

26 February 2024

Kalyan Jewellers India Ltd – BUY

CMP : Rs. 379
Target Price : Rs. 465
Upside : 22.5%
Stop Loss : Rs. 350 (Closing basis)

Investment Thesis

- Kalyan Jewellers (Kalyan) has been at the forefront of educating consumers about key industry issues in the Indian jewellery market, establishing top-tier quality standards, and ensuring transparent pricing across their product range.
- With a presence in both larger and smaller cities as well as semi-urban and rural areas, Kalyan generated over half of its revenue from sales outside tier-1 cities in India during FY20. They are actively pursuing partnerships for franchised showrooms in India and the Middle East, with over 80 letters of intent (LOIs) signed for FY25. Additionally, they launched their first Franchise Owned Company Operated (FOCO) Candere showroom in Q2FY24 and have plans for further expansion with 5 FOCO showrooms already in operation and 50 signed LOIs for potential franchise partners.
- Kalyan offers a diverse product portfolio catering to various needs and budgets, ranging from special occasion jewellery like wedding pieces sold under the "Muhurat" brand to mass-market jewellery under the "Aishwaryam" brand for value-conscious customers. They also offer antique and heritage gold jewellery, as well as pieces with precious stones, polki, and uncut diamonds under brands like "Mudhra," "Sankalp," "Nimah," and "Anokhi" for mid-to-high end customers.
- As of December 31, 2023, Kalyan operates over 200 showrooms across multiple regions, gaining substantial experience in expanding their network into new markets.
- The online platform serves as an additional distribution channel, complementing physical showrooms. Kalyan plans to introduce Candere kiosks in shopping malls and showrooms, allowing customers to purchase products offline and experience online offerings firsthand.
- Kalyan emphasizes the use of technology to drive customer engagement and foot traffic, employing targeted digital marketing, data mining, analytics-driven customer outreach, digitally enabled MyKalyan centers and e-commerce initiatives.

Financials

- TTM Consolidated Revenue of Rs. 1,73,952 mn, over 72% higher than pre-COVID (FY20) levels. TTM Profit After Tax of Rs. 5,535 mn in consolidated business - record PAT for the company, and over 288% higher than pre-COVID (FY20) levels.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	10,101	8,573	10,818	14,071	17,238
EBITDA (Rs in Crs)	880	670	891	1,170	1,379
Adj. PAT (Rs in Crs)	143	(6)	224	433	517
Adj. EPS (Rs.)	1.39	(0.06)	2.18	4.20	5.02
PE Multiple (x)	274x	(6226)x	175x	91x	76x
RoE (%)	7.0%	(0.2)%	7.1%	11.9%	12.6%

Stock Data

Market Cap (Rs. Crs)	39,083
Market Cap (\$ Mn)	4,716
Shares O/S (in Mn)	1,030
Avg. Volume (3 month)	19,88,150
52-Week Range (Rs.)	410 / 101

Shareholding Pattern

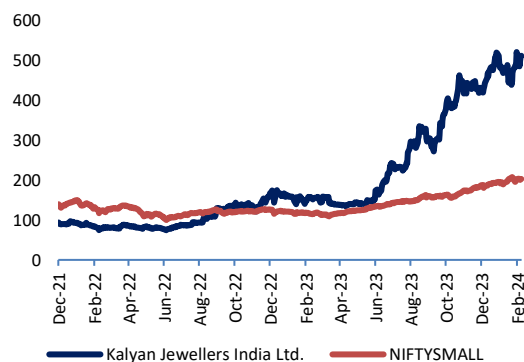
Promoters	60.55 %
FII's	26.21 %
Institutions	5.48 %
Others (incl. body corporate)	7.75 %

Key Ratios

Div Yield	0.14%
TTM PE	79.3x
ROE	13.5%
TTM EPS (Rs.)	4.75/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	9.2%	72.9%	225.1%
NIFTYMIDCAP	1.9%	37.6%	150.0%



- Revenue growth of ~40% when compared to Q3FY23 driven by healthy SSSG and robust network expansion. New customer additions continue to stay healthy; share of new customers at over 38%.
- Showroom gross margin improved both YoY and QoQ. Higher share of revenue from franchised showrooms leading to lower overall gross margin, EBITDA and PBT margin.
- Advertising & Promotional expenses higher since entire festive spends have been captured in Q3FY24; during base year, spends were spread across Q2 and Q3.
- Added 22 net showrooms during the quarter in India.

Key Business Highlights

- Kalyan Jewellers India Ltd. designs manufacture and sells a range of gold, studded and other jewellery products across various price points. It is one of the largest jewellery retailers in India based on revenue as of FY20. The co. was founded by the current Chairman, MD and Promoter, Mr T.S. Kalyanaraman.
- Kalyan has a wide range of brands catering to its multiple product segments. South Indian Heritage: Nimah (Gold studded with precious stones); Occasion Wear: Tejasvi, Rang, Anokhi (Antique and Precious studded jewellery); Light Wear: Ziah, Antaro (Diamond Jewellery); Others: Glo, Hera, Laya, and Apoorva (Good, Uncut Diamond and Precious stones).
- Kalyan has presence in 5 Middle East countries and operates 33 showrooms that contributed 18% of FY23 revenues, with Indian operations contributing remainder 82%. In FY24, Kalyan is piloting its first franchise showroom in the Middle east.
- My Kaylan is a customer outreach initiative launched in 2010. It consists of multiple smaller centres situated in a wide radius around its showrooms and it enables the company to provide other services to its customers. Currently, co. has ~990 "My Kalyan" locations located across 21 states and union territories in India. These stores contributed 16% of Indian revenues.
- Kalyan not only procures finished gold from third parties but also has 4 in-house manufacturing facilities located in Sharjah and Oman

Valuation

Kalyan Jewellers currently trades at a significant premium of 71.9x PE as compared to the industry PE of 29.8x. The company has shown stellar EPS growth of 38% in the last 3 years. The ROE / ROCE levels remain healthy at 13.5% / 12.7% respectively. We estimate the Revenue / EBITDA / PAT to grow at a CAGR of 22.5% / 21% / 21.5% respectively.

We are ascribing a **BUY** rating for Kalyan Jewellers with a **Target Price of Rs. 465**, translating into an **upside of 22.5%**.

Risk & Concern

- The current geographic concentration of Kalyan's operations creates exposure to local economies and regional downturns.
- Kalyan operates in a highly competitive market where its competitors include both organised pan-India jewellers as well as unorganised local players.
- Fluctuations in prices or any unavailability of the raw materials.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

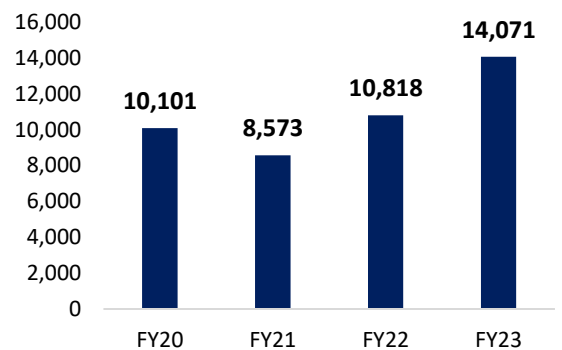


Figure 2: EBITDA & EBITDA Margin Trend

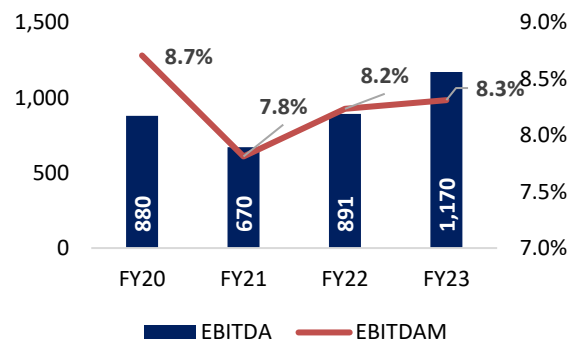


Figure 3: ROE & ROCE Trend

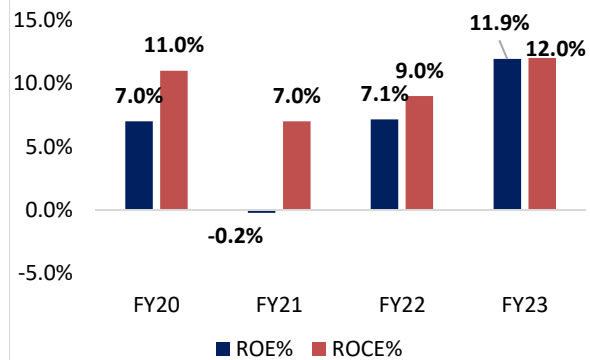
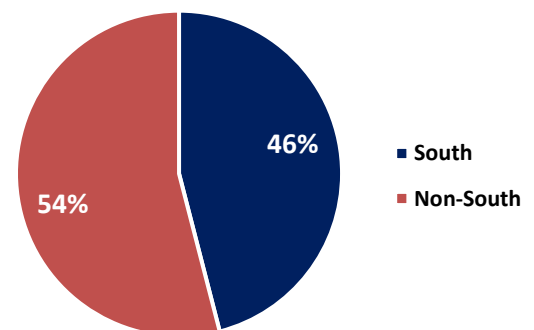


Figure 4: Revenue Split Region Wise



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