

Complete Analysis of International Gemological Institute Upcoming IPO

The **International Gemological Institute (IGI)** has built a robust business model around certification and accreditation services for diamonds, jewellery, and coloured stones. Here's an in-depth overview of its business model, emphasizing key elements, revenue strategies, and growth prospects:

1. Certification and Accreditation Services

a) **Core Offering:** IGI's primary service is providing independent certification and accreditation for:

- **Natural and Laboratory-Grown Diamonds:** These certifications assess quality, authenticity, and value.
- **Studded Jewellery and Coloured Stones:** Grading reports for gemstones are issued based on internationally recognized standards.

b) **Customer Assurance:** These reports are crucial for:

- Trade facilitation.
- Consumer confidence in the jewellery market.
- Establishing fair market prices for gemstones.

c) **Revenue Model:**

- **Per-Carat Pricing:** IGI charges fees on a per-carat basis, ensuring scalable revenues tied directly to the volume of certifications.
- **No Long-Term Contracts:** This provides IGI the flexibility to adjust prices based on market trends and dynamics.

2. Global Presence and Market Leadership

Global Laboratory Network:

- Operates **company-owned laboratories, in-factory setups, and mobile labs.**
- Labs are strategically placed in major diamond and gemstone trading hubs.
- Caters to a diverse clientele, including **diamond growers, wholesalers, manufacturers, and retailers.**

Market Leadership:

- **Laboratory-Grown Diamonds:** IGI holds a 65% global market share as of 2023.
- **Early Adopter Advantage:** IGI began certifying lab-grown diamonds in 2005, establishing its leadership in this growing segment.

3. Education as a Growth Driver

IGI has developed a unique approach to industry engagement through its **IGI Schools of Gemology**, offering education on:

- **Diamond Grading:** Comprehensive courses on assessing diamond quality.
- **Coloured Stone Grading:** Training for grading gemstones.
- **Jewellery Design:** Specialized courses for aspiring designers.

Benefits:

- **Brand Building:** Educates the industry about the importance of certification while promoting IGI's brand.
- **Customer Collaboration:** Helps train employees of partner companies, strengthening relationships.
- **Talent Recruitment:** Serves as a pipeline for skilled professionals to join IGI's laboratories.

4. Value Proposition: Trust and Expertise

Reputation: IGI's value proposition is anchored on trust, expertise, and innovation. This is achieved through:

a) Stringent Quality Control:

- Employs **rigorous grading procedures**.
- Involves multiple gemologists and advanced technologies to ensure accuracy and consistency in certification reports.

b) Technology Adoption:

- Online platforms for accessing reports.
- Digital solutions to streamline customer interactions and operational efficiency.

c) Industry Engagement:

- Active participation in **industry associations** and **ethical initiatives**, reinforcing IGI's commitment to sustainability and ethical practices.

5. Financial Performance and Growth Strategy

a) Consistent Revenue Growth:

- IGI has seen profitability due to the rising demand for certification services.
- The **lab-grown diamond market expansion** has significantly fueled growth.

b) Growth Strategies:

1. **Leadership in Laboratory-Grown Diamonds:**
 - IGI plans to maintain dominance in this segment by opening dedicated facilities in key hubs like **Surat, India**.
2. **Global Expansion:**
 - Continues to expand its laboratory network to tap into new markets.
 - Plans to broaden its service offerings in response to evolving industry needs.
3. **Brand Salience:**
 - Increased investment in **B2B and B2C marketing initiatives** to boost consumer demand and brand awareness.

6. Strategic Positioning

IGI has effectively positioned itself as:

- A **trusted certification authority** for diamonds, gemstones, and jewellery.
- A leader in the rapidly growing **lab-grown diamond segment**.
- An industry innovator through its education initiatives and technological adoption.

7. Financial Performance and IPO Valuation

Year	Revenue (Cr)	EBITDA (Cr)	PAT (Cr)	RONW (%)	ROCE (%)	No. of Labs
FY21	364	246	171	74.39%	86.79%	16
FY22	490	335	241	83.13%	87.09%	19
FY23	638	450	324	76.58%	80.96%	20
9MFY24	596	429	326	56.59%	62.19%	20

The company operates on an asset-light model and is debt-free, demonstrating very high EBITDA margin, ROCE, and ROE. It has shown excellent growth and is a market leader in its sector. The upcoming IPO is valued at INR 18,000 crore. For the period of January to September 2024 (9MFY24), the company reported a PAT of

₹324 crore, which, when annualized, gives a PAT of ₹432 crore. With a P/E ratio of 41x, the IPO appears reasonably priced.

There is no Peer for the company.

8. Why Company is Raising Funds?

The company is raising funds through the IPO to facilitate a strategic restructuring and expand its global operations. Here's a detailed explanation of why the funds are being raised:

a) Proposed Acquisition of IGI Belgium and IGI Netherlands

- The company plans to utilize ₹1300 Cr from the proceeds of the IPO to **acquire the entire shareholding** of its promoter, BCP Asia II TopCo Pte. Ltd., in **IGI Belgium** and **IGI Netherlands**, along with the rights attached to this shareholding. Currently, these entities (IGI Belgium and IGI Netherlands) and their subsidiaries handle the operations of the **IGI business outside India and Türkiye**.
- By acquiring these entities, the company aims to **centralize** its global operations under its own structure, ensuring better control, streamlined management, and an efficient cash flow from its international businesses.

b) Long-term Value Creation for Stakeholders

- The company seeks to create **long-term value for its stakeholders** by consolidating its global business under one roof. This would help in better coordinating business activities and operations across different countries, as well as improving access to international markets.

c) Enhancing Global Business Operations

- IGI Belgium Group and IGI Netherlands Group have established operations across **key international locations** such as **Antwerp (Belgium), New York (USA), Bangkok (Thailand), Dubai (UAE), Hong Kong, Shanghai (China), Israel, and Egypt**. By acquiring these businesses, the company aims to expand its global footprint and improve service delivery across **31 laboratories** and **18 IGI Schools**.
- This acquisition will also help in improving the **timeliness** and **accessibility** of services to customers globally

Conclusion

IGI's business model thrives on a combination of **customer-centricity**, **quality assurance**, **technological innovation**, and **global reach**. By capitalizing on the rising demand for independent certification services and leveraging its expertise in laboratory-grown diamonds, IGI is well-poised to remain a leader in the global gemstone and jewellery certification market. Its strategic focus on education, technology, and market expansion further strengthens its competitive edge.

The IPO is priced reasonable at P/E of 41x.