

Q1FY22 results review  
and earnings revisionConsumer Staples  
& Discretionary

Target price Rs95

## Earnings revision

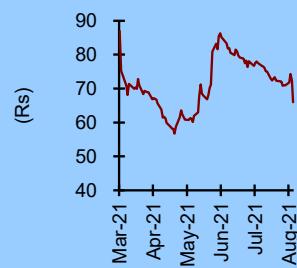
(%)	FY22E	FY23E
Sales	↑ 1.3	↑ 1.3
EBITDA	↓ 1.1	↓ 0.8
PAT	↓ 3.0	↓ 1.0

## Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	60.5	60.5	60.5
Institutional investors	6.5	6.5	5.7
MFs and others	1.4	1.4	1.4
FIIs/Bank/Ins	0.1	0.1	0.1
FIIs	5.0	5.0	4.3
Others	33.0	33.0	33.8

Source: BSE

## Price chart



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## INDIA

## Kalyan Jewellers India

BUY  
MaintainFY21-23E likely to be (significant) turnaround years **Rs66**

Kalyan reported an in-line operating performance with higher disruption in its core markets weighing on revenues in 1Q. Share of gold jewelry continued to be high with continued new customer recruits from the unorganized segment. Lower GSS (advance purchase scheme) subscriptions is marginal near-term headwind. We expect Kalyan to focus on store expansion in FY22. BUY; TP Rs95.

We believe mandatory hallmarking ([link](#)) will create a level playing field in the Indian Jewellery market, driving further formalisation. It will lead to (1) likely traceability of raw material (gold) leading to potentially higher imports through formal route, (2) material business disruption for informal players in converting their inventory to hallmark standards (necessity to melt and recreate ornaments), (3) opportunity for design-oriented brands to realise higher brand premium (versus commodity++), (4) higher industry-wide efforts to drive premiumisation (higher share of studded), and (5) consumers may choose to convert 'old jewellery' to hallmark-compliant ornament in FY21-23E.

- ▶ **India business grows 94%.** Revenue grew by 94% to Rs12.7bn; SSSG: 68% (ex GSS; while the base period is not strictly comparable but South India grew by 73% while non-south grew by 170%; studded share declined to 20% from 22% in Q4FY21. The studded ratio continued to remain low with the company gaining new consumers from the unorganised segment particularly for the plain gold jewellery. For Q1FY22, some of the Kalyan's core markets (like Kerala, Tamil Nadu) were more disrupted due to higher operating restrictions. The share of south revenue was at 70% compared to 69% in Q4FY21. Other key highlights: (1) Gold coin sales were at ~Rs400mn, 3% of revenues and (2) Currently, most of the stores are open with some restrictions on weekends.

Gross margin (standalone) declined 30bps QoQ to 14.4% due to higher south revenue (QoQ), lower studded ratio and one-time loss due to customs duty cut. Gross margin weakness weighed on EBITDA margins (3.9%). It reported a loss of Rs564mn at the PBT level. Total number of stores were 116 in India. Kalyan's e-commerce segment, Candere, also saw some pickup – revenue up to Rs240mn in Q1FY22 versus Rs50mn in Q1FY21. The operations continued to be positive at the PAT level.

- ▶ **Middle East operations hurt by store closures.** Revenue grew by 183% YoY to Rs3.4bn (58% of Q1FY20 revenues) despite Kalyan closing 7 showrooms in FY21. On a sequential basis, gross margins expanded 80bps to 18.1%.

Market Cap	Rs68bn/US\$914mn	Year ending Mar	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	KALN.BO/KALYANKJ IN	Revenue (Rs mn)	1,01,009	85,733	1,00,820	1,25,042
Shares Outstanding (mn)	1,030.1	Adj Net Profit (Rs mn)	1,430	(63)	2,841	4,128
52-week Range (Rs)	87/57	Dil. Rec. EPS (Rs)	1.7	(0.1)	2.8	4.0
Free Float (%)	39.5	% Chg YoY	NM	NM	NM	45.3
FII (%)	5.0	P/E (x)	39.3	NM	24.3	16.7
Daily Volume (US\$'000)	NA	CEPS (Rs)	4.6	2.1	5.0	6.7
Absolute Return 3m (%)	7.3	EV/EBITDA (x)	9.7	15.2	11.4	8.4
Absolute Return 12m (%)	NA	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	10.9	RoCE (%)	8.0	5.5	7.7	9.9
Sensex Return 12m (%)	44.4	RoE (%)	6.6	(0.2)	9.1	11.7

- ▶ **Store expansion to resume.** We like Kalyan's thrust on store expansion. Prior to Covid, the company added 60 new stores in the preceding five years. It is expected to launch 20+ stores in FY22 and 15 stores in FY23. It has already opened nine stores in April 2021. Its other key strengths are (1) hyperlocal model, (2) a network of 750+ My Kalyan centres to drive footfalls and (3) consistent brand investments. Going forward, margin expansion to be driven by (1) expansion in non-south markets to drive gross margin expansion given higher studded share in these markets and (2) operating leverage benefit.
- ▶ **Valuation and risks:** We cut our earnings estimate by 1-3% for FY22-FY23E. We model revenue and EBITDA CAGRs of 21% and 35% over FY21-FY23E. Maintain **BUY** with an unchanged target price of Rs95. Key risks: delay in showroom expansion and potentially higher competitive intensity in core South India markets.

**Table 1: Q1FY22 results review (Consolidated - Reported)**

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Revenues</b>	<b>16,368</b>	<b>7,824</b>	<b>109</b>	<b>30,566</b>	<b>(46)</b>	<b>85,733</b>	<b>1,01,009</b>	<b>(15)</b>
COGS	(13,864)	(5,832)	138	(25,957)	(47)	(71,141)	(83,918)	(15)
<b>Gross profit</b>	<b>2,503</b>	<b>1,992</b>	<b>26</b>	<b>4,609</b>	<b>(46)</b>	<b>14,592</b>	<b>17,092</b>	<b>(15)</b>
Staff cost	(748)	(734)	2	(969)	(23)	(3,315)	(3,572)	(7)
Other opex	(1,069)	(652)	64	(1,363)	(22)	(5,334)	(5,917)	(10)
<b>Total opex</b>	<b>(1,816)</b>	<b>(1,387)</b>	<b>31</b>	<b>(2,332)</b>	<b>(22)</b>	<b>(8,649)</b>	<b>(9,489)</b>	<b>(9)</b>
<b>EBITDA</b>	<b>687</b>	<b>605</b>	<b>14</b>	<b>2,277</b>	<b>(70)</b>	<b>5,943</b>	<b>7,603</b>	<b>(22)</b>
Other income	47	132	(64)	123	(61)	454	801	(43)
Finance cost	(808)	(911)	(11)	(866)	(7)	(3,754)	(3,803)	(1)
D&A	(576)	(598)	(4)	(549)	5	(2,249)	(2,392)	(6)
<b>PBT</b>	<b>(649)</b>	<b>(772)</b>	<b>(16)</b>	<b>985</b>	<b>(166)</b>	<b>394</b>	<b>2,209</b>	<b>(82)</b>
Tax	136	(86)	(258)	(246)	(155)	(454)	(786)	(42)
<b>PAT</b>	<b>(513)</b>	<b>(859)</b>	<b>(40)</b>	<b>739</b>	<b>(169)</b>	<b>(61)</b>	<b>1,423</b>	<b>(104)</b>
Minority Interest	(0)	1		3		(2)	7	
<b>PAT after MI</b>	<b>(513)</b>	<b>(858)</b>	<b>(40)</b>	<b>742</b>	<b>(105)</b>	<b>(63)</b>	<b>1,430</b>	<b>(104)</b>
Extraordinary items	-	-		-		-	-	
<b>Net profit (reported)</b>	<b>(513)</b>	<b>(858)</b>	<b>(40)</b>	<b>742</b>	<b>(169)</b>	<b>(63)</b>	<b>1,430</b>	<b>(104)</b>
<b>EPS</b>	<b>(0.5)</b>	<b>(1.0)</b>	<b>(51)</b>	<b>0.7</b>	<b>(169)</b>	<b>(0.1)</b>	<b>1.7</b>	<b>(104)</b>
<b>Costs as a % of sales</b>								
COGS	84.7	74.5	1016 bps	84.9	-22 bps	83.0	83.1	-10 bps
<b>Gross margin (%)</b>	<b>15.3</b>	<b>25.5</b>	<b>-1017 bps</b>	<b>15.1</b>	<b>21 bps</b>	<b>17.0</b>	<b>16.9</b>	<b>9 bps</b>
Staff cost	4.6	9.4	-482 bps	3.2	139 bps	3.9	3.5	33 bps
Other opex	6.5	8.3	-181 bps	4.5	207 bps	6.2	5.9	36 bps
<b>EBITDA margin (%)</b>	<b>4.2</b>	<b>7.7</b>	<b>-354 bps</b>	<b>7.4</b>	<b>-326 bps</b>	<b>6.9</b>	<b>7.5</b>	<b>-60 bps</b>
Income tax rate (%)	21.0	(11.2)	3214 bps	25.0	-401 bps	115.4	35.6	7984 bps

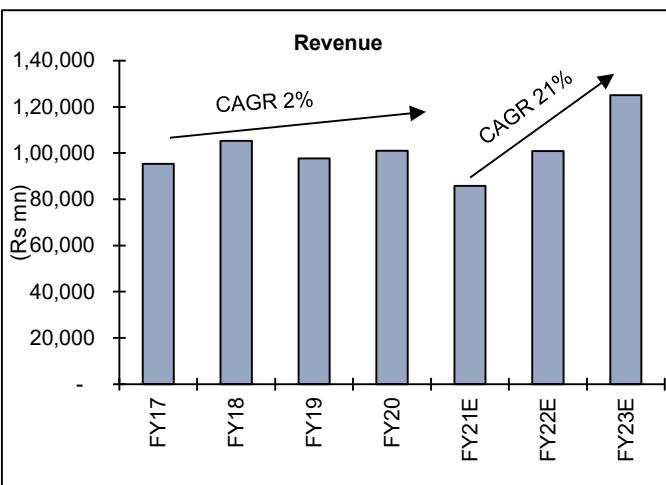
Source: Company data, I-Sec research

**Table 2: Q1FY22 results review (Standalone - Reported)**

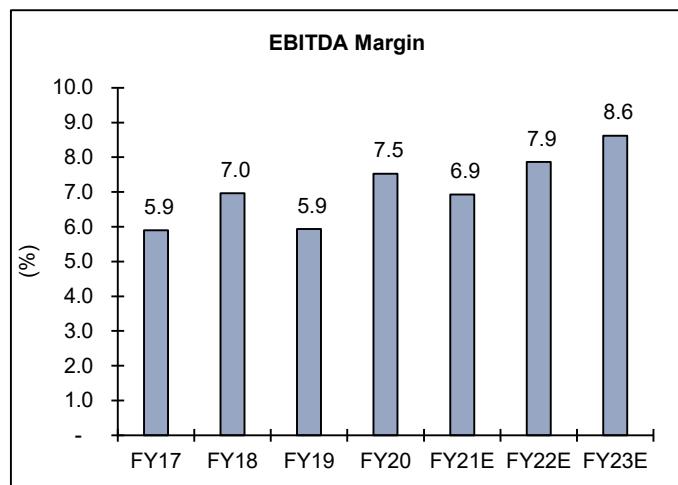
(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Revenues</b>	<b>12,742</b>	<b>6,578</b>	<b>94</b>	<b>26,149</b>	<b>(51)</b>	<b>73,255</b>	<b>78,458</b>	<b>(7)</b>
COGS	(10,912)	(5,090)	114	(22,325)	(51)	(60,841)	(64,549)	(6)
<b>Gross profit</b>	<b>1,829</b>	<b>1,488</b>	<b>23</b>	<b>3,825</b>	<b>(52)</b>	<b>12,414</b>	<b>13,909</b>	<b>(11)</b>
Staff cost	(630)	(623)	1	(851)	(26)	(2,868)	(3,001)	(4)
Other opex	(698)	(503)	39	(1,031)	(32)	(3,298)	(4,547)	(27)
<b>Total opex</b>	<b>(1,329)</b>	<b>(1,126)</b>	<b>18</b>	<b>(1,882)</b>	<b>(29)</b>	<b>(6,167)</b>	<b>(7,548)</b>	<b>(18)</b>
<b>EBITDA</b>	<b>501</b>	<b>362</b>	<b>39</b>	<b>1,943</b>	<b>(74)</b>	<b>6,247</b>	<b>6,361</b>	<b>(2)</b>
Other income	51	180	(71)	113	(54)	529	983	(46)
Finance Cost	(665)	(773)	(14)	(733)	(9)	(3,161)	(3,131)	1
D&A	(452)	(452)	0	(421)	7	(1,740)	(1,860)	(6)
<b>PBT</b>	<b>(564)</b>	<b>(683)</b>	<b>(17)</b>	<b>902</b>	<b>(163)</b>	<b>1,875</b>	<b>2,353</b>	<b>(20)</b>
Tax	139	(86)	(261)	(237)	(158)	(493)	(790)	(38)
<b>PAT</b>	<b>(426)</b>	<b>(769)</b>	<b>(45)</b>	<b>665</b>	<b>(164)</b>	<b>1,382</b>	<b>1,564</b>	<b>(12)</b>
<b>EPS</b>	<b>(0.4)</b>	<b>(0.9)</b>	<b>(55)</b>	<b>0.6</b>	<b>(164)</b>	<b>1.3</b>	<b>1.9</b>	<b>(28)</b>
<b>Costs as a % of sales</b>								
COGS	85.6	77.4	826 bps	85.4	26 bps	83.1	82.3	78 bps
<b>Gross margin (%)</b>	<b>14.4</b>	<b>22.6</b>	<b>-827 bps</b>	<b>14.6</b>	<b>-27 bps</b>	<b>16.9</b>	<b>17.7</b>	<b>-79 bps</b>
Staff cost	4.9	9.5	-454 bps	3.3	169 bps	3.9	3.8	9 bps
Other opex	5.5	7.6	-217 bps	3.9	153 bps	4.5	5.8	-130 bps
<b>EBITDA margin (%)</b>	<b>3.9</b>	<b>5.5</b>	<b>-157 bps</b>	<b>7.4</b>	<b>-350 bps</b>	<b>8.5</b>	<b>8.1</b>	<b>41 bps</b>
Income tax rate (%)	24.6	(12.6)	3723 bps	26.3	-172 bps	26.3	33.6	-729 bps

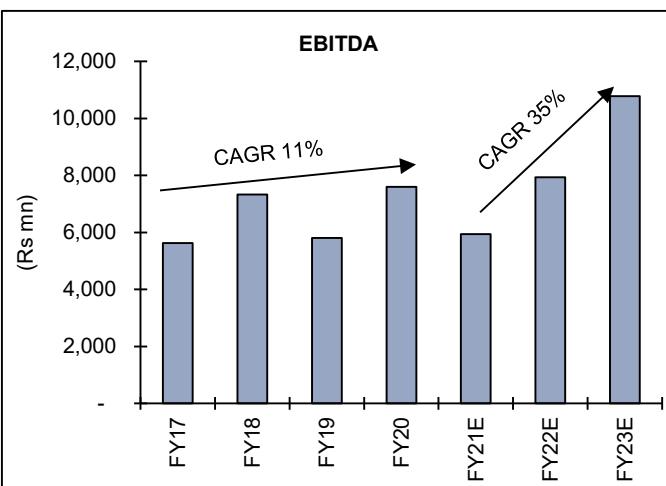
Source: Company data, I-Sec research

**Chart 1: Revenue and growth rates**

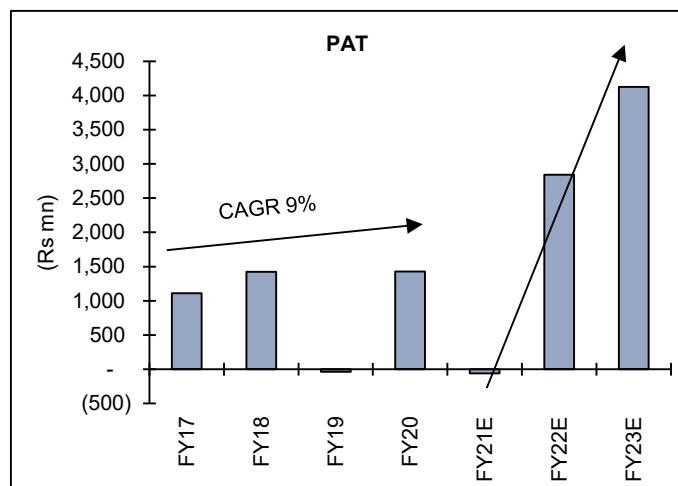
Source: Company data, I-Sec research

**Chart 2: EBITDA margin**

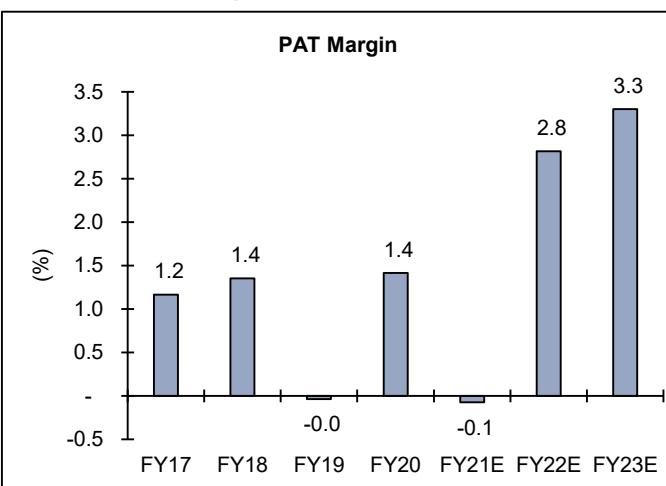
Source: Company data, I-Sec research

**Chart 3: EBITDA and growth rates**

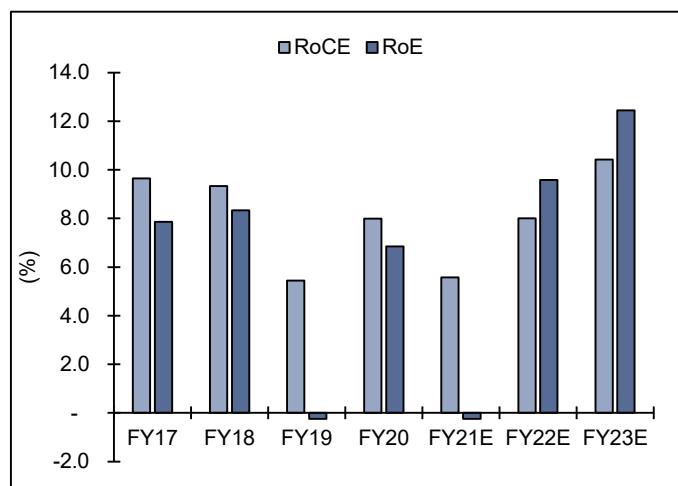
Source: Company data; I-Sec research

**Chart 4: PAT and growth rates**

Source: Company data; I-Sec research

**Chart 5: PAT Margin**

Source: Company data; I-Sec research

**Chart 6: Return Ratios**

Source: Company data; I-Sec research

## Financial summary

**Table 3: Profit & loss statement**

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Net Revenue</b>	<b>1,01,009</b>	<b>85,733</b>	<b>1,00,820</b>	<b>1,25,042</b>
Operating Expenses	93,406	79,790	92,890	1,14,264
<b>EBITDA</b>	<b>7,603</b>	<b>5,943</b>	<b>7,931</b>	<b>10,778</b>
% margins	7.5	6.9	7.9	8.6
Depreciation & Amortisation	2,392	2,249	2,301	2,745
Gross Interest	3,803	3,754	3,342	3,761
Other Income	801	454	1,460	1,091
<b>Recurring PBT</b>	<b>2,209</b>	<b>394</b>	<b>3,748</b>	<b>5,363</b>
Less: Taxes	786	454	904	1,232
Less: Minority Interest	7	(2)	(2)	(3)
<b>Net Income (Reported)</b>	<b>1,430</b>	<b>(63)</b>	<b>2,841</b>	<b>4,128</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,430</b>	<b>(63)</b>	<b>2,841</b>	<b>4,128</b>

Source: Company data, I-Sec research

**Table 4: Balance sheet**

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	58,984	67,103	73,125	85,403
of which cash & cash eqv.	7,501	10,966	12,721	10,879
Total Current Liabilities & Provisions	17,127	21,219	21,267	25,597
<b>Net Current Assets</b>	<b>41,857</b>	<b>45,884</b>	<b>51,859</b>	<b>59,806</b>
Investments	11,938	10,795	12,074	13,401
Net Fixed Assets	10,842	9,668	8,366	6,492
Capital Work-in-Progress	341	625	625	625
<b>Total Assets</b>	<b>64,979</b>	<b>66,972</b>	<b>72,924</b>	<b>80,323</b>
<b>Liabilities</b>				
Borrowings	43,479	39,167	42,275	45,545
Deferred Tax Liability	(81)	(461)	(461)	(461)
Minority Interest	(30)	5	5	5
Equity Share Capital	9,583	10,301	10,301	10,301
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	12,028	17,960	20,803	24,934
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>21,611</b>	<b>28,260</b>	<b>31,104</b>	<b>35,234</b>
<b>Total Liabilities</b>	<b>64,979</b>	<b>66,972</b>	<b>72,924</b>	<b>80,323</b>

Source: Company data, I-Sec research

**Table 5: Cashflow statement**

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>7,438</b>	<b>6,930</b>	<b>6,080</b>	<b>8,688</b>
Working Capital Changes	(4,243)	(641)	(4,501)	(10,258)
Capital Commitments	(1,075)	(479)	(1,050)	(871)
<b>Free Cashflow</b>	<b>2,120</b>	<b>5,810</b>	<b>529</b>	<b>(2,441)</b>
<b>Cashflow from Investing Activities</b>	<b>1,418</b>	<b>(1,694)</b>	<b>1,460</b>	<b>1,091</b>
Issue of Share Capital	-	7,565	-	-
Inc (Dec) in Borrowings	(3,431)	(9,641)	(234)	(491)
Dividend paid	(0)	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>108</b>	<b>2,040</b>	<b>1,755</b>	<b>(1,841)</b>
<b>Closing cash &amp; balance</b>	<b>7,501</b>	<b>10,966</b>	<b>12,721</b>	<b>10,879</b>

Source: Company data, I-Sec research

**Table 6: Key ratios**

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	1.7	(0.1)	2.8	4.0
Cash EPS	4.6	2.1	5.0	6.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	25.7	27.4	30.2	34.2
<b>Growth (%)</b>				
Net Sales	3.4	(15.1)	17.6	24.0
EBITDA	31.0	(21.8)	33.4	35.9
PAT	NM	NM	NM	45.3
DPS	NM	NM	NM	NM
<b>Valuation Ratios (x)</b>				
P/E	39.3	NM	24.3	16.7
P/CEPS	14.7	31.6	13.4	10.0
P/BV	2.6	2.4	2.2	2.0
EV / EBITDA	9.7	15.2	11.4	8.4
EV / Sales	0.7	1.1	0.9	0.7
<b>Operating Ratios</b>				
Raw Material / Sales (%)	83.1	83.0	84.3	83.9
Employee cost / Sales (%)	3.5	3.9	3.2	3.0
Other exps / Sales (%)	5.9	6.2	4.6	4.4
Other Income / PBT (%)	0.4	1.2	0.4	0.2
Effective Tax Rate (%)	35.6	115.4	24.1	23.0
Working Capital (days)	129.4	156.7	149.6	150.6
Inventory Turnover (days)	171.8	227.8	207.2	206.1
Receivables (days)	7.8	4.8	4.7	4.3
Payables (days)	20.3	29.6	17.7	17.4
Net D/E (x)	1.3	0.8	0.7	0.7
<b>Profitability Ratios (%)</b>				
Net Income Margins	1.4	(0.1)	2.8	3.3
RoACE	8.0	5.6	8.0	10.4
RoAE	6.8	(0.2)	9.6	12.5
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	7.5	6.9	7.9	8.6

Source: Company data, I-Sec research

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