

## Kalyan Jewellers

### Perfecting towards stable performance; strong Buy

We recently interacted with various business teams of Kalyan Jewellers to assess fundamental drivers for growth. We reckon, Kalyan has inherent advantage to its business model - hyperlocal strategy, generating strong enquiries given its solid understanding on local taste and demand for designs. Further our interaction with teams running, hallmarking center, wholesale manufacturer and 'My Kalyan' displayed confidence on generating strong consumer demand working closely with wedding eco-system (~20% of revenues). Management alluded resilient business momentum and improving SSSG driven by footfalls across geographies, yet it remains upbeat on doubling store count in three years in non-south markets driven by own stores and FOCO (50-60) improving its studded jewelry ratio. We tweak our earnings and maintain BUY, with a revised DCF-based TP Rs121 (implying 27.5x FY24E EPS).

#### Strong connect with stakeholders in wedding eco-system - My-Kalyan driving store footfalls

Our interaction with teams running 'My-Kalyan', wholesale manufacturer, hallmarking center and flagship store gave us confidence on steady performance for the company. Interestingly, strong connect with wedding eco-system, driving each My-Kalyan associate visiting 15-20 houses everyday generating strong footfalls for its stores, resulting in ~20% of revenue contribution. Management said, though it appears it's a cost centre, it generates good profits. BIS Hallmarking centre head confirmed better-quality infrastructure has driven increased certification for jewelry - 3500 pcs per month. Though current rejection rate is ~5%, the efforts are made to minimise losses post stripping of gold from each jewelry pc. The wholesale manufacturing unit (largely catering to demand from Kalyan) process ~200-250kg per month and works with ~4-5% margin. Our interaction with flagship store manager indicated, (1) increased consumer awareness for gold purity, (2) ~32% share for studded jewelry, (3) making charges - basic gold jewelry ~3-5%, while hand crafted designs (heavy gold) command ~25-30%, (4) store inventory of 100kg it generates ~2.5-2.7x turnover per annum, and (5) each store staff is incentivised and ~95% of them achieve resulting in bill cuts ~100-135 per day.

#### Management confirmed strong business momentum to continue

Management said its performance to be driven by: (1) doubling stores in three years - 60% under FOCO model, (2) 6 pilot FOCO stores by Oct'22, (3) strong enrolment under Dhan-Varsha advance purchase scheme, (4) My-Kalyan model has been able to showcase designs and upsell to the consumer, (5) increased studded ratio to drive gross margins, and (6) gold exchange to remain ~30%, yet increased gold mental loans (Rs18bn) could cut interest burden. The management said A&P spend to remain at ~1.8% of sales yet expects FY23 could witness strong revenue momentum and improved profitability led by pent up demand.

#### Valuation driven by potential earnings upside

We reckon Kalyan's strategy revolved around adding new stores in non-south markets and calibrated expansion in Middle East region. Further management appears to be confident on its strategy of non-South markets to improve studded ratio, serving millennials meeting their aspirational demand by introducing new designs. We increase our earnings for FY23E/24E by 27.8%/26.7% and retain BUY, with a DCF-based revised TP of Rs121 (implying 27.5x FY24E EPS). Risks: irrational competition; prolonged recovery in the economy, leading to lower demand for jewelry; rising gold prices.

#### Financial and valuation summary

YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenues	101,009	85,733	108,179	129,768	155,686
EBITDA	7,603	5,943	8,145	10,654	13,108
EBITDA margin (%)	7.5	6.9	7.5	8.2	8.4
Adj. Net profit	1,423	(61)	2,240	3,570	4,575
Adj. EPS (Rs)	1.7	(0.1)	2.2	3.5	4.4
EPS growth (%)	nm	nm	nm	59.3	28.1
PE (x)	49.0	nm	38.2	23.9	18.7
EV/EBITDA (x)	12.9	15.3	11.7	7.9	6.0
PBV (x)	3.2	2.5	2.7	2.4	2.1
RoE (%)	6.8	(0.2)	7.5	10.7	12.0
RoCE (%)	6.8	(1.1)	7.4	9.5	11.0

Source: Bloomberg, Centrum Broking

#### Company Update

##### India I Consumer

05 September, 2022

**BUY**

Price: Rs83

Target Price: Rs121

Forecast return: 46%

Institutional Research

#### Market Data

Bloomberg:	KALYANKJ IN
52 week H/L:	86/55
Market cap:	Rs87.3bn
Shares Outstanding:	1030.1mn
Free float:	39.5%
Avg. daily vol. 3mth:	1,970,169

Source: Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Changed from Rs101 to Rs121
EPS:	FY23E: Up by 27.8% FY24E: Up by 26.7%

Source: Centrum Broking

#### KALYANKJ relative to Nifty Midcap 100



Source: Bloomberg

#### Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	60.5	60.5	60.5	60.5
FII	2.8	3.1	3.3	2.9
DII	1.8	1.6	1.9	1.7
Public/other	34.9	34.9	34.3	34.9

Source: BSE



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	129,768	127,383	1.9	155,685	152,878	1.8
EBITDA	10,654	10,076	5.7	13,108	12,614	3.9
EBITDA margin	8.2	7.9	30bp	8.4	8.3	17bp
Adj. PAT	3,570	2,794	27.8	4,575	3,611	26.7
Diluted EPS (Rs)	3.5	2.7	27.8	4.4	3.5	26.7

Source: Centrum Broking

### Kalyan Jewellers versus NIFTY Midcap 100

	1m	6m	1 year
KALYANKI IN	16.0	33.3	24.8
NIFTY midcap 100	4.2	14.6	8.5

Source: Bloomberg, Centrum Broking

### Key assumptions

Y/E Mar	FY23E	FY24E
No of stores in India	163	194
Retail space growth (%)	15.6	19.0

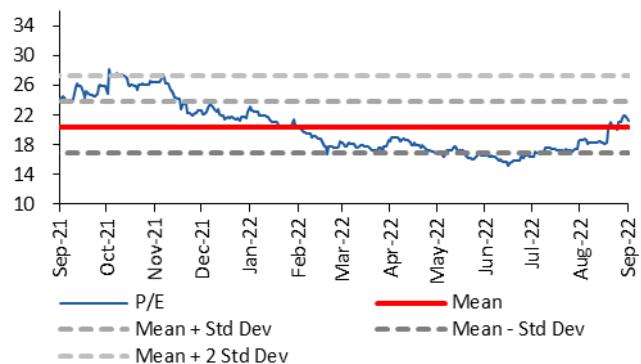
Source: Centrum Broking

### Valuations

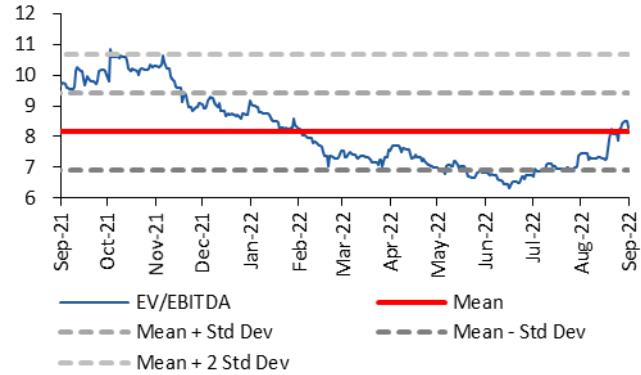
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Valuations	Rs/share
DCF based target price (Rs)	121
WACC (%)	12.0
Terminal growth (%)	5.0

### P/E mean and standard deviation



### EV/EBITDA mean and standard deviation



### Peer comparison

Company	Mkt Cap Rs bn	CAGR FY22-FY24E (%)			PE (x)			EV/EBITDA (x)			RoE (%)		
		Sales	EBIDTA	PAT	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Titan Co. Ltd	2,340.0	21.4	31.3	33.0	105.9	84.0	64.4	69.6	52.8	43.0	26.8	29.9	30.9
<b>Kalyan Jewellers</b>	<b>85.0</b>	<b>20.0</b>	<b>26.9</b>	<b>42.9</b>	<b>38.2</b>	<b>23.9</b>	<b>18.7</b>	<b>11.7</b>	<b>7.9</b>	<b>6.0</b>	<b>7.5</b>	<b>10.7</b>	<b>12.0</b>

Source: Company, Centrum Broking

## Strong connect with wedding eco-system

### My-Kalyan driving store footfall

Our interaction with teams running 'My-Kalyan' indicated continued momentum, as it drives Dhan-Varsha, advance purchase scheme and also showcase various products and designs.

- My-Kalyan has strong connect with stakeholders in the wedding eco-system
- Each store is supplemented by 6-7 My-Kalyan associates
- Each associate has fixed route plan and it is reviewed on weekly basis
- Each associate visits 15-20 houses based on leads generated by wedding eco-system
- During the visit, the associate showcase the design and generate potential lead for the company
- Each associate also conduct enrolment for Dhan-Varsha advance purchase scheme
- The associate also collects the instalment for advance purchase scheme and it is secured by one stage OTP password verification
- In advance purchase scheme the consumer gets 5-10% bonus discount on purchase or making charges
- My-Kalyan contributes ~20% of company revenues
- Though My-Kalyan appears to be cost centre, it generates healthy profits

**Exhibit 1: My Kalyan office in Thrissur**



Source: Company Data, Centrum Broking

**Exhibit 2: My-Kalyan associate weekly work plan/ beat visit**



Source: Company Data, Centrum Broking

### Improved Hall-marking certification

Our interaction with BIS certified, Athira Assey and Hallmarking centre (AHC) team confirmed improved consumer awareness for hall-marked jewellery has resulted in 2x higher demand from jewelry players. Its better-quality infrastructure has driven increased certification for jewelry. The hallmarking process is carried out in 3 steps - homogeneity testing, purity testing and individual items marking.

- Athira Assey and hallmarking centre is operational for last 7 years
- BIS certified Hallmarking centre conducts three parallel processes for hallmarking before awarding certification
- Homogeneity test – Under this all items within a given sample are taken and checked to ensure that they comply with the necessary regulatory standards of BIS
- X-ray fluorescence spectroscopy (XRF) - universally recognized as a very accurate method of measuring the atomic composition of a material by irradiating a sample with

high energy photons such as x-rays or gamma rays and observing the resulting x-ray fluorescence emitted by the sample

- Purity testing – Under this fraction of gold is scraped from lowest vale item from the batch and melted to conduct oxidation test for checking the purity of gold. Once the sample conforms the quality it is certified as '916' or 91.6% purity or 22 Karat
- The AHC generally conducts 3500 samples per month, charging Rs35/ per pc certification
- It saw 2x demand for certification in last five/six months
- Current rejection rate is 5% for incoming samples from local jewellers
- Its effort using better technology is to cut losses from scraped gold from each jewelry article

**Exhibit 3: Athira Assay and Hallmarking Centre**



Source: Company Data, Centrum Broking

**Exhibit 4: Hallmarking parting test**



Source: Company Data, Centrum Broking

**Exhibit 5: Karatmeter**



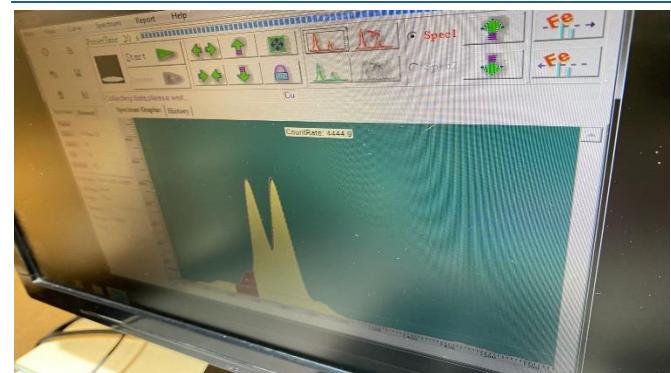
Source: Company Data, Centrum Broking

**Exhibit 7: Furnace for checking homogeneity**



Source: Company Data, Centrum Broking

**Exhibit 6: Karatmeter reading for matching purity 916**



Source: Company Data, Centrum Broking

**Exhibit 8: Instrument for checking purity**



Source: Company Data, Centrum Broking

**Exhibit 9: Every record on purity is uploaded on BIS website**

Source: Company Data, Centrum Broking

**Exhibit 10: Checking for hallmarking standards**

Source: Company Data, Centrum Broking

**Improved demand for machine made gold jewelry**

Our interaction with wholesale manufacturing unit indicated strong demand for standardised machine made jewelry. The unit process ~250 kg gold per-month, largely various types of gold chains weighing 10 – 100 grams. The owner of unit confirmed improved consumer demand for machine made standardised products and risen consistently in recent months.

- The wholesale unit manufactures machine made gold items which are standardised, largely chains
- The product pricing is done upfront with 3-4% discounts for the local jewellers, yet the owner for the unit gets ~3% margin
- The unit delivers ~8-10K pieces per day
- The unit owner confirmed heightened demand from Kalyan in recent times

**Exhibit 11: Continuous machine manufacturing process**

Source: Company Data, Centrum Broking

**Exhibit 12: Machines used to manufacture gold chains**

Source: Company Data, Centrum Broking

**Exhibit 13: Multilayer chain manufacturing**

Source: Company Data, Centrum Broking

**Exhibit 14: Gold chain manufacturing**

Source: Company Data, Centrum Broking

**Exhibit 15: High value gold chains**

Source: Company Data, Centrum Broking

**Exhibit 16: Checking for quality for machine made products**

Source: Company Data, Centrum Broking

**Flag-ship store visit witnessing strong footfalls**

Our interaction with teams running Kalyan's flag-ship store indicated strong consumer awareness for purity certification such as BIS hallmarking. Though being market leader it has inherent advance due to its hyperlocal strategy in understanding consumer taste and preferences. Also in recent times it has also witnessed rising enrolment for Dhan-Varsha, advance purchase scheme.

- Store manager confirmed increase consumer awareness for gold purity abnd BIS certification
- Most customer generate high confidence when they enter any store and instantly check the purity of old gold using Karatmeter installed at the entrance of each store
- The store achieves ~Rs3bn sales per annum
- The store has seen increased trajectory in footfalls post Apr-May'22
- Making charges - basic gold jewelry ~3-5%, while hand crafted designs (heavy gold) command ~25-30%
- The store inventory ~100kg generates ~2.5-2.7x turnover per annum
- Each store staff is incentivised and ~95% of them achieve resulting in bill cuts ~100-135 per day

**Exhibit 17: Platinum jewelry collection**

Source: Company Data, Centrum Broking

**Exhibit 18: Heavy necklace collection (fast selling item)**

Source: Company Data, Centrum Broking

**Exhibit 19: Heavy gold necklace (strong demand product)**

Source: Company Data, Centrum Broking

**Exhibit 20: Types of heavy gold necklaces**

Source: Company Data, Centrum Broking

**Exhibit 21: Gold necklaces, fast moving items**

Source: Company Data, Centrum Broking

**Exhibit 22: Flag-ship store in Thrissur**

Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenues</b>	<b>101,009</b>	<b>85,733</b>	<b>108,179</b>	<b>129,768</b>	<b>155,686</b>
Operating Expense	83,918	71,141	91,263	108,227	128,752
Employee cost	3,572	3,315	3,543	4,282	5,605
Others	5,917	5,334	5,229	6,605	8,221
<b>EBITDA</b>	<b>7,603</b>	<b>5,943</b>	<b>8,145</b>	<b>10,654</b>	<b>13,108</b>
Depreciation & Amortisation	2,392	2,249	2,316	2,809	3,322
<b>EBIT</b>	<b>5,211</b>	<b>3,694</b>	<b>5,829</b>	<b>7,845</b>	<b>9,786</b>
Interest expenses	3,803	3,754	3,224	3,590	3,982
Other income	801	454	383	504	378
<b>PBT</b>	<b>2,209</b>	<b>394</b>	<b>2,989</b>	<b>4,760</b>	<b>6,182</b>
Taxes	786	454	748	1,190	1,607
Effective tax rate (%)	35.6	115.4	25.0	25.0	26.0
<b>PAT</b>	<b>1,423</b>	<b>(61)</b>	<b>2,240</b>	<b>3,570</b>	<b>4,575</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>1,423</b>	<b>(61)</b>	<b>2,240</b>	<b>3,570</b>	<b>4,575</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>1,423</b>	<b>(61)</b>	<b>2,240</b>	<b>3,570</b>	<b>4,575</b>
Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (%)</b>					
Revenue	3.4	(15.1)	26.2	20.0	20.0
EBITDA	31.0	(21.8)	37.1	30.8	23.0
Adj. EPS	nm	nm	nm	59.3	28.1
<b>Margins (%)</b>					
Gross	16.9	17.0	15.6	16.6	17.3
EBITDA	7.5	6.9	7.5	8.2	8.4
EBIT	5.2	4.3	5.4	6.0	6.3
Adjusted PAT	1.4	(0.1)	2.1	2.8	2.9
<b>Returns (%)</b>					
ROE	6.8	(0.2)	7.5	10.7	12.0
ROCE	6.8	(1.1)	7.4	9.5	11.0
ROIC	6.9	(1.2)	8.3	11.2	15.1
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	3.8	3.6	4.1	4.5	4.9
Debtors	7	7	4	4	4
Inventory	201	257	222	178	139
Creditors	21	32	27	19	14
Net working capital	151	195	171	153	138
<b>Solvency (x)</b>					
Net debt-equity	1.3	0.8	0.8	0.4	0.2
Interest coverage ratio	2.0	1.6	2.5	3.0	3.3
Net debt/EBITDA	3.7	3.6	3.2	1.4	0.7
<b>Per share (Rs)</b>					
Adjusted EPS	1.7	(0.1)	2.2	3.5	4.4
BVPS	25.8	33.7	30.5	34.2	39.6
CEPS	4.5	2.6	4.4	6.2	7.7
DPS	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	nm	0.0	0.0	0.0
<b>Valuation (x)</b>					
P/E	49.0	nm	38.2	23.9	18.7
P/BV	3.2	2.5	2.7	2.4	2.1
EV/EBITDA	12.9	15.3	11.7	7.9	6.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	8,392	10,301	10,301	10,301	10,301
Reserves & surplus	13,220	17,960	21,070	24,921	30,482
Shareholders fund	21,612	28,260	31,370	35,221	40,783
Minority Interest	(30)	5	9	9	9
Total debt	35,902	32,185	33,632	31,632	29,632
Non Current Liabilities	7,578	6,984	6,661	7,870	9,333
Def tax liab. (net)	0	0	0	0	0
<b>Total liabilities</b>	<b>65,061</b>	<b>67,433</b>	<b>71,673</b>	<b>74,732</b>	<b>79,756</b>
Gross block	26,429	24,136	26,580	29,067	32,065
Less: acc. Depreciation	(4,807)	(5,200)	(7,416)	(10,225)	(13,547)
Net block	21,621	18,936	19,164	18,843	18,519
Capital WIP	242	527	17	17	17
Net fixed assets	21,916	19,518	19,236	18,915	18,590
Non Current Assets	669	1,449	1,183	1,242	1,242
Investments	617	582	560	851	2,802
Inventories	47,203	53,031	57,943	47,586	50,691
Sundry debtors	2,137	1,127	1,422	1,705	2,046
Cash & Cash Equivalents	7,501	10,966	7,772	17,218	20,727
Loans & advances	812	343	343	343	343
Other current assets	1,330	1,636	1,636	1,636	1,636
Trade payables	5,576	6,901	6,548	4,552	5,415
Other current liab.	11,166	13,873	11,427	9,766	12,460
Provisions	384	445	446	446	446
Net current assets	41,858	45,884	50,694	54,500	57,122
<b>Total assets</b>	<b>65,061</b>	<b>67,433</b>	<b>71,673</b>	<b>74,732</b>	<b>79,756</b>
Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	2,209	394	2,989	4,760	6,182
Depreciation & Amortisation	2,392	2,249	2,316	2,809	3,322
Net Interest	3,334	3,461	2,805	3,085	3,604
Net Change – WC	(4,243)	(641)	(4,071)	6,347	(853)
Direct taxes	(69)	(569)	(1,529)	(1,190)	(1,607)
<b>Net cash from operations</b>	<b>3,195</b>	<b>6,289</b>	<b>2,450</b>	<b>15,811</b>	<b>10,648</b>
Capital expenditure	(1,075)	(479)	(908)	(2,488)	(2,998)
Acquisitions, net	0	0	0	0	0
Investments	1,117	(1,821)	1,344	0	0
Others	302	127	199	504	378
<b>Net cash from investing</b>	<b>343</b>	<b>(2,173)</b>	<b>636</b>	<b>(1,984)</b>	<b>(2,620)</b>
<b>FCF</b>	<b>3,538</b>	<b>4,116</b>	<b>3,086</b>	<b>13,828</b>	<b>8,028</b>
Issue of share capital	0	7,565	15	0	0
Increase/(decrease) in debt	1,816	(5,132)	(861)	(2,000)	(2,000)
Dividend paid	0	0	0	0	0
Interest paid	(2,706)	(2,864)	(2,216)	(3,590)	(3,982)
Others	(2,541)	(1,646)	(2,182)	1,208	1,463
<b>Net cash from financing</b>	<b>(3,431)</b>	<b>(2,076)</b>	<b>(5,244)</b>	<b>(4,381)</b>	<b>(4,519)</b>
Net change in Cash	108	2,040	(2,158)	9,446	3,509

Source: Company, Centrum Broking

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Source: Bloomberg

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