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Q2FY23 results review  
and TP change

## Consumer Staples & Discretionary

Target price Rs150

### Earnings revision

(%)	FY23E	FY24E
Sales	↑ 7.2	↑ 6.9
EBITDA	↑ 3.5	↑ 4.7
PAT	↑ 9.0	↑ 9.4

### Target price revision

Rs150 from Rs140

### Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	60.5	60.5	60.5
Institutional investors	4.8	4.7	5.3
MFs and others	1.5	1.8	2.4
FIs/Bank/Ins	0.0	0.0	0.0
FIs	3.3	3.0	2.9
Others	34.7	34.7	34.2

Source: BSE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	-
Environment	NA	NA	-
Social	NA	NA	-
Governance	NA	NA	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.  
Source: Bloomberg, I-sec research

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## INDIA

# Kalyan Jewellers India

**BUY**

**Maintain**

**Rs103**

## Focus on (efficient) growth and governance

We like the developments on improving governance and RoCE (1) commitment on the franchisee business, (2) improving capital and investment discipline including divestment of non-core assets (including corporate aircraft) and (3) plans to accelerate capital deployment outside south India – in our recent update ([link](#)), we note that apart from Titan, Kalyan is the key potential national player.

It reported a good performance in 2Q with 20% (consol) revenue growth. Gross margin of India business expanded (only marginally) to 15.2%. While Titan had a one-off benefit of custom-duty change, we believe Kalyan had passed-on the benefit (no one-off gain in P&L). We note (1) higher share of non-south revenues and (2) increased studded sales are natural tailwinds for Kalyan's margin profile and the benefit should continue to accrue for next few years. We like the focus on recruiting new customers (+35% in 2Q).

**Retain BUY; TP Rs150 (was Rs140). Our forecast does not include the benefits from franchising yet.**

- **Good performance on an overall basis.** Kalyan reported revenue of Rs34.7bn, up 20% YoY. India revenue growth came in at 13% YoY while Middle East business recovered well with 67% YoY growth. India gross margins expanded 17bps YoY to 15.2%. Kalyan's expansion in the non-south markets and higher studded share (discussed below) helped. (Consol) EBITDA margin were down ~24bps YoY and ~27bps QoQ to 7.7%. Staff costs and other opex were up 18% and 22% on YoY basis, respectively. Management highlighted that other opex was higher due to a (1) higher A&P spends (on a low base) and (2) a provision. Finance costs continued to come down (12% YoY). Reported PAT came in Rs1.1bn.

It highlighted that (1) new consumer recruits continued to be healthy and (2) South business contributed 67% to overall sales from 71% (YoY). Studded share improved to 26% vs 23% in the base period. Lastly, e-commerce division, Candere, recorded revenue of Rs370mn vs Rs320mn in the previous year.

- **Middle East operations.** In the Middle East, total revenue from operations rose to Rs6bn from Rs3.6bn in 2QFY22. EBITDA margin for the Middle East business also expanded.

Market Cap	Rs106bn/US\$1.3bn	Year ending Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	KALN.BO/KALYANKJ IN	Revenue (Rs mn)	85,733	108,179	139,282	156,275
Shares Outstanding (mn)	1,030.1	Adj Net Profit (Rs mn)	(63)	2,242	4,489	5,854
52-week Range (Rs)	108/56	Dil. Rec. EPS (Rs)	(0.1)	2.2	4.4	5.7
Free Float (%)	39.5	% Chg YoY	NM	NM	100.2	30.4
FII (%)	2.9	P/E (x)	NM	47.3	23.6	18.1
Daily Volume (US\$'000)	4,102	CEPS (Rs)	2.1	4.4	6.7	8.3
Absolute Return 3m (%)	48.4	EV/EBITDA (x)	21.4	15.6	11.8	9.8
Absolute Return 12m (%)	26.1	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	3.3	RoCE (%)	5.5	8.1	10.8	11.8
Sensex Return 12m (%)	1.7	RoE (%)	(0.2)	7.1	12.5	14.0

- ▶ **Key developments on improving governance and financial disincline:** Kalyan has taken multiple initiatives on the above front including (1) Appointment of Mr Vinod Rai (former Comptroller & Auditor General of India) as Independent Chairman, (2) exploring divestment of non-core assets (already given mandate to a consultant to explore sale of corporate aircraft), (3) capital-efficient franchise store strategy to drive expansion agenda, (4) improved store efficiency – it claims that all new company owned showrooms are delivering RoCE in excess of 25%.
- ▶ **Store expansion has accelerated:** After adding 17 stores in FY22, Kalyan may add ~25 stores in FY23E (across formats). It has already added 9 in H1FY23 (Kalyan: 7, Candere: 1, Middle East: 1). In Q2, it added five new showrooms in India (all non-south). We like Kalyan's thrust on store expansion. Prior to covid, the company added 60 new stores in the preceding five years. Its other key strengths are: (1) Hyperlocal model, (2) a network of 750+ My Kalyan centres to drive footfalls and (3) consistent brand investments.
- ▶ **Accelerated franchising to drive gradual improvement in return ratios:** Kalyan has opened five franchise stores this year – Aurangabad (Maharashtra), Brahmapur (Odisha), Delhi, Bilaspur (Chhattisgarh) and Varanasi (Uttar Pradesh).
- ▶ **Candere (online platform) goes omni-channel:** Kalyan launched its first physical showroom of Candere in Q2FY23. We note that in the past the company has stated that it could even look at raising funds at Candere level to drive accelerated physical store roll-outs to tap the attractive growth momentum in the category.
- ▶ **Valuation and risks:** We increase our earnings estimates by ~9% for FY23-24E modelling revenue and EBITDA CAGRs of 20% and 26% over FY22-FY24E. Maintain BUY with a DCF-based target price of Rs150 (was Rs140). Key risks: delay in showroom expansion and potentially higher competitive intensity in core south India markets.

**Table 1: Q2FY23 results review (Consolidated - Reported)**

(Rs mn, year ending March 31)

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
<b>Net Revenues</b>	<b>34,729</b>	<b>28,887</b>	<b>20</b>	<b>33,326</b>	<b>4</b>	<b>68,055</b>	<b>45,255</b>	<b>50</b>
COGS	(29,468)	(24,448)	21	(28,153)	5	(57,620)	(38,313)	50
<b>Gross profit</b>	<b>5,262</b>	<b>4,439</b>	<b>19</b>	<b>5,174</b>	<b>2</b>	<b>10,435</b>	<b>6,942</b>	<b>50</b>
Staff cost	(1,033)	(875)	18	(992)	4	(2,025)	(1,622)	25
Other opex	(1,567)	(1,283)	22	(1,540)	2	(3,108)	(2,352)	32
<b>Total opex</b>	<b>(2,600)</b>	<b>(2,158)</b>	<b>21</b>	<b>(2,532)</b>	<b>3</b>	<b>(5,132)</b>	<b>(3,974)</b>	<b>29</b>
<b>EBITDA</b>	<b>2,661</b>	<b>2,281</b>	<b>17</b>	<b>2,642</b>	<b>1</b>	<b>5,303</b>	<b>2,968</b>	<b>79</b>
Other income	85	50	72	79	8	164	97	69
Finance cost	(739)	(837)	(12)	(713)	4	(1,451)	(1,645)	(12)
D&A	(603)	(572)	6	(590)	2	(1,193)	(1,147)	4
<b>PBT</b>	<b>1,404</b>	<b>922</b>	<b>52</b>	<b>1,418</b>	<b>(1)</b>	<b>2,822</b>	<b>273</b>	<b>934</b>
Tax	(345)	(234)	47	(341)	1	(686)	(98)	598
<b>PAT</b>	<b>1,059</b>	<b>688</b>	<b>54</b>	<b>1,078</b>	<b>(2)</b>	<b>2,137</b>	<b>175</b>	<b>1,123</b>
Minority Interest	5	(0)		2		6	(1)	
<b>PAT after MI</b>	<b>1,064</b>	<b>687</b>	<b>55</b>	<b>1,079</b>	<b>(1)</b>	<b>2,143</b>	<b>174</b>	<b>1,132</b>
Extraordinary items	-	-		-		-	-	
<b>Net profit (reported)</b>	<b>1,064</b>	<b>687</b>	<b>55</b>	<b>1,079</b>	<b>(1)</b>	<b>2,143</b>	<b>174</b>	<b>1,132</b>
<b>EPS</b>	<b>1.0</b>	<b>0.7</b>	<b>55</b>	<b>1.0</b>	<b>(1)</b>	<b>2.1</b>	<b>0.2</b>	<b>1,132</b>
<b>Costs as a % of sales</b>								
COGS	84.8	84.6	21 bps	84.5	37 bps	84.7	84.7	0 bps
<b>Gross margin (%)</b>	<b>15.2</b>	<b>15.4</b>	<b>-22 bps</b>	<b>15.5</b>	<b>-38 bps</b>	<b>15.3</b>	<b>15.3</b>	<b>-1 bps</b>
Staff cost	3.0	3.0	-6 bps	3.0	-1 bps	3.0	3.6	-61 bps
Other opex	4.5	4.4	7 bps	4.6	-11 bps	4.6	5.2	-64 bps
<b>EBITDA margin (%)</b>	<b>7.7</b>	<b>7.9</b>	<b>-24 bps</b>	<b>7.9</b>	<b>-27 bps</b>	<b>7.8</b>	<b>6.6</b>	<b>123 bps</b>
Income tax rate (%)	24.6	25.4	-85 bps	24.0	55 bps	24.3	36.0	-1170 bps

Source: Company data, I-Sec research

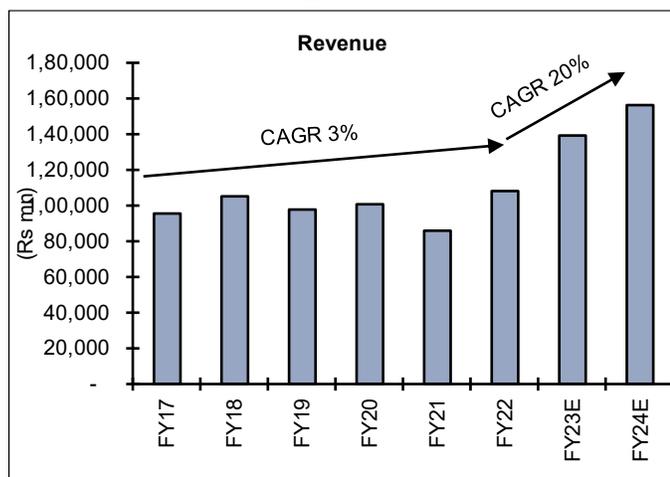
**Table 2: Q2FY23 results review (Standalone - Reported)**

(Rs mn, year ending March 31)

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
<b>Net Revenues</b>	<b>28,409</b>	<b>25,030</b>	<b>13</b>	<b>27,190</b>	<b>4</b>	<b>55,599</b>	<b>37,772</b>	<b>47</b>
COGS	(24,090)	(21,268)	13	(22,985)	5	(47,076)	(32,181)	46
<b>Gross profit</b>	<b>4,319</b>	<b>3,762</b>	<b>15</b>	<b>4,205</b>	<b>3</b>	<b>8,524</b>	<b>5,592</b>	<b>52</b>
Staff cost	(863)	(748)	15	(838)	3	(1,701)	(1,378)	23
Other opex	(1,232)	(1,008)	22	(1,187)	4	(2,420)	(1,706)	42
<b>Total opex</b>	<b>(2,096)</b>	<b>(1,756)</b>	<b>19</b>	<b>(2,026)</b>	<b>3</b>	<b>(4,121)</b>	<b>(3,084)</b>	<b>34</b>
<b>EBITDA</b>	<b>2,223</b>	<b>2,006</b>	<b>11</b>	<b>2,179</b>	<b>2</b>	<b>4,402</b>	<b>2,507</b>	<b>76</b>
Other income	103	57	80	93	11	197	109	81
Finance Cost	(576)	(699)	(18)	(558)	3	(1,134)	(1,363)	(17)
D&A	(462)	(456)	1	(437)	6	(899)	(909)	(1)
<b>PBT</b>	<b>1,289</b>	<b>909</b>	<b>42</b>	<b>1,277</b>	<b>1</b>	<b>2,566</b>	<b>344</b>	<b>645</b>
Tax	(338)	(230)	47	(323)	4	(661)	(91)	626
<b>PAT</b>	<b>951</b>	<b>679</b>	<b>40</b>	<b>954</b>	<b>(0)</b>	<b>1,905</b>	<b>253</b>	<b>652</b>
<b>EPS</b>	<b>0.9</b>	<b>0.7</b>	<b>40</b>	<b>0.9</b>	<b>(0)</b>	<b>1.8</b>	<b>0.2</b>	<b>652</b>
<b>Costs as a % of sales</b>								
COGS	84.8	85.0	-18 bps	84.5	26 bps	84.7	85.2	-53 bps
<b>Gross margin (%)</b>	<b>15.2</b>	<b>15.0</b>	<b>17 bps</b>	<b>15.5</b>	<b>-27 bps</b>	<b>15.3</b>	<b>14.8</b>	<b>52 bps</b>
Staff cost	3.0	3.0	4 bps	3.1	-5 bps	3.1	3.6	-59 bps
Other opex	4.3	4.0	31 bps	4.4	-3 bps	4.4	4.5	-17 bps
<b>EBITDA margin (%)</b>	<b>7.8</b>	<b>8.0</b>	<b>-19 bps</b>	<b>8.0</b>	<b>-19 bps</b>	<b>7.9</b>	<b>6.6</b>	<b>128 bps</b>
Income tax rate (%)	26.2	25.3	89 bps	25.3	87 bps	25.8	26.4	-69 bps

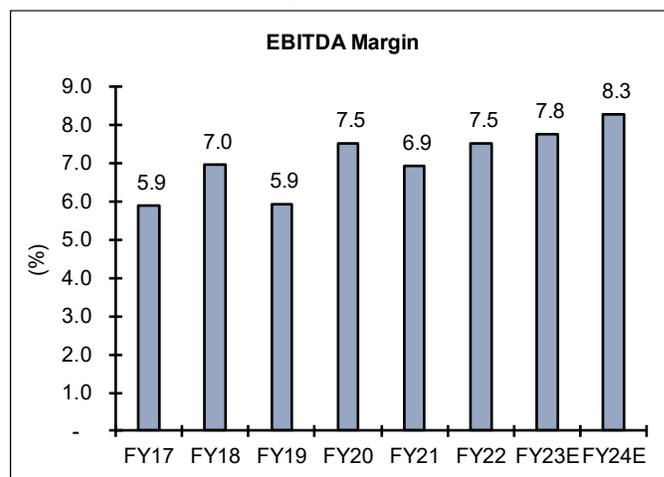
Source: Company data, I-Sec research

**Chart 1: Revenue and growth rates**



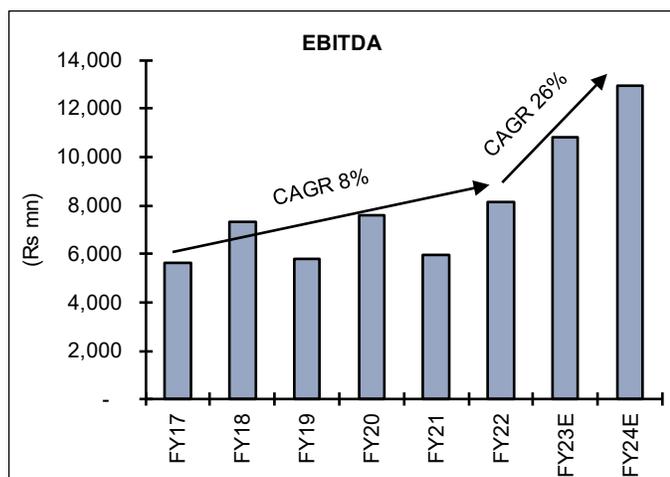
Source: Company data, I-Sec research

**Chart 2: EBITDA margin**



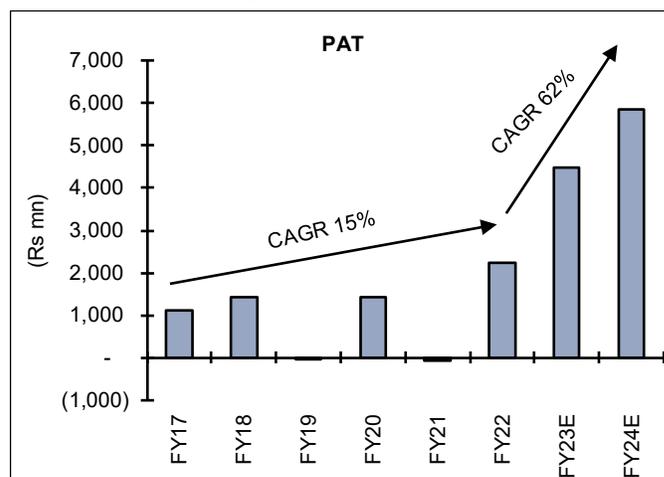
Source: Company data, I-Sec research

**Chart 3: EBITDA and growth rates**



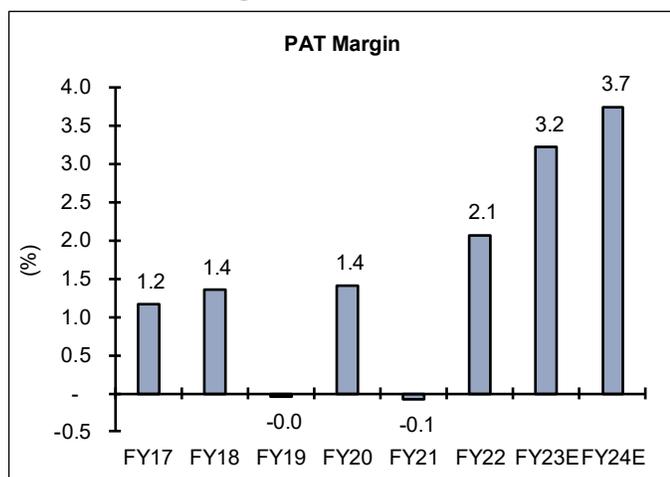
Source: Company data, I-Sec research

**Chart 4: PAT and growth rates**



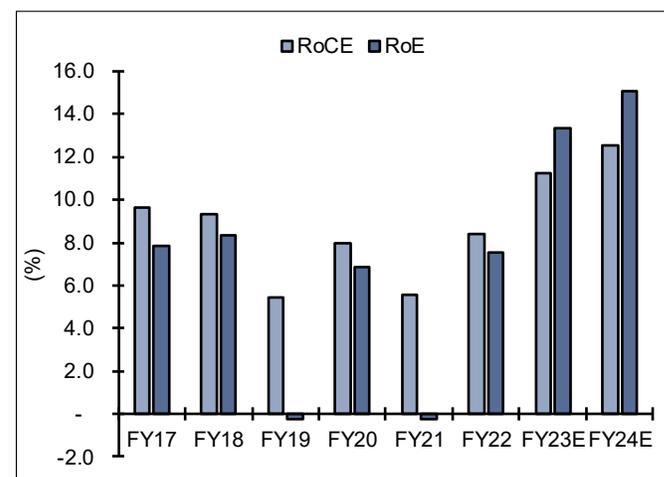
Source: Company data, I-Sec research

**Chart 5: PAT margin**



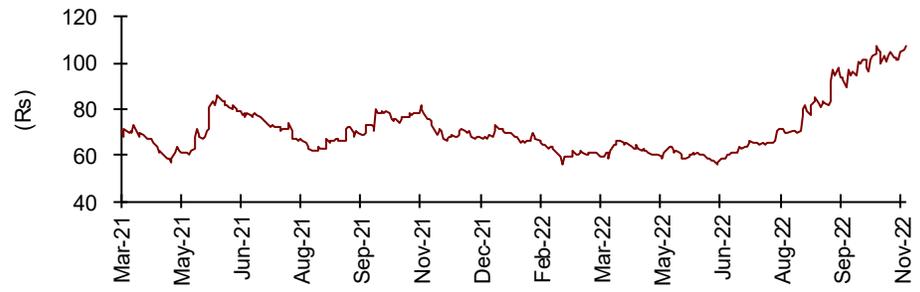
Source: Company data, I-Sec research

**Chart 6: Return ratios**



Source: Company data, I-Sec research

**Price chart**



Source: Bloomberg

## Financial summary

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Revenue</b>	<b>85,733</b>	<b>108,179</b>	<b>139,282</b>	<b>156,275</b>
Operating Expenses	79,790	100,034	128,480	143,319
<b>EBITDA</b>	<b>5,943</b>	<b>8,145</b>	<b>10,802</b>	<b>12,956</b>
% margins	6.9	7.5	7.8	8.3
Depreciation & Amortisation	2,249	2,316	2,451	2,648
Gross Interest	3,754	3,224	2,943	3,135
Other Income	454	383	455	447
<b>Recurring PBT</b>	<b>394</b>	<b>2,989</b>	<b>5,863</b>	<b>7,619</b>
Less: Taxes	454	748	1,376	1,767
Less: Minority Interest	(2)	2	2	2
<b>Net Income (Reported)</b>	<b>(63)</b>	<b>2,162</b>	<b>4,489</b>	<b>5,854</b>
Extraordinaries (Net)	-	(80)	-	-
<b>Recurring Net Income</b>	<b>(63)</b>	<b>2,242</b>	<b>4,489</b>	<b>5,854</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	67,103	68,414	78,813	91,705
of which cash & cash eqv.	10,966	7,772	4,470	9,032
Total Current Liabilities & Provisions	21,219	17,778	22,393	24,808
<b>Net Current Assets</b>	<b>45,884</b>	<b>50,635</b>	<b>56,421</b>	<b>66,897</b>
Investments	10,795	10,631	11,796	12,826
Net Fixed Assets	9,668	9,866	8,477	6,707
Capital Work-in-Progress	625	91	91	91
<b>Total Assets</b>	<b>66,972</b>	<b>71,223</b>	<b>76,785</b>	<b>86,522</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>39,167</b>	<b>40,293</b>	<b>41,368</b>	<b>45,252</b>
<b>Deferred Tax Liability</b>	<b>(461)</b>	<b>(450)</b>	<b>(450)</b>	<b>(450)</b>
Minority Interest	5	9	9	9
Equity Share Capital	10,301	10,301	10,301	10,301
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	17,960	21,070	25,557	31,410
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>28,260</b>	<b>31,370</b>	<b>35,858</b>	<b>41,710</b>
<b>Total Liabilities</b>	<b>66,972</b>	<b>71,223</b>	<b>76,785</b>	<b>86,522</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>	<b>6,930</b>	<b>6,521</b>	<b>8,569</b>	<b>10,476</b>
Working Capital Changes	(641)	(4,071)	(9,345)	(6,232)
Capital Commitments	(479)	(908)	(1,112)	(878)
<b>Free Cashflow</b>	<b>5,810</b>	<b>1,542</b>	<b>(1,888)</b>	<b>3,366</b>
<b>Cashflow from Investing Activities</b>	<b>(1,694)</b>	<b>1,544</b>	<b>455</b>	<b>447</b>
Issue of Share Capital	7,565	15	-	-
Inc (Dec) in Borrowings	(9,641)	(5,259)	(1,869)	749
Dividend paid	-	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,040</b>	<b>(2,158)</b>	<b>(3,302)</b>	<b>4,562</b>
Closing cash & balance	10,966	7,772	4,470	9,032

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	(0.1)	2.2	4.4	5.7
Cash EPS	2.1	4.4	6.7	8.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	27.4	30.5	34.8	40.5
<b>Growth (%)</b>				
Net Sales	(15.1)	26.2	28.8	12.2
EBITDA	(21.8)	37.1	32.6	19.9
PAT	NM	NM	100.3	30.4
DPS	NM	NM	NM	NM
<b>Valuation Ratios (x)</b>				
P/E	NM	47.3	23.6	18.1
P/CEPS	48.5	23.3	15.3	12.5
P/BV	3.8	3.4	3.0	2.5
EV / EBITDA	21.4	15.6	11.8	9.8
EV / Sales	1.5	1.2	0.9	0.8
<b>Operating Ratios</b>				
Raw Material / Sales (%)	83.0	84.4	84.6	84.1
Employee cost / Sales (%)	3.9	3.3	3.0	3.1
Other exps / Sales (%)	6.2	4.8	4.6	4.5
Other Income / PBT (%)	1.2	0.1	0.1	0.1
Effective Tax Rate (%)	115.4	25.0	23.5	23.2
Working Capital (days)	156.7	150.3	141.2	140.4
Inventory Turnover (days)	227.8	197.0	186.5	185.0
Receivables (days)	4.8	4.1	4.3	4.1
Payables (days)	29.6	22.3	22.5	22.3
Net D/E (x)	0.8	0.8	0.8	0.7
<b>Profitability Ratios (%)</b>				
Net Income Margins	(0.1)	2.1	3.2	3.7
RoACE	5.6	8.4	11.2	12.6
RoAE	(0.2)	7.5	13.3	15.1
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	6.9	7.5	7.8	8.3

Source: Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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