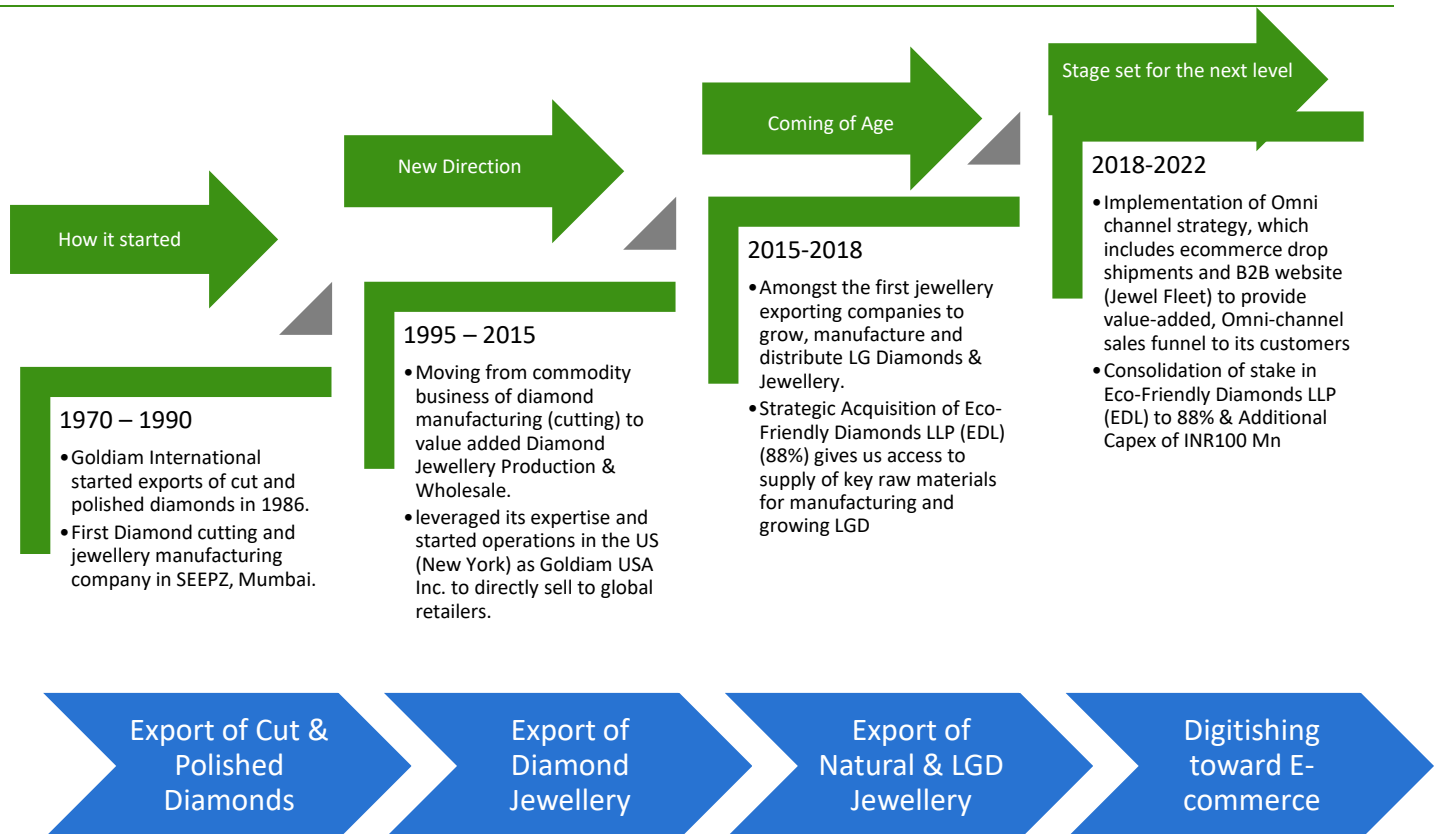
Moving Away From Traditional Channels- Leading to Better Operational Efficiency

The company made a conscious decision to move away from low margins business to better margins business.

Goldiam International has a niche business model in jewellery; it is an OEM to renowned global retailers. Goldiam manufactures the latest trend, high-value diamond-studded jewellery (engagement and anniversary rings, wedding bands, bridal sets, fashion pendants, necklaces, and earrings) in various designs and types and sells to leading global retailers, with a chain of stores as well as jewellery wholesalers, who, in turn, sell to smaller retailers.

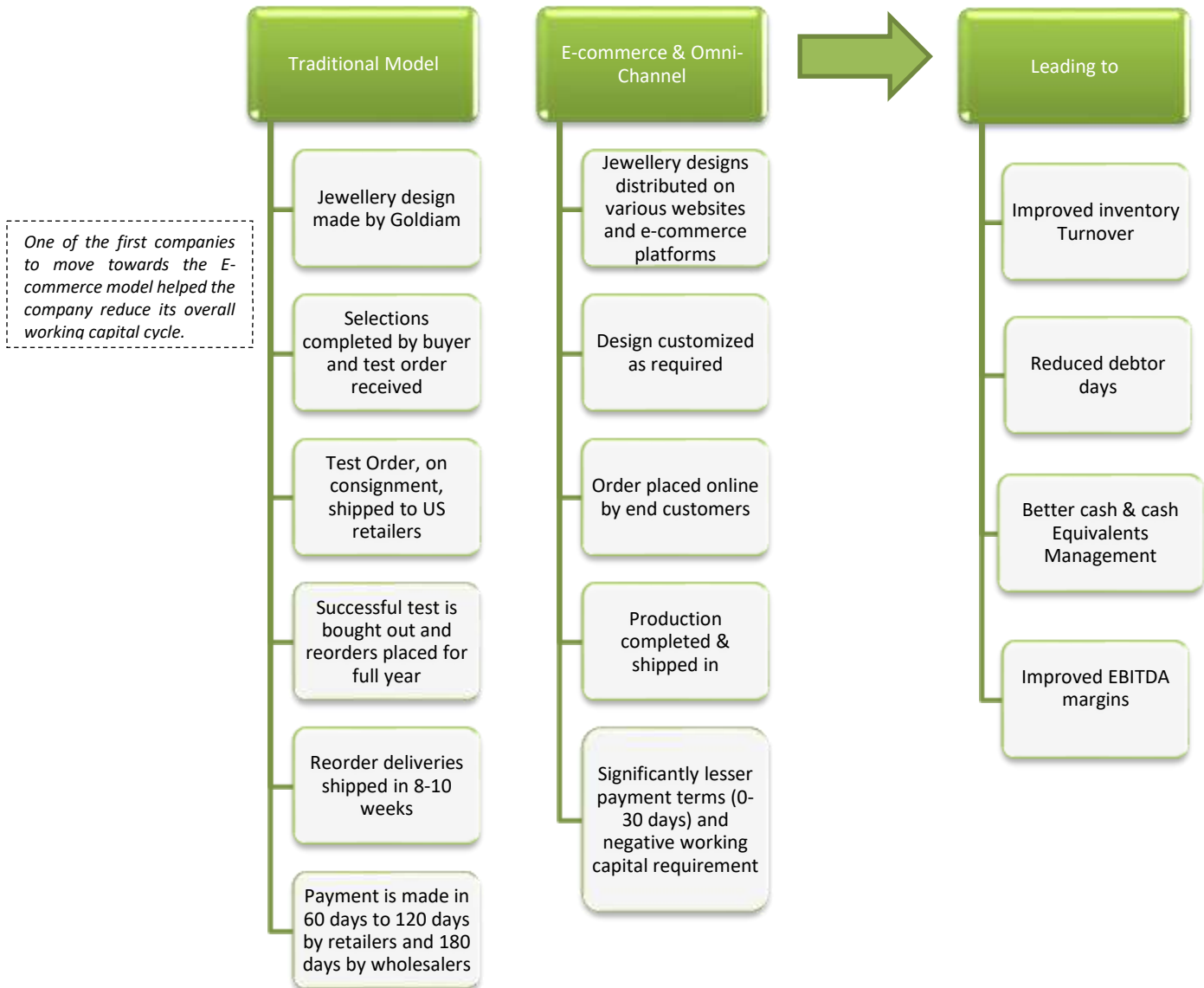
Goldiam, which commenced operations in 1988, has established substantial brand equity and has received various awards from the government for being a pioneer and role model in jewellery exports.

Exhibit 1: Evolution of Goldiam



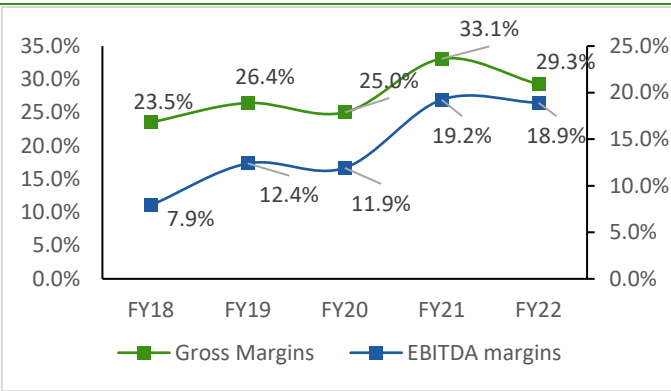
Source: Company, MNCL Research

Exhibit 2: Evolving Modus Operandi leading to Integrated Working Capital Optimisation



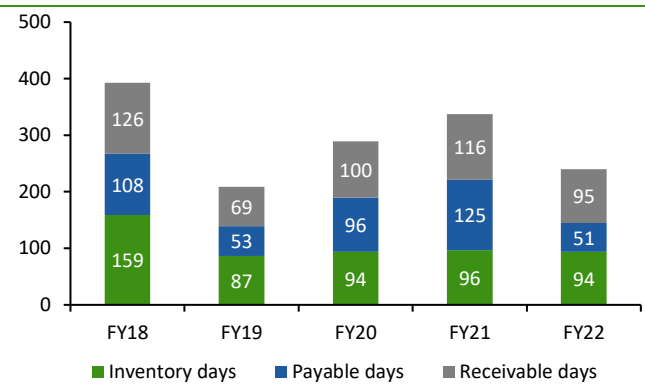
Source: Company, MNCL Research

Exhibit 3: Leading to Margin Improvement



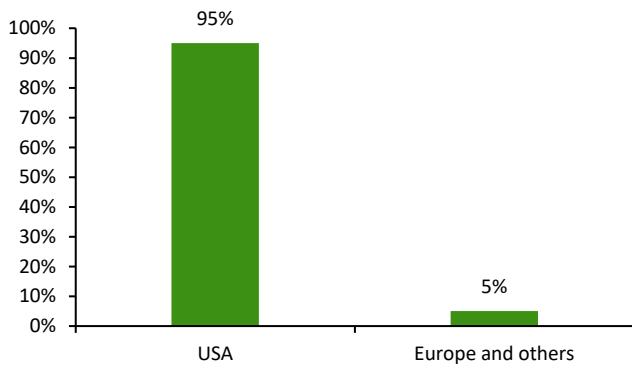
Source: Company, MNCL Research

Exhibit 4: Better Working Capital Cycle



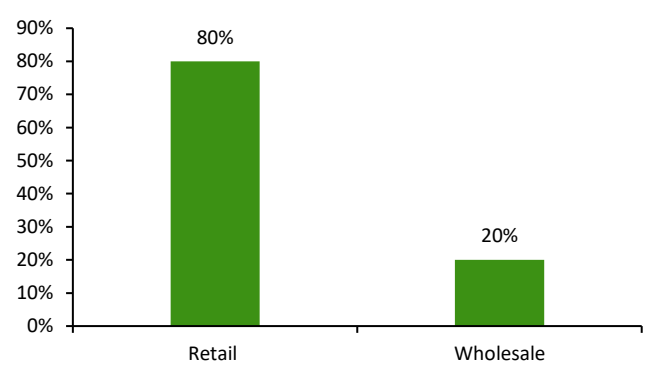
Source: Company, MNCL Research

Exhibit 5: Region-Wise Sales



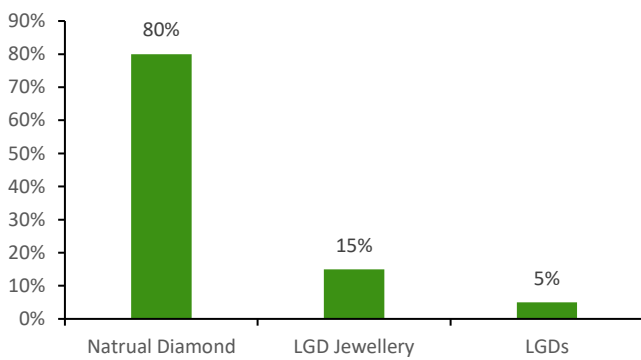
Source: Company, MNCL Research

Exhibit 6: Customer Breakup



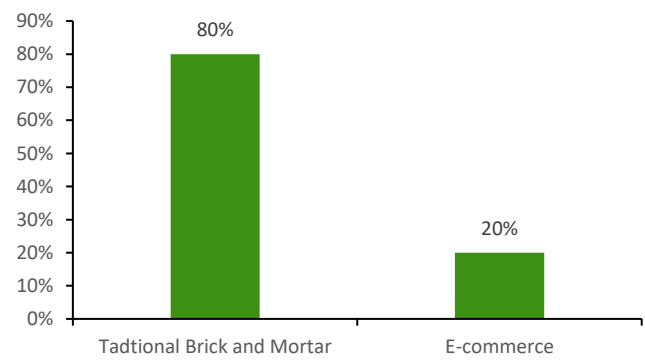
Source: Company, MNCL Research

Exhibit 7: Product Portfolio



Source: Company, MNCL Research

Exhibit 8: Sales Channel Mix



Source: Company, MNCL Research

Exhibit 9: Evolving its business towards higher EBITDA margins, better cash flow and improved ROEs



The company has constantly evolved its business towards higher margins. The constant innovation and backward integration have made Goldiam a preferred choice for a lot of vendors

Source: Company, MNCL Research

Goldiam has fully backward integration capabilities, with an in-house design team that identifies the emerging fashion trends for manufacturing jewellery, and it sources diamonds with pre-requisite norms in terms of cut, clarity, colour and carat. The company manufactures jewellery in-house and is among the few players with a patent for the laboratory-manufacturing process.

E-Commerce could potentially be a game changer for the company (currently contributes ~20%), with a negative working capital cycle

E-Commerce channel- strategic focus

Goldiam is focusing on the e-commerce platform to enable it to reach a more extensive section of retailers and reduce its dependence on wholesalers. Besides the enhanced reach, e-commerce has higher margins and lower working capital days (10-30 days compared to 120-150 days for traditional sales channels).

Goldiam has also scaled up its online business in the last few years, contributing almost 20% of the top line. In this business, the company caters to orders received via the e-commerce portals of large retailers. These orders are directly shipped to the end client by Goldiam, reducing the retailer's lead time and helping them optimise their inventory. The transaction's just-in-time nature and the handling of shipments help yield better margins versus bulk supply to physical stores. This is a negative working capital business as the payment terms are better than supply to physical stores.

Exhibit 10: How the E-Commerce business works



Source: MNCL Research

In times of COVID-19, people preferred to buy online, and the company is witnessing traction in e-commerce sales. Goldiam has managed to take the digital channel to about 20% of sales in a short period and aims to increase this to 30-40% of revenue.

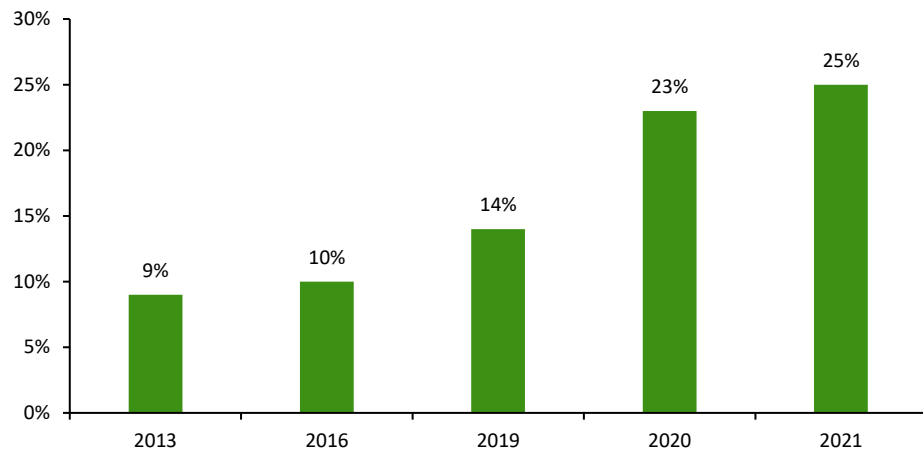
Online orders are processed and shipped faster than traditional brick & mortar orders, enabling the improvement of cash & cash equivalent. This leads to adverse working capital requirements due to favourable payment terms and allows higher returns. E-commerce reach empowers the company to cater to customers in regions with limited physical footprints.

Jewel Feet- A golden opportunity for Goldiam

The US jewellery market comprises prominent, organised players, accounting for nearly 60% of the market; the rest contains independent Mom & Pop jewellery stores. While the penetration across large retailers is quite suitable for Goldiam, it has a limited presence across independent jewellers. To address this market, the company has recently commissioned an e-commerce portal called JewelFleet. This portal will let small jewellers order existing/custom designs (1000+ SKUs) which will be manufactured and shipped within seven days to the jeweller.

Exhibit 11: Online sales for Jewellery in North America

Covid has accelerated the growth of E-Commerce for Jewellery in the American market, which is likely to continue going forward.



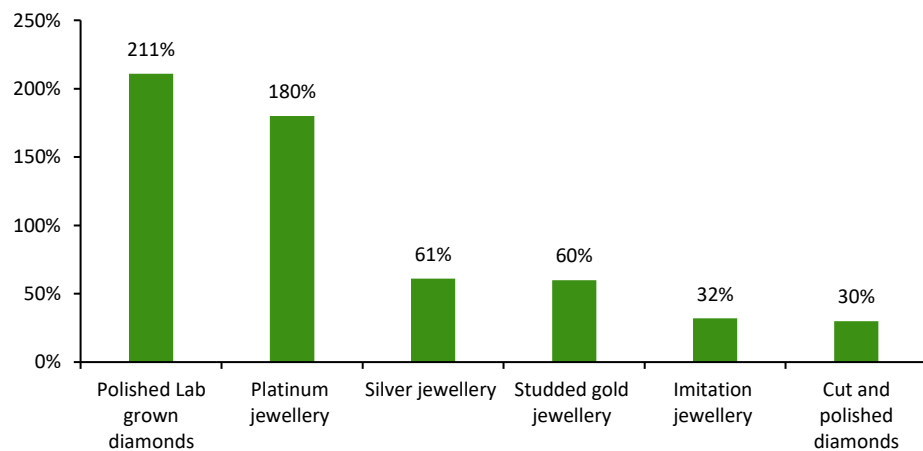
Source: Bain Capital, MNCL Research

Advantage India – when it comes to exports to the American market

India majorly exports cut & polished diamonds, lab-grown synthetic diamonds, coloured gemstones, synthetic stone, plain and studded gold jewellery, silver & platinum jewellery, imitation jewellery and articles of gold, silver and others. Western Region is a critical exporting hub for the gems and jewellery industry, contributing almost 77% of the total exports in 2021-22.

Exhibit 12: Gems and jewellery commodities export growth in 2021-2022 over 2019-2020

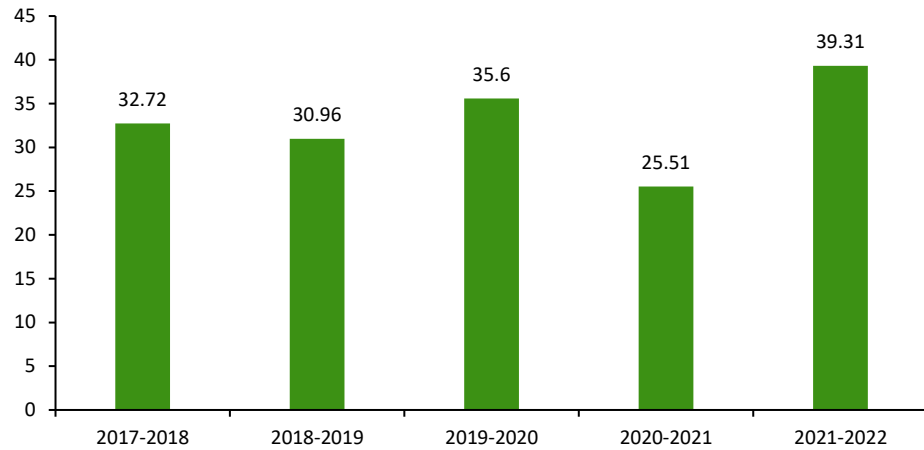
India is one the biggest exporters of gem and jewellery globally, accounting for 3.5% of the overall export opportunity.



Source: IBEF, MNCL Research

India's gems and jewellery exports account for about 3.5% of the world's total exports, making it the seventh-highest exporter globally. The country is ranked first in diamonds jewellery, silver jewellery and lab-grown diamonds & Synthetic stones with 29.0%, 22.0% and 32.7% share of the world's exports, respectively. India's gems and jewellery exports stood at US\$ 39.31 billion in the year 2021-22, which is higher than the pre-covid exports of US\$ 35.60 billion in 2019-20, recording a growth of 10.44%.

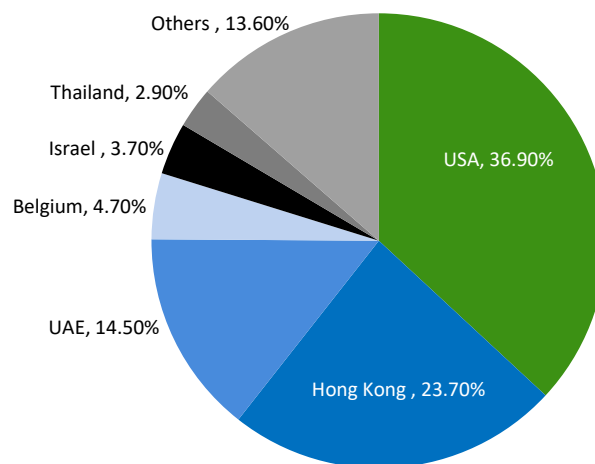
Exhibit 13: India's gems and jewellery exports (US\$ billion)



Source: IBEF, MNCL Research

India exports gems and jewellery to the USA, Hong Kong, UAE, Belgium, Israel, Thailand, Singapore, the UK, Netherlands, Japan, etc. The USA is the largest importer of Indian jewellery, with 2021-22 imports valued at US\$ 14.5 billion, growing from US\$ 8.7 billion of exports in 2020-21.

Exhibit 14: Export destinations



Source: IBEF, MNCL Research

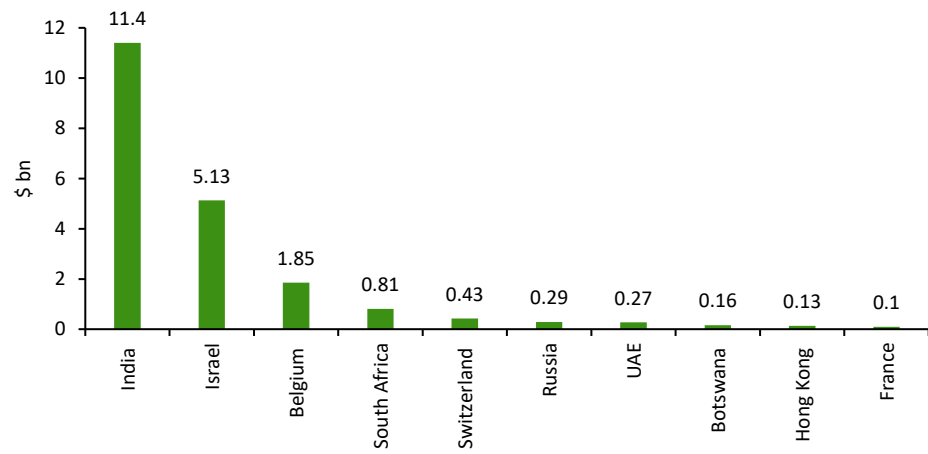
The US gets most of its diamonds from relatively few countries. According to diamond trade statistics published by the United States International Trade Commission, more than half of the polished diamonds imported into the US in 2021 were from India.

Israel was the second largest source of polished diamonds imported into the US. It accounted for a quarter of diamond imports by value. Belgium was the third largest source, with another 9% of polished diamond imports in 2021.

Collectively, these three countries supplied 87% of US diamond imports. Together with South Africa and Switzerland, five countries were the source of 92% of the diamond imports.

India is the biggest exporter to the American market

Exhibit 15: US polished diamonds imports by country, 2021 (Top 10)



Source: Edahn Golam, MNCL Research

Exports of polished lab-grown diamonds from India jumped about 70% in the April-July period to \$622.7 million, while those of cut and polished mined diamonds fell around 3% to \$8.2 billion during the same period.

Lab-Based Diamonds - Shining Bright

What are Lab-based Diamonds

Lab-grown diamonds are diamonds that were grown by scientists in a lab. They share the same chemical makeup as natural diamonds and are optically identical. The most significant differences between natural and lab-created diamonds are how they're made and how rare they are.

Are they Real?

Laboratory-grown diamonds share an identical chemical makeup to natural diamonds, consisting of pure carbon in a cubic crystalline form. The difference between lab-grown diamonds and natural diamonds is how they are formed. Natural diamonds form below the earth's surface over millions of years, whereas lab-grown diamonds can be created in a lab for a few weeks.

Initially, the acceptance of lab-grown diamonds was low as large diamond miners opposed it. But in 2018, in a ruling by the Federal Trade Commission in the US, lab-grown diamonds earned the status of being called diamonds, making them officially optically, physically and chemically equivalent to natural diamonds; however, to make it easier to distinguish between the two and avoid deceptive advertisement – the origin of the diamond had to be mentioned (why they are termed Lab-grown diamonds)

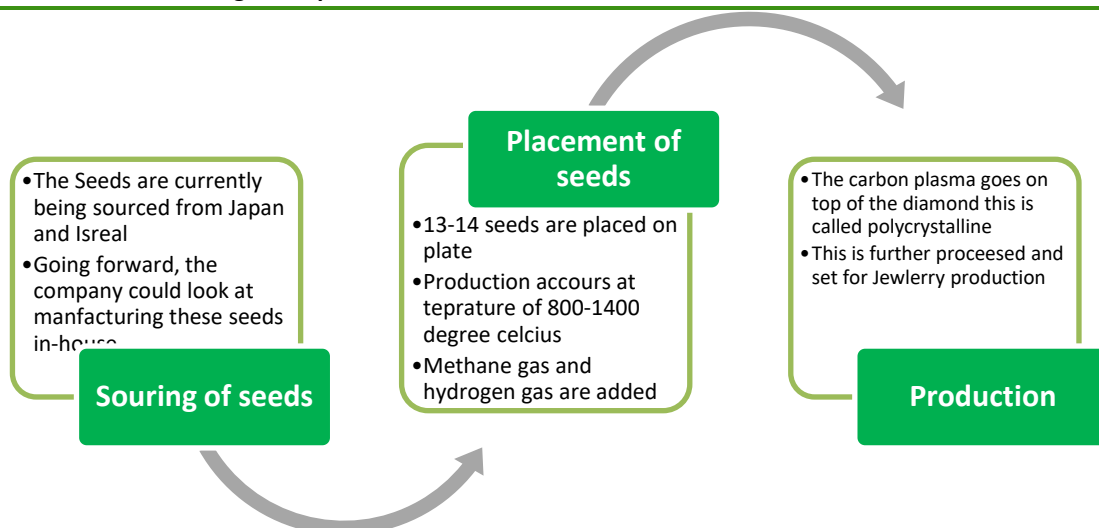
How are lab-based diamonds made?

There are a few methods used to create lab-grown diamonds. Typically, lab-grown diamonds start with a tiny lab diamond, like a seed. The seeds are placed in a chamber called a plasma reactor (in the case of CVD synthesis) or a large mechanical press (if manufactured by HPHT). Then, depending on the technology used, some combination of heat, pressure and a carbon source is used to make the crystals grow, layer by layer

- The CVD Method- CVD stands for chemical vapour deposition Lab-grown diamond seeds are loaded into a CVD reactor. Then, a mix of gasses containing carbon is added at very low pressure. Microwave energy is used to heat the gases and generate plasma. When the temperatures climb over several thousand degrees, the gas molecules break apart and carbon atoms bond to the seeds, growing them one layer at a time.
- The HPHT Method-HPHT stands for high-pressure high temperature This method mimics the conditions under which diamonds naturally form. Large mechanical presses are used to apply extreme pressure and high temperature to carbon in the presence of a diamond seed. The seeds act as a template for a lattice of carbon to grow layer by layer over the course of a few days.

Lab-based diamonds are 100% real diamonds. They offer a great alternative for first-time and environment-consensus buyers

Exhibit 16: How the manufacturing takes place



Source: MNCL Research

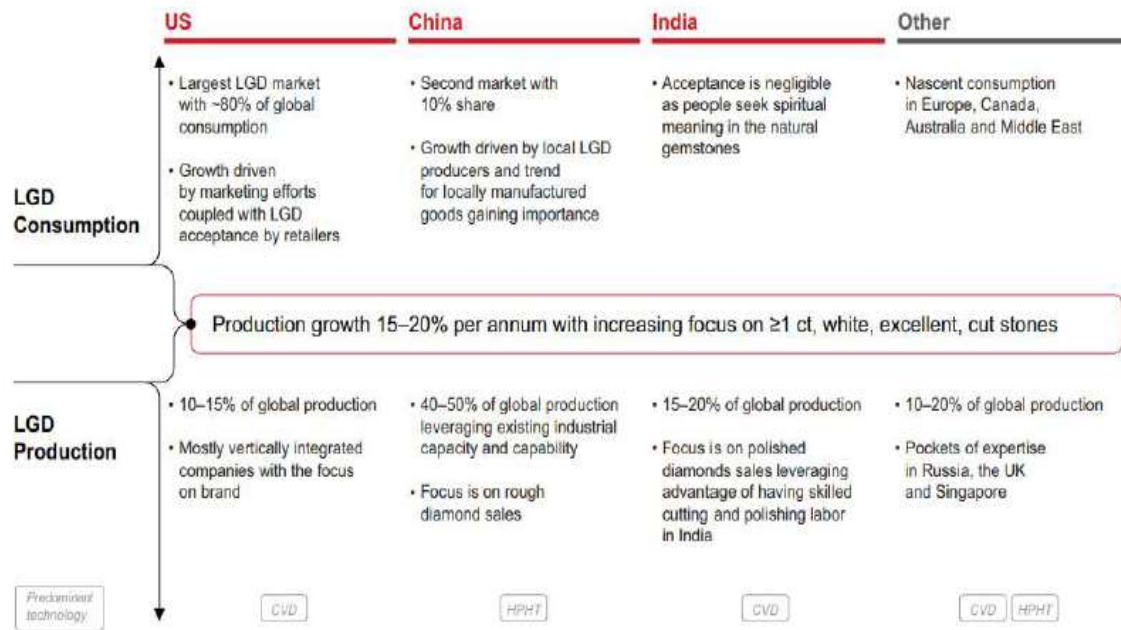
Exhibit 17: Difference between Natural Diamond, lab-Grown and Zirconia

Chemical composition	Natural Diamond	Lab-grown Diamond	Zirconia
	Carbon	Carbon	Zirconium dioxide
Diamond cut quality	graded on the scale of Excellent, Very Good, Good, Fair and Poor	graded on the scale of Excellent, Very Good, Good, Fair and Poor	graded through the A rating system (applies only to mass-produced machine-cut stones). They are Rated from A or 1A to AAAAA or 5A
Origin	Mined from Earth	Grown in laboratories	Synthetically created stone
Colour	Graded on a scale from D to Z. signifies a completely colourless stone, and Z means easily noticeable yellow or brown tint	Graded on a scale from D to Z. signifies a completely colourless stone, and Z means easily noticeable yellow or brown tint	Purely colorless and displays colorful flashes of light similar to moissanite
Clarity	Graded on FL to I3 clarity scale	Graded on FL to I3 clarity scale	This comes internally flawless
Weight	Hardest gemstones with a scale of 10 on the Mohs scale	Hardest gemstones with a scale of 10 on the Mohs scale	The hardness of cubic zirconia is 8.25-8.50
Durability	More durable in nature. They are not easy to break and do not get scratched easily	Similar to Natural	Less durable in nature. They are less heavy; hence it is easy to break and get scratches.
Sharpness	They have very sharp and facet edges when cut and polished	Similar to Natural	They have more rounded edges
Cost	These are the most expensive ones	These are comparatively less expensive than natural diamonds.	These are cheaper than Lab-grown diamonds also.
Certification	Certified by IGI and GIA	Same as natural	Not Certified

Apart from the cost lab-based diamonds are similar to natural diamonds. Both are certified by the IGI and GIA

Source: MNCL Research

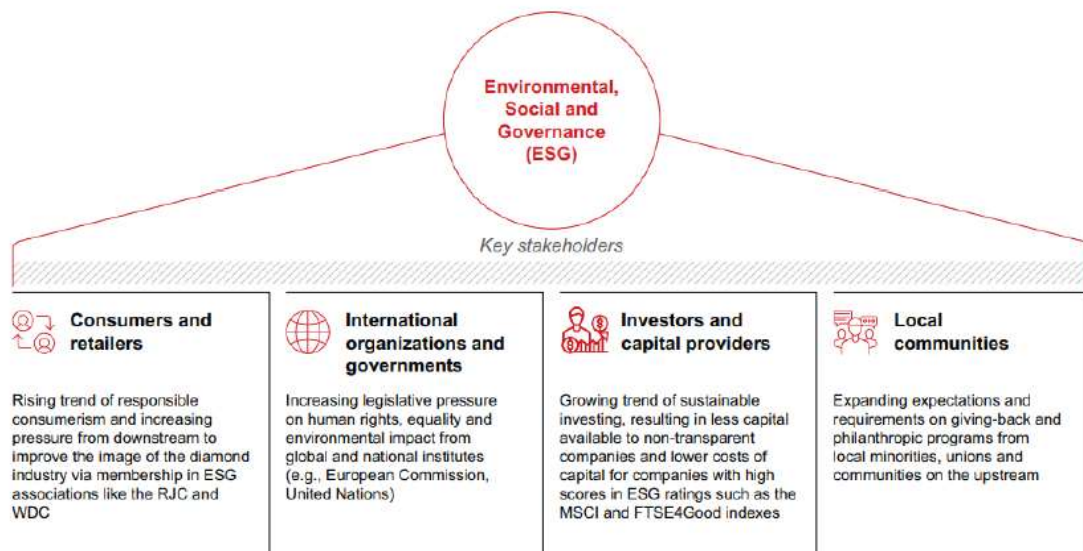
Exhibit 18: LGD Production and Consumption Dynamic



Source: Bain Capital, MNCL Research

Exhibit 19: Move towards Lab Grown Diamonds will be accelerated due to ESG Considerations

Move towards Lab Grown Diamonds will be accelerated due to ESG Considerations



Source: Bain Capital, MNCL Research

Growth of lab diamonds

LGDs are currently perceived as a distinct territory in the jewellery market, not a direct competition to natural diamonds. They offer a great entry point for customers aspiring to own natural diamonds..

At first, the American consumer market considered lab-grown an odd novelty at best. And often, a knockoff. But those common perceptions, widespread just five years ago, are changing.

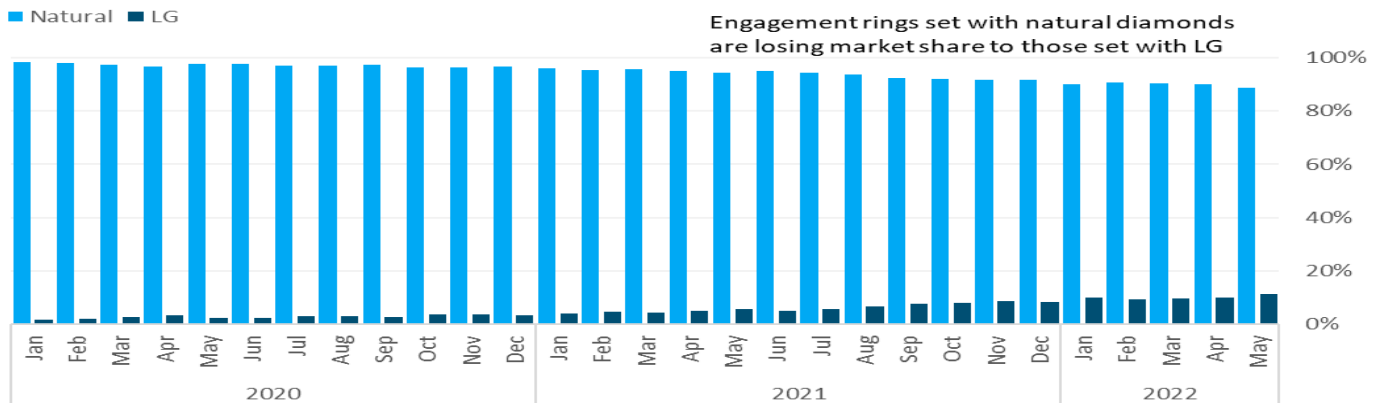
Today, many believe lab-grown represents a reasonable alternative, a full materialization of the natural diamond industry's fears. This view has been normalized by a growing number of mainstream retailers who added lab grown to their offerings after years of resistance and repeated claims that lab-grown is more ethical.

After a sluggish start in 2016-2018, the market share of lab-grown has constantly been growing. In 2020, it stood at 3% of combined diamond sales at US speciality jewellers. It grew to 5% in 2021 and currently exceeds 7%.

Lab-Based diamonds has expanded the overall offering for retailers, who are able to offer more products to its end consumer

Exhibit 20: Share of diamond rings sold in the United States

A Growing Desire for Engagement Rings Set with LG Share of Diamond Engagement Rings by Units Sold at Specialty Jewelers



Source: Tenoris. Analysis: Edahn Golan

EdahnGolan.com EG

Source: Tenoris, MNCL Research

The introduction of lab-grown diamonds has expanded the diamond jewellery market as now retailers can now sell larger caratage jewellery (earrings, necklaces and bracelets) which were considered price prohibitive (too expensive). Although there might be some cannibalization of sales, markets for both lab-grown and naturally mined would operate side-by-side and continue to grow. However, lab-grown is expected to grow faster.

Exhibit 21: Natural vs LCD- Engagement ring (Unit Metrics)

Natural vs LCD- Engagement ring	Natural	Lab-grown
Average Price	\$ 4512	\$ 3916
Average Price YoY	7.20%	14.30%
Gross Margin	48.60%	54.40%
Gross Margin YoY	5.10%	0.20%
Average Ct	0.84 cts	1.38 cts
Average CW YoY	-1.40%	4.90%
Value of sales YoY	-47.20%	0.80%
Market share / Unit per \$	89.5% / 90.4%	10.5% / 9.6%

Source: Edahn Golan, MNCL Research

Exhibit 22: Natural vs LGD- Loose

Natural vs LGD- Loose	Natural	Lab-grown
Average Price	\$ 7905	\$ 2930
Average Price YoY	12%	-6%
Gross Margin	35.80%	51.80%
Gross Margin YoY	5.10%	3.40%
Average Ct	1.21 cts	1.45 cts
Average CW YoY	1.40%	8.80%
Value of sales YoY	-43.30%	-18.80%
Market share	83.70%	16.30%

Source: Edahn Golan, MNCL Research

How the biggies are looking at lab diamonds

- **De Beers** (the world's largest diamond mining company) launched its own line of lab-grown diamonds – Lightbox – in anticipation of the disruption in the industry. Another global retailer – Pandora announced its plans to move from naturally mined to lab-grown diamonds.
- **Titan** (Tanishq & Caratlane.com) made an equity investment of US \$20 million in Clean Origin, an American retailer of LGDs and LGD jewellery, through its wholly-owned subsidiary TCL North America, Inc.
- **Signet**, (SIG) the most prominent jewellery company in the United States (which owns Zales, Kay Jewellers and Jared chains), called out the popularity of diamonds. Signet CEO Virginia Drosos states that lab-created diamonds are among the big jewellery trends she expects this year. The Company said it had expanded its man-made bridal jewellery selection in both its Zales and Kay Jewellers stores in response to the increased demand.
- **LUSIX**, a leading producer of lab-grown diamonds (LGD), today announced that high-profile investors, including LVMH Luxury Ventures, Ragnar Crossover Fund and More Investments, have completed an investment round of \$90 million. The Company will use this investment to fuel its growth initiatives, notably the expansion of its production capacity in Israel with a second 100% solar-powered state-of-the-art facility, which will commence production this summer. The new facility will enable LUSIX to better serve the increasing demand for LGD from its clients worldwide and from the overall industry.
- **Breitling** plans to create “end-to-end traceability” for its entire product portfolio by switching exclusively to lab-grown diamonds and artisanally mined gold over the next few years. The watchmaker will use only lab-grown in its timepieces by 2024. It will also contribute to a social-impact fund that supports diamond-producing communities for every carat purchased.

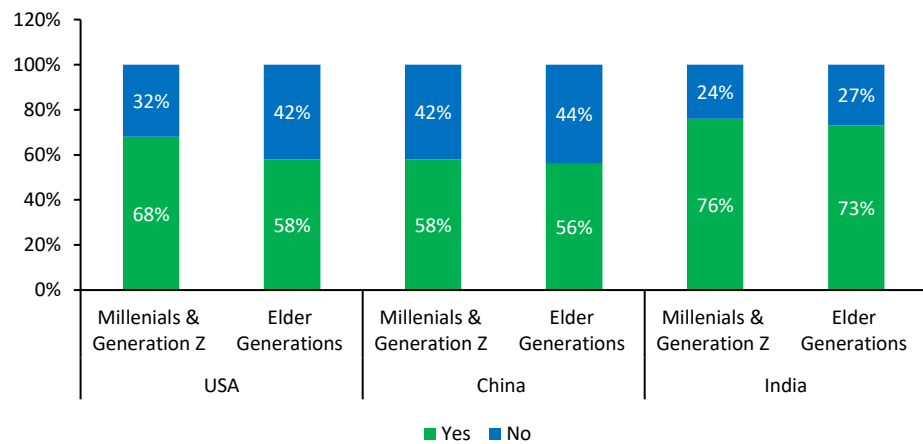
While we believe lab-based diamonds are here to stay, not as an alternative to Natural diamonds, but as an extended category, lab-based diamonds give a fantastic entry point to aspirational buyers/first-time buyers and consumers who are more sensitive to the environment.

Apart from the large jewellery companies, many end-user companies have moved towards Lab-based diamonds keeping in mind the ESG norms.

Exhibit 23: Could Sustainability Concerns Be Deal Breaker For You, While Buying Jewellery

For many consumers, where the product has been sourced does play an essential role for them while buying a product.

Increased knowledge about "blood diamonds" and mining concerns has accelerated the growth of lab-based diamonds.



Source: MNCL Research

How India looks at Lab based Diamonds

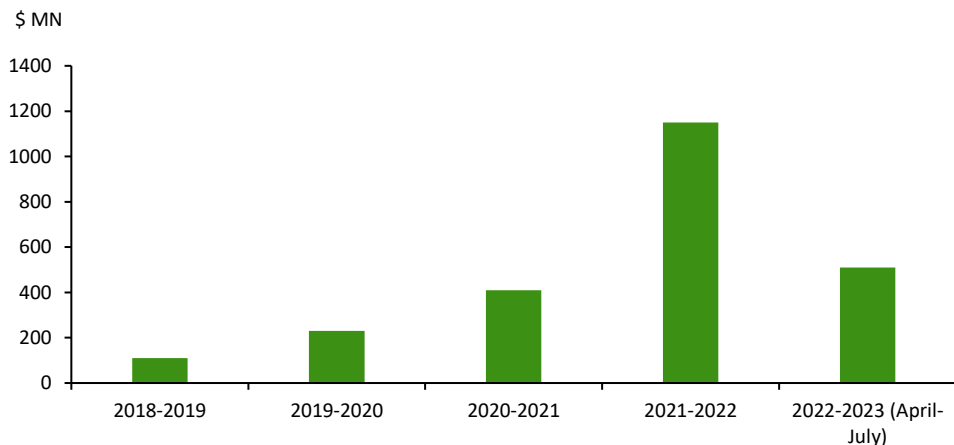
India, which cuts or polishes about 90% of the diamonds sold in the world, is ramping up sales of laboratory-made gems as demand from the US surges and they become more accepted in other markets.

Diamonds grown in labs represent a small portion of the market currently -- India shipped nearly \$24 billion of polished diamonds mined naturally last year. Still, the much cheaper variety has been growing its share as it has the same physical characteristics and chemical makeup as mined stones, with experts needing a machine to distinguish between synthesized and mined gems.

Exports of polished lab-grown diamonds from India jumped about 70% in the April-July period to \$622.7 million, while those of cut and polished mined diamonds fell around 3% to \$8.2 billion during the same period.

Exhibit 24: India export to the US for lab-based diamonds (Rs mn)

India is a shining star when it comes to manufacturing lab-based diamonds. From a handful of players, there are more than 25 growers in India.

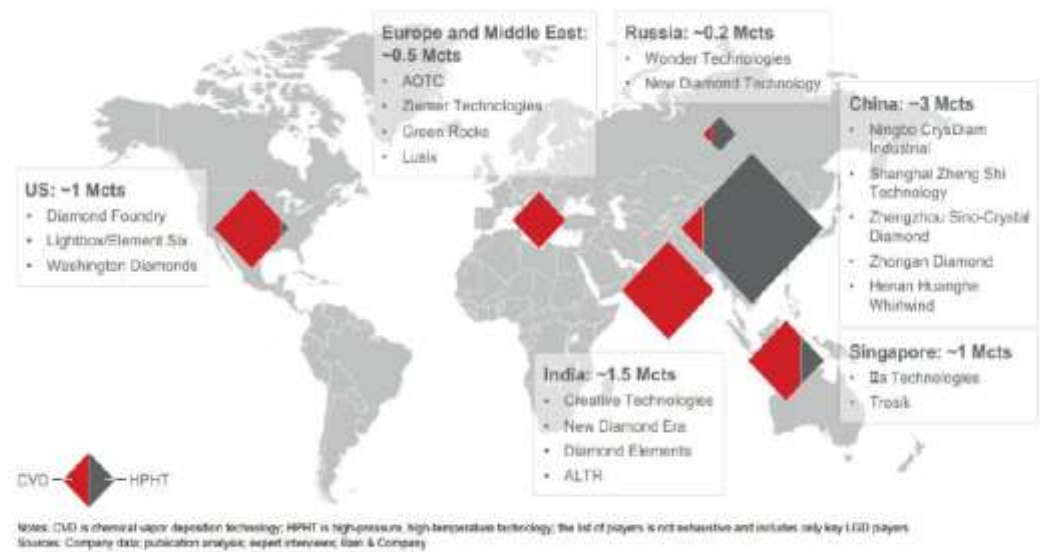


Source: MNCL Research

From a handful of companies growing diamonds in labs in the mid-2000s, there are now about 25 such growers in India. The country contributes about 15% of the global production of lab-grown diamonds. The government has permitted 100 per cent foreign direct investment (FDI) in the sector under the automatic route.

Exhibit 25: India Second largest producer of LGD

While India, might not be the biggest consumer for lab-based diamonds. It is logically the next big market for growers to capture.



Source: Bain Capital, MNCL Research

The Gemological Institute of America predicted the total annual sales of laboratory diamonds will be well over \$100 billion in the not-too-distant future, from about \$20 billion today. This segment of the diamond is growing at an annual growth rate of 15-20%.

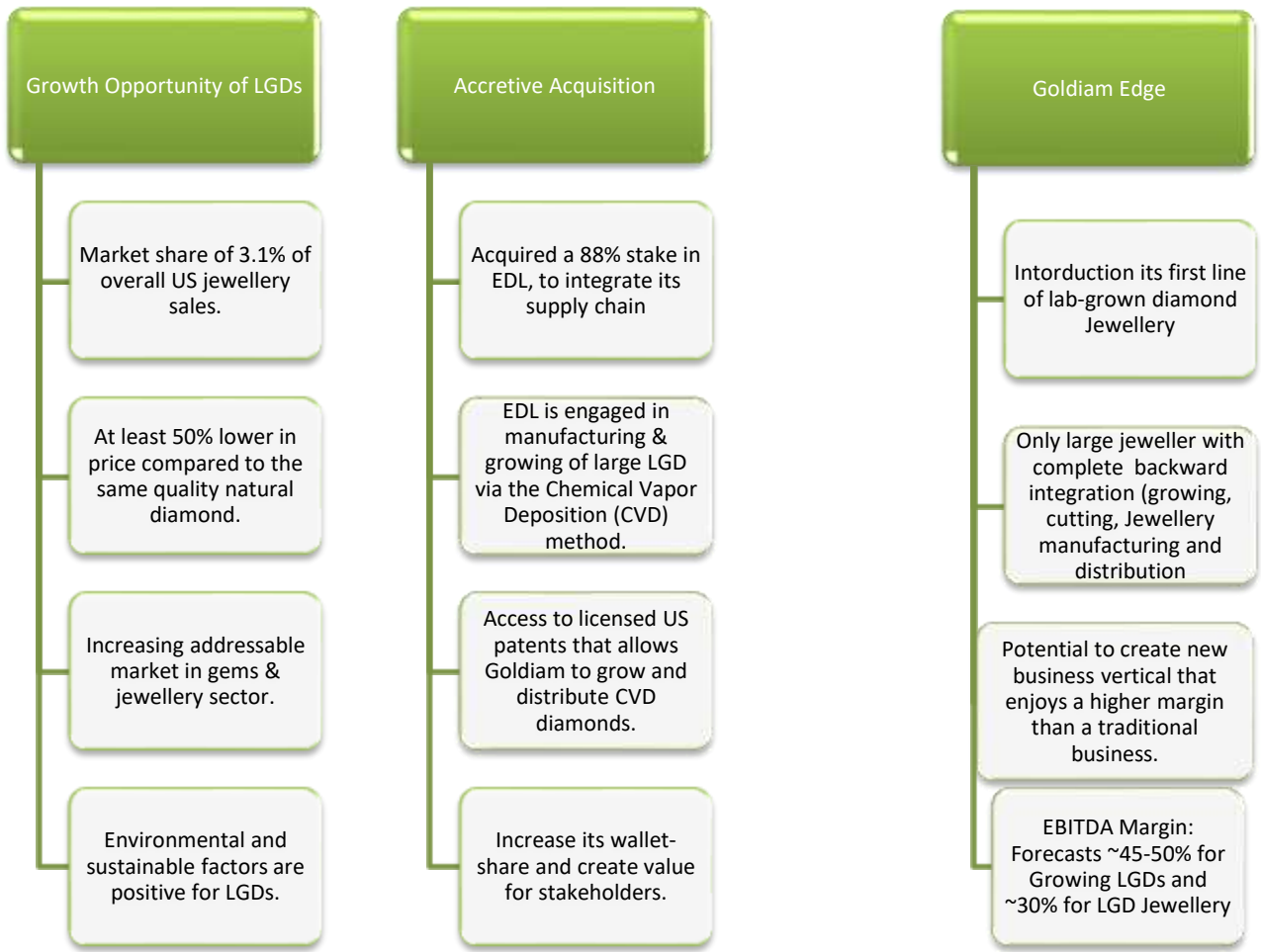
Where does Goldiam Stand??

The company was among the first jewellery exporting companies to grow, manufacture and distribute LG Diamonds & Jewellery. Goldiam made a strategic Acquisition of Eco-Friendly Diamonds LLP (EDL) (88%), giving them access to a supply of vital raw materials for manufacturing and growing LGD.

Having a presence in lab-grown diamond manufacturing further helps the parent company secure its diamond sourcing for stud jewellery. This makes Goldiam the only prominent integrated exporter of lab-grown diamond studded jewellery. This move comes at a very opportune time, as the trend around lab-grown diamonds has picked up significantly in the last few years.

One of the earlier adopters of lab diamonds. Goldiam is completely backwards integrated when it comes to manufacturing. Its strong relationship with consumers makes it one of the most preferred vendors.

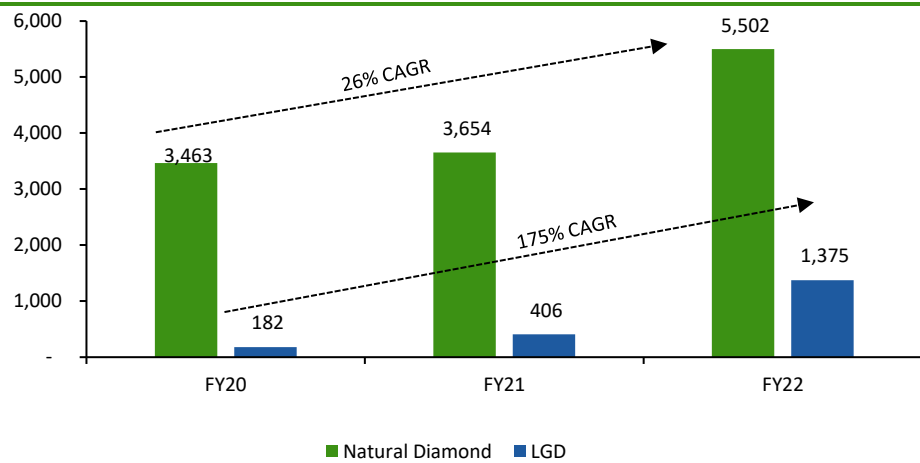
Exhibit 26: The Goldiam Edge



Source: Company, MNCL Research

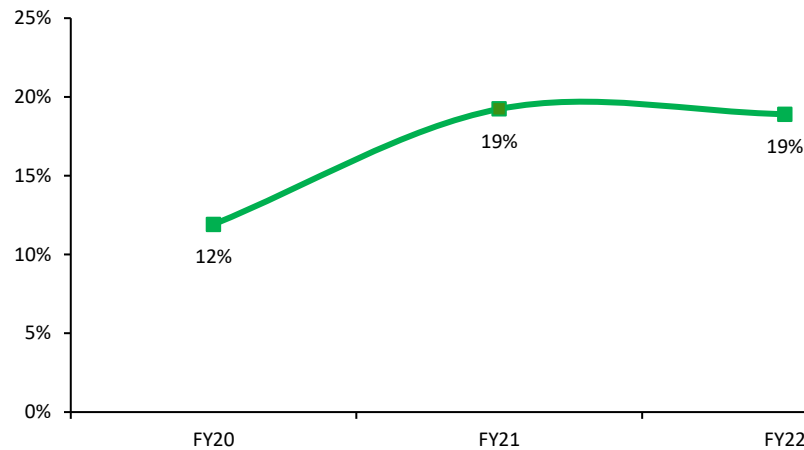
Exhibit 27: Revenue growth between Natural Diamonds and LGD

Lab-based diamonds have turned the fortune for Goldiam. With roust revenue growth and strong margin expansion



Source: Company, MNCL Research

Exhibit 28: Margin improvement was driven by growth in LGD



Source: Company, MNCL Research

While currently, Goldiam is only focused towards the American market. They are looking at entering the Indian market with lab-based products. Which could provide an additional fillip for growth

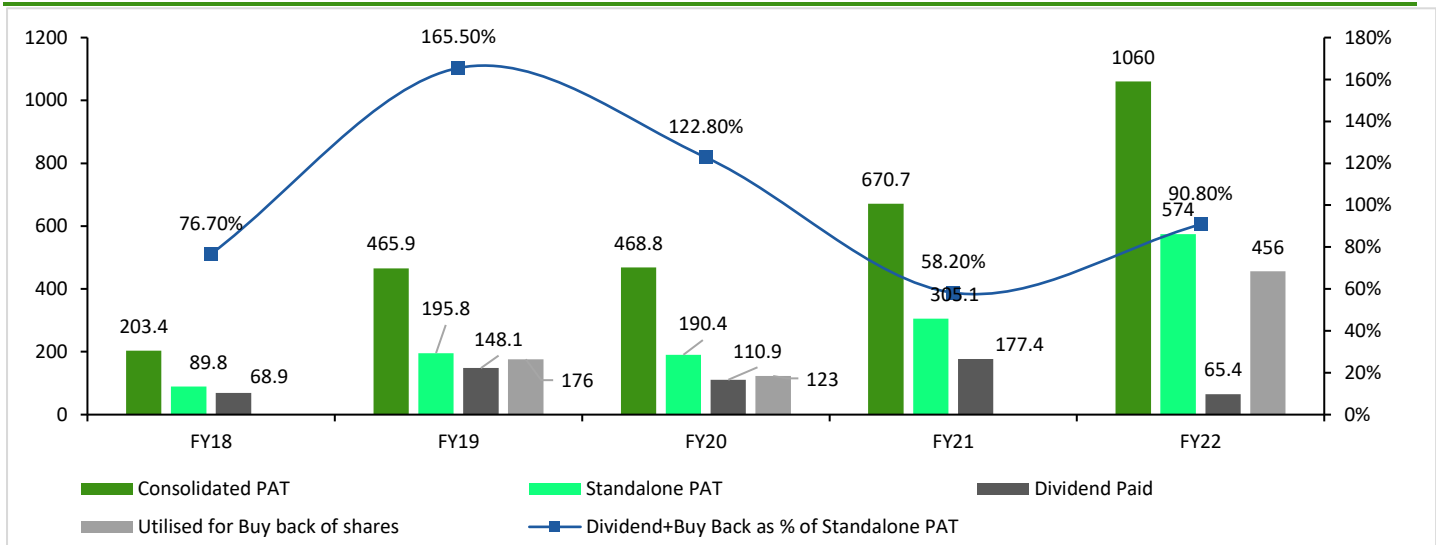
Going forward, we mainly see the share of lab-grown diamonds and lab-grown diamond jewellery improving further (~ 50% of topline in 4-5 years), while JewelFleet is difficult to guess (but quick scale-up here would change how financials look significantly).

In a nutshell, expecting further margin improvement and, in effect, RoCE improvement. While broader adoption of lab-grown diamonds may reduce the cost of diamonds further (earlier lab-grown used to be at 50-60% of the price of diamonds to now at 30-40%), it will surely increase its volumes (in terms of caratage)

Strong balance sheet- Constantly Rewarding Its Shareholder

Goldiam has a strong balance sheet with near-zero borrowings. It has cash and cash equivalents worth ~Rs 3000mn as of date. Goldiam strongly believes in remaining debt-free and carries on its business expansion through internal accruals.

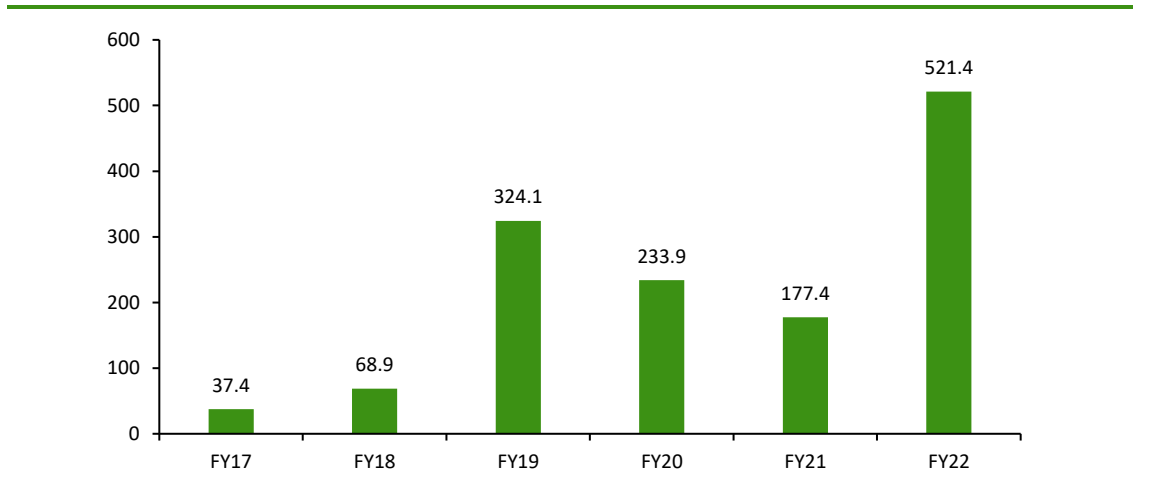
Exhibit 29: Distribution Policy: Creating Consistent Value for Stakeholders



Source: Company, MNCL Research

The objective of the Divided Distribution Policy: To ensure an equitable balance between the quantum of dividends paid out and the profits preserved for future growth. The company aim to maintain a ratio of 50% of the annual Standalone PAT to be either used for Dividends and/or Buy-back of shares, subject to the considerations of the parameters stated in this Policy.

Exhibit 30: Amount Utilised for Dividend & Buyback (Rs mn)

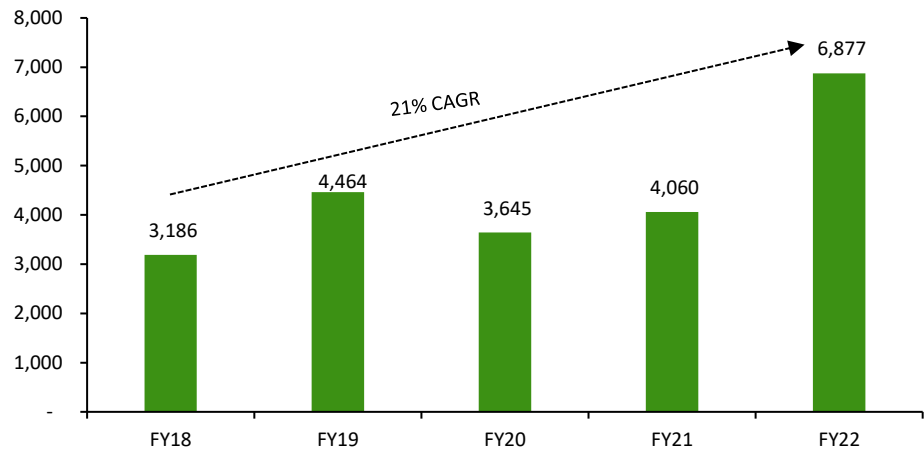


Source: Company, MNCL Research

Unlike the precedent perceived in the industry, Goldiam is one of the few companies which have constantly been rewarding its minority shareholders.

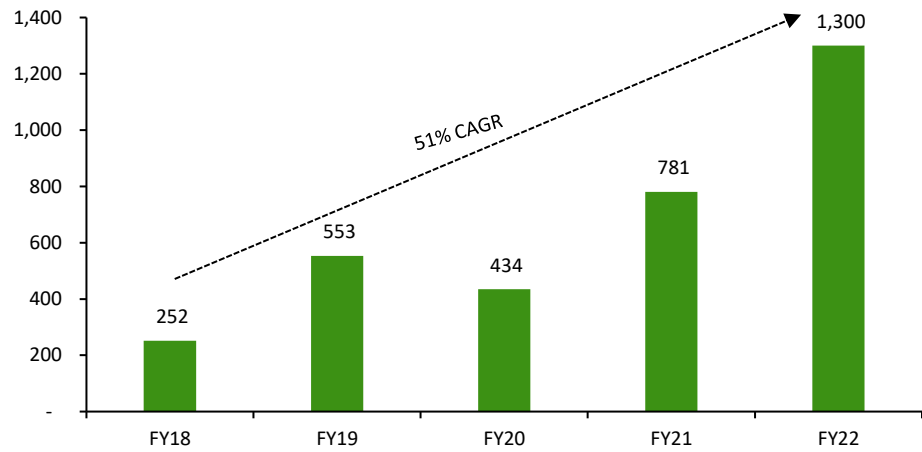
The company has zero-debt and well-manageable inventory days.

Exhibit 31: Revenue growth



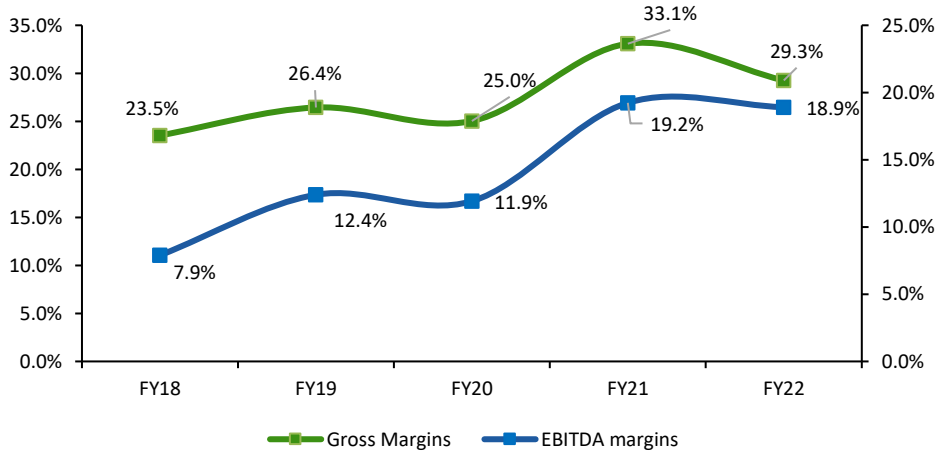
Source: Company, MNCL Research

Exhibit 32: EBITDA Growth



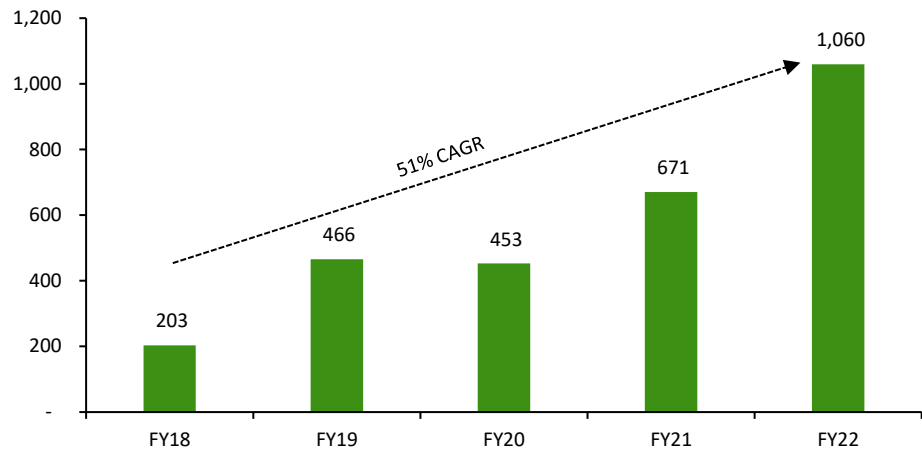
Source: Company, MNCL Research

Exhibit 33: Margin Profile



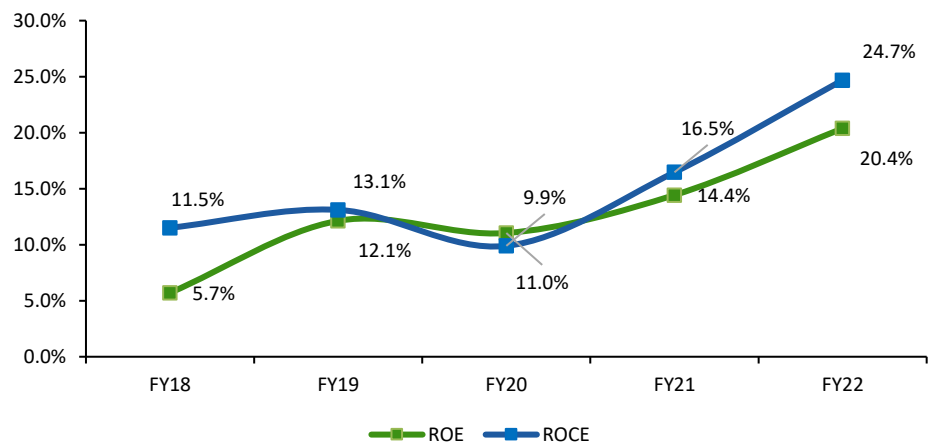
Source: Company, MNCL Research

Exhibit 34: PAT Growth



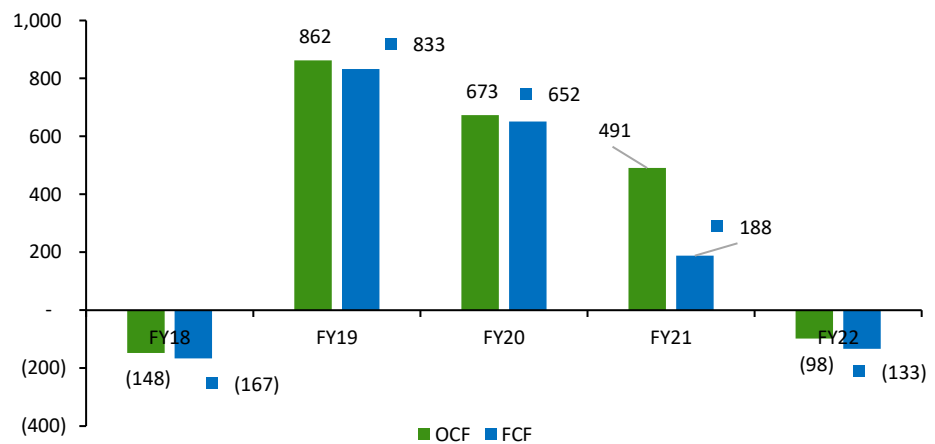
Source: Company, MNCL Research

Exhibit 35: Return Profile



Source: Company, MNCL Research

Exhibit 36: Cash Flow



Source: Company, MNCL Research

About The Company

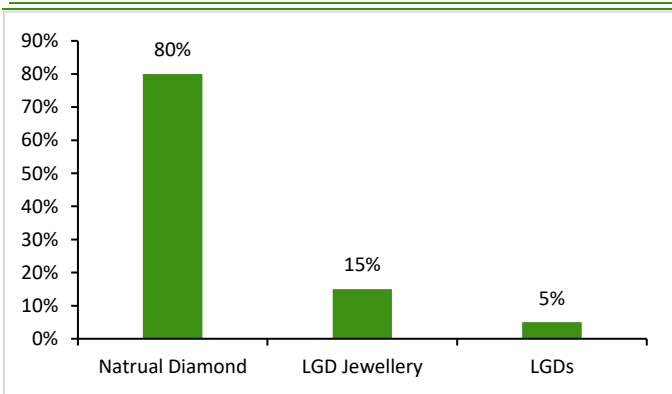
Goldiam International Ltd was incorporated in 1986 and deals in the export of fine natural diamond studded jewellery, lab-grown diamonds, and lab-grown diamond studded jewellery. The company has three manufacturing plants in SEEPZ (SEZ in Andheri, Mumbai). The company was founded by the Late Mr Manhar Bhansali and is currently managed by his Son Mr Rashesh Bhansali (Chairman), and his grandson Mr Anmol Bhansali (Whole Time Director). Mr Rashesh Bhansali has been involved in the family business for the last 28 years and has vast experience in the field of Diamonds and Jewellery. Mr Anmol Bhansali is a Wharton School (University of Pennsylvania) graduate and has also acquired GEM130 and GEM230 certifications, constituting two-thirds of the 'Diamonds and Diamond Grading' course, from the Gemology Institute of America 2017. He has been in the business for the last six years.

Exhibit 37: Group Structure



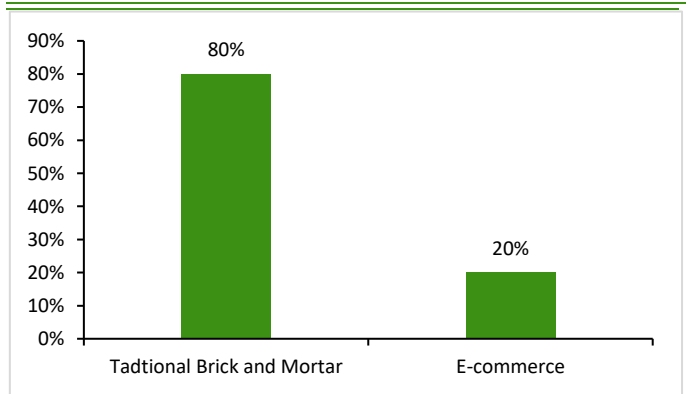
Source: Company, MNCL Research

Exhibit 38: Revenue Break up



Source: Company, MNCL Research

Exhibit 39: Distribution mix



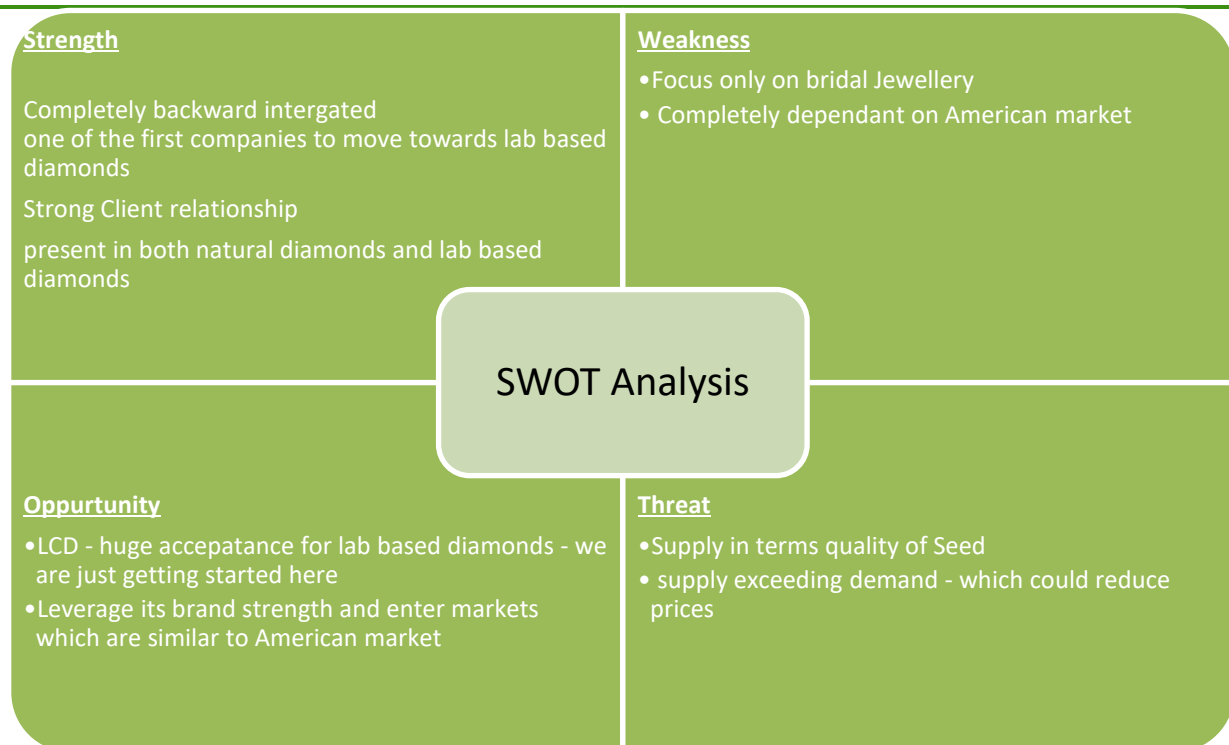
Source: Company, MNCL Research

Exhibit 40: Strong Board

Name of the director	Designation	Description
Rashesh Bhansali	Executive Chairman	Mr Rashesh Bhansali has over 28 years of rich and exhaustive experience in the field of diamonds & jewellery.
Anmol Rashesh Bhansali	Whole-time Director	Mr Anmol Bhansali has completed Bachelor of Science in Business Administration from Wharton School, University of Pennsylvania. Further, he also acquired GEM130 and GEM230 certifications, constituting two thirds of 'Diamonds and Diamond Grading' course, from Gemology Institute of America 2017.
Ajay Manharlal Khatlawala	Independent Director	Mr Khatlawala possesses rich experience of over 32 years in legal and Company law matters. He is Sr. Partner in Little & Co. since from 1991, where he is looking after the administration of the firm and rendering legal services to the clients of the firm.
Pannkaj Chimanlal Ghadiali	Independent Director	Mr Ghadiali is a practicing Chartered Accountant since 1979. Presently he is Managing Partner of P C Ghadiali and Co. LLP and specializes in Direct & Indirect Tax, and Information Technology. He was also the Chairman of Western India Regional Council of The Institute of Chartered Accountants of India for the year 1988-89.
Nipa Utpal Sheth	Independent Director	Mrs. Nipa Sheth is the director and founder of Trust Group, a leading full-service financial services house and a leader in the Indian Bond Market. She has been an integral part of the fixed income market for over 20 years.
Tulsi Gupta	Non-Executive, Non-Independent Director	Mrs. Gupta is a certified jewellery designer from Gemmological Institute of America (GIA) and has completed Business School MSc(Hons) in Innovation, Entrepreneurship and Management from Imperial College of London. Over the years, she has acquired wide knowledge & experience in the field of diamonds & jewellery

Source: Company, MCNL Research

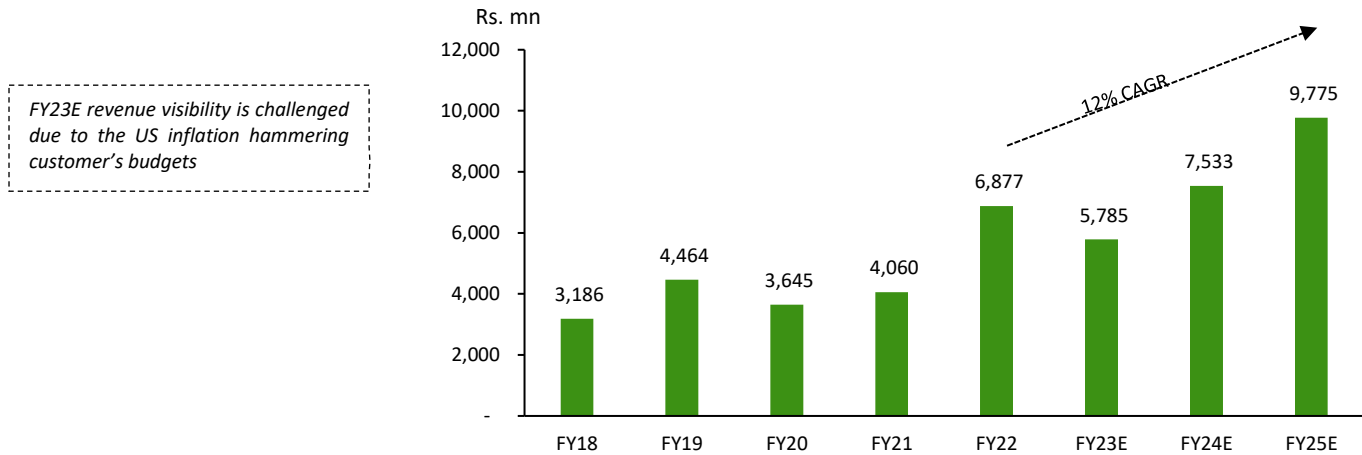
Exhibit 41: SWOT Analysis -



Source; Company, MNCL Research

Financial Analysis

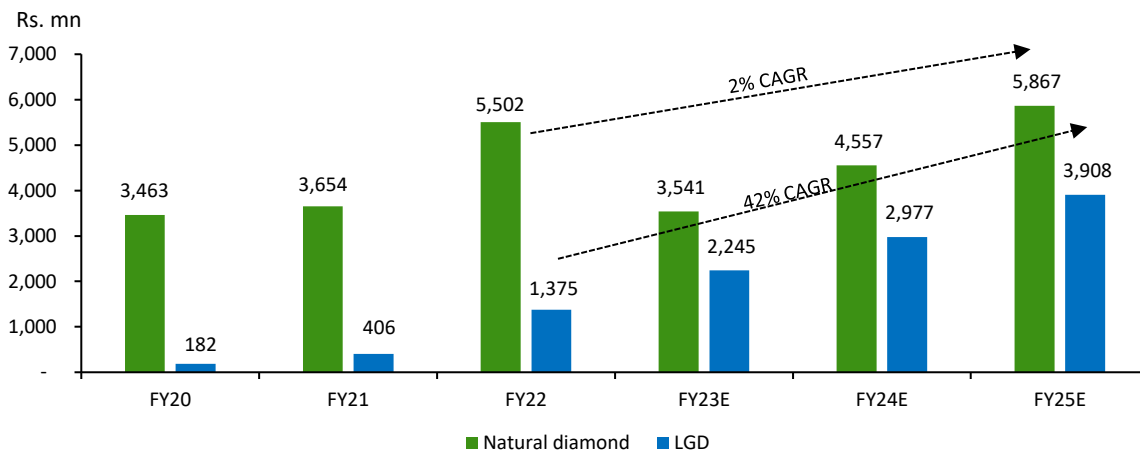
Exhibit 42: Revenue Growth



Source: MNCL Research Estimates

We expect the company to post revenue growth of 12% CAGR over FY22-25E. The company witnessed robust growth in FY22 (~70% YoY). We expect FY23E to be muted given the slowdown in the US market, however over the medium term, we expect the company to grow its revenue at 12% CAGR driven by lab-based diamonds.

Exhibit 43: Revenue Break up

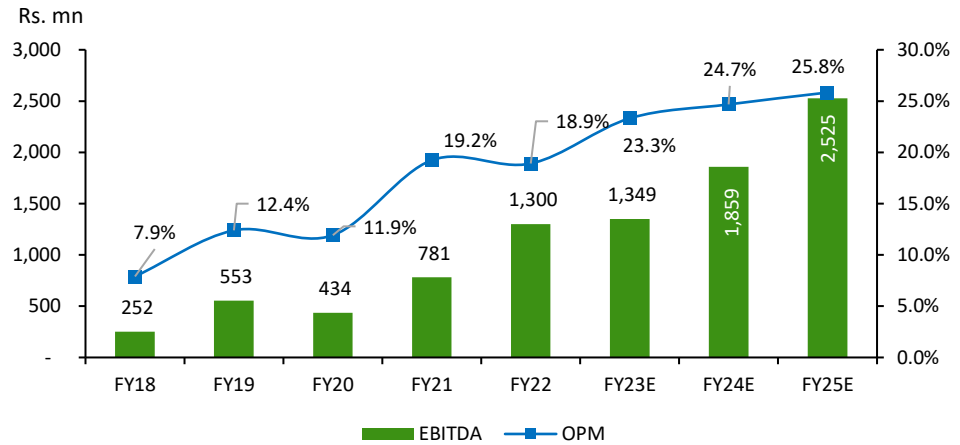


Source: MNCL Research Estimates

We expect LGD to post a growth of 42% CAGR and contribute close to 40% of overall revenue (20% currently) on the back of greater acceptance and an increase in first-time buyers. While Natural diamonds are likely to grow at a CAGR of 2%, which is a consensus decision the company made to reduce its natural diamond presence. The company is also looking at potentially entering the Indian markets, which could provide an additional fillip to revenue; it could also look at the potentially inorganic opportunity.

Exhibit 44: EBITDA and OPM Growth

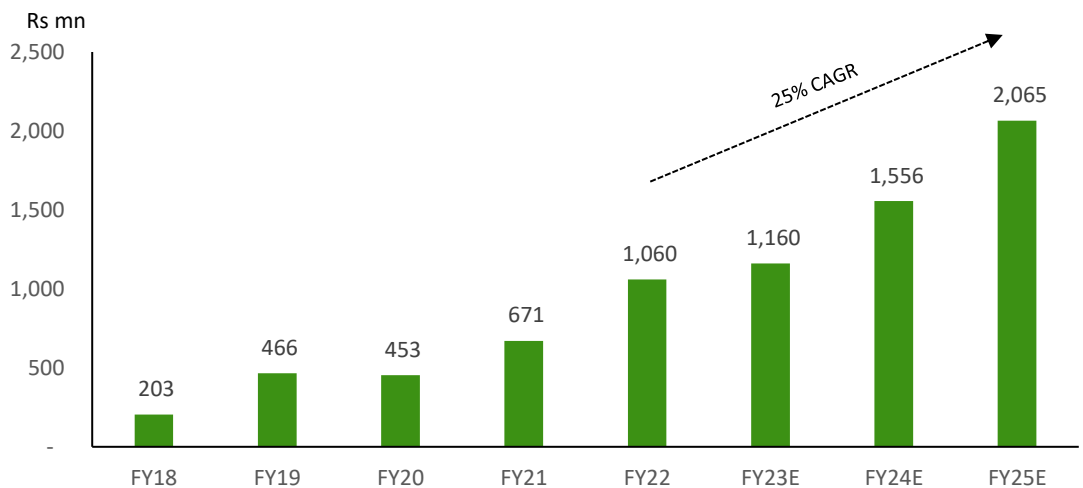
While revenue growth is likely to be challenged in FY23E, we expect a robust improvement in OPM on the back of an increase in the contribution of lab-based diamonds



Source: MNCL Research Estimates

We expect the company to post an EBITDA growth of 25% over FY22-25E, While margins are likely to improve by 690 bps to 25.8% driven by growth in the lab- diamonds and move toward an e-commerce platform.

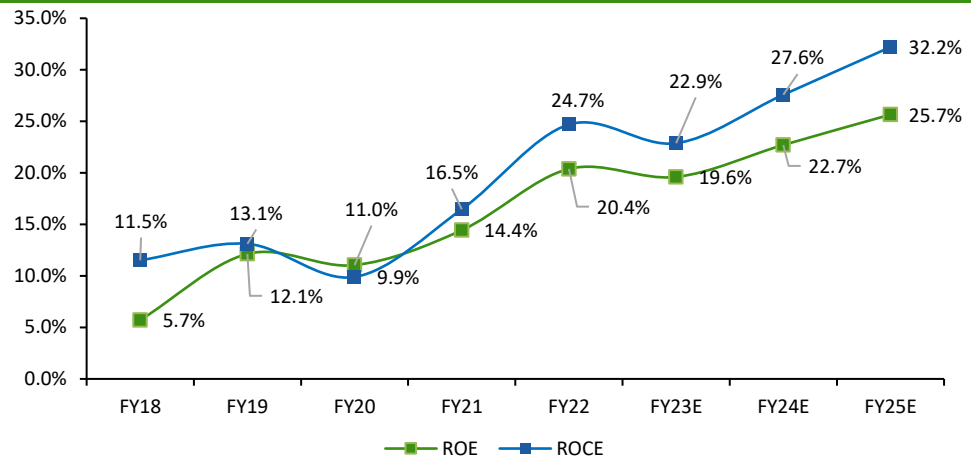
Exhibit 45: PAT Growth



Source: MNCL Research Estimates

We expect the company to post a PAT growth of 25% over the same period led by strong operating leverage

Exhibit 46: Return Ratios



Source; MNCL Research Estimates

The company has improved its return profile over FY20-21, and we expect that trend to continue going forward.

Exhibit 47: DuPont Analysis

DuPont Analysis	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit to sales	12.4%	16.5%	15.4%	20.1%	20.6%	21.1%
sales to asset	0.72	0.66	1.09	0.83	0.94	1.04
Asset to Equity	1.23	1.32	1.22	1.17	1.17	1.17
ROE	11.0%	14.4%	20.4%	19.6%	22.7%	25.7%

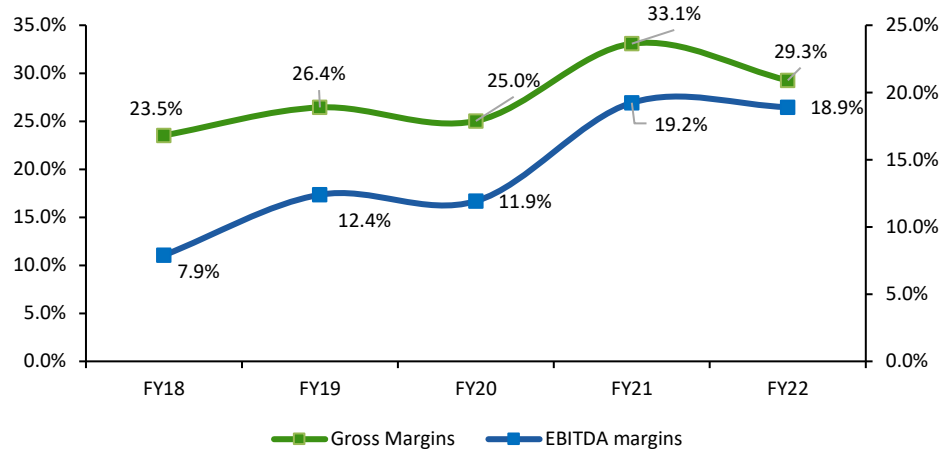
Source: MNCL Research Estimates

Valuation - Bright Future For Both Lab Based Diamonds and Natural Diamonds

Goldiam International has always been ahead of the competition regarding innovation and its overall strategy. What started as pure commodity play of cutting and polishing diamonds to manufacturing diamond studded diamonds and Gold jewellery. In short, it went from a wafer-thin margin business to a margin-accretive business.

What changed the company's fortune was when it moved from traditional wholesale to retail channels. The conventional channel has an extended credit cycle and lower margins, while a retail strategy is capital efficient and ensures quick turnaround and a better margin profile.

Exhibit 48: Margin Improvement



Source: MNCL Research

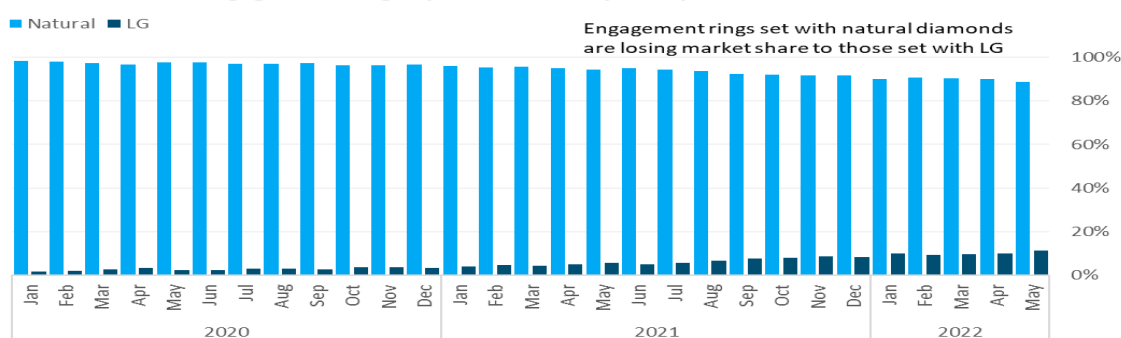
Given the company's heritage and the level of innovation, they were the first one to move towards lab-based diamonds, with the company acquiring a 88% stake (in two stages – 51% in Dec 2020 and a further 37% on June 21; remaining 12% owned by technology partners) in Eco-Friendly Diamonds LLP. Having a presence in lab-grown diamond manufacturing further helps the parent company secure its diamond sourcing to stud jewellery. This makes Goldiam the only significant integrated exporter of lab-grown diamond studded jewellery. This move comes at a very opportune time, as the trend around lab-grown diamonds has picked up significantly in the last few years.

We believe lab-based diamonds not only offer consumers a chance to buy a higher cartage diamond at a slightly lower cost, but it attracts aspirational buyers and the high-spending middle class, with the likes of De Beers (the world's largest diamond mining company) and Pandora also entering the lab diamond space, it clearly shows the relevance it could potentially have.

What sets LGDs apart from other synthetic diamonds is that they are grown by simulating the conditions of a natural diamond's growth.

Exhibit 49: Greater Shift Towards Lab Based Rings

A Growing Desire for Engagement Rings Set with LG Share of Diamond Engagement Rings by Units Sold at Specialty Jewelers



Source: Tenoris. Analysis: Edahn Golan

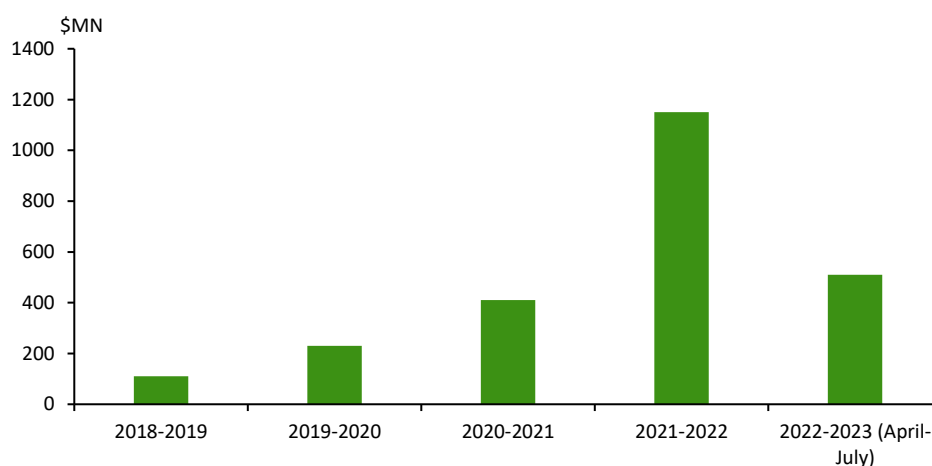
EdahnGolan.com EG

Source: Tenoris

The Gemological Institute of America predicted the total annual sales of laboratory diamonds will be well over \$100bn in the not-too-distant future, from about \$20bn today. This segment of the diamond is growing at an annual growth rate of 15-20 %

We believe lab diamonds are not exactly offering an alternative to natural diamonds but are offering a mere product extension. While in the foreseeable future, lab-growth diamonds are likely to proliferate. Once lab-grown diamonds as a product reach maturity, consumers will likely view natural and lab-grown as different products, so demand will be driven much more by marketing and not product availability.

Exhibit 50: India Leading The Trend Towards Lab Based

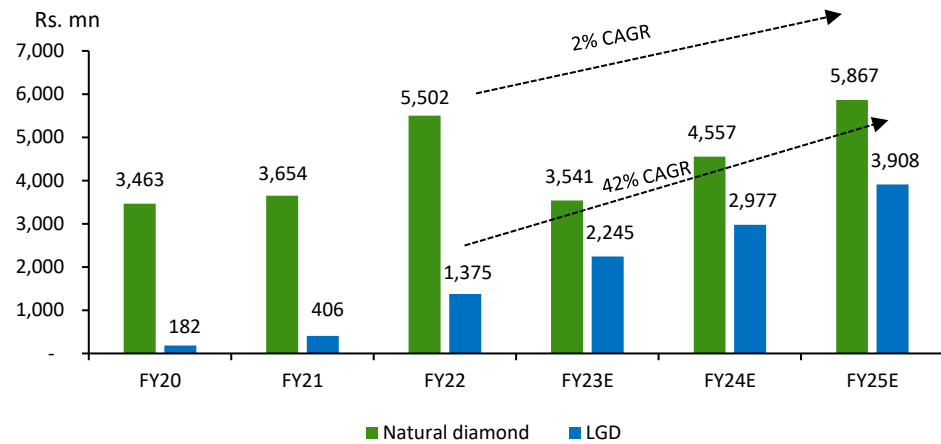


Source: MNCL Research

Exports of polished lab-grown diamonds from India jumped about 70% in the April-July period to \$622.7 mn, while those of cut and polished mined diamonds fell around 3% to \$8.2bn during the same period, GJEPC data showed.

We believe this is likely to be a driving force for Goldiam in the next couple of years, given there are very companies currently which have the capabilities that of Goldiam in terms of being an end-to-end producer. The company is also talking with a few retailers to make lab-based diamonds exclusively for them, which guarantees supply and orders for Goldiam.

Exhibit 51: Revenue Mix – A Greater Shift Towards Lab Based Diamonds



Source: MNCL Research Estimates

While lab-based diamonds are still primarily restricted to the American market, India, with the largest population of millennials in the world, is perceived to become the largest market for lab-grown diamonds in the future, given the changing spending patterns, where jewellery is not only considered from an investment point of view but more as a fashion product. Given this, Goldiam could look at entering the Indian market with standalone stores for lab diamonds in the not-so-distant future, which we believe could be the next logical step. Additionally, it could look at an inorganic opportunity in the future to increase the addressable market size.

Exhibit 52: Jewellery sales continue to slip on the back the of high base



Source- Tenoris

Exhibit 53: While Demand for Natural Diamonds is falling, Lab-based continues to rise

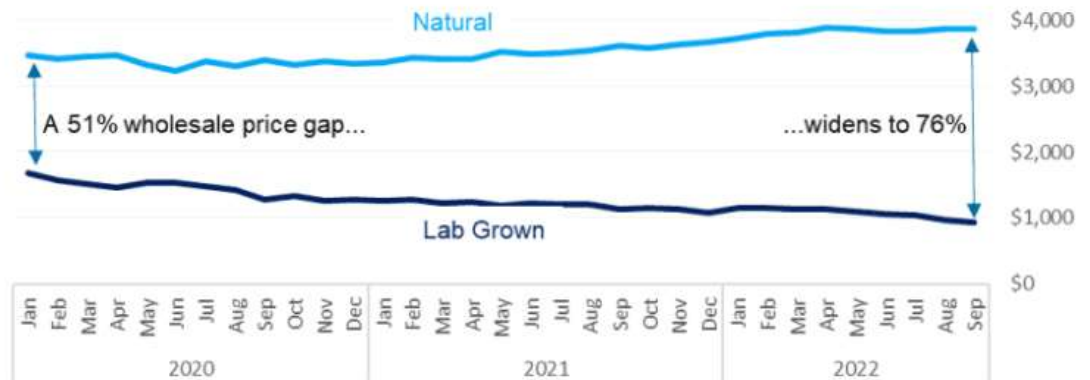


Source- Tenoris

Exhibit 54: Price Gap increasing between Natural and Lab-Based Diamonds

A Price Gap That Only Widens

Wholesale price trend of 1-carat round natural & LG diamonds



Source: Tenoris.bi

EdahnGolan.com EG

Source- Tenoris

Going forward, We expect the company to post revenue growth of 12% CAGR over FY22-25E to Rs.9,775mn, with lab-based diamonds to grow at 42% and natural diamonds at 2% over the same period. EBITDA over the same period is expected to grow at 25% CAGR to Rs.2,525mn, while OPM is expected to improve by 690bps to 25.8%. PAT is expected to grow at 25% CAGR to Rs. 2,065mn. We currently value the stock at 11x Sept 24 EPS of Rs.16 to arrive at our fair value target of Rs.185, a potential upside of 48% from current levels.

FY23E revenue visibility is challenged due to the US inflation hammering customer's budgets. However, a greater shift towards lab-based diamonds will aid margin expansion. We expect the current inflationary scenario to persist for the current year and a strong rebound in the medium term.

Key risks to our thesis

Muted consumer sentiments

The company is highly dependent on factors that affect consumer spending. Prolonged muted consumer sentiments can have a huge impact on the company.

Duty to Indian Products-

A potential impact could be any duty on products from India to the US, which is likely to hamper sales.

Financials (Consolidated)

Income Statement

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	4,464	3,645	4,060	6,877	5,785	7,533	9,775
Materials cost	3,283	2,733	2,717	4,865	3,685	4,746	6,109
<i>% of revenues</i>	74%	75%	67%	71%	64%	63%	63%
Employee cost	137	133	159	269	291	326	358
<i>% of revenues</i>	3%	4%	4%	4%	5%	4%	4%
Others	490	345	403	443	460	603	782
<i>% of revenues</i>	11%	9%	10%	6%	8%	8%	8%
EBITDA	553.3	434.4	781.0	1,300.5	1,348.9	1,858.8	2,525.2
EBITDA margin (%)	12.39%	11.92%	19.24%	18.91%	23.32%	24.67%	25.83%
Depreciation & Amortisation	26.9	24.8	36.2	53.9	65.5	71.3	85.3
EBIT	526	410	745	1,247	1,283	1,788	2,440
Interest expenses	23.2	10.9	3.0	6.8	7.7	11.7	15.0
PBT from operations	503	399	742	1,240	1,276	1,776	2,425
Other income	178.0	221.4	72.2	246.5	271.1	298.2	328.0
Exceptional items	-	-	157.7	-	-	-	-
PBT	681	620	972	1,486	1,547	2,074	2,753
Taxes	215	167	301	427	387	519	688
<i>Effective tax rate (%)</i>	32%	27%	31%	29%	25%	25%	25%
Reported PAT	466	453	671	1,060	1,160	1,556	2,065
Adjusted PAT	466	453	671	1,060	1,160	1,556	2,065

Source: MNCL Research Estimates

Key Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratio (%)							
Revenue	40.1%	-18.3%	11.4%	69.4%	-15.9%	30.2%	29.8%
EBITDA	7.9%	12.4%	11.9%	19.2%	18.9%	23.3%	24.7%
Adjusted PAT	129.1%	-2.8%	48.1%	58.0%	9.5%	34.1%	32.7%
Margin Ratios (%)							
EBITDA	12.4%	11.9%	19.2%	18.9%	23.3%	24.7%	25.8%
PBT from operations	15.3%	17.0%	20.0%	21.6%	26.7%	27.5%	28.2%
Adjusted PAT	10.4%	12.4%	16.5%	15.4%	20.1%	20.6%	21.1%
Return Ratios (%)							
ROE	12.1%	11.0%	14.4%	20.4%	19.6%	22.7%	25.7%
ROCE	13.1%	9.9%	16.5%	24.7%	22.9%	27.6%	32.2%
ROIC	21.4%	19.1%	6.3%	14.6%	21.1%	121.1%	221.1%
Turnover Ratios (days)							
Gross block turnover ratio (x)	9.9	7.9	6.4	10.3	7.1	7.4	8.0
Debtors	69	100	116	95	90	90	90
Inventory	87	94	96	94	90	85	80
Creditors	53	96	125	51	52	49	49
Cash conversion cycle	103	98	88	138	128	126	121
Solvency Ratio (x)							
Net debt-equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
Debt-equity	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio	30.4	57.6	273.5	220.2	203.1	179.0	184.3
Gross debt/EBITDA	0.5	0.2	0.3	0.0	0.1	0.1	0.1
Current Ratio	4.8	4.8	4.1	5.6	6.7	6.7	6.6
Per share Ratios (Rs)							
Adjusted EPS	4.3	4.2	6.2	9.7	10.6	14.3	18.9
BVPS	35.2	37.6	42.7	47.7	54.3	62.9	73.9
CEPS	4.5	4.4	6.5	10.2	11.2	14.9	19.7
Valuation (x)*							
P/E (adjusted)	29.3	30.2	20.4	12.9	11.8	8.8	6.6
P/BV	3.7	3.4	3.0	2.6	2.3	2.0	1.7
EV/EBITDA	21.9	26.9	14.3	9.0	7.8	5.6	4.0
Dividend yield %	1.33%	2.89%	3.56%	1.60%	1.80%	2.54%	3.54%

Source: MNCL Research Estimates

Balance Sheet

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS							
Equity Share Capital	230	222	222	218	218	218	218
Reserves & surplus	3,611	3,878	4,426	4,981	5,700	6,634	7,831
Shareholders' fund	3,841	4,100	4,648	5,199	5,918	6,852	8,049
Minority Interest	84.7	53.8	164.9	60.8	60.8	60.8	60.8
Lease and Liability		0	2	10	10	10	9.9
Total Debt	260	76	224	27	77	117	137
Def tax liab. (net)	2	3	23	41	41	41	41
Total Liabilities	4,188	4,233	5,062	5,337	6,106	7,080	8,297
Gross Block	451	463	636	668	818	1,018	1,218
Less: Acc. Depreciation	252	267	242	290	356	427	512
Net Block	199	196	395	378	463	592	706
Right to use		0	2	12	12	12	12
Capital WIP	8	5	16	11	61	61	61
Net Fixed Assets	207	201	412	402	536	665	779
Investments	1,191	1,534	1,798	1,181	1,181	1,181	1,181
Inventories	1,060	935	1,072	1,769	1,427	1,754	2,142
Sundry debtors	846	996	1,292	1,787	1,427	1,858	2,410
Cash	636	546	916	866	2,051	2,249	2,594
Loans & Advances	286	269	206	62	62	62	62
Other assets	550	569	444	258	258	258	258
Total Current Asset	4,569	4,848	5,727	5,923	6,405	7,362	8,648
Trade payables	474	716	929	678	525	637	820
Other current Liab.	32	93	141	303	303	303	303
Provisions	82	7	7	7	7	7	7
Net Current Assets	3,981	4,032	4,650	4,935	5,570	6,415	7,518
Total Assets	4,188	4,233	5,062	5,337	6,106	7,080	8,297

Source: MNCL Research Estimates

Cash Flow

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating profit bef working capital changes	465	407	593	992	1,233	1,639	2,165
Trade and other receivables	283	(64)	(279)	(406)	361	(431)	(553)
Inventories	327	125	(137)	(697)	342	(328)	(388)
Trade payables	(255)	221	209	(270)	(153)	112	183
Changes in working capital	397	266	(103)	(1,090)	550	(647)	(758)
Direct taxes	(177)	(144)	(254)	(382)	(387)	(519)	(688)
Cash flow from operations	862	673	491	(98)	1,783	992	1,407
Net Capex	(29)	(21)	(303)	(36)	(200)	(200)	(200)
Others	(77)	(219)	185	985	-	-	-
Cash flow from investments	(106)	(241)	(117)	950	(200)	(200)	(200)
FCF	832.9	651.8	188.07	-133.2	1,583	792	1,207
Issue of share capital							
Increase/(decrease) in debt	(111)	(189)	148	(198)	50	40	20
dividend	(8)	(45)	(19)	(119)	(44)	(62)	(87)
Cash flow from financing	(413)	(523)	(3)	(902)	(399)	(594)	(862)
Net change in cash	343	(90)	370	(50)	1,185	198	345

Source: MNCL Research Estimates

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