

## Kalyan Jewellers India

**BUY**
**Store expansion is the key; initiate with BUY**
**Rs62**

Kalyan Jewellers India (Kalyan) is a pan-India jeweller with focus on the strengths of: 1) store expansion, 2) consistent investment in brand, 3) hyperlocal strategy, and 4) *My Kalyan* network differentiation (in our view). Accelerated industry formalisation and new store addition of 15-20 per annum are medium-term revenue growth drivers. We forecast 20% and 36% CAGR in revenues and EBITDA respectively, over FY21E-FY23E. We initiate coverage with a BUY rating and DCF-based target price of Rs95 per share. Key risks are (1) potentially higher competitive intensity in core South India markets, (2) execution risks in expansion, and (3) delayed economic recovery in Middle East.

- ▶ **Focus on expanding showroom network:** Between 1<sup>st</sup> Apr'15 and 30<sup>th</sup> Jun'20, Kalyan Jewellers (Kalyan) opened 60 new showrooms (net) at an average rate of ~12 showrooms per year across multiple regions. We believe the company will continue to drive showroom expansion to capture the opportunity to gain market shares from unorganised players. The scope for nationwide expansion is seen from the fact that Titan has as many as 353 stores (vs Kalyan's 107) across India as at FY21-end.
- ▶ **Creation of competitive advantages:** Kalyan's competitive advantages are: 1) strong brand {*Kalyan Jewellers*}, 2) pan-India retail presence with 107 showrooms across India, 3) hyperlocal strategy to cater to a wide range of geographies and customer segments, and 3) unique *My Kalyan* centre to drive footfalls.
- ▶ **Growth strategies:** Key revenue growth strategies: 1) expansion of showroom network, and 2) expansion of *My Kalyan* network to gain market shares from unorganised players. Organised jewellery industry has increased its share from 6% of the market in 2007 to ~30% in 2020 and will continue to garner further gains from unorganised players on the back of tough regulatory and operating (access to credit) environments. We forecast EBITDA margin to expand to 8.7% in FY23E from 7.5% in FY20 driven by: 1) improvement in studded ratio, 2) operating leverage in adspends and other overheads.
- ▶ **Initiate with BUY:** We model revenue and EBITDA CAGRs of 20% and 36% over FY21E-FY23E. We initiate coverage on the stock with a **BUY** rating and DCF-based target price of Rs95. Key risks: delay in showroom expansion and potentially higher competitive intensity in core South India markets.

Market Cap	Rs63.8bn/US\$873mn	<b>Year ending Mar</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	KALN.BO/KALYANKJ IN	Revenue (Rs mn)	1,01,009	85,327	99,559	1,23,437
Shares Outstanding (mn)	1,030.1	Adj Net Profit (Rs mn)	1,430	(155)	2,905	4,102
52-week Range (Rs)	87/57	Dil. Rec. EPS (Rs)	1.7	(0.1)	2.8	3.9
Free Float (%)	39.5	% Chg YoY	NM	NM	NM	41.2
FII (%)	5.0	P/E (x)	36.3	NM	22.4	15.8
Daily Volume (US\$'000)	NA	CEPS (Rs)	4.6	2.1	5.0	6.5
Absolute Return 3m (%)	Na	EV/EBITDA (x)	9.7	16.0	11.7	8.6
Absolute Return 12m (%)	NA	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	(0.6)	RoCE (%)	8.0	4.5	6.6	8.7
Sensex Return 12m (%)	65.2	RoE (%)	6.6	(0.6)	9.0	11.2

**Initiating coverage**

### Consumer Staples & Discretionary

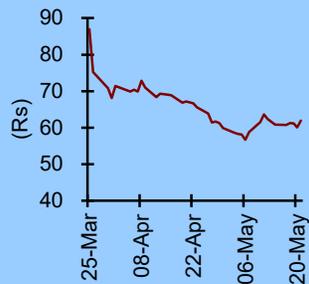
**Target price Rs95**

#### Shareholding pattern

	Dec '20	Mar '21
Promoters	60.5	60.5
Institutional investors	6.5	6.5
MFs and others	1.4	1.4
FIs/Bank/Ins	0.1	0.1
FIs	5.0	5.0
Others	33.0	33.0

Source: BSE

#### Price chart



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## Investment summary

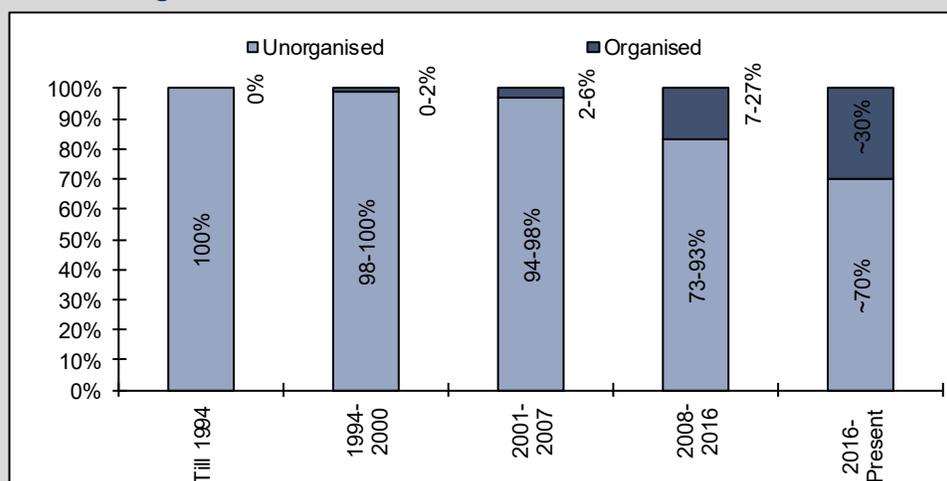
### Business

Kalyan Jewellers (Kalyan) designs, manufactures and sells a wide range of gold, studded and other jewellery products. Kalyan was established by founder and promoter Mr. T.S. Kalyanaraman, who has over 45 years of retail experience, of which over 25 years are in the jewellery industry. Company started its jewellery business in 1993 with a single showroom in Thrissur, Kerala. Kalyan has expanded to become a pan-India jewellery company, with 107 showrooms located across 21 states and Union Territories in India, and international presence with 30 showrooms in the Middle East. All of the showrooms are operated and managed by Kalyan.

### Jewellery: Shift from unorganised to organised sector to continue

The Indian jewellery retail sector's size in FY20 was approximately US\$64bn. The sector's organised retail share stood at approximately 32%, comprised of national and regional players, while the rest of jewellery retail continues to be dominated by the unorganised segment, comprised of over 500,000 local goldsmiths and jewellers. Between 2007 and 2020, jewellery retailing in India has seen the fastest transition towards organised retailing compared to any other retail category in India. In 2007, organised share of jewellery retail was 6%, which increased to approximately 32% in 2020.

**Chart 1: Organised sector increased share from ~6% in 2007 to ~32% in 2020**



Source: Secondary Research, Technopak Analysis

### Focus on expanding showroom network

Between 1<sup>st</sup> Apr'15 and 30<sup>th</sup> Jun'20, Kalyan opened 60 new showrooms (net) at an average rate of ~12 showrooms per year across multiple regions. We believe the company will continue to drive showroom expansion to capture the opportunity to gain market shares from unorganised players. Titan's (*Tanishq*) store count is 353 across India as at FY21-end. Therefore, we believe there is huge scope for expansion for Kalyan across India.

## Competitive advantages

Kalyan has developed a strong brand *Kalyan Jewellers* through past 10 years' aggressive investments in brand building. It has also established 761 *My Kalyan* centres with strong distribution capabilities enabling deep customer outreach. Its hyperlocal strategy has allowed it to become a pan-India jeweller able to cater to a wide range of geographies and customer segments.

**Table 1: Competitive advantages**

Competitive advantage	Particulars
Brand	Kalyan Jewellers
Differentiated strategy	Hyperlocal strategy
Showroom network	137 showrooms
My Kalyan centres	761 centres

Source: Company, I-Sec research

## Valuation – reverse DCF ask is achievable, in our view

Kalyan Jewellers trades at a P/E of 16x FY2023E (a significant discount of ~70% to the market leader Titan). We value Kalyan on DCF-basis arriving at a target price of Rs95. As per reverse DCF (assuming cost of equity at 12% and terminal growth at 5%), the company needs to achieve an EBITDA CAGR of 14% over FY21E-FY30E.

**Table 2: Expected EBITDA CAGR of 14% over FY21-FY30E in reverse DCF**

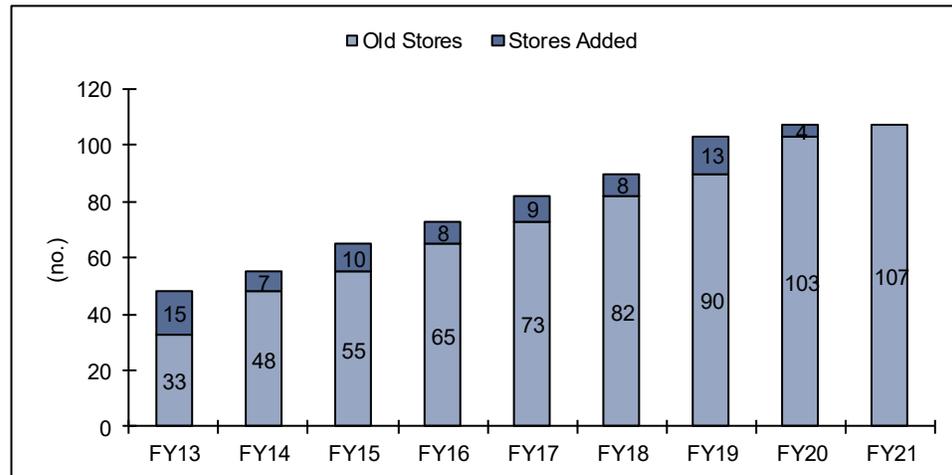
Particulars	Amt (Rs)
Cost of Equity (%)	12.0
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	48,025
Discounted terminal value (Rs mn)	37,332
EV (Rs mn)	85,357
Net debt/(cash)	20,513
Total equity value (Rs mn)	64,844
<b>Current price per share (Rs)</b>	<b>62</b>
EBITDA growth to achieve over FY21-FY30E (%)	14

Source: Company, I-Sec research

## Focus on expanding showroom network

Kalyan Jewellers (Kalyan) currently has a showroom network of 107 stores in India as at FY21-end. Between 1<sup>st</sup> Apr'15 and 30<sup>th</sup> Jun'20, Kalyan opened 60 new showrooms (net) at an average rate of ~12 showrooms per year across multiple regions.

**Chart 2: Store network of Kalyan Jewellers in India**

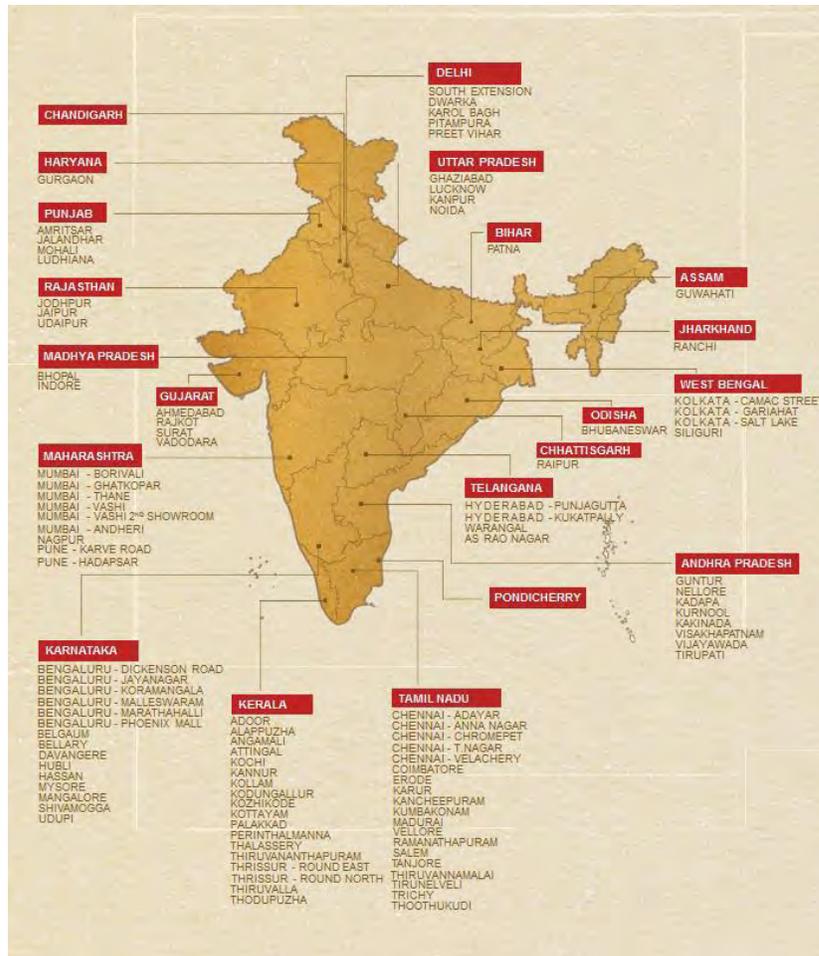


Source: Company Data, I-Sec research

From a geographical perspective, though Kalyan started operations in Kerala, over time it has been able to successfully expand outside South India to become a pan-India jewellery company. Currently, 43 of 107 showrooms were located outside of South India (includes Kerala, Tamil Nadu, Andhra Pradesh, Telangana, Pondicherry and Karnataka).

We believe that Kalyan will continue to drive showroom expansion to capture the opportunity to gain market shares from unorganised players. Titan (*Tanishq*) has 353 stores across India as at FY21-end. Therefore, we believe there is huge scope for pan-India expansion for Kalyan.

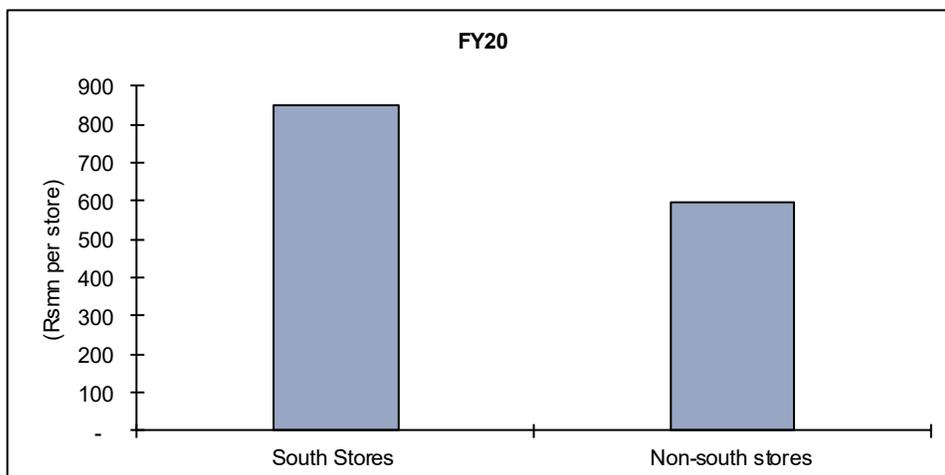
Chart 3: Kalyan Jewellers showrooms across India



Source: Company, I-Sec research

**Improvement in store throughput of non-South showrooms**

As at 31st Mar'21, 43 of 107 showrooms were located outside of South India (includes Kerala, Tamil Nadu, Andhra Pradesh, Telangana, Pondicherry and Karnataka). Most of these non-South stores have opened in past few years. Non-South stores contributed ~33% of India revenues in FY20. Store throughput of these non-South stores (~Rs6bn in FY20) is much lower vis-à-vis South India based stores (~Rs8.5bn).

**Chart 4: Store throughput comparison of Kalyan's South vs non-South stores**

Source: Company, I-Sec research

We believe, as these stores mature, they are likely to grow faster and throughput from them will increase driving revenue growth. Store throughput increase will also be driven by the *My Kalyan* network (driving footfalls to showrooms).

### **Expansion of *My Kalyan* network to capture market shares from unorganised players**

In many of the markets, particularly in semi-urban and rural areas, the penetration of organised jewellery companies has historically been low and is dominated by local and unorganised jewellery players. However, these local and unorganised jewellery players have been adversely impacted by the pandemic due to liquidity constraints.

Kalyan currently has a network of 761 *My Kalyan* and 2,338 dedicated *My Kalyan* employee networks across India. Objective of the network is to build relationships with various players in the wedding ecosystem (such as marriage halls, astrologers, caterers, event managers, make-up artists and other wedding vendors) to identify potential jewellery customers, who are likely to purchase products in order to target them with tailored offerings and promotions. Kalyan plans to leverage the *My Kalyan* network to capture market shares from these adversely impacted unorganised players.

Further, the company intends to expand the *My Kalyan* network in areas where it is currently underpenetrated. For example, in certain regions in South India, particularly Andhra Pradesh, Telangana and Karnataka, it intends to increase the footprint of *My Kalyan* network.

## Competitive advantages for Kalyan Jewellers

Kalyan Jewellers (Kalyan) has continued to strengthen its competitive advantages over the past decade.

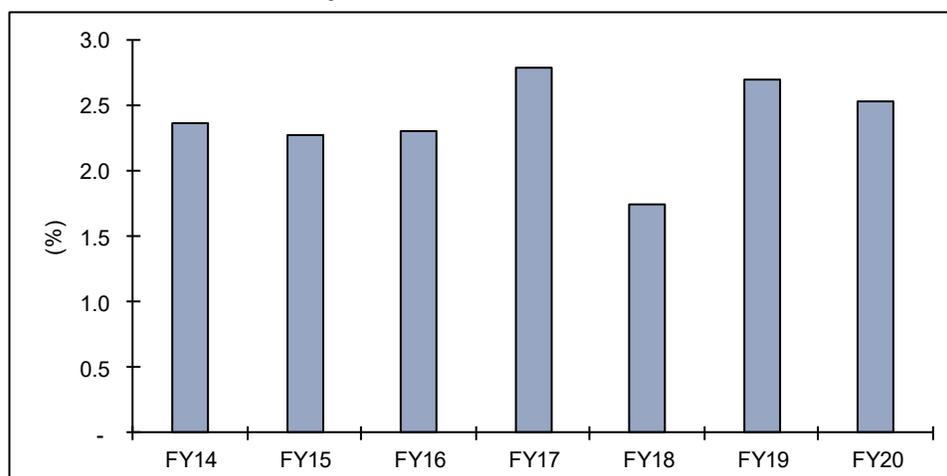
### Established and trusted brand

The Indian jewelry industry has largely been unorganized and fragmented, comprising more than 500,000 local goldsmiths and jewellers. Customers have historically struggled with a lack of transparency embedded in the purchase process for jewelry, finding it difficult to verify gold purity and weight and to deconstruct the various components of jewelry prices, including differentiating between raw material costs and jeweler mark-ups or making charges.

Kalyan has built a strong brand in the Indian jewelry market that customers associate with trust and transparency. It is among the pioneers in the Indian jewelry market in: a) educating consumers about the above-mentioned industry issues; b) instituting the highest quality standards for jewelry; and c) introducing complete price transparency with their products. The initiatives, coupled with concurrent customer education and awareness campaigns, particularly through the *My Kalyan* network, have helped strengthen the brand by building customer trust and promoting transparency.

Kalyan has also consistently invested in brand-building activities and adspend. Further, it also implemented a localized marketing strategy by engaging with local superstars as brand ambassadors / brand influencers to appeal to the regional audience. At the same time, it also engaged with actors like Amitabh Bachchan to have a wider reach as a national jewelry brand while expanding to non-South regions. We believe this strategy allows Kalyan to be viewed as a trusted national brand and also allows it to attract regional consumers by engaging with regional celebrities.

**Chart 5: Standalone adspend as a % of sales**



Source: Company, I-Sec research

## Hyperlocal strategy to cover wide range of geographies and customer segments

Jewelry consumption patterns in India are highly localized with customer preferences varying significantly by region. This industry characteristic has acted as a significant barrier for jewelry brands to scale up in India as it demands: i) a nuanced understanding of local customer needs, ii) region-specific procurement and inventory models which require operating at sufficient scale to attract the best artisans, and iii) significant investments in localized and region-specific marketing campaigns to build awareness and trust with consumers. Kalyan appeals to a broad base of customers via its hyperlocal strategy by deploying the following initiatives in operations:

- **Localisation of product portfolio:** Kalyan offers a range of jewellery products in its showrooms tailored to regional tastes and trends. Prior to entering a market, it conducts extensive research to understand local preferences as well as study the jewellery offerings of incumbent jewellers in the relevant market. It also engages third-party local artisans as contract manufacturers across markets to manufacture jewellery with localised designs in line with the preferences identified based on research. Within India, the company have 13 procurement centres across key jewellery manufacturing regions of the country that enables it to access local artisans at competitive rates.
- **Localisation in brand communication and marketing:** Region-specific marketing efforts, including state and city-specific brand campaigns with differentiated, localised creative content and the use of various relevant brand ambassadors with national, regional and local appeal, is a core element of brand positioning. Kalyan selects regional and local creative agencies in the markets in which it operates to tailor the marketing and the medium of communication to suit local preferences.
- **Localisation of showroom experience for customers:** Localisation strategy supported by a policy of hiring personnel for each of the showrooms with local language and cultural knowledge, as well as practice of designing showrooms to reflect local tastes and sensibilities.
- **Localisation through *My Kalyan* network:** Hire *My Kalyan* employees from the communities the company serves, and with relevant language skills and local relationships. Through a strategy of catering to local preferences, Kalyan plans to compete with both unorganised and organised jewellers locally by establishing customer rapport.

Localisation strategy, combined with large scale of operations, allows the company to cater to a wide range of customers across geographies, age groups, socio-economic statuses and genders as well as across urban, rural and semi-urban markets, all of which greatly widens appeal and addressability to broad segments of jewellery consumers across India.

***My Kalyan* network with strong distribution capabilities enabling deep customer outreach**

*My Kalyan* customer outreach network consists of multiple smaller centres that serve as satellite locations situated in a wide radius around most showrooms. On an average, there are approximately seven *My Kalyan* locations per showroom. As at 30<sup>th</sup> Jun'20, Kalyan had 761 *My Kalyan* locations and 2,338 dedicated *My Kalyan* employees located across 21 states and Union Territories in India. Kalyan generally hires *My Kalyan* employees from the communities which it serves, and with local language skills and relationships.

*My Kalyan* employees build relationships with various players in the wedding ecosystem (such as marriage halls, astrologers, caterers, event managers, make-up artists and other wedding vendors) to identify potential jewellery customers, who are likely to purchase products, in order to target them with tailored offerings and promotions.

*My Kalyan* network has been an important tool in boosting the sales productivity of showrooms and increasing enrolment of purchase advance schemes. The network contributed ~17% of revenues in India and ~31% of the enrolment to purchase advance schemes in India in FY20. Through *My Kalyan* network, Kalyan has been able to enter rural and semi-urban markets in India that often have limited exposure to organised jewellery companies, hence are typically served by long-established local and unorganised jewellers.

We believe *My Kalyan* network provides a strategic advantage to the company, which no other jewellery company currently has. Further, we believe it will take significant investment and time to build such a network by any other jewellery company, which again provides Kalyan the first-mover advantage even if some other large jewellery company tries to replicate it. However, there were some executional issues that Kalyan faced in FY19, which according to the company has now been rectified.

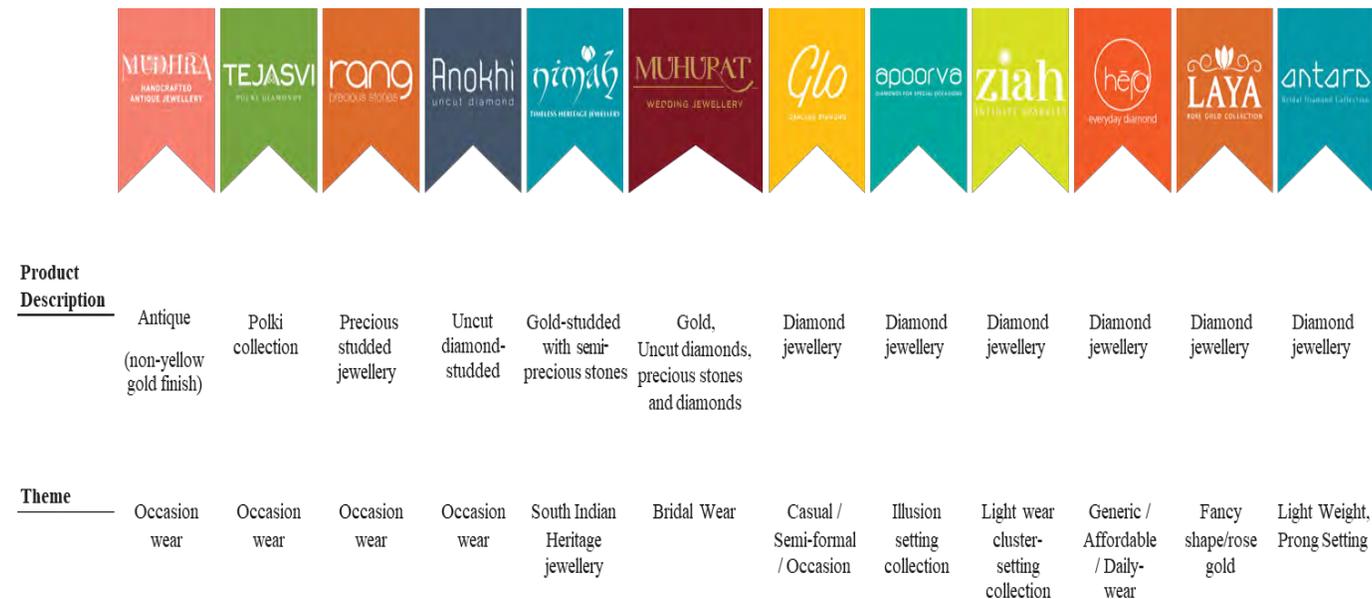
### Wide range of product offerings

Kalyan products span jewellery for special occasions such as weddings, to daily-wear jewellery, and caters to a wide range of price points. Company has launched numerous sub-brands that address specific customer niches such as:

- Ornate wedding jewellery, which is sold through **Muhurat** brand to wedding customers
- High-volume, mass market jewellery, which is sold through **Aishwaryam** brand to value-conscious customers
- Antique and heritage gold jewellery, studded with precious stones jewellery, polki and uncut diamond jewellery sold through **Mudhra, Sankalp, Nimah** and **Anokhi** brands to mid to high end customers

Technology-savvy customers are catered through online platforms. Recognising early the powerful potential of engaging customers online in an increasingly digital world, Kalyan has invested and acquired a majority stake in Enovate Lifestyles Private Limited and its online platform, *www.candere.com*. Through this platform, customers can purchase a wide variety of jewellery under the **Candere** and **Kalyan** brands, as well as enrol in purchase advance schemes.

Chart 6: Jewellery sub-brands and their target geographies and themes



Source: Company Data

## Growth strategy

Kalyan Jewellers (Kalyan) is working on a multi-pronged growth strategy. It plans to expand its showroom network across India and widen its product offerings by introducing more sub-brands to target both specific customer niches and as well as the luxury market focused on high-end gold and studded jewellery. It also plans to focus on gaining market shares in key regions. Company aims to invest further in the *My Kalyan* network to expand its customer reach.

## Revenue growth drivers

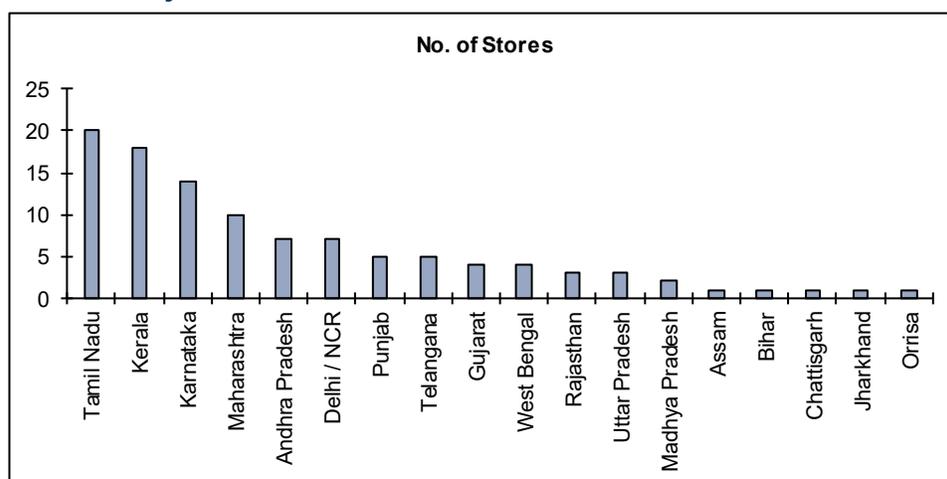
### Showroom network expansion

From the geographical perspective, though Kalyan started its operations in Kerala, over time it has been able to successfully expand outside of South India to become a pan-India jewellery company. As at 30<sup>th</sup> Jun'21, 43 of the 107 showrooms were located outside of South India (includes Kerala, Tamil Nadu, Andhra Pradesh, Telangana, Pondicherry and Karnataka).

Between 1<sup>st</sup> Apr'15 and 30<sup>th</sup> Jun'20, Kalyan opened 60 new showrooms (net) at an average rate of ~12 showrooms per year across multiple regions.

We believe Kalyan will continue to drive showroom expansion to capture the opportunity to gain market shares from unorganised players, especially outside of South India. Titan has 353 stores across India as at FY21-end. Therefore, we believe there is huge scope for expansion for Kalyan across India.

**Chart 7: Kalyan's state-wise store network**

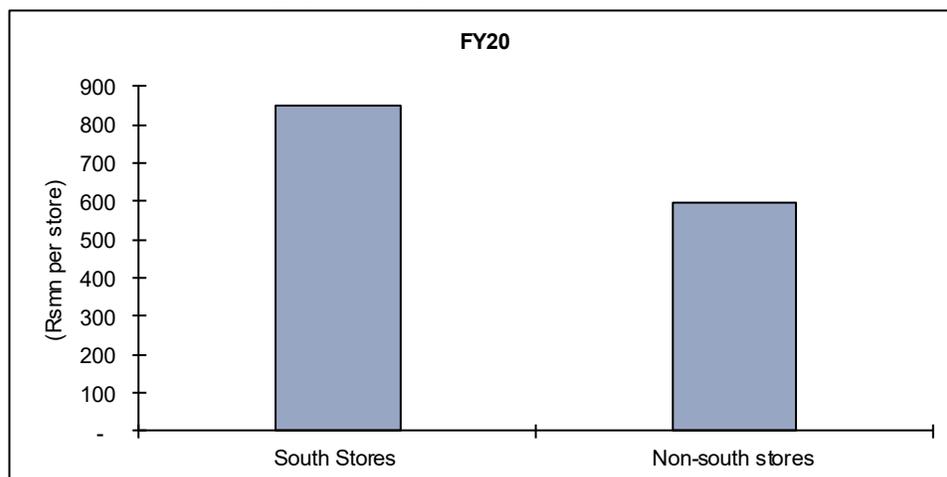


Source: Company, I-Sec research

### Improvement in store throughput of non-South showrooms

Most of Kalyan's non-South stores have opened in past few years. Non-South stores contributed ~33% of India revenues. Store throughput of these non-South stores (~Rs6bn in FY20) is comparatively much lower as compared to South India based stores (~Rs8.5bn in FY20). We believe, as these stores mature they are likely to grow faster and throughput from them will increase, thereby driving overall topline growth. Store throughput increase will also be driven by the *My Kalyan* network.

**Chart 8: Store throughput comparison of South vs non-South stores**



Source: Company Data, I-Sec research

### Expansion of *My Kalyan* network to capture market shares from unorganised players

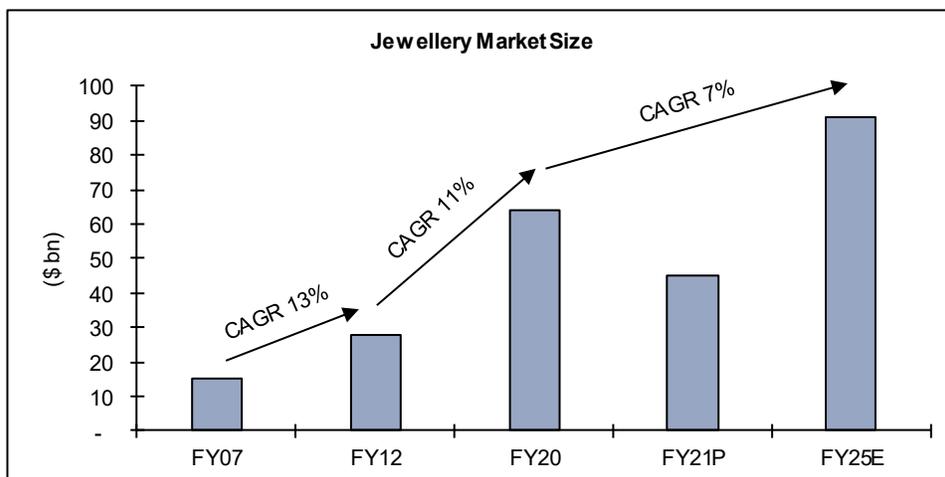
In many of the markets, particularly in semi-urban and rural areas, the penetration of organised jewellery companies has historically been low and is dominated by local and unorganised jewellery players. However, these players have been adversely impacted by the pandemic due to liquidity constraints. Kalyan plans to leverage the *My Kalyan* network to capture market shares from these adversely impacted unorganised players.

Further, the company intends to expand the *My Kalyan* network in areas where it is currently underpenetrated. For example, in certain regions in South India, particularly Andhra Pradesh, Telangana and Karnataka, it intends to increase the network's footprint.

### Jewellery industry growth rates

The India retail jewellery industry has grown at a CAGR of 11% over FY12-FY20 and is likely to grow at 7% over FY20-FY25. Kalyan has a revenue market share of less than 2% of the overall jewellery market and 5.9% share of the organised jewellery market. We model steady industry growth, market share expansion and shift from unorganised to organised to lead to 20% revenue CAGR over FY21-FY23E.

**Chart 9: Jewellery market in India**



Source: Technopak Analysis, Secondary Research  
\$1= Rs70

**Shift from unorganised to organised to continue**

Between 2007 and 2020, jewellery retailing in India has seen the fastest transition towards organised retailing compared to any other retail category in India. In 2007, organised share of jewellery retail was 6% and that increased to approximately 32% in 2020. This transition has been driven by various factors like: 1) efforts of organised retail towards trust and transparency (karatmeter), certificate of authenticity, buy-back schemes, exchange schemes, store expansion across India, focus towards semi-urban demand; and 2) unorganised segment impacted due to regulatory changes like GST, mandatory PAN card, compulsory hallmarking, etc. We believe, with tough regulatory and operating (access to credit) environment, the shift from unorganised to organised sector will continue.

**Table 3: Evolution of Jewellery retail in India**

Till 1994	1994-2000	2001-2007	2008-2016	2016 – Present
<b>Dominance of Family Jewellers</b>	<b>Initiation of Organised Retail</b>	<b>Growth of Organised Retail</b>	<b>Emergence of Industry Leaders</b>	<b>Supply side reforms aided the growth of Organised Retail</b>
1. Family Jewellers served captive customers. 2. Offerings restricted to standard local designs. 3. High transaction cost marred by opaque pricing and inaccurate purity.	1. Reference creation for organised retail with the launch of <i>Tanishq</i> by Titan. 2. Local players foray into regional expansion.	1. Brand-building efforts by organised retail on planks of trust and transparency (karatometer); Jewellery exchange schemes and introduction of certificate of authenticity and buy-back schemes. 2. Micro-segmentation of the market and launch of sub-brands. 3. Growth of franchise model.	1. <i>Tanishq</i> and Kalyan emerge as leading players with stores across all regions of the country. 2. Focus on rural and semi-urban demand. 3. Initiation of ecommerce for jewellery retail.	1. Demonetisation 2. Introduction of GST 3. Compulsory hallmarking of gold jewellery. 4. Mandatory PAN Card for transactions above Rs200,000.
<b>Share of Organised Jewellery Retailing in various phases of growth</b>				
0%	0% -> 2%	~2% -> 6%	7% ->27%	~30%

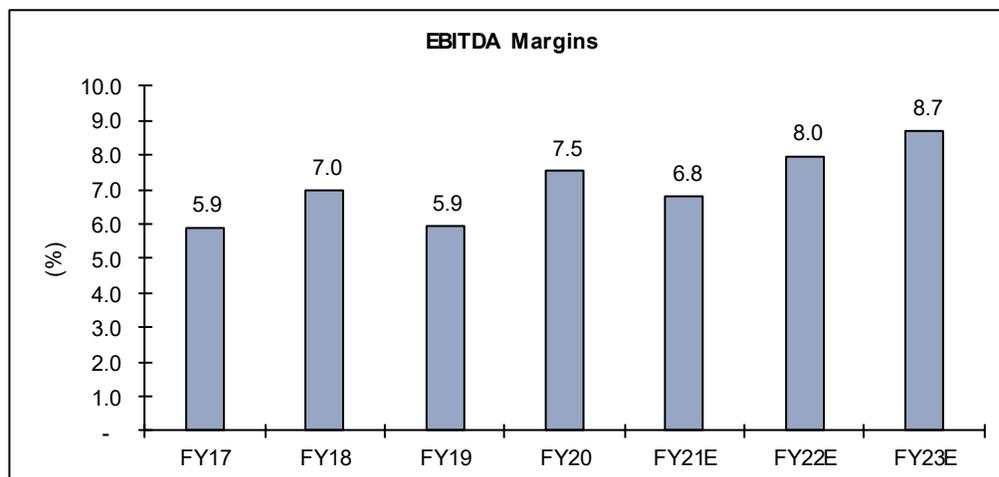
Source: Secondary Research, Technopak Analysis

## EBITDA margin expansion drivers

### Steady expansion of EBITDA margin

Kalyan Jewellers' (Kalyan) EBITDA margin has expanded from 5.9% in FY17 to 7.5% in FY20. We believe the margin will continue to expand driven by: 1) operating leverage, 2) reduction in adspend, and 3) improvement in gross margin due to improvement in studded ratio (studded ratio likely to be impacted in FY21 due to higher sales of plain gold in FY21 due to shift from unorganised to organised).

**Chart 10: EBITDA margins**



Source: Company, I-Sec research

### Improvement in gross margin due to higher studded ratio

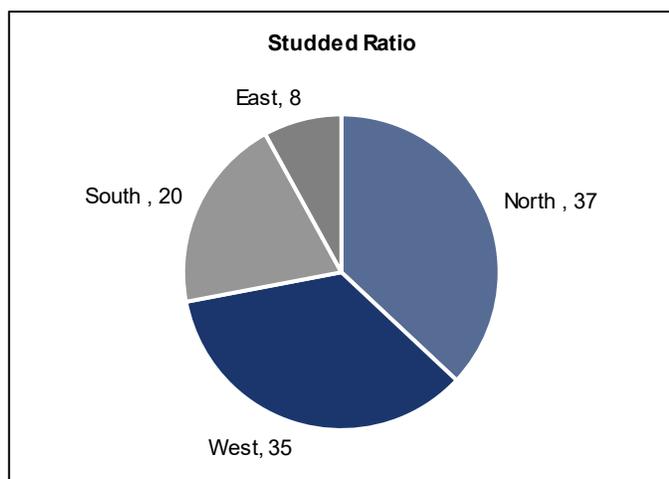
Revenue from sales of studded jewellery increased from 20.65% of revenues in FY18 to 23.36% in FY20. Studded jewellery has widened the consumer base and typically has a higher gross margin profile than gold jewellery.

Indian jewellery consumers with higher affluence are becoming increasingly brand conscious and developing greater sophistication in their jewellery preferences. Given this trend, there is significant opportunity to uprade the consumer from plain gold to studded jewellery. Kalyan continues to explore opportunities to expand its range of sub-brands and introduce new branded jewellery lines targeted at both specific customer niches as well as the luxury market focused on high-end gold and studded jewellery.

We believe, with rising consumer affluence and continuous introduction and activation of new ranges of studded jewellery by Kalyan, the contribution of studded jewellery will increase, thereby driving higher gross and EBITDA margins.

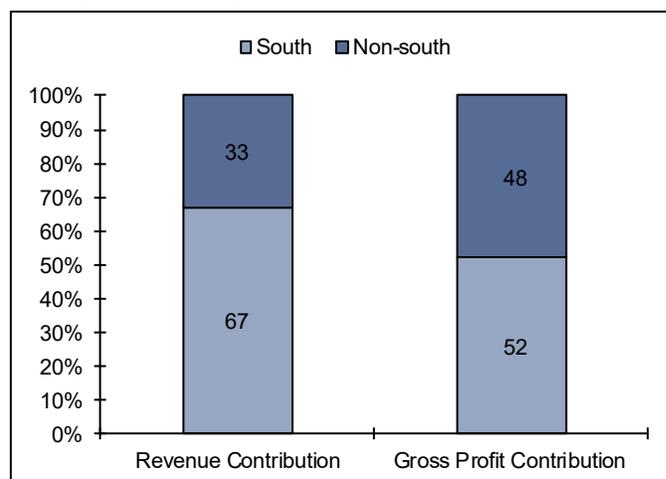
Further, as mentioned earlier, ~67% of domestic revenues are from the southern states. However, region-wise, North and West India account for ~72% of the overall studded jewellery demand in India. For Kalyan too, non-South stores' gross margin at ~26% is much higher than the ~14% of southern states. Therefore, as the contribution of non-south stores increases with store expansion and higher throughput, Kalyan's overall studded ratio will increase, thus driving margin expansion.

**Chart 11: Studded Jewellery demand by region**



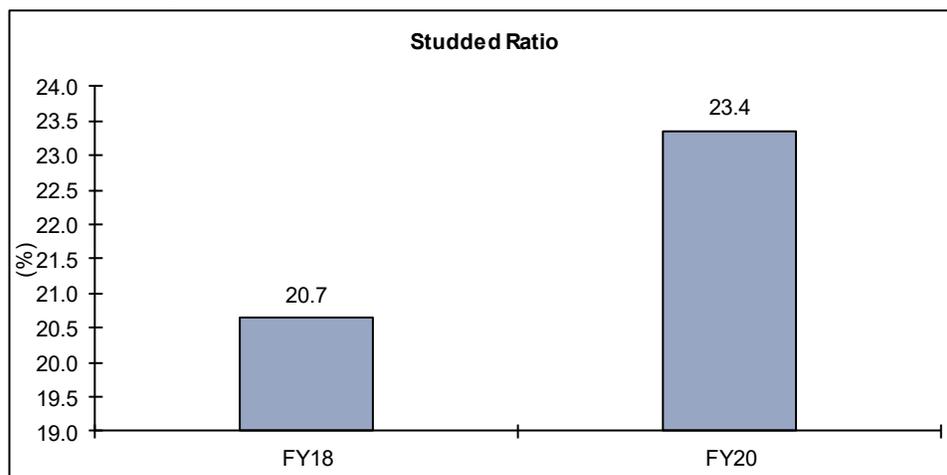
Source: WGC, Secondary Research, Technopak Analysis

**Chart 12: Revenue and gross margin contribution by region for Kalyan Jewellers (Standalone)**



Source: WGC, Secondary Research, Technopak Analysis

**Chart 13: Improvement in Kalyan’s studded ratio from FY18-FY20**



Source: Company, I-Sec research

**Adspend to decline**

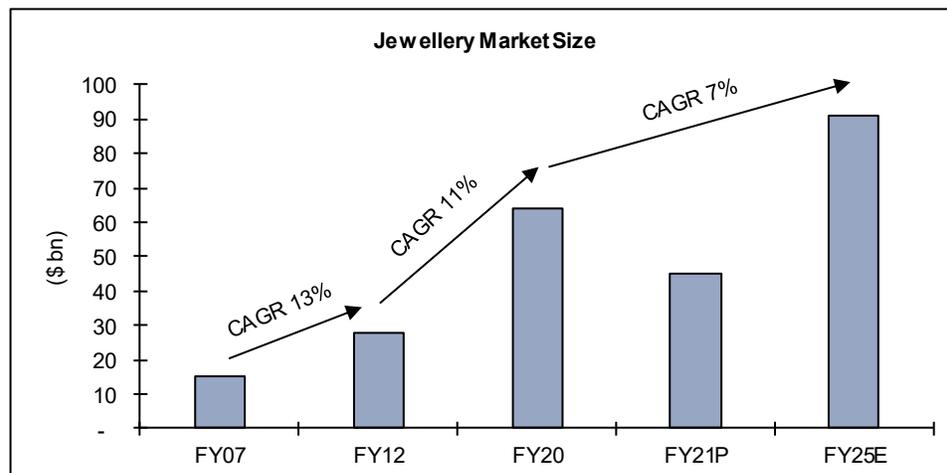
In the past, while expanding into certain new markets such as Mumbai, Delhi, and Kolkata, as part of a carefully designed marketing strategy, Kalyan had opened multiple showrooms on the same day incurring huge adspend in order to maximise local brand awareness. Further, before expanding into a particular state, Kalyan used to invest heavily for months prior to store opening in order to increase brand awareness.

However, now that the company has presence in 21 states and seven Union Territories, such strategy is not required for opening a new store as at least one store is already present in most of the states and continuous investment around brand building is already being incurred in that particular state.

## Indian Jewellery Retail Industry

The Indian jewellery retail sector's size in FY20 was approximately US\$64bn. The sector's organised retail share stood at approximately 32% comprising national and regional players, while the rest of jewellery retail continues to be dominated by the unorganised segment consisting of over 500,000 local goldsmiths and jewellers.

**Chart 14: Indian Domestic Jewellery Retail Market Size (US\$ bn)**



Source: Technopak Analysis, Secondary Research  
\$1= Rs70

### Factors driving Indian Jewellery retail industry

- Jewellery / gold's symbolic significance in India complements its investment proposition:** Indians have a strong cultural affinity to gold and its purchase is deeply ingrained in the psyche. It serves the dual purpose of consumption (jewellery) and investment (bars/coins). Strong association of jewellery with weddings and festivals creates a natural demand for expenditure on jewellery.
- Harvest economy and positive implications on rural India:** Cultural association with gold jewellery is even more pronounced in rural India than in urban. As a result, rural India accounts for 60% of gold jewellery demand in the country, whereas its share in total retail expenditure is 50%. Farm output, commodity prices and farm incomes therefore have strong causation with jewellery/gold demand.
- Rising share of organised retail in Jewellery will continue:** Between 2007 and 2020, jewellery retailing in India has seen the fastest transition towards organised retailing compared to any other retail category in India. In 2007, organised share of jewellery retail was 6% and that in 2020 was approximately 32%.
- Broad-basing of economic growth:** The retail market in major Indian states that contribute to more than 80% of India's overall retail is expected to grow at a CAGR of more than 9% over the next four years (FY21-FY25). It is expected to be uniformly spread across regions and cities. Given the high share of private consumption in India's GDP with roughly half of it comprising merchandise retail, this pattern of distributive growth will positively impact non-food related categories that already have a high share of retail expenditure.

## Key trends that signify the construct of Indian jewellery market

### Heterogeneous demand influenced by strong regional preferences

Jewellery consumption in India is influenced by multiple factors such as region, income, cultural notions and generally vastly differs across states. Southern states make up 40% of the Indian gold jewellery market while the eastern states account for 15%. Gross weight of gold worn by a bride in Kerala is more than double the weight of gold worn by a bride in Gujarat, signifying that cultural factors score over per capita income when it comes to regional skews observed in jewellery purchase in India. Customer service expectations also vary from region to region. Wedding jewellery demand in particular is influenced by local traditions and designs. While the gross weight of an average wedding jewellery purchase is 200gm in Uttar Pradesh, it is 350gm in Kerala.

**Table 4: Illustrative Regional Jewellery Demand and Preferences**

Region	North	East	West	South
Market Share*	20%	15%	25%	40%
Dominant Categories	Ring, Pendants, necklaces	Bangles, Necklace, Rings	Pendants, Earrings	Pendants, Necklace, Earrings
Gold Type	White & yellow	Yellow	White & yellow	Yellow
Diamond Quality	S1-I1	VVS, Lower colours	VS, all colours	VVS, Better colours
Preferred Caratage	22k, 18k, 14k	22k	22k, 18k, 14k	22k
Important Centres	New Delhi, Jaipur	Kolkata	Mumbai, Ahmedabad	Chennai, Hyderabad, Cochin, Bengaluru

Source: Secondary Research, Industry Reports, Technopak Analysis

\*Contribution to gold jewellery sales

**Table 5: Illustrative Regional Jewellery Demand and Preferences (For Weddings)**

State	Large Sets	Small Necklace	Bangles, Earrings, and Chains	Gross Weight (In gm)
Kerala	<i>Kazuthulia, Kasu Mala, Lakshmi Mala, Mulla Motu</i>	<i>Kingini Mala, Manga Mala</i>	<i>Kolkata Bangle, Machine cut Bangle, Thoda Bangles, Jhimki, Kurumulaka Mala, Patthakam</i>	350
Tamil Nadu	<i>Lakshmi Haram, Muthu Haram</i>	<i>Vella Kal Mookhuthi</i>	<i>Muthu Valayal, Lakshmi Valayal, Kemu Valayal, Kempu Kal Jhimkki, Mangal Sutra</i>	300
Karnataka	<i>Akki Sara, Malliga Sara</i>		<i>Lakshmi Bale, Coorgi Bale, Kembina Bale, Jhimki, Mangal Sutra, Mohan Sara</i>	280
Andhra Pradesh	<i>Nakshi Haram</i>	<i>Kandabaranam</i>	<i>Kangan, Gajalu, Buttalu, Sutaru Golusu</i>	300
Rajasthan	<i>Rani Haar</i>	<i>Thewa</i>	<i>Bangdi, Kada, Rajputi Bangdi, Kundan Butti</i>	190
Gujarat		<i>Chandan Haar</i>	<i>Bangdi, Kundan Bangdi, Kundan Butti, Mangal Sutra</i>	180
Maharashtra	<i>Chapla Haar, Laxmi Haar</i>	<i>Tushi</i>	<i>Tode, Patli, Jhumke, Mangal Sutra</i>	250
West Bengal	<i>Sita Haar</i>	<i>Gola Chik</i>	<i>Plai Bala, Mugh Bala, Chitra Bala, Jhumka</i>	210
Uttar Pradesh	<i>Choker</i>	<i>Choker</i>	<i>Kundan Kangan, Kaan Matti and Mangal Sutra</i>	200

Source: Secondary Sources, Technopak Analysis

Demand heterogeneity is also influenced by seasonality in jewellery purchases witnessed across regions in India. Jewellery demand peaks during the run-up to marriage months such as May-June, September-November and January. Agriculture output and monsoon influences gold demand in tier-II and tier-III towns. Rural households invest their proceeds from harvests in gold jewellery during the months of November and December. Demand for gold and silver jewellery increases during auspicious religious events like *Diwali* and *Dhanteras* in October and November, and *Akshaya Trithiya* in April and May.

**Table 6: Seasonality in Gold Buying**

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
<b>Gold Buying</b>												
<b>Festivals</b>												
<b>Marriages</b>												
<b>Harvests</b>												

Source: Company Data

## Accelerated growth of Organised Jewellery Retail

### Demand-side factors

- **Urbanisation and migration:** Rapid urbanisation have led to new arrivals and formation of new households in metros, cities and towns. Migrating consumers' association with their family jewellers has thus been disrupted and they rely on trusted brands that can offer transparency, purity and designs.
- **India Demographics:** India has more than 65% of its population under 35 years of age and more than 229mn women aged 20-49 years. Though gold-based wedding and daily jewellery continue to remain the main component of their demand, these consumers are influenced by global trends too and seek studded jewellery, better designs and triggers for purchases that average out through the year (for instance gifting).
- **Price transparency and product quality:** Indian jewellery consumers are becoming increasingly brand conscious and developing greater sophistication in their jewellery preferences. Players like *Tanishq* and Kalyan were among the pioneers in the Indian jewellery market in adhering to the highest quality standards for jewellery and introducing price transparency in their products.
- **Service expectations:** Jewellery represents an asset with lifetime ownership and tacitly acts as an investment asset. Therefore, consumers now expect jewellery purchases to be amply supported by after-sales service like product buyback at fair market price, transparency in billing and product customisation, among others. Such demands necessitate services to accompany product retailing and organised players are better placed to bundle them to address this need.
- **Impact of promotional campaigns and sustained brand-building effort:** Organised jewellery retailing has been on a sustained brand-building trajectory since year 2000. Jewellery retailers now adopt a multi-pronged marketing approach that leverages social media, print, television, PR and radio. Organised retailers have successfully used this approach to educate customers about purity, transparency and trust to build their brands and that has helped them capture the growing incremental demand.
- **Retailing experience:** Organised jewellery retailing today signifies readymade ornaments, wide product range that offers designs and selection, and a superior showroom experience that harmonises well with the changing expectations of the consumers. Ability to offer a better retailing experience has therefore shifted jewellery consumption demand in its favour.
- **Response to covid:** Given greater awareness of safety and security, consumer desire for safer shopping experience with more space, hygienic conditions, well-trained store personnel and robust systems/processes that ensure a safe retail experience will also benefit organised jewellers. Consumers will continue to avoid going to crowded areas where many unorganised players typically have their outlets.

## Supply-side factors

- **Demonetisation:** This led to the adoption of plastic/digital money in the jewellery sector. The adoption of cashless transactions has brought in further transparency into the sector. Demonetisation helped organised players to further penetrate the wedding market and the high-value jewellery segment by capturing market share from unorganised players whose business was predominantly based on cash.
- **Goods and Services Tax (GST):** With effect from 1<sup>st</sup> Jul'17, the GST brought in greater transparency in the jewellery market by enforcing tax compliance. It favours organised players that can manage prescribed processes.
- **Compulsory hallmarking of Gold Jewellery:** Under-caratage has been a longstanding challenge for jewellery retailing in India and had provided an unfair advantage to many unorganised jewellery retailers who were not required to disclose purity standards. Compulsory hallmarking, which will take effect from 2021, puts additional costs and process requirements on unorganised players and aims to address this issue. It will lead to a further shift of business from the unorganised to the organised jewellery segment.
- **Mandatory Permanent Account Number (PAN) Card:** Transactions above Rs200,000 with effect from 1<sup>st</sup> Jan'16 for jewellery purchases. As per government estimates, jewellery was a major destination for undisclosed income in India. The PAN card requirement makes it compulsory to establish the identity of the buyer, which makes it difficult for unorganised retailers to operate.
- **Immunity to covid:** The future impact of the covid crisis would depend on how immune businesses are to it. Companies that have a strong system (balance sheet strength, reliable promoters and a good product/service proposition) would continue to thrive, resulting in further consolidation of the market with these stronger players and increase in market share for them.

## Competitive Landscape

Brand *Tanishq* (Titan Company Limited) is the leader in the Indian Jewellery market with 3.9% share of the overall jewellery market and 12.5% of the organised sector in FY19. Kalyan Jewellers (Kalyan) had 1.8% share of the overall jewellery market and 5.9% of the organised.

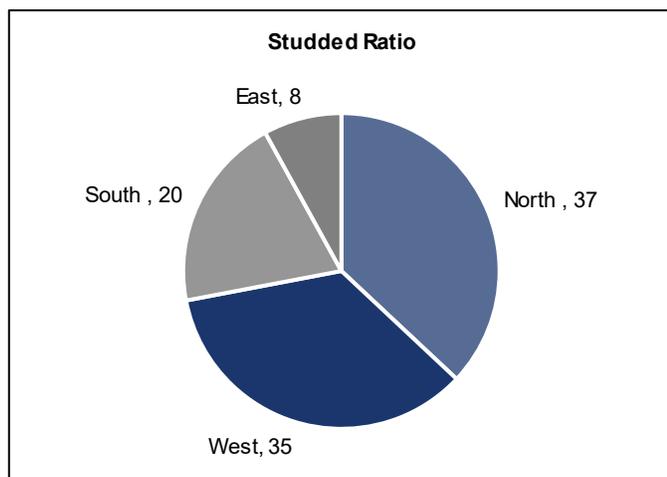
### Retailers in the Indian Jewellery Market

Leading organised jewellery retailers have had a diversified growth trajectory till date. Players like *Tanishq* (Titan) and Kalyan have expanded well beyond their geographies of origin to open a large number of stores across multiple different towns and regions unlike many other organised jewellers that have remained largely focused on certain cities, states and regions.

There are players focused on one region, such as Thangamayil and Khazana in South India, PC Chandra in East India and PN Gadgil in West India, among others. A few multi-regional players such as TBZ, Malabar, Joyalukkas, PC Jeweller and Senco Gold are largely focused on certain regions, but have expanded and opened stores in other regions, although to a limited degree. Furthermore, only a handful, such as Titan and Kalyan, have established true pan-India businesses with diversified footprint across the country.

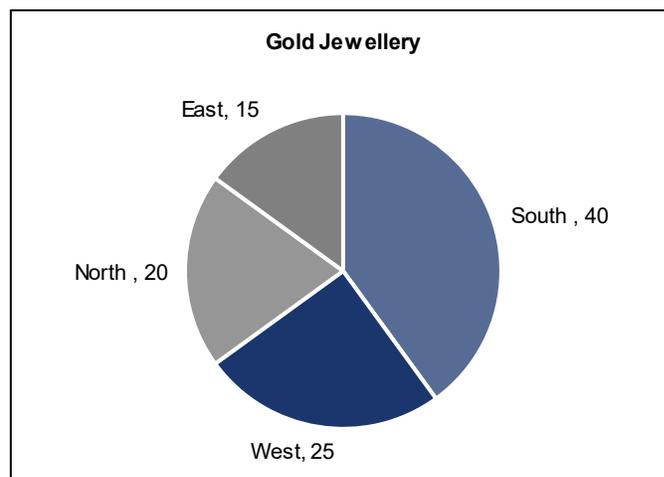
Approximately 40% of India’s fine jewellery demand originates from five southern states, followed by ~25% from the western, 20% from northern and ~15% from eastern states.

**Chart 15: Studded Jewellery demand by region**



Source: WGC, Secondary Research, Technopak Analysis

**Chart 16: Gold Jewellery demand by region**



Source: WGC, Secondary Research, Technopak Analysis

## Organised Players: Four types of organised jewellery retail chains have emerged in India

**Entities with corporate lineage** that have succeeded in creating a national footprint of jewellery retail stores across different regions of India. These players started with focus on metros and tier-I cities and gradually increased their presence in tier-II and tier-III cities with a mid to premium price positioning. Products offer uniform design across regions and are focused on daily and fashion wear. *Tanishq* by Titan is the key player in this space.

**Retail chains founded by entrepreneurs** operating in regional markets, which have been able to over time establish pan-India businesses. These players have traversed the journey of institutionalising their companies and professionalising their management teams, and have successfully scaled across multiple regions within India despite starting as local jewellers. Kalyan is the key player in this category.

**Local jewellers** that have widened their retail footprints across a specific region and whose growth is largely attributed to their focus on catering to jewellery preferences and / or price segments in a specific region. Some of these retail chains do face the challenge of growing beyond their core region to de-risk their regional dependence and, for this reason, few leading regional chains have successfully initiated expansion into other regions.

**Players that have ventured into gold jewellery through online retail.** These are companies that typically target high disposable income groups as their key customers. They largely focus on designer jewellery and studded jewellery, which have higher margins. These names established their brand value by online retail and have now opened retail/experience stores in metros and tier-I cities. Players like Caratlane and Bluestone are the major players in the space.

**Local Players:** There are two types of 'local players'. First are destination stores of family jewellers that cater to demand in a city or a town. They have a strong focus on bridal wear and address a captive customer base from within the city and from neighbouring suburbs and towns. Second, are neighbourhood stores that cater to a restricted cluster within a city or a town. These jewellers address demand for daily wear and undertake higher share of customisation orders, but offer limited range.

**Table 7: Comparison of Retail Chains, Local and E-commerce Players**

	Retail Chains			Local Jewellers		E-commerce
	1	2	3	Destination Stores	Neighbourhood Jewellers	Online led Jewellery stores
Example	Tanishq	Kalyan	Malabar	Mehrasons	Various	Bluestone
Significant Focus	Pan-India	Pan-India	Regional	Regional/Local	Local	N/A
Product Design Ethos	Uniform, Fashion, Contemporary	Uniquely localised	Regional	Local / Regional	Local designs	Uniform
Price Positioning	Mid to Premium	Mass to Premium	Mass to mid	Mass to Premium	Mass	Mid-price
Current Product Focus	Daily and fashion wear	Wedding- related & Daily	Wedding- related and daily	Wedding-related and daily	Daily wear	Fashion wear

Source: Secondary research, Annual reports, Technopak analysis

## Peer group comparison

**Table 8: Overall operating metrics**

<b>FY20</b>	<b>Titan - Jewellery</b>	<b>Kalyan - Standalone</b>	<b>Kalyan Jewellers</b>
No. of Stores	327	107	144
Sqft ('000s)	1,240	465	503
Area per store (sqft)	3,792	4,348	3,495
Revenue per store (Rs mn)	530	733	701
Revenue per sqft (Rs)	1,39,671	1,68,642	2,00,697
<b>Revenue</b>	<b>1,73,192</b>	<b>78,458</b>	<b>1,01,009</b>
<b>EBITDA</b>	<b>21,883</b>	<b>6,361</b>	<b>7,603</b>
EBITDA margin (%)	12.6	8.1	7.5
Depreciation	1,375	1,860	2,392
<b>EBIT</b>	<b>20,508</b>	<b>4,502</b>	<b>5,211</b>
EBIT margin (%)	11.8	5.7	5.2

Source: Company Data

**Table 9: Store economics (Rs mn / store)**

<b>FY20</b>	<b>Titan - Jewellery</b>	<b>Kalyan - Standalone</b>	<b>Kalyan Jewellers</b>
Capex (Rs mn per store)	30	50	47
Inventory (Rs mn per store)	150	306.45	305
<b>Total investment</b>	<b>180</b>	<b>356</b>	<b>352</b>
Revenue / store	530	733	701
EBITDA / store	67	59	53
EBITDA margin (%)	13	8	8
EBIT / store	63	42	36
EBIT margin (%)	12	6	5
<b>EBIT/ capital employed (%)</b>	<b>35</b>	<b>12</b>	<b>10</b>

Source: Company Data

**Table 10: Store economics (Rs / sqft)**

<b>FY20</b>	<b>Titan - Jewellery</b>	<b>Kalyan - Standalone</b>	<b>Kalyan Jewellers</b>
Capex (Rs mn)	7,911	11,500	13,571
Inventory (Rs mn)	39,556	70,481	87,206
<b>Total investment (Rs mn)</b>	<b>47,468</b>	<b>81,980</b>	<b>1,00,777</b>
Revenue / sqft	1,39,671	1,68,642	2,00,697
EBITDA / sqft	17,648	13,673	15,106
EBITDA margin (%)	13	8	8
EBIT / sqft	16,539	9,676	10,354
EBIT margin (%)	12	6	5
<b>EBIT/ capital employed (%)</b>	<b>35</b>	<b>12</b>	<b>10</b>

Source: Company Data

**Table 11: Balance Sheet Ratios**

<b>FY20</b>	<b>Titan - Jewellery</b>	<b>Kalyan - Standalone</b>	<b>Kalyan Jewellers</b>
Inventory Days	140	171	172
Receivable Days	5	0	8
Payable Days	10	14	20
<b>Working Capital Days</b>	<b>136</b>	<b>157</b>	<b>159</b>
Inventory per store	204	343	330
Receivables per store	8	0	15
Payables per store	15	28	39
<b>Working capital per store</b>	<b>197</b>	<b>315</b>	<b>306</b>
RoCE (%)	65.2	8.3	8.0

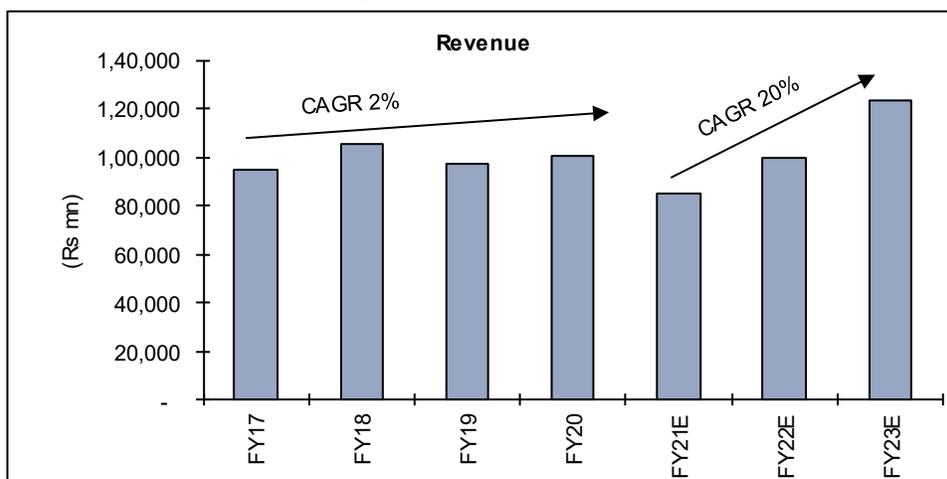
Source: Company Data

## Financial performance

### Expect steady revenue growth ahead

Kalyan Jewellers (Kalyan) reported a revenue CAGR of 2% over FY17-FY20. Key reasons for weak performance were: 1) *My Kalyan* network focusing on selling instead of driving footfalls to the store, 2) jewellery industry struggling due to steep increase in gold prices in FY20, 3) Kerala floods impacting local economy, and 4) relatively higher competitive intensity. We model the company to report a revenue CAGR of 20% over FY21E-FY23E.

Chart 17: Healthy revenue growth ahead

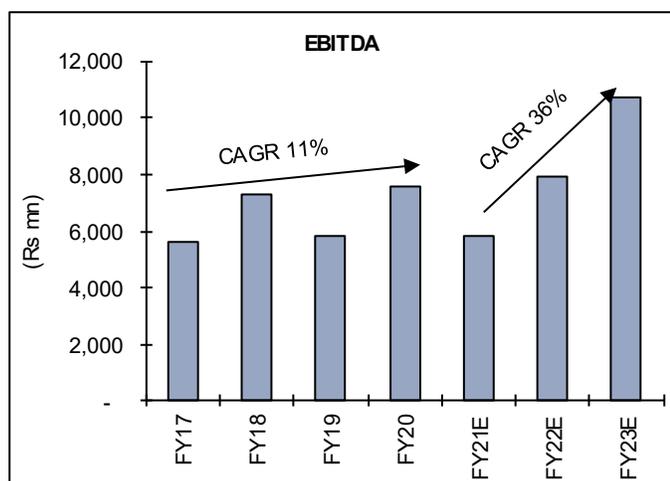


Source: Company data, I-Sec research

### EBITDA margin to steadily improve over FY21-FY23E

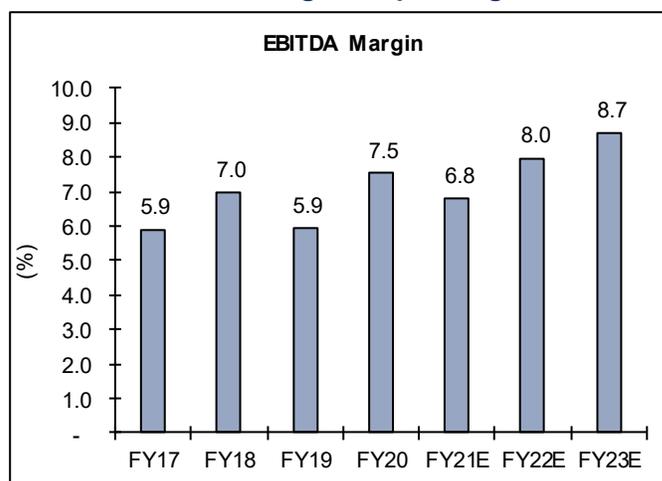
Kalyan’s EBITDA margin expanded from 5.9% in FY17 to 7.5% in FY20. We expect the company to expand its gross margin marginally over FY21-FY23E driven by higher studded share and expand EBITDA margin to 8.7% in FY23E due to operating leverage and reduction in adspend.

Chart 18: EBITDA CAGR at 36% over FY21-FY23E



Source: Company data, I-Sec research

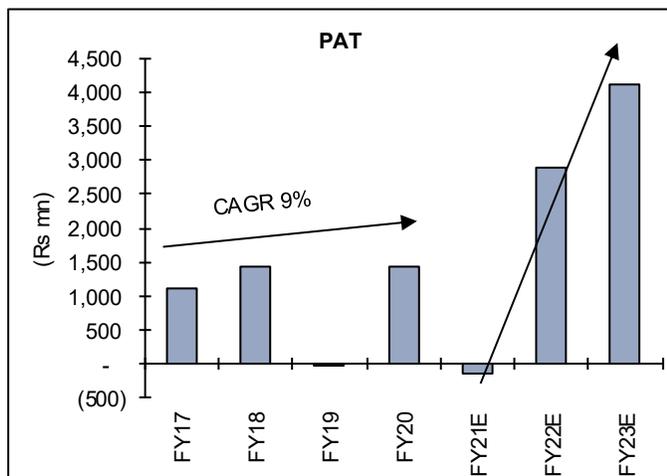
Chart 19: EBITDA margins expanding



### Net profit growth to remain strong

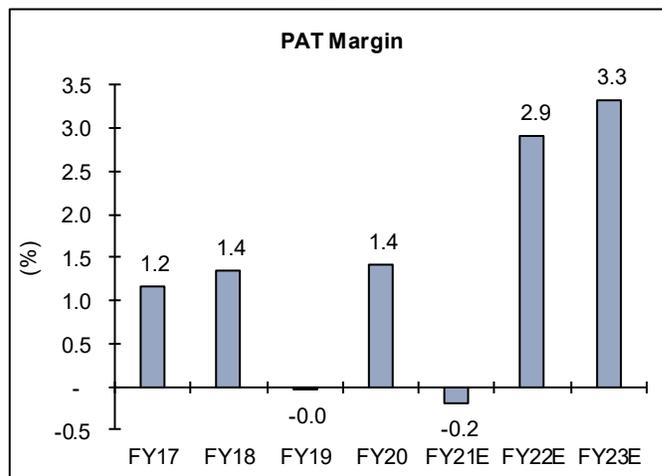
We expect PAT margin to rise due to: 1) improvement in EBITDA margin, and 2) improvement in profitability of the Middle East business. We expect the company to report PAT margin of 3.3% in FY23E vs 1.4% in FY20.

**Chart 20: Steady net profit growth ahead**



Source: Company data, I-Sec research

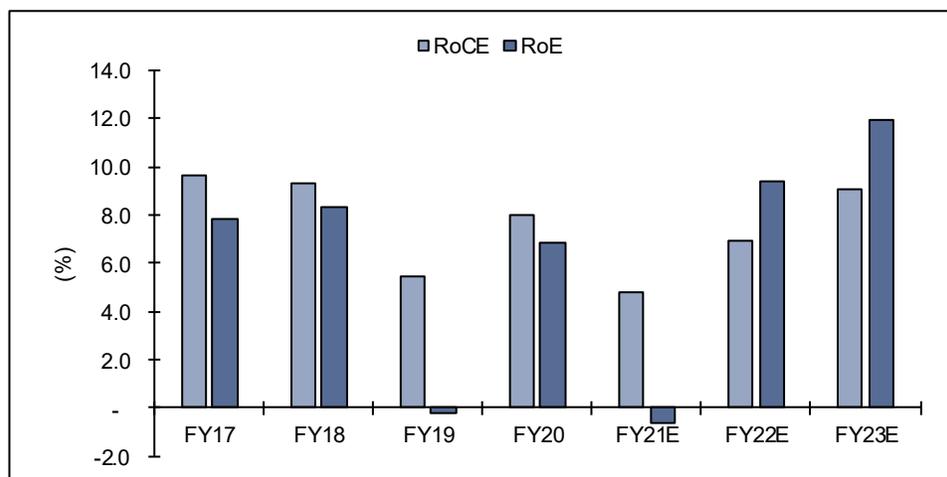
**Chart 21: Net profit margins to expand**



### Return ratios

We expect the company's return ratios to improve with improvement in performance.

**Chart 22: Return ratios**



Source: Company data, I-Sec research

## Key assumptions

**Table 12: Key assumptions**

(Rs mn)

	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Net revenues</b>	<b>97,708</b>	<b>1,01,009</b>	<b>85,327</b>	<b>99,559</b>	<b>1,23,437</b>
<i>Growth (%)</i>	(7.2)	3.4	(15.5)	16.7	24.0
Gross profit	15,724	17,092	14,050	15,504	19,795
<i>Gross margin (%)</i>	16.1	16.9	16.5	15.6	16.0
<b>EBITDA</b>	<b>5,803</b>	<b>7,603</b>	<b>5,805</b>	<b>7,943</b>	<b>10,748</b>
<i>EBITDA margin (%)</i>	5.9	7.5	6.8	8.0	8.7
PBT	209	2,209	296	3,870	5,397
<i>PBT margin (%)</i>	0.2	2.2	0.3	3.9	4.4
<i>Tax rate (%)</i>	123.2	35.6	155.0	25.2	24.2
<b>PAT</b>	<b>-36</b>	<b>1,430</b>	<b>-155</b>	<b>2,905</b>	<b>4,102</b>
<i>PAT margin (%)</i>	(0.0)	1.4	(0.2)	2.9	3.3
<i>PAT growth (%)</i>	NM	NM	(111.4)	(1,879.3)	41.3
Capex	2,989	1,192	-280	1,103	871
Net working capital days	130	129	199	187	170
Operating cashflow	3,889	3,195	-4,334	1,432	2,000
Free cashflow	900	2,003	-4,054	330	1,129
<i>OCF/EBITDA (%)</i>	67.0	42.0	(74.7)	18.0	18.6

Source: Company data, I-Sec research

## Valuation

We value Kalyan Jewellers on DCF basis with 12% WACC and 5% terminal growth assumptions. We initiate coverage on the stock with an **BUY** rating based on a DCF-based target price of Rs95, which implies a 53% potential upside. In reverse DCF, the current stock price implies a 14% EBITDA CAGR over FY20-FY30E (WACC of 12%, terminal growth 5%).

## DCF assumptions

We value Kalyan Jewellers on DCF based on the following three stages:

- **Stage 1 (FY21E-FY30E):** During this period, we estimate 11% revenue CAGR and 17% EBITDA CAGR
- **Stage 2 (FY30E-FY42E):** During this period, we estimate 11% FCF CAGR
- **Stage 3 (FY43E onwards):** We assume 5% terminal growth rate

Based on these assumptions, we arrive at a target price of Rs95.

**Table 13: DCF calculations**

(Rs mn, year ending Mar 31)

PV of FCF for forecasting period (FY18 – FY39)	66,435
PV of terminal cash flow	53,958
EV	1,20,393
Net debt/ (cash)	20,107
<b>Equity Value</b>	<b>1,00,286</b>
Number of shares (mn)	1,050
<b>Target Price (Rs/ share)</b>	<b>95</b>

Source: I-Sec research

## Relative valuation

Kalyan Jewellers trades at ~70% discount to market leader Titan.

**Table 14: Relative valuation**

Company	CMP (Rs)	TP (Rs)	Upside (%)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market Cap	
					FY22E	FY23E	FY22E	FY23E		(Rs bn)	(US\$ bn)
Kalyan Jewellers	62	95	53	BUY	22	16	12	9	NA	63	0.9
Titan	1,538	1,700	11	ADD	65	47	42	32	47.5	1,385	18.9

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)		CAGR (FY21-23E) (%)		
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	Revenues	EBITDA	PAT
Kalyan Jewellers	0.9	0.8	2	2	12	9	9	11	7	9	20	36	NM
Titan	4.8	3.9	15	12	53	40	26	29	29	33	27	58	72

Source: Company data, I-Sec research

## Key risks

**Brand:** Kalyan operates all its stores under a single brand *Kalyan Jewellers*. Any negative publicity tarnishing the brand image could impact operations and profitability of the business.

**Steep rise in competitive pressures:** Steep rise in competitive pressures by peers in a short timeframe can hurt Kalyan's earnings.

**Delays in store expansion network:** Any delay in store expansion plans, or inability to renew leases of existing stores, can impact the operations and profitability of the business.

**Metal gold loan regulations:** Metal gold loans are subject to RBI guidelines. If there is an adverse change in regulations governing such loans, or a ban, the company will not be able to avail of these lower-interest borrowings, which may therefore impact profitability.

**Fluctuation in prices, or non-availability, of gold:** Any steep fluctuations in gold prices can lead to a volatile demand environment and could hit the company's profitability.

**Slowdown or higher competition in South India:** Company generates ~52% of its revenues from South India. Slowdown and/or increase in competition in the region will adversely affect the company's earnings growth.

**Seasonality:** Sales in certain regions have historically exhibited certain seasonal fluctuations, reflecting higher sales volumes and profit margins during festive periods and other occasions. Any particular event effecting demand during the peak season could impact the company's profitability.

## Business and management

Kalyan Jewellers (Kalyan) is one of the largest jewellery companies in India. It was founded by one of the promoters, Mr. T.S. Kalyanaraman, who has over 45 years of retail experience, of which over 25 are in the jewellery industry. Company started its jewellery business in 1993 with a single showroom in Thrissur, Kerala.

Kalyan designs, manufactures and sells a wide range of gold, studded and other jewellery products across various price points ranging from jewellery for special occasions, such as weddings, to daily-wear jewellery. In FY20, 74.77% of revenues came from the sale of gold jewellery, 23.36% was from the sale of studded jewellery (which includes diamonds and precious stones), and 1.87% was from the sale of other jewellery.

Kalyan Jewellers have since expanded to become a pan-India jewellery company, with 107 showrooms located across 21 states and Union Territories in India, and international presence with 30 showrooms located in the Middle East as at 30<sup>th</sup> Jun'20. All of the showrooms are operated and managed by Kalyan Jewellers.

**Table 15: Timeline of Kalyan Jewellers business operations**

<b>FY93</b>	Opened first showroom in Thrissur, Kerala.
<b>FY04</b>	Opened first store outside Kerala; four showrooms across northern Kerala and Coimbatore. Started engaging movie celebrities to promote the brand.
<b>FY10</b>	Launched <i>My Kalyan</i> customer outreach initiative. Entered Andhra Pradesh and Karnataka markets.
<b>FY12</b>	Opened first showroom outside South India – in Ahmedabad.
<b>FY13</b>	Entered Maharashtra (West India) and Middle East markets
<b>FY14</b>	Received private equity funding by global private equity firm, Warburg Pincus, to accelerate expansion. Entered North India (Delhi) markets.
<b>FY15</b>	Entered Chennai market, as well as East India (Bhubaneswar).
<b>FY16</b>	Entered West Bengal and Rajasthan markets. Launched the <i>Kalyan Matrimony</i> (formerly known as <i>Sanskriti Matrimony</i> ) website.
<b>FY17</b>	Follow on investment made by Warburg Pincus. First online foray through Candere Investment.
<b>FY18</b>	Entered North-Eastern (Assam), Chhattisgarh and Jharkhand markets.
<b>FY19</b>	Entered Bihar market.
<b>FY21</b>	IPO.

Source: Company data, I-Sec research

## Operations

### Product Design and Development

#### Jewellery Design

Designs for jewellery are developed in-house based on market insights. Marketing team uses insights relating to customer preferences and trends that they gain through extensive market research, data analytics and customer feedback to develop a strategy and vision for new jewellery designs in line with these market trends and regional variations. Kalyan subsequently liaises with network of contract manufacturers to provide with customised samples. They review and consider such samples and select physical pieces to be created for a subset of the samples. Based on further review of the quality of the final samples submitted, they enter into

agreements and/or production orders with these contract manufacturers to manufacture designs as agents, while control of the entire manufacturing process remains with Kalyan.

### **Procurement of Raw Materials**

Procurement of gold used in jewellery happens from various banks in India and the Middle East for respective operations in each region, as well as from customers directly. Gold sourced from banks is partially procured through outright purchase and partially through gold metal loans from banks, whereby bullion is loaned at a specified interest rate. Kalyan is required to post security for the gold metal loans equal to the amount of gold loaned along with the applicable margin through cash collateral, bank guarantees, the apportionment of loan facilities and other forms of collateral. The banks adjust loan accounts on a daily basis through a mark-to-market valuation of outstanding gold metal loans. To the extent, there are fluctuations in the price of gold, posted cash collateral is required to be adjusted upward or downward to reflect daily changes in gold prices. At the time gold is sold that had been procured through this gold metal loan model, the bank generally fixes the rate of purchase to align the buying and selling rate of the underlying gold.

Customers purchasing jewellery may exchange or sell their old jewellery based on the prevailing market price, which is subsequently used as raw material for new jewellery. In FY20, 27.13% of revenue from operations included customers' exchange or sale of their old jewellery.

Kalyan purchases cut and polished diamonds used in diamond-studded jewellery outright from a number of diamond suppliers in India. They also purchase semi-finished studded jewellery. Similarly, they purchase precious and semi-precious stones as well as semi-processed platinum and raw silver for jewellery from a number of suppliers.

### **Jewellery Manufacturing**

Kalyan manufactures products through a network of artisans throughout India, who work in the capacity of contract manufacturers and as independent contractors to manufacture products. Most of the contract manufacturers are long-term business partners. Jewellery in the Middle East consists of a mix of products manufactured by Kalyan Jewellers, as well as finished products purchased from local manufacturers. Kalyan has four manufacturing facilities in Sharjah and Oman. The following table provides the aggregate installed capacity and aggregate capacity utilisation by product category at manufacturing facilities as at 31<sup>st</sup> March 2018, 2019 and 2020.

**Table 16: Details of capacity**

(kilograms)

Location of plant	Type of Jewellery	March 31, 2020			March 31, 2019			March 31, 2018		
		Installed capacity	Actual production	%*	Installed capacity	Actual production	%*	Installed capacity	Actual production	%*
SAIF Facility I	Gold Jewellery	1,020	123.2	12.1	1,020	102.9	10.1	1,020	166.2	16.3
	<b>Total</b>	<b>1,020</b>	<b>123.2</b>	<b>12.1</b>	<b>1,020</b>	<b>102.9</b>	<b>10.1</b>	<b>1,020</b>	<b>166.2</b>	<b>16.3</b>
SAIF Facility II	Gold Jewellery	-	-	-	1,800	55.6	3.1	-	-	-
	Refinery	5,400	116.7	2.2	-	-	-	-	-	-
	<b>Total</b>	<b>5,400</b>	<b>116.7</b>	<b>2.2</b>	<b>1,800</b>	<b>55.6</b>	<b>3.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
Kenouz Facility	Gold Jewellery	12,420	585.7	4.7	10,560	449.9	4.3	5,760	258.1	4.5
	<b>Total</b>	<b>12,420</b>	<b>585.7</b>	<b>4.7</b>	<b>10,560</b>	<b>449.9</b>	<b>4.3</b>	<b>5,760</b>	<b>258.1</b>	<b>4.5</b>
Oman Facility	Gold Jewellery	720	91.4	12.7	360	15.5	4.3	-	-	-
	<b>Total</b>	<b>720</b>	<b>91.4</b>	<b>12.7</b>	<b>360</b>	<b>15.5</b>	<b>4.3</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*Capacity utilisation for the financial year as disclosed above means the actual production in such financial year as a percentage of the installed manufacturing capacity at the end of such financial year (as disclosed under the column 'Installed capacity' above for each financial year).

Source: Company Data

### Quality Control

All jewellery that is produced is initially examined for physical defects, such as structural issues and inconsistencies in polishing and finishing, and is checked for purity with a karatmeter.

All jewellery is sent to government-approved hallmarking centres, where it is analysed and checked in accordance with BIS norms which are widely-accepted in the Indian jewellery industry.

### Pricing and Transparency

The products in showrooms generally have a predetermined making charge, or value-added charge, although sales staff have some limited discretion to offer customers discounts based on preapproved discounts. Jewellery prices are programmed directly into central ERP system and are primarily based on cost of production, including the cost of raw materials and production cost. Jewellery prices also reflect applicable taxes as well as general market demands and price trends. The price of the underlying gold component of jewellery is based on prevailing market rates, accounting for the global market gold price (which is generally quoted in USD) and the relative value of the INR (or local currencies in Middle East operations). Production charges and margins are determined by senior management team in consultation with regional management.

Kalyan also offers various purchase advance schemes from time to time, such as the - *Kalyan Akshaya*, *Kalyan Sowbhagya* and *Kalyan Dhanvarsha* schemes. Through these schemes, customers can make monthly instalments over a period of up to 11 months, to purchase jewellery within such period as specified in the scheme (not exceeding 365 days from the commencement of the scheme for each customer). Instalment payments made for purchase advance schemes are not refundable in cash, but can be used as credits at stores and may be appropriated towards the purchase of jewellery. They may also issue gold coins against the consolidated value of the instalments depending on the terms of the scheme. Sales through purchase advance schemes comprised 26.92% of Kalyan's domestic revenue in FY20.

Kalyan also runs a few priority programmes, under the name *Kalyan Priority Programme*, through which members / subscribers on payment of a non-refundable membership fee may avail certain benefits in the form of discounts, when they purchase jewellery within a stipulated period of time.

### **Gold Hedging**

Kalyan generally uses various techniques to hedge its gold inventory to protect from gold price fluctuations, including the use of gold metal loans, as well as forward contracts and options on Indian and international commodity exchanges.

Gold metal loans provide a natural hedge to any fluctuations in the price of gold. At the time of selling gold that is procured through gold metal loans, the rate of purchase can be fixed to align the buying and selling rate of the underlying gold. For gold purchased from customers as well as from regulated banks, forward contracts and options can be maintained to protect against fluctuations in the price of gold. The CEO of the company is responsible for managing and monitoring hedging policies and portfolio.

### **Brand Ambassadors**

Kalyan Jewellers works with regional and national celebrities as well as local influencers throughout India who serve as brand ambassadors to promote the brand.

- National Brand Ambassadors: Amitabh Bachchan, Katrina Kaif, Jaya Bachchan, Shweta Nanda Bachchan
- Regional Brand Ambassadors: Prabhu Ganesan (Tamil), Nagarjuna Akkineni (Telugu), Shiva Rajkumar (Kannada), Manju Warriar (Malayalam).
- Regional Influencers: Pooja Sawant (Marathi), Wamiqa Gabbi (Punjabi), Ritabhari Chakraborty (Bengali), Kinjal Rajpriya (Gujarati).

## Promoters and management profile

**Table 17: Board of directors**

Name	Designation	Experience	Brief Description
T.S. Kalyanaraman	Promoter, Chairman and Managing Director	Over 45 years of retail experience, of which over 25 years is in jewellery industry	<ul style="list-style-type: none"> <li>• He has been associated with the company since incorporation and associated with the brand <i>Kalyan Jewellers</i> since 1993.</li> <li>• He completed his bachelor's degree in commerce from University of Calicut.</li> </ul>
T.K. Seetharam	Promoter and a whole-time Director	22 years of experience in jewellery industry	<ul style="list-style-type: none"> <li>• He has been associated with the company since its incorporation and with the brand <i>Kalyan Jewellers</i> since 1998.</li> <li>• He is qualified as a master of business administration from Bharathiar University, Coimbatore. He has also completed the 'Executive Program in Leadership: The Effective Use of Power' course from Stanford University.</li> </ul>
T.K. Ramesh	Promoter and a whole-time Director	20 years of experience in jewellery industry	<ul style="list-style-type: none"> <li>• He has been associated with the company since its incorporation and with the brand <i>Kalyan Jewellers</i> since 2000.</li> <li>• He completed his master's degree in commerce at Karnataka State University.</li> </ul>
Salil Nair	Non-Executive Director	23 years of experience in retail industry	<ul style="list-style-type: none"> <li>• He completed his master's degree in science at Meerut University.</li> <li>• He previously acted as Chief Executive Officer of Shoppers Stop Limited.</li> </ul>
Anish Kumar Saraf	Non-Executive, Nominee Director		<ul style="list-style-type: none"> <li>• He is a qualified chartered accountant and holds a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad.</li> <li>• He is associated with Warburg Pincus India Private Limited since 2006 where he currently holds the position of Managing Director.</li> </ul>

Source: Company Data

**Table 18: Management profile**

<b>Name</b>	<b>Designation</b>	<b>Experience</b>	<b>Brief Description</b>
Sanjay Raghuraman	Chief Executive Officer	14 years of experience in retail financial services and operations	<ul style="list-style-type: none"> <li>Mr. Sanjay Raghuraman joined the company on October 4, 2012, in his prior capacity as Chief Operating Officer. He was promoted as Chief Executive Officer from July 20, 2020.</li> <li>Prior to joining the company, he worked as Head of Operations at HDB Financial Services Limited and as General Manager at Wipro Limited. He has also worked at Clix Capital Services Private Limited (formerly known as GE Money Financial Services Private Limited).</li> </ul>
V. Swaminathan	Chief Financial Officer	26 years of experience in finance and corporate planning and control	<ul style="list-style-type: none"> <li>Mr. V. Swaminathan has been associated with the company since September 22, 2016.</li> <li>Prior to joining the company, he worked as President - Finance of UltraTech Cement Limited, as Chief Finance Officer of Reid &amp; Taylor (India) Limited, as India Group Controller and Country Controller at Eaton Fluid Power Limited, Country Financial Controller at Carraro India Private Limited, and Chief Financial Officer of Reva Electric Car Company (Private) Limited.</li> </ul>
Sanjay Mehrottra	Head of Strategy and Corporate Affairs	26 years of experience in Indian capital markets	<ul style="list-style-type: none"> <li>Mr. Sanjay Mehrottra has been associated with the company since January 22, 2018.</li> <li>Prior to joining the company, he was Head of Investor Relations at Indian Energy Exchange Limited. He has also worked with ICICI Venture Funds Management Company Limited as Director of Capital Markets, Prudential ICICI Asset Management Company Limited, and Hotel Leelaventure Limited.</li> </ul>
Abraham George	Head of Treasury & Investor Relations	16 years of experience in finance and capital markets	<ul style="list-style-type: none"> <li>Mr. Abraham George has been associated with the company since June 7, 2017. He holds a master of business administration degree from ICFAI University and completed a bachelor's degree in commerce from Mahatma Gandhi University.</li> <li>Prior to joining the company, he worked as General Manager in the Brand Capital Department at Bennett Coleman and Company Limited (The Times Group). He has also worked as Deputy Vice President at Axis Bank Limited, Axis Capital and as Assistant Vice President at Cipher-Plexus Capital Advisors Private Limited.</li> </ul>
Rajesh R	Head of Legal and Compliance	12 years of experience in the legal industry	<ul style="list-style-type: none"> <li>Mr. Rajesh R has been associated with the company since November 25, 2019. He holds a bachelor of law degree from University of Calicut and is enrolled with the Bar Council of Kerala.</li> <li>Prior to joining the company, he was associated with Actoserba Active Wholesale Private Limited (Zivame) as a legal consultant, with Law &amp; Co., as a legal consultant, with TNT India Private Limited as Senior Legal Counsel, with Aditya Birla Fashion &amp; Retail Limited as Manager – Corporate Legal, and with Spencer's Retail Limited as Manager – Legal.</li> </ul>
Arun Sankar	Head of Technology	13 years of experience in the technology sector	<ul style="list-style-type: none"> <li>Mr. Arun Sankar has been associated with the company since August 6, 2014. He holds a master of technology degree in computer science and engineering from the Vellore Institute of Technology and a master of science (integrated) degree in software engineering from Periyar University.</li> <li>Prior to joining the company, he worked at Yahoo! Software Development India Private Limited and Ascent Consulting Services Private Limited.</li> </ul>
Jishnu R.G.	Company Secretary and Compliance Officer	6 years of experience in corporate compliance	<ul style="list-style-type: none"> <li>Mr. Jishnu R.G. has been associated with the company since December 5, 2018.</li> <li>Prior to joining the company, he worked as Company Secretary in VKC Group and as Assistant Company Secretary in Malabar Group.</li> </ul>

Source: Company Data

## Financials

**Table 19: Profit & Loss statement**

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales &amp; Operating income</b>	<b>1,05,260</b>	<b>97,708</b>	<b>1,01,009</b>	<b>85,327</b>	<b>99,559</b>	<b>1,23,437</b>
<b>Operating Expenses</b>	<b>97,933</b>	<b>91,904</b>	<b>93,406</b>	<b>79,522</b>	<b>91,616</b>	<b>1,12,688</b>
<b>EBITDA</b>	<b>7,327</b>	<b>5,803</b>	<b>7,603</b>	<b>5,805</b>	<b>7,943</b>	<b>10,748</b>
<i>% margins</i>	7.0	5.9	7.5	6.8	8.0	8.7
Depreciation & Amortisation	2,020	2,236	2,392	2,370	2,396	2,751
Gross Interest	3,492	3,791	3,803	3,672	3,579	4,358
Other Income	323	433	801	533	1,902	1,758
<b>Recurring PBT</b>	<b>2,138</b>	<b>209</b>	<b>2,209</b>	<b>296</b>	<b>3,870</b>	<b>5,397</b>
Less: Taxes	728	258	786	459	973	1,304
Less: Minority Interest	14	13	7	8	8	8
<b>Net Income (Reported)</b>	<b>1,424</b>	<b>(36)</b>	<b>1,430</b>	<b>(155)</b>	<b>2,905</b>	<b>4,102</b>
Extraordinaries (Net)	-	-	-	-	-	-
<b>Recurring Net Income</b>	<b>1,424</b>	<b>(36)</b>	<b>1,430</b>	<b>(155)</b>	<b>2,905</b>	<b>4,102</b>

Source: Company data, I-Sec research

**Table 20: Balance sheet**

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Assets</b>						
Total Current Assets	64,710	57,125	58,984	72,175	80,283	92,496
<i>of which cash &amp; cash eqv.</i>	10,179	8,254	7,501	12,287	14,586	17,263
Total Current Liabilities & Provisions	19,136	15,568	17,127	14,909	16,547	19,916
<b>Net Current Assets</b>	<b>45,573</b>	<b>41,556</b>	<b>41,857</b>	<b>57,266</b>	<b>63,736</b>	<b>72,580</b>
Investments & Other LT Assets	9,937	11,907	11,938	11,046	12,413	13,691
Net Fixed Assets	10,133	10,948	10,842	8,142	6,849	4,969
Capital Work-in-Progress	305	317	341	341	341	341
<b>Total Assets</b>	<b>65,949</b>	<b>64,729</b>	<b>64,979</b>	<b>76,795</b>	<b>83,339</b>	<b>91,581</b>
<b>Liabilities</b>						
<b>Borrowings</b>	<b>46,695</b>	<b>45,024</b>	<b>43,479</b>	<b>47,458</b>	<b>51,105</b>	<b>55,253</b>
<b>DTL &amp; other LT obligations</b>	<b>(426)</b>	<b>(302)</b>	<b>(81)</b>	<b>(81)</b>	<b>(81)</b>	<b>(81)</b>
Minority Interest	(23)	(36)	(30)	(30)	(30)	(30)
Equity Share Capital	9,583	9,583	9,583	10,502	10,502	10,502
<i>Face Value per share (Rs)</i>	10	10	10	10	10	10
Reserves & Surplus	10,121	10,459	12,028	18,946	21,843	25,936
Less: Misc. Exp. n.w.o.	-	-	-	-	-	-
<b>Net Worth</b>	<b>19,704</b>	<b>20,042</b>	<b>21,611</b>	<b>29,448</b>	<b>32,345</b>	<b>36,439</b>
<b>Total Liabilities</b>	<b>65,949</b>	<b>64,729</b>	<b>64,979</b>	<b>76,795</b>	<b>83,339</b>	<b>91,581</b>

Source: Company data, I-Sec research

**Table 21: Cashflow statement***(Rs mn, year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Operating Cashflow</b>	<b>6,473</b>	<b>5,300</b>	<b>7,438</b>	<b>6,205</b>	<b>5,824</b>	<b>8,511</b>
Working Capital Changes	3,958	(1,411)	(4,243)	(10,539)	(4,392)	(6,511)
Capital Commitments	(2,837)	(2,926)	(1,075)	280	(1,103)	(871)
<b>Free Cashflow</b>	<b>7,594</b>	<b>963</b>	<b>2,120</b>	<b>(4,054)</b>	<b>330</b>	<b>1,129</b>
<b>Cashflow from Investing Activities</b>	<b>(3,314)</b>	<b>1,690</b>	<b>1,418</b>	<b>533</b>	<b>1,902</b>	<b>1,758</b>
Issue of Share Capital	5,000	-	-	8,000	-	-
Inc (Dec) in Borrowings	(9,503)	(2,933)	(3,431)	306	68	(210)
Dividend paid	(0)	0	(0)	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>(223)</b>	<b>(281)</b>	<b>108</b>	<b>4,785</b>	<b>2,300</b>	<b>2,677</b>
Closing cash & balance	10,179	8,254	7,501	12,287	14,586	17,263

Source: Company data, I-Sec research

**Table 22: Key ratios***(year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>						
EPS	1.7	(0.0)	1.7	(0.1)	2.8	3.9
Cash EPS	4.1	2.6	4.6	2.1	5.0	6.5
Dividend per share (DPS)	-	-	-	-	-	-
Book Value per share (BV)	23.5	23.8	25.7	28.0	30.8	34.7
<b>Growth (%)</b>						
Net Revenue	10.5	(7.2)	3.4	(15.5)	16.7	24.0
EBITDA	30.3	(20.8)	31.0	(23.6)	36.8	35.3
PAT	26.7	NM	NM	NM	NM	41.3
DPS	NM	NM	NM	NM	NM	NM
<b>Valuation Ratios (x)</b>						
P/E	36.5	nm	36.3	NM	22.4	15.8
P/CEPS	15.1	23.6	13.6	29.4	12.3	9.5
P/BV	2.6	2.6	2.4	2.2	2.0	1.8
EV / EBITDA	10.1	12.8	9.7	16.0	11.7	8.6
EV / Sales	0.7	0.8	0.7	1.1	0.9	0.8
EV / EBIT	13.9	20.7	14.2	27.0	16.7	11.6
<b>Operating Ratios</b>						
Raw Material / Sales (%)	83.6	83.9	83.1	83.5	84.4	84.0
Employee cost / Sales (%)	3.5	3.9	3.5	3.9	3.2	3.0
Other opex / Sales (%)	5.9	6.3	5.9	5.8	4.4	4.3
Other Income / PBT (%)	0.2	2.1	0.4	1.8	0.5	0.3
Effective Tax Rate (%)	34.0	123.2	35.6	155.0	25.2	24.2
Working Capital (days)	128.6	130.2	129.4	199.0	186.6	169.7
Inventory Turnover (days)	175.6	168.8	171.8	235.9	219.3	200.0
Receivables (days)	6.4	5.5	7.8	7.4	6.2	5.6
Payables (days)	26.2	15.7	20.3	20.8	18.5	18.0
Net D/E (x)	1.5	1.4	1.3	0.9	0.8	0.8
<b>Profitability Ratios (%)</b>						
Net Income Margins	1.3	(0.0)	1.4	(0.2)	2.9	3.3
RoACE	9.3	5.4	8.0	4.8	6.9	9.1
RoAE	8.3	(0.2)	6.8	(0.6)	9.4	11.9
Dividend Payout	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-
EBITDA Margins	7.0	5.9	7.5	6.8	8.0	8.7

Source: Company data, I-Sec research

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