14TH APR 2023

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

GOLDIAM INTERNATIONAL LTD

WHAT WE LIKE

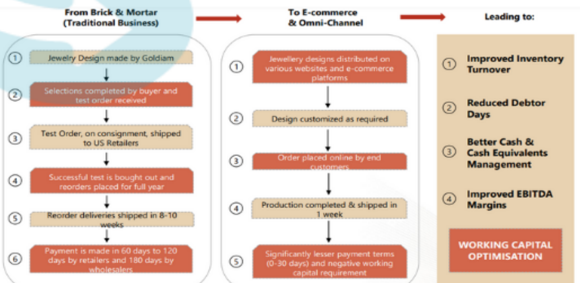
LEADING EXPORTER OF DIAMOND JEWELLERY

Since 1986, GI has been supplying leading global retailers, department stores, and wholesalers with a diverse range of products, including natural diamond jewelry and lab-grown diamond (LGD) jewelry. As the preferred OEM for major diamond jewelry retailers throughout the US, GI has expanded its business from natural to lab-grown diamonds.

BUSINESS TRANSFORMATION OVER SEVERAL DECADES

YEAR	SCALE & SCOPE
1986-1990	Export of cut & polished diamonds
1995-2015	Export of diamond jewellery
2015-2018	Export of Natural & LGD jewellery
2018-2023	Digitizing towards e-commerce

EVOLVING MODUS OPERANDI & WORKING CAPITAL OPTIMIZATION



BACKWARD INTEGRATION & MOVING TOWARDS BETTER MARGINS AND RETURN RATIOS

Backward Integration: Own factory-grown diamonds (LGD), cut & polish them, manufacture jewellery using in-house design capability & then shipped to US retailers.

STRONG BALANCE SHEET & GROWTH IN NUMBERS

Except for TTM numbers, company has demonstrated over long time decent growth in numbers and a debt free Balance Sheet. Strong order book of 150 Cr & Cash of 214 Cr. 10 year sales CAGR of 11% & profit CAGR of 23%

WHAT WE DON'T LIKE

GOLD & DIAMOND HEDGING PROCESS NOT LAID OUT

Gold & Diamond form significant portion of the raw material costs and yet the company has not clarified about their hedging practice. As we at SSS cannot find any MTM hedging profits and losses in the AR, meaning no evidence of hedging practice in place.

HIGHLY COMPETITIVE SPACE

Other players in India are also entering in lab-grown diamond space as margins are extraordinary & there is a lack of any major barriers to entry due to less capital intensity

(1 LGD machine costs around Rs.75 Lakhs).

Hence the company might not be able to sustain the margins in the LGD space going ahead if the competitive intensity continues to grow.

GEOGRAPHICAL & CLIENT CONCENTRATION

The majority of revenues is coming from the USA which can be a major risk, especially in the current environment in the USA which is directly impacting the demand for the company's products which are discretionary in nature due to nature being of a 'Luxury fashionable good'. The effects of this were evident in the recent quarters where the company witnessed massive revenue degrowth.
Top 5 contributes 55% of sales.

HIDDEN RISKS OF CAPEX PLANS

The company has cash reserves of 214 Cr.
However, its plan to invest might not lead to the desired results as

- LGD: there seem to be new players entering this space, which can cause the current extraordinary margins to fall to lower levels.
- Expansion in countries like Australia & especially India is easier said than done as shifting customer's buying behaviour from Natural diamonds to Lab Grown diamonds will be very difficult as the majority of people in India still prefer natural Diamond due to status symbol & Probable resale value being better than that of any other type of diamond.

HIGH WORKING CAPITAL

The company has very high working capital days ranging between 130-150. However, the company has been able to reduce it in the past decade from levels of 250 days to 130 days currently. Newer initiatives like higher online channel contribution might further aid in reducing the working capital cycle. But it is too early to comment on the same