"Kalyan Jewellers
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Kalyan Jewellers Q4 FY2021 results hosted by Axis Capital Limited. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah from Axis Capital Limited. Thank you, and over to you, Sir!

Anand Shah: Thank you Faizan. On behalf of Axis Capital, I welcome you all to the Kalyan Jewellers Q4 FY2021 and FY2021 earnings call. It is absolute pleasure to host the first earnings call post their listing. We have with us the senior management of the company represented by Mr. Ramesh Kalyanaraman, who is the Executive Director and Whole time Director, Mr. Sanjay Raghuraman – CEO, Mr. V Swaminathan – CFO, Mr. Sanjay Mehrotra – Head Strategy and Corporate Affairs and Mr. Abraham George – Head Treasury and Investor Relations. We will start the conversation with Mr. Ramesh giving the opening remarks and then followed by Sanjay sharing the take on the results. I will hand it over to Ramesh for opening remarks. Thanks, and over to you!

Ramesh Kalyanaraman: Thank you. Good afternoon, everyone. I hope and pray that all of you and your families are safe and secure. I am extremely happy to present to you our results on this maiden earnings call. I would start by thanking all our investors who have showed faith in us.

Let me begin by giving a brief overview of Kalyan Jewellers for the benefit of those who are not a part of the IPO road show meetings. Kalyan Jewellers was started in the year 1993 in Thrissur, our hometown in Kerala. My father, my brother and myself are in this business, since inception.

When we started the jewellery industry was majorly unorganized. We have been pioneers in introducing a lot of fair and transparent trade practices, be it hallmarked gold, rates tag which show the making charge of the product, Karatmeters inside the stores, transparency in terms of old gold exchange etc.

The taste and preferences for jewellery in India is different in each micro market. Our brand has been behaving very hyper local, right since inception. Hyper local meaning the product, the communication by way of marketing, the staff at the store, everything will be aligned to the local taste and preferences. This has helped us to be perceived as the son of the soil brand and enabling us to compete with local, regional, and unorganized players, thereby capturing a larger market share.

Another strength, which is unique to Kalyan Jewellers, is the MyKalyan network, which we have built over the past many years. MyKalyan is a marketing office, which is setup in catchment areas around Kalyan Jewellers showroom. It operates in hub and spoke model with marketing stuff and zero inventory. We have 760+ MyKalyan centres, spread across India with over 2,500 field staff. Today, if you look at Kalyan Jewellers, we are not only one of the largest jewellery brands in the country, we are one of the most trusted jewellers, extremely hyper local in nature and we have also created the MyKalyan network, which has enabled us to reach customers at the grass root level.

I would now like to provide some perspective on how financial year 2021 has been. It has been a very unprecedented year for all of us. We started the financial year in the midst of COVID lockdown, wherein in all our showrooms were closed. During the lockdown, our priority was to ensure safety of our staff, customers, and all stakeholders. We were closely monitoring the situation on the ground and could resume operations without any delay once the local authorities gave permissions. Thanks to the decentralized empowered mid-level management.

Q3 was the first fully operational quarter in the financial year 2021, wherein all our stores were opened. We saw a very healthy growth in revenue. This was primarily because of wedding and wedding-related demand. The growth which we saw in Q3 accelerated further in Q4. We saw a steep shift from the unorganized segment to the organized segment and the demand for wedding jewellery continued to show good traction. This led to a robust revenue of 61% in India and 43% on a consolidated level.

On the back of this revenue growth in India and a strong recovery in the Middle East operations, our Q4 PAT grew by 54% year-on-year. We had a one-time forex gain in Q4 in the last financial year and if we normalize for the same, our Q4 PAT grew by 71%. We successfully completed our IPO in March and started the financial year by opening nine new showrooms. We continued to see the same momentum which we saw in Q4 in terms of footfalls and demand. By mid-April certain states started announcing lockdowns and we saw customer sentiments also dampening. As we speak more than 80% of our showrooms are closed. However, we are better equipped, better prepared and are hopeful that we will come back stronger post this lockdown.

Now, let me hand over to our CEO Sanjay, who will take you through the performance highlights. Once again, thank you for joining us on this call. Stay safe and hope to meet you all soon in person. Over to you, Sanjay!

Sanjay Raghuraman: Thank you, Ramesh. Good afternoon everybody. Hope and pray all of you and your families are safe and well.

I shall start with the highlights of our performance during the quarter ending March 2021. Kalyan Jewellers posted a strong performance in Q4 of FY2021 with robust revenue growth in India and a strong recovery in our Middle East operations. Total revenue for the quarter came in at Rs. 3,057 Crores compared to Rs. 2,141 Crores for the corresponding quarter of the previous year.

The growth in India Standalone revenues was 61% and at a consolidated level was 43%. Profit after tax for the quarter was Rs.74 Crores which is a 54% growth, when compared to the corresponding quarter of the previous year and if we just look back at H2 numbers for the second half of the year, PAT came in at Rs.207 Crores, a 72% growth over the corresponding period in the previous year and in fact 45% higher than the full-year PAT of FY2020, a strong performance given the circumstances. The major reasons for the Q4 revenue growth in India were: first, the accelerated shift from the unorganized sector to the organized sector; and second the resilient wedding and wedding-related demand for jewellery.

In Q4 FY2021, gold jewellery revenue grew by 70% in standalone in India, and standard jewellery revenue grew by 37% in standalone India. This relative outperformance in gold jewellery revenues resulted in a decline in the studded ratio, as well as the gross margins in Q4 FY2021. For Q4 FY2021, the company recorded a profit before tax of Rs. 98 Crores, compared to Rs. 67 Crores in the corresponding quarter of the previous year, a 47% growth. EBIT for the quarter came in at 173 Crores, compared to Rs. 119 Crores in the corresponding quarter of the previous year, a 45% growth.

Moving now to H2 numbers, the profit before tax came in at 263 Crores, when compared to 174 Crores in the corresponding H2 of the previous year, a 51% growth and EBIT for H2 FY2021 was 429 Crores, compared to 306 Crores in the corresponding H2 of the previous year, a 40% growth.

Moving to numbers for the full year for the financial year ending March 2021, total revenues came in at 8,573 Crores, against Rs. 10,101 Crores in the previous year, a 15% decline. The decline in India revenues; however, is only 6.6% for the full year. For the full year ending March 2021, the company posted a loss of 6 Crores, primarily because of a one-time write-off in the Middle East business of approximately 100 Crores and due to the revenue loss in Q1 FY2021, because of the COVID lockdown. The India business; however, posted a full-year profit before tax of 187 Crores compared to 235 Crores in the previous year.

I will now share some information about our Middle East business. The Middle East operations contributed 14% to our consolidated revenues during Q4 FY2021. We posted revenue of 425 Crores during the quarter versus 502 Crores in the corresponding quarter of the previous year and profit after tax for the quarter ending March 2021 was 7 Crores versus a loss of Rs. 9 Crores for the corresponding quarter in the previous year.

The revenue degrowth of 15%, which you see is mainly due to the closing down of seven outlets during June 2020 in the Middle East. We successfully restructured our Middle East business and have been able to post a profit after tax of Rs.18 Crores in H2 FY2021 versus profit after tax of Rs.5 Crores in the corresponding period of the previous year even with only 70% of previous year H2 revenues.

Moving now to our e-commerce business; Candere posted revenue of 22 Crores during Q4 FY2021 versus 13 Crores in the corresponding quarter of the previous year. PAT came in at 53 lakhs versus a loss of 37 lakhs for the corresponding quarter in the previous year. Full-year FY2021 revenues came in at 82 Crores versus 56 Crores in the previous year and the business turned profitable for the first time since our acquisition in 2017 posting a 3 Crore PAT versus a 2 Crore loss in the previous year.

With this, I am concluding my comments on the financials. Before, I open the floor for questions, I would stop by saying, going forward we expect the performance will be even better because of the operating leverage that will further kick in as our expansions will be in states where we are already present which will improve our bottomline and the return profile. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Mathur from Citi Group. Please go ahead.

Aditya Mathur: Thank you, good afternoon. Could you share a little bit about the MyKalyan initiative and what is the contribution of this to the business over the past year and I think a followup to that, how should one think of the expansion in this network as you are growing over the next couple of years, I think some light on that would be great? The second question I had was on the jewellery advance purchase scheme, I mean, how relevant is it, what is the current salience and if you could just talk a little bit about how it has been on the past one year and could you face a few challenges with some given that the enrolment would have been slower same time last year?

Ramesh Kalyanaraman: First question about MyKalyan. MyKalyan as I told you it is a hub and spoke model where we have six to seven MyKalyan Centers across or near the proximity of Kalyan Jewellers main showroom. So, they meet the customers at the doorstep, and they divert them to the main Kalyan Jewellers showroom. That reference sale from MyKalyan it is almost 20% of our total revenue and the Gold Saving Scheme enrolment also 35% is contributed through MyKalyan. So, MyKalyan going forward again when we open more stores, MyKalyan will also be opened near those new stores, because every store has a six to seven MyKalyan centers in and around it. Hope I answered the MyKalyan bit.

Aditya Mathur: If I can just ask a couple of things on that, Ramesh Sir, you said 35% of the gold sales enrolment, so how much would that be in an overall context, if I were to add both the referrals, as well as the gold sales what would be contribution to last year and I just also wanted to clarify on the expansion bit that you spoke about, could you just share a little bit about how…

Ramesh Kalyanaraman: The last bit I could not hear, I think your line got cut off, the last bit.

Aditya Mathur: The last bit was if you could tell us a little bit about South and non-South split for MyKalyan, and that will help us to understand and the plan?

Ramesh Kalyanaraman: Yes, the first thing is that 20% is direct revenue which comes from MyKalyan, 35% is the scheme enrolment, so usually the scheme revenues around 23% of the total revenue. So, 23% is the total scheme revenue which comes out of which 35% is from MyKalyan. So, if you add that it will be in the range of 26%-27% of the total revenue and regarding next one is the South, non-South, right?

Aditya Mathur: Yes.

Ramesh Kalyanaraman: It is almost similar. So we have showrooms, which has six or seven MyKalyans in and around the main Kalyan Jewellers in South India also, the same format is followed outside South as well.

Aditya Mathur: Got it. Could you also talk about the Jewellery Advance Purchase Scheme, question on that contribution, how much, I think you have already spoken about the 23%, has that changed over the last few years and do you expect?

Ramesh Kalyanaraman: If you look atQ4 you know that by March actually the Gold Saving Scheme contribution came down only in the month of March, it was only 12% to 13% because the COVID lockdown of previous year usually customer limit for 11 months and shop at the end of the 12th month. So, when the lockdown started in March last year, our enrolment would have been dampened at that time and that is why the Q4 scheme revenue is only 12% to 13% but however, the scheme enrolment in Q4, we had a growth of 27%.

Aditya Mathur: Understood Ramesh. Thank you.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Good afternoon and thanks for the opportunity to the team. I had two questions, now the IPO has to happen, could you talk something about what is the current debt level, may be as of March 31 and maybe as of now and my second question is that could you talk about the consumer behaviour, of course, most of the India is under lockdown but I am sure, MyKalyan is still operational, so any kind of leads which we have seen in terms of the resilience in the month of April and May. I am not looking for number perspective guidance; I am looking how the operation is locking out?

Ramesh Kalyanaraman: Q4 actually we saw very good growth, now we grew by around 60% in India in terms of revenue especially if you look at January-February in Q4, our growth was in the range of 35% in India. When we opened up in April, the financial year actually the momentum was very similar to that we saw in Q4 but of course after two weeks, we started seeing certain states the lockdown was announced and the customer sentiments also dampened and if you look at us today more than 80% of the showrooms are closed, so we saw good momentum in the month of April when we started also, we opened nine new showrooms as well in April, of course, that is also closed as of today but we opened the nine new showrooms. That is the consumer, what you call demand pattern, which I would like to highlight in the month of April. So, now if you look at very few stores are opened and even the stores which are open, we have limited working hours three hours, four hours a day, so it is very hard for us to give a view of the financial year at this point in time. I think by June end when the stores start opening, we will be able to give a clean overview or a roadmap for this year.

Shirish Pardeshi: Thank you Ramesh. The follow up which I was asking is that whether this MyKalyan operation is on or that is also standstill now?

Ramesh Kalyanaraman: No, everything is closed, when the showroom is closed, it is a state lockdown, so what happens is that movements completely getting restricted, staff cannot move, etc., so, when a state is under lockdown, Kalyan Jewellers is also closed, and MyKalyan is also closed.

Shirish Pardeshi: Okay, my second question was on debt?

V. Swaminathan: The consolidated level our debt is 3,378 Crores as of March 31, 2021.

Shirish Pardeshi: Any thoughts how this is going to pan out over next one year – one and a half year?

V. Swaminathan: As we told earlier that we are not planning to increase the debt levels and as and when the internal accruals start coming in progressively the debt will reduce.

Shirish Pardeshi: Thank you. I have more questions I will come back in the queue.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Thank you so much and congratulations. Sir, two questions from my side, first on the MyKalyan network, just to understand that ideally do we open the MyKalyan network around the main stores in rural areas only or it is something that we look at opening even in the cities and even some of our competitors in Southern India have a similar concept or this is unit to Kalyan Jewellers?

Ramesh Kalyanaraman: MyKalyan of course, we have very good presence in the Rural India, the main intention is to bring in the unorganized segment to Kalyan Jewellers but in the metros also, we have MyKalyan centers around each showroom. For example, we have MyKalyan stores even around in showrooms in Mumbai, for example in Borivali we have MyKalyan Center in Virar, Vasai, etc., so that is a micro market for us which pushes customers to the Borivali store.

Nihal Jham: That is helpful and if I recollect that as a part of our analyst meet, we had also mentioned that we had tried soften jewelry as a part of for the MyKalyan network which is a pilot big space, I just wanted to check that, is it something that we still plan to continue in the future or that is an initiative that we are going to pursue?

Ramesh Kalyanaraman: Actually in 2019, we tried out to make MyKalyan also a revenue center by itself and not only driving sales to Kalyan Jewellers, but that strategy did not work properly in 2019 and the MyKalyan actually could not do either of them properly, they could not sell the inventory in MyKalyan and they could not drive the customer to Kalyan Jewellers as well. So, we changed the strategy and came back to our old mode and again if you look at now, the sale contribution from MyKalyan is back to normal. So, we would like to continue the way what we are doing now, and we do not intend to change any strategy in the immediate short-term.

Nihal Jham: Last question from my side, this is specifically to our core market of Tamil Nadu, one of our national competitors also mentioned that they are trying **(audio cut) 23:48**, while you do mention that there is a strong shift from unorganized to organized happening and I am sure that is benefitting lot of the player but just in terms of the competitive intensity among the organized players specifically in our main market, how is that shaping out and would you have any sense if you have gained share amongst that peer set also?

Ramesh Kalyanaraman: Yes, if you look at our growth, we grew more in South India than in non-South., so South India growth was around 70% and non-South India growth was around 47%. So, we had growth in Tamil Nadu in the same range of 70%. Tamil Nadu is already we have huge market share in Tamil Nadu. We could again grab more market share in that state. We saw a lot of unorganized shift from unorganized to organized and we saw a lot of demand for marriage and marriage related revenue even in Tamil Nadu.

Nihal Jham: Okay, that is helpful. I will come back in the queue for further questions. Thanks.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much, Sir. Just wanted to understand, you replied to the last participant about reduction in debt, so, any kind of debt reduction plan we have for next two years, any thought process on that?

V. Swaminathan: Our current debt equity ratio at consolidated level is 1.12, so over next couple of years, we target to reach it to around 0.75.

Deepak Poddar: 0.75 over next two years?

V. Swaminathan: Yes, 0.75 over the next three years to four years, we intend to bring in down to 0.75. It was earlier at 1.7 before the IPO, now it is at 1.1. Further, we will bring it down 0.75, but it is not by reducing our debt. It is by adding our equity by way of…

Deepak Poddar: Okay, at the absolute level our debt level can be at the same range, right?

V. Swaminathan: It is in the same range, yes.

Deepak Poddar: That is what on maybe next two years to three years?

V. Swaminathan: Yes, we intend to maintain the same range in terms of amount, but the debt-equity ratio will be improved over the years because our earnings will also come in.

Deepak Poddar: Understood and over the next one year to two years, any kind of outlook you can share on the revenue side or the margin side, so that would be quite helpful?

Ramesh Kalyanaraman: Okay, so revenue this financial year, as I told you, we started in April, it was good, but then stores started closing down and now we are not in a situation to talk about revenue because, first of all, most of the stores are closed down. Second of our, the sentiments of people has to be kind of respected but what we saw last year was that post-lockdown the demand started coming in, it started coming in Q2 then Q3 momentum was better, Q4 it was extremely good. So, that is what we expect that this year will also be like but however by the end of June when all the stores start opening, we will be able to give a more better view and regarding the gross margin which you asked, there are majorly two drivers for increasing our gross margin. One is that increasing our non-South revenue by adding more showrooms in the non-South markets where the margins are usually better than South India. Now, we have 65% of the revenue coming from South which we wanted to bring it down to 50%, meaning 50% of the revenue we want to do from outside South markets by adding showrooms there in the next five years, that is our vision wherein, the gross margin will improve automatically because the gross margins are higher outside South India usually. Second thing is that our studded ratio usually we do lot of innovative things, our incentive systems are also aligned to improve our studded ratio, our campaigns are also aligned to improve our studded ratio that will also improve our gross margins; however, in Q4 there was a disproportionate increase in the gold revenue. The gold revenue grew by 70% and the studded revenue grew by 37%. That was one disproportion which happened. The second thing is that South India, the revenue grew by 65%-70% and non-South India revenue grew by 48%. So, these two together plus the import duty, the customs duty impact the reduction actually reduced our gross margin in Q4.

Deepak Poddar: Sir, understood that point, so basically, what you are saying is that non-South we are planning to increase 35% to 50% over next four to five years, right?

Ramesh Kalyanaraman: Yes.

Deepak Poddar: Okay. Sir, can you highlight what is the difference in the gross margin, so that will have some idea?

Ramesh Kalyanaraman: Yes. So, usually the gross margin outside South India is in the range of about 24% to 25% and in South India it is in the range of 14% to 15%.

Deepak Poddar: 14% to 15%in South, so it is a big difference.

Ramesh Kalyanaraman: Yes, it is a big difference.

Deepak Poddar: So, what is the reason over there?

Ramesh Kalyanaraman: First of all, outside South India the studded ratio is 30%, in South India is in the range of 21% to 22%. I am talking about the usual scenario. This quarter has been behaving a bit differently, because the gold revenue has been too high. I am talking about a normal SSD growth of 6% to 7% when it comes; I am talking about that kind of quarter or that kind of financial year. Usually, the studded ratio outside South India is 30% and in South India is in the range of 21% to 22%. That is one major reason for the margins to be better outside South India.

Deepak Poddar: Okay, understood. Yes, that is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Abul Fateh from Baroda Mutual Fund. Please go ahead.

Abul Fateh: Good afternoon, Sir. I just wanted to know, assuming the things normalize by say June. So, what is the plans, how many stores do you want to open across the country and the mix between South and non-South and also the money that will you be spending on capex differentiating between working capital and the capital? Thank you.

Ramesh Kalyanaraman: This financial year the plan is to open 21 new showrooms, out of which nine has already been opened in the month of April, five are ready to open that was in Maharashtra and Delhi, unfortunately the COVID lockdown in those states were announced and we could not open it. Once the lockdown is lifted, we will assess the market and launch the same, so out of the 21, nine is done, five will be done very shortly and the rest will be done in the financial year that is the plan, and when it comes to investment the usual investment plus showroom is Rs.30 Crore for inventory and Rs.5 Crore for capex, that is the usual standard investment for a 5,000 square feet showroom.

Abul Fateh: Okay and out of these nine that you have opened what is the mix between South and non-South?

Ramesh Kalyanaraman: Out of the nine, eight were in South India and one was in Gujarat.

Abul Fateh: These five that are ready to open are in Maharashtra and Delhi?

Ramesh Kalyanaraman: Yes, three in Maharashtra and two in Delhi.

Abul Fateh: Okay. Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Mustafa Khedwala from Cube Investments. Please go ahead.

Mustafa Khedwala: Good afternoon, Sir. Sir, the metal loan of our company has gone up substantially; erstwhile the banks were reluctant to give out metal loans. So, have we seen any improvement there, can you shed some light? That is my first question.

Ramesh Kalyanaraman: Yes. So, should I answer that or wait for your second question?

Mustafa Khedwala: No Sir, you can go ahead Sir.

Ramesh Kalyanaraman: Yes, one second.

V. Swaminathan: Yes, Mustafa we have increased our gold metal loan substantially from last year to this year. Unlike, in the past there is no restriction as of now from the banks in wrapping up our metal loan. So, our target is to further improve it. We have scope to increase it by another Rs.800 Crores to Rs.1,000 Crores.

Mustafa Khedwala: Sir, you have also mentioned that there has been a large shift on the unorganized to the organized segment. So, Sir can you shed some light as to how much of the market in South especially is organized versus unorganized and how much market share have we actually gained?

Ramesh Kalyanaraman: Yes. If you look at the new customer footfalls, it has been in the range of 50% plus, which means that the markets have improved. That has been constant in South, as well as non-South.

Mustafa Khedwala: Okay, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Mittal from Edelweiss. Please go ahead.

Deepak Mittal: Good. So, congratulations again for the IPO and for the first earnings call. My question is with respect to the gross margin, there has been a very significant decline if you look at the gross margin as percentage of revenues. Last year, last quarter it was 21% plus and this year, last quarter is less than 15%. So, again just trying to understand what really happened? Is it that we took certain inventory risk, but the pricings of course not favour?

Ramesh Kalyanaraman: In that last quarter, there were one-timers, which have made it 21%, our usual gross margin is in the range of 17%. That 17% versus 14.6% to be precise in India, that gap has been majorly because of or only because of the three factors. One, the South Indian revenue grew more than non-South revenue where I told you that South India gross margins are lesser than non-South markets, that is a bit of a disproportion. The second is that the growth in plain gold jewellery was at 70% and the studded jewellery growth was at 37%. That was the second disproportion. The third one is that even in the plain gold, we saw the unorganized segment asking for the staple low-margin products, which was in high demand, because usually the unorganized segment first shop those kind of products wherein they would have saw that with their neighbour or their friend and they come for the same kind of product which because Kalyan Jewellers is a hyper local brand and we stock the local inventory, we could cater them. However, the gross margins in those staple products will be lower than the plain gold jewellery, which we sell otherwise. So, these three things, plus the customs duty cut actually brought down from the normal 17% to 14.6%.

Deepak Mittal: Any guidance you would like to give on gross margins as we model this business for next two years - three years?

Ramesh Kalyanaraman: Yes because we have seen a huge momentum in revenue growth. If this is the kind of growth which is going to be there in the future which we do not know, whether this momentum of 50% - 60% is going to continue or not if that is the case, the gross margins will be in this range or a bit better than this range, because you see lot of plain gold coming in. But if you look at a normal year where your studded ratios in the range of 23% - 24%, the South non-South mix is 35% - 65%, it should be in the range of 17%. That is a normal kind of gross margins which we should have done. But once it is actually growing in a disproportion like this, your gross margins will again get in this level 14.5% to 15%, but two things which I have to highlight there is that: one, the customer who is coming now on a staple product, the customer is going to stay with us and this same customer is going to give us a higher margin revenue in the future, because the stickiness in our industry is extremely high. There is very rare chance that a customer goes out from a brand, especially in our sector. The second thing is that the five year vision which I told wherein more number of stores outside South India where the margins are higher will take your gross margins on a higher note. So, these are the two things which just I wanted to highlight. But if you look at the gross profit on a volume, it was very high in Q4 so, that is what I want to just highlight.

Deepak Mittal: Thank you so much for that. What is the current situation of 170 stores, how many stores are currently operating, what has been the kind of traction in the last two months of April like after results April and May in these two months, given that there has been lockdown situation on and off in many states in the country?

Ramesh Kalyanaraman: Yes, Sanjay, you want to take.

Sanjay Mehrotra: As we speak now about 75% to 80% of our outlets are closed. I think it is closer to 80% today as we speak and that has been the trend over the last 45 days. Having said that, gradually we are seeing relaxations coming through in various states as things are getting better to some extent relatively speaking and it is difficult to put out a number saying how soon or a date how soon we can get back to normal. But we hope by June we can have, the opposite of what I am saying, which is 75% shops operational as against 75% closed now.

Deepak Mittal: Yes, and in the Middle East the 30 stores in Middle East, are they operational right now or there also there are issues with restricted lockdown and COVID?

Ramesh Kalyanaraman: Yes, for Middle East, all the showrooms are open. Middle East, there is no lockdown. However, from the second week of April where the air connectivity etc., was stopped from Middle East to India and from India to Middle East, the revenue is a bit softened there. Akshaya Tritiya was good, but otherwise the momentum has been a bit softened when you compare with your Q4 momentum.

Deepak Mittal: I will come back in the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: I just had a couple of questions. So my question was that what is the absolute amount the funding now which is the company which the company is taking from gold metal loan and how much of the gold buying is funded to that and when we are giving the guidance of say 0.75 x that is equity in the next week four years and currently it is 1.1 in absolute amount what sort of a debt reduction you are looking for in the next three four years and my second question is what is the quantum of inventory gains you do you can see increase in the gold prices in the first half of last year because I presume that Kalyan was having most of the gold it was owned by them because taken by taking back from the event banks so these are the two questions?

Abraham George: This is Abraham here. So, on your first question on the total debt, we have total debt of Rs.3,378 Crores, out of which Rs.1,418 Crores is by way of gold metal loan, and the remaining is largely OCC just aboutRs.50 Crores to Rs. 60 Crores is term loan, but the remaining entire portion is OCC. The second question was on the debt reduction. Just want to clarify it here, our intention is not to reduce the absolute amount of debt. The absolute amount of debt will remain more or less the same at Rs.3300 Crores, level. But what we were trying to say is that with more internal accruals coming in the debt, equity ratio will gradually comedown and our target is to take it to something like 0.75x. That was the point that we were trying to make. The third question I think from your side was on the metal profit. Yes, we did have some metal profits in the first half and that was in Q1 which was closer to Rs.40 Crores.

Amnish Aggarwal: Okay. So beyond the Rs.40 Crores, there is no other quantum of gains from the inventories?

Abraham George: No, not after that.

Amnish Aggarwal: Okay, and Sir, now as your balance sheet has improved, so why do we want to keep debt at Rs.3,300 Crores levels, is the cost of our debt more than taking the gold metal loan?

Abraham George: Your question is not clear if you could just clarify the question.

Amnish Aggarwal: You see gold metal loan we plan to increase but you are saying that our debt will remain more or less at the same level so my question is that is our cost of taking that lower then if we take gold under gold metal loan because the gold metal loan is cheaper then we better take more gold metal on and reduce that further?

Abraham George: No, I got your question. So, the Rs.3300 Crores debt is including the gold metal loan of Rs.1400 Crores, and our cost of taking gold metal loan is actually cheaper than our OCC. Gold metal loan cost typically is in the region of 3.75% to 4%, compared to the OCC costs, which is in the region of 10.5% to 11%, and our target is to increase our gold metal loan component from the existing Rs.1400 Crore gradually up, that is the target and this will reduce our overall interest cost also.

Amnish Aggarwal: Okay. But the absolute debt amount you are saying will not come down?

Abraham George: Yes, the total of gold metal loan plus the OCC will not come down.

Amnish Aggarwal: Thanks.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Thanks for the opportunity, and the follow-up which I wanted to ask on the international business. So, we have closed seven showrooms as per the slide which you have put it. Is there any further room for reduction and the follow-up what I have is that, what is the plan like you gave the India plan opening up of the showroom, if you could share in the Middle East, and the second question which I have on the profitability, is this a steady state profitability one can build in, in our model or is there any further legs to improvement further?

Ramesh Kalyanaraman: So, in terms of the closure of Middle East, seven showrooms which we did, that was predominantly in the tourists areas and the blue-collar workers who were residing in those markets, wherein, we did not see any visibility for the next two-three years because of the COVID situation that is why we closed those showrooms. So, we have 30 showrooms, it was 37 in the previous financial year. If you look at the Q4, we had 85% of the revenue of the previous year even after closing 18% of our showrooms. That is the Middle East status as of Q4. However, there was a lot of consolidation which has happened in the Middle East market, wherein the organized players are actually taking the market share, which helped us to improve our gross margins which were usually in the range of 13% to 14% to a 16% to 17%, which is today. So, there has been an improvement in gross margin as a percentage and the revenue is 85% even after closing down 18% of our showrooms.

Shirish Pardeshi: I got that Ramesh. What I wanted to understand, if you can share the store opening plan for next two three years in the Middle East market and the question which I was asking is this a steady state margin which can build-in?

Ramesh Kalyanaraman: Yes, it is a steady state margin as of now, because the margins have improved in that market and the small players are vacating, many people have vacated. So, this margin is going to stay for Middle East, and in terms of expansion in Middle East, we will be opportunistic in that market over the next 12 months to 24 months and then decide on the expansion. The IPO which has been done will be fully for Indian expansion and the Middle East expansion will be only with the profits earned there.

Shirish Pardeshi: Thank you, Ramesh and all the best to you and the team.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Team good afternoon. Just a couple of questions from my side. One, just wanted some perspectives from you on hallmarking which is now expected to be implemented from June 15 of June. The reason I am asking, because some of the statistics looks too good to be true, because maybe there is like 400,000 Jewellers in India at less than 10% are BIS registered. So, just trying to understand two things from you one is it realistic to expect the implementation of hallmarking in such a short span and that too in times like these. Point number two, how do you look at it from realistic benefits assuming it actually gets implemented?

Ramesh Kalyanaraman: Hallmarking first of all, whether it is realistic or not, but it is going to help us big time for organized segment, because now people shopping with the unorganized segment, I would not blame everybody, but certain unorganized players do sell inferior quality, which customers are unaware, customers think that they are selling cheaper and they go to them. That is going to get stopped now, because they will have to sell pure gold. Again, this will drive customers from the unorganized segment to organized players like Kalyan Jewellers. So it is going to help us big time and in terms of implementation June 15 we do not know whether they are going to implement, because COVID times we really do not know but they have been pushing it for one or two times before. So, I think implementation is not going to be extremely tough. Hallmarking centres are there everywhere now. They can do it and I think it is a need of the hour we should make the industry pure, because it is going to help the industry totally, like Dubai, for example, Dubai, anybody can buy, and they are sure of the purity. So, purity should be assured which is actually giving a positive momentum for the whole industry. So, I do not know whether June 15 but it should come very shortly.

Manoj Menon: Understood. In fact, I was surprised that the postponement by only 15 days, I mean suppose from June 1. Actually, that is fairly straightforward. The second thing on your performance, it was very pleasing to actually see the significant acceleration in the Southern India markets 70% growth is like stunning. But at the same time just trying to understand, is it more to do with, maybe there are two tailwinds I could see. One, the weddings etc., probably happened as planned and so, there was probably a market tailwind there. Point number two I am sure there would have been some activities which you would have done as well. So, just trying to understand that the sustainably of the South outperformance angle it is not about the numbers as such but that depends on gold price, the lot of other factors which may come in. But would you be able to, let us say, on a same-store level basis I am not even counting the number of new stores etc., to ensure that South continues to outperform or how do you think about this aspect?

Ramesh Kalyanaraman: Yes. One reason why South is outperforming outside South India for Kalyan Jewellers is that, in South India we are there in almost all Tier 1, Tier2, and Tier 3 cities here wherein, people who were residing in a metro in South, even if they have migrated to their hometown, we are able to actually cater them, because our stores are there in the rural villages, actual meaning the Tier 2, Tier 3 cities as well. But outside South India, we are there only in Tier 1, Tier 2 cities wherein if a customer is in Mumbai now residing at Kolhapur for example, due to COVID, we will not be able to cater them. So, that is the major reason what we feel that the revenue growth is more in South than in non-South.

Manoj Menon: Got it. Is there anything on the competitive activity or intensity part in South which would have changed or anything which would have done better other than the macro part here?

Ramesh Kalyanaraman: So, we are always hyper local player. So, when the shift happened from the unorganized segment to the organized segment, we would have benefited as what we feel and we could cater them, well because we already have the staple products. And the second thing is that as I told you, people who are residing in a metro when they come to a Tier 3, Tier 4 city as of now, because they work from home, we have stores there to cater them. These are the two major highlights where the South revenue actually grew is what we feel.

Manoj Menon: Understood. Lastly, on the customs duty reduction impact, would you be able to give some sort of a colour on let us say what it is this one-off the reason I am asking, because this is actually sitting in the margins and obviously this is a one-off there has been a few questions asked earlier about why the gross margins have declined etc., just trying to understand from a forecasting point of view, how much should I take as the one-off so that we will have a probably better handle on 2022-2023 estimation?

Abraham George: Abraham here. I am not too sure, if I can give you an exact amount here on the impact of customs duty cut. But the reality is about 2.5% duty cut was there and given our current inventory turn, this should take about five months for the impact to be washed out, out of which two months have been consumed in the last quarter and we will need three full months of operations to completely take the impact out. Why would not be able to give an exact amount it is slightly comparatively sensitive the calculations.

Manoj Menon: No, understood Sir, because I remember pain of compensate with Titan as well. So, we do not really have a number as such from Titan also on this.

Abraham George: Broadly you can do back of the envelope calculation this is like a 2.5% knockdown on the gold inventory.

Manoj Menon: Thanks guys. All the best. Stay safe.

Moderator: Thank you. The next question is from the line of Vinod Malviya from Union Mutual Fund. Please go ahead.

Vinod Malviya: Congratulations for a good set of numbers. My question was on gold loan. The total gold loan what you have, how much is it pure sitting0 on the loan, to collateral or any form like collateral either bank guarantees or letter of credit and how much is unsecured component?

V. Swaminathan: What is your question? Can you repeat, please?

Vinod Malviya: I wanted to understand that the gold on loan what to have how much of it is back through letter of credit of bank guarantees and how much is unsecured or is it like 100% back through letter of credit?

V. Swaminathan: See, the gold loan is part of our consortium banking arrangement. There is no separate collateral etc., it is part of the overall working capital limits which has been carved out. It is fungible between GML and CC limits.

Vinod Malviya: Okay and when you say that 4% is basically the cost of gold on loan that includes the collaterals which has also been taken for the gold on loans?

V. Swaminathan: No, there is no separate add-on towards collateral costs. Collateral is part of the consortium banking arrangement nothing tied up to specific goal metal loans. So, there is no additional cost to be added for goal metal loan.

Vinod Malviya: Okay. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, Congrats. Just one question, in the presentation you had spoken on MyKalyan and hyper-local multiple times. So, wanted to understand five years down the line how much percentage of revenue you expect from this, and second is in consumption we see any good practice being strictly followed by rest of the players. So, what part of the industry also does this kind of a practice?

Ramesh Kalyanaraman: So, MyKalyan is a unique marketing tool which only Kalyan Jewellers has still today and if you ask the revenue growth from the MyKalyan actually, it has been growing about 0.5%, 1%. So, now it is in the range of 20% which will actually go to range of about 22% to 23% over the next couple of years is what we feel.

Abneesh Roy: What is the entry barrier here? Why rest of the players is not doing?

Ramesh Kalyanaraman: So, this MyKalyan we have started about 10, 12 years before wherein initially for the first three years or four years you will have to be very patient wherein you will do tie-ups with marriage halls, you will do tie-up with all the marriage and marriage-related vendors like astrologers, caterers etc., event managers wherein, you will not see any revenue coming in for the first two or three years, wherein you will be building your team, building your marketing team, building your relationships etc., it is a long-term call which many players did not take at that time, many players tried, but on a short-term they came out. So, it is a long-term game where you will need a couple of years to establish MyKalyan infrastructure is what we feel. Now it is paying off for us because of our patience.

Abneesh Roy: And obviously team's remunerations will be linked to both fixed and variable, right?

Ramesh Kalyanaraman: Yes, we have taken office, so office has a rent and we employee staff, staffs has to be paid salary and we pay a good variable as well for the revenues and all are under our payrolls, it is not kind of outsourced mechanism. We have more than 2,800 staff working in MyKalyan.

Abneesh Roy: The expansion will be linked to the number of physical stores, which will allow stable case?

Ramesh Kalyanaraman: Yes, it is linked to the physical store expansion, because usually six to seven MyKalyan centres are usually the typical model is to open six to seven MyKalyan centres around the main Kalyan Jewellers showroom.

Abneesh Roy: That is all from me. Thanks a lot.

Moderator: Thank you. The next question is from the line of Abul Fateh from Baroda Mutual Fund. Please go ahead.

Abul Fateh: Sir, I just wanted to know how should we look at your tax rate in the next one year or two years, how do we model it?

V. Swaminathan: Yes, your question on the tax rate even currently it is 26%. So, by and large, it will be the effective prevailing rate of taxation which is 25.17%.

Abul Fateh: Okay. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Ramesh Kalyanaraman: Thank you, Ramesh here. Thank you all for joining us on the call. Please stay safe. We will again catch up later in the next quarter. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.