SEC/116/2022-2023 February 13, 2023

1.	**National Stock Exchange of India Ltd.** Exchange Plaza Plot No. C/1, G Block Bandra –Kurla Complex Bandra (E), Mumbai 400 051 **Symbol: KALYANKJIL**	2.	**BSE Limited** Corporate Relationship Dept. Phiroze Jeejeebhoy Towers, Dalal Street Mumbai 400001 Maharashtra, India **Scrip Code: 543278**

Dear Sir & Madam,

Sub: Earnings Call Transcripts

Pursuant to Regulation 46(2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform the exchanges that the transcript of audio call recording of the Company's Analyst Call to discuss the Unaudited Financial Results (standalone and consolidated) for the third quarter ended on 31st December 2022 is attached herewith.

Please take the above information on record.

Thanking you.

For **Kalyan Jewellers India Limited**

Retnavilasam Gopinathan Nair Jishnu

Digitally signed by Retnavilasam Gopinathan Nair Jishnu
Date: 2023.02.13 11:02:47 +05'30'

KALYAN JEWELLERS INDIA LTD.

Jishnu RG
Company Secretary & Compliance Officer
Membership No – ACS 32820

"Kalyan Jewellers India Limited.
Q3 FY '23 Earnings Conference Call"
February 07, 2023

MANAGEMENT: **MR. RAMESH KALYANARAMAN – EXECUTIVE DIRECTOR – KALYAN JEWELLERS INDIA LIMITED.**
MR. SANJAY RAGHURAMAN – CHIEF EXECUTIVE OFFICER – KALYAN JEWELLERS INDIA LIMITED.
MR. SWAMINATHAN – CHIEF FINANCIAL OFFICER - KALYAN JEWELLERS INDIA LIMITED
MR. SANJAY MEHROTRA - HEAD OF STRATEGY & CORPORATE AFFAIRS – KALYAN JEWELLERS INDIA LIMITED.
MR. ABRAHAM GEORGE – HEAD OF INVESTOR RELATIONS & TREASURY – KALYAN JEWELLERS INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of Kalyan Jewellers India Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Agarwal. Thank you. Over to you.

Rahul Agarwal: Good afternoon, everyone and thank you for joining us on the Kalyan Jewellers India Limited Q3 and nine-month FY '23 earnings conference call. We have with us Mr. Ramesh Kalyanaraman, Executive Director; Mr. Sanjay Raghuraman, who is the CEO; Mr. Swaminathan, CFO; Mr. Sanjay Mehrottra, Head of Strategy and Corporate Affairs; and Mr. Abraham George, Head of Investor Relations and Treasury.

I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on the Company's website and stock exchanges. We will begin the call with opening remarks from management, following which we will open the forum for questions and answers session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Ramesh Kalyanaraman, Executive Director of Kalyan Jewellers India Limited to give his opening remarks. Thank you, and over to you sir.

Ramesh Kalyanaraman: Thank you. Good afternoon, everyone. The Q3 was excellent. Recently concluded quarter witnessed continued positive momentum in both footfalls and revenues across all the markets in which we operate. We recorded consolidated revenue growth of approximately 13% in Q3 FY 2023 over the same period in the prior year and 34% for YTD nine months FY 2023 over the same period in the prior year.

Our PAT in Q3 was approximately INR 148 crores as compared to INR 135 crores for the same period in the prior year a growth of 10%. Stepping back as we look at our business over the past year and aggregate the last four quarters, Kalyan has achieved revenue in excess of INR 13,500 crores and a PAT of approximately INR 434 crores.

Within India, we witnessed revenue growth of approximately 12% despite a strong base with Q3 of the prior year being the first normalized quarter post-COVID. Additionally, we know that December, there was some muted demand, three weeks of December, especially because of the postponement of discretionary demand, which has now normalized in January, predominantly because of the gold prices. We continue to see encouraging trends around the share of new customers, which was in excess of 35%. The non-South revenue mix is again improving. It is now at 43% from 37% in the prior year.

As you know, during the recently concluded quarter, we announced our plans to open 52 showrooms during the calendar year 2023. A significant portion of these would be franchise showrooms. As part of the strategy, we have invested a significant amount of time and effort over the past three, four months in building our internal resources. We have hired approximately 900 staff, largely for the 20-plus showrooms we will open before Akshaya Tritiya, highest employee addition in a quarter, in the history of the Company so far.

In the Middle East, we witnessed significant improvement in customer sentiments during the recently concluded quarter, with revenue growth in excess of 24%. We plan to launch the first franchise showroom in the Middle East during the first quarter of the next financial year. While the setting up of the franchise model is taking some time, we would not want to compromise on the growth potential and we will be selectively opening additional owned stores with the internal accruals from that region.

As I indicated earlier, our international business will be predominantly franchisee operated in the next three years. Talking about our online platform, Candere. During the recently concluded quarter, we opened the second physical store. We have put together a store rollout plan for the next financial year and expect to take the share of its offline business to approximately 25% by the end of FY 2024.

If I look at the current quarter's early performance, we continue to be encouraged by the robust momentum in revenue and footfalls across all our major markets. We continue to remain committed to our recently announced strategy of optimizing our ROCE profile using profits and free cash flow to repay debt and reward shareholders and lighten our balance sheet via the divestment of certain non-core assets.

Now I think, over to you, Sanjay. You take them in detail about the numbers.

Sanjay Raghuraman: Thank you, Ramesh and good afternoon, everybody. I'm really happy to be talking to you all after a great quarterly performance. For the just concluded quarter, our company reported consolidated revenue of INR 3,884 crores, a growth of 13% over the same period of the previous year. Consolidated EBITDA came in at INR 327 crores versus INR 299 crores in the same period of the previous year, and consolidated profit after tax came in at INR 148 crores versus INR 135 crores in the same period of the previous year.

Next, I shall give you the breakup of the financial numbers between India and the Middle East, starting with India. For this just concluded quarter, our India revenue was INR 3,219 crores, a 12% growth when compared with the corresponding period in the previous year. And EBITDA for this just concluded quarter came in at INR 276 crores for the India business, a growth of 9% when compared with Q3 in the previous year.

We recorded a profit after-tax of INR 133 crores compared to a PAT of INR 118 crores in the corresponding quarter of the previous financial year, a growth of 13%. Moving on next about our Middle East business. Our revenue for the quarter in the Middle East came in at INR 641 crores, a growth of 24% compared to Q3 of the previous year.

EBITDA in the Middle East business came in at INR 52 crores versus INR 46 crores in the same quarter of the previous year. The Middle East business posted a profit of INR 17 crores for the quarter compared to a profit of INR 16 crores for the corresponding quarter in the previous year. Moving on next to talk about our e-commerce business. Candere.com posted a revenue of INR 44 crores in the quarter versus INR 47 crores in the corresponding quarter of the previous year, and this quarter recorded a loss of INR 1.7 crores versus a profit of INR 26 lakhs for the corresponding quarter of the previous year.

During this quarter, we had no bullion sale, and our gold coin sale to retail and corporate customers was about INR 155 crores, approximately 4.8% of total revenue. We increased our retail footprint in India by opening six more outlets in Q3 of FY '23, including one outlet for candere.com. As of 31st December 2022, our total store count was 169.

With this, I'm done with the summary of the financials and we can now open the floor for questions. Thank you.

Moderator: Our first question comes from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: You started with a very strong festive season; however the base is also one thing which is there. But I just wanted to check, I think this year there was lot of competition on ground and everybody is trying to push the wedding jewellery. So, in your sense, how the things and demand has had happened per se? Was it more skewed towards the gold exchange and give the benefit of wedding jewellery or things are now normalized and we are going back to the pre-COVID days like the normalized sale? So, any comments on that?

Ramesh Kalyanaraman: Yes. So, as you said, festive demand was extremely high and in November also demand was fairly good. December was a bit of what a flat to negative because of the gold prices especially and that is how it was. So not because of competition and not because of any other factors. January is back on track, everything is normalized and momentum is extremely positive, and that is how it is.

Shirish Pardeshi: So, one follow-up here that would you be able to quantify saying that what was the SSSG growth in quarter 3?

Ramesh Kalyanaraman: No, I didn't get you there.

Shirish Pardeshi: Same-store sales growth.

Ramesh Kalyanaraman: Same-store sales growth was approximately 5%. In India.

Shirish Pardeshi: So, if I have to break that 12% India growth, 5% is SSSG, and the balance would be grammage or how?

Ramesh Kalyanaraman: So, you are talking about grammage volume versus value?

Shirish Pardeshi: No. I am saying India business has grown 12%. So, in that, 5% has come from same-store sales growth.

Ramesh Kalyanaraman: Yes, 7% is from new stores.

Shirish Pardeshi: And volume would remain flat?

Ramesh Kalyanaraman: So, as I always say, we look at value because people come with the budget only, you know, because they don't…

Shirish Pardeshi: My second question is that, in the presentation, you have said that we have executed 35 LOI for FOCO. However, the commentaries revolved around 900 people, 20 stores. So, where this 35 and 20? I mean is that the difference between 15 stores is going to come in next year or if you can guide me that when these 20 stores will finally get executed?

Ramesh Kalyanaraman: So, 11 of the 20 showrooms will be in Q4 itself. Out of 35 signed, 11 will be in Q4 itself, and remaining nine will be before Akshaya Tritiya, Akshaya Tritiya is in April, and rest will be after Akshaya Tritiya.

Shirish Pardeshi: And this what you have mentioned previously, this is all going to be non-metro, non-Tier 1 towns and non-South markets?

Ramesh Kalyanaraman: It will be non-South, but not necessarily non-metro.

Shirish Pardeshi: My second question on the margin front. Maybe if you can give some colour on the gold metal loans, how you look at, and basically the interest cost burden what we should factor in. And lastly on the gold prices because the gold has moved significantly higher, so any qualitative comments you can expect because the history tells that whenever the gold prices run faster, I think people will hold back their purchases?

Ramesh Kalyanaraman: Yes. So, we will come from the last regarding the gold prices. When a gold price volatility is very high, people take some time to adapt to the new price and especially the discretionary demand wherein people don't have a hurry to buy, they might push their purchase to the next occasion, maybe a birthday or an anniversary or any other function which is happening at home. Wedding demand, they will not be able to push it too much or pre-pone it too much because it has to happen on a particular date.

So, December, the last three weeks, actually the momentum was not very high. Demand was muted. It was same or a negative kind of growth, which we were seeing. But in Jan, customers are back, revenue was good, demand is very high.

Of course, we should give some what we call lever to the low base, which we had in January last year because of the Omicron. But even if you negate that, I think the momentum was extremely strong in Jan. And even wedding season is on and that is what in January it is happening. Now when you come to the margin, so margin you are talking about the EBITDA margin?

Shirish Pardeshi: I'm talking about gross.

Ramesh Kalyanaraman: So gross margin, if you look at it has been in the similar range even with a better studded ratio and even with a better non-South revenue. That is basically because of the pressure from the unorganized segment in the gold pricing itself. The gold rate itself has a pressure and there's high competition with regard to that, especially from the unorganized segment. Otherwise, the margins should have improved more because we have a better non-South revenue and a better studded ratio as well. Middle East is stabilizing in the range of 15% to start back, momentum is back, so Middle East is stabilizing in the range of 15%.

Shirish Pardeshi: No. Exactly what you said, and when you look at the store split non-South and the revenue, I'm still saying that gross margin has not improved in tandem. So, is there any specific one-off in this or maybe the better way to explain that is the exchange was higher and maybe if you can help me with the number, what was the exchange number? Because in the presentation, you have said that the new buyer contribution is at 35%.

Ramesh Kalyanaraman: So, exchange is very similar to the last quarter and Q3 of last year. It is in the range of 27%, 28% is the metrics change which we have. It is not because of that. Metal price pressure was there in the quarter, it is even now there as we speak in January. The metal price pressure is there from the unorganized segment and from certain organized players as well. That is the major reason for the margin de-growth.

We got de-growth in the sense where margin has not what we call improved even after a better studded ratio and a better non-South revenue mix. And of course, all of us should consider that it's not apple-to-apple comparison with Q3 last year because the franchisee revenue has also started coming in and the franchisee revenue, you know, it comes with a lesser gross margin.

Shirish Pardeshi: Ramesh, my last question on the gold metal loan. If any colour you can provide, where do we stand at the end of quarter three?

Ramesh Kalyanaraman: It is in the range of INR 1,850 crores.

Shirish Pardeshi: INR 1,850 crores?

Ramesh Kalyanaraman: Yes.

Moderator: Our next question comes from the line of Manoj Menon from ICICI Securities.

Manoj Menon: Hi team, just to start with a small query on the quarterly cost. So, there is a comment in the presentation about certain one-off pre-operative cost for franchising, so would you be able to quantify this?

Ramesh Kalyanaraman: Yes. So, you know that the major pre-operative expense was regarding manpower because we had to add approximately 900 employees during the last quarter Q3, which was predominantly because of the store openings which we have lined up before Akshaya Tritiya. And to give a number, I mean, it will be, you know, per employee cost is in the range of what INR 35,000 to INR 40,000 that's the usual range of an employee cost. So, EBITDA may be what 0.2%.

Manoj Menon: Secondly, you had issued a press release a few weeks back about 52 franchisees to be opened for this calendar year. There's also a comment in the presentation about some conversions from own to franchising for capital unlocking which you are attempting in South India. Does this 52 includes this, or these are 52 completely new franchisee stores?

Ramesh Kalyanaraman: 52 will be store expansion. Over and above that, we will do some store conversion from South to non-South, meaning the South stores we will convert to franchisee stores wherein the capital will be unlocked.

Manoj Menon: Secondly on the franchising bit, right, typically, if you could help us understand, let's say, what would be the typical size of the store because given that these are mostly in smaller cities, towns, etc? And, let's say, what is the typical starting inventory of your franchising store?

Ramesh Kalyanaraman: So, inventory will be in the range of INR 20 crores, average I'm telling. So, there are stores which is what even INR 25 crores or INR 28 crores, but there are stores which even INR 18 crores. So, average you can treat it as INR 20 crores, and the first year revenue can be calculated as INR 50 crores, 2.5 stock turn on an annual basis…

Manoj Menon: No, exactly. So, which essentially, would mean that mid to high teens revenue growth for, let's say, rolling 12 months is very likely only from expansion?

Ramesh Kalyanaraman: So, Manoj, just to give more clarity. So, if you look at our store expansion for the past what two years, usually the footprint growth is around 10%, okay, and SSSG will be about 5%. So now the advantage is that this year if you look at the next financial year, the store expansion will be 30%. So yes, you are right, the revenue growth for the next 2, 3 years will be higher than the usual because the store expansion will be stronger, or the higher number of stores will come because the franchisee arm has been activated.

Manoj Menon: So only one finer event which I thought wanted to clarify was let's say owned store versus the franchising, you could book the entire inventory on day one whereas it will take a certain ramp-up in an owned store. So, in that sense, rolling 12 months is likely to be higher because you will end up having more primary sales versus secondary?

Ramesh Kalyanaraman: Yes, correct. So, because it comes in day one, and that is going to be the scenario for what continuously..

Manoj Menon: And lastly, any update which you could give us the larger audience in terms of the progress on the non-core assets divestment?

Ramesh Kalyanaraman: Yes. You mean the aircraft, right?

Manoj Menon: Yes. It's still there in the presentation, but just anything more beyond that.

Ramesh Kalyanaraman: We told you last time, we have engaged a consultant to explore divesting the aircraft and we continue to engage with them very closely and they are actively exploring options to sell the aircraft, okay? The market conditions you know is not the most ideal, but we remain committed to follow through on our stated intention and even if we need to take what a modest write-off, we will go with it because the intention is to liquidate the aircraft. And we should expect some potential meaning, maybe a write-off, but that is what we see from or hear from the market, but very early for us to come out with a number or what to quantify it now.

Manoj Menon: And I think even if it's a small write-off, it's anyway a non-cash charge, actually, so

Ramesh Kalyanaraman: It is a non-cash write-off.

Moderator: Our next question comes from the line of Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: Sir, I had one question, which was on your opening remark about the competitive intensity. So, two parts to that. First is, is this specifically in the South part where you are facing this competition from the unorganized channel or is it pan India? And second, what has led to this kind of increased competitive intensity over the last few months?

Ramesh Kalyanaraman: So, it is pan India situation. It is not only about South India. It is majorly because of the duty hike a couple of times. The difference between the gold which comes through the proper channel and otherwise the parallel market, what we call the percentage is getting higher and higher, so that is the major area, which is the reason for the price competition in the market. There is a sizable difference in the duty.

Nihal Mahesh Jham: So that is the main aspect, or any other aspect which has changed which is leading to the increased competitive intensity?

Ramesh Kalyanaraman: That is the main – meaning, we compete with mostly unorganized segment and certain regional players, right? That is a major competition for Kalyan per se. And the major pressure comes from the gold rate itself and the reason for the same is the duty increase and that is where, but one thing what we think is that the government is taking a lot of measures, making hallmarking compulsory. Again, they also realize that there is a kind of situation here in our country. And once it gets stabilized, I think the competition pressure will be coming down and there might be one gold rate across the country in the next one year, at least amongst the organized players. That is what we think.

Nihal Mahesh Jham: Just one more question I had was on the non-core asset. Other than the aircraft, I think there are certain land holdings also. So, is there any update on sale of those that you want to just highlight?

Ramesh Kalyanaraman: That we had told you that, that is predominantly you know when there is a lot of free cash and we don't use that cash for any expansion. So, this year if you see, we have had expansion through our owned store also. So predominantly in the next financial year, when there is free cash flow because the expansion is going to be majorly driven by franchisee, that cash will be utilized to repay the bank debts, which in turn might what free some land mortgage in the bank, which will be liquidated. So again, first thing is that the proceeds from the aircraft, of course, will be the first round of repayment of debt and over and above that, the next year, cash flow will also be utilized for the same.

Moderator: Our next question comes from the line of Naresh Vaswani from Sameeksha Capital.

Naresh Vaswani: So, my first question was on the franchisee model. So, in that, what will be the inventory days on our books? And second is, given that majority of the expansion is through this franchisee, on a consol basis, where do you see the inventory turns going ahead in the next three years?

Ramesh Kalyanaraman: So, can you repeat the question? I missed it out somewhere.

Naresh Vaswani: Yes. So, my question was, for the franchisee business model, what will be the inventory days on our books because you'll be selling the inventory —

Ramesh Kalyanaraman: That'll be 10 to 15 days at least. We will have to keep the inventory.

Naresh Vaswani: 10 to 15 days. And then going ahead, how do you see the inventory going, I mean the inventory turns moving ahead in the next three years? Will it reach 2.8 times to 3 times?

Ramesh Kalyanaraman: Yes. So of course, it will because now you know the revenue is growing and now, we are almost in the range of about 2.3 times plus stock turn and our target is to take it around 2.5 times and then to 3 in the next what two, three years. So that is our target, yes.

Naresh Vaswani: And how will the gold hedging we've done for this franchisee partner?

Ramesh Kalyanaraman: We don't own the inventory. It is owned by them.

Naresh Vaswani: Correct.

Ramesh Kalyanaraman: Yes. So, we don't, meaning we don't take the responsibility of hedging. So, it is owned by them. The inventory is owned by them.

Naresh Vaswani: Right. But if they don't hedge?

Ramesh Kalyanaraman: I hope you understand.

Naresh Vaswani: But if they don't hedge, then that could be a risk to this business model, right, I mean?

Ramesh Kalyanaraman: Yes. So, we have created a framework wherein what we call the gain which they get in the inventory, they don't take it as what we call, they will not be able to take it out, okay, because for us, the inventory should be in quantity rather than only the amount. So, we decided a certain kilogram of inventory which has to be there and it has to be refilled every day with the customer cash which is coming in, okay?

And inventory risk is passed on to them, wherein it is not going to have any liquidity issue there, right? It's only more of a P&L issue, and even the gains will be used to replenish the inventory only. We fill the inventory only. There is no cash flow risk is what I am trying to say. They don't close their book every quarter and the all know, they don't have that pressure, right? They are individual companies, so that's how it is.

Naresh Vaswani: And given that now majority will be franchisee, and will you be sharing this detail separately from the next quarter also, the franchisee framing…

Ramesh Kalyanaraman: Not from the next quarter. Yes, because now it is a very competitive information because the number of franchisees are very small. When it reaches a critical mass, we will surely start sharing it individually.

Moderator: Our next question comes from the line of Sameer Dalal from Natverlal and Sons Stock Brokers Private Limited.

Sameer Dalal: Sir, a lot of the questions that I had were answered. There is one thing. In the six franchisee stores that you opened already, if you can give us a brief on how those have been performing, and have we reached breakeven? Exactly what's happening at the six franchisee stores?

Ramesh Kalyanaraman: Yes. So, I mean, it is on track. Revenue is on track and because right from day one, it becomes breakeven, right, because you know, store level expenses are very minimal, right? So, it's almost what 6% to 7% is a store-level expense and the margins are 20% plus. So, from day one, it becomes breakeven, okay.

So, the franchisee stores, which we opened, everything is on track. Most of them have gone through the Diwali season. The revenue is going as per the targeted revenue, which we needed, profitability is strong, and there is franchisee from this so-called six itself who have come back to us to take the next set of showrooms. So, it is going in the right direction.

Sameer Dalal: And the second question is just a follow-up. So, what the previous speaker was asking, when the franchisee doesn't hedge and you all have some sort of a profit share with the franchisee, right? So, when the franchisee doesn't hedge and say the gold prices changed drastically and it affects their profitability, wouldn't it affect your profitability if they haven't hedged it to some extent?

Ramesh Kalyanaraman: No. So, we sell it to them with a gross margin, which we have pre-decided. That is how we sell it to them, okay? That is predominantly in the making charge, wherein for example if my cost is X, we sell it at Y. So that gross margin comes in at whatever gold price it is, okay? And regarding the hedging of gold by the franchisees, you know that how they operated that, whatever cash comes in, they buy the gold on the same day and they refill it.

So, there is no cash flow risk, except valuation risk when it comes to their gold prices, okay? And they do not close their books every quarter. They are not bothered on the volatility of their gross margin every month or every quarter. So, for a traditional jeweller kind of setup, hedging is not actually necessary because it does not affect its cash flow.

Sameer Dalal: But that will affect its profitability and I believe have some sort of profit share, that's what I'm trying to address.

Ramesh Kalyanaraman: So, our profit share is when we sell, meaning…

Sameer Dalal: So, you are taking your profit upfront, you are saying?

Ramesh Kalyanaraman: For example, if the cost of a product is 1%, we sell it at 10%. That 9% is our margin. So, for us, gold rate does not even impact us, right?

Sameer Dalal: And this is you are taking this margin after because you all are working on a FOCO model which is franchisee owned but company operated. That means the staff that is selling is all that is on your books. So, you are not taking the profit, including the staff costs everything you are taking that upfront. Is that fair to assume?

Ramesh Kalyanaraman: Correct.

Sameer Dalal: So, any risk on anything lies in the franchisee's book and nothing to you at all?

Ramesh Kalyanaraman: Nothing at all.

Moderator: Our next question comes from the line of Rajiv from DAM Capital. Please go ahead.

Rajiv: Yes. Thanks for the opportunity. Sir, can you throw some light on the Candere de-growth? What exactly is leading to this, and how are you addressing this apart from let's say the store addition trajectory?

Ramesh Kalyanaraman: Sanjay, you want to take it?

Sanjay Raghuraman: So, if you look at Candere as a business, this is a business that was 100% online till recently. And if you look at the way the online business has evolved over a period of time, there's a stage in their life cycle when offline presence is key to grow. So, we are in that phase. We are transitioning to a model where we will be online plus offline. If you look at the competitive landscape, that's also how businesses have scaled.

As of now, we have two offline outlets operational. As Ramesh mentioned in our opening remarks, we have a strong plan in place for the next financial year to ramp-up count on our offline outlet. And as you ramp-up on offline stores, growth will come back and I believe over by the end of next financial year, offline revenues will be at least 25% to 30% of total revenues. So, we have a clear pipeline in place for offline stores to come through, as well as visibility on how it will work for us.

Rajiv: And this 25%, I mean will be contributed by let's say what is the assumption in terms of store count?

Sanjay Raghuraman: What I meant to say was offline revenue will be 25% of total revenues in the Candere business.

Rajiv: No, I got that. But those are two stores as of now, right? So, let's say by FY '24, where do you want to take these two numbers?

Sanjay Raghuraman: By the end of next financial year, we should be at about 30 outlets totally.

Rajiv: And secondly, in terms of the Middle East operations, so there was mid-teen SSSG there. So, can you help me there? Is there operating leverage, which can kick-in there and which we haven't seen this time around?

Ramesh Kalyanaraman: So Middle East, again, I told you that of course when the revenue growth is there in the range, which we see now, operating leverage should start stepping in. And if you had noticed, the gross margin level has a de-growth wherein in pre-COVID, it was in the range of 16%, 17%, and now it is in the range of 15%, which was of course forecasted because once the revenue momentum starts kicking in, tourists come back and competition starts kicking in.

We had expected a 15%, 15.5% gross margin, which is on-track. But when the revenue top line growth, of course, there can be operating leverage should start kicking in. And again, we have a franchisee plan also in action there, as I mentioned, and we will be working on it in such a way that in the next two, three years, I think it should be a predominantly franchisee-driven arm for us, Middle East.

Rajiv: And in a few opening questions, you talked about 5% SSSG on the overall India business. Can you break that into South and non-South because the South piece hasn't moved much? So is there SSSG significant, a low single digit in SSSG South piece?

Ramesh Kalyanaraman: Yes. So, South would have grown only what less than 2%. If you look at the total growth itself, non-South would have grown at 28%. I am now talking SSSG, the total revenue growth from non-South market would have been in the range of 28%, and South in the range of 2%, and almost everything as SSSG in South.

But in that 28%, everything is not SSSG because we have added showrooms only, predominantly in the non-South region for the past couple of years now, okay? That is one of the reasons that the non-South revenue growth is much more than the south. But again, one or two areas where the South revenue growth is not as much as non-South, even the SSSG is majorly because the base was higher in the last year because you would remember that there were lot of migrations happening during that time, where people were staying in their hometown in South India during the last year in Q3.

And again, in December this year, when the gold prices went up, the discretionary demand usually gets impacted in Kerala, Karnataka and Andhra Pradesh because December is a high discretionary demand month for these three markets. So, the impact was there in December, which would have again impacted the South revenue.

Rajiv: And if you can help me with how does this share of new customers at 35% tie-up with SSSG, and let's say by market, the 35% is largely non-South, is it safe to assume that?

Ramesh Kalyanaraman: So, it should be higher than non-South, a new customer growth will be surely higher because the new showrooms, all the customers are new customers that is how it is. But otherwise, the ratio how we see is that if we have 100 customers coming in or 100 invoices done, 35% of that is from new customers. New customers we see is that if they have not come to us in two years, we treat them as a new customer.

Rajiv: Sure. But in the South, this number would be, I mean can you give some colour there?

Ramesh Kalyanaraman: I don't have a number right now, but there will be healthy new customer addition in the South as well.

Moderator: Our next question comes from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Ramesh, I'm slightly confused, you mentioned that we will open 52 franchise stores, correct?

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: That will come up in FY '24?

Ramesh Kalyanaraman: Yes. Calendar year 2023. So that was announcement, but you can keep it as 52 showrooms for the next financial year as well. That is almost the same.

Shirish Pardeshi: So, my point here is that today, when we see that, we have existing stores and our store count in India is about -- I mean if I exclude Middle East, about 137 stores, so 137 plus 52 franchise. Is that the correct way to look at it?

Ramesh Kalyanaraman: Correct.

Shirish Pardeshi: And on top of it, my question was, we earlier had said that about 40, 50 stores we will add our own store. Will that take a backseat, or we will still open our stores also?

Ramesh Kalyanaraman: Next year, we will predominantly do only franchise. Our store expansion will not be there. It will be very minimalistic. It will not be in the range of 14, 15 because as I mentioned earlier, the next two to three years, our primary focus will be to use the excess cash flow to repay debts, take out the non-core assets, liquidate it further lighten the balance sheet, that will be the next two years. And again 52 openings itself need a lot of bandwidth, right? So over and above 52, we would not do the 10 or 15 own stores.

Shirish Pardeshi: My second question what Sanjay just mentioned that today we are having Candere two offline stores and we're going to take it up to 30. So even in Candere also, we are doing FOCO, or this will be largely our owned stores? And maybe if you can give some numbers around it, what is the current size? What is the throughput you are expecting, and maybe some gross margin because 30 is a big number which we are talking?

Ramesh Kalyanaraman: So initially, there'll be a lot of owned stores, and of course, we have franchisee inquiries coming in, but we would not do immediately. We will just wait and watch for our existing owned stores to get settled down and then only do franchisee for Candere.

Shirish Pardeshi: So, you mean to say all 30 will be our owned stores for FY '24?

Ramesh Kalyanaraman: Need not be, but at least a dozen will be our own.

Shirish Pardeshi: So, half of that, you are saying that will be our owned store.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: And in terms of revenue, any number you could provide, what kind of monthly annual revenue we can build in our model.

Ramesh Kalyanaraman: Average inventory levels in these kinds of stores are in the range of what INR 1.5 crores, and the average stock turn is around 4x to 5x.

Shirish Pardeshi: 4 to 5?

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: And my last question is on slide 35, you have mentioned that South revenue has grown only 2%.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: Now there is one reference point. The market leader in the organized industry has taken South as a key and they are putting a lot of discounting, they are putting a lot of new designs and they're trying to target the wedding jewellery. Now is it the fact or outcome or is the result that the competition from the organized players is also heating up and that's why the South revenue has taken sluggishness or maybe there is genuine demand that people have withhold the purchases?

Ramesh Kalyanaraman: No, not at all, because October and November, the revenue was strong in the South. December usually comes with a lot of discretionary demand in South India, especially in Kerala, Karnataka and Andhra. Kerala comes with Christmas, and Andhra, Karnataka comes with other festivals like Sankranti, etcetera.

And that is the reason for the South being 2% and non-South being 20%. And again, one more thing, which has to be highlighted is that Q3 in the last financial year, the base was heavy in South India because there were a lot of people who are working in the metros, who were settled in the South and the base would have been higher in the South. And otherwise, we don't see any competition from any new or existing organized players in the South because you know that we are one of the leading players in the South India.

Shirish Pardeshi: And my last question on ROCE. Right now, we are in the range of 16%, 17%, and I think at two, three slides, you have mentioned that the focus is going to improve with the asset-light model and we are going to improve. So, is there any meaningful target you have in mind over next two to three years which you can spell it out right now?

Ramesh Kalyanaraman: Abraham, you want to take it?

Abraham George: Shirish, we don't want to give a number here, but we are looking at meaningful improvement in ROCE profile over the next two to three years' time. Because these franchise showrooms are coming with no real capital employed, so that will clearly improve the return profile. And also, we are trying to reduce the capital employed by divestiture of assets as well as conversion of showrooms.

Shirish Pardeshi: No, I agree, Abraham what you said that. But say today, we are talking about 52 number over 136, so almost 40% number we're talking about the franchised stores. So, does that mean, I mean arithmetically, are we targeting 35%, 40% to reach to next three years?

Abraham George: So that's like a big number, but it will be a meaningful improvement from where we are now.

Moderator: Our next question comes from the line of Sanika Khemani from Middleton Capital Advisors.

Sanika Khemani: First of all, I congratulate you for a very good set of numbers. So, my question is that, in the last budget the government has just shown a lot of craft in the lab-grown diamonds. So, I want to understand what impact will this have on our business? And my second question is, are we looking to venture out in this segment?

Ramesh Kalyanaraman: Yes. So, we are closely watching the market. As of now, we are getting very limited inquiry for lab-grown diamonds. The supply ecosystem is developing in India. The government is also giving what incentivizing for the same and as and when the demand grows for that segment, we will be there to meet the demand.

Moderator: As there are no further questions, I now hand over the conference to Mr. Ramesh Kalyanaraman for closing comments.

Ramesh Kalyanaraman: Thank you very much. So, looking forward for the next quarter. Thank you.

Moderator: Thank you, sir. On behalf of Kalyan Jewellers India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.