



**CONFIDENTIAL**

Ref No: 2009-10/775/4262  
March 6, 2010

**M/s. Goenka Diamond & Jewels Limited**  
1305, Panchratna, Opera House  
Mumbai - 400 004

Dear Sir,

**Re : ICRA Grading of Initial Public Offer of 1,00,00,000 Equity Shares of Rs.10 each to be issued by Goenka Diamond & Jewels Limited to the Public ("IPO")**

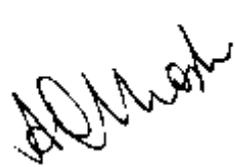
Please refer to your mandate letter dated August 29, 2009 for grading the IPO of Goenka Diamond & Jewels Limited. The Rating Committee of ICRA, after due consideration, has assigned the 'IPO Grade 2' (pronounced Initial Public Offer Grade two) to the captioned IPO programme. This grading indicates below average fundamentals.

In any of your publicity material or other document wherever you are using the above grading, it should be stated as "IPO Grade 2". We would appreciate if you can sign on the duplicate copy of this letter and send it to us as a token of your acceptance of this letter. The rationale for assigning the above grading will be sent to you in due course.

Notwithstanding anything to the contrary: An ICRA IPO Grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timeliness, or completeness of such information. An ICRA IPO Grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further the ICRA IPO Grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such Issuer nor can it be considered as an authentication of any of the financial statements of the company and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA is provided on an "as is" basis, without representations and warranties of any nature.

This grading is specific to the terms and conditions of the proposed IPO issue as was indicated to us by you and any change in the terms or size of the IPO would require the grading to be reviewed by us. If there is any change in the terms and conditions or size of the rated IPO, as above, the same must be brought to our notice before the issue of the IPO. If there is any such change after the grading is assigned by us, it would be subject to our review and may result in change in the grading assigned.

ICRA reserves the right to suspend, withdraw or revise the above grading at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the aforesaid grading assigned to you.

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The grading, as aforesaid, however, should not be treated as a recommendation to buy, sell or hold the Equity Shares to be issued by you. If the instrument rated, as above, is not issued by you within a period of 2 months from date of this letter communicating the grading, the same would stand withdrawn unless revalidated before the expiry of 2 months.

You are required to keep us forthwith informed of any developments (including any default or delay in repayment of interest or principal amount of any debt instruments/ borrowing or proposal for re-schedulement or postponement of the repayment programmes of the dues/ debts) which may have a direct or indirect impact on the grading assigned to the aforesaid IPO programme.

We thank you for your kind co-operation extended during the course of the grading exercise. Should you require any clarification, please do not hesitate to get in touch with us.

With kind regards,

Yours sincerely,  
for ICRA Limited

A handwritten signature in black ink, appearing to read 'AD Ghosh', is written over the typed name.

**ANJAN DEB GHOSH**  
Senior Group Vice President &  
Head – Corporate Sector Ratings

A handwritten signature in black ink, appearing to read 'Subrata Ray', is written over the typed name.

**SUBRATA RAY**  
Senior Vice President &  
Head – Corporate Sector Ratings



## GOENKA DIAMOND & JEWELS LIMITED

### Issue Details

Goenka Diamond & Jewels Limited proposes to come out with an Initial Public Offer (IPO) of 10 million shares of face value Rs. 10 each, through the book building route. Of the total issue, 50% would be reserved for Qualified Institutional Buyers (QIBs), 15% for non-institutional investors, and 35% for retail investors. Post-IPO, the shares will be listed on Bombay Stock Exchange and the National Stock Exchange.

### Proposed Use of IPO Proceeds

The IPO proceeds are proposed to be used primarily to:

- Establishment of G WILD Stores
- Establishment of CERES Stores
- Working capital requirement for jewellery business
- Establishment of jewellery manufacturing facility
- Establishment of diamond processing facility
- Investment in our Subsidiary
- Meet general corporate purposes
- Meet expenses of the proposed IPO

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### IPO Grading

ICRA has assigned an IPO Grade 2, indicating below average fundamentals, to the proposed IPO of Goenka Diamond & Jewels Limited (GDJL). ICRA assigns IPO gradings on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

An ICRA IPO Grade is a symbolic representation of ICRA's current assessment of the fundamentals of the issuer concerned. The fundamental factors assessed include, *inter alia*, business and competitive position, financial position and prospects, management quality, corporate governance, and history of compliance and litigation.

**Disclaimer:** Notwithstanding anything to the contrary: An ICRA IPO grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timeliness, or completeness of such information. An ICRA IPO grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further, the ICRA IPO grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such issuer nor can it be considered as an authentication of any of the financial statements of the company, and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA are provided on an "as is" basis, without representations and warranties of any nature.

## Strengths

- Established player in the cut and polished diamond (CPD) business
- Foray into jewellery retailing to drive revenue and profitability in the future
- Relatively higher margins because of presence in bigger size diamonds and studded jewellery retail business
- Advantages derived from integrated operations with presence across the value chain, in-house designing facility and close involvement of the promoters

## Concerns

- The CPD business is characterised by high competitive pressures, inherently low value addition and correspondingly modest margins
- Currently challenging operating environment for CPD exports leading to pressure on margins, delay in realization of export proceeds and build up of inventory
- Challenges involved in scaling up the retail businesses, where the company's track record is limited; competition from both established chains as well as strong local players
- Exposure to forex risks could lead to variability in earnings
- High working capital intensity in both the CPD as well as the retail business

## Grading Rationale

The assigned grading takes into account the company's established position in the cut and polished diamond (CPD) business, and its successful foray in the retail jewellery business which has higher margins and is expected to drive the company's growth and profitability in the future. The grading is constrained by the execution risks involved in scaling up the retail business where its track record is limited and competitive pressures high, the challenging operating environment that all CPD companies are currently facing leading to pressure on margins, delay in realization of export bills and build-up of inventory and the inherently high working capital intensity in both the businesses which would constrain the company's ability to generate free cash flows.

In the traditional business line of CPD exports, GDJL's focus has been on gaining expertise in processing of large size (high carat) diamonds which provides higher margins. This business consists of trading, cutting and polishing of diamonds. The company has recently forayed into the manufacturing and retail of jewellery under 'CERES' and 'G WILD' brands. In 2008-09, diamond processing business accounted for above 75% of the total income with the jewellery business accounting for the balance.

The diamond industry is very fragmented, with low value addition and is characterized by high competition. Players typically have low margins and the working capital intensity is high arising from the long conversion cycle involved as well as delays in realization of export proceeds, especially in the current scenario of demand slowdown. However, GDJL benefits by virtue of its presence in larger size diamond, where competition is relatively lower, and its long presence in this business and established relationship with both customers as well as suppliers of rough diamonds.

As a diversification measure, GDJL ventured into manufacturing and marketing of studded jewellery since July 2008. GDJL markets its studded jewellery products under the brand name of 'G Wild' and 'CERES'. The margins in this business are significantly higher due to the higher value addition, brand salience and sale to the end customer. The IPO proceeds would be primarily used in setting up a chain of retail stores across the country. However, stiff competition from both established chains as well as strong local players coupled with company's limited track record in the retail jewellery business entails significant challenges for GDJL in scaling up this business.

With the foray in the retail jewellery space, GDJL has become a fully integrated player having presence across the various segments of the value chain. The company also benefits from presence of in-house designing team.

The company's revenues have shown a strong growth over the last few years, driven by both the CPD business as well as its entry in the retail business. The margins and profitability indicators, which have been showing an increasing trend since 2007-08 remained stagnant in 2008-09 because of the overall slowdown in the key export markets and the consequent impact on realisations in the CPD business segment. Going forward, the company's ability to scale up successfully in the retail business would be critical for its growth and profitability.

## Company Profile

Goenka Diamond & Jewels Limited (GDJL), the flagship business establishment of the Goenka group, is a closely held limited company established in the year 1990. The company is recognized as one of the leading manufacturer and trader of cut and polished diamonds (CPDs) in the country. The company is also engaged in manufacturing and marketing of studded jewellery through its retail stores - 'G Wild' and 'CERES'. GDJL has state of the art facilities at Surat (Gujarat) and Goregaon (Mumbai) for manufacturing CPDs and studded jewellery.

## Promoters and Management

GDJL was incorporated in November 1990 as — Goenka Exports Private Limited (GEPL). By virtue of section 43(A) of the Companies Act, GEPL became a deemed public company with effect from July 1, 1997. Subsequently, in January 2002, the company became a public company in the name of - Goenka Exports Limited. The name of the company was changed to — Goenka Exports Private Limited following a special resolution in the extraordinary general meeting held in November 2004. The company changed its name to - Goenka Diamond and Jewels Private Limited pursuant to a special resolution at the extraordinary general meeting held in March 2008. In April 2008, the company was converted into a public limited company and its name was changed to its present name - Goenka Diamond and Jewels Limited.

GDJL was promoted by Mr. Nand Lal Goenka and his sons, Mr. Navneet Goenka and Mr. Nitin Goenka and have significant experience (from 10 to 40 years) in the gems and jewellery industry. GDJL's management team has qualified personnel with significant experience in various areas of the gems and jewellery industry. Its Board of Directors has six Directors, of whom three are Independent directors. Currently, the promoters and promoter group hold 100% of the paid-up capital of GDJL.

GDJL has one subsidiary, M B Diamonds LLC, Russia, which is in the business of treatment of diamonds, precious and semi-precious stones, manufacture of jewellery, trading, retailing, exporting and importing of the aforesaid precious and semi-precious stones and metals. The other companies in the Group include - Goenka Jewellers, Nand Lal Goenka HUF, Goenka Entertainments Private Limited, Goenka Infra Projects Private Limited, Goenka Properties Private Limited, Goenka Infra Builders Private Limited, Goenka Diamonds Private Limited, Geet Holdings Private Limited, Sonam Complex Private Limited and Yash Complex Private Limited

## Business & Competitive Position

***Diamond processing dominates the overall business with a contribution of over 75% of the total sales in 2008-09***

Over the years, diamond processing has been the main business of GDJL and the same contributed to over 75% of the total sales in 2008-09. GDJL has a wide product range comprising of CPD's in different sizes, colours and shapes. The product portfolio comprises various cuts including Round Brilliant Cut, Hearts & Arrows, fancy shapes (Marquise, Pear, and Princess), etc. The company also holds an international patent to special cuts of 129, 145, and 169 facets (developed in-house). The company is a player in the high value diamond segment with approximately 70-75% of its sales constituted by diamonds in the above US\$600 price range (which generally corresponds to CPDs above 1 carat). GDJL's CPDs have an average realization of \$1000 per carat.

***Traditionally Hong Kong and USA have been the key markets for GDJL, slowdown in the key markets partially offset by company's growing focus towards domestic and new markets like Malaysia***

Traditionally, the exports profile of GDJL has been dominated by Hong Kong and USA which accounted for over 95% of the total revenues till 2006-07. Given the major slowdown seen in the markets of USA and Europe, the company, in the last couple of years, consciously reduced its dependence on this market and has been exploring newer markets like Malaysia. Also, during the same period, the company's sales mix witnessed a major shift towards bigger size diamonds, which usually commands higher margins. Additionally, GDJL has increased its exposure to the domestic market in order to de-risk its geographic sales profile.

**Indian CPD industry yet to completely ride out of the tough conditions it faced during 2008-09**

In 2008-09, the Indian CPD industry faced an unprecedented slowdown in demand on the back of severe financial crisis across the globe. The slowdown in demand was accompanied by a drop in prices of both rough as well as finished diamond and build up of both receivables as well as unsold inventory. While there has been some revival in both demand as well as prices in recent times, the industry is yet to completely ride out of the tough conditions it faced last year

**India's CPD exports for the periods ending:**

Particulars	FY08	FY09	% change	H1FY09	H1FY10	% change
<b>CPD</b>						
Amount (Rs. Crore)	57,117	58,649	2.7%	37,992	38,277	0.8%
Amount (USD Million)	14,194	13,025	-8.2%	8,877	7,888	-11.1%
Quantity (Crore carats)	4.3	4.0	-6.7%	2.3	2.2	-2.7%
Value per carat (Rs.)	13,261	14,588	10.0%	16,589	17,177	3.5%
Value per carat (USD)	330	324	-1.7%	388	354	-8.7%
Exchange Rate* in Rs. for 1 US\$	40.24	45.03	12%	45.56	48.44	6.3%

Source: GJEPC, \*Exchange rates assumed by GJEPC based on RBI average rates

**..... Studded jewellery sales witness a robust growth in FY09**

As a diversification move, GDIL ventured into manufacturing and marketing of studded jewellery since July 2008. In 2007-08, the jewellery sales accounted for an approximate of 18% of the total sales amounting to Rs. 36 crore. In 2008-09, jewellery sales increased to around Rs. 100 crore witnessing a robust growth of 170%. GDJL markets its studded jewellery products under the brand name of 'G Wild' and 'CERES'. The company has set-up five retail outlets for 'G Wild' in FY 2008-09. Out of the five outlets, two are located in Mumbai, while the rest are based in Delhi, Chandigarh and Ludhiana. The 'G Wild' collection is meant to cater to the demands of younger generation. Additionally, GDJL has recently (March 2009) started to market its high-end jewellery collection priced at Rs. 5 lakh and above. The company sells this collection under the brand name of 'CERES' through a retail outlet in Mumbai (Bandra).

**IPO proceeds to be used to expand its diamond jewellery stores**

As a part of the strategy to expand its retail presence, GDJL has planned to establish a total of 19 stores ( 17 stores of G Wild and 2 stores of Ceres ) over the next two years . The company has proposed to deploy Rs. 4.9 crore, from the net proceeds of IPO for establishing 17 G WILD Stores in 17 cities in fiscal 2010 and 2011. All the proposed G WILD stores will be operated by the company and will be taken on lease. GDJL also plans to expand its retail presence to target high end customers through its CERES stores. The company has planned to open two CERES stores in the next two fiscal years and has proposed to deploy Rs. 2.1 crore from the net proceeds. A total of Rs 848.5 million from the IPO proceeds would be used for funding the working capital required in the business.

**Key challenges in retail business**

In ICRA's opinion, the key challenges that the company would need to contend with in this business would include competition from established players on the one hand, and a large number of local players with strong brand equity and loyal customer base on the other. Given the highly working capital intensive nature of the operations, ensuring quick asset turnover would be critical for maintain growth and profitability. ICRA notes that while the performance of the existing stores has been satisfactory, the company's ability to replicate the success as it enters other Metros and a host of Tier II cities for the G WILD brand remains to be seen. Also, a crucial issue in scaling up would be the ability to attract competent professionals since there is currently high dependence on the promoters for the business.

## Financial Position

### Profitability and Earnings

**Table 2: Financial Highlights**

In Rs. million	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Income	277.5	385.1	748.5	2005.6	4437.8
Y-o-Y	2.3%	38.8%	94.4%	168.0%	121.3%
OPBDITA	9.4	16.1	69.6	171.0	257.7
OPBDITA/OI	3.4%	4.2%	9.3%	8.5%	5.8%
PAT	3.0	4.7	27.1	124.1	273.8
PAT/OI	1.1%	1.2%	3.6%	6.2%	6.2%
RONW	1.1%	1.7%	9.2%	33.6%	48.3%
ROCE	2.1%	4.2%	16.3%	30.1%	35.1%

Y-o-Y: Year-on-Year, OI: Operating Income; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit After Tax; RONW: Return on Net Worth; ROCE: Return on Capital Employed

GDJL's topline has witnessed a strong CAGR of ~74% over the period 2004-2009. Robust growth in the topline was led primarily by commencement of manufacturing operations and change in sales mix towards bigger size diamonds in FY 2006-07 and introduction of studded jewellery business in FY 2008-09.

The company's presence in the bigger size diamonds market coupled with jewellery sales has enabled GDJL to enjoy better margins as compared to some of its competitors. Owing to healthy margins in the last three years, the company's return indicators, viz., ROCE and RONW have also witnessed an uptrend.

### Financial Leverage

**Table 3: Capital Structure**

In Rs. Million	2004-05	2005-06	2006-07	2007-08	2008-09
Total Debt	105.3	95.0	168.1	216.6	516.7
Net Worth	276.4	281.1	308.2	430.9	703.3
Total Debt/Net Worth	0.4	0.3	0.5	0.5	0.7

GDJL's gearing as on March 31, 2009 stood at a comfortable 0.7 times. The company's favourable capital structure is attributed to its strong accretion to reserve and conservative dividend policy. The company's debt requirements are entirely working capital based.

### Working Capital

**Table 4: Working Capital Indicators**

	2004-05	2005-06	2006-07	2007-08	2008-09
Debtor (days)	240	274	284	174	203
Creditor (Days)	75	76	135	98	158
Inventory (Days)	261	78	68	26	49
NWC / OI	122%	84%	56%	29%	24%

The receivables position has been historically stretched even though it showed a marginal improvement in 2007-08. In 2008-09, weak global demand resulted in stretched receivables for GDJL, necessitating extended credit periods from its suppliers and higher utilisation of bank limits by the company.

### Contingent Liabilities

**Table 5: Contingent Liabilities**

Outstanding as on March 31, 2009	In Rs. million
Corporate Guarantee	69.3
Income Tax Matters	3.4
<b>Total</b>	<b>72.7</b>

## Corporate governance

Currently GDJL's board has six directors, of which the Chairman of the Board is an executive director. In compliance with the requirements of clause 49 of the listing agreement, the company has three executive directors and three independent Directors. This satisfies clause 49 requirements, which states that a company with executive chairman should have at least half of the board comprising of independent directors.

In terms of the clause 49 of the listing agreement, the company has also constituted the following committees:

- (a) Audit Committee;
- (b) Shareholders/ Investor Grievance Committee; and
- (c) Remuneration Committee

## Compliance and Litigation History

GDJL is involved in some legal proceedings (over disputes relating to income tax, statutory non compliance with Section 295 of the Companies Act and civil proceeding with respect to sale of residential flat) that are at various stages of adjudication by city courts, high courts and various tribunals. The overall amount involved is not significant.

*November 2009*

**ICRA Limited***An Associate of Moody's Investors Service***CORPORATE OFFICE**

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