



**“Kalyan Jewellers
Q3 FY2022 Earnings Conference Call”**

February 04, 2022



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Moderator: Ladies and gentlemen, good day and welcome to the Kalyan Jewellers Q3 FY2022 earnings conference call hosted by ICICI Securities 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. Aniket Sethi from ICICI Securities Limited. Thank you and over to you Sir!

Aniket Sethi: Thanks Lizaan. Good afternoon everyone. At ISEC it is our pleasure to host the Q3 FY2022 earnings call of Kalyan Jewellers. The company is represented by Mr. Ramesh Kalyanaraman, Executive Director, Mr. Sanjay Raghuraman, CEO, Mr. Swaminathan, CFO, Mr. Sanjay Mehrotra, Head of Strategy & Corporate Affairs and Mr. Abraham George, Head of Treasury & Investor Relations. With that I will hand it over to Mr. Ramesh for his opening remarks post that will open the floor for questions. Thank you.

Ramesh Kalyanaraman: Thank you. Good evening everyone and I am very happy to meet you all again. Hope everyone is safe and healthy. The recently concluded quarter has been very encouraging and we witnessed strong revenue growth momentum across India, Middle East and our online business. Gross margins improved sequentially for the recently concluded quarter and it is in line with the trend which we have witnessed in the past several quarters. We are encouraged by the expansion in gross margin over the past two quarters especially as it is nearing our pre-COVID level.

Key drivers for margin expansion in India have been improvement in both standard share and share of revenue from non-south markets and our standard share saw a meaningful growth sequentially as well as when compared to the same period in the previous year. We also witnessed improvement in our goal saving scheme enrollments sequentially as well as when compared to the same period in the previous year. Share of revenue from My Kalyan has also improved sequentially and it is settling down around the pre-COVID level. Expansion for the current year has been on schedule out of the 21 showrooms planned for FY2022 15 have already been opened including five showrooms in Q3. We continue to be encouraged by the performance of our recently opened stores and we believe this bodes well for our expansion plans going forward.

The next update I want to give is about our franchisee initiative which I mentioned in our previous earnings call. We believe selectively exploring this route in certain regions in India will enable us to further accelerate our growth profile as well as this will expand in a capital



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efficient manner. We are currently in the final stage of selecting and performing diligence on the first set of franchisee partners. This will be a pilot project and once the model is validated we shall ramp up the franchisee stores during the year. In the initial phase we will be following the franchisee owned company operated model.

Now let me give you an overview of the current operating environment. First of all let me highlight the fact that we started the ongoing quarter on a very high base. Our revenue growth was over 60% in Q4 of the last financial year and if we look at only January the growth was in excess of 25%. January this year has seen showroom closures due to COVID especially during weekends, only 82% of our showrooms were operational on weekends and on an average for the month about 94% of the showrooms were operational. Even with this background the revenue growth has shown good momentum when compared to January 2020, but when compared to the previous financial year the January numbers have seen a marginal degrowth. Post January we are seeing removal of lockdowns in most of the markets and also recovery in demand, but there have been fresh lockdowns announced in Kerala which we hope will be lifted soon. To conclude lot of celebrations have been pushed to the second half of this quarter and possibly to the next quarter even the resilience of our sector which we have witnessed in the past we expect strong demand recovery for the rest of the season. Overall we are continuing to feel good about the business and our operating performance. I will now hand over to our CEO, Sanjay to take you through the Q3 financial performance. Thank you. Over to you Sanjay!

Sanjay Raghuraman: Thank you Ramesh. Good afternoon everybody. I am really happy to be talking to you all after a great quarterly performance. For the just concluded quarter our company reported consolidated revenue of Rs.3435 Crores a growth of 17% over the corresponding quarter in the previous year. Consolidated EBITDA was Rs.299 Crores versus Rs.288 Crores in the corresponding quarter of the previous year and consolidated profit after tax PAT came in at Rs.135 Crores versus Rs.115 Crores in the corresponding quarter of the previous year.

Now let me give you the breakup of the financial performance between India and the Middle East starting with India. For the just concluded quarter our India revenue was Rs.2880 Crores a growth of 15% when compared to the corresponding quarter of the previous year and the India EBITDA for Q3 was Rs.253 Crores compared to Rs.247 Crores when compared with the corresponding quarter of the previous year. There were certain one-time expenses comprising showroom write-offs due to relocation and a one-time bonus in the previous year. Normalizing for this the India EBITDA growth would have been about 5%. Our India business PAT came in Rs.118 Crores compared to a PAT of Rs.94 Crores in the corresponding quarter of the previous year a growth of 26%.



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Moving on now I will share some information about our Middle East business. Our Middle East revenue for the quarter was Rs.515 Crores a growth of 24% compared to the corresponding quarter of the previous year and the Middle East business delivered an EBITDA of Rs.46 Crores versus Rs.31 Crores in the corresponding quarter of the previous year. The Middle East business posted a profit of Rs.16 Crores for the quarter compared to a profit of Rs.12 Crores in the corresponding quarter of the previous year.

Talking next about our e-commerce business candere, we posted revenue of Rs.47 Crores versus Rs.34 Crores in the corresponding quarter of the previous year and recorded a PAT of Rs.26 lakhs versus a profit of Rs.2.7 Crores in the corresponding quarter of the previous year. During the quarter we had no bullion sale and our gold coin sale to retail and corporate customers was Rs.82 Crores is about 2.9%our total revenue. With this I am done with the summary of the financials and we now open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity Sir. My first question is with regards to the margins in the Middle East business, so I think those have contracted a bit on Q-o-Q basis, so what is the outlook here, is there any one-off in that and how do you see margins trending ahead in the region?

Ramesh Kalyanaraman: Middle East margins quarter-on-quarter there has been a small degrowth that is predominantly because now the revenue growth is there, tourists have started coming, so automatically when tourist comes the demand for product which is at the lowest making charge because for them basically they try to get it at a price which they get that duty advantage when they come and shop there, so there are certain products especially for the tourists which we display there and that is why the margin degrowth was there in Middle East, otherwise within segments the margins were actually the same.

Gaurav Jogani: What is the outlook going ahead, now hoping that the things will become normalized wherein the inflow of tourists and the business will be as usual so should this be taken as the new steady state margin?

Ramesh Kalyanaraman: Initial pre-COVID the margins were in the range of 13%, post COVID the margins went up by around 17%, so now moving forward we should look at the margin at this level anything between 15% and 16%.



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Gaurav Jogani: I missed some numbers initially with regards to the January performance so if you do not mind can you please repeat that?

Ramesh Kalyanaraman: January actually started with some lockdowns especially during weekends. During weekends only 82% of the showrooms were open in January, overall January 94% of the stores were open on an average, but even with this background the revenue growth has shown good momentum when compared to January 2020 and January 2020 a 35% plus growth in the last financial year, but when it comes to January this year versus last year there is a marginal degrowth because when stores get closed there will be an immediate impact on demand and lot of wedding and wedding related stuff we believe has been pushed to the second half of the quarter and a few to the next quarter as well, so the demand is not going to go away it is going to come back, but yes January we have a marginal degrowth when compared to last January and last year also if you see it was very similar meaning a lot of demand had been pushed to April and that is why we had a very good March in the last financial year.

Gaurav Jogani: With regards to now the non-south also has done pretty well in this particular quarter traditionally also I think Q3 is bigger for the non-south area so how is the trend do you expect going this ahead so this ratio that we have seen in this quarter is this expected to remain at this level in terms of the non-south contribution?

Ramesh Kalyanaraman: South and non-south contribution depends upon season to season, so Q3 has always been a non-south quarters wherein Diwali, Dhanteras, etc., are celebrated more in non-south market and this year especially we had actually a better non-south growth than in south, all put together the non-south revenue share has grown, but on a yearly basis it should be in the range of 35% that is what we should look forward.

Gaurav Jogani: New customer addition in the last two quarters has been really strong (inaudible) 14:45 so how has been the trend now and also Titan actually reported its numbers yesterday and they had also alluded to strong new customer entry, so if you can comment something on the industry per se and how the situation?

Ramesh Kalyanaraman: The new customer addition has been very robust; the share is now approximately 37% to 38%.

Gaurav Jogani: With the traction continues to witness the same?

Ramesh Kalyanaraman: It is very similar for the past four quarters now, it has been contributing in the range of 37% to 38%, and it was not as high as it was in the earlier the COVID time where the first



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quarter of the second quarter last year, but 37% to 38% is much higher than the pre-COVID level.

Gaurav Jogani: Just one last question from my end then I will get back into the queue, in terms of what would be your outlook going ahead given the Q4 would be having a higher base now, so how do you see and plus you have already alluded here the January has seen some marginal degrowth so how would be output going ahead of that?

Ramesh Kalyanaraman: If you look at now January the markets which had announced lockdowns now it has been withdrawn, but in Kerala there is lockdown which is announced in weekends, but the wedding resilience is very high, we expect quick bounce back because the wedding and wedding related stuff has been pushed to the late of this quarter and for the next year. I think we are of course on a high base, last year growth was around 65% but we are even now positively looking forward to this quarter.

Gaurav Jogani: Thank you and best of luck.

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

Shirish Pardeshi: Good afternoon. Thanks for the opportunity. Just two questions in the beginning if you break down this 17% growth for my understanding what is the absolute tonnage growth and grammage growth if you could share and is there any price element or realization element in this 17% growth?

Ramesh Kalyanaraman: If you look at the ticket sizes have remained more or less the same metal price has come down by around 3% to 4% so the volume growth will be in the range of 21% to 22%.

Shirish Pardeshi: Okay, got it and if you could share the studded portion which you have mentioned that there is a improvement which has happened, so can you specifically say that what is this studded portion for the entire company today and what was it in the last maybe last year same quarter?

Ramesh Kalyanaraman: Now for the Q3 the studded ratio is 25.5% and it has improved last quarter it was in the range of 24% last Q3, it was in the range of 26% to 27% same Q3.

Shirish Pardeshi: Okay like you gave the January number can you break it down October and November number by month, how the India growth has happened, I do not understand second half of December was there was some panic in the metros and semi-metros?



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Ramesh Kalyanaraman: Actually October to November 10, 2021 where pre-Diwali we had a very good growth, November 4, 2021 Diwali we had witnessed some softening in demand especially because during that time we had some flash floods happening in Chennai and Kerala, but from that December we saw demand picking up again and December last week only we saw lockdowns in metros but it did not impact our December revenue, December also we grew double digit.

Shirish Pardeshi: Okay and my second question despite we have done a lot of activities and gold metal loans what we have tried to get is there any tangible benefit which has started coming and showing up in the numbers because remember when I do there is not much difference which has happened?

Ramesh Kalyanaraman: Gold loan levels have been almost similar for two quarters now, the interest benefit which you have got is actually because of good negotiations which we have done with the banks so there have been reduction in our interest expenses, it is not because of the gold loan difference it has been almost similar for the subsequent quarters like the previous quarter versus this quarter, the major advantage which we have got is because of negotiations with banks, but when you compare with the previous year Q3 there has been GML increase that is why you see substantial interest difference between Q3 of last year versus this year.

Shirish Pardeshi: Okay, my last question is on non-south market obviously it is heartening to know that you have grown almost 25% on a Y-o-Y basis, but specifically if you can give some more detailed commentary which markets, which locations or is it primarily because our non-south stores expansion was there that has added or it is a pure play the same store sales growth not on exactly the same store sales growth but is the similar stores is showing the growth momentum by addition of customers?

Ramesh Kalyanaraman: So here actually this year expansion south has been bigger than non-south, so that is not the reason. The major reason is that last year actually we had grown more in south than in non-south, because last year there has been lot of migrations happening wherein customers who are for example in Mumbai, a south Indian they came back to Kerala and resided for some time so that revenue came back to us in south rather than non-south. The non-south migration we cannot completely absorb because we are not there in all Tier-1, Tier-2, and Tier-3 cities there. For example a person in Mumbai if he moves to say south India we can actually get that revenue, but again internal of Maharashtra if they move we cannot gain that market share we could not last year, because we are not there in all Tier-2, Tier-3 markets in outside south, so the major advantage which we have got this time the growth in



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non-south markets is because first of all it was a lower base and now what we call there is no migration happening customers are there, so it is a gain because of that.

Shirish Pardeshi: Thank you, wonderful, all the best to you.

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. I just wanted to understand in terms of EBITDA margin how do you see EBITDA margin over next one to two years, so any thought process on that would be helpful?

Ramesh Kalyanaraman: So you can improve your EBITDA margins in two ways, one is increase your gross margin when you sell that is an upside, second is operating leverage so we see both as an advantage for us because our expansion is majorly going to be in the non-south market where traditionally the margins are better than south, so there is going to be a margin expansion there. Secondly, when the revenue goes up and when your corporate overheads does not grow parallelly with it you get a benefit of operating leverage both put together we think that it should be improving around 3% in the next two three years.

Deepak Poddar: Okay, so currently adjusted basis 9% was our EBITDA margin, so we are looking 12% EBITDA margin may be next two to three years right?

Ramesh Kalyanaraman: Yes.

Deepak Poddar: All the very best. That is it. Thank you.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Thank you for the opportunity. Sir my question is more on capital allocation and if you could speak a little bit more about the piloting of the franchisees that you have spoken about how many franchisees are these, are you experimenting uniformly across the south and non-south markets and what will be the key success factors that will determine your trust into this area?

Ramesh Kalyanaraman: The franchisee basically will be in non-south markets not in south markets because south we are already penetrated and we can top up stores by ourselves because our expansion also we would like to do it in the non-south areas that is our primary intention and actually the



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franchise is an accelerated plan, we had initial plans only to launch it after a couple of years, but by the trend which we see now, by the shift from unorganized to organized, we wanted to go before the plan so that is why franchisee came into action, till we basically a franchisee owned company operated model that is what we are looking forward for the initial set of franchisees which we are going to do.

Aejas Lakhani: Got it. I wanted to understand that if it is possible to share how many franchisees are we looking at in the first pilot phase and how are you going to measure their success for you to be able to really scale up this FOCO model?

Ramesh Kalyanaraman: The initial pilot phase we would like to do into two or three locations or in non-south markets locations has been identified and if the pilot franchisee is as per our plan then scaling up is not going to be a major task we will scale it up.

Aejas Lakhani: Okay, got it and I just wanted to understand also that I understand that this would be in terms of advertising this was a slightly more heavier quarter, but as a percentage of if you look at the standalone space this quarter has been 2.5% so I wanted to understand that is there any measurement metrics at the company level where we are able to validate that the ASP spends are actually translating to sales while it is helping us in branding is there any measurement way to actually validate that there is a conversion of the ad spends to sales?

Ramesh Kalyanaraman: First of all the advertisement expenses over revenue we would like to keep it in the range of 1.8% to 2% and each quarter it will be different because it is Diwali or the festive plus wedding usually the percentage of advertisement on revenue will be a bit more higher in Q3 and Q3 last year is not comparable because we had just come out of the COVID and every player was spending very less, so advertisement expenses will be in the range of 1.8% to 2% on a yearly basis and on your question as to how we get to know whether an advertisement is working, we do have internal analysis which we do wherein when a customer comes we really ask them the reason for shopping whether it is for wedding or whether it is for gifting or something and also again why he stepped into Kalyan where whether it is recommended by somebody, whether he saw any commercial, whether it is because of any offer, internal offers so we have a system in place wherein we actually look at the efficiency of campaigns and then with that workings we plan the next set of campaign.

Aejas Lakhani: Got it and any thoughts on how you see the business panning out you mentioned it from an EBITDA perspective you see a 3% improvement for the domestic, for the Indian business, but do you have any forward-looking guidance that you can help investors?



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Ramesh Kalyanaraman: That was a forward-looking guidance actually it is not only India Middle East are also in the range of 9% now EBITDA margins so margins will go up by at least 3% in the next two, three years because first of all our expansions are all going to be in non-south markets, second of all the operating leverage will surely step in because every additional revenue the margins is going to directly flow into your bottomline.

Aejas Lakhani: Got it and Sir could you speak a little bit about the industry is moving to the hallmarking so what is the progress on hallmarking today, has it been strictly implemented or is it still slack like how it was in the last quarter?

Sanjay Raghuraman: The progress, the update here is that hallmarking and the HUID implementation is complete from a perspective of the hallmarking agencies 100% complying with that, surveillance activities by the BIS authorities have also started in some states wherever possible on account of COVID if there are issues it has not been done as quickly, but in many states visits from BIS authorities are beginning to take effect. All ornaments have the HUID code as well as the hallmark the way it is supposed to be, even from an infrastructure perspective earlier there were some issues with the hallmarking agencies not being able to cope with the demand even that is now a thing of the past so even that kind of resolved, so in summary it is kind of stabilized now and this is going to lead to the shift further accelerating towards us in the organized sector.

Aejas Lakhani: That is very helpful. My final question is that if the hallmarking has already sort of been in force is there any further reason beyond what Mr. Ramesh mentioned for seeing a slightly more weakish offtake in January because the entire trust from the unorganized to organized should have started to flow through by now given that hallmarking is in place, but is there any other reasons except for what Mr. Ramesh called on?

Ramesh Kalyanaraman: First of all the January I told the momentum is high, the showroom closures have an impact and when your wedding and wedding related gifts pushed to meaning if the wedding had to happen in January and if it is getting pushed to March then the demand will surely be pushed to March because as a brand Kalyan Jewellers wedding revenue contribution is in the range of 50% to 55% that is the only reason and hallmarking even if it is implemented from November 30, 2021 the real impact will come when the surveillance start being more strict and more strict implementation which we think it will be done in the coming months and they give some excuse to COVID.



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Aejas Lakhani: Okay, so you are saying that hallmarking though is implemented and infrastructure is yet in it is not fully enforced as yet in the force majeure that we expected because of the COVID, okay, you see more benefits of that.

Ramesh Kalyanaraman: The department should go and check whether they are selling BIS or fine, penalty, things like that when it becomes more strict then the unorganized segment will get affected more which will be a merit for organized sectors.

Aejas Lakhani: You will see these phenomena taking place as COVID sort of settles down and this will get accelerated in the months to come, got it okay.

Ramesh Kalyanaraman: It is a matter of time.

Aejas Lakhani: Thanks again. I will follow back.

Moderator: Thank you. The next question is from the line of Aniket Sethi from ICICI Securities Limited. Please go ahead.

Aniket Sethi: Last two quarters you and Titan specifically highlighted that both of you are seeing strong gains in the basic plain gold jewellery part of the segment and coincidentally both of you have not really mentioned that comment in this quarter's press release, so just wanted to check if has anything kind of changed over there or was this like during that point of time people did not really want to go to small outlets and the bigger players were kind of saying that benefit?

Ramesh Kalyanaraman: First of all the initial trust which we got like the shift from unorganized to organized it was a shocker for all of us including the players which you mentioned because suddenly 50%, 60% revenue growth, huge footfalls, major shifts from unorganized to organized, lesser working hours where lesser number of staff where you do not get time to convert your customer or upsell your customer. You do not have the inventory which you can actually upsell meaning to upsell for a first time customer into studded you need products which have less of stone and more of gold which we were not ready with in the previous quarters wherein it was a shocker for us okay, but now we really know that these set of customers are coming and we have trained our team to upsell this kind of customer also, we have the inventory ready for them, the price is also fitting those kind of customers and that is why the studded ratio is also improving and the growth of studded is again better than that of plain gold when you compare Q3 of last year.



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Aniket Sethi: So the new assortment which we are kind of targeting for these guys, are they at a lower making charge or are more than just a light journey?

Ramesh Kalyanaraman: They are aware of low stone meaning the plain gold content is more okay, so the customer does not feel the pinch of paying money for stones because they want to actually pay money only for gold.

Aniket Sethi: Understood and you are already seeing repeat or have you like started to see repeat purchases from these new customers?

Ramesh Kalyanaraman: Of course the margin are lesser for that kind of product okay, plain gold the minimum margin then studded this comes in between studded and plain gold even though it is studded it is having a better margin than plain gold, but lesser than the usual studded just to complete your queries and repeat customer it is too early because customers come typically what once a year or max twice a year, so repeat customer we are yet to actually witness but again the goal saving scheme customers, etc., are yet to come because usually the gold saving scheme closure comes after 11 months, so we will get those kind of customers in the coming quarter.

Aniket Sethi: The secondary question is after a pause this year has been quite good on the store expansion rate so if you could share your target from a two to three year perspective, this would be excluding the franchisee acceleration whenever you decide to do that?

Ramesh Kalyanaraman: Yes franchisee will be over and above our usual plan of increasing our footprint by 10% to 15%, franchisee will only be an additional plan because that we would like to actually that was laid to accelerate the current growth plan.

Aniket Sethi: This will be just for India at least from a two years perspective?

Ramesh Kalyanaraman: Yes primarily India and primarily only non-south markets.

Aniket Sethi: Middle East will be a fall right at least for now?

Ramesh Kalyanaraman: Middle East expansion we are closely monitoring that market, the markets are behaving very positively now, but franchisee there is a two early call, there will be minimal expansion in those markets and with the internal accruals which we have in Middle East we do not intend to take money from India.

Aniket Sethi: Understood, that is very clear. Thank you and all the best.



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

Deepak Mittal: While our margins have expanded sequentially both in terms of gross margin and EBITDA margin and PAT margin, but when I look at based on the last quarter Q3 FY2021 versus Q3 FY2022 while the topline has increased quite substantially almost 15% increase but I do not the EBITDA margin is actually contracted, why is that happening the gross margins have also contracted, EBITDA margins have also come down substantially why is that happening?

Ramesh Kalyanaraman: Gross margins you know the reason wherein the growth has been in excess of what actually we wanted or what actually we have. The major hit in the EBITDA margin is because of the ad expenses, where ad expenses in the Q3 of last year was only in the range of 1.4% to 1.5% and this year it is in the range of 2.5%, so last year the ad expenses were very less because the competition was not spending, we were just recovering from the COVID, but quarter-on-quarter the EBITDA margins and the gross margins have improved in the range of 1% and we think that it is as per our plan of getting into the 9% EBITDA margin for the financial year.

Deepak Mittal: Thank you so much. I have been listening to all your conferences and company is making a lot of progress to focus on Indian market which is a very positive development.

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. I have some more questions. When I look at your numbers what I find is that I am seeking some clarification, we have seen that employee cost has gone up about 15% odd on a Y-o-Y basis and similarly the other expenses also shot up to Rs.155 Crores, so is there any explanation which you can get and more importantly on the other expenses what are the nature of expenses, is that so variable that it can go up in such a drastic way?

Ramesh Kalyanaraman: The employee cost which is majorly because of a one-time bonus, which we paid for completing 24 years that was the employee cost increase and certain new stores which we would have opened and predominantly the employee cost increase have been because of that and there have been a one time write-off of some assets because we relocated certain stores and that is also in the range of Rs.5 Crores to Rs.6 Crores.

Shirish Pardeshi: Can you repeat the number Rs.6 Crores?



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Ramesh Kalyanaraman: Rs.3 Crores.

Shirish Pardeshi: But that is not the big number if I look at Rs.107 Crores has gone up to Rs.155 Crores it is a big number.

Ramesh Kalyanaraman: What I will do I will ask the team to look at the number and should call you separately okay because we will have to check that.

Shirish Pardeshi: Okay, my second question is on the candere I think you have shown the impressive growth, but it can spend a minute or two explaining how this growth and what are the plans, how you want to scale this business because what I see in the market and the channel is confirming that this segment is really going by leaps and bounds and again if I look at a lot of players, regional players, B2C players they all have shown a very strong growth while our growth rates are there, but it is not sufficient which is what we are hearing from the market?

Ramesh Kalyanaraman: So now if you look at we have grown our revenue by 40% and our PAT levels have come down, that is because we are now starting to invest again on employees, on infrastructure technology, advertisements, etc., to take you to the next level of growth, so that is what we are trying to do, we are reinvesting in the business again and we see better growing rate, growth rates in the next year and regarding the expenses should I clarify now I think my team is ready.

Shirish Pardeshi: Yes sure.

Swaminathan V: The major line items within the opex that have increased between the two years, it is one like Ramesh as mentioned also in the ad spend so from consolidated Rs.47 Crores in the previous quarter it has gone up to about Rs.81 Crores in this quarter and on top of that the one time Rs.8 Crores was the other addition otherwise more or less successes were in line, there is no major deviation from last year.

Shirish Pardeshi: Okay, thank you.

Moderator: Thank you. The next question is from the line of Ratish Varier from Sundaram Mutual Fund. Please go ahead.

Ratish Varier: Thanks team. Thanks for the opportunity. Hope you all are doing well. Just one question when I heard this call a couple of participants asked about ad spend and how you measure that ad spend so just a one add-on question on that, if you can just talk about both from



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south and non-south markets how do you measure your market share like over the pre-pandemic and now how it has moved both from an unorganized shift which you mentioned right and within the organized and that within the advertising spend what we do we can just benchmark our advertising spend with what others do, how it is in comparison and if it is on the higher side, for example what kind of market share we would have gained because of that some kind of measure if you can talk about will help us?

Ramesh Kalyanaraman: First of all the ad spends in our sector has been in the range of 2% to 2.5% that is the usual standard and we are predominantly in that range and our ads we do not do major branding ads now because already the Kalyan brand has been established over the past many years now, so it is more of product launches, it is more of tactical ads which we do and those tactical ads can be measured when a customer comes and when a customer comes we know whether it is a new customer or an old customer and new customer predominantly the type of product, which they choose we know whether it is from unorganized or organized and we measure which ad has worked for organized segment, which ads have worked for unorganized segment that is how we calculate our efficiency of ad.

Ratish Varier: My earlier question the second part regarding market share between south and non-south if you can comment within the organized also how it would have moved?

Ramesh Kalyanaraman: Market share grows when the revenue grows and we know that the market share is also growing because of two things, one is the SSG which we get from our existing showrooms and also the revenue which we get from new stores which again is in a new market, so the new store all the revenue is market share growth because we did not have any revenue from that area. In the existing store the additional revenue which we are getting when compared to the last year that is a real market share growth.

Ratish Varier: Thanks. I will take it offline.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Thanks for the followup. Sir I just want to understand that I am referring back to our franchisee model again, what are we doing to ensure that the franchisees succeed because at least the way we are contextualizing it, is that you are using someone other person's money to sort of grow your sales, so just want to understand that from your perspective what do you think you need to do to ensure that the franchisee model is successful?



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Ramesh Kalyanaraman: Of course that is too early to share that is why we do a pilot franchise in the beginning to ensure that both the franchisee as well as get the benefit, but the intention of bringing in franchise and company to manage the store is because the plan is actually accelerated okay franchisee the initial set of showrooms if the company starts managing it is as if we have opened the store with our own capital meaning only the capital source is different otherwise operations is going to be the same, so that is why we are looking for that mode of franchisee in the beginning, so we were actually looking to bring franchisee on board only from the FY2024. We advanced it because of the momentum which we see now.

Aejas Lakhani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kunal Tripathi, Individual Investor. Please go ahead.

Kunal Tripathi: How many showroom expansions approximately you have done within two to three years, in smaller cities, I am from Gwalior Tanishq showroom in Gwalior and other showrooms are there, but you have no showroom here, Madhya Pradesh is a big state, in smaller cities like Tier-1 or Tier-2 when we can expect expansion of Kalyan Jewellers showroom there?

Ramesh Kalyanaraman: Exactly this is the reason why we actually accelerated this franchisee plan okay because we want to reach markets where Kalyan has a space to expand and we do not want to restrict our expansion because of any other constraint so that is why we have actually accelerated the plan and hopefully we will come to your town very shortly.

Kunal Tripathi: Approximately within two to three years what is the expansion target?

Ramesh Kalyanaraman: Usually we open 10 to 15 showrooms in a year, but addition to that we will open franchisee stores also in the coming years, so the acceleration of franchisee will actually help us to expand even faster and we will be opening a showroom in your town very soon.

Kunal Tripathi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nillai Shah from Moon Capital. Please go ahead.

Nillai Shah: First of all on the last call you had mentioned that the plan to take the metal gold loan was to about Rs.1900 Crores by the end of the financial year, in this quarter it seems to me that you have gone actually the reverse you actually reduced the metal gold loan a little bit, any updates on that?



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Abraham George: Most of the fresh purchases that we did during the quarter was for gold metal loan, but we had a good number of maturities of existing gold metal loan during October and November so which has actually pulled it back a little but our objective continues to be same, we will take it up to about Rs.1800 Crores, so only thing gold metal loan that we took for the new showrooms during the month of April that matured in the Q3 so that has actually reduced the overall count, but we will continue to increase it. There is no hurdle for us to take it Rs.1800 Crores the only thing is that the existing maturities.

Nillai Shah: Are you having any issues with bank lines for the GML at this point in time?

Abraham George: Nothing from banks regarding gold metal loan.

Nillai Shah: Okay. The second question is in terms of the growth divergence between you and Titan to be specific, what do you think is driving this?

Ramesh Kalyanaraman: So you mean the difference between the growth rates of Titan and Kalyan?

Nillai Shah: Yes.

Ramesh Kalyanaraman: Okay, one or two things which we have in mind or one or two workings which we have is that one, of course we had a small issue in south India in the month of November because of the flash floods happening in Chennai and Kerala and south is important market for us which for them was not a very important market as we speak the share of revenue from these markets are not huge for Titan. Secondly what we felt is that you leave aside this financial year because Titan and Kalyan have expanded in the same rate of approximately 10% but the two years before the financial year Titan would have at least grown by about 25% in footprint okay and Kalyan would not have because we hardly opened 1% to 2% of our store network was expanded and in the model which they expand by franchisee the SSG is at its peak after 12 to 18 months, okay so that might be really helping them to have an advantage over Kalyan in the growth rates because if you see Q2 also the same range of revenue difference was there between technically.

Nillai Shah: Okay got it.

Ramesh Kalyanaraman: We think that everything will be the same.

Nillai Shah: Okay. The other question is you spoke something about margins 9% your target what was that for which are you targeting that for or is it for the next quarter that you are talking about?



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Ramesh Kalyanaraman: 9% EBITDA margin for the running financial year that was our internal working where we mentioned that it has been in that range for Q3 and it actually improved by 1% for Q3 when compared to Q2 and Q4 also we expect that it should be in that range.

Nillai Shah: Okay and the reason your numbers are different from mine is because of the other income that you will be calculating as part of the EBITDA so what was the other income this quarter bump on account of?

Abraham George: The other income is largely the interest income that we earn from the deposit that we keep with the banks and also interest that we accrue interest that comes into India account if you are looking at the India then it is also in their corporate loan interest.

Nillai Shah: What is the nature of that?

Abraham George: There is debt given by India to the subsidiary so necessarily in the India books we have to account for the interest income but on a console book if you look at it that will not be there.

Nillai Shah: Okay so the bump that has happened is because of the increased deposits which you have in the form of your customer deposits?

Abraham George: Not customer deposits, it is also with the deposit that we place with the banks.

Sanjay Raghuraman: The other income consists of many items which include discount received, ear piercing income, gift vouchers income, insurance charges, interest income from margin money deposits so it is a combination of many things and all are related to our operating revenue so that is the reason the overall other income is at this level now.

Nillai Shah: Okay got it and Sir I look out into the future you have spoken about the fact that as your non-south contribution increases your gross margin and EBITDA margin potentially has got just mathematically speaking a couple of 100 basis points of increase possible, you still hold and stand by that view and the kind of timeline for that 200 basis points of margin expansion that was spoken in the last call?

Ramesh Kalyanaraman: I stand by because that non-south revenue margins are higher than south right, it is having a range of 8% to 10% margin difference between south and non-south usually so the margin in outside south India is higher than in south and our major expansion plans are also outside south India which will surely improve our gross margins, which will have an impact on our EBITDA margins.



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- Nillai Shah:** Okay and this should happen in the next two to three years?
- Ramesh Kalyanaraman:** Yes because all the expansion plans for the next two, three years is going to be non-south market.
- Nillai Shah:** It will be about 20 stores of 100 which you have been clocking for the last few years to continue, last year to continue?
- Ramesh Kalyanaraman:** This is our intention to at least open 15 stores a year and over and above that the franchisee will also come in place that is an addition to the expansion plan which we already have that is our plan.
- Nillai Shah:** The inventory will be owned by the franchisee or inventory will be owned by the company?
- Ramesh Kalyanaraman:** Inventory will be owned by them, the franchisee.
- Nillai Shah:** Final question any thoughts on how this current quarter is shaping up I understand we have disruptions because of COVID, but are you confident of being able to recoup some of these losses in the latter half of the quarter?
- Ramesh Kalyanaraman:** That is what we are confident of because last year it happened the same way where a lot of marriages were pushed to April and we had good demand in March okay, so this year also it is going to that same angle where there are weddings, which is pushed to the second half of this quarter and the next quarter, so we expect that the demand momentum should be there and the showroom closures are also withdrawn in the non-south markets actually in metros like Delhi, Mumbai and Bengaluru it has been withdrawn now and after withdrawal we have high passion which is displayed there.
- Nillai Shah:** That is good to hear. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Niraj Vijay Kamtekar, an Individual Investor. Please go ahead.
- Niraj Vijay Kamtekar:** Thank you for the opportunity. I have only one question. What is our same store sales growth in south, non-south and Middle East this quarter and your last quarter last year?
- Ramesh Kalyanaraman:** So it is a very competitive data which we will not be able to reveal here.
- Niraj Vijay Kamtekar:** Okay.



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Ramesh Kalyanaraman: The SSG together has been in the range of 7% the consolidated SSG in India.

Niraj Vijay Kamtekar: Consolidated?

Ramesh Kalyanaraman: In India, Middle East everything is SSG because we have not opened any stores in Middle East over last year.

Niraj Vijay Kamtekar: Thank you.

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

Ramesh Kalyanaraman: Thank you everyone. See you again after a couple of months. Thank you and stay safe.

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