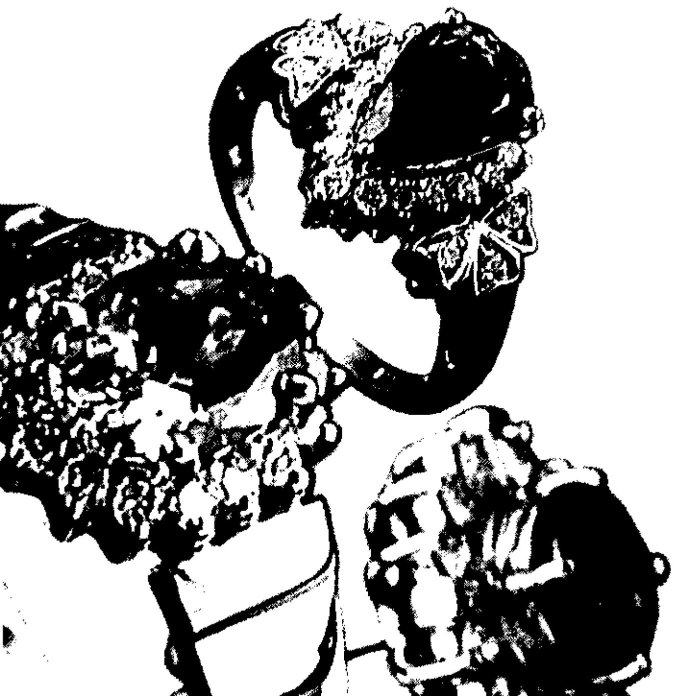
11th ANNUAL REPORT 1999-2000



VAIBHAV GEMS LIMITED


www.vaibhavgems.co.in
VAIBHAV GEMS LIMITED
INDIA'S ONLY FULLY INTEGRATED JEWELRY COMPANY
VAIBHAV
A rendezvous with ravishing
RUBY
A toast to the tantalizing
TANZANITE

Board of Directors

Sunil Agrawal
Chairman

Rajiv Jain
Managing Director

Rahimullah
Whole-time Director

Suresh Punjabi
Director

Sanjeev Agrawal
Director

A.L. Roongta
Director

Company Secretary :
Suresh Kumar Dalmia

Auditors :
B. Khosla & Co.
Chartered Accountants
M.I. Road, Jaipur

Bankers :
- Punjab National Bank
IBB, C-Scheme, Jaipur
- **IDBI Bank Limited**
Saraf House, M.I. Road, Jaipur.

Registrar and Share Transfer Agent :
Karvy Consultants Limited
108-110, Anukampa Mansion -II,
M.I. Road, Jaipur - 302 001

Registered & Corporate Office :
K-6B, Fateh Tiba, Adarsh Nagar, Jaipur - 302 004

Works :
K-6B, Fateh Tiba, Adarsh Nagar, Jaipur - 302 004
E-68 & E-69, EPIP, RIICO Industrial Area, Sitapura, Jaipur
Telephone : 141- 601020, 601030, 608380
Fax : 141-603228, 602010
E-Mail : vgl@vaibhavgems.com
URL : www.vaibhavgems.co.in

Financial Performance at a Glance

(Rs. in Lacs)

	2000-1999	1999-98	1998-97	1997-96	1996-95
Sales	8215.35	7206.11	4357.97	3278.07	2382.01
Total Income	8373.03	7369.75	4432.77	3303.55	2442.99
PBDIT	1032.97	832.96	621.02	445.24	400.06
Depreciation	47.25	47.42	39.88	23.25	6.67
Interest	151.01	63.40	39.41	7.31	7.79
Profit Before Tax (PBT)	834.71	722.14	541.73	414.68	385.60
Proft After Tax (PAT)	823.57	717.08	535.23	361.02	383.88
Dividend Amount*	146.52	144.31	141.53	100.11	26.42
Equity Share Capital	528.03	524.78	514.67	508.79	235.04
Reserves and Surplus	2943.93	2260.39	1667.41	1261.94	453.52
Net Worth	3471.96	2785.17	2182.09	1770.73	688.56
Gross Fixed Assets	671.46	480.09	425.75	283.44	113.72
Net Fixed Assets	505.15	360.64	353.28	250.14	103.67
Total Assets	5158.69	4153.67	2573.88	2051.32	933.06

* Dividend Amount includes the dividend tax applicable

"Net Profits have grown to Rs. 823.57 at five years CAGR of 23%"

Financial Highlights

(Rs. in Lacs)

	2000-1999	1999-98	1998-97	1997-96	1996-95
Earnings Per Share - EPS (Rs.)	15.60	13.58	10.13	6.84	16.34
Cash Earnings Per Share (Rs.)	16.50	14.48	10.89	7.27	16.64
Market Price at Year End (Rs.)	83.35	37.50	33.00	32.50	N.A.
52 week High (Rs.)	148.00	41.00	38.00	33.00	N.A.
52 week - Low (Rs.)	39.00	33.00	25.00	26.50	N.A.
Book Value (Rs.)	65.87	52.74	41.32	33.64	29.31
Market Capitalisation (Rs. Lacs)	4401.28	1980.24	1742.50	1716.09	N.A.
PBDIT Margin % (PBDIT/Sales)	11.59	11.56	14.24	13.58	16.80
Net Profit Margin (%)	9.84	9.73	12.07	10.93	15.71
Return on Total Assets (%)	15.95	17.26	20.79	17.60	41.14
Return on Avg. Net Worth (%)	26.30	28.87	27.08	24.35	55.75
Debt - Equity Ratio	0.3	0.5	0.4	0.2	0.5

"Market Cap. has more than doubled to Rs. 44.01 cr. from Rs. 19.80 cr. as of last F.Y."

Into the next millennium

MESSAGE FROM THE CHAIRMAN

Eleven years as a Company.
Five years as a publicly held company.
From a dream to an organisation.

As we enter the new millennium, we see the global economy undergoing a transition from the 'old' to the 'new' fostered by rapid advances in information technology and telecommunications, and the emergence of the Internet as a mainstream medium for conducting business.

Your Company is well placed to take advantage of internet in B2B arena. Extensive product information, customer order status, shipment information etc. are already available to the Company's wholesale customers on line. This means increased productivity and lower costs.

In developed economies, E-Commerce is emerging as a mainstream product delivery channel, which is providing customer unmatched convenience in efficient product delivery, extensive product range and competitive prices. Although Internet penetration in India is in a nascent stage, but looking at the growth of internet usage during last two years, it is evident that the days are not far away when interent as a business medium will be predominant. The Company is in the process of establishing an E-Commerce division from where it plans to sell Jewellery on line. Company wants to make this medium as one of the main sources to reach the huge potential customer base in India.

The Jewellery scenario was upbeat for the fourth year in a row. The Indian economy after registering itself as a world leader in the Diamond exports, is well set to repeat the story in the Jewellery sector too. This is very well reflected in the 22% growth rates achieved by the Jewellery sector. Secondly, where the Indian share in the World Diamond Market is 60% (Value-wise), the share of India in World Jewellery trade is only 1%. This provides a lot of opportunity for your Company to step forward and establish itself as a leader in the Jewellery export from India. This year your Company has registered a very high growth of nearly 100% in the turnover of Jewellery, over last year.

Your Company has also commenced production from the new Jewellery unit at Sitapura. In March this year the unit also acquired a 100% 'Export Oriented Unit' status. The unit also enjoys the benefit to sell in the domestic markets to the extent of 25%. The production and exports have already started from this unit.

The Company's Subsidiary 'VGL Softech Ltd.', which was founded on 20th January 1999, registered Sales of Rs. 49.05 lacs and a net profit of Rs. 4.72 lacs in this financial year. The Company has acquired technical competence in the fields of client-server business applications; Internet related solutions & networking. The Company has very good plans to exploit the burgeoning software industry where the margins are attractive. Presently, the Company has begged various development projects from abroad. Apart from these foreign projects Company also has some E-commerce and web development related projects in hand. The Company has hired Software engineers & Management experts from the country's premier institutes whohave an across the spectrum experience of the Industry. We are hopeful that this Company will achieve the same level of success as its parent Company.

I am pleased to inform you that yet again your Company was declared the winner of the Highest Export Award in the Category of Cut and Polished Coloured Gemstones for 1998-99 by the Gems and Jewellery Export Promotion Council. This was eighth such award won by your Company and the fourth in a row.

VGL has laid the foundation of proper corporate governance as a means of effective control and enhancement of stakeholder value in line with international best practices. The Board is positioned as the center of corporate governance and functions independently from Executive Management. The Company has constituted few committees for smooth functioning and efficient management of affairs of the Company viz. Audit Committee, Remuneration Committee, Shareholders and Investors Grievance Committee. There is clear delegation of authority at all levels with full accountability in order to ensure quick and efficient decision-making.

I would like to convey my congratulations to the staff of Vaibhav who have put in a tremendous effort to make this Company a success and I am confident that they will continue to do so in the coming years to achieve the growth targets set by your Company.

Finally, my millennium message – There is no stopping us.

(Sunil Agrawal)

MANAGEMENT DISCUSSION ON SELECTED FINANCE DATA

Financial Year 1999-2000 compared with Financial Year 1998-99

Vaibhav Gems Limited ("The Company" or "VGL") continued its march towards growth in revenues, earnings and cash generation. The year's performance has demonstrated the benefits of VGL's continuing emphasis on growth in Jewellery sector. Revenues rose to a record Rs. 83.73crores - a jump of 13.61% over FY 1998-99. This increase was largely attributable to a 100.40% jump in the revenues of the Company's Jewellery Division over the previous year.

The Company's **Gems Division** continued to be the major contributor to the Company's revenues for FY 1999-2000. Accounting for nearly 64% of the turnover for FY 1999-2000, this division continued to target new clients and tap newer markets. Although the division's share in the total revenue dropped to 64% in FY 1999-2000 from 80% in the last FY, but it is largely because of the sluggish growth rate in the coloured gemstones sector. The division received the highest export award from GJEPC for highest export of coloured gemstones from India for the year 1998-99. This was eight such jewel in the division's crown and fourth in a row. The division's position is so strong that its export is much more than the sum total of exports from the second, third and fourth position holders in the country.

The Company's **Jewellery Division** emerged out with a tremendous 100% growth and contributed 35.5% of the Company's total revenue. Quantity wise also the division achieved a stupendous growth of more than 100%, producing 64,902 pcs of jewellery.

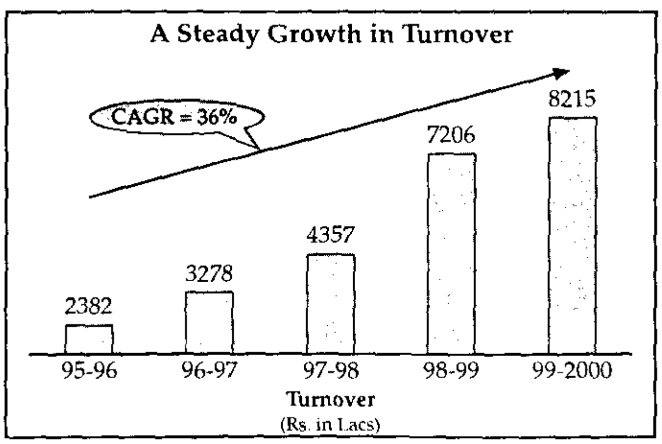
Company visions that like the leader in the Diamond trade world over (70% value wise), India has a huge potential to lead the world jewellery market too, where its share is less than 1% of the world jewellery trade. The reason why India lags in this sector is because of its late entry into the market after 1991 when Indian government liberalized its policies and let the Indian exporters prove their worth in this sector also. The Indian Jewellery industry is fully geared up to meet the challenge and this is explicit with the compounded annual growth rate of 24% achieved by the sector in the last five years.

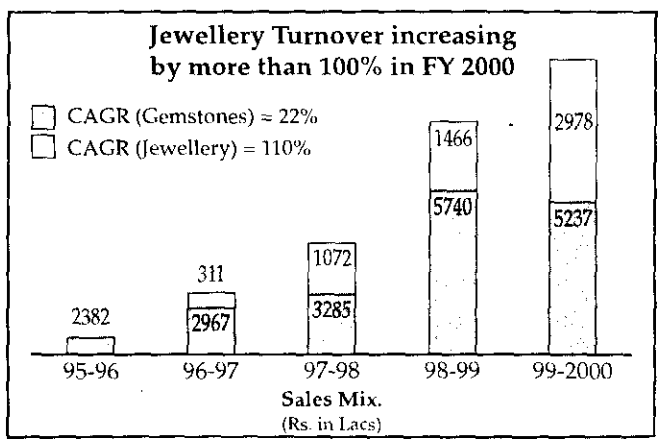
Looking at the exponential growth rates available in the Jewellery sector and over utilization of the present production capacities available, the Company decided to expand its capacity in Jewellery sector by commissioning a Jewellery Project at EPIP, Sitapura, Jaipur. The unit has also achieved a 100% E.O.U. status. The new unit is proposed to have a capacity of 3,60,000 pcs p.a.

With huge expansions taking place and looking at the exponential growth rates the division is expected to emerge as the major contributor to the Company's revenue.

From the dawn of the new millennium, the Company's **EOU Division** commensed its production, and by the end of FY was also able to contribute nearly 0.5% of the Company's revenue. This year the new project is expected to takeover all the growth available in the Jewellery division.

The Company will continue to pursue revenue growth by emphasizing on the exponential growth of the





Jewellery division along with sustaining the numero uno position in Gems Division.

While Revenues grew by 13.61%, **operating Profits (PBDIT)** grew even faster and at Rs. 1032.97lacs jumped 24.01% over previous year. This was due to a significant increase in the operating margin to 12.33% in FY 1999-2000 up from 11.30% in FY 1998-99. The jump in operating margins was due to Company's deliberate strategy of focusing on high margin segments such as Jewellery.

VGL's **other income** at Rs. 157.67 lacs forms 1.88% of the total income. This includes income from sale of REPs and exchange earnings.

VGL's principal costs and expenses have been classified into raw materials cost, manufacturing cost, personnel cost, selling expenses, administration costs and finance costs.

The Company's cost reduction program, initiated last year, showed significant results in the current year. Administration expenses showed a modest 4 % jump to Rs.192.58lacs in FY 1999-2000. Administration expenses to total turnover reduced to 2.30% from 2.51% a year back.

Raw materials consumption expenses remained at almost same levels of 58% of the total revenue. This was mainly due to the Company's prudent buying behaviour in the highly volatile market of gemstones.

Depreciation as a percentage of average gross block decreased to 7.04% in FY 1999-2000 as against 9.88%. It is expected to increase in the next FY as the Company has acquired Rs. 191.37lacs worth of new assets and is expected to further increase due to expansion plans of new Jewellery unit at Sitapura.

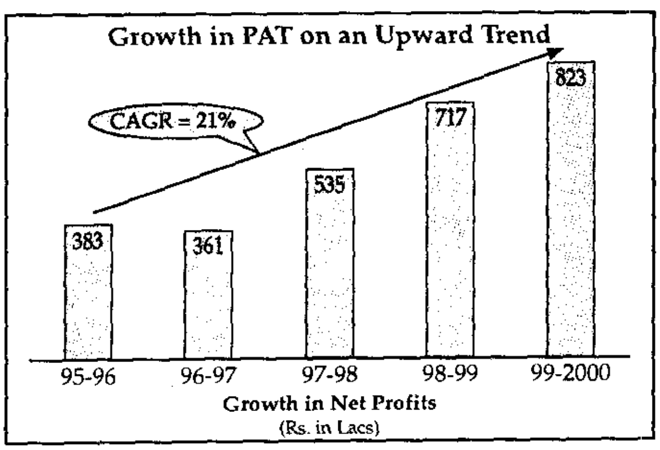
Net finance cost increased to Rs. 151.01lacs as compared to Rs. 63.40lacs in FY 1998-99. This was mainly due to the increase of Average Bank finance by Rs. 575.69lacs, to support the increasing activities in the Jewellery division. The weighted average cost of debt reduced to 10.47% from 10.86% in the FY 1998-99. This was due to the reduction in the component of the high cost Term loan from IFCI. Due to its 97% of the sales coming through Export market, the company enjoys low cost working capital financing from banks.

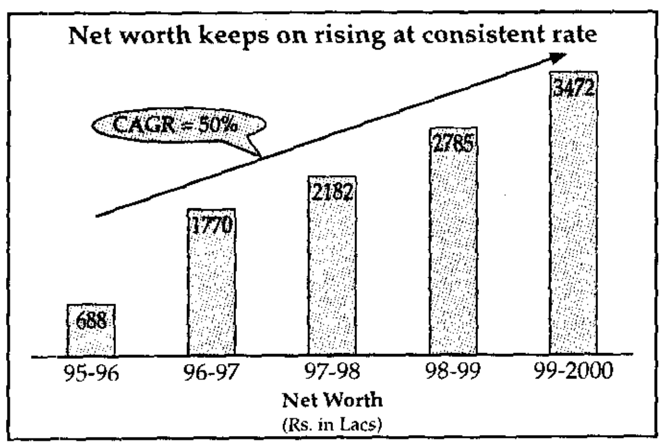
Higher operating margins and effective cost control resulted in a 15.59% jump in profit before tax to Rs. 834.71lacs. inspite of turnover increasing by a lesser 14%. Sustained higher export income as in the past years has ensured that Company's **effective taxation rate** remained low at 1.33%.

The company's **networth** on March 31, 2000 at Rs. 3471.96lacs showed an increase of 25% over the year before. This increase is due to the cash generated by the Company out of its business and its accumulation in reserves. This increase in networth due to sustained higher profits has brought down the Company's long term debt equity ratio from 0.05 in FY 1998-99 to 0.03 in FY 1999-2000.

The Company believes in minimizing in borrowing and using its internal accrued cash as much as possible. Company also believes in replacing high cost debt with lower cost debt.

Company's **total borrowings** increased to Rs 1686.73lacs from Rs. 1368.50, up 23.25% mainly to support the increased working capital needs and Capital expenditure at expansion project at Sitapura.





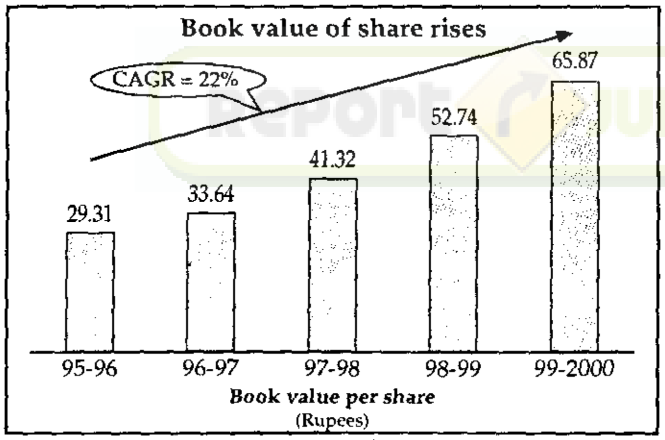
Gross Fixed Assets stood at Rs. 671.46lacs in FY 1999-2000, up by Rs. 191.37lacs from its FY 1998-99 level. During the FY 1999-2000 the company's addition in the assets was mainly at the new expansion project at Sitapura.

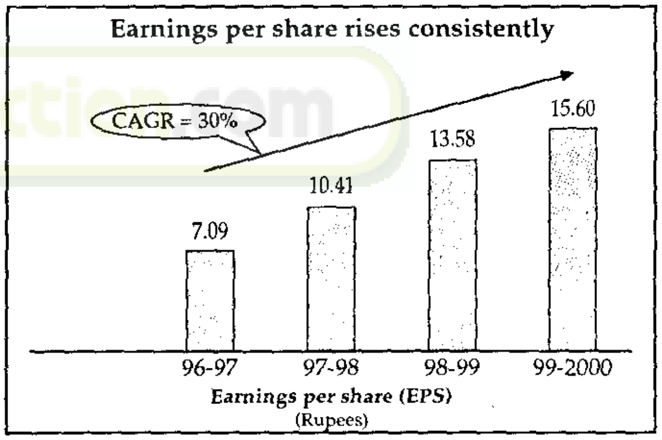
The Company's **investment** reflects VGL's increasing emphasis on the margin oriented growth strategies. The investment of Rs. 19.93 lacs in VGL Softech Ltd., its subsidiary company makes a % stake in the company. VGL Softech is engaged in the development of software products, web based and E-Commerce related services. Company believes that in the years to come this investment in the burgeoning Software business will reap rich dividends to the Company.

VGL's **current assets** primarily consist of inventories, receivables, loans and advances and cash.. Compared with the norm of 1.33 the Company enjoys a very comfortable current ratio of 6.76 and a quick ratio of 5.73. Management's efforts to reduce the debtors and inventory levels yielded positive results. The quality of the assets can be judged by the ageing analysis of the debtors where 65% of the debtors were under 90 days period and 92% under 120 days. In its history Company has made a record of not having a single bad debt.

VGL's **cash and cash equivalents** as on March 31, 2000 aggregated Rs. 65.74 lacs down by 46% from the previous year level. This was mainly because of the level of bank fixed deposits being liquidated and the proceeds employed in Company's higher return generating business of jewellery production..

Company's good profit margin resulted in an **Earnings per share** (EPS) of 15.60 for FY 1999-2000, - a 15% increase over the previous year. Based on past performance and financial flexibility of a strong balance sheet, the management believes that it is in a position to make long term investments for future growth and increase shareholders value.





ECONOMIC VALUE ADDED

Economic Value Added (EVA)

The EVA method emphasizes the quality of earnings and not just the quantity. It represents the excess return a business is able to generate over its cost of capital. A positive EVA indicates that the business has generated wealth in excess of what is expected by the Shareholders A negative EVA, on the other hand, indicates that the company is a destroyer of value.

(Rs. in Lacs)

Year Ended March 31		2000
1.	Average capital employed	4656.18
2.	Average debt/Average capital (%)	48.83
3.	Beta variant	0.76
4.	Risk free debt cost (%)	10.50
5.	Market premium (%)	9.68
6.	Cost of equity	9.75
7.	Cost of debt (post tax) (%)	9.75
8.	Weighted Average Cost of Capital (WACC) (%)	13.90
9.	**Economic value added (EVA)**	**349.65**
	Profit before Tax	**834.71**
	***Add* : Finance Costs (Gross)**	**151.01**
	PBIT	**985.72**
	***Less* : Non-recurring items**	**Nil**
	PBT ex--ding non-recurring income	**985.72**
	***Less* : Tax**	**11.14**
		996.86
	Less : Cost of Capital	647.21
	EVA	**349.65**

Working Notes

(i) *EVA has been calculated based on the capital structure as on March 31, 2000 and Company's actual performance for FY 1999-2000.*

(ii) *Beta has been calculated based on the movement of the Company's share price and the BSE sensex for the past 12 months.*

(iii) *Calculation of Cost of Debt*

$$\text{Cost of Debt} = \frac{\text{Gross Finance cost} \times 100}{\text{Average Debt}} = \frac{151.01 \times 100}{1527.62} = 9.88\%$$

(iv) *For FY 1999-2000, the Company's effective rate of taxation was 1.33%. Hence post tax cost of debt is 9.88 (1-0.0133) % = 9.75%.*

(v) *Cost of Equity = Risk free debt cost + Beta Variant (Market premium).*

VALUE ADDED STATEMENT

MARKET VALUE ADDED

Market Value added (MVA) is a fairly reliable measure of the management's efforts at adding value. MVA is the determinant of the premium the market is willing to place on the Company's value in recognition of its future earnings potential. The aim of the management is to maximize the amount by which the company's market value exceeds the capital supplied by the investors.

MVA = Current market value of debt and equity - Economic book value
Economic book value = Share Capital + Free reserves + Debt

		(Rs. in Lacs)
Year ended March 31	**2000**	**1999**
Current market value of debt and equity	6088.01	3348.75
Less : Economic book value	5158.69	4153.68
MARKET VALUE ADDED	929.32	-804.93

VALUE ADDED STATEMENT

Value added (VA) is the wealth a Company has been able to create through the collective effort of capital, management and employees. In economic terms, value added is the market price of the output of an enterprise less the price of the goods and services acquired by transfer. VA can provide a useful measure in gauging performance and activity of the Company.

		(Rs. in Lacs)
Year ended March 31	**2000**	**1999**
Total Income	8373.02	7369.75
Less : Cost of Goods Sold	6559.59	6165.85
Selling and distribution expenses	12.28	31.01
Administration expenses	204.52	188.91
TOTAL VALUE ADDED	**1196.63**	**983.98**
Applied to Meet		
Employee costs	163.67	151.01
Depreciation	47.25	47.42
Income Tax	11.14	5.05
Provision of Doubtful debts	0.00	0.00
Dividends	146.53	144.31
Interest Payments	151.01	63.40
Retained in business	677.03	572.79
	1196.63	**983.98**