

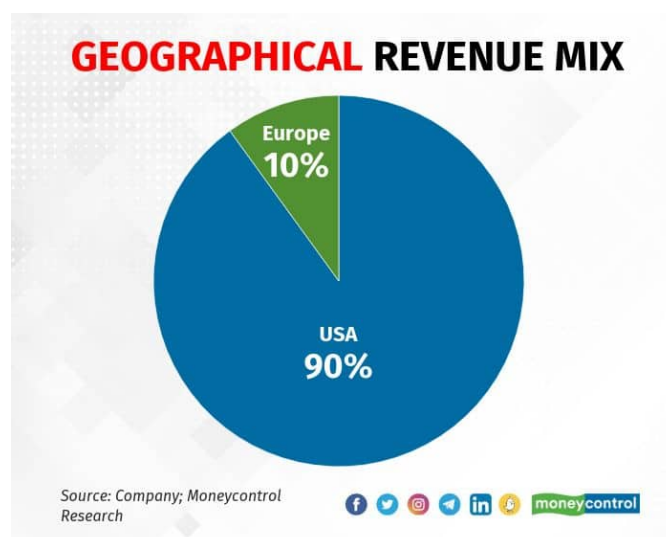
## Goldiam International – First Glance – January 2022

### Business Description

<https://www.moneycontrol.com/news/business/stocks/discovery-series-goldiam-international-add-a-gem-to-your-portfolio-6820481.html>

**Niche business model with full backward integration capabilities; business on growth trajectory:** Goldiam International has a niche business model in jewellery; it is an OEM to the renowned global retailers. Goldiam manufactures 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.

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



Goldiam has full 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 the patent for laboratory-manufacturing process.

Goldiam is focusing on the e-commerce platform to enable it to reach a larger section of retailers and reduce the dependence on wholesalers. Apart from the enhanced reach, e-commerce has relatively higher margins and lower working capital days (10-30 days as compared to 120-150 days for traditional sales channel).

## Financial Overview

Sector: [Diamond, Gems and Jewellery](#) Industry: [Diamond Cutting / Jewellery](#) [EDIT COLUMNS](#)

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %	CMP / Sales	Debt / Eq	ROE %
1.	<a href="#">Titan Company</a>	2612.95	132.71	231974.08	0.15	265.14	7493.00	64.57	12.96	8.90	0.81	13.57
2.	<a href="#">Rajesh Exports</a>	856.95	26.04	25302.30	0.12	83.02	50897.02	10.52	8.62	0.10	0.09	7.77
3.	<a href="#">Vaibhav Global</a>	550.05	31.16	9014.41	0.91	-40.22	634.79	6.01	35.94	3.33	0.14	31.69
4.	<a href="#">Kalyan Jewellers</a>	69.85	32.15	7194.92	0.00	150.47	2888.70	60.66	7.41	0.68	1.49	-0.25
5.	<a href="#">Goldiam Intl.</a>	1005.35	21.25	2191.15	0.80	74.86	166.26	90.56	18.06	3.63	0.11	11.65
6.	<a href="#">Thangamayil Jew.</a>	1357.25	31.09	1862.15	0.74	-48.97	704.92	106.10	25.39	0.81	0.97	33.42
7.	<a href="#">Renaiss. Global</a>	959.65	19.76	1815.12	0.47	42.72	477.10	-8.75	6.22	0.82	0.78	5.51

*From after market close on Jan 12, 2022*

Right off the bat, the low debt to equity caught my eye. This made me want to look at the cash and debt balances in their Annual Report. In addition, I really liked the company's ROE and ROCE figures as well, as well as the reasonable P/E multiple. Furthermore, as per screener.in, over the last 3 years, revenue CAGR was 9%, while profit CAGR was 35%.

	Figures in INR cr	Mar-21	Mar-20
I	Cash and Cash Equivalents	90.78	53.89
II	Investments (current assets only)	179.76	153.35
<b>III = I+II</b>	<b>Cash and Investments</b>	<b>270.54</b>	<b>207.24</b>
IV	Borrowings (current)	0	0
V	Borrowings (non-current)	22.41	7.57
<b>VI = IV+V</b>	<b>Total Borrowings</b>	<b>22.41</b>	<b>7.57</b>
<b>VII</b>	<b>Shareholder's Equity</b>	<b>481.27</b>	<b>415.39</b>

*Note: Cash and cash equivalents (item II.a.iii in the balance sheet) did not include a smaller amount logged under bank balances (item II.a.iv).*

## CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2021

(Amounts are in lakhs unless stated otherwise)

Particulars	Notes No.	As at March 31, 2021	As at March 31, 2020
<b>A ASSETS</b>			
<b>I Non-current assets</b>			
a) Property, plant and equipment	1	3,946.93	1,961.26
b) Capital work-in-progress	1	13.25	1.00
c) Investment properties	2	193.57	193.57
d) Other intangible assets	3	143.91	46.69
e) Investments accounted for using equity method	4	-	37.85
f) Financial assets			
i. Investments	4(i)	3,954.36	4,937.77
ii. Loans	5	162.04	140.92
iii. Other Financial Assets	6	55.42	36.70
g) Deferred tax assets	7	36.70	259.11
<b>Total non-current assets</b>		<b>8,506.18</b>	<b>7,614.87</b>
<b>II Current assets</b>			
a) Inventories	8	10,720.63	9,346.99
b) Financial assets			
i. Investments	9	17,975.66	15,335.94
ii. Trade receivables	10	12,915.09	9,962.26
iii. Cash and cash equivalents	11	9,078.26	5,389.16
iv. Bank balances other than (iii) above	12	82.06	67.99
v. Loans	13	1,919.53	2,546.25
c) Other current assets	14	198.16	223.64
<b>Total current assets</b>		<b>52,889.39</b>	<b>42,872.23</b>
<b>Total assets</b>		<b>61,395.57</b>	<b>50,487.10</b>
<b>B EQUITY AND LIABILITIES</b>			
<b>I Equity</b>			
Equity share capital	15	2,217.49	2,217.49
<b>II Other equity</b>			
Equity component of compound financial instruments		-	-
Other equity		44,260.59	38,784.49
Equity attributable to owners of Goldiam International Limited		46,478.08	41,001.98
Non-controlling interests		1,649.22	537.74
<b>Total equity</b>		<b>48,127.30</b>	<b>41,539.72</b>
<b>III LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities			
i. Borrowings		-	-
ii. Other financial liabilities		-	-
Provisions		-	-
Employee benefit obligations		-	-
Deferred tax liabilities	7	232.24	30.85
<b>Total non-current liabilities</b>		<b>232.24</b>	<b>30.85</b>
<b>Current liabilities</b>			
Financial liabilities			
i. Borrowings	16	2,240.91	756.65
ii. Trade payables	17		
Total outstanding dues of micro enterprises and small enterprises		6.15	3.54
Total outstanding dues of creditors other than micro enterprises and small enterprises		9,308.45	7,156.90
iii. Other financial liabilities	18	868.09	433.03
Provisions	19	65.82	65.85
Current Tax Liabilities	20	546.61	500.56
<b>Total current liabilities</b>		<b>13,036.03</b>	<b>8,916.53</b>
<b>Total liabilities</b>		<b>13,268.27</b>	<b>8,947.38</b>
<b>Total equity and liabilities</b>		<b>61,395.57</b>	<b>50,487.10</b>

### MD&A Notes

(Taken verbatim from FY21's report)

India's gems and jewellery sector contributes about 14 per cent to India's total merchandise exports and is likely to employ 8.23 million persons by 2022, from 5 million in 2020 and is one of the largest in the world contributing 29 per cent to global jewellery consumption. Gems and jewellery sector market size is about US\$ 60 billion as of 2017 and is expected to reach US\$ 100-110 billion by 2025.

India is one of the largest exporters of gems and jewellery and the industry is considered to play a vital role in the Indian economy as it contributes a major chunk to the total foreign

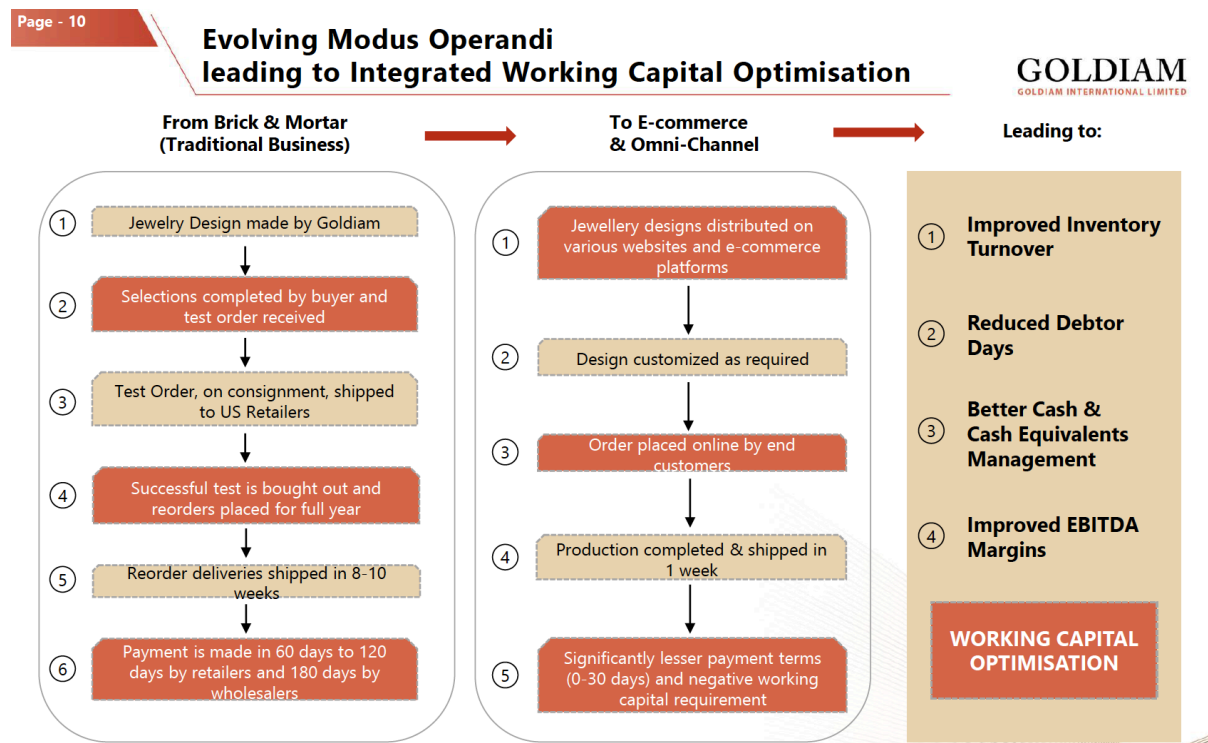
reserves of the country and also one of the fastest growing industries in the country, contributing around 7.5 per cent of the country’s GDP. It is extremely export oriented and labour-intensive.

In the coming years, growth in the Gems and Jewellery sector would be largely contributed by the development of large retailers/brands. Also, the relaxation of restrictions of gold import is likely to provide a fillip to the industry. Based on its potential for growth and value addition, the Government declared gems and jewellery sector as a focus area for export promotion. The Government has undertaken various measures recently to promote investment and upgrade technology and skills to promote ‘Brand India’ in the international market.

The Government has permitted 100% FDI in the sector under the automatic route, wherein the foreign investor or the Indian company do not require any prior approval from the Reserve Bank or Government of India. In Union Budget 2021-22, the government announced reduction on import duty for precious metals (including gold and silver) to 7.5%, from 12%, that will help the gems and jewellery exports market in India become globally competitive.

### Q1FY22 Results and Investor Presentation Snapshot

The Company’s Cash & Cash Equivalents (including investments) stood at ₹300 cr as on Q1FY22.



## Q2FY22 Results and Investor Presentation Snapshot

[https://www.indiaonline.com/article/news-top-story/goldiam-international-pat-rises-231-yoy-to-rs43-6cr-in-h1fy22-stock-tumbles-3-121110800291\\_1.html](https://www.indiaonline.com/article/news-top-story/goldiam-international-pat-rises-231-yoy-to-rs43-6cr-in-h1fy22-stock-tumbles-3-121110800291_1.html)

**The Company's Cash & Cash Equivalent and Investments stood at Rs246.2cr as on H1FY22.** The Company would continue to explore various opportunities to judiciously utilise the cash reserves.

Goldiam has an order book size of Rs200cr. This order book is expected to be executed by FY22. **E-commerce sales given its nature of being booked online (on a spot basis) is not part of the order book.**

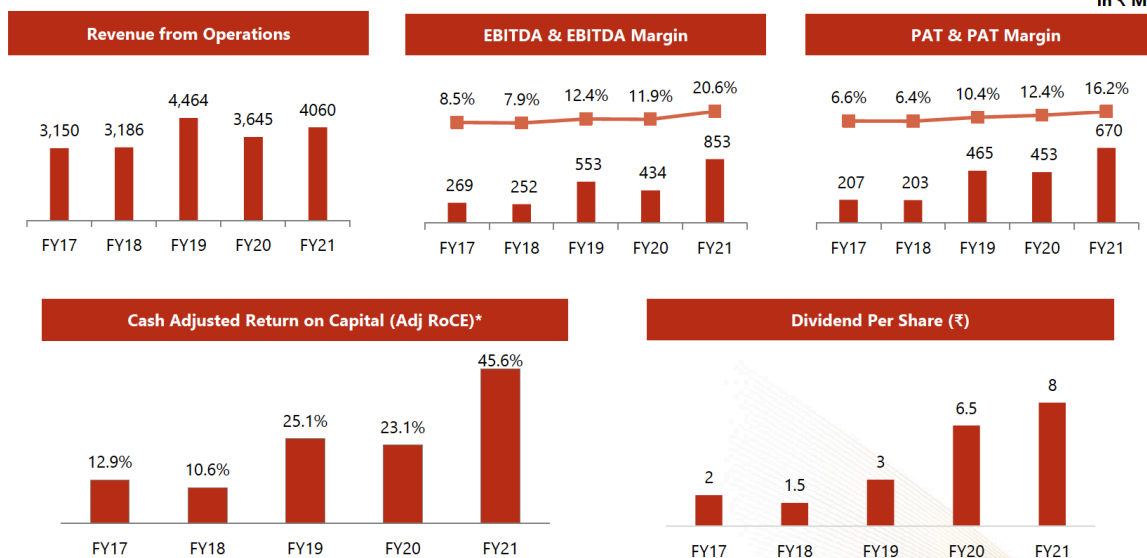
The Company proposed a buyback up to 3,80,000 equity shares of the Company on 27th October 2021 for an aggregate amount not exceeding Rs45.6cr. The maximum buyback price is set at **Rs1,200/-** per equity share as on the record date on a proportionate basis under the tender offer route using the stock exchange mechanism.

Over the last five years, Goldiam has carried out two buybacks of shares to the tune of Rs30cr. During the last five years (FY17-21), Goldiam has utilized Rs84.1cr on Dividends and Buybacks.

### Consolidated Financial Snapshot

**GOLDIAM**  
GOLDIAM INTERNATIONAL LIMITED

In ₹ Mn

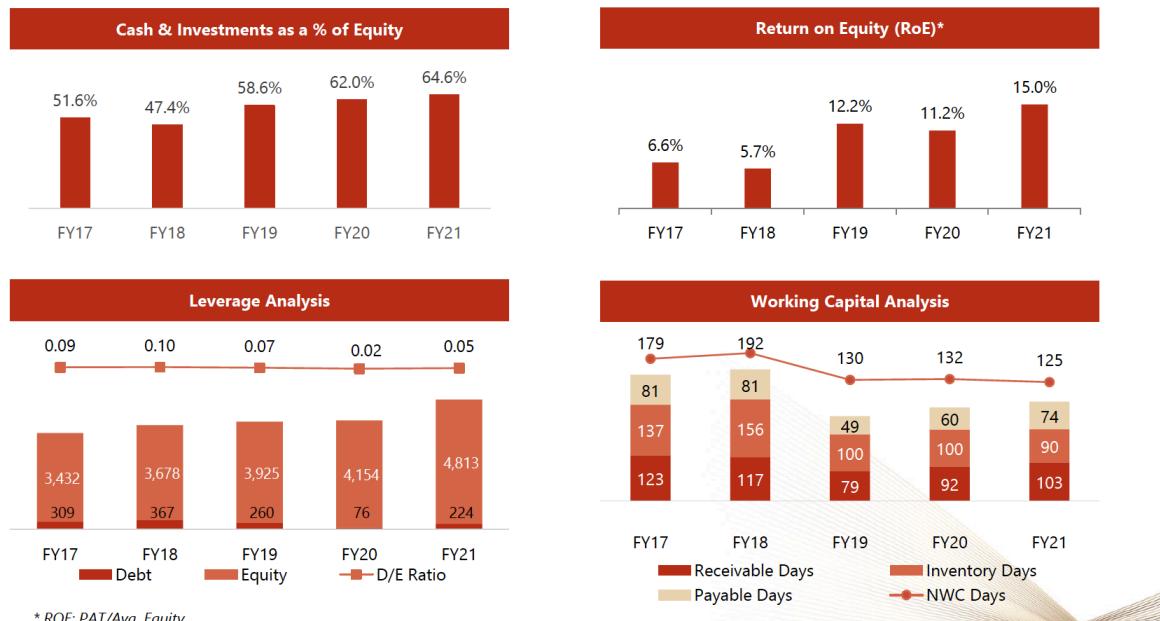


\* ROCE: EBIT/Avg. Capital Employed [(Capital Employed = Equity + Total Debt - Cash & Cash Equivalents-Investments)]

## Consolidated Financial Snapshot

**GOLDIAM**  
GOLDIAM INTERNATIONAL LIMITED

In ₹ Mn



### Uncommon Profits – Snippets

<https://uncommonprofits.in/2022/01/03/goldiam-international-ltd-the-real-diamond-in-the-rough/>

“Over the last decade in my investing career, I have seen several small and mid cap companies with credible capital allocation but rarely i have been so awestruck with the capital allocation policy of a company. While tech companies who make significant cash profits and require minimal incremental capital for further growth exist (majorly in US and some in India), rarely have i seen such companies in non-tech space. I have read a lot about incremental cash being used for buybacks to make better use of capital by companies like Apple rarely have i seen that happen here in India until i came across such an interesting story – **Goldiam International Ltd.**”

Goldiam International Ltd (Goldiam) was incorporated in **1986** by Late Mr. Manhar Bhansali and operations majorly comprised cutting and polishing of diamonds for the first few years **until ~1995**. **Post 1995**, the company shifted focus on value addition and started production of diamond studded jewellery and Gold Jewellery.

Starting 2016, the next-gen of the promoter’s family – Mr. Anmol Bhansali – entered the business. He might be the reason for certain changes in the organization:

1. Started focusing on supplying directly to top retailers in US causing the change in channel mix. As of FY21 retailers contribute to 80% of the topline of the company (vs. 100% supply to wholesalers until FY2015).

2. Took steps to wind down operations of the wholesale business in Hong Kong and India which led to release of capital yielding low returns. Both businesses involved majorly supplying jewellery to wholesalers which had the long credit cycle (~4-6 months) and low margins.
3. Bought a 88% stake (in two stages – 51% in Dec 2020 and further 37% in June 21; remaining 12% owned by technology partners) in Eco-Friendly Diamonds LLP (earlier was promoter owned) which is engaged in the manufacturing of lab-grown diamonds which further improves the margin profile as the margins range from 30-35% here.
4. While the penetration across large retailers is quite good for Goldiam, it has 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+ SKU's) which will be manufactured and shipped within 7 days to the jeweller. **This business would be a negative working capital business for the company as the raw material is procured on credit for 2-4 months while the receivables here would be almost immediate and the inventory would be manufactured and shipped post order.**
5. In the last few years, Goldiam has also scaled up its dot com business, which now contributes almost 20% of topline. In this business the company caters to orders received via e-commerce portals of large retailers. These orders are directly shipped to end client by Goldiam, reducing the lead time for the retailer and also helping them to optimise their inventory. Here too, the just-in-time nature of the transaction along with the handling of shipments helps yield better margins versus bulk supply to physical stores. **This again is a negative working capital business as the payment terms are better than supply to physical stores.**

Company has always been cash positive (200+cr cash & investments – majorly parked in debt funds) which is a rare to find in the Indian diamond & jewellery industry. **With so many past cases of value destruction (Gitanjali Gems, Winsome Diamonds, Nirav Modi etc.),** mainly due to higher debt (may lead to inflated inventory & debtors), a company with net cash position provides significant comfort.

### Reasons why I want to invest in Goldiam International

1. Solid cash position, with the latest cash equivalents and investments figure of ₹246.2 cr as on H1FY22.
2. Very low debt position.
3. Company is keen on continuing to employ buybacks and dividends to increase shareholder value.
4. Over the last 5-6 years, the company has moved from relying on wholesalers to directly connecting with retailers.
5. The migration to online businesses (both B2B - JewelFleet, and fulfilling online orders for their B2C clients) is a huge win for reducing working capital requirements.

6. The growth in the appeal of lab grown diamonds will help immensely with margin expansion.
7. Reasonable MC/Sales multiple (3.63) and P/E multiple (21.25) given the various strengths of the company.
8. Favourable adjusted ROCE metric (removing cash from capital employed) of 45.6% in FY21, a big jump from 23.1% in FY20.
9. Bottom line growth is much faster than top line growth, at least over the last 3 years.
10. US consumption recovery play.
11. Export oriented company – expecting further support to exporters in the upcoming Budget.