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To

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 400 001 Maharashtra, India **Scrip Code: 543278**

Dear Sir/Madam

Sub.: Transcript of the earnings call Q1 of FY 2022-23

We have enclosed the Transcript of the earnings call Q1 of FY 2022-23. The same is also available on the website of the Company.

Kindly take the same into your records.

Thanking you

Yours faithfully

For **Kalyan Jewellers India Limited**

KALYAN JEWELLERS INDIA LTD.

Company Secretary & Compliance Officer

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“Kalyan Jewellers India Limited
Q1 FY 23 Earnings Conference Call”

August 04, 2022

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MANAGEMENT:	**MR. RAMESH KALYANARAMAN - EXECUTIVE DIRECTOR, KALYAN JEWELLERS INDIA LIMITED** **MR. SWAMINATHAN VISWANATHAN - CFO, KALYAN JEWELLERS INDIA LIMITED** **MR. SANJAY MEHROTTRA - HEAD OF STRATEGY AND CORPORATE AFFAIRS, KALYAN JEWELLERS INDIA LIMITED** **MR. ABRAHAM GEORGE - HEAD OF INVESTOR RELATION AND TREASURY, KALYAN JEWELLERS INDIA LIMITED**
MODERATOR:	**MR. RAHUL AGARWAL – STRATEGIC GROWTH ADVISORS**

Moderator Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of Kalyan Jewellers India Limited.

This conference call may 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 and not the guarantee of future performance and involve risk and uncertainties that are difficult to present.

As a reminder, all lines will be in the listen-mode, and there will be an opportunity for you to ask questions after the presentation complete. Should you need assistance during the conference call, please signal an operator by pressing "*," then "0" on your touchstone phone. Please note that this conference is being recorded.

I now have the conference over to Mr. Rahul Agarwal from Strategic Growth Advisors. Thank you, and over to you, sir.

Rahul Agarwal

Thank you. Good afternoon, everyone. And thank you for joining us on the Kalyan Jewellers India Limited Q1 FY23 earnings conference call.

We have with us Mr. Ramesh Kalyanaraman, Executive Director; Mr. Swaminathan, CFO; Mr. Sanjay MEHROTTRA, Head of Strategy and Corporate Affairs; and and Mr. Abraham George, Head of Investor Relation and Treasury. Mr. Sanjay Raghuraman, who is the CEO, is unable to join the call today due to some personal exigencies.

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 have the forum open for question 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 a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I will 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. And good afternoon, everyone. The recently concluded quarter has been yet another positive one for Kalyan Jewellers, and we are witnessing continued robust momentum in both footfalls and revenue across all our markets in India and Middle East.

We launched our first franchised showroom in our Aurangabad during the recently concluded quarter. And as we speak, the store is performing as per our expectations. We are on track to launch the remaining pilot franchisees stores before the start of the festive season.

We have built a meaningful pipeline of additional franchise stores on the back of very encouraging response from the potential franchisee partners. Given the robust pipeline of franchisee showrooms and stability in the operating model of the already launched showroom, we believe we can advance the launch of the next set of franchise showrooms.

In the Middle East, we continue to see strong momentum driven largely by the overall economic recovery in the region and return of tourist traffic. We remain confident on the market and will be looking for calibrated expansion through internal accrual from the region.

Our online vertical Candere continues to show traction and it'll be embarking on the next phase of growth, starting with the launch of the first physical showroom before the start of the festive season.

Mr. Vinod Rai has been formally appointed as the Independent Chairman by the Board of Directors with effect from July 1st, 2022.

Before I pass on to our CFO, Swaminathan, who will take you through the financial highlights of the quarter, I would like to highlight about the remarkable transformation in the profitability of the business when compared to the pre-COVID period.

Our consolidated PAT over the four trailing quarters has been approximately INR 380 crore compared to INR 140 crore, INR 150 crore achieved the few years prior to COVID.

Let me conclude by saying that we are confident about the current financial year. Our Q1 performance has been impressive with a continued traction during the current quarter, along with the robust store expansion plan for the rest of the year, we are extremely excited about the revenue growth, as well as the overall profitability of the business.

Over to you, Swaminathan. Thank you.

V. Swaminathan

Thank you, Ramesh. Good afternoon. We are really happy to be talking to you all after great quarterly performance. For the recently concluded quarter, our company reported a consolidated revenue of INR 3,333 crore, a growth of over 104% compared to the corresponding quarter of the previous year. Consolidated EBITDA was INR 260 crore, versus INR 69 crore in the corresponding quarter of the previous year, a growth of 283%. Consolidated PAT was INR 108 crore versus a loss of INR 51 crore in the corresponding quarter of the previous year.

Now, let me give you the breakup of the Q1 performance, starting with India. For the recently concluded quarter, our India revenue was INR 2,719 crore versus INR 1,274 crore when compared with corresponding quarter of the previous year, a growth of 113%. Our India Q1 EBITDA was INR 218 crore versus INR 50 crore when compared with the corresponding quarter of the previous year, a growth of 336%. Our India PAT was INR 95 crore compared to a loss of INR 43 crore in the corresponding quarter of the previous.

Now let me share some information about our Middle East business. Our Middle East revenue for the quarter came in at INR 574 crore compared to INR 340 crore in the corresponding quarter of the previous year, a growth of 69%**.** Middle East EBITDA was INR 47 crore versus INR 18 crore for the same period of the previous year, a growth of 161%. Middle East profit came in at INR 14 crore for the quarter compared to a loss of INR 9 crore in the corresponding quarter of the previous year.

Moving on our e-Commerce business. Our e-Commerce initiative Candere posted revenue of INR 44 crore was INR 24 crore in the corresponding quarter of the previous year, a growth of 83%. The quarter recorded loss of INR 1.2 crore versus profit of INR 31 lakhs for the corresponding quarter of the previous year.

Coming back to KJL, during the quarter, we had no bullion sale and our gold coin sale to retail and corporate customers was approximately INR 13 crore, which is approximately 0.46% of our total revenue. During the quarter, we opened four showrooms, including [Technical Issues] (Inaudible)

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

Moderator

The first question is from the line of Aniket Sethi from ICICI Securities. Please go ahead.

Aniket Sethi

It's again nice to see the comment on good new consumer recruits in your presentation after it was skipped in the previous quarter. So, two questions there. First part, wanted to understand is this largely pertaining to the non-south market, essentially what I'm also trying to understand is what would be the difference in contribution from new consumers, rather new customers in your south versus non-south markets on a same-store level basis?

The second part is, while I understand it's more of a secular trend, the new consumer recruits, but do some factors lead to acceleration in specific quarters?

Ramesh Kalyanaraman Yes, so the growth from new consumer has been very similar across both the markets, south and non-south. And the difference in overall growth rates is because of the impact of lockdown in the base period.

Aniket Sethi Okay. You mean the base period had had some impact of lockdown and rather the sequential quarter. And that's why the gain from new consumers were lower. Is that what you are pertaining to?

Ramesh Kalyanaraman Yes, yes, yes, yes. So, this year we see more new consumers from non-south markets. That will be because of the lockdown impact.

Aniket Sethi Understood.

Ramesh Kalyanaraman And also, because we are opening new stores, basically in the non-south market, the new customer growth will be more there.

Aniket Sethi Okay. And what the understanding is let's say, see, you were beginning rather the share of new consumers from unorganized players would be higher. It it's slightly difficult to gain share from the branded players but given that thing is that the gains from non-south markets should be higher from the south markets on a like for like basis. Is that understanding, right?

Ramesh Kalyanaraman No. Can you repeat that question again?

Aniket Sethi South market let's say from a industry perspective, the organized -- the share of organized players is estimated to be higher in the south market versus the non-south market. And a lot of your new consumer recruits would be coming from the unorganized market as well, the share would be higher from those particular segment. That should be a key advantage for some of the new consumer recruits from your non-south markets in Mumbai.

Ramesh Kalyanaraman See, there are two things. First of all, even though in the organized segment, south is like more organized than non-south, but we have still got a majority or a good quotient of non-south -- what do you call, unorganized players in south also. So, we are gaining market share from there, but when you come to non-south, yes, the unorganized to organized shift is more aggressive there, because there is more vacuum from unorganized players. And again, we have opened new showrooms there last year in non-south markets and south markets. So, we will get a new customer growth in the stores which we opened last year.

Aniket Sethi Understood. Understood. Got it. Understood. That's helpful. Second on the franchising bit, can you share some details on how are you selecting your franchising partners, rather the franchise partners. Are these parties are these the interested parties in the jewelry business, or are you are looking mainly at financial investors?

Ramesh Kalyanaraman Yes, so we are not looking for franchise partners to get involved in the day-to-day operations at all. So, we don't give any preference in experience in the industry because of that. But we have a process put in place where it'll be multi-stage background checks and threshold for net worth, etcetera. And we have a consultant who does the job for us.

Aniket Sethi Okay. And till now, how many, let's say, -- is this like you -- are you fine with a single franchising and he is expanding your store, or it's more like every store is a different franchise all together?

Ramesh Kalyanaraman It is different which we have signed. So, we have signed six LOIs. And we have not signed more than that now because we are just waiting for the first set of franchise to open and get operated. On the franchise which have already opened in Aurganabad, it is performing like what we wanted.

Aniket Sethi Understood.

Ramesh Kalyanaraman But we have a pipeline of other franchisee partners who are interested to work with us. We have put them on hold because we want to just get settled more with the existing franchise, which is already there and what we are planning to open in the next couple of months.

Aniket Sethi

And all the franchising is done in the non-south, right?

Ramesh Kalyanaraman

Everything is non-south. So not only franchise, all the stores planned for this financial year, are in non-south, almost all the stores.

Aniket Sethi

Got it on. On the OpEx bit, given expansion, you'll see some operating leverage. So if just on the ad expense, if you can just clarify. So, you had broadly INR 200 crore of India expense in FY20, the last normally year. So, any guidance you have on the absolute numbers given you don't look to enter any new cities, or we should continue to look at this number from a percentage of sales basis?

Ramesh Kalyanaraman

So we should – if you look at Q1, it was at 2.2%, but on a year level, I think we should be looking for what, a 2%, that's our target.

Aniket Sethi

2% on a yearly – okay, got it.

Ramesh Kalyanaraman

Anything between 1.8% to 2%. So, our target is 1.8% but keep it as 2%.

Aniket Sethi

Got it. If I can just squeeze one last question on the Jewellery hallmarking bit any incremental updates you can share on all the compliance. So, whether it has increased or all same versus what it was sometime back?

Ramesh Kalyanaraman

So they are keeping on fine tuning the hallmarking procedure wherein there was some loophole where 22 karat and 21 -- 22 and 19 were made compulsory hallmarking. So, people used that gap wherein the 20 karat et cetera were sold without hallmarking. So that gap is also being solved now. So, a couple of months before that is also solved. So, they are tightening the process, and we expect that further, there'll be -- what do you call, strengthening -- strengthened processes, et cetera. And next 12 month, I think it'll be fully set. That's what we feel because with the increase in duty, surely government will also understand that that should be also tightened. So, there'll be more incentive to actually tighten the process.

Moderator

The next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi

So I have three questions. The first question which comes to my mind that Candere has been growing much faster, but surprisingly, you have booked the losses of about INR12 million in this quarter. So, if can quantify, what is it exactly is that OpEx is going up and because of that, this is in nature or it's one-time, we have taken some correction?

Ramesh Kalyanaraman

So Candere as you rightly said, it has been growing in the range of 80% year-on-year, right from when we acquired it. And now we are looking for the next set of -- or the next phase of expansion where we have already started investing in upgrading the software, upgrading the team, I guess, marketing expense, et cetera, because we are gearing to the next phase of expansion. As I told you, we are planning to open the first physical showroom before Diwali this year. And we are looking forward for that.

Shirish Pardeshi

So this store again, will be in non-south market or it'll be in metros?

Ramesh Kalyanaraman

Yes, it's in Mumbai. It's in Mumbai.

Shirish Pardeshi

My second question, on Slide 36 when I see, it's hearting to know that the non-south revenue has moved up from 30% to 34%. I think, directionally it is picking up, but I was bit surprised that studded has not moved in that ratio. I mean, studded has moved from 20% to 24% in this quarter. So, any thoughts how you look at the rest of the year for non-south revenue and the studded portion to move up?

Ramesh Kalyanaraman

Yes. So, if you look at Q4 versus Q1, so Q4 versus Q1, the studded ratio is almost stable, it is around 24%. Even though actually Q4, the non-south revenue mix was higher than Q1. But of course, we know that year-on-year is not the right comparison because of the disruption. And the thing which you are seeing is year-on-year wherein the markets were completely uneven, the opening, the closing, etcetera, due to the disruption of COVID. So, if you look at quarter-on-quarter, it is more or less stable at 24%.

Shirish Pardeshi Yes, I got that, Ramesh. My only point, what I was trying to say that…

Ramesh Kalyanaraman How to increase it, right?

Shirish Pardeshi Lot of energy to get our studded portion up and even non-south, so what is it that we are -- we can expect in the balance of years?

Ramesh Kalyanaraman Okay, so we have constant push to increase the studded shares, and the studded share will be higher, mostly in the non-south markets. And usually, Q3 and Q4 are more non-south-heavy, and Q1 and Q2 are south-heavy. So, if you look at Q3 and Q4, do more studded in a usual scenario. And again, all the new stores which we are opening, we are opening in the non-south markets, which is going to take your studded higher, and subsequently margins will also be higher. That's our target.

Shirish Pardeshi Okay. In the domestic business, the growth is superb, but if you can say that how much was the grammage growth, that would be really helpful.

Ramesh Kalyanaraman Grammage is almost stable Q4 to Q1.

Shirish Pardeshi No, what is that number?

Ramesh Kalyanaraman Number – okay, I'll just give it to you, in kilogram. You can go forward. I will come back to you and give that number.

Shirish Pardeshi Yes. My last question is on -- of course, we have seen the gold medal loan is one of the thing which is impacting. and we have seen that the cost is also coming down, but margin is not moved. I mean, we are still at 7.9% with the recovery which will happen. I think maybe after five, six quarters, we have seen a normalized quarter and we had good season also. I'm sure, in the second half season will be much, much more better, sharper, but what is it that at this time we can expect 8.5% to 9% EBITDA?

Ramesh Kalyanaraman So here, first of all, 8% EBITDA in Q1, Q1 is a more south-heavy quarter. Q2 will also -- we think that it'll be in the similar lines, but Q3 and Q4, we estimate to have a better margin than Q1 and Q2.

And to your question where it'll reach 9%, as we have told before, once the non-south revenue mix increases, the gross margin will increase and the EBITDA margin will also go up. So, if you look at -- our expansion will be focused in the non-south markets, and that is where -- or that is the direction where we are going to go also.

Shirish Pardeshi Okay. The last question, you did say in the beginning that we have opened the Aurangabad store. And you did say that there are some more stores which will come in the franchise own company operated model.

Ramesh Kalyanaraman Yes.

Shirish Pardeshi So if you can tell some timelines, whether this will be before the season, next season, or it will be during the season or post Quarter 3, Quarter 4?

Ramesh Kalyanaraman The pilot franchise stores, we had plan for six numbers. Now one was already done. Rest five will be done before Diwali.

Shirish Pardeshi Okay. Before Diwali. And can you share a month's experience? What is it that you have experienced in Aurangabad?

Ramesh Kalyanaraman It just – meaning -- regarding the store success, there is no challenge at all, because we have been expanding over new markets for the past many years. So, the only area was to fit in the working, what do you call, dimensions, where -- it is well on track. It is now more than a month now and the operating model, which we had set has got stabilized.

Shirish Pardeshi
So my question was -- let me redesign the question. Is it more of a yellow metal demand, which is happening because that's a Tier 2 market, we can say that. Or what is the local consumption pattern? Is it pure gold? It's a studded gold or it is purely studded.

Ramesh Kalyanaraman
No. So studded ratio, usually outside South India is more than 30%. But in Tier 2 markets -- in South India, it's in the range of 21% to 22%. So, this being a non-metro and a Tier 2 market, it is in between the south and the usual non-south percentage. So, in short, it is between 22% and 30%. But that was estimated as well.

And regarding your, the volume, it was 4,000 kg. And just for you to understand, we actually try maximum to increase our studded ratio. So, we, as a brand, more than volume, of course, we target on our revenue and also we try to push to the studded where we do not focus on more of a gold volume, we focus on revenue growth because we also, as a brand, push studded jewelry.

Moderator
The next question is from the line of Nillai Shah from Moon Capital.

Nillai Shah
Sir, I have a few questions. The first one is, just if you can qualitatively talk about how the trend is panning out in July and maybe starting of August without getting into numbers, that'll be helpful.

Ramesh Kalyanaraman
So July as we speak, the momentum is very good. It is actually -- the footfall, the momentum, the consumer sentiment, etcetera are extremely positive. And in Middle East also, the trend is being very positive as we speak, and we expect a good season.

Nillai Shah
Okay. That's good to know. The second bit is on the interest cost. Now, given that our metal gold loan component is moving up, which you had highlighted last quarter, and will that more than offset any interest cost increase that you will see because of the environment at this point of time? Which is to say that on a sequential basis here on, should we be expecting a marginal drop in interest cost for the company every quarter?

Ramesh Kalyanaraman
Yes, so if you look at, there has been some interest hike in the recent past for the non-gold loan quotient in Q1. And we should also expect that there is some hike in the interest rates, but of course, as you rightly said, we were at INR 1,500 crore gold loan in the last financial year, which is now INR 1,600 crore. And as we speak, it is INR 1,650 crore. And that will negate most of the cost increase because of the rent. And we can expect a minimal, what do you call, reduction in interest because there's a interest cost hike, which is happening now when compared to last year.

Nillai Shah
Yes. So, it'll offset that interest rate hike is all I wanted to know. Yes, so that's good to know.

Ramesh Kalyanaraman
Yes, it should gain some also.

Nillai Shah
Got it. Moving onto the balance sheet, your P&L seems to be on track, you delivered last few quarters of strong growth and the margins also seems to be seen on track. So, if you just can talk a little bit about the ROE profile of the company, strictly on the basis of calculation, annualized, it's about 12% at this point in time. But if I was to, let's say, remove of some of the fixed assets, which are probably been used for collateral against your gold metal loan, you are clocking ROEs of about 14% or so, and ROCEs, which are probably in the ballpark of 14% to 16%, does this mean that at the store operating level, ROEs ex-franchising would be upwards of 20%?

Ramesh Kalyanaraman
Okay. So, I will answer part by part, where yes, ROE is now at 12%, and yes, there are collateral, which has been mortgaged in banks for our exposure, which is a traditional way of getting bank loans in our country, especially in our sector. When we move on to franchise, where our own store expansion is lesser than the franchise, and we have more liquidity in the system in terms of reduction of own store expansion, when we go and reduce the bank loans, this collateral will come out and it'll shortly help us to have some free cash which will return, which will again, increase our ROI.

Nillai Shah Got it. But can you confirm whether at the store level today you are running with ROEs, which are in excess of 20%?

Ramesh Kalyanaraman Yes. Correct.

Moderator The next question is from the line of Pankaj Bobade from Affluent Assets.

Pankaj Bobade Sir, congrats on a very good set of numbers. Just wanted to understand, given that the like-to-like comparison for last same period last quarter would not be the right one, the thing is that whether this momentum of, say, approximately 3% PAT margin would be sustainable going forward, or do we see anything, I mean, it coming down at some lower level?

Ramesh Kalyanaraman No, so Q1 if you look at -- Q1, has been very good. And if you look at our four quarters, because -- why I am telling four quarters is because we have got undisrupted four quarters together post-COVID, for the first time. So, if you look at the PAT number there, it is INR 380 crore plus. Which is like 2.5x when compared to our FY 2020 PAT. So, EBITDA margins are at 8%. Gross margins are getting stabilized at around 15% to 15.5%, and Q3 and Q4 are better EBITDA margins because better gross margins. So, I think it should be more than sustainable.

Pankaj Bobade So my second question would be in one of the last calls, you had mentioned that with the franchisee business model coming into play, our margins would expand. Can you please throw more light on the same? How would it happen?

Ramesh Kalyanaraman Yes, so margins will expand at the PBT level, meaning not on the EBITDA level, because as you know, franchisee, the EBITDA margins will come down because we are not going to get the whole growth margin to our books, but -- because it's a FOCO model at the GP level, and the EBITDA level, it'll be lesser, but on a PBT level, it'll expand.

Pankaj Bobade But as you mentioned in previous participant's answer that you are looking for an investor who would not be in day-to-day -- would not be interfering in day-to-day operations of that specific franchising.

Ramesh Kalyanaraman Yes.

Pankaj Bobade So how – means, he would be just investing in the location -- I mean, the property, right?

Ramesh Kalyanaraman He will be investing in the inventory and the CapEx and we will be managing the store for them. And it's a gross margin share, where the OpEx will be borne by them, except the salary cost.

Pankaj Bobade OpEx will be borne by them and…

Ramesh Kalyanaraman PBT level – in short now, in short, the PBT levels will be same or more than the PBT levels now for the existing stores.

Moderator The question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar So I just wanted to understand, first up, I mean, number of stores, we are looking to open both on the owned side, as well as the franchisee side in FY23?

Ramesh Kalyanaraman Yes, so if you look at our expansion, it is going on track. We already opened four showrooms in Q1, out of which three are in the non-south, out of which one with franchised. We are getting very good response from the franchisee partners. So, there might be a chance – change in the composition between the franchise and owned store. Expansion plans are on target. We will see how it gets stabilized. And then we will come back to you on the exact composition between franchise and owned store. As we speak, the plan is to have 12 owned stores and 6 franchise stores for this year.

Deepak Poddar Okay. So total 18. And this composition is subject to change maybe on the interest, on how the franchisee are performing, right?

Ramesh Kalyanaraman So as you know, franchise, we don't want to lose the opportunity of the prospective franchisee coming on board. There might be a chance in composition between franchise and owned store. It'll depend upon the stability at first. And the first store is already stabilized, but we are waiting for the next set of showroom also to get opened and then decide on whether to change the composition or not. But even if it happens, it is good because as you know, PBT levels, it's the same. And we might have to convert a few of our owned stores, which is planned, to the franchisee people, but it'll be only delay by a quarter or buy a couple of months.

Deepak Poddar Okay. So -- fair enough, that I understand. And you did mention that PBT level is same for owned versus franchisees store, right?

Ramesh Kalyanaraman Yes. Maybe better also.

Deepak Poddar Okay. And for owned store, what's the CapEx per store generally, on an average?

Ramesh Kalyanaraman So there are – like, owned store, it is INR 30 crore on inventory and INR 4 crore to INR5 crore on CapEx. Franchisee, usual bucket is INR20 crore on inventory and INR 3 crore to INR 4 crore or INR2 crore to INR 3 crore on CapEx. But there are franchisee partners who come for a bigger bucket size also. So that -- only then we'll be able to convert our owned store to franchise, right? Because if they commit a INR 20 crore for a INR 30 crore store, it cannot happen.

Deepak Poddar But in case of franchisees that -- the CapEx of INR 3 crore to INR 4 crore, as well as the INR 20 crore inventory is being funded by them, right?

Ramesh Kalyanaraman Yes, correct.

Deepak Poddar So ideally the -- for us, it would be only 12 stores into INR 35 crore, right? That's the…

Ramesh Kalyanaraman The expansion plan is that, and as I told you -- mentioned before, it'll depend upon the franchisee -- again, the next set of franchisee getting stabilized.

Deepak Poddar Correct. And sir, my last query is on your revenue growth. Largely, I think this first quarter is -- was a low based last year, right? So ideally a 20% revenue growth seems little conservative given the fantastic performance we have delivered this quarter, right? So. just wanted to understand the same from you.

Ramesh Kalyanaraman Yes. So yes, as you rightly said, according to us, Q1 has been good, Q2 momentum and traction, as we speak continues to be extremely strong, both in India and Middle East. With respect to showroom launches for the year, we have already opened 4 stores, already announced 10 more stores before Diwali, and also we are going to get the full year impact of the 18 stores, which we opened last financial year. And as I mentioned, we launched our first franchise, it is just getting stabilized, it was almost stabilized, it is again, going to give a additional capital efficient leg of showroom expansion. All put together, yes, we are extremely excited about the current year revenue and the way forward.

Deepak Poddar Right? So, there's upside this to this 20% growth that we have been seeing, right, on FY23 overall basis on a revenue growth. Because as I see it, a 25%, 30% revenue rate is quite possible for us.

Ramesh Kalyanaraman See, we don't want to give any perfect guidance on the number, but I gave you a overview, right? So, we will not be able to give a perfect guidance because -- you have got the message, what I meant, right?

Moderator The next question is on the line of Hemant, an individual investor.

Hemant Yes, congratulations set of numbers. I have couple of questions.

Ramesh Kalyanaraman Thank you.

Hemant First of all, I would like to know like you are targeting almost all the franchise stores to be -- to get opened in non-south. So, is there any particular reason behind it?

Ramesh Kalyanaraman Yes, so non-south, as you know, gives us a better gross margin. The gross margin gap between south and non-south is in the range of 8% to 10%. That is one reason.

Second is that we are very well penetrated in the south. We are there in almost all the Tier 1, Tier 2 cities. We are not very well penetrated outside South India. We have a lot of vacant markets there. That is why we are planning only for non-south markets.

Hemant Okay, sir. Sir, my second question is any kind of sub revenue target you have in mind that the previous participant asked, like, I think you can do more than 20% of revenue growth. So, any ballpark number, maybe a range?

Ramesh Kalyanaraman Unfortunately, you know our limitation. We will not be able to give any guidance. But on the whole, you would've got what exactly drives us this year and what plans we have and what has happened in Q1, and at percent, what is the status? So, we are really excited.

Hemant Even if you can't provide a specific number, maybe a range will help, actually.

Ramesh Kalyanaraman No, no, no. That is – we're not -- I'm very sorry.

Analyst Okay. Not a problem, sir. One more question from my side, like, it may sound actually weird, but I would like to know like any spurt in the gold prices, how does it affect the company? On the one hand, there is inventory gain, and on the second hand there may be a slow in demand. So how does it impact you overall?

Ramesh Kalyanaraman So on a consumer side, as you know, consumers have seen gold price going up, coming down, the fluctuations are already seen and consumers exactly know that gold is a long-term asset and a really good asset. And as gold here is not only seen as an investment, but also as a part of custom and ritual. So, on a consumer point of view, there is no impact. And consumer comes with a budget. If the gold price is very high, the volume, which he is going to buy, he or she, will be lesser. If the gold price is low, then the volume which he or she is going to buy will be higher, but the budget is not going to any. So, there is no impact or zero impact for a consumer point of view.

For the company, we don't take any prices or price gain on our inventory.

Moderator The next question is from the line of Prathamesh Agrawal from Varanium Capital.

Prathamesh Agrawal Congratulations for a very good set of numbers. I had this one query. So, what are -- what is the guidance on the – not a fixed number, but a ballpark average that we want to maintain on ads and promotional expenses?

Ramesh Kalyanaraman Yes, so Q1, we had a 2.2% of our revenue was spent for ad and promotion. And we -- it depends -- it varies quarter to quarter. So, plan is to restrict it between 1.8% to 2%.

Prathamesh Agrawal Okay. So, we want maintain it as a percentage, rather than an absolute, right?

Ramesh Kalyanaraman Yes, because we'll need to do that. If you have -- at different stages, you will have to -- you will have to invest in marketing depending upon the revenue and the revenue contribution from different regions or a market at a particular time.

Moderator The next question is from the line of Vaibhav Gogate from Ashmore Group.

Vaibhav Gogate Could you explain seasonality in this business?

Ramesh Kalyanaraman Yes, so seasonality Q1 and Q2 are more of south heavy. Q1 comes with Akshaya Tritiya. And Q3 is -- Q3 and Q4 are more non-south-heavy. Q3 starts with Dhanteras and Diwali and the wedding season. So, if you look at quarter wise, Q3 usually is the best quarter, second comes Q1, third comes Q2 and last comes Q4. The usual scenario. Almost Q2 and Q4 used to be similar.

Moderator The next question is from the line of Chetan Shah from Jeet Capital.

Chetan Shah Just one small quick question. This is specific to our, our franchise business model. If I have understood this correctly, we are kind of experimenting in a particular region, non-south area, and see how this is evolving. So, if you can give us some flavor that next two to three timeframe, how you want to take this forward, and what are the two or three important parameters you'll be tracking to take this on a fast track going forward. That will be very helpful from your side, please.

Ramesh Kalyanaraman So if you look at as of now, we already have signed 6 LOIs. We opened one store, and that is getting stabilized, stabilized in the way it is -- the operating model is stabilized. Otherwise, store opening or revenue at a store or walk-in, that is not what I mean, because that is all usual scenario wherein, we usually open 18, 20 stores a year. So, this particularly because it's a new operating model, that is why we highlighted that it has got stabilized. And our plan is to go aggressive on expansion through this model. But why we are holding it on now is just for the pilot franchise stores, which is the 6 franchise stores, which we want to open, we want to exactly understand whether the stability is there in the operating model, so that then we can accelerate the plant and go aggressive on expansion plan through this new window.

And for our understanding, there is a good pipeline franchisee people who are interested, and we have put them on hold because we want these stores to get stabilized. But I will give -- I will be able to give you more clarity on the progress by the end of this quarter.

Moderator The next question is from the line of Pankaj Bobade from Affluent Assets.

Pankaj Bobade Sir, first thing I would like to ask you is what is our target ROE going forward as our franchise business model stabilizes? So where do we want to take it from around 12% to 14% to what level?

Ramesh Kalyanaraman Yes, so all our new showrooms, the ROE is around 20%. So, the more new showroom comes, then it'll get averaged from the 12%, which is there today. And in between, as I told before, we have planned to -- meaning once the franchisee gets stabilized and once we go really aggressive on the franchisee expansion, once we don't use the full cash flow which comes for store expansion, there will be reduction in our bank exposure, which will take out certain securities, which again, comes in as cash access to the company, which will again, further improve our ROEs. So that is our target.

Pankaj Bobade So how many of our stores are so called old stores, which are contributing less?

Ramesh Kalyanaraman We have – meaning, only 1 store of franchise. Rest, everything is owned.

Pankaj Bobade No, no. You mentioned that out of -- we have 158 stores right now. The new stores are contributing 20% plus. The old one, which are contributing less, I just wanted to have a rough approximate number, how many are those?

Ramesh Kalyanaraman No, no, not -- I didn't mean like that because why it's told 20% is because the overhead expenses are borne by the existing stores. So, the corporate overheads are not increasing when we increase the number of stores. That is why we are highlighting that new stores are 20% ROE, and operating leverage will start stepping in. So, did I make it clear?

Pankaj Bobade Yes. I got your point. I just wanted to have a rough number. Okay, how many are the new ones, which has started -- which are contributing better?

Ramesh Kalyanaraman So all the new stores are contributing how we need it because of the -- of course, the revenue which we estimate from a store, gets achieved. So, it is not that one particular store contributes more.

Pankaj Bobade Okay. My second question is that we have a battery of celebrities for endorsement, I mean for advertisements. So, our A&P is relatively quite a high number, which is in -- which is a normal thing in jewelry business. But I have seen in some parts of -- especially central India, where the local stores are using their own customers as sort of celebrities to advertise. So have you looked at this angle, which maybe probably reduce your A&P. Maybe it may even dilute, but I just wanted to have -- request you to have a look at that thing.

Ramesh Kalyanaraman So I understood your question. So, in marketing, if you see, Kalyan as a brand, we are able to scale up throughout the country, which is very rare in the jewelry segment. We started from south, and we are able to penetrate into almost all the parts of this country. And that is because of the strength of the brand, which we have created over the past many years.

And we are well stabilized with our existing models for marketing and brand promotion. And the percentage of marketing expense, which we do is in very similar lines with the industry standard. It is in the range of 2%, 2.2%, is what the industry spends. It is more than that, in fact.

So, to answer you, whether we can use our consumer for marketing, we still do that on a micro level, but that cannot, anyway, substitute the macro level marketing which we do.

Moderator The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar Sir, I just wanted to understand on the debt side, how do we see debt build up going forward?

V. Swaminathan Our gross debt level is same as March numbers, which is INR 3,365 crore. And this will be stable as we go and complete this year.

Deepak Poddar But if I've seen interest cost, it's been declining since last three quarters. I presume it might be because of the change in mix of your gold versus your normal loan, right?

V. Swaminathan Yes, it is.

Deepak Poddar Okay. So current interest costs of INR 70 crore, INR 75 crore, is that the range you're looking at, I mean, in spite of this higher interest hike?

V. Swaminathan No, the number which you are saying, it includes lease interest, which is IndAS numbers. If you look at our financial cost -- that is bank interest, it'll be around INR 50 crore per quarter.

Deepak Poddar And that's likely to remain stable, right? I mean, in spite of that rate hike?

Ramesh Kalyanaraman Yes. So if you look at our interest, as I told -- mentioned before, you can expect that it can be marginally lesser than the last financial year because the gold metal loan quotient is increasing then compared to last years. Even though the interest cost there, has been increased by the banks, that will be negative because of the gold loan quotient, which we are increasing. So, when compared to the last year, you can expect a marginal decrease in the total interest bucket.

Deepak Poddar Net-net, after the impact of these two.

Ramesh Kalyanaraman After the impact, yes.

Moderator The next question is from the line of Prathamesh Agrawal from Varanium Capital.

Prathamesh Agrawal Sir, just one question. So, since we are -- I think that second half will be north-heavy, so what can we achieve, like 16.5%, 17% kind of level in the second half from a gross margin perspective, like with also previously stated in calls that whenever the studded mix ratio tends to move around 27%, 28%, we normally tend to make margins in that range. So would the exit for the year could come around 16.5%, 17%.

Ramesh Kalyanaraman So, if you see, the studded ratio before, pre-COVID, when even the studded ratio was 24%, we used to achieve a margin between 16% to 17%. If the south, /non-south revenue mix is 35/65. But now because of because of the new studded products, which we have launched wherein the gold content is high, the 24% studded ratio is actually -- it should have been 27% to get the same 16%, 17% margin. Last year, Q3 was 16% margin.

Prathamesh Agrawal: Okay. So, you are saying in a sense that because of the newer product mix, I think, you'll have to make that mix 27% to kind of achieve a 16%.

Ramesh Kalyanaraman: So when that mix goes to the range of 26%, 27%, then the margins will be in the range of 16% to 17%.

Prathamesh Agrawal: Okay. Do we expect that level by at least Quarter 4 or till that time we'll have clarity on non-south stores, franchise stores as well as -- since the entire store opening for this year is in non-south markets?

Ramesh Kalyanaraman: So the focus is on non-south markets. Studded ratio usually is very high there. So -- and Q3, Q4 are more non-south-heavy. Studded ratio should grow because of that. And last Q3, the margins were 16%. And our focus is also to grow the non-south revenue.

Moderator: The next question is from the line of Prashant, an individual investor.

Prashant: Sir, congratulations on a good set of numbers. Most of my questions have been answered. Just two financial questions. For this quarter, what has been the cash flow from operations before tax?

Ramesh Kalyanaraman: Can you repeat the question?

Prashant: What has been the ca -- what is the cash flow from operations before tax on a consolidated basis?

Ramesh Kalyanaraman: Okay. Just give me moment. I'll just tell you. You can go to the next question.

Prashant: Okay. And my next question is on the advertising and promotion expenses. It has been explained that we are very much in line with the industry, but as we -- so my -- other, the other way to look at it is that as we grow in the top line, do we still keep the same percentage or the absolute number will be same, so the percentage will kind of taper down?

Ramesh Kalyanaraman: No, we will surely bring down the percentage. That's why from 2.2% then we -- our target is 1.8% to 2%. It will be further brought down when the top line -- so it is not that consistently we'll be spending 2%.

Prashant: Okay. Okay. And on the cash flow side, sir?

Ramesh Kalyanaraman: Yes. One second.

V. Swaminathan: Yes. Our cash flow for the quarter is about INR 190 crore.

Shirish Pardeshi: INR190 crore. So, I guess, the buildup in inventory has been used to -- because the – if we see, the profit before taxes around INR 400 crore, at depreciation and so…

V. Swaminathan: No, you're talking about quarter or the full year, sir?

Prashant: Quarter.

V. Swaminathan: Okay.

Analyst: So, I mean is there a buildup in inventory in anticipation of business in the coming quarters?

V. Swaminathan: So this -- you understand, as the season comes or our new shops being opened, there'll be a continuous moment in inventory, which will be requiring buildup of inventory.

Moderator: Ladies and gentlemen, due to time constraints that was the last question for today. I now have the conference over to Mr. Ramesh Kalyanaraman, Executive Director, for closing comments.

Ramesh Kalyanaraman Thank you. Thank you very much for the -- for participating in this call. And we really look forward for a fantastic year ahead starting from Q2. So Q1, we are really excited and the way forward also, we are really excited.

Thank you very much and see you all soon.

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