

March 15, 2021

Established in 1993, Kalyan Jewellers is one of India's largest jewellery companies having ~6% market share in the organised jewellery space. The company designs, manufactures and sells a wide range of jewellery products at varying price points for uses ranging from jewellery for special occasions such as weddings, which is its highest selling product category, to daily-wear jewellery. Over the years, the company has successfully expanded to become a pan-India player with 107 showrooms across 21 states in India and 30 showrooms located in the Middle East. One of the key strengths of the company has been to operate as a hyperlocal jewellery player. It endeavours to cater to customers' unique preferences, which often vary significantly by geography and micro market, through its local market expertise and region-specific marketing strategy and advertising campaigns.

## Following hyperlocal strategy to cater to wide range of segments

Jewellery consumption patterns in India are highly localised with customer preferences varying significantly by region. The company strives to appeal to a broad base of customers via a multi-faceted hyperlocal strategy by deploying initiatives such as: a) *localisation of product portfolio*, b) *localisation of brand communication and marketing* and c) *localisation of showroom experience for customers*. Localisation strategy, combined with large scale of operations, allows it to cater to a wide range of customers across geographies, age groups, socio-economic status levels and genders as well as across urban, rural and semi-urban markets.

## 'My Kalyan' another key element of hyper-local strategy

The grassroots 'My Kalyan' customer outreach and service centre network is another key element of the hyperlocal strategy, which enables it to be a neighbourhood jeweller and engage door-to-door and other direct marketing efforts within its local communities to promote the brand, showcase product catalogue and help drive traffic to the showrooms nearest to that area. As of December 31, 2020, the company had 766 "My Kalyan" locations and 2,699 dedicated "My Kalyan" employees.

## Key risk & concerns

- Inability to maintain brand strength & development of brands
- Inability to maintain & establish arrangements with contract manufacturer and suppliers

## Priced at P/E of 63x (post issue) FY20 on upper band

The company has witnessed an improvement in gross margins from 16% in FY18 to 18% in 9MFY21 owing to enhanced share of studded ratio. It has faced headwinds in the past couple of years. For instance, in FY19, revenues were impacted owing to severe floods in south India (~60% of revenues) while revenue in FY20 was adversely impacted in Q4 owing to Covid led lockdowns. As on FY20, it reported revenue and net profit worth ₹ 10101 crore and ₹ 142 crore, respectively. At ₹ 87, the stock is available at 0.9x FY20 market cap/sales and 63.0x FY20 EPS.



Particulars	
<b>Issue Details</b>	
Issue Opens	16-03-2021
Issue Closes	18-03-2021
Issue Size	~ ₹ 1175 crore
Issue Type	Fresh Issue/ Offer for sale
Price Band	₹ 86 - ₹ 87
No of shares	~ 13.51 crore
Market Lot	172.0
Face Value	10.0

Shareholding		
Shareholding	Pre-offer	Post-offer
Promoter	68.0	60.5
Public	32.0	39.5
Total	100.0	100.0

Objects of issue	
	₹ crore
Funding working capital requirements	600.0
General corporate purposes	-
<b>Fresh issue</b>	<b>800.0</b>
<b>Offer for sale</b>	<b>375.0</b>

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## Key Financial Summary

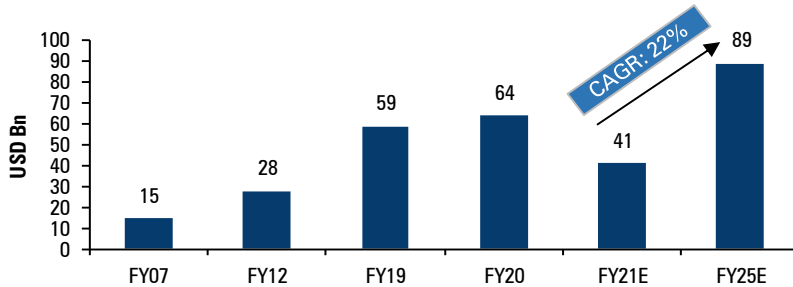
₹ crore	FY18	FY19	FY20	9MFY21	CAGR (FY18-20)
Net Sales	10,526.0	9,770.8	10,100.9	5,516.7	-2.0%
EBITDA	732.8	580.5	760.2	366.6	1.9%
PAT	140.9	-4.7	142.3	-59.1	
Diluted EPS	1.4	0.0	1.4	-0.6	
P/E (x)	63.6	-	63.0		
EV/EBITDA (x)	16.3	20.4	15.5		
Mcap/Sales (x)	0.9	0.9	0.9		
RoCE (%)	9.5	7.0	10.5		
RoE (%)	7.1	-0.2	6.6		

Source: ICICI Direct Research, RHP

## Industry Overview

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

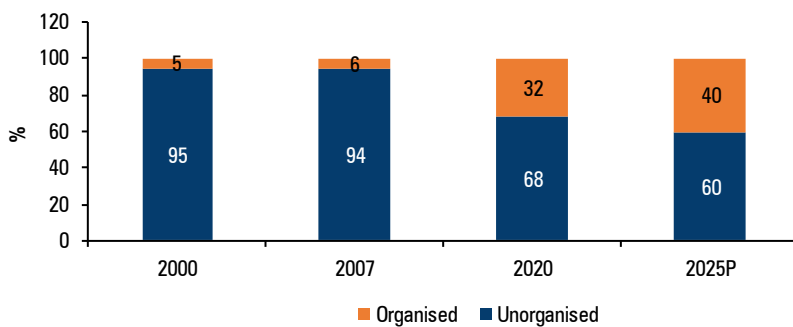
Exhibit 1: Indian jewellery industry



Source: RHP, ICICI Direct Research

In the wake of the Covid-19 crisis, demand in FY21E is projected to drop by 37%. Thereafter, it is estimated to bounce back and grow at an accelerated CAGR of 22% in the next four years. Within the jewellery retail industry, the organised segment is expected to de-grow by 32% whereas the unorganised segment is expected to de-grow at 40% in FY21. The larger players in the organised space are expected to consolidate the market share away from the unorganised segment on account of weak balance sheets of smaller players and their inability to sustain during the lockdowns, which severely constricts their ability to maintain their operations.

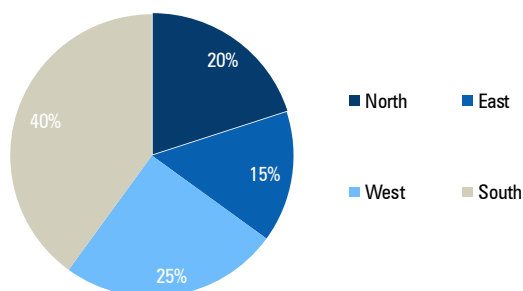
Exhibit 2: Organised, unorganised jewellery market break-up



Urban India accounts for only 40% of gold jewellery demand. The rest is contributed by rural India. Gold ownership is higher in rural India and rises with income levels

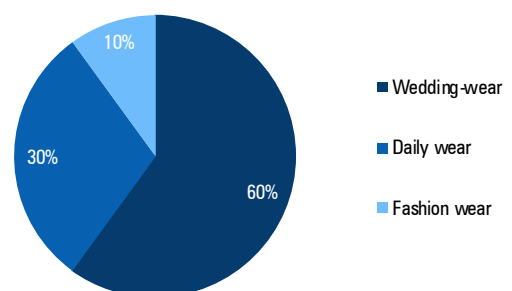
Source: RHP, ICICI Direct Research

Exhibit 3: South constitutes largest pie in jewellery market



Source: RHP, ICICI Direct Research

Exhibit 4: ..while wedding jewellery dominates total industry



Source: RHP, ICICI Direct Research

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 towns and regions unlike many other organised jewellers that have remained largely focused on certain cities, states and regions. Store format, price positioning and product offerings also differ for players. Tanishq is the leader in the Indian Jewellery market with 3.9% share of the overall jewellery market and 12.5% share of the organised jewellery market, as of FY19. **Kalyan Jewellers, also one of the largest jewellery companies in India based on revenues, had 1.8% share of the overall jewellery market and 5.9% share of the organised jewellery market.**

There are players that are 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. 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 a diversified footprint across the country.**

Exhibit 5: 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
<b>Example</b>	Tanishq	Kalyan	Malabar	Mehraons	Various	Bluestone
<b>Significant Focus</b>	Pan-India	Pan-India	Regional	Regional/Local	Local	N/A
<b>Product Design Ethos</b>	Uniform, Fashion, Contemporary	Uniquely localised	Regional	Local / Regional	Local designs	Uniform
<b>Price Positioning</b>	Mid to Premium	Mass to Premium	Mass to mid	Mass to Premium	Mass	Mid-price
<b>Current Product Focus</b>	Daily and fashion wear	Wedding-related & Daily	Wedding-related and daily	Wedding-related and daily	Daily wear	Fashion wear

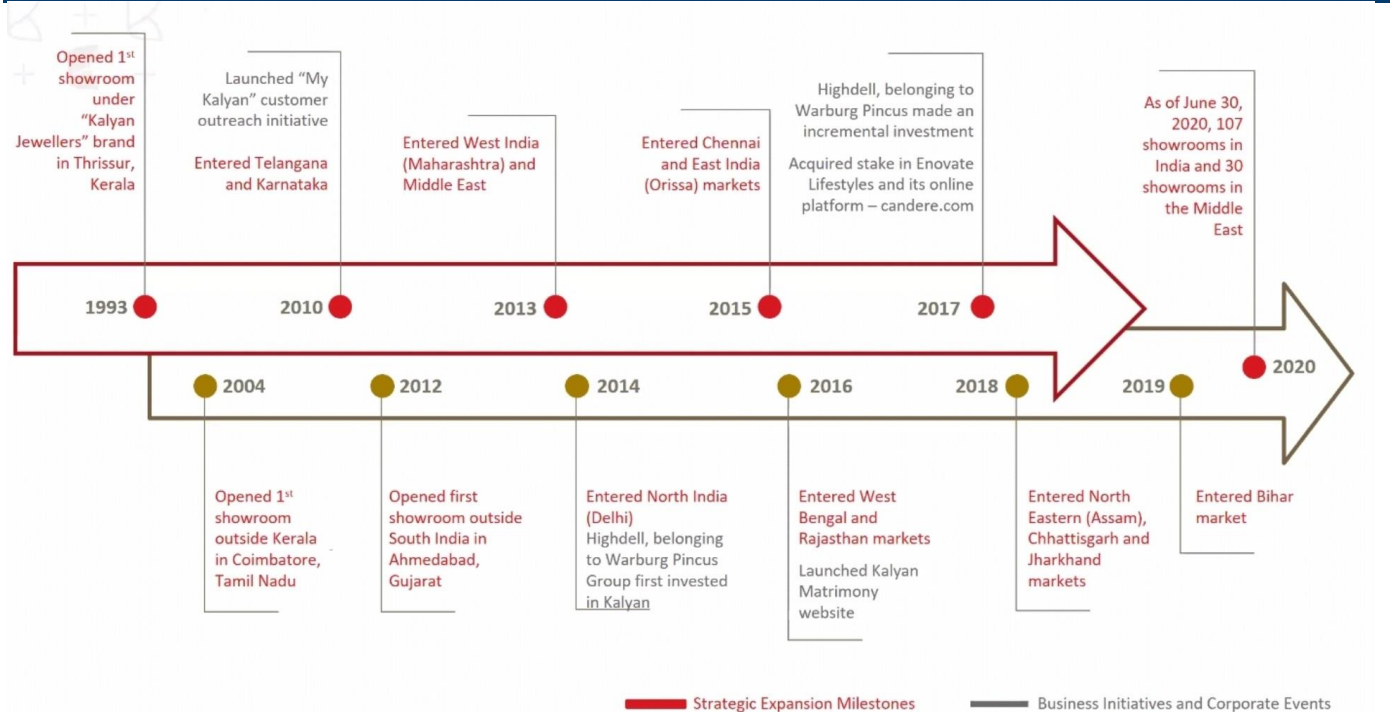
Source: RHP, ICICI Direct Research

## Company background

Established in 1993, Kalyan Jewellers is one of India’s largest jewellery companies, founded by TS Kalyanaraman, who has over 45 years of retail experience, of which over 25 years is in the jewellery industry. From opening its maiden store in Kerala in 1993, the company has since then expanded and become a pan-India jewellery company, with 107 showrooms across 21 states and union territories in India. The company also has an international presence with 30 showrooms in the Middle East as of December 31, 2020. All the showrooms are operated and managed by the company. Total showrooms have increased from 77 as of March 31, 2015 to 137 showrooms as of December 31, 2020. The company intends to continue to open additional showrooms as it expects significant opportunity for further penetration in existing markets as well as in new markets, primarily in India. As on FY20, ~78% of revenues were derived from Indian operations while 22% from the Middle East.

The company prides itself on being a trusted jeweller and has endeavoured to establish a strong brand that its customers associate with trust and transparency. It is also one of the first jewellery companies in India to voluntarily have all jewellery BIS hallmarked as well as accompanied by a detailed pricing tag disaggregating the various components of price to aid transparency to consumers. It has employed various techniques to hedge its gold inventory to protect from price fluctuations, including the use of gold metal loans, as well as forward contracts and options on Indian and international commodity exchanges.

Exhibit 6: Timeline



Source: Investor presentation, ICICI Direct Research

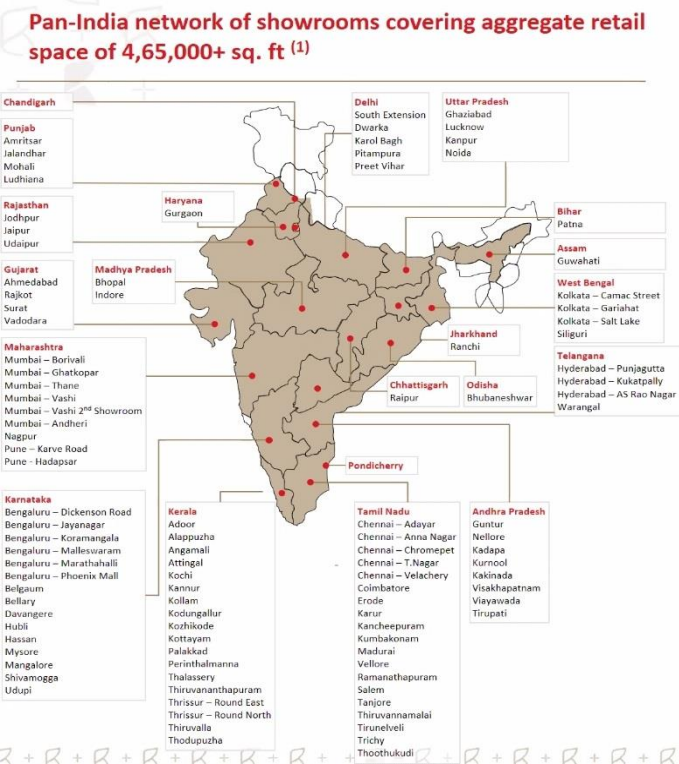
The company designs, manufactures and sells a wide range of jewellery products at varying price points for uses ranging from jewellery for special occasions such as weddings, which is its highest selling product category, to daily-wear jewellery. In FY20, ~75% of revenues was from sale of gold jewellery, 23% from studded jewellery and 2% from other jewellery. It has launched numerous sub-brands that address specific customer niches.

Exhibit 7: Jewellery sub-brands catering to various product themes



Source: Investor presentation, ICICI Direct Research

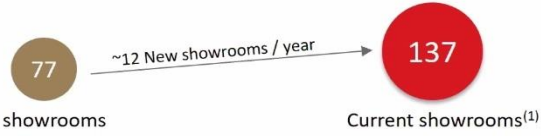
Exhibit 8: Healthy store footprints across regions



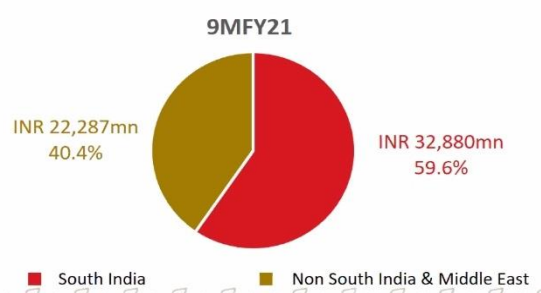
Source: Investor presentation, ICICI Direct Research

Establishment of Pan-India Presence

- One of the largest jewellery companies in India<sup>(2)</sup>
- Pan-India presence with 107 showrooms located across 21 states and union territories in India and 30 showrooms in the Middle East<sup>(1)</sup>
- While Kalyan commenced operations from its first showroom in Kerala, it has successfully expanded over time to become a pan-India player with 72 of its showrooms located outside South India<sup>(1)</sup>



Balanced Geographical Revenue Mix<sup>(3)</sup>



## Investment Rationale

### Leverage its scalable business model to expand showroom network and diversify channels of distribution

The Indian jewellery industry is expected to continue to witness a shift in demand in favour of organised jewellery companies, which are likely to continue to gain market share from the unorganised market. The company's strong brand, scalable business model, effective operational processes and proven track record of profitable expansion, all position it to capitalise on this market opportunity. Accordingly, it intends to further expand its network of showrooms. Between April 1, 2015 and December 31, 2020, Kalyan opened 60 net new showrooms at an average rate of ~11 showroom openings per year across multiple regions, which has provided it with significant experience in expanding showroom network, including in new markets. The company intends to leverage its substantial past efforts and experience, to expand its presence across several markets in India, which it has identified as having potential for opening further showrooms.

### Widen product offerings to further increase consumer reach

Company intends to continue to increase its focus on studded jewellery going forward as these products have widened the consumer base to which it caters and also typically has a higher gross margin profile than its gold jewellery. Company tailor's its showrooms to offer prominent displays of diamond and other studded jewellery and, in many cases, have entire floors dedicated to such jewellery. Furthermore, it has launched a number of sub-brands around studded jewellery range. Revenue from sales of studded jewellery increased from 20.65% in FY18 to 23.36% in FY20.

### Leverage 'My Kalyan' network to deepen customer outreach and strengthen the distribution network

The company intends to continue leveraging its extensive "My Kalyan" network of 766 centres across India to deepen customer engagement and actively bolster efforts to acquire a larger customer base in the markets in which it operates. In many of these markets, particularly in semi-urban and rural areas, the penetration of organised jewellery companies has historically been low. Furthermore, the company believes the local and unorganised jewellery players who dominate some of these markets have been and may continue to be adversely impacted by the Covid-19 pandemic. Given this opportunity to access latent demand, Kalyan plans to build the employee strength across its "My Kalyan" centres to increase customer engagement and drive traffic to its showrooms. Additionally, it intends to expand "My Kalyan" network in areas where its network is currently underpenetrated relative to the scale of the latent demand opportunity in those particular markets. For example, in certain regions in south India, particularly Andhra Pradesh, Telangana and Karnataka, it intends to increase the footprint of its "My Kalyan" network.

### Hyperlocal strategy enabling to cater to wide range of geographies, customer segments

One of its key competitive strengths is the company's ability to operate as a hyperlocal jewellery company. It endeavours to cater to customers' unique preferences, which often vary significantly by geography and micro market, through its local market expertise and region-specific marketing strategy and advertising campaigns. Kalyan engages local artisans to manufacture jewellery that is suited to local tastes in the markets in which it operates and, hence, endeavours to curate a localised product mix and store experience within each of its showrooms to suit customers' preferences in the immediate micro market. It believes that it is in large part due to some of these strategies, as well as ability to operate as a hyperlocal jewellery company, that has enabled it to become one of the few pan-India jewellery companies.

## Key Risks & Concerns

### Inability to maintain brand strength & development of brands

“Kalyan Jewellers” brand and other sub-brands are very important for the company’s business. Its business and results of operations are influenced by the strength of the brands, including the level of consumer recognition and perception of brands. The strength of its brands depends on factors such as its growth, product designs, materials used to make the products, the quality of products, presentation and layout of its showrooms. Public communication activities such as advertising, public relations and marketing as well as the general perception of its business also impact the perception for its brands. Failure to manage any of these factors or failure of the promotion and other activities to differentiate and further strengthen its brands could adversely affect the value and perception of the brands and its ability to maintain existing customers and attract new customers, which can adversely affect the business, results of operations and financial conditions.

### Inability to respond to changes in consumer demands, market trends in a timely manner

The company’s success depends on its ability to identify, originate and define product and market trends, both on a pan-India, international and local level, as well as to anticipate, gauge and react to rapidly changing consumer demands in a timely manner. Its products must also appeal to a broad range of customers whose preferences may vary significantly across regions and cannot be predicted with certainty. Inability to generate demand for its products or developing appealing styles or meet rapidly changing consumer demands in future can impact business prospects. If the company misjudges the market for its jewellery products or fails to anticipate a shift in consumer preferences, it may face a reduction in revenues.

### Reliance on contract manufacturers for manufacturing products

Kalyan manufactures its products through a network of contract manufacturers and procures raw materials through suppliers. While the company has written agreements with its contract manufacturers, they are not contractually bound to deal with it exclusively and Kalyan may face the risk of its competitors offering better terms, which may compel them to prefer the company’s competitors over Kalyan. The company controls the manufacturing process and the ultimate risk of the raw materials lies with it. However, its arrangements with these contract manufacturers and suppliers could involve various risks, including potential interruption to their operations for factors beyond their or the company’s control, any significant adverse changes in their financial or business condition, as well as low levels of output, quality or efficiency. Any disruption in the operations of these contract manufacturers or suppliers could have an adverse impact on the company’s financial condition and results of operations.

### Adverse legislative view on its gold schemes may impact business prospects

The company 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). The company also runs a few priority programmes, under the name ‘Kalyan Priority Programme’, through which members/subscribers of the programme on payment of non-refundable membership fee may avail certain benefits in the form of discounts, when they purchase jewellery for a stipulated period of time. While the company has not faced any regulatory action in relation to such schemes in the past, it cannot be certain it will not face any regulatory action in this regard in the future. Any adverse regulatory or legislative view in respect of such schemes may result in fines, proceedings or actions being undertaken against the company and/or its officials and may impact the business prospects of the company.

## Financial summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY18	FY19	FY20	9MFY21	
<b>Net Sales</b>	10,526.0	9,770.8	10,101	5,516.7	
Growth (%)		(7.2)	3.4		
Total Raw Material Cost	8,801.7	8,198.3	8,391.8	4,518.4	
Gross Margins (%)	16.4	16.1	16.9	18.1	
Employee Expenses	368.7	381.4	357.2	234.6	
% to sales	3.5	3.9	3.5	4.3	
Other Expenses	622.8	610.6	591.7	397.1	
% to sales	5.9	6.2	5.9	7.2	
Total Operating Expenditure	9,793.2	9,190.3	9,340.7	5,150.1	
<b>EBITDA</b>	732.8	580.5	760.2	366.6	
EBITDA Margin	7.0	5.9	7.5	6.6	
Interest	349.2	379.1	380.2	288.8	
Depreciation	202.3	223.6	239.2	170.0	
Other Income	32.3	43.3	80.1	33.1	
Exceptional Expense	-	-	-	-	
PBT	213.7	21.1	220.9	(59.1)	
Total Tax	72.8	25.8	78.6	-	
<b>Profit After Tax</b>	140.9	(4.7)	142.3	(59.1)	

Source: RHP, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY18	FY19	FY20	9MFY21	
Profit Before Tax	213.7	21.1	220.9	-59.1	
Add: Depreciation	202.3	223.6	239.2	170.0	
Add: Finance Cost	349.2	379.1	380.2	288.8	
Others	-104.1	-54.3	-89.7	80.8	
Net (Increase)/decrease in WC	395.8	-141.2	-424.2	-691.4	
Tax paid	-13.9	-39.4	-6.9	-17.2	
<b>CF from operating activities</b>	<b>1,043.0</b>	<b>388.9</b>	<b>319.5</b>	<b>-228.1</b>	
(Inc)/dec in Fixed Assets	-283.8	-298.9	-119.2	-24.9	
Others	-331.3	175.2	153.6	170.1	
<b>CF from investing activities</b>	<b>-615.1</b>	<b>-123.7</b>	<b>34.4</b>	<b>145.2</b>	
Inc / (Dec) in Equity/preference share	500.0	0.0	0.0	0.0	
Inc / (Dec) in Loan	-543.1	167.1	181.6	359.6	
Less: Finance Cost & payment of LL	-407.2	-460.4	-524.7	-309.6	
Others	0.0	0.0	0.0	0.0	
<b>CF from financing activities</b>	<b>-450.3</b>	<b>-293.3</b>	<b>-343.1</b>	<b>50.0</b>	
Net Cash flow	-22.5	-28.1	10.8	-32.9	
Opening Cash	200.7	178.2	150.1	160.9	
<b>Closing Cash</b>	<b>178.2</b>	<b>150.1</b>	<b>160.9</b>	<b>128.0</b>	

Source: RHP, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(Year-end March)	FY18	FY19	FY20	9MFY21	
Equity Capital	839.2	839.2	839.2	839.2	
CC Prefresnce share	119.0	119.0	119.0	119.0	
Reserve and Surplus	1,012.1	1,045.9	1,202.8	1,099.2	
Total Shareholders funds	1,970.4	2,004.2	2,161.1	2,057.5	
Minority interest	(2.3)	(3.6)	(3.0)	0.4	
Total Debt	3,975.1	3,703.9	3,590.2	3,494.7	
Non Current Liabilities	694.4	798.6	757.7	682.8	
<b>Source of Funds</b>	<b>6,637.6</b>	<b>6,503.1</b>	<b>6,506.0</b>	<b>6,235.0</b>	
Net Fixed Assets	1,070.5	1,152.0	1,141.4	1,047.4	
Capital WIP	18.0	16.7	24.2	38.4	
Intangible assets	17.6	20.1	14.9	13.2	
Investments & bank balance	840.8	677.9	589.3	424.0	
Inventory	5,022.1	4,500.7	4,720.3	5,168.2	
Cash	178.2	150.1	160.9	128.0	
Debtors	181.8	146.7	213.7	130.5	
Loans & Advances & Other CA	249.2	239.7	214.2	181.4	
Total Current Assets	5,631.3	5,037.2	5,309.2	5,608.1	
Creditors	748.6	419.4	557.6	528.3	
Provisions & Other CL	1,165.0	1,137.4	1,155.2	1,359.2	
Total Current Liabilities	1,913.6	1,556.8	1,712.8	1,887.5	
Net Current Assets	3,717.6	3,480.4	3,596.4	3,720.6	
LT L& A, Other Assets	973.1	1,156.1	1,139.8	991.3	
Other Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>6,637.6</b>	<b>6,503.1</b>	<b>6,506.0</b>	<b>6,235.0</b>	

Source: RHP, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY18	FY19	FY20	9MFY21
<b>Per share data (₹)</b>				
Diluted EPS	1.4	0.0	1.4	-0.6
Cash EPS	3.3	2.1	3.7	1.1
BV	19.1	19.5	21.0	20.0
Cash Per Share	9.9	8.0	7.3	5.4
<b>Operating Ratios (%)</b>				
EBITDA margins	7.0	5.9	7.5	6.6
PBT margins	2.0	0.2	2.2	-1.1
Net Profit margins	1.3	0.0	1.4	-1.1
Inventory days	174.1	168.1	170.6	
Debtor days	6.3	5.5	7.7	
Creditor days	26.0	15.7	20.1	
<b>Return Ratios (%)</b>				
RoE	7.1	-0.2	6.6	
RoCE	9.5	7.0	10.5	
<b>Valuation Ratios (x)</b>				
P/E	63.6	-	63.0	
EV / EBITDA	16.3	20.4	15.5	
EV / Sales	1.1	1.2	1.2	
Market Cap / Revenues	0.9	0.9	0.9	
Price to Book Value	4.5	4.5	4.1	
<b>Solvency Ratios</b>				
Debt / Equity	2.0	1.8	1.7	
Debt/EBITDA	5.4	6.4	4.7	
Current Ratio	2.9	3.2	3.1	
Quick Ratio	0.3	0.3	0.3	

Source: RHP, ICICI Direct Research



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