Goldiam International Ltd

MANUFACTURERS & EXPORTERS OF DIAMONDS & JEWELLERY

CIN:L36912MH1986PLC041203

November 13, 2023

To, BSE Limited PhirozeJeejeebhoy Towers, Dalal Street, Mumbai- 400 001. **Scrip Code: 526729**	To, National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Mumbai- 400 051. **Scrip Code: GOLDIAM EQ**

Dear Sir/Madam,

Sub: Transcript of Earnings/Conference call on operational and financial performance for Q2 FY 2023-24.

In continuation to our intimation dated October 31, 2023, and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed a transcript of the Earnings/Conference Call held on November 10, 2023 to discuss the operational and financial performance for Q2 FY 2023-24.

The transcript is also available on the Company's website at www.goldiam.com

Kindly take the above on record and oblige.

Yours faithfully,
For **Goldiam International Limited**

PANKAJ PARKHIYA

Digitally signed by PANKAJ PARKHIYA
DN: c=IN, o=Personal, title=0334, pseudonym=13337159240827588 4Lr75NicWP36845, 2.5.4.20=20fe52eeeffb9343afb0e340d5a6fdbc7c635c54f077beb9849a60a7f697db37, postalCode=400068, st=Maharashtra, serialNumber=6589d711b0fc6c5e6f46413237fe671e0af1f76000d17313054b761f06d7060f, cn=PANKAJ PARKHIYA
Date: 2023.11.13 16:44:15 +05'30'

Pankaj Parkhiya
Company Secretary & Compliance Officer (ACS 30395)

Registered Office
Gems & Jewellery Complex, Santacruz Electronics Export Processing Zone, Andheri (East), Mumbai-400096. India
Phones: (022) 28291893/28290396/28292397 Fax : (022) 28292885 Email:- investorrelations@goldiam.com
Website: www.goldiam.com

“Goldiam International Limited

Q2 FY ’24 Earnings Conference Call”

November 10, 2023

MANAGEMENT: **MR. RASHESH BHANSALI -- EXECUTIVE CHAIRMAN -- GOLDIAM INTERNATIONAL LIMITED**
MR. ANMOL BHANSALI – MANAGING DIRECTOR -- GOLDIAM INTERNATIONAL LIMITED

MODERATOR: **MR. RAHUL DANI -- MONARCH NETWORTH CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Goldiam International Q2 FY 2024 Earnings Conference Call, hosted by Monarch Networth Capital.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Dani from Monarch Networth Capital. Thank you. And over to you, sir.

Rahul Dani: Yes, thank you Rohit. Good afternoon everyone. On behalf of Monarch Networth Capital, it's our pleasure to host the management of Goldiam International and we have with us Mr. Rashesh Bhansali, Executive Chairman and Anmol Bhansali, Director of the company. We will start the call with opening remarks from Anmol Bhansali and then we'll move to Q&A. Thank you and over to you Anmol.

Anmol Bhansali: Great, thank you. Ladies and gentlemen, good evening. Firstly, I would like to extend my warm wishes to each and every one of you on the auspicious occasion of Dhanteras. May this festival bring prosperity and joy to all yours and your family's lives. I am delighted to stand before you today to share the remarkable success of Goldiam International Limited in the second quarter of fiscal year 2024.

Despite the challenging macro environment in our key markets, particularly in the USA, our company has exhibited solid growth, showcasing the growing resilience that Goldiam possesses in the face of adversity. The results we present today are a testament to the hard work and dedication of our team.

Over the past quarter, Goldiam has faced and overcome challenges, marking a turning point after four consecutive quarters of a tough macro environment. This growth is underpinned by our commitment to excellence, better product management, a refined sales strategy, and a very robust balance sheet that is at the heart of our company. I am pleased to announce that our lab-grown jewellery division is advancing exceptionally well.

Our strategy to focus on selling the best designs and higher- caratage lab-grown diamond jewellery has proven successful. Goldiam is at the forefront of the industry's transformation, transitioning from a traditional in-store natural diamond jewellery supplier to a major player in the lab-grown diamond jewellery value chain. Our strong omnichannel sales. as well have been a key driver to further enhance this success.

In line with our commitment to shareholder value, the Board of Directors has recommended an interim dividend of 60% of the face value, continuing with our profit distribution policy. While the USA remains a crucial market for us, we are excited to share that Goldiam is expanding its footprint into newer territories. We are making strides in the Middle East, the UK, the

European Unions, as well as potentially broadening our horizons with an introduction in India in order to reach new audiences.

Our order book, excluding online sales, stands strong at INR165 crores, reflecting the confidence our customers have in Goldiam's products, design capabilities, and services. In conclusion, I would like to express my gratitude to our dedicated team, our valued customers, and esteemed shareholders support. Goldiam International Limited remains committed to delivering excellence, innovation, and value in the dynamic world of studded jewellery.

Thank you. Here's to a prosperous future for all of us. And I would like to now open the call for questions from all participants.

Moderator: The first question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi Yes, thanks for the opportunity and congratulations for a good performance considering the environment in the US. So my first question is on the demand scenario. So if you can broadly touch upon that in the US, how is the demand scenario at ground level separately for natural diamond and the lab-grown diamond?

And do you feel that lab-grown, the growth in such an inflationary environment, the lab-grown growth can help us survive the downturn? And secondly, in Q4 con call, you have mentioned that many retailers are doing the discounting at the store level. So has that scenario is also behind us or still you feel that the discounting will continue for a few more quarters?

And if we see our – third question was, if we see our revenue mix has shifted from natural to lab-grown year-on-year significantly, still our margins were lower or I would say that it has not expanded much. So are you seeing the pressure on the margins in lab-grown?

Anmol Bhansali: Thank you, Mr. Dixit. Very interesting questions. Let me address the first one. Demand scenario in the US, of course, the macro environment remains challenging, particularly for our set of retailers, our target audience, which is middle market USA. The end customer is impacted by higher mortgage rates, higher interest rates that are eating away from their available wallet share for discretionary spend. So definitely the demand scenario in general on a macro level is challenging.

This is also compounded by the fact that in the prior years, there was a boom in bridal sales and our company being more of a bridal-focused company, we have enhanced presence within bridal jewellery. So the last four quarters, we have faced a challenge in terms of further uptake of bridal jewellery sales. As a result of this macro environment and the change that happened between natural diamond jewellery moving to LGD, we see that we are mitigating the lack of demand in natural diamond jewellery with an increase in demand in lab-grown diamond jewellery.

And I think the reason for that is it's a very unique sales channel that Goldiam has where we are in fact benefiting because of this almost dip in demand and the challenging macro environment, because consumers are being almost pushed into buying more lab-grown diamond jewellery because of tighter wallet restrictions. With our presence in lab-grown and the end-to-end supply chain that we have within our company, I think this in the long-term will bode well for us, especially when lab-grown prices find stability. Addressing your next question, in the previous con call, we did suggest that there was discounting happening at the retail level.

I see that continuing, especially as we enter a very crucial season of Thanksgiving and Christmas. This is the main selling period in the United States, when a lot of retailers take large discounts to attract shoppers into their stores. It is the equivalent in the United States as the Diwali and festive sales period is in India.

So it's a very crucial sales period for us. I do believe that our target set of retailers, which is this mid-market, these retailers that address the middle market and mid-income levels in the US, they will be aggressively discounting to peter down their inventories of natural diamond jewellery that they have with them. Increasingly, we are seeing all these retailers shift toward new orders being placed on lab-grown, as you can see in our sales mix as well.

Addressing your third question, yes, the revenue mix has shifted. We are extremely positive and extremely happy that we've been able to increase our percentage of revenue on a higher base of lab-grown diamond jewellery from 19% in Q2, FY 2023 to 34%, 35% in Q2 FY 2024. This is an exciting development and shows the strides that we are taking as a company to be branded as the go-to supplier for large, major retailers in the US for lab-grown diamond jewellery.

They now know us not just as a bridal house, not just as a well-run design and well-designed providing jewellery manufacturer and OEM manufacturer for their needs, but they also see us as an end-to-end supplier now within the lab-grown diamond space, where they know we are able to grow diamonds ourselves, create beautiful jewellery using our own grown diamonds, thereby giving them the best prices, as well as being able to – being capable to deliver lab-grown diamond jewellery within .com, which is five to seven business day orders.

So, yes, we are very happy with the shift in revenue mix and this has come on an environment where lab-grown diamond prices, as you must have read, have fallen globally. So, I think, you know, we've managed and mitigated our inventory accordingly and so far the EBITDA margins overall have been stable around that 20%, 22%. We're very happy with this.

I think in the long-term, stability in this range is something we can look forward to and we would be very happy with. And, yes, and just to add to that point, we see lab-grown prices now moving forward being fairly stable as well.

Dixit Doshi Okay, I have a couple of more questions. Should I ask?

Moderator: Sure, you can.

Dixit Doshi Yes, thanks. So, one is on, you have mentioned that 75% of the inventory is lying at the store levels. So, in the inventory at the store level and also in the order book, what percentage would be lab-grown jewellery and natural? And my second question was regarding the India strategy.

So, if you can, last time in the call you have mentioned maybe six months down the line you will elaborate a bit more. So, if you can share any more thoughts on that. And in India, looking at the real estate prices and the rentals, do you feel that the offline model, online model would be much better than the offline model? Thank you. That's my question.

Anmol Bhansali: Thank you, Mr. Dixit. So, yes, 75% of our inventory sits with customers. It's constantly selling every day. We get consignment sales. So, we get reporting every month from our customers and we know what's selling, and it gives us great data to power new designs with. I would – don't have the figure offhand, but I would estimate over 40% to 45% of our inventory sitting with customers is now LGD, lab-grown diamonds.

I can get back to you with the exact figure after the call. Regarding the India strategy, the update generally is that here management is working towards planning how we should go about launching stores in the country. We would like to do a test plant.

We have no large further updates other than the willingness that we want to make a small investment to test out this distribution channel. And we'll be sharing further updates once plans are made concrete and sorted out. In general, we have seen, however, just sharing my personal thoughts, because jewellery is a larger ticket size item in India, it almost works out better to -- most sales happen in-store.

So, it works out better to invest in brick and mortar than online. Online is a great piece to always have because people look online, they want to see new collections online, they discover brand and new items online, but they more so, what we've seen is they end up coming to stores to actually make a purchase happen.

That is the thesis we are currently working with. And once we have further updates, we can certainly get back to you on that.

Dixit Doshi Okay. That’s it from my way. Thank you.

Moderator: The next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: Hello. Sir, what do – we mean by the inventory sitting with the customer 75%? Is it a sale or can it be returned back?

Anmol Bhansali: Thank you, Mr. Rajesh. This inventory is what we call consignment. It's inventory that sits on our books, but it's physically present in the retailer gold. It's considered a sale once it's sold by the retailer and they report sales to us on a monthly basis and pay us accordingly immediately every month, as and when they report sales. It is certainly open to be sent back to us and it's not booked as a sale on our consolidated P&L.

Rajesh Agarwal: And sir, the second question is on margin. Though the product mix is changing, it is going more to LGD, which we had a better margin. So why the overall margin has fallen?

Anmol Bhansali: Thank you. So in general, in H1, we have about INR10 crores to 12 crores of inventory realignment that we have taken as lab-grown prices have fallen. We have that booked in our financials as well. I think it is sustainable as the lab-grown diamond industry matures to expect 20% to 25% broad range EBITDA margin coming from lab-grown diamond jewellery sales.

And I think we are very happy with the level of margin performance we have delivered in the range of 20% to 22%. If we can sustain this during this environment, we would certainly be very happy with that. I will open the floor to our chairman, as well, if there are any comments regarding the margin percentages as well.

Rashesh Bhansali: Hello, everybody. So regarding the margins, it is very clear that honestly, the company is very happy looking at the industry, looking at the scenario. And I believe we are leaders in the margin front for sure, including design. If you compare any other balance sheets, like-to-like balance sheets, with companies who export lab-grown diamond jewellery or natural diamond jewellery, you would see that Goldiam will shine brighter in terms of margin than anyone else, listed or unlisted. That is number one.

And number two, as Mr. Anmol said, we have taken an inventory revaluation and that has reduced on books the margin percentage, right. But with this revaluation of inventory and with the pricing stabilizing in lab-grown, we are confident that we will maintain the current margin that you are seeing going forward.

Rajesh Agarwal: So the current margin has come down. Going forward, we will maintain 22% on both natural and LGD mixed together or?

Rashesh Bhansali: We are looking at anywhere between 20% to 25% EBITDA margin on a company level.

Rajesh Agarwal: On the company level. Okay. And including a mix of both natural and lab-grown.

Rashesh Bhansali: Yes.

Rajesh Agarwal: Lab-grown business will continue to grow. That will have a better margin than natural diamond going forward?

Rashesh Bhansali: Traditionally, always lab-grown will enjoy a better margin because number one, you have to understand that we are growers. So we have a complete backward integration, right. And that helps us to achieve better margins than natural diamond business.

Rajesh Agarwal: Okay. And sir, on the demand outlook in US, is this because of the seasonal in nature for Christmas and all or it can sustain that lab-grown, the demand can sustain?

Rashesh Bhansali: You see, the jewellery business works on a seasonal cycle. Clearly, this is Christmas time and orders, what you have seen is getting prepared for Christmas. So, always these two quarters and the existing quarter will be our best performing quarters.

Rajesh Agarwal: But going forward, still the lab-grown year-to-year or quarter-to-quarter still will grow by double-digit?

Rashesh Bhansali: Yes, we hope that will happen. Yes.

Rajesh Agarwal: Okay. But there is no cannibalization in that lab-grown as the market share has not increased, the lab-grown has eaten the market share of natural diamond? Or the market is going?

Rashesh Bhansali: What is happening is lab-grown diamonds, whether it is physically, optically, chemically, the same as a natural diamond product. So, eventually with the interest rates and the cost of natural diamonds, people are preferring, consumers are preferring to buy lab-grown diamonds because number one, the product is the same. The look is better and the pricing is much more economical for their wallets right now. So, I assume in time, both businesses, both type of products will run their own race and both will continue to be part of jewellery business.

Rajesh Agarwal: But if there is a competition in lab-grown diamond, the margins may reduce? No, it may not reduce.

Rashesh Bhansali: Well, you see for us, because of the forward integration, backward integration that we currently enjoy and we are probably one of the only companies out there who actually grow the diamond, cut the diamond, design the jewellery, produce the jewellery and export jewellery to direct retailers. So, I think with that, margins will continue to be stable.

Rajesh Agarwal: And current year, will the revenue growth be there in double-digit? In the current year?

Rashesh Bhansali: That I am not very clear about because our order book currently is at INR165 crores. So, that is, you know, I think next quarter or the current quarter also will stay good and then we will have to see what the first quarter brings to the table.

Rajesh Agarwal: So, when we talk about order book, is it towards the retailers or it is like a raw LGD?

Rashesh Bhansali: No, it is retailers' orders on us.

Anmol Bhansali: Yes.

Moderator: Thank you. The next question is from the line of Priyank Parekh from Abakkus PMS. Please go ahead.

Priyank Parekh: Yes, thank you. So, I wanted to understand on our strategy with respect to the treasury investment we have in our books. So, how we are planning it over a long-term period?

Anmol Bhansali: Sure. Thank you, Priyank. So, the treasury we have on our books is largely invested in mutual funds, liquid funds and direct bonds. So, we only work with very, very safe products as we are a publicly listed company and we have our treasury available for us such – as and when investable opportunities come on the table.

Priyank Parekh: Okay. So, eventually we want to use it for our core business. Is that the right way to conclude it?

Anmol Bhansali: Yes, eventually that would be the idea.

Priyank Parekh: Okay. Got it. Secondly, I want to understand on the competitive forces around our business. So, the question is like when the opportunities are such large around the lab-grown diamonds, aren't we seeing the original manufacturers like DBS or other big manufacturers coming into this space and if they come, how we are going to tackle that competition?

Anmol Bhansali: Understood. So, large – DBS specifically, already is one of the largest diamond growers in the world. They have a diamond growing factory in the United States and they are selling only direct-to-consumer finished jewellery themselves through a brand called Lightbox. So, they are already very present in the industry and I think we are well capable to take on this competition.

They are not selling into the trade and into the trade channels which gives us a great opportunity to take market share in our retail clients. More than anything else, I think DBS's entry which happened three, four years ago, really formalized and give ignited the fire behind the lab-grown diamond sector. It almost made it such that this art of the industry could no longer be ignored and large retailers in America had to create presence of jewellery inventory in their stores of lab-grown diamond jewellery.

So, this gave us a great boost and it almost institutionalized the industry and specifically, this financial year, we have seen a large flip, where as in the [JCOM], the mass consumer adoption is happening, where general public in the US no longer has any misconceptions about lab-grown diamonds. It's very common what these diamonds are, why are they different from natural, if at all is there any differences in pricing and in quality or any such thing.

The general adoption levels have now reached a standard where it is really getting into that mass adoption phase. I think there, DBS's entry has only been helpful and we look forward to continuously working on our next step.

Priyank Parekh: So, I want to understand what sort of competitive advantage we have in this phase. So, is it our distribution network, is it the technique we have for growing the hits in a more cost-efficient manner or something on that front like, yes?

Anmol Bhansali: So, it's a great question. What we maintained always from the past has been that the only sustainable competitive advantage and the only sustainable right to win is in distribution. So, for a company like ours, being backward integrated into growing lab-grown diamonds will only help us with additional margin and a boost to our margin profile. But the true sustainable advantage and competitive advantage is in securing strong distribution with large retail partners and forward integrating into jewellery as much as possible.

About three years ago, when Goldiam invested in the lab-grown diamond space through Eco-Friendly Diamonds LLP, the subsidiary which is Eco-Friendly Diamonds LLP that was in the growing business, almost all of its diamonds which were being grown were being sold loose in the wholesale market. Today, over 90% of it is forward integrated into Goldiam's order book and sold as finished jewellery to large retailers.

Not just that, but we add additional value to our retailers through extremely strong design practices, data-driven design development and new product development and of course, something that our retailers love, which is our capability and strength of supplying lab-grown diamond jewellery on their online websites.

So, even within lab, we've matched our timeframes as we do a natural diamond jewellery, which is if an order comes on day one, within five to seven days, finished ring-sized customized jewellery gets shipped out to the end customer. So, these forward integrations, these value-add services, the strength we have on design, all of these are the true sustainable competitive advantages that we enjoy even within the lab-grown diamond space.

Moderator: Thank you. The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.

Bhavya Gandhi: Yes, thank you for the opportunity and congratulations to the management on good set of numbers. My first question is related to the INR165 crores order book. Just wanted to know what is the timeline to execute this order and is it a one-time order or will it be like a repetitive order for next year as well?

Anmol Bhansali: Thank you, Bhavya. The INR165 crores order book will be executed in the next three to four months. This is usually recording orders that come from our six islands that are already in the retailer's store. Style expansions or new style launches with our existing large retail customers.

Bhavya Gandhi: Okay. So basically it's a recurring order only. I mean that's an ongoing process, not one-time or one-off sort of contract, right?

Anmol Bhansali: Correct. It's a recurring.

Bhavya Gandhi: Recurring. Another question is related to capacity constraints. As such, we don't have any capacity constraints. Say for example, if the demand shoots up during Christmas or this festive season, we don't face any capacity constraint, right? Or are the laborers become like a limitation or a constraint to sort of produce the jewellery?

Anmol Bhansali: So we don't have any such capacity constraints. Our business is and always has been seasonal, where Q2, Q3 are always our best quarters. We've always maintained that as a company and we should be evaluated year-on-year rather than Q-on-Q because only Q2, Q3 is comparable to Q2 and Q3 of the last year. And as you've seen historically, you know, where we've well managed the rise in sales during these two quarters every year, there is no such capacity constraint in delivering more jewellery products.

Bhavya Gandhi: Right. And with respect to our retailers in USA, are they startups or established players? Just wanted to know like are they funded through external parties because in the initial phase what happens if they are startups, you know, they may pump in money to grow their sales. But once they stabilize, you know, their growth itself becomes, you know, sort of shady in the long run. So if you can throw some light on that and what is their revenue contribution top five customers to the overall revenue, if you can throw some light on that.

Anmol Bhansali: So our largest retail, our largest customers are all very well established traditional retail houses. So we work with the largest retailer in the US, the largest jewellery retailer in the US, which is a listed US company called Signet Jewelers. We work with many large, very well established department stores, wholesale clubs and specialty regional retailers and large wholesalers as well.

So fairly well established, you know, dominant customers, retail customers that have been around for at least a decade, if not much, much more. In terms of our revenue contribution, our top five customers would probably be, I don't have the exact figure with me, but they would be in that range of 50% to 55% of our overall revenue.

Bhavya Gandhi: Okay, and top 10, if you can, if you have it handy or if you're aware of.

Anmol Bhansali: I'll be able to get back to you on that, Bhavya, after the conference call.

Bhavya Gandhi: Perfect, perfect. No issues. And we have 30% backward integration when it comes to manufacturing LGDs, right?

Anmol Bhansali: Correct.

Bhavya Gandhi: Perfect. So any plans on, you know, sort of increasing the capacity or let the price fall and maybe at a later stage when, you know, sort of we find some opportunity at that point, we plan to, you know, sort of add merchants over there.

Anmol Bhansali: So our contribution of lab-grown diamond Jewellery has really, you know, exceeded all our thoughts as well. We're very happy with how we've been able to distribute jewellery effectively to large US retailers such that, as you mentioned, out of the sales that we do of lab-grown diamond jewellery, about a third is grown in-house.

The balance we are sourcing from other growers whom we have partnered with. I believe, once there will be a sustainability in the pricing and a strong floor has been reached and the market has reached some sort of maturity, we will take a capital allocation call at that time. For the time being, we're seeing, you know, we're able to find supply at very, very attractive margins because of the sort of supply that's available from large growers in India.

Bhavya Gandhi: Right. And if I'm not wrong, our competitors are struggling. When I look at their numbers for this quarter, I mean, others have de-grown, while we've shown growth. I mean, is it because of the design or the customer selection that we've done or the, you know, sort of some moat we might be having? If you can throw some light on that as well. Yes.

Anmol Bhansali: Thank you for bringing this up, Bhavya. So I believe the overall industry in the last quarter has de-grown by 3% to 5%, whereas Goldiam has a revenue growth. And clearly that means we've gained market share in terms of our sale of jewellery to the US retail market. I think this is a very, very commendable effort from our design team, our data team, as well as our sales team, of course.

There are plenty of reasons, you know, we've been working on as a company to increase wallet share with our customers. The predominant one is, of course, the ability that we have had to successfully introduce very interesting, very unique and very successful jewellery that is studied with lab-grown diamonds.

This category is rapidly growing, especially among our top two, top three largest customers. And we are more or less at the forefront with them, hand-in-hand to introduce, and if not introduce, grow their capability and the number of designs they have available of lab-grown diamond jewellery. So that's been the predominant reason we have grown while not just our competition, but industry in general has de-grown.

And we are hopeful that that will continue. On our side, we are looking at additional markets, as well as, very importantly, additional categories of jewellery. So we will not just be focused on bridal, but very soon we are planning on introducing new collections for high-end fashion, where we will not drop our AUR, but within the higher ticket prices, introduce fashion lines as well within our existing retailer base.

Bhavya Gandhi: Okay, perfect. And also with respect to your venturing into other geographies, just wanted to understand over there also, a lot of people will be, you know, existing players would have their own network and distribution with their retailers over there. Because, say for example, if you are a retailer with Signet Group, obviously you won't allow other players to enter, right?

So what would be the breakthrough strategy or, I mean, thought process or what would allow those European retailers, you know, to allow you to enter the space? Because they might be having 50 sourcing partners, right? Why would they add one more to there?

Anmol Bhansali: Absolutely. So, Bhavya, in terms of competitiveness, the US is by far the most competitive region. So we are well-versed with, you know, what it takes to compete effectively for retailer wallet share. Within Europe and the Middle East, it's not as competitive. But I think that's where other things matter a lot more, specifically, number one, design capability, which we have in plenty at Goldiam.

And number two is service, both in terms of customer service as well as new capabilities like servicing.com, doing – completing orders much faster than our competition would. So these are the sort of levers we are able to, or carrots we are able to offer to these new retailers in new regions. So convince them to start placing trial orders with us at Goldiam. And then hopefully, it's our job to increase that wallet share with them once that first initial trial order is through.

Bhavya Gandhi: Perfect, perfect. Any similarities between the US retailers who are supplying again in Europe? Maybe Signet Group is supplying in Europe or something of that sort? Because we can just extend our existing relation by changing the geography.

Anmol Bhansali: So the only major one is the Signet Group, which has retail stores and two retail brands within the UK. We are actually actively reaching out to them right now to help us introduce and extend our relationship to their UK brands as well.

Bhavya Gandhi: Perfect. And just one last question. If you can just give me a broad overview of the US jewellery market and based on that, how much would be bridal, how much would be fashion, and within that, how much would be LGD, diamond jewellery or gold jewellery? If you can just give us a synopsis of the entire industry, what's the different kind of products and what's the market size?

Anmol Bhansali: Sure. I'll try my best. Very quickly, very briefly. The US jewellery industry, I believe, is about a $65 billion, $70 billion annual jewellery industry at retail sales. It's divided into major retailers whom Goldiam targets and independent mom-and-pop, one-store, two-store family chains, who we target not directly, but through our large wholesale customers. About 60% of these sales are within major retailers and 40% of this overall top line figures with independents and mom-and-pop shops, family jewelers, etcetera.

Our direct office, Goldiam USA, which is 100% subsidiary, targets selling to these large major retailers, as I mentioned and gave an overview of. In general, about 50% of sales would be bridal, with the balance being fashion jewellery, which is earrings, pendants, bracelets, necklaces.

Unlike India, which might be a new concept for most of the people attending this call, unlike India and the US, plain metal jewellery is a very small component of overall jewellery sale. In fact, it's almost only restricted to gold chains as a category, if at all, and nothing beyond that. Largely, a very, very high percentage of jewellery sales comes within the studded jewellery category, whether that's studded with diamonds or other precious gemstones. Goldiam, our focus as a margin-oriented company, has to be on the better end of this pipeline.

As we've shared, historically, within natural diamond jewellery, our average selling price used to be in the range of $500. Interestingly, even though lab-grown is a better or lower cost alternative, our average selling price of lab-grown diamond jewellery is close to $850, $900.

So, this is the sort of area we play in. We are largely a bridal jewellery house, also introducing now new lines of new categories of fashion jewellery. And the focus is, in general, for major retailers and mid-market middle America. That's the end target audience.

Bhavya Gandhi: Perfect. I just missed out the bridal figure. You said 40% to 50% would be the bridal market out of the total market in the US?

Anmol Bhansali: Yes, I believe so. I can get back to you with the exact figure, with more figures as we pull out from research reports we can see online.

Bhavya Gandhi: Perfect. And that 65 billion, 70 billion would be growing at what, 4% – 3%, 4% rate?

Anmol Bhansali: I presume so, yes.

Bhavya Gandhi: Yes. And are the retailers in the US gaining market share? I mean, they are at 60% market share right now. So, if you look maybe 10 years back, were they at 40%, 30%? And if you can just throw some light on that.

Anmol Bhansali: Absolutely, that's correct. The large major retailers are gaining more market share from independent and family-owned jewellery stores.

Bhavya Gandhi: Perfect. That's really helpful. Thank you so much for my questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Aryan Goyal. Please go ahead.

Aryan Goyal: Hi, thanks for providing me the opportunity. Can you elaborate on the factors that contributed to this decision? This is my first question.

Anmol Bhansali: Sorry, sorry, sir, but I think your audio is a bit, we can't hear you properly. If you could just clarify the question again?

Aryan Goyal: Yes. So, can you elaborate on factors that contributed to the improvement in online sales – quarter?

Anmol Bhansali: Sure. So, addressing that question, one of the main things that resulted in the increase in online sales, especially on the value side, was our ability to market higher ticket items, lab-grown jewellery online, within the same time frame required by our customers. So, if you see in terms of quantity, there is no change in the mix. Q2 FY 2023, online sales were about 22% of quantity and 22% of value. Q2 FY 2024, it was 23% of quantity, but 28% of value.

So, on a higher base as well, online sales in terms of value has increased even more than the unit sales have. That's largely driven by the strong increase and our strong capability to offer larger ticket items, lab-grown diamond jewellery, online with our retail partners.

Aryan Goyal: Got it, got it. My next question is that, what is the strategy to enter the UK, Europe, and Australian market, as you mentioned in your speech, and by when can we expect that we will be entering the Indian market?

Anmol Bhansali: Sure. So, for other regional geographies, we are constantly reaching out to retailers to try and find space available and show them and highlight the differentiation of Goldiam. We have already had some success with the Middle East jeweler as well as the European retail chain, as we've disclosed and shared that in the past. We're actively looking forward to reaching out to UK divisions of some of our large US retailers as well, as we've mentioned on this call.

So, the work is ongoing and already we've started getting sales. The strategy is to continue finding the right partners in terms of major customers within these regions and then reaching out to them.

In terms of India, the opportunity we see is, I think within calendar year 2024, we should be able to have some start on that business venture. If you have any further questions, I'm happy to answer them regarding this area.

Aryan Goyal: And we are entering by retail source, as you mentioned in your call.

Anmol Bhansali: That is the plan at the moment.

Aryan Goyal: Okay, thanks. Thank you. That's all. That was really helpful.

Anmol Bhansali: Thank you very much.

Moderator: Thank you. The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.

Bhavya Gandhi: Yes. Thank you for the opportunity again. Just wanted to know, is there any inventory hit which is still left out? That would be maybe due to fallen diamond prices. As I presume, because your jewellery is not commoditized, right? So there is no inventory hit on the jewellery part at least. It's only on the raw mat, maybe the commodity part of it, where we take the inventory hit. Am I right in assuming or you have a different view, yes?

Anmol Bhansali: Inventory is basically realigned to market prices. And it's largely done, Bhavya, on our open consignment inventory, which is sitting with customers. In order to make it saleable, and selling, we need to ensure that it is selling at the right prices and thereby it is sitting at the right cost.

So as a result of that, we have taken a realignment cost of about INR10 crores to INR12 crores in H1 of this fiscal year. We will evaluate if there is any need to further take any more realignment adjustments at a later time. But at the moment, we are going to evaluate how the very crucial next two months go in terms of the US holiday season and take a call thereafter.

Bhavya Gandhi: Perfect. Yes. And with respect to your gross margins, last year on a Y-o-Y basis, I mean, your last year gross margins were 48% and right now it's at 34%. So any reason for the same?

Anmol Bhansali: Bhavya, I'll have to get back to you on that after checking those gross margin figures. We have to remove other income and ensure that that's the accurate figure. If I could get back to you after the conference call, I'm happy to share a detailed note on that.

Bhavya Gandhi: Perfect. And out of the 75% inventory which sits on the retailers' end, 20% is something that gets returned, that's the worst case scenario return policy, right?

Anmol Bhansali: That's correct. That's what we've seen historically. We don't see that trend changing and it's part of the business cycle. And we account for it both in terms of margins as well as having a constrained ability or constrained decision on what to place on consignments with our retailers so that recyclability of the raw material of those diamonds of that gold is extremely high.

Bhavya Gandhi: Okay, fair enough. And also on the inventory which sits with them and which they sell, if the prices fall, we take an inventory hit on our books, right? Because we have to evaluate on an RV or cost, whichever is lower, right?

Anmol Bhansali: If we pass on any price adjustment to the retailer, then yes, that's correct. But if we aren't passing on any price adjustment to the retailer and keeping that inventory available at that cost, then there's no adjustment we take.

Rashesh Bhansali: Bhavya, this is Rashesh Bhansali. Sorry, I'm interrupting. Just to clear that that the margin fall is more because of the revaluation of inventory, not any other reason.

Bhavya Gandhi: Okay, perfect, sir. Perfect.

Rashesh Bhansali: I think that is probably the only reason why there is a fall in margins and what you're looking at right now.

Bhavya Gandhi: Perfect. Thank you so much. That's it from my end.

Moderator: Thank you. The next question is from the line of Deep Paul. Please go ahead.

Deep Paul: Yes, thank you for the opportunity. So my question is more regarding the Indian domestic market demand scenario. So currently, Titan Management has said that they are not seeing much interest from their customers in stores regarding the lab-grown diamonds, whereas certain companies like Limelight Diamonds and all other are growing their stores in Mumbai to three to four stores. So how do you see the demand and since we are planning for next year, some kind of retail distribution?

Anmol Bhansali: Thank you for the question, Mr. Paul. I think, theoretically speaking, the thesis is that lab-grown diamonds should be something that fits very well with the aspirational Indian consumer. It offers a great opportunity for India, for the Indian consumer to enjoy diamonds, which otherwise are totally unaffordable in the natural diamond space.

If you think about it, a one carat solitaire, which retails in India natural diamonds made for about INR4 lakhs to INR5.5 lakhs, depending on where you buy it. It falls out of the product market for a lot of Indians. But in lab-grown that same one carat diamond can be available for 50,000 rupees.

And that then opens up a lot of consumers, who are aspiring to enjoy and gift something as beautiful as a one carat solitaire within the lab-grown diamond space. Theoretically, we see there certainly could be some possibility of success in India. We have seen track record through our existing business of retailers, having great adoption in the United States.

We have more than half a decade of experience seeing the entry of lab-grown in the United States and how it picked up every year, year-on-year, and how retailers have enhanced their collections with lab-grown diamonds. Now, given the situation we are seeing in the US, it's making us fairly bullish on this category.

And, you know, of course, that gives us some indication on what could happen in other regions. So this is our basic thesis. Again, once we have formulated an entry plan, I believe in the next conference call that we do and at the end of the fiscal year, we should have a lot of updates to give regarding this venture.

Deep Paul: Sure, sure. And my next question is regarding our competitiveness. So currently we are operating out of Mumbai Seepz. So is there any requirement to maintain competitiveness to move or to create another manufacturing base out of Surat like diamond boards, which they are creating the ecosystem? Is there any need?

Anmol Bhansali: Right. Not at the moment, Mr. Paul. I think Mumbai is a very strong base for diamonds. You know, a lot of raw material is available through Bharat Diamond Bourse. And the Seepz-SEZ zone is the foremost region for diamond jewellery manufacturing and exporting within our country. It is the number one region for diamond jewellery exports that go to the United States and in general that go from our country out to the world. So at the moment we don't see any need to realign location of any of our facilities.

Deep Paul: Okay. Thank you so much. All the best for the future.

Anmol Bhansali: Thank you very much.

Moderator: Thank you. We take that as the last question. And now I hand the conference over to the management for the closing comments.

Anmol Bhansali: Thank you very much, all participants, for attending the call. We believe we are at a great precipice right now at Goldiam, just coming out of a challenging macro environment. And we look forward to matching and beating industry growth with our current sales pipeline. I would like to thank Mr. Rahul Dani from Monarch, and all the participants for taking time out to join us today on this auspicious day. We wish you all a very Happy Diwali….