

Thangamayil Jewellery

Mixed bag – sales disappoint, margin surprises

TJL's 2QFY25 performance was a mixed bag—although the company disappointed on revenue front, margins were significantly better despite limited operating leverage. TJL retail revenue grew only 18% vs large peers such as Titan (26% YoY) and Kalyan (39% YoY), which saw much better run rate despite their higher base. Management attributed this to lower store addition (added only two stores in 1HFY25) vs competitors who are on blitzkrieg and are expanding aggressively through a capital light franchisee route. Adjusted EBITDA (ex-custom duty impact) expanded c210bps YoY to 6.4% despite limited operating leverage benefit, mainly due to solid gross margin performance. We have upgraded our EPS estimates by 7-8% post strong 1HFY25 performance and continue to maintain our high conviction BUY with TP of Rs 2,650 (25x Dec-26 EPS).

2QFY25 Results Summary:

- TJL's 2QFY25 performance was a mixed bag – although the company disappointed in revenue growth, margins were significantly better despite limited operating leverage. Adjusted gross margin (excluding non-recurring custom duty impact) improved c285bps YoY to 10.7% due to a) favorable product mix (high margin Studded share stood at 7.9% vs 7.6% in base quarter); b) scale benefits; and c) better realisation in gold jewellery business. Adjusted EBITDA margin expanded c208bps to 6.4% despite limited operating leverage on account of solid gross margin performance. PAT grew 110% yoy, much higher than our estimates due to solid operating performance (EBITDA up 75% YoY).
- Store addition and guidance: TJL added two stores in 1HFY25 i.e. in Rameswaram and Mayiladuthurai. It is planning to open seven more large format stores in 2H.
- Volume growth subsides: Gold jewellery volume declined 3% to 1,487 kgs in 2Q owing to higher price; whereas Diamond jewellery volume grew marginally (up 1% YoY) owing to strategic interventions and diamond becoming relatively affordable vs gold.
- Other key KPIs: 1) Inventory Turnover: Inventory turn stood at 3.3 vs 3.6 in base quarter; 2) Hedged Inventory stood at 90.4% vs 77.1% in base quarter; and 3) Average cost of borrowings – stood at 4.47% vs 4.9% in 9MFY23 due to increased share of low cost gold metal loans.

Quarterly/annual financial summary

| (INR mn) | 2QFY25 | 2QFY24 | YoY (%) | 1QFY25 | QoQ (%) | FY24 | FY25E | FY26E | FY27E |
|------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|
| Net Sales | 11,311 | 9,550 | 18.4 | 11,783 | (4.0) | 36,908 | 47,220 | 62,414 | 77,157 |
| EBITDA | 726 | 414 | 75.1 | 896 | (19.0) | 1,922 | 2,980 | 4,000 | 4,979 |
| APAT | 418 | 199 | 109.7 | 551 | (24.1) | 1,066 | 1,668 | 2,383 | 3,077 |
| Diluted EPS (Rs) | 15.2 | 7.3 | 109.7 | 20.1 | (24.1) | 38.9 | 60.8 | 86.8 | 112.1 |
| P/E (x) | | | | | | 65.2 | 41.7 | 29.2 | 22.6 |
| EV/EBITDA (x) | | | | | | 38.3 | 26.1 | 19.8 | 15.9 |
| Core RoCE (%) | | | | | | 13.7 | 16.1 | 16.5 | 17.7 |

Source: Company, HSIE Research

BUY

CMP (as on 6 Nov 2024) INR 2,058

Target Price INR 2,650

NIFTY 24,484

| KEY CHANGES | OLD | NEW |
|--------------|-----------|-----------|
| Rating | BUY | BUY |
| Price Target | INR 2,500 | INR 2,650 |
| | FY25E | FY26E |
| EPS % | +7.1% | +7.3% |

KEY STOCK DATA

| | |
|------------------------------|-----------------|
| Bloomberg code | TJL IN |
| No. of Shares (mn) | 27 |
| MCap (INR bn) / (\$ mn) | 56/670 |
| 6m avg traded value (INR mn) | 206 |
| 52 Week high / low | INR 2,650/1,140 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|------|------|
| Absolute (%) | 24.1 | 64.5 | 60.6 |
| Relative (%) | 21.9 | 55.7 | 36.9 |

SHAREHOLDING PATTERN (%)

| | Jun-24 | Sep-24 |
|-----------------|--------|--------|
| Promoters | 67.32 | 61.27 |
| FIs & Local MFs | 12.08 | 12.77 |
| FPIs | 1.08 | 4.52 |
| Public & Others | 19.51 | 21.43 |
| Pledged Shares | 1.60 | 1.60 |

Source : BSE

Pledged shares as % of total shares

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- Entering a golden era; maintaining high-conviction BUY:** We believe Thangamayil Jewellery, a leading jewellery player in Tamil Nadu, is set to achieve a 28%, 37%, and 42% CAGR in revenue, EBITDA, and PAT, respectively, over FY24-27. This growth will be driven by the benefits of formalization, accelerated store expansion, value-for-money offerings, and the easy availability of capital at competitive interest rates. We view TJJ as the D-Mart of Tamil Nadu's jewellery retail sector, applying principles of "high inventory turns and reasonable margins," in contrast to other listed jewellery players who focus on "high operating margins and low inventory turns" to generate respectable return ratios. We initiate coverage with a high-conviction BUY and a target price of INR 2,650 (25x Dec-26 EPS, representing a 25% premium to its five-year one-year forward average PE). We anticipate significant rerating as TJJ's ROE improves from 24% in FY24 to 33% in FY27, substantially surpassing that of Titan, the market leader in the organized jewellery space.

Segmental Mix

| Particulars | 2QFY24 | 2QFY25 | % YoY |
|------------------------------|--------|--------|-------|
| Gold (Kgs) | 1,535 | 1,487 | -3.1 |
| Silver (Tonnes) | 4.6 | 4.6 | -0.4 |
| Diamond Studded (Cts) | 3,514 | 3,544 | 0.9 |
| Gold jewellery (INR mnn) | 8,820 | 10,421 | 18.1 |
| Non gold jewellery (INR mnn) | 730 | 890 | 22.0 |

Source: Company, HSIE Research

Adjusted result summary

| (INR mn) | 2QFY24 | 2QFY25 | % YoY |
|-----------------------|--------|--------|--------|
| Adjusted gross profit | 747 | 1,206 | 61.4 |
| % gross margin | 7.8 | 10.7 | 284bps |
| Adjusted EBITDA | 414 | 726 | 75.1 |
| % Ebitda margin | 4.3 | 6.4 | 208bps |
| Adjusted PAT | 199 | 418 | 109.7 |
| % PAT margin | 2.1 | 3.7 | 161bps |

Source: Company, HSIE Research

Standalone P&L

| (INR mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 28,766 | 36,908 | 47,220 | 62,414 | 77,157 |
| Growth (%) | 38.8 | 28.3 | 27.9 | 32.2 | 23.6 |
| Material Expenses | 26,213 | 33,580 | 42,356 | 55,923 | 69,055 |
| Employee Expense | 584 | 682 | 891 | 1,183 | 1,500 |
| Other Expenses | 678 | 724 | 1,069 | 1,389 | 1,709 |
| Adj. EBITDA | 1,290 | 1,922 | 2,980 | 4,000 | 4,979 |
| Adj. EBITDA Growth (%) | 46.0 | 49.0 | 55.0 | 34.2 | 24.5 |
| Adj. EBITDA Margin (%) | 4.5 | 5.2 | 6.3 | 6.4 | 6.5 |
| Depreciation | 134 | 164 | 234 | 268 | 300 |
| EBIT | 1,156 | 1,759 | 2,746 | 3,732 | 4,679 |
| Other Income | - | - | - | - | - |
| Interest | 349 | 363 | 517 | 548 | 567 |
| PBT | 807 | 1,395 | 2,229 | 3,184 | 4,112 |
| Tax | 282 | 418 | 561 | 801 | 1,035 |
| Profit from minority/associates | - | - | - | - | - |
| RPAT | 797 | 1,233 | 1,668 | 2,383 | 3,077 |
| Adjustment | - | - | - | - | - |
| Adjusted PAT | 630 | 1,066 | 1,668 | 2,383 | 3,077 |
| APAT Growth (%) | 53.7 | 69.3 | 56.4 | 42.8 | 29.1 |
| Adjusted EPS | 23.0 | 38.9 | 60.8 | 86.8 | 112.1 |
| EPS Growth (%) | 53.7 | 69.3 | 56.4 | 42.8 | 29.1 |

Source: Company, HSIE Research

Standalone Balance Sheet

| (INR mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital - Equity | 137 | 274 | 274 | 274 | 274 |
| Reserves | 3,751 | 4,657 | 5,991 | 7,897 | 10,359 |
| Total Shareholders Funds | 3,888 | 4,931 | 6,266 | 8,172 | 10,633 |
| Minority Interest | - | - | - | - | - |
| Long Term Debt | - | - | - | - | - |
| Short Term Debt | 5,483 | 5,005 | 9,271 | 10,158 | 10,608 |
| Total Debt | 5,483 | 5,005 | 9,271 | 10,158 | 10,608 |
| Net Deferred Taxes | (24) | (25) | (25) | (25) | (25) |
| Other Non-current Liabilities & Provns | - | - | - | - | - |
| TOTAL SOURCES OF FUNDS | 9,347 | 9,911 | 15,512 | 18,305 | 21,216 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 1,201 | 1,535 | 1,672 | 1,729 | 1,754 |
| CWIP | 16 | 24 | 24 | 24 | 24 |
| Other Non Current Assets | - | - | - | - | - |
| Total Non-current Assets | 1,217 | 1,559 | 1,695 | 1,752 | 1,777 |
| Inventories | 9,823 | 11,892 | 19,793 | 24,225 | 27,975 |
| Debtors | 32 | 43 | 43 | 43 | 43 |
| Other Current Assets | 606 | 474 | 569 | 652 | 733 |
| Cash & Equivalents | 764 | 818 | 881 | 665 | 1,106 |
| Total Current Assets | 11,225 | 13,227 | 21,285 | 25,584 | 29,856 |
| Creditors | 198 | 175 | 259 | 342 | 423 |
| Other Current Liabilities & Provns | 2,897 | 4,699 | 7,209 | 8,690 | 9,994 |
| Total Current Liabilities | 3,095 | 4,874 | 7,468 | 9,032 | 10,417 |
| Net Current Assets | 8,129 | 8,352 | 13,817 | 16,552 | 19,439 |
| TOTAL APPLICATION OF FUNDS | 9,347 | 9,911 | 15,512 | 18,305 | 21,216 |

Source: Company, HSIE Research

Standalone Cash Flow

| (INR mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------------|--------------|----------------|----------------|--------------|--------------|
| Reported PBT | 1,080 | 1,651 | 2,229 | 3,184 | 4,112 |
| Non-operating & EO Items | 12 | 10 | - | - | - |
| Interest Expenses | 321 | 314 | - | - | - |
| Depreciation | 134 | 164 | 234 | 268 | 300 |
| Working Capital Change | (1,173) | 1,584 | (5,401) | (2,952) | (2,445) |
| Tax Paid | (269) | (419) | (561) | (801) | (1,035) |
| OPERATING CASH FLOW (a) | 105 | 3,304 | (3,499) | (301) | 931 |
| Capex | (314) | (371) | (371) | (325) | (325) |
| Free Cash Flow (FCF) | (210) | 2,933 | (3,870) | (626) | 606 |
| Investments | (578) | 25 | - | - | - |
| Non-operating Income | 28 | 49 | - | - | - |
| INVESTING CASH FLOW (b) | (864) | (297) | (371) | (325) | (325) |
| Debt Issuance/(Repaid) | 1,258 | (2,393) | 4,266 | 887 | 450 |
| Interest Expenses | (327) | (343) | - | - | - |
| FCFE | (1,690) | 5,743 | (8,136) | (1,513) | 156 |
| Share Capital Issuance | - | - | - | - | - |
| Dividend | (151) | (192) | (334) | (477) | (615) |
| Others | - | - | - | - | - |
| FINANCING CASH FLOW (c) | 780 | (2,928) | 3,933 | 410 | (165) |
| NET CASH FLOW (a+b+c) | 20 | 79 | 63 | (216) | 441 |
| EO Items, Others | - | - | - | - | - |
| Closing Cash & Equivalents | 57 | 136 | 199 | (17) | 424 |

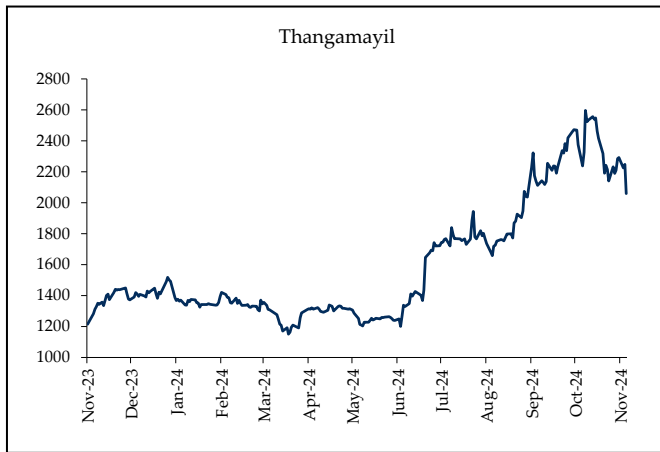
Source: Company, HSIE Research

Ratios

| KEY RATIOS | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------------------------|-------|-------|--------|-------|-------|
| PROFITABILITY (%) | | | | | |
| GPM | 8.9 | 9.0 | 10.3 | 10.4 | 10.5 |
| EBITDA Margin | 4.5 | 5.2 | 6.3 | 6.4 | 6.5 |
| EBIT Margin | 4.0 | 4.8 | 5.8 | 6.0 | 6.1 |
| APAT Margin | 2.2 | 2.9 | 3.5 | 3.8 | 4.0 |
| RoE | 17.7 | 24.2 | 29.8 | 33.0 | 32.7 |
| RoIC (or Core RoCE) | 9.6 | 13.9 | 17.3 | 17.3 | 18.5 |
| RoCE | 10.3 | 13.7 | 16.1 | 16.5 | 17.7 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 35.0 | 30.0 | 25.2 | 25.2 | 25.2 |
| Fixed Asset Turnover (x) | 15.5 | 16.7 | 18.3 | 21.4 | 23.8 |
| Inventory (days) | 124.6 | 117.6 | 153.0 | 141.7 | 132.3 |
| Debtors (days) | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 |
| Other Current Assets (days) | 7.7 | 4.7 | 4.4 | 3.8 | 3.5 |
| Payables (days) | 2.5 | 1.7 | 2.0 | 2.0 | 2.0 |
| Other Current Liab & Provns (days) | 36.8 | 46.5 | 55.7 | 50.8 | 47.3 |
| Cash Conversion Cycle (days) | 93.5 | 74.5 | 100.0 | 92.9 | 86.7 |
| Net D/E (x) | 1.2 | 0.8 | 1.3 | 1.2 | 0.9 |
| Interest Coverage (x) | 3.3 | 4.8 | 5.3 | 6.8 | 8.2 |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 23.0 | 38.9 | 60.8 | 86.8 | 112.1 |
| CEPS | 27.8 | 44.8 | 69.3 | 96.6 | 123.1 |
| Dividend | 6.0 | 10.0 | 12.2 | 17.4 | 22.4 |
| Book Value | 141.7 | 179.7 | 228.4 | 297.8 | 387.5 |
| VALUATION | | | | | |
| P/E (x) | 110.3 | 65.2 | 41.7 | 29.2 | 22.6 |
| P/BV (x) | 17.9 | 14.1 | 11.1 | 8.5 | 6.5 |
| EV/EBITDA (x) | 57.6 | 38.3 | 26.1 | 19.8 | 15.9 |
| EV/Revenues (x) | 2.6 | 2.0 | 1.6 | 1.3 | 1.0 |
| OCF/EV (%) | 0.1 | 4.5 | (4.5) | (0.4) | 1.2 |
| FCF/EV (%) | (0.3) | 4.0 | (5.0) | (0.8) | 0.8 |
| FCFE/Mkt Cap (%) | (2.4) | 8.3 | (11.7) | (2.2) | 0.2 |
| Dividend Yield (%) | 0.2 | 0.4 | 0.5 | 0.7 | 0.9 |

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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