

14 November 2024

India | Equity Research | Q2FY25 results review

## Kalyan Jewellers India

Consumer Staples &amp; Discretionary

### Revenue outperformance with sustained profitability

Q2FY25 continues to enhance confidence in Kalyan's business model (FOCO) as it continues to outperform competition ([link](#)) by gaining market shares (23% SSSG YoY). Positively, SSSG of 20% YoY in festive period (comparable 30 days prior to Diwali) despite higher gold prices is remarkable while it has got seasonality benefits (Shradh – inauspicious days). All other key metrics – new customer recruitment, average ticket size, retail expansion (added 48 stores till date vs guidance of 80 stores in FY25), store level gross margin and profit margin (adjusted for customs duty cut) – are at healthy levels. It maintains previous guidance on retail expansion in India; at 130 (80 Kalyan and 50 Candere). High-value studded didn't witness any headwinds (relatively lower presence), per management. Elevated valuations (read low margin of safety and/or high stock volatility) is the only concern. **ADD**.

### Revenue outperformance led by healthy SSSG

Kalyan reported revenue of INR 60.7bn, up 37% YoY. India revenue growth came in at 39% YoY, driven by acceleration in store expansion (+34% YoY) in non-south markets (~49% contribution) and SSSG of 23% YoY (25% SSSG in South India, 21% in non-south). Revenue from the Middle East business grew 27% YoY led by ~9% SSSG. Management highlighted that the custom duty cut (from 15% to 6%) has helped in driving higher customer footfalls. However, the duty cut does have ~INR 1.2bn (INR 690mn in Q2FY25) impact on inventory.

It highlighted that (1) new consumer recruits continued to be healthy (share of new customers at ~36%) and (2) south business contribution declined to 51% to overall sales from 54% (YoY). Studded share improved to 29.7% (vs 28.5% in Q2FY24).

### Margins impacted by inventory loss on custom duty reduction

India gross and EBITDA margins were down ~199bps and ~209bps 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, as per management. Consequently, (consol.) EBITDA margin was also down ~172bps YoY to 5.4%. PBT margin of India business was down ~128bps YoY to 3.2% (normalised PBT - adjusted for customs duty cut was flat at 4.5%). Recurring PAT declined by 4% YoY to INR 1.2bn.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,40,714	1,85,483	2,46,130	3,15,131
EBITDA	11,140	13,127	15,356	21,037
EBITDA Margin (%)	7.9	7.1	6.2	6.7
Net Profit	4,664	5,973	7,708	12,141
EPS (INR)	4.5	5.8	7.5	11.8
EPS % Chg YoY	107.6	28.2	29.1	57.6
P/E (x)	148.5	115.8	89.7	56.9
EV/EBITDA (x)	64.3	54.4	46.1	32.7
RoCE (%)	9.8	10.7	12.0	15.6
RoE (%)	13.8	15.3	16.9	21.8

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#### Market Data

Market Cap (INR)	691bn
Market Cap (USD)	8,193mn
Bloomberg Code	KALYANKJ IN
Reuters Code	KALN BO
52-week Range (INR)	786 /304
Free Float (%)	30.0
ADTV-3M (mn) (USD)	68.2

Price Performance (%)	3m	6m	12m
Absolute	20.1	67.6	98.8
Relative to Sensex	21.7	60.8	79.2

ESG Score	2023	2024	Change
ESG score	64.4	NA	NA
Environment	35.6	NA	NA
Social	68.6	NA	NA
Governance	77.0	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	(7.2)	-
EPS	(12.9)	(4.3)

#### Previous Reports

02-08-2024: [Q1FY25 results review](#)  
12-05-2024: [Q4FY24 results review](#)

### Store expansion on track; guidance retained

Kalyan added 14 stores (EOP: 231 stores) in Q2FY25 and has added ~21 stores in Q3FY25 (as on date). It further converted one more (total four stores) owned showroom in Non-South India to FOCO model and expects more such (FOCO led) roll-outs in South going forward. In FY25, it maintains its earlier guidance to add 130 stores in India (80 Kalyan Jewellers and 50 Candere showrooms).

### Improvement in return ratios with clear strategy to improve it further

RoCE and RoE improved to 19.8% and 15.2%, respectively in TTM 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) in FY24 and addition INR ~1.4bn non-GML loan in 1HFY25. The non-GML loan (India) is at INR ~7.5bn as of Sep'24. It further negotiated increase in GML limit by INR 1.7bn. It plans to further reduce non-GML borrowing by ~INR 3bn and INR 3.5-4bn led by FCF generation in FY25 and FY26, respectively. It has concluded the divestiture of identified movable non-core assets for INR 1,354 mn and the sale process of immovable non-core assets to begin by end of FY25 which can further 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 cut our EPS estimates by ~13%/4% for FY25E/26E adjusting for impact from custom duty reduction, modelling revenue / EBITDA / PAT CAGRs of 30% / 27% / 43% over FY24-FY26E. We maintain ADD with a DCF-based unchanged target price of INR 740. At our TP, the stock will trade at a multiple of 63x FY26E EPS. Key risks: delay in showroom expansion and potentially higher competitive intensity in core south India markets.

**Exhibit 1: Q2FY25 results review (Consolidated - Reported)**

(INR Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
<b>Net Revenues</b>	<b>60,655</b>	<b>44,145</b>	<b>37</b>	<b>55,355</b>	<b>10</b>	<b>1,16,010</b>	<b>87,903</b>	<b>32</b>
COGS	(53,003)	(37,840)	40	(47,419)	12	(1,00,422)	(74,993)	34
<b>Gross profit</b>	<b>7,652</b>	<b>6,306</b>	<b>21</b>	<b>7,935</b>	<b>(4)</b>	<b>15,587</b>	<b>12,910</b>	<b>21</b>
Staff cost	(1,698)	(1,490)	14	(1,724)	(2)	(3,422)	(2,904)	18
Other opex	(2,681)	(1,679)	60	(2,451)	9	(5,132)	(3,640)	41
<b>Total opex</b>	<b>(4,379)</b>	<b>(3,169)</b>	<b>38</b>	<b>(4,175)</b>	<b>5</b>	<b>(8,554)</b>	<b>(6,544)</b>	<b>31</b>
<b>EBITDA</b>	<b>3,272</b>	<b>3,137</b>	<b>4</b>	<b>3,760</b>	<b>(13)</b>	<b>7,033</b>	<b>6,366</b>	<b>10</b>
Other income	260	131	98	222	17	482	248	94
Finance cost	(903)	(817)	11	(852)	6	(1,755)	(1,638)	7
D&A	(850)	(669)	27	(755)	13	(1,604)	(1,310)	22
<b>PBT</b>	<b>1,779</b>	<b>1,781</b>	<b>(0)</b>	<b>2,375</b>	<b>(25)</b>	<b>4,154</b>	<b>3,666</b>	<b>13</b>
Tax	(476)	(433)	10	(599)	(21)	(1,076)	(882)	22
<b>PAT</b>	<b>1,303</b>	<b>1,349</b>	<b>(3)</b>	<b>1,776</b>	<b>(27)</b>	<b>3,079</b>	<b>2,784</b>	<b>11</b>
Minority Interest	3	4		2		5	7	
<b>PAT after MI</b>	<b>1,306</b>	<b>1,352</b>	<b>(3)</b>	<b>1,778</b>	<b>(27)</b>	<b>3,084</b>	<b>2,791</b>	<b>10</b>
Extraordinary items	-	-		-		-	-	
<b>Net profit (reported)</b>	<b>1,306</b>	<b>1,352</b>	<b>(3)</b>	<b>1,778</b>	<b>(27)</b>	<b>3,084</b>	<b>2,791</b>	<b>10</b>
<b>EPS</b>	<b>1.3</b>	<b>1.3</b>	<b>(3)</b>	<b>1.7</b>	<b>(27)</b>	<b>3.0</b>	<b>2.7</b>	<b>10</b>
<b>Costs as a % of sales</b>								
COGS	87.4	85.7	166 bps	85.7	172 bps	86.6	85.3	125 bps
<b>Gross margin (%)</b>	<b>12.6</b>	<b>14.3</b>	<b>-167 bps</b>	<b>14.3</b>	<b>-173 bps</b>	<b>13.4</b>	<b>14.7</b>	<b>-126 bps</b>
Staff cost	2.8	3.4	-58 bps	3.1	-32 bps	3.0	3.3	-36 bps
Other opex	4.4	3.8	61 bps	4.4	-1 bps	4.4	4.1	28 bps
<b>EBITDA margin (%)</b>	<b>5.4</b>	<b>7.1</b>	<b>-172 bps</b>	<b>6.8</b>	<b>-140 bps</b>	<b>6.1</b>	<b>7.2</b>	<b>-118 bps</b>
Income tax rate (%)	26.8	24.3	246 bps	25.2	152 bps	25.9	24.1	183 bps

Source: Company data, I-Sec research

**Exhibit 2: Q2FY25 results review (Standalone - Reported)**

(INR Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
<b>Net Revenues</b>	<b>52,268</b>	<b>37,543</b>	<b>39</b>	<b>46,875</b>	<b>12</b>	<b>99,142</b>	<b>73,952</b>	<b>34</b>
COGS	(45,895)	(32,220)	42	(40,226)	14	(86,122)	(63,141)	36
<b>Gross profit</b>	<b>6,372</b>	<b>5,324</b>	<b>20</b>	<b>6,648</b>	<b>(4)</b>	<b>13,021</b>	<b>10,811</b>	<b>20</b>
Staff cost	(1,486)	(1,282)	16	(1,485)	0	(2,971)	(2,493)	19
Other opex	(2,255)	(1,369)	65	(2,014)	12	(4,269)	(2,955)	44
<b>Total opex</b>	<b>(3,741)</b>	<b>(2,651)</b>	<b>41</b>	<b>(3,499)</b>	<b>7</b>	<b>(7,239)</b>	<b>(5,448)</b>	<b>33</b>
<b>EBITDA</b>	<b>2,632</b>	<b>2,672</b>	<b>(2)</b>	<b>3,150</b>	<b>(16)</b>	<b>5,781</b>	<b>5,363</b>	<b>8</b>
Other income	277	143	93	250	11	527	281	87
Finance cost	(626)	(627)	(0)	(601)	4	(1,227)	(1,239)	(1)
D&A	(612)	(507)	21	(560)	9	(1,172)	(986)	19
<b>PBT</b>	<b>1,671</b>	<b>1,682</b>	<b>(1)</b>	<b>2,239</b>	<b>(25)</b>	<b>3,909</b>	<b>3,419</b>	<b>14</b>
Tax	(468)	(426)	10	(588)	(20)	(1,056)	(875)	21
<b>Recurring PAT</b>	<b>1,203</b>	<b>1,255</b>	<b>(4)</b>	<b>1,651</b>	<b>(27)</b>	<b>2,853</b>	<b>2,544</b>	<b>12</b>
<b>EPS</b>	<b>1.2</b>	<b>1.2</b>	<b>(4)</b>	<b>1.6</b>	<b>(27)</b>	<b>2.8</b>	<b>2.5</b>	<b>12</b>
<b>Costs as a % of sales</b>								
COGS	87.8	85.8	198 bps	85.5	226 bps	86.9	85.4	148 bps
<b>Gross margin (%)</b>	<b>12.2</b>	<b>14.2</b>	<b>-199 bps</b>	<b>14.5</b>	<b>-227 bps</b>	<b>13.1</b>	<b>14.6</b>	<b>-149 bps</b>
Staff cost	2.8	3.4	-58 bps	3.0	-16 bps	3.0	3.4	-38 bps
Other opex	4.3	3.6	66 bps	4.5	-14 bps	4.3	4.0	30 bps
<b>EBITDA margin (%)</b>	<b>5.0</b>	<b>7.1</b>	<b>-209 bps</b>	<b>7.0</b>	<b>-198 bps</b>	<b>5.8</b>	<b>7.3</b>	<b>-143 bps</b>
Income tax rate (%)	28.0	25.4	266 bps	25.5	250 bps	27.0	25.6	143 bps

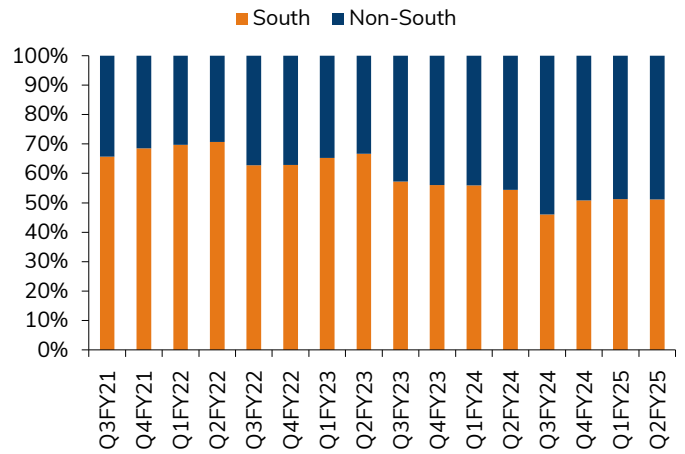
Source: Company data, I-Sec research

**Exhibit 3: Revenue growth (%) - Standalone**



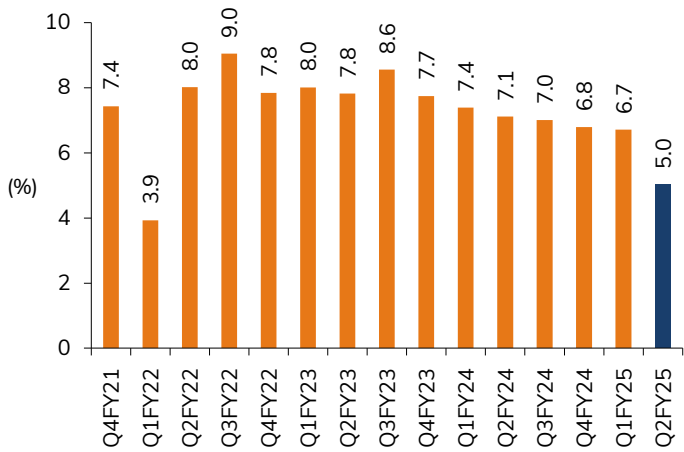
Source: Company data, I-Sec research

**Exhibit 4: Revenue contribution**



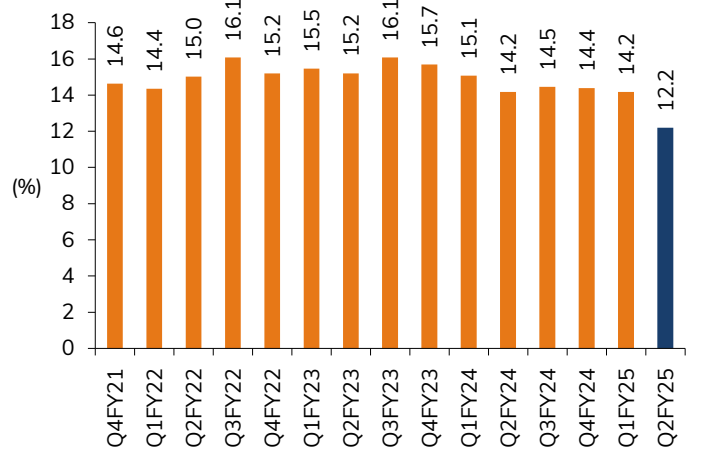
Source: Company data, I-Sec research

**Exhibit 5: EBITDA margin (%) - Standalone**



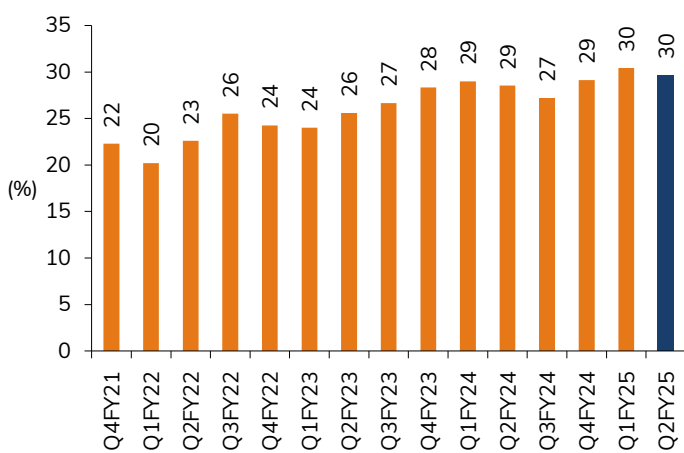
Source: Company data, I-Sec research

**Exhibit 6: Gross margin (%) - Standalone**



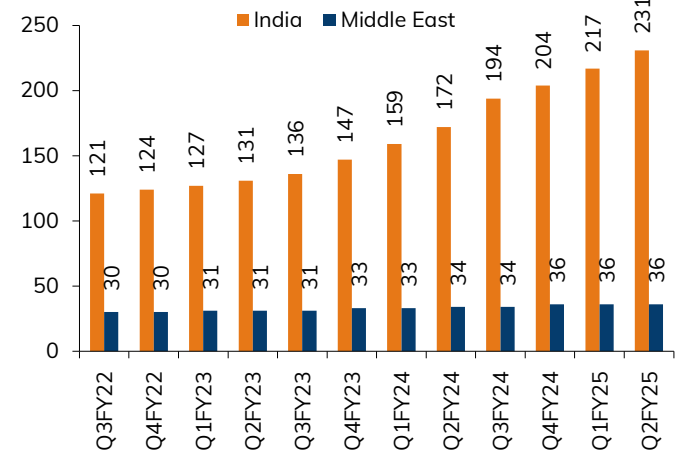
Source: Company data, I-Sec research

**Exhibit 7: Studded share**



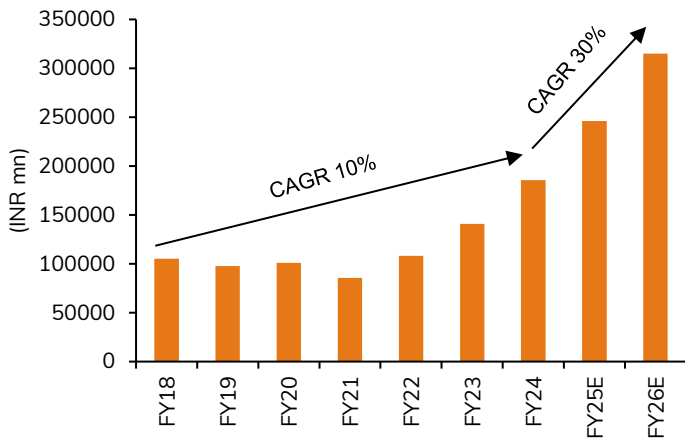
Source: Company data, I-Sec research

**Exhibit 8: Store count (Kalyan Jewellers)**



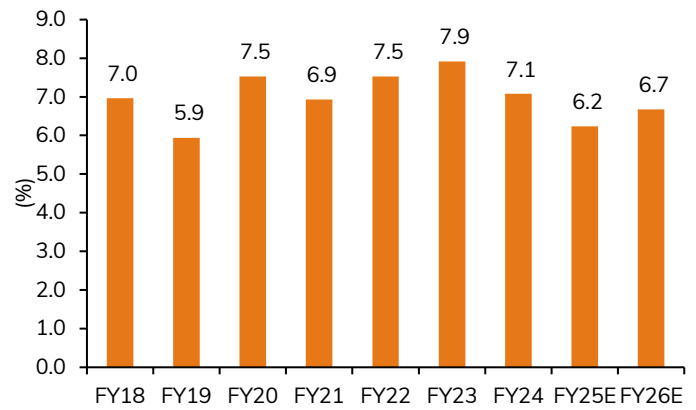
Source: Company data, I-Sec research

**Exhibit 9: Revenue and growth rates**



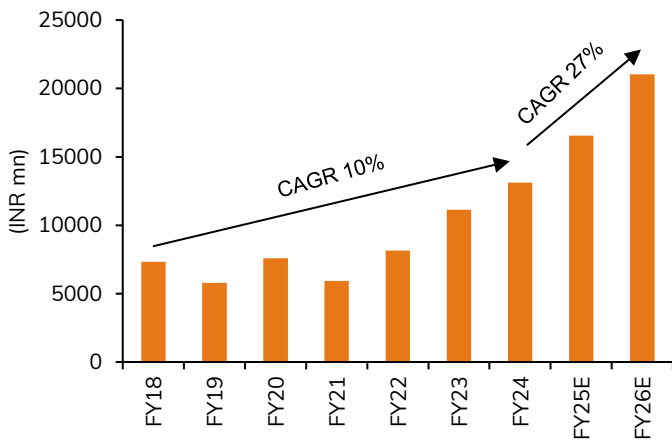
Source: Company data, I-Sec research

**Exhibit 10: EBITDA margin**



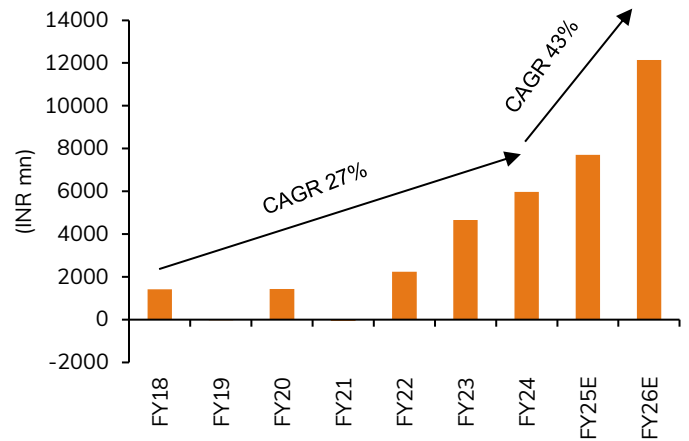
Source: Company data, I-Sec research

**Exhibit 11: EBITDA and growth rates**



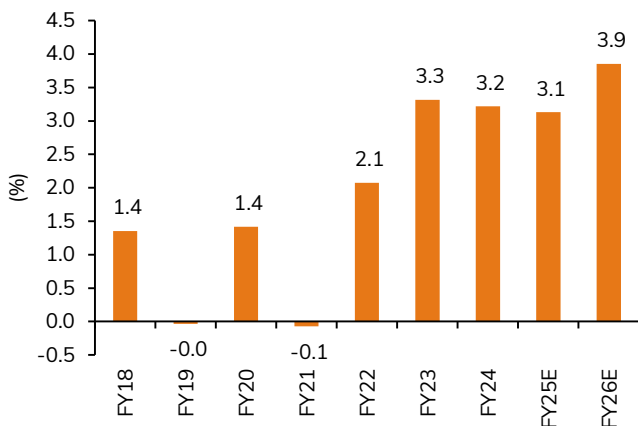
Source: Company data, I-Sec research

**Exhibit 12: PAT and growth rates**



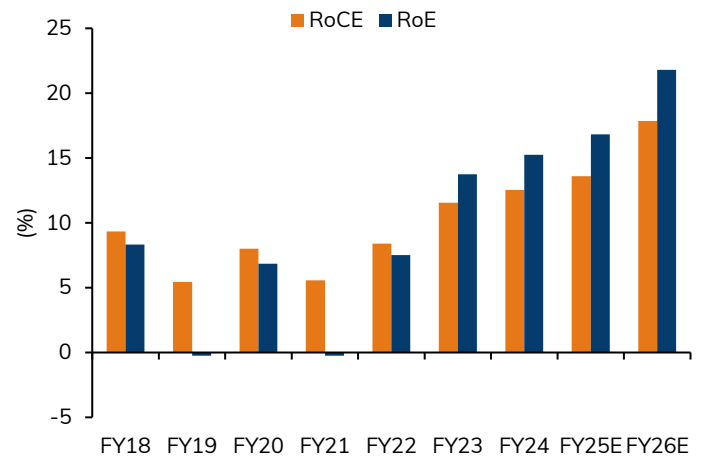
Source: Company data, I-Sec research

**Exhibit 13: PAT margin**



Source: Company data, I-Sec research

**Exhibit 14: Return ratios**



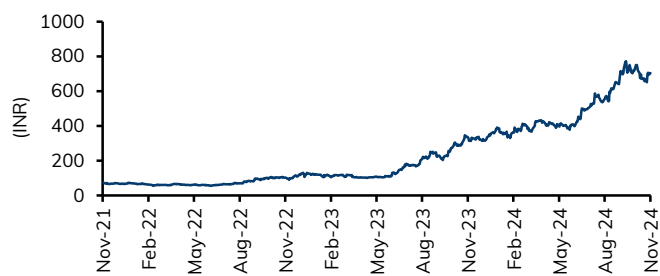
Source: Company data, I-Sec research

### Exhibit 15: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	60.6	60.6	62.9
Institutional investors	32.1	32.9	29.5
MFs and others	9.6	9.9	11.7
FIs/Banks	0.2	0.6	0.9
FIIIs	22.3	22.4	16.9
Others	7.3	6.5	7.6

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	2,46,130	3,15,131
<b>Operating Expenses</b>	<b>1,29,574</b>	<b>1,72,356</b>	<b>2,30,774</b>	<b>2,94,094</b>
EBITDA	11,140	13,127	15,356	21,037
<b>EBITDA Margin (%)</b>	<b>7.9</b>	<b>7.1</b>	<b>6.2</b>	<b>6.7</b>
Depreciation & Amortization	2,446	2,743	3,231	3,428
EBIT	8,694	10,384	12,125	17,609
Interest expenditure	3,026	3,232	3,374	3,314
Other Non-operating Income	-	-	-	-
Recurring PBT	6,048	7,888	9,992	15,801
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Less: Taxes</b>	<b>1,396</b>	<b>1,925</b>	<b>2,295</b>	<b>3,672</b>
PAT	4,652	5,963	7,697	12,129
Less: Minority Interest	(12)	(11)	(11)	(12)
Extraordinaries (Net)	(333)	-	-	-
Net Income (Reported)	4,319	5,963	7,697	12,129
<b>Net Income (Adjusted)</b>	<b>4,664</b>	<b>5,973</b>	<b>7,708</b>	<b>12,141</b>

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	1,16,478	1,44,901
of which cash & cash eqv.	9,819	9,751	13,222	35,587
Total Current Liabilities & Provisions	27,453	40,980	54,717	70,483
<b>Net Current Assets</b>	<b>56,366</b>	<b>57,171</b>	<b>61,760</b>	<b>74,418</b>
Investments	611	611	611	611
Net Fixed Assets	8,738	10,904	10,383	8,486
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	5,393	7,205
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>79,114</b>	<b>86,535</b>	<b>91,777</b>	<b>1,05,369</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>35,085</b>	<b>33,173</b>	<b>30,579</b>	<b>31,883</b>
<b>Deferred Tax Liability</b>	<b>(562)</b>	<b>(662)</b>	<b>(662)</b>	<b>(662)</b>
Provisions	377	456	595	754
Other Liabilities	-	-	-	-
Equity Share Capital	10,301	10,301	10,301	10,301
Reserves & Surplus	26,047	31,590	39,287	51,416
<b>Total Net Worth</b>	<b>36,347</b>	<b>41,891</b>	<b>49,588</b>	<b>61,717</b>
Minority Interest	(2)	(13)	(13)	(13)
<b>Total Liabilities</b>	<b>79,114</b>	<b>86,535</b>	<b>91,777</b>	<b>1,05,369</b>

Source Company data, I-Sec research

### Exhibit 19: Quarterly trend

(INR mn, year ending March)

	Dec 23	Mar 24	Jun 24	Sep 24
Net Sales	52,231	45,349	55,355	60,655
% growth (YoY)	34.5	34.1	26.5	37.4
EBITDA	3,698	3,062	3,760	3,272
Margin %	7.1	6.8	6.8	5.4
Other Income	201	288	222	260
Extraordinaries	0	-	-	-
Adjusted Net Profit	1,806	1,376	1,778	1,306

Source Company data, I-Sec research

### Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>10,134</b>	<b>13,228</b>	<b>10,908</b>	<b>24,401</b>
Working Capital Changes	424	2,040	(1,465)	7,774
Capital Commitments	(3,970)	(2,182)	(1,468)	(26)
<b>Free Cashflow</b>	<b>6,163</b>	<b>11,045</b>	<b>9,440</b>	<b>24,375</b>
<b>Other investing cashflow</b>	<b>131</b>	<b>803</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(3,839)	(1,379)	(1,468)	(26)
Issue of Share Capital	-	-	-	-
Interest Cost	(2,291)	(2,389)	(3,374)	(3,314)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	(515)	-	-
Others	(2,146)	(5,909)	(2,594)	1,304
Cash flow from Financing Activities	(6,376)	(11,480)	(5,968)	(2,011)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(81)</b>	<b>368</b>	<b>3,471</b>	<b>22,364</b>
Closing cash & balance	9,738	10,119	16,694	57,951

Source Company data, I-Sec research

### Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	4.5	5.8	7.5	11.8
Adjusted EPS (Diluted)	4.5	5.8	7.5	11.8
Cash EPS	6.9	8.5	10.6	15.1
Dividend per share (DPS)	0.5	1.2	1.8	2.5
Book Value per share (BV)	35.3	40.7	48.1	59.9
Dividend Payout (%)	9.0	4.8	4.2	4.7
<b>Growth (%)</b>				
Net Sales	30.1	31.8	32.7	28.0
EBITDA	36.8	17.8	17.0	37.0
EPS (INR)	107.6	28.2	29.1	57.6
<b>Valuation Ratios (x)</b>				
P/E	148.5	115.8	89.7	56.9
P/CEPS	97.1	79.2	63.1	44.4
P/BV	19.0	16.5	13.9	11.2
EV / EBITDA	64.3	54.4	46.1	32.7
P / Sales	4.9	3.7	2.8	2.2
Dividend Yield (%)	0.1	0.2	0.3	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	15.6	14.6	12.9	12.8
EBITDA Margins (%)	7.9	7.1	6.2	6.7
Effective Tax Rate (%)	23.1	24.4	23.0	23.2
Net Profit Margins (%)	3.3	3.2	3.1	3.8
Net Debt / Equity (x)	2.0	2.3	2.6	2.9
Net Debt / EBITDA (x)	6.4	5.7	5.2	4.4
Fixed Asset Turnover (x)	8.7	10.9	12.3	14.2
Working Capital Days	203	183	160	128
Inventory Turnover Days	206	186	163	131
Receivables Days	7	7	7	7
Payables Days	35	44	44	43
<b>Profitability Ratios</b>				
RoCE (%)	9.8	10.7	12.0	15.6
RoE (%)	13.8	15.3	16.9	21.8
RoIC (%)	9.8	10.7	12.0	15.6

Source Company data, I-Sec research

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