

### Strong business momentum led by SSSG in Q1FY23

Kalyan Jewellers, in its exchange fillings today said that in Q1FY23 it witnessed robust momentum in both footfalls and revenue across India as well as in Middle East. Consolidated revenue is expected to grow over 105% in Q1FY23, whereas India business to report +115% growth on YoY. Management alluded that it is witnessing strong operating momentum driven by resilience of category business along with shift in demand from unorganized to organized. On margin front, it is expected to improve on YoY largely driven by increase in the studded mix and share of business from non-south markets. In the middle east operation, it is expected to grow by over 65% YoY. Online format Candere recorded of over 80% revenue growth during the quarter. We remain positive on the business momentum and retain BUY with a DCF based Target Price of Rs101 (implying 28.8x FY24E EPS).

#### Long term strategies at play - strong revenue momentum led by SSSG

Management has observed strong revenue growth led by increase in same-store-sales growth along with higher footfalls during the quarter. Consol. revenue is expected to increase over 105% whereas domestic business has given over 115% on YoY. Business has seen continuous strong momentum driven by shift in demand from unorganized to organized markets as consumers clearly demand purity certification and transparency in gold jewelry purchase. Further, Management has launched first franchised showroom (in Aurangabad) under FOCO model and developed a roadmap for five more franchise stores to access the market opportunity in non-south markets. Kalyan added 3 new stores in non-south markets taking store count to 127 in India.

#### Middle East business is on the right path

Middle East business (Contributes 17% of topline), The Company has observed 65% YoY revenue growth led by the overall recovery in the economic activity in the region and the return of tourist traffic, which has been visible over the past several quarters. The growth has driven by same store sales growth as management has added single unit during the quarter. Kalyan added 1 store taking up the store count to 31 in Middle East region.

#### Our view

As we have argued in our Thematic report that we expect organized jewelry sector to benefit from, (a) formalization, (b) pent up demand from deferred weddings in CY21, (c) store addition in tier-2/3 markets, and (d) online jewelry picking up consumer preferences for fast fashion/ daily wear segment. High traction of the digitally-oriented initiatives taken by Kalyan, particularly around e-commerce confirms this trend and consumer shift in demand for light weight jewelry to drive top-line for the company.

#### Valuation and Risks

Kalyan draws significant share of revenues from south and hence the company aims to expand its light weight jewelry offerings through combination of online and offline format catering the aspirational demand in west and north. We note Kalyan's hyperlocal strategy revolves around store opening in non-south markets, improving studded ratio, serving millennials with online format, and meeting their aspirational demand by introducing new age designs. We remain positive on the business momentum and retain Buy rating, with a DCF based TP of Rs101 (implying 28.8x FY24E EPS). Risks: irrational competition; 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	127,383	152,878
EBITDA	7,603	5,943	8,145	10,076	12,614
EBITDA margin (%)	7.5	6.9	7.5	7.9	8.3
Adj. Net profit	1,446	(674)	3,088	2,794	3,611
Adj. EPS (Rs)	1.7	(0.8)	3.0	2.7	3.5
EPS growth (%)	nm	nm	nm	(9.5)	29.2
PE (x)	35.5	(76.2)	20.4	22.6	17.5
EV/EBITDA (x)	4.7	5.4	4.1	3.1	2.4
PBV (x)	2.4	1.8	2.0	1.8	1.5
RoE (%)	6.9	(2.7)	10.4	8.4	9.5
RoCE (%)	6.8	(1.1)	7.4	8.8	10.7

Source: Bloomberg, Centrum Broking

#### Company Update

India | Consumer

07 July, 2022

**BUY**

Price: Rs61

Target Price: Rs101

Forecast return: 66%

Institutional Research

#### Market Data

Bloomberg:	KALYANKJ IN
52 week H/L:	84/55
Market cap:	Rs63.0bn
Shares Outstanding:	1030.1mn
Free float:	39.5%
Avg. daily vol. 3mth:	767,988

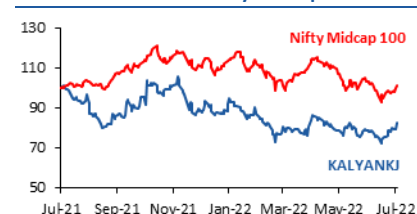
Source: Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	Unchanged

Source: Centrum Broking

#### KALYANKJ relative to Nifty Midcap 100



Source: Bloomberg

#### Shareholding pattern

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	60.5	60.5	60.5	60.5
FIs	3.1	3.3	2.9	4.0
DIs	1.6	1.9	1.7	1.4
Public/other	34.9	34.3	34.9	34.0

Source: BSE

Consumer



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# Thesis Snapshot

## Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	127,383	127,383	0	152,878	152,878	0
EBITDA	10,076	10,076	0	12,614	12,614	0
EBITDA margin	7.9	7.9	0bps	8.3	8.3	0bps
Adj. PAT	2,794	2,794	0	3,611	3,611	0
Diluted EPS (Rs)	2.7	2.7	0	3.5	3.5	0

Source: Centrum Broking

## Kalyan Jewellers versus NIFTY Midcap 100

	1m	6m	1 year
KALYANKI IN	1.5	(14.5)	(21.0)
NIFTY midcap 100	(0.9)	(11.5)	0.8

Source: Bloomberg, NSE

## Centrum vs consensus

YE Mar (Rs bn)	Centrum FY23E	Consensus FY23E	Variance (%)	Centrum FY24E	Consensus FY24E	Variance (%)
Revenue	127,383	127,305	0.3	152,878	146,369	4.4
EBITDA	10,076	10,021	0.6	12,614	12,129	4.0
EBITDA margin	7.9	7.9	2bps	8.3	8.3	(4bps)
Adj. PAT	2,794	3,332	(16.2)	3,611	4,502	(19.8)

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

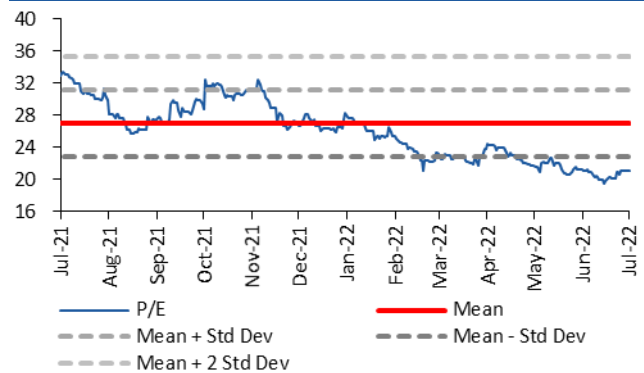
Source: Centrum Broking

## Valuations

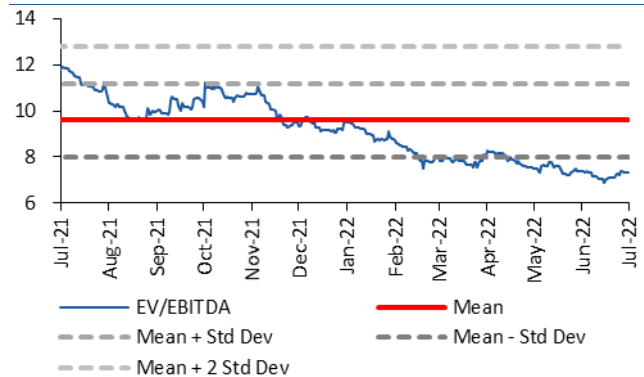
Kalyan draws significant share of revenues from south and hence the company aims to expand its light weight jewelry offerings through combination of online and offline format catering the aspirational demand in west and north. We note Kalyan's hyperlocal strategy revolves around store opening in non-south markets, improving studded ratio, serving millennials with online format, and meeting their aspirational demand by introducing new age designs. We remain positive on the business momentum and retain Buy rating, with a DCF based TP of Rs101 (implying 28.8x FY24E EPS). Risks: irrational competition; leading to lower demand for jewelry; rising gold prices.

Valuations	Rs/share
DCF based target price (Rs)	101
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)			FY22		
		Sales	EBIDTA	EPS	FY22	FY23E	FY24E	FY22	FY23E	FY24E	RoE(%)	RoCE(%)	Div. Yield
Titan Co. Ltd	1787.6	20.0	26.5	26.5	82.2	64.9	49.8	53.8	40.2	32.3	26.8	24.0	0.2
Kalyan Jewellers	63.0	18.9	24.4	27.0	20.3	22.5	17.4	9.5	6.6	5.4	10.4	7.4	0.0

Source: Company, Centrum Broking

## Q1FY23 business update

**As per exchange filing Kalyan Jewellers said Q1FY23 has witnessed robust momentum in both footfalls and revenue across India as well as in Middle East. Management said console sales growth of over 105% in Q1FY23 whereas India business has shown more than 115% growth on YoY.**

- Management said that company witnessed strong operating momentum across India business led by the resilience of category business.
- Business has seen significant beneficiary of the shift in demand from unorganized to organized markets as consumers clearly demand purity certification and transparency in gold jewelry purchase.
- On Gross Margin front, it is expected to improve on YoY largely driven by increase in the studded mix and share of business from non-south markets, although gross margins have remained at similar levels from the prior quarter (7.6%).
- Kalyan has launched first franchised showroom (in Aurangabad) under FOCO model and developed a roadmap for five more franchise stores to access the market opportunity in non-south markets.
- In the middle east, The Company has observed strong revenue momentum led by the overall recovery in the economic activity in the region and the return of tourist traffic, which has been visible over the past several quarters. International business is expected to report +65% revenue growth.
- Online jewelry format, Candere, recorded a revenue growth of over 80% during the quarter, demonstrating positive momentum led by digitally-oriented initiatives.
- Kalyan has added 4 new showrooms (3 in non-south and 1 in Middle East) during the quarter.

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>127,383</b>	<b>152,878</b>
Operating Expense	83,918	71,141	91,263	106,237	126,430
Employee cost	3,572	3,315	3,543	4,204	5,504
Others	5,917	5,334	5,229	6,866	8,330
<b>EBITDA</b>	<b>7,603</b>	<b>5,943</b>	<b>8,145</b>	<b>10,076</b>	<b>12,614</b>
Depreciation & Amortisation	2,392	2,249	2,316	2,623	2,920
<b>EBIT</b>	<b>5,211</b>	<b>3,694</b>	<b>5,829</b>	<b>7,454</b>	<b>9,694</b>
Interest expenses	3,803	3,754	3,224	4,108	5,085
Other income	801	454	383	481	337
<b>PBT</b>	<b>2,209</b>	<b>394</b>	<b>2,989</b>	<b>3,827</b>	<b>4,946</b>
Taxes	786	454	748	1,033	1,335
Effective tax rate (%)	35.6	115.4	25.0	27.0	27.0
<b>PAT</b>	<b>1,423</b>	<b>(61)</b>	<b>2,240</b>	<b>2,794</b>	<b>3,611</b>
Minority/Associates	23	(613)	848	0	0
<b>Recurring PAT</b>	<b>1,446</b>	<b>(674)</b>	<b>3,088</b>	<b>2,794</b>	<b>3,611</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>1,446</b>	<b>(674)</b>	<b>3,088</b>	<b>2,794</b>	<b>3,611</b>
Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (%)</b>					
Revenue	3.4	(15.1)	26.2	17.8	20.0
EBITDA	31.0	(21.8)	37.1	23.7	25.2
Adj. EPS	nm	nm	nm	(9.5)	29.2
<b>Margins (%)</b>					
Gross	16.9	17.0	15.6	16.6	17.3
EBITDA	7.5	6.9	7.5	7.9	8.3
EBIT	5.2	4.3	5.4	5.9	6.3
Adjusted PAT	1.4	(0.8)	2.9	2.2	2.4
<b>Returns (%)</b>					
ROE	6.9	(2.7)	10.4	8.4	9.5
ROCE	6.8	(1.1)	7.4	8.8	10.7
ROIC	6.9	(1.2)	8.3	10.2	13.6
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	3.8	3.6	4.1	4.4	4.8
Debtors	7	7	4	4	4
Inventory	201	257	222	181	150
Creditors	21	32	27	19	14
Net working capital	151	195	171	153	135
<b>Solvency (x)</b>					
Net debt-equity	1.3	0.8	0.8	0.4	0.4
Interest coverage ratio	2.0	1.6	2.5	2.5	2.5
Net debt/EBITDA	3.7	3.6	3.2	1.5	1.3
<b>Per share (Rs)</b>					
Adjusted EPS	1.7	(0.8)	3.0	2.7	3.5
BVPS	25.8	33.7	30.5	34.2	39.6
CEPS	4.6	1.9	5.2	5.3	6.3
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	35.5	(76.2)	20.4	22.6	17.5
P/BV	2.4	1.8	2.0	1.8	1.5
EV/EBITDA	4.7	5.4	4.1	3.1	2.4
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	6,983	6,661	7,870	9,333
Def tax liab. (net)	0	0	0	0	0
<b>Total liabilities</b>	<b>65,061</b>	<b>67,432</b>	<b>71,673</b>	<b>74,732</b>	<b>79,756</b>
Gross block	26,429	24,136	26,580	29,044	32,014
Less: acc. Depreciation	(4,807)	(5,200)	(7,416)	(10,038)	(12,959)
Net block	21,621	18,936	19,164	19,005	19,055
Capital WIP	242	527	17	17	17
Net fixed assets	21,916	19,518	19,236	19,077	19,127
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	47,582	56,267
Sundry debtors	2,137	1,127	1,422	1,674	2,009
Cash & Cash Equivalents	7,501	10,966	7,772	16,310	12,911
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	4,550	5,415
Other current liab.	11,166	13,873	11,427	8,987	10,720
Provisions	384	445	446	446	446
Net current assets	41,858	45,884	50,694	53,562	56,585
<b>Total assets</b>	<b>65,061</b>	<b>67,432</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	3,827	4,946
Depreciation & Amortisation	2,392	2,249	2,316	2,623	2,920
Net Interest	3,334	3,461	2,805	3,627	4,748
Net Change – WC	(4,243)	(641)	(4,071)	6,378	(6,423)
Direct taxes	(69)	(569)	(1,529)	(1,033)	(1,335)
<b>Net cash from operations</b>	<b>3,195</b>	<b>6,289</b>	<b>2,450</b>	<b>15,421</b>	<b>4,856</b>
Capital expenditure	(1,075)	(479)	(908)	(2,464)	(2,970)
Acquisitions, net	0	0	0	0	0
Investments	1,117	(1,821)	1,344	0	0
Others	302	127	199	481	337
<b>Net cash from investing</b>	<b>343</b>	<b>(2,173)</b>	<b>636</b>	<b>(1,983)</b>	<b>(2,633)</b>
<b>FCF</b>	<b>3,538</b>	<b>4,116</b>	<b>3,086</b>	<b>13,438</b>	<b>2,223</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)	(4,108)	(5,085)
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>(4,899)</b>	<b>(5,622)</b>
Net change in Cash	108	2,040	(2,158)	8,538	(3,399)

Source: Company, Centrum Broking

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Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5-+5% returns.

Sell – The stock is expected to deliver <-5% returns.

#### Kalyan Jewellers



Source: Bloomberg

**Disclosure of Interest Statement**

1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	CBL is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001469)
<b>Kalyan Jewellers</b>		
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No
11	Whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;	No
12	Whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;	No
13	Whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;	No

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