

Recommendation		SUBSCRIBE		BACKGROUND		
Price Band	Rs 397-417			<p>The International Gemmological Institute (IGI), founded in 1975 by Marcel Lorie in Antwerp, Belgium, is a leading global authority in diamond, gemstone, and jewellery certification. With 31 laboratories and 19 schools worldwide, IGI offers extensive grading and educational services, including the first ISO accreditation for both natural and lab-grown diamonds.</p> <p>Details of the Issue:</p> <ul style="list-style-type: none"> Total issue of ~Rs. 4225 Cr (at upper price band) consists of fresh issue of Rs. 1,475 cr (3.54 cr shares) and offer for sale worth Rs. 2,750 cr (6.59 Cr shares). Proceeds from the fresh issue will be utilized for the payment of the purchase consideration for the acquisition of IGI Belgium Group and IGI Netherlands Group from the Promoter; and for general corporate purposes. <p>Investment Rationale:</p> <ul style="list-style-type: none"> IGI dominates India's diamond certification market (50% share) and leads in lab-grown diamond certifications (65% share). Expanding international footprint. With 29 laboratories and 18 gemology schools across 10 countries, IGI's extensive network enhances its credibility and reach. Future growth potential. <p>Valuation and Recommendation:-</p> <p>IGI holds a dominant position in lab-grown diamond certification with a 65% global market share, positioning it to benefit from the growing consumer preference for sustainable options. The affordability of lab-grown diamonds enhances their growth prospects, while natural diamond certifications expects to foresee steady growth. In India, IGI collaborates with domestic as well as international jewellery retailers for co-branded reports which enhances their overall market presence. There are no listed comparable peers globally having similar business dynamics. However, IGI has delivered strong financial metrics – i) Revenue growth of 32% between CY21-23, ii) attractive operating margin profile of ~65-70%, and iii) ROE and ROCE stood at 56.6% / 91.5%, respectively. Further, IGI's has a strong market position and has a potential to benefit from anticipated demand in the diamond certification sector. Thus, we believe issue is valued at a reasonable valuation of ~42x to 9M CY24 annualized earnings and recommending SUBSCRIBE to the issue.</p>		
Bidding Date	13 th - 17 th Dec'24					
Book Running Lead Manager	Kotak Mahindra Capital, Axis Capital Limited, SBI Capital Markets Limited, Morgan Stanley India					
Registrar	KFin Technologies Ltd					
Sector	Jewellery-Services					
Minimum Retail Application- Detail At Cut off Price						
Number of Shares	35					
Minimum Application Money	Rs. 14,595					
Discount to retail	0					
Payment Mode	ASBA					
Consolidated Financials (Rs Cr)	CY22	CY23				
Total Income	491	898				
EBITDA	335	496				
Adj PAT	243	319				
Valuations (CY23)	Lower Band	Upper Band				
Market Cap (Rs Cr)	17,157	18,021				
Adj EPS	7.37	7.37				
PE	53.8x	56.6x				
EV/ EBITDA	33.7x	35.5x				
Enterprise Value (Rs Cr)	16,738	17602				
Post Issue Shareholding Pattern						
Promoters	76.6%					
Public/Other	23.4%					
Offer structure for different categories						
QIB (Including Mutual Fund)	75%					
Non-Institutional	15%					
Retail	10%					
Post Issue Equity (Rs. in cr)	86.4					
Issue Size (Rs in cr)	4,225					
Face Value (Rs)	2					
Priyanka Ghadigaonkar Research Analyst (+91 22 6273 8177) priyanka.g@nirmalbang.com						
Financials	CY21*	CY22	CY23	9M CY24	CY23#	9M CY24 #
Net Revenues	365	491	639	596	898	788
Growth (%)		34.6%	30.0%	31.4%	82.9%	73.7%
EBITDA	241	335	450	429	496	442
EBITDA Margin (%)	66.0%	68.3%	70.5%	72.0%	55.2%	56.0%
PBT	236	329	444	440	455	435
Adjusted PAT	172	242	325	326	319	319
EPS	3.97	5.59	7.51	7.54	7.37	7.39
ROCE	62.2%	64.5%	81.0%	91.5%	NM	NM
EV/Sales	48.5x	36.0x	27.7x	22.2x	19.6x	16.8x
EV/EBITDA	73.5x	52.7x	39.3x	30.9x	35.5x	29.9x
P/E	105.1x	74.5x	55.5x	41.5x	56.6x	42.3x

*CY21 is on Standalone basis.
#CY23 & 9M CY24-Proforma basis.
Source: RHP, NBRR

Company Background

The International Gemmological Institute (IGI), established in 1975 and headquartered in Antwerp, Belgium, is the largest independent gemmological laboratory globally. It specializes in the certification of diamonds, colored stones, and jewellery, operating over 30 laboratories worldwide, including locations in India, New York, and Hong Kong. IGI also runs Schools of Gemology to educate professionals in the field.

Acquired by the Blackstone Group in May 2023, IGI holds a significant market position, particularly in India, where it commands a 50% market share in certification services. The institute is ISO certified and recognized for its innovative grading systems and educational programs.

The company is currently involved in providing the following services & products:

1. Certification Services

- **Diamond Grading:** IGI provides detailed grading reports for both natural and lab-grown diamonds, assessing the 4Cs: carat weight, cut, color, and clarity.
- **Colored Stone Evaluation:** Each colored gemstone is analyzed for species, variety, and any treatments that may affect its quality.
- **Jewellery Assessment:** IGI evaluates finished jewellery pieces, ensuring quality and authenticity through rigorous testing.

2. Educational Programs

- **Gemology Courses:** IGI runs Schools of Gemology worldwide, offering various courses in gemology, including diplomas and certificates that cover diamond grading and gemstone identification.
- **Online Learning:** The institute provides eLearning options for flexibility in education, catering to a global audience.

3. Research and Development

- IGI invests in research to improve gemological practices, including advancements in distinguishing between natural and synthetic diamonds.

4. Consumer Services

- **Registration & Recovery:** Jewellery can be registered in IGI's database to assist in recovery if lost or stolen.
- **Appraisal Services:** Independent estate valuations are offered for various purposes, including estate tax assessments.

5. Additional Offerings

- **Laser Inscription:** Diamonds can be inscribed with unique identifiers for added security and traceability.
- **Sorting Services:** IGI provides sorting services for diamond parcels to detect laboratory-grown diamonds or simulants.

Revenue Breakdown by Product Categories

Particulars	Post-Acquisition Group			Pre-Acquisition Group			
	9MCY24	CY23	9MCY23	9MCY23	CY23	CY22	CY21
Revenue from Certification services							
- <i>Natural diamonds</i>	141	166	116	93	122	122	118
- <i>Laboratory-grown diamonds</i>	407	413	352	234	334	205	129
- <i>Studded jewellery & coloured stones</i>	215	284	118	114	164	151	110
Revenue from Education	19	23	4	5	5	4	2
Revenue from Others	6	12	7	8	12	9	5

Source: RHP, NBRR

Operating Metrics

Particulars	Post-Acquisition Group			Pre-Acquisition Group			
	9MCY24	CY23	9MCY23	9MCY23	CY23	CY22	CY21
Number of IGI laboratories	31	31	20	20	20	19	16
Number of schools	18	18	9	9	9	8	8
Number of reports (in crores)	0.77	0.84	0.69	0.52	0.72	0.59	0.43

Source: RHP, NBRR

Revenue from contracts with customers

Particulars	Pre-Acquisition Group				
	9MCY24	9MCY23	CY23	CY22	CY21
Within India	98.57%	97.23%	97.82%	93.44%	92.77%
Outside India	1.43%	2.77%	2.18%	6.56%	7.23%

Source: RHP, NBRR

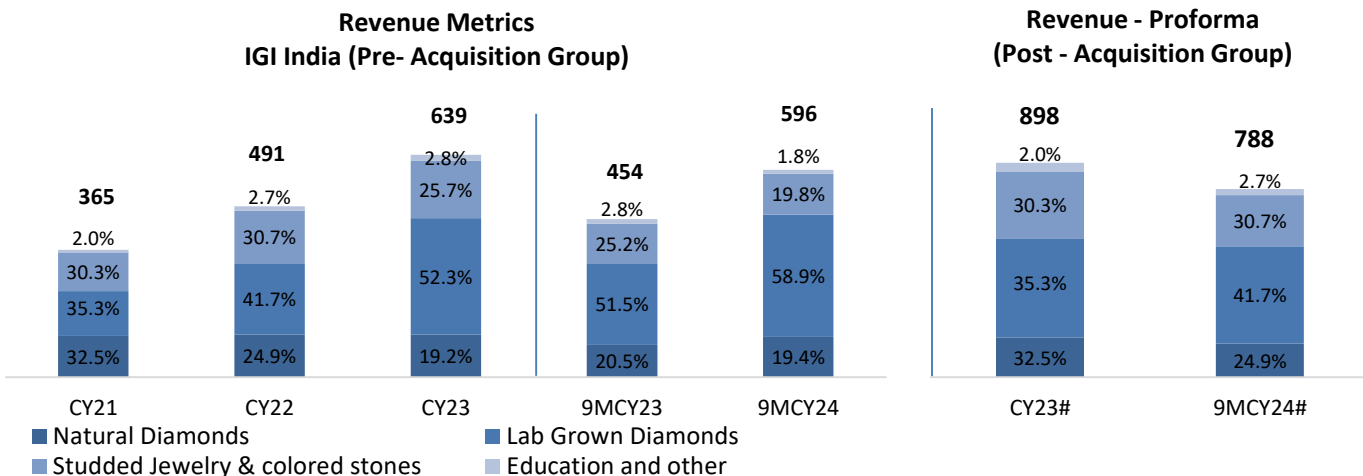
Revenue from Top Customers

Particulars	Pre-Acquisition Group				
	9MCY24	9MCY23	CY23	CY22	CY21
Top 10 customers	44.17%	43.67%	40.69%	33.94%	23.63%
Top 15 customers	51.45%	48.70%	46.46%	38.98%	29.01%

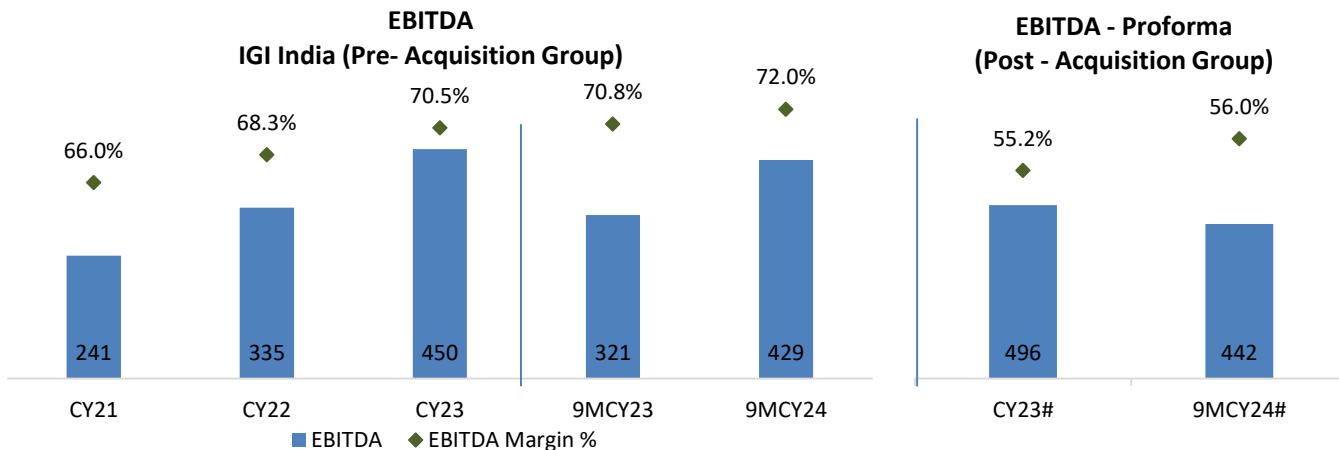
Source: RHP, NBRR

Financial Performance

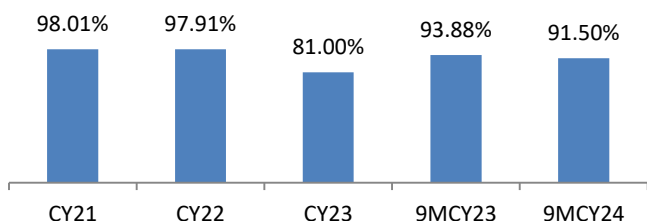
Topline and Operating Performance*



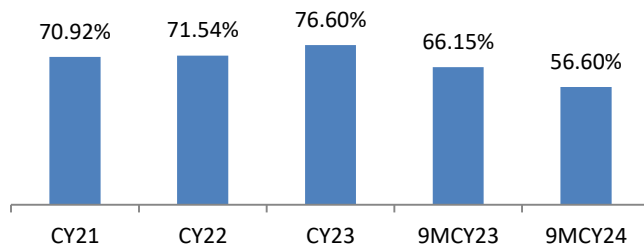
Operating Margin



Return on Capital Employed



Return on Equity



Source: RHP, NBRR

Investment Rationale

Market Leadership

The company holds a 33% global market share in certification services and dominates the laboratory-grown diamond segment with a 65% market share. India, world’s largest center for cutting and polishing diamonds accounting for ~95% of the world’s total polished diamonds in volume terms in CY23 bodes well for IGI’s future growth prospects. IGI is the largest independent certification and accreditation services provider in India, holding ~50% market share in terms of number of certifications for diamonds, studded jewelry and colored stones for CY2023. It has a brand heritage of 50 years in a market with only 2 players of scale globally.

IGI collaborates with retailers in India for co-branded certifications. It has also partnered with international retailers for co-branded certifications of laboratory-grown diamonds. The same is aimed at building the trust amongst its customers and creating market awareness.

Expanding international footprint

The company has significantly expanded its international footprint, establishing itself as a global leader in gem certification. It operates 31 laboratories and 18 gemology schools across 10 countries, including major markets such as the USA, India, and Belgium. Following its acquisition by Blackstone in 2023, IGI aims to leverage enhanced operational expertise and technology to accelerate growth and enhance its global presence. The company is recognized for its rigorous quality standards, making it a trusted authority for manufacturers and consumers alike. With strategic acquisitions planned in Belgium and the Netherlands, IGI is poised to integrate these operations into its framework, further solidifying its position in the global market. This extensive network not only enhances IGI's operational capabilities but also allows it to tap into key markets and serve a diverse clientele that includes manufacturers, retailers, and consumers.

Future growth potential

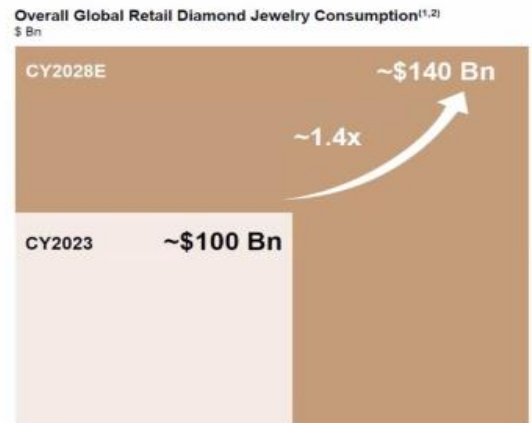
The company is set for substantial growth, fueled by the global diamond market projected to reach \$140 billion by 2028 and the certification market expected to grow from \$650 million in 2023 to \$1 billion.

With India contributing 89% of its 2024 overall revenue, IGI plans to use proceeds from its Rs. 4,225 crore IPO for strategic acquisitions in Belgium and the Netherlands, enhancing operational capacity and market presence. IGI holds a dominant 65% share in lab-grown diamond certification, positioning it well to benefit from the shift towards sustainable options. Natural diamond certifications has a steady growth potential backed by their origin, while Lab-grown diamonds are appealing due to their affordability as they have similar characteristics and follow a similar certification process.

Industry has seen shift in consumer preferences where Gen-Z are moving towards more affordable options like Lab grown diamonds with gradual up scaling towards natural diamond based on their increase in discretionary income.

Caters to wide range of customers

The company offers specialized reports, including jewellery identification reports and appraisal documents, which are essential for insurance purposes and consumer confidence. This customization meets the needs of both individual buyers and businesses. The customers of IGI span the entire jewellery value chain including the Diamond manufacturers and growers, wholesalers, Jewellery manufacturers, retailers and brands, and the ultimate customers. It serves more than 7500 customers globally and 9 out of top 10 jewellery chains in India.



High Risks and concerns

High dependence on limited number of key customers

The Pre-Acquisition Group derived a significant portion of the revenue from the top 15 customers, and any inability to retain the key customers or attract new customers and expand the customer network, could negatively affect the business and results of operations.

Market Dependence

The revenue of the Pre-Acquisition Group is primarily concentrated in the states of Gujarat and Maharashtra in India, and any adverse developments affecting these regions in India could adversely affect the business, financial condition, results of operations and cash flows.

Any material changes in government regulations, tax laws and legal uncertainties may have an adverse effect on the company's overall performance

The company faces potential regulatory and legal challenges that could impact its operations. Changes in government policies, rules, or laws could affect its ability to conduct business smoothly and may introduce operational uncertainties. The company and its affiliates are involved in legal proceedings, which could pose risks to its reputation and business operations. Any negative outcomes in these legal matters may have an adverse effect on the company's financial health and market position.

Valuation and Recommendation

IGI holds a dominant position in lab-grown diamond certification with a 65% global market share, positioning it to benefit from the growing consumer preference for sustainable options. The affordability of lab-grown diamonds enhances their growth prospects, while natural diamond certifications expects to foresee steady growth. In India, IGI collaborates with domestic as well as international jewellery retailers for co-branded reports which enhances their overall market presence.

There are no listed comparable peers globally having similar business dynamics. However, IGI has delivered strong financial metrics – i) Revenue growth of 32% between CY21-23, ii) attractive operating margin profile of ~65-70%, and iii) ROE and ROCE stood at 56.6% / 91.5%, respectively. Further, IGI's has a strong market position and has a potential to benefit from anticipated demand in the diamond certification sector. Thus, we believe issue is valued at a reasonable valuation of ~42x to 9M CY24 earnings and **recommending SUBSCRIBE to the issue.**

Financials

P&L (Rs. Cr)	CY21*	CY22	CY23	9MICY23	9MICY24	CY23#	9MICY24#	Balance Sheet (Rs. Cr)	CY21*	CY22	CY23	9MICY23	9MICY24	CY23#	9MICY24#
Net Revenue	365	491	639	454	596	898	788	Share Capital	0	0	0	0	79	0	79
% Growth		35%	30%		31%	83%	74%	Other Equity	242	339	509	450	564	-580	-530
Purchases of stock in trade	2	2	3	3	3	3	3	Networth	243	339	509	450	643	-580	-451
% of Revenues	0.5%	0.4%	0.5%	0.6%	0.4%	0.4%	0.3%	Total Loans	0	0	0	0	0	0	0
Employee Cost	74	88	97	71	84	235	199	Other non-curr liab.	21	31	30	34	32	144	137
% of Revenues	20.2%	17.8%	15.2%	15.6%	14.1%	26.2%	25.2%	Trade payable	15	5	9	6	9	19	13
Other expenses	49	66	88	59	81	164	145	Other Current Liab	42	33	55	52	91	1447	1477
% of Revenues	13.4%	13.5%	13.8%	13.0%	13.5%	18.2%	18.4%	Total Equity & Liab.	320	409	603	541	776	1031	1177
EBITDA	241	335	450	321	429	496	442	Property, Plant and Equipment	65	71	75	73	77	144	145
EBITDA Margin	66.0%	68.3%	70.5%	70.8%	72.0%	55.2%	56.0%	CWIP	0	0	20	16	35	20	35
Depreciation	12	12	13	10	11	42	31	Other Intang assets / Right of use	28	39	42	44	42	238	230
Other Income	10	8	10	5	23	12	31	Non Current Financial assets	2	2	80	57	103	94	108
Interest	2	3	3	2	2	10	7	Other non Curr. assets	19	20	26	15	3	42	27
PBT	236	329	444	315	440	455	435	Inventories	0	0	1	1	1	1	1
Tax	65	88	119	76	114	125	118	cash and cash equivalents	164	199	238	206	340	321	418
<i>Tax rate</i>	<i>27%</i>	<i>27%</i>	<i>27%</i>	<i>24%</i>	<i>26%</i>	<i>27%</i>	<i>27%</i>	Other financial assets	5	6	7	5	17	16	28
Other Comprehensive income	1	1	(15)	(15)	(2)	(12)	3	Trade receivables(debtor)	34	63	108	116	131	125	149
Adj. PAT (norm. Tax)	172	242	325	239	326	319	319	Other Current assets	2	8	7	9	25	30	35
<i>% Growth</i>		<i>41%</i>	<i>34%</i>	-	<i>37%</i>	<i>31%</i>	<i>43%</i>	Total Assets	320	409	603	541	776	1031	1177
EPS (Post Issue)	3.97	5.59	7.51	5.52	7.54	7.37	7.39								

Ratios & Others	CY21*	CY22	CY23	9MICY23	9MICY24	CY23#	9MICY24#
Debt / Equity	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
EBITDA Margin (%)	66.0%	68.3%	70.5%	70.8%	72.0%	55.2%	56.0%
PAT Margin (%)	47.0%	49.2%	50.9%	52.6%	54.7%	35.5%	40.5%
ROE (%)	74.4%	83.1%	76.6%	60.5%	56.6%	NM	NM
ROCE (%)	62.2%	64.5%	81.0%	93.9%	91.5%	NM	NM

Turnover Ratios	CY21*	CY22	CY23	9MICY23	9MICY24	CY23#	9MICY24#
Debtors Days	34	47	62	70	60	51	52
Inventory Days	0	0	0	1	1	0	1
Creditor Days	15	4	5	3	4	8	5
Asset Turnover (x)	1.1x	1.2x	1.1x	1.1x	1.0x	0.9x	0.9x

Valuation Ratios	CY21*	CY22	CY23	9MICY23	9MICY24	CY23#	9MICY24#
Price/Earnings (x)	105.1x	74.5x	55.5x	56.6x	41.5x	56.6x	42.3x
EV/EBITDA (x)	73.5x	52.7x	39.3x	41.3x	30.9x	35.5x	29.9x
EV/Sales (x)	48.5x	36.0x	27.7x	29.2x	22.2x	19.6x	16.8x
Price/BV (x)	74.3x	53.1x	35.4x	40.0x	28.0x	NM	NM

Cash Flow (Rs. Cr)	CY21*	CY22	CY23	9MICY23	9MICY24
Profit Before Tax	236	329	444	315	440
Provisions & Others	6	6	14	10	(7)
Op. profit before WC	242	335	458	325	432
Change in WC	0	(45)	(27)	(40)	(14)
Less: Tax	(48)	(97)	(133)	(87)	(91)
CF from operations	193	194	297	198	327
Purchase/Sale of fixed assets	(4)	(11)	(38)	(24)	(16)
Sale/Purchase of Investments	(18)	(38)	(33)	7	(221)
Interest, dividend and other inc	9	6	5	3	9
CF from Investing	(13)	(43)	(66)	(13)	(228)
Principal payment of lease liabs	(22)	(5)	(7)	(5)	(6)
Interest paid on lease liabs	(2)	(2)	(2)	(2)	(2)
Dividend paid	(148)	(146)	(140)	(112)	(190)
CF from Financing	(171)	(154)	(149)	(119)	(197)
Net Change in cash	9	(3)	82	66	(98)
Cash & Bank at beginning	27	36	34	34	117
Foreign currency translation diff	0	0	0	1	1
Cash & Bank at end	36	34	117	101	20

Source: Company Data, NBRR

*FY21 is on Standalone basis, # FY23 & 9MFY24 are on proforma basis except CFS

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