

11 May 2024

India | Equity Research | Q4FY24 results review

Kalyan Jewellers India

Consumer Staples & Discretionary

Consistently delivering outperformance

Kalyan, in a stock exchange release today ([link](#)), announced that it has achieved double-digit SSSG in QTD 1QFY25. In 4QFY24, it continued to deliver revenue and SSSG outperformance (38% and 17% YoY), driven by new customer recruitment, increasing avg. ticket size and franchisee-driven retail expansion (39% YoY). Underlying (PBT) margin continues to improve (+10bps YoY); importantly store-level gross margins have been stable, indicating no material change in price competition. Store expansion guidance remains same at 130 stores (80 Kalyan and 50 Candere) in India. Further, FCF generation (led by FOCO model) is driving improvement in return ratios with a reduction in debt. It further guides for debt reduction of INR 3.5-4bn and INR 4-5bn by FY25 and FY26, respectively. **ADD**.

SSSG and retail expansion led revenue outperformance

Kalyan reported revenue of INR 45.4bn, up 34% YoY. India revenue growth came in at 38% YoY, driven by acceleration in store expansion (+39% YoY) in non-south markets (~49% contribution) and SSSG of 17% YoY (18% SSSG in South India, 16% in non-south). Management highlighted that it has not seen any material increase in promotion-led intensity over last 4-5 quarters. Revenue from Middle East business grew 14% YoY. Early double-digit SSSG in first 40 days of Q1FY25 is very encouraging despite volatile gold prices and general elections.

It highlighted that (1) new consumer recruits continued to be healthy (share of new customers at ~38%) and (2) south business contribution declined to 51% to overall sales from 56% (YoY). Studded share improved to ~29% (vs 28% in Q4FY23). (3) Average ticket size grew by ~85k to ~100k in FY24.

Underlying margin expansion led by FOCO model

As expected, India gross and EBITDA margins were down ~130bps and ~100bps YoY, respectively, due to accelerated store expansion through franchisees (~20% of revenues) which comes at lower margins vs COCO stores. Store-level gross margin remains largely stable over last 18 months, as per management. Consequently, (consol.) EBITDA margin was also down ~80bps YoY to 6.8%. PBT margin of India business improved by ~10bps to 4.5% led by margin-accretive FOCO model. Recurring PAT grew by 33% YoY to INR 1.4bn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,40,714	1,85,483	2,38,536	3,00,592
EBITDA	11,140	13,127	16,100	19,459
EBITDA Margin (%)	7.9	7.1	6.7	6.5
Net Profit	4,664	5,973	8,510	11,479
EPS (INR)	4.5	5.8	8.3	11.1
EPS % Chg YoY	107.6	28.2	42.5	34.9
P/E (x)	90.9	70.9	49.8	36.9
EV/EBITDA (x)	38.6	32.3	25.7	20.0
RoCE (%)	13.0	14.9	18.2	20.6
RoE (%)	13.8	15.3	18.4	20.5

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Market Data

Market Cap (INR)	423bn
Market Cap (USD)	5,063mn
Bloomberg Code	KALYANKJ IN
Reuters Code	KALN BO
52-week Range (INR)	450 /104
Free Float (%)	22.0
ADTV-3M (mn) (USD)	11.3

Price Performance (%)	3m	6m	12m
Absolute	14.7	21.3	291.4
Relative to Sensex	13.1	9.4	274.2

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.3	0.5
EBITDA	0.4	1.1
EPS	0.4	0.1

Previous Reports

01-02-2024: [Q3FY24 results review](#)

09-01-2024: [Company Update](#)

Focus on capital-light retail expansion

Kalyan added 10 stores and 58 stores in Q4FY24 and FY24 (all non-south and FOCO model) in India. It further converted one more (total two stores) owned showroom in South India to FOCO model and expects more such (FOCO led) roll-outs in South going forward. In FY25, it expects to add 130 stores in India (80 Kalyan Jewellers and 50 Candere showrooms), and 6 Kalyan showroom in Middle East.

Improvement in return ratios with clear strategy to improve it further

RoCE and RoE improved to 19.7% and 15.2%, respectively in FY24 led by 1) expansion through capital-light FOCO model, and 2) repayment of borrowing (excluding GML) by ~INR 4bn (overall working capital loans reduced by INR 2.6bn. It further negotiated increase in GML limit by INR 1.7bn. It plans to further reduce non-GML borrowing by INR 3.5-4bn and INR 4-5bn led by FCF generation in FY25 and FY26, respectively. Sale of non-core asset (aircraft) was also completed in April'24. It has also initiated discussion for release of non-core assets (given as collateral) which can further reduce non-core assets and improve return ratios. Capex is also expected to reduce to INR 2.5bn in FY25 (INR ~1bn in capex of ~30 stores in old FOCO model and INR ~1-1.5bn maintenance capex) and INR ~1-1.5bn in FY26.

Valuation and risks

We broadly maintain our estimates for FY25E and FY26E, modelling revenue / EBITDA / PAT CAGRs of 27% / 22% / 38% over FY24-FY26E. We maintain ADD with a DCF-based unchanged target price of INR 460. At our TP the stock will trade at a multiple of 42x FY26E EPS. Key risks: delay in showroom expansion and potentially higher competitive intensity in core south India markets.

Exhibit 1: Q4FY24 results review (Consolidated - Reported)

INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Revenues	45,349	33,818	34	52,231	(13)	1,85,483	1,40,714	32
COGS	(38,737)	(28,488)	36	(44,616)	(13)	(1,58,346)	(1,18,722)	33
Gross profit	6,612	5,330	24	7,615	(13)	27,137	21,992	23
Staff cost	(1,598)	(1,198)	33	(1,561)	2	(6,064)	(4,406)	38
Other opex	(1,952)	(1,565)	25	(2,355)	(17)	(7,947)	(6,446)	23
Total opex	(3,550)	(2,763)	28	(3,916)	(9)	(14,010)	(10,852)	29
EBITDA	3,062	2,567	19	3,698	(17)	13,127	11,140	18
Other income	288	146	97	201	43	737	379	95
Finance cost	(778)	(802)	(3)	(817)	(5)	(3,232)	(3,026)	7
D&A	(736)	(632)	16	(697)	5	(2,743)	(2,446)	12
PBT	1,837	1,280	44	2,386	(23)	7,888	6,048	30
Tax	(462)	(249)	85	(582)	(21)	(1,925)	(1,396)	38
PAT	1,375	1,031	33	1,804	(24)	5,963	4,652	28
Minority Interest	1	3		2		11	12	
PAT after MI	1,376	1,033	33	1,806	(24)	5,973	4,664	28
Extraordinary items	-	(333)		-		-	(333)	
Net profit (reported)	1,376	701	96	1,806	(24)	5,973	4,331	38
EPS	1.3	1.0	33	1.8	(24)	5.8	4.5	28
Costs as a % of sales								
COGS	85.4	84.2	118 bps	85.4	-1 bps	85.4	84.4	99 bps
Gross margin (%)	14.6	15.8	-119 bps	14.6	0 bps	14.6	15.6	-100 bps
Staff cost	3.5	3.5	-2 bps	3.0	53 bps	3.3	3.1	13 bps
Other opex	4.3	4.6	-33 bps	4.5	-21 bps	4.3	4.6	-30 bps
EBITDA margin (%)	6.8	7.6	-84 bps	7.1	-33 bps	7.1	7.9	-84 bps
Income tax rate (%)	25.1	19.5	567 bps	24.4	75 bps	24.4	23.1	132 bps

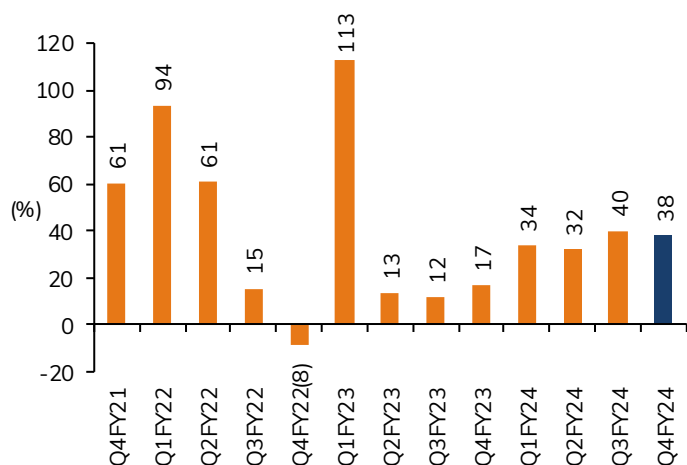
Source: Company data, I-Sec research

Exhibit 2: Q4FY24 results review (Standalone - Reported)

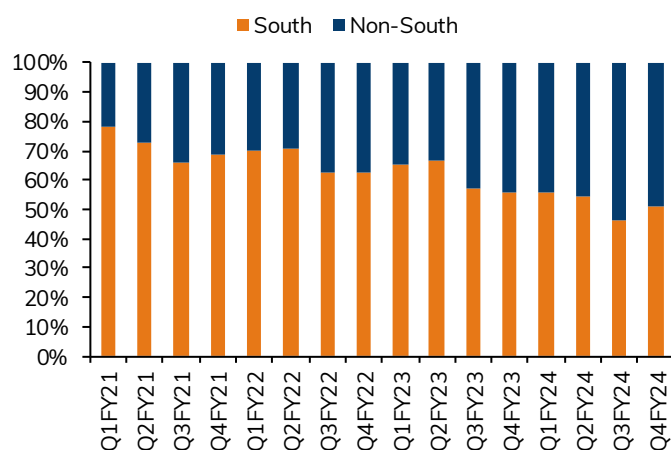
INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Revenues	38,756	28,054	38	45,117	(14)	1,57,826	1,15,840	36
COGS	(33,179)	(23,651)	40	(38,595)	(14)	(1,34,915)	(97,740)	38
Gross profit	5,578	4,402	27	6,522	(14)	22,911	18,100	27
Staff cost	(1,340)	(1,005)	33	(1,350)	(1)	(5,183)	(3,712)	40
Other opex	(1,606)	(1,224)	31	(2,009)	(20)	(6,571)	(5,058)	30
Total opex	(2,946)	(2,229)	32	(3,360)	(12)	(11,754)	(8,769)	34
EBITDA	2,631	2,173	21	3,163	(17)	11,157	9,331	20
Other income	258	133	94	226	14	765	426	79
Finance cost	(579)	(616)	(6)	(599)	(3)	(2,417)	(2,343)	3
D&A	(547)	(470)	16	(530)	3	(2,064)	(1,831)	13
PBT	1,763	1,221	44	2,259	(22)	7,441	5,583	33
Tax	(450)	(227)	98	(576)	(22)	(1,901)	(1,353)	41
Recurring PAT	1,313	994	32	1,683	(22)	5,541	4,231	31
EPS	1.3	1.0	32	1.6	(22)	5.4	4.1	31

Costs as a % of sales								
COGS	85.6	84.3	130 bps	85.5	6 bps	85.5	84.4	110 bps
Gross margin (%)	14.4	15.7	-131 bps	14.5	-7 bps	14.5	15.6	-111 bps
Staff cost	3.5	3.6	-13 bps	3.0	46 bps	3.3	3.2	8 bps
Other opex	4.1	4.4	-22 bps	4.5	-31 bps	4.2	4.4	-21 bps
EBITDA margin (%)	6.8	7.7	-96 bps	7.0	-23 bps	7.1	8.1	-99 bps
Income tax rate (%)	25.5	18.6	688 bps	25.5	-1 bps	25.5	24.2	131 bps

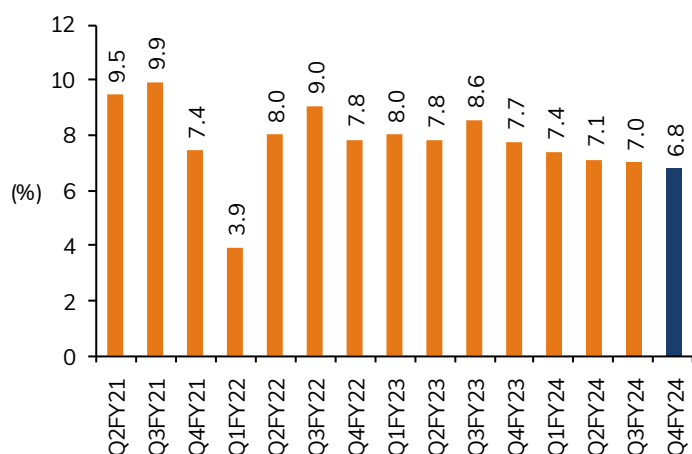
Source: Company data, I-Sec research

Exhibit 3: Revenue growth (%) - Standalone

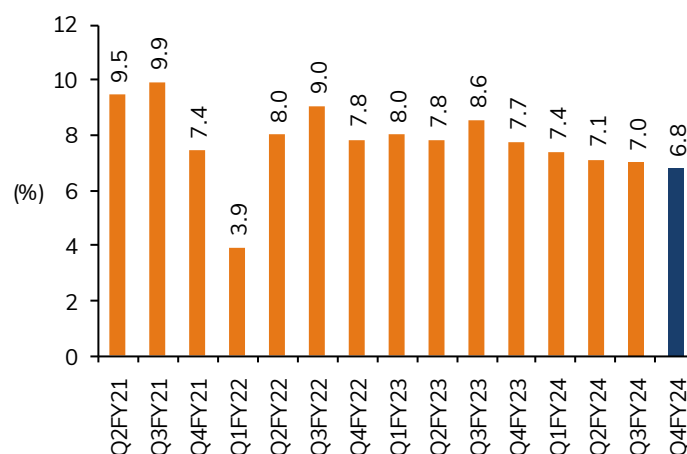
Source: Company data, I-Sec research

Exhibit 4: Revenue contribution

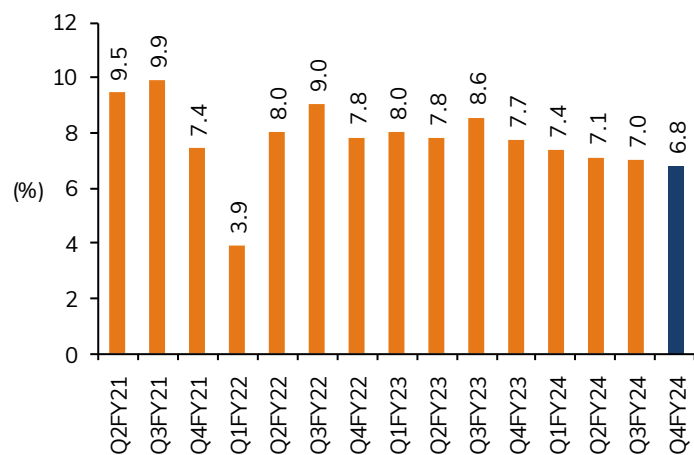
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin (%) - Standalone

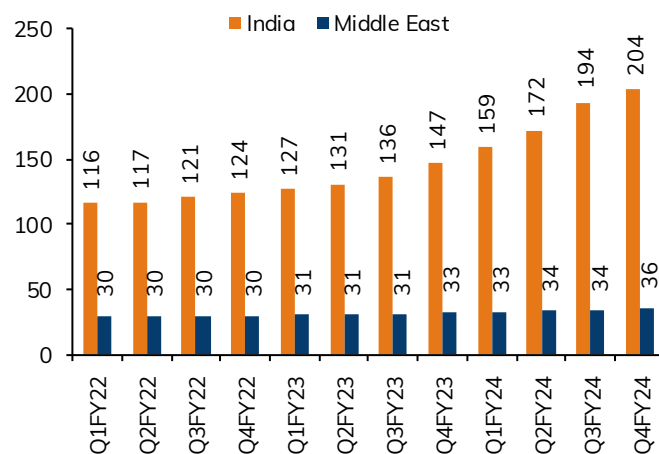
Source: Company data, I-Sec research

Exhibit 6: Gross margin (%) - Standalone

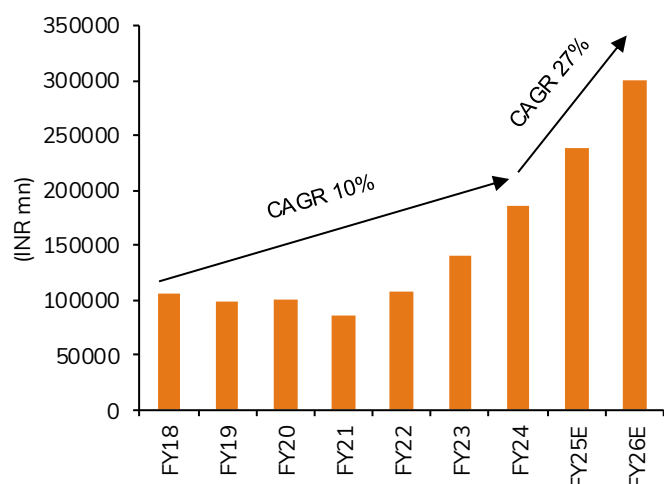
Source: Company data, I-Sec research

Exhibit 7: Studded share

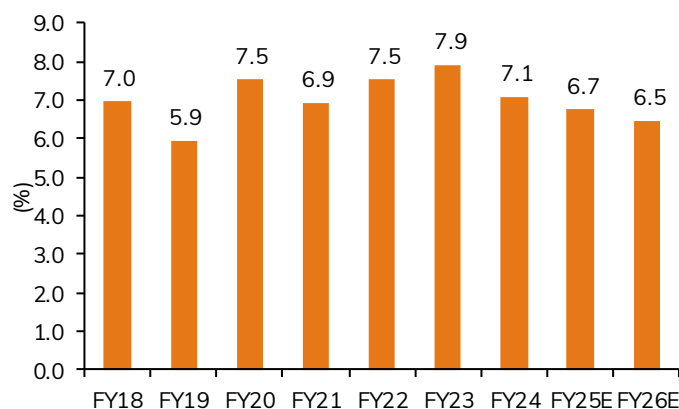
Source: Company data, I-Sec research

Exhibit 8: Store count (Kalyan Jewellers)

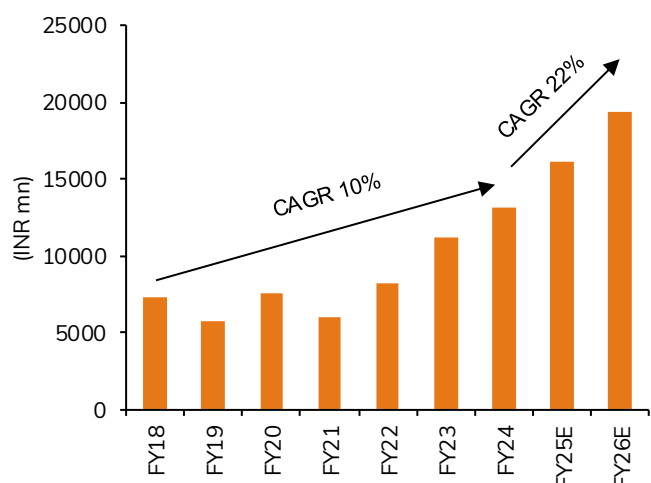
Source: Company data, I-Sec research

Exhibit 9: Revenue and growth rates

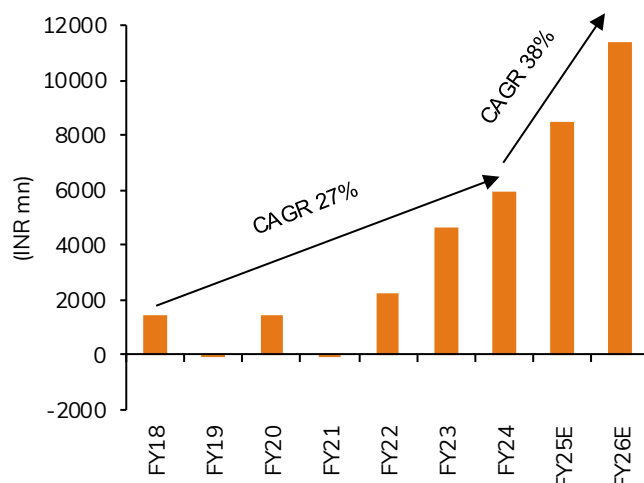
Source: Company data, I-Sec research

Exhibit 10: EBITDA margin

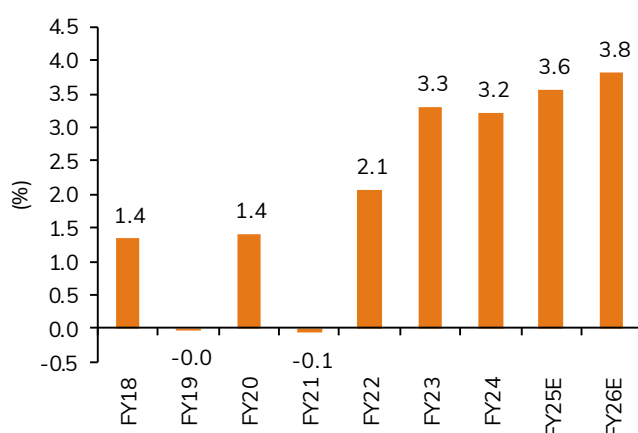
Source: Company data, I-Sec research

Exhibit 11: EBITDA and growth rates

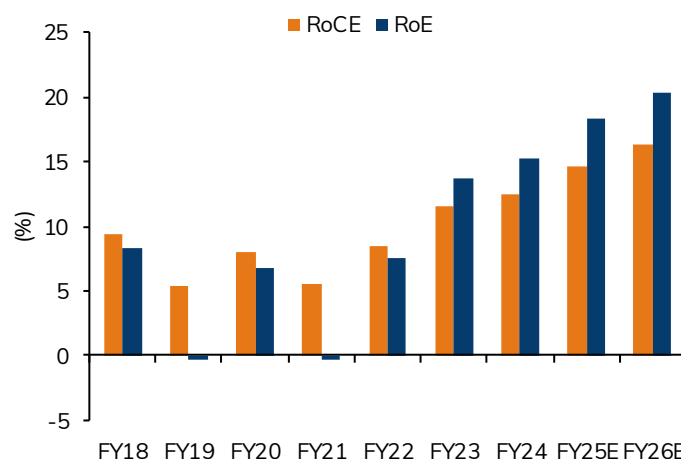
Source: Company data, I-Sec research

Exhibit 12: PAT and growth rates

Source: Company data, I-Sec research

Exhibit 13: PAT margin

Source: Company data, I-Sec research

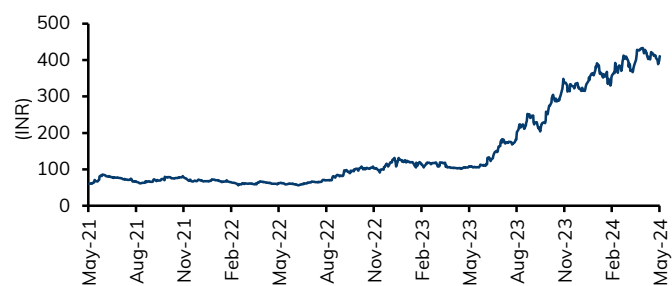
Exhibit 14: Return ratios

Source: Company data, I-Sec research

Exhibit 15: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	60.6	60.6	60.6
Institutional investors	31.4	31.7	32.1
MFs and others	3.9	4.5	9.6
FIs/Banks	0.0	0.0	0.2
FIIIs	27.5	27.2	22.3
Others	8.0	7.7	7.3

Source: Bloomberg

Exhibit 16: Price chart

Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,40,714	1,85,483	2,38,536	3,00,592
Operating Expenses	1,29,574	1,72,356	2,22,436	2,81,133
EBITDA	11,140	13,127	16,100	19,459
EBITDA Margin (%)	7.9	7.1	6.7	6.5
Depreciation & Amortization	2,446	2,743	3,092	3,260
EBIT	8,694	10,384	13,009	16,199
Interest expenditure	3,026	3,232	3,166	3,077
Other Non-operating Income	-	-	-	-
Recurring PBT	6,048	7,888	11,143	15,022
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,396	1,925	2,644	3,554
PAT	4,652	5,963	8,499	11,467
Less: Minority Interest	(12)	(11)	(11)	(12)
Extraordinaries (Net)	(333)	-	-	-
Net Income (Reported)	4,319	5,963	8,499	11,467
Net Income (Adjusted)	4,664	5,973	8,510	11,479

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	83,819	98,151	1,15,379	1,40,822
of which cash & cash eqv.	9,819	9,751	14,910	34,901
Total Current Liabilities & Provisions	27,453	40,980	53,029	67,229
Net Current Assets	56,366	57,171	62,350	73,593
Investments	611	611	611	611
Net Fixed Assets	8,738	10,904	10,365	8,637
ROU Assets	9,580	11,390	12,129	12,867
Capital Work-in-Progress	200	485	485	485
Total Intangible Assets	104	89	38	38
Long Term Loans & Advances	1,592	3,812	5,235	6,878
Deferred Tax assets	-	-	-	-
Total Assets	79,114	86,535	92,164	1,04,311
Liabilities				
Borrowings	16,550	10,643	6,393	1,393
Deferred Tax Liability	(562)	(662)	(662)	(662)
Provisions	377	456	577	719
Other Liabilities	18,536	22,530	23,789	29,327
Equity Share Capital	10,301	10,301	10,301	10,301
Reserves & Surplus	26,047	31,590	40,089	51,556
Total Net Worth	36,347	41,891	50,389	61,856
Minority Interest	(2)	(13)	(13)	(13)
Total Liabilities	79,114	86,535	92,164	1,04,311

Source Company data, I-Sec research

Exhibit 19: Quarterly trend

(INR mn, year ending March)

	Jun 22	Sep 23	Dec 23	Mar 24
Net Sales	43,757	44,145	52,231	45,349
% growth (YoY)	31.3	27.1	34.5	34.1
EBITDA	3,229	3,137	3,698	3,062
Margin %	7.4	7.1	7.1	6.8
Other Income	116	131	201	288
Extraordinaries	0	0	0	-
Adjusted Net Profit	1,439	1,352	1,806	1,376

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	10,134	13,228	12,569	22,162
Working Capital Changes	424	2,040	(199)	6,996
Capital Commitments	(3,970)	(2,182)	(1,253)	368
Free Cashflow	6,163	11,045	11,316	22,530
Other investing cashflow	131	803	-	-
Cashflow from Investing Activities	(3,839)	(1,379)	(1,253)	368
Issue of Share Capital	-	-	-	-
Interest Cost	(2,291)	(2,389)	(3,166)	(3,077)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	(515)	-	-
Others	(2,146)	(5,909)	(2,990)	538
Cash flow from Financing Activities	(6,376)	(11,480)	(6,156)	(2,540)
Chg. in Cash & Bank balance	(81)	368	5,159	19,991
Closing cash & balance	9,738	10,119	20,070	54,892

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.5	5.8	8.3	11.1
Adjusted EPS (Diluted)	4.5	5.8	8.3	11.1
Cash EPS	6.9	8.5	11.3	14.3
Dividend per share (DPS)	0.5	1.2	1.8	2.5
Book Value per share (BV)	35.3	40.7	48.9	60.1
Dividend Payout (%)	9.0	4.8	4.6	4.5
Growth (%)				
Net Sales	30.1	31.8	28.6	26.0
EBITDA	36.8	17.8	22.7	20.9
EPS (INR)	107.6	28.2	42.5	34.9
Valuation Ratios (x)				
P/E	90.9	70.9	49.8	36.9
P/CEPS	59.5	48.5	36.5	28.7
P/BV	11.6	10.1	8.4	6.8
EV / EBITDA	38.6	32.3	25.7	20.0
P / Sales	3.0	2.3	1.8	1.4
Dividend Yield (%)	0.1	0.3	0.4	0.6
Operating Ratios				
Gross Profit Margins (%)	15.6	14.6	13.5	12.6
EBITDA Margins (%)	7.9	7.1	6.7	6.5
Effective Tax Rate (%)	23.1	24.4	23.7	23.7
Net Profit Margins (%)	3.3	3.2	3.6	3.8
Net Debt / Equity (x)	3.2	4.9	8.9	45.4
Net Debt / EBITDA (x)	21.6	19.1	18.4	19.4
Fixed Asset Turnover (x)	8.7	10.4	11.1	12.7
Working Capital Days	203	183	159	129
Inventory Turnover Days	206	186	161	132
Receivables Days	7	7	7	7
Payables Days	35	44	43	43
Profitability Ratios				
RoCE (%)	13.0	14.9	18.2	20.6
RoE (%)	13.8	15.3	18.4	20.5
RoIC (%)	13.0	14.9	18.2	20.6

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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