

CMP: INR 279

Rating: BUY

TP: INR 657

Stock Info

BSE	532156
NSE	VAIBHAVGBL
Bloomberg	VGM:IN
Reuters	vaib.ns
Sector	Gems, Jewellery And Watches
Face Value (INR)	2
Equity Capital (INR cr)	33
Mkt Cap (INR cr)	4,645
52w H/L (INR)	303/ 274
Avg Yearly Volume (in 000')	57

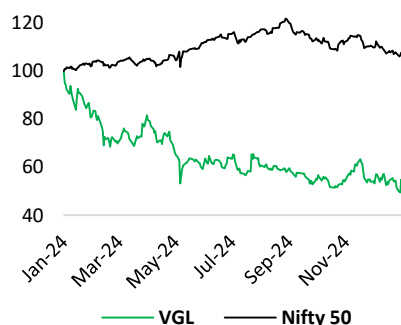
Shareholding Pattern %

(As on December 2024)

Promoters	57.30
FII	18.37
DII	0.74
Public & Others	0.13

Stock Performance (%)	1m	3m	12m
Vaibhav Global	(1.3)	(2.4)	(46.6)
Nifty 50	(1.7)	(4.5)	8.0

VGL Vs Nifty 50



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VGL reported a stellar performance, which was ahead of estimates on all fronts. Revenue was up 10.02% YoY to INR 9,773 Mn, beating our estimate of INR 9,638 Mn by 1.40% (+22.72% QoQ). This was due to a surge in lab-grown diamonds, which are now a notable contributor to revenue (8.9% vs 0.2% last year). Gross margins were down 179bps YoY (+303bps QoQ) to 63.18%. They remained in a healthy range of >60%. EBITDA was up 17.41% YoY to INR 1,097 Mn, beating our estimate of INR 1,012 Mn by 8.39% (+82.32% QoQ). Savings in shipping cost, operating leverage, and Germany reaching breakeven levels offset the impact of the inventory write-offs. Germany will start contributing to the bottom line in FY26. EBITDA Margin expanded 31bps YoY to 11.46%, beating our estimate of 10.5% by 96bps (+279bps QoQ). PAT was up 35.53% to INR 638 Mn, beating our estimate of INR 568 Mn by 12.28% (+129.25% QoQ). The Board has declared an interim dividend of INR 1.5 per share for the quarter, representing a 39% payout. Our double-digit growth target for FY25 and FY26 remains intact. The ideal world achieved full-cost profitability. TTM Unique customer growth was 6% ex-acquisitions (30% including Mindful Souls and Ideal World). ROCE stood at 18%- in line to achieve the target ROCE of 20% by FY27.

Guidance: The management has moderated their growth guidance to 12% for FY25, and early teen growth from FY26 onward. This is likely due to ongoing muted consumer sentiment in the UK and Europe. Gross margins are expected to stay in the 60-62% range, which, though healthy, is lower than their earlier level of 64% (however this will not be permanent and is expected to bounce back in FY26). The German business is anticipated to grow 20-30% in coming quarters.

Sourcing/ designing strengths act as a moat: While other comps take a few months to design new products and introduce them to the market, VGL only needs a couple of weeks. They also have the ability to undercut any competitors on price due to their stable and cheap sourcing network. This is especially seen with their lab-grown diamond network, which is expected to push lab-grown diamond sales to up to 10-12% of revenues.

Outlook and Valuation: There are concerns regarding muted consumer demand and growing digital competitiveness, alongside the fact that most growth during the quarter was acquisition-led. However, there are green shoots with a turnaround of the German business which we expect to start contributing to the bottom line in FY26, the upcoming lab-grown diamond business, and improving the profitability of ideal world- all of which will be massive margin levers. We remain optimistic about the overall business and upgrade our TP from INR 517 to INR 657, valued at a P/E multiple of 30x the FY27E EPS of INR 22 entailing an upside of 136% and reiterate a strong BUY rating.

INR Mn	FY24	FY25 E	FY26 E	FY27 E
Revenue	30,410	34,075	38,634	44,091
Growth	13.0%	12.1%	13.4%	14.1%
EBITDA	2,951	3,492	4,781	5,916
EBITDA Margin	9.7%	10.2%	12.4%	13.4%
PAT	1,267	1,769	2,817	3,726
EPS (INR)	7.60	10.53	16.67	21.90
P/E (x)	36.72	26.48	16.74	12.74

Source: Company, Arihant Capital Research

INR Mn (Consolidated)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Net Revenue	9,773	7,964	8,883	22.72%	10.02%
Raw Material Costs	3,598	2,691	3,112	33.71%	15.63%
Gross Profit	6,175	5,273	5,771	17.10%	6.99%
<i>Gross Margin</i>	<i>63.18%</i>	<i>66.21%</i>	<i>64.97%</i>	<i>-303bps</i>	<i>-179bps</i>
Employee costs	1,598	1,502	1,526	6.43%	4.74%
Other Expenses	3,480	3,170	3,311	9.78%	5.09%
EBITDA	1,097	602	934	82.32%	17.41%
<i>EBITDA margin</i>	<i>11.46%</i>	<i>8.67%</i>	<i>11.14%</i>	<i>279bps</i>	<i>31bps</i>
Other Non Operating Income	23	89	56	-74.11%	-58.90%
Depreciation	258	260	235	-0.77%	9.98%
EBIT	862	430	755	100.35%	14.09%
Finance costs	40	36	32	9.32%	24.45%
Exceptional Items	-	-	(39)	-	-
PBT	822	394	684	108.77%	20.13%
Tax Expense	184	115	213	59.35%	-13.85%
<i>Effective tax rate</i>	<i>22.36%</i>	<i>29.30%</i>	<i>31.19%</i>	<i>-694bps</i>	<i>-882bps</i>
PAT	638	278	471	129.25%	35.53%

Source: Company, Arianth Capital Research

Pushing Omnichannel sales: Omnichannel shopping leads to a higher customer lifetime value as compared to web and TV alone.

Digital spending remains elevated: These spends go toward platforms like Facebook which still have a primarily older and affluent user base vs apps used by younger crowds- this is beneficial to them as the share of an aging population grows in key markets.

Dividend Payout: They are open to increasing it if no suitable investment opportunities with over 20% ROI are found.

B2B Business boost: The B2B business saw substantial growth this quarter (INR 30 Cr in Q3FY24 VS INR 50 Cr in Q3FY25) courtesy of China+1 as international buyers pivot to India.

US and UK growth expectations: We are factoring in a single-digit growth for the UK economy and a double-digit growth for the US economy

Operational highlights:

- US Revenue: Recorded a 3.6% YoY growth, bolstered by a strong holiday season and improving consumer confidence.
- UK Revenue: Achieved a 6.5% YoY growth, primarily driven by the Ideal World acquisition.
- Germany Revenue: Notable 30.7% YoY growth, reaching EBITDA breakeven successfully.
- Lab-Grown Diamonds: Increased contribution to 8.9% of quarterly sales, up from a mere 0.2% a year ago.
- Customer Base: Expanded to 698,000 unique customers, showing a 30% YoY growth (including acquisitions). Excluding acquisitions, the customer base saw a 6% YoY growth.
- Customer Retention: Remained robust at 43%, with customers purchasing an average of 22 pieces annually.
- Digital Sales: Comprised 40% of total B2C revenue.
- Budget Pay (EMI option): Constituted 38% of B2C revenue.
- Cash Balance: Is strong at INR 106 Cr
- Shipping cost contributes about 6% of revenues.

P&L (INR Mn)	FY23	FY24	FY25 E	FY26 E	FY27 E
Sales	27,185	30,676	34,249	38,813	44,275
COGS	(10,471)	(10,758)	(11,926)	(14,101)	(15,873)
Gross Profit	16,438	19,651	22,323	24,711	28,402
- margin (%)	60%	64%	65%	64%	64%
OPEX	14,166	16,700	18,830	19,931	22,486
EBITDA	2,273	2,951	3,492	4,781	5,916
- margin (%)	8%	10%	10%	12%	13%
D&A	(778)	(934)	(994)	(944)	(894)
EBIT	1,495	2,017	2,498	3,837	5,022
Extraordinary item	-	(81)	-	-	-
PBT	1,413	1,820	2,358	3,707	4,902
Tax	(362)	(552)	(590)	(890)	(1,177)
PAT	1,051	1,267	1,769	2,817	3,726
Balance Sheet (INR Mn)	FY23	FY24	FY25 E	FY26 E	FY27 E
Share Capital	330	331	331	331	331
Reserves & Surplus	11,683	12,246	13,767	16,337	19,816
Total shareholder's funds	12,013	12,577	14,098	16,668	20,147
Non-current liabilities	657	1,075	1,076	1,077	1,078
Current liabilities	5,215	5,239	5,149	5,059	4,969
Total equity and liabilities	17,885	18,890	20,323	22,804	26,193
Non-current assets	5,596	6,702	6,712	6,722	6,732
Current assets	12,289	12,188	13,610	16,081	19,461
Total assets	17,885	18,890	20,323	22,804	26,193
Cash Flow (INR Mn)	FY23	FY24	FY25 E	FY26 E	FY27 E
Cash flow from operations	1,272	2,344	(5,486)	(7,063)	(9,689)
Cash flow from investing	402	(3,742)	(1,004)	(954)	(904)
Cash flow from financing	(1,027)	907	5,448	9,191	14,615
Increase/(decrease) in cash	675	(491)	(1,041)	1,174	4,022
Opening cash balance	431	1,106	3,128	3,178	3,228
Closing cash balance	1,106	614	2,087	4,353	7,250

Source: Company, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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