"Kalyan Jewellers Limited Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Kalyan Jewellers Q1 FY2022 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 Shetty from ICICI Securities Limited. Thank you and over to you, Sir!

Aniket Shetty: Thanks Malika. Good afternoon everyone and thank you for joining. It is an absolute pleasure for ICICI to host the management team of Kalyan Jewellers for Q1 FY2022 results call. The company is represented by Mr. Ramesh Kalyanaraman - Executive Director, Mr. Sanjay Raghuraman - Chief Executive Officer, Mr. V. Swaminathan – Chief Financial Officer, Mr. Sanjay Mehrottra - Head- Strategy & Corporate Affairs and Mr. Abraham George - Head of Treasury and Investor Relations. I would now hand it over to the management for their opening comments post which we will open the floor for question and answers. Thank you. Ramesh, Sir, over to you!

Ramesh Kalyanaraman: Good afternoon, everyone. This is Ramesh. I hope and pray that all of you and your families are safe and secure. I would begin by saying that the outcome of the first quarter has been above our expectations and we are happy with the performance. If you remember last time when we met, all our stores were closed and our estimates for the quarter were muted. We had expected a much slower come back due to the severe impact of the second wave. I will start by giving a detailed overview about the just concluded quarter, which will explain why we are excited about the outcome. I will also be sharing quarterly and monthly data with respect to Q1 FY2022, FY2021 and FY2020. Please bear with me if I am going to overload you with a lot of figures.

Let me first begin with India. We started the new financial year on a very strong note and we witnessed high momentum for the stores which were open and it was very similar to that of Q4 of the last financial year. For the month of April with only 80% of our showrooms operational, our revenue growth ex-GSS our gold saving scheme was approximately 24% when compared with April 2019. The reason why I mentioned ex-GSS is because there was a significant drop in GSS revenue contribution this year driven by disruption in scheme enrollments during the same period last year due to the nation wide lock down. Our FSG ex-GSS in April when compared to 2019 normalized for working days was approximately 41%.

I am not giving any comparison with April 2020 since it was a zero revenue month. Month of May was almost a wash out as most of our stores were closed. In the month of June, some states started relaxing the lock down norms and many of our showrooms across the country started to resume operations with restricted working days and hours. We witnessed strong momentum for the stores which were open and our revenue achievement was approximately 81% ex-GSS when compared with June 2019 even though only 53% of our stores were operational. When we compare with June of last financial year, our revenue growth ex-GSS recorded a growth of 2%. This revenue achievement is despite two of our major markets Karela and Tamil Nadu, which usually contribute more than 40% of our total India revenue were only operating at 20%.

The SSG ex-GSS normalized for working days for the month of June was approximately 57% when compared to June 2019 and was 68% when compared to June 2020. Now if you look at the quarter as a whole the revenue achievement when compared with Q1 FY2022 was approximately 58%, however, ex-GSS the revenue achievement was approximately 70% with approximately 52% of our showrooms operational during the quarter. If you compare the revenue with the previous financial year during the same period, the achievement was 194%. The momentum witnessed in this quarter was very similar to that of Q4 of the last financial year and the margins are also very comparable to Q4 of the last financial year even though we had a higher impact of customs duty for this quarter.

The highlight of the quarter for India is the faster recovery given the resilience of the sector and continued strong momentum driven largely by the shift from unorganized to organized. Now let me give you an overview of our Middle East operations. Almost all our stores in the Middle East were fully operational during the quarter. Middle East also witnessed very strong recovery during the first few weeks of April very similar to the recovery levels witnessed during Q4 FY2021. However, on the back of a peaking second wave of COVID-19 in India, there have been temporary disruptions to business in the region driven largely by the ongoing travel restrictions imposed between India and Middle East as well as muted consumer sentiment amongst the Indian community in that region.

Revenue achievement in Middle East was approximately 56% of Q1 FY2020 and it was 283% for the same quarter of the last financial year. Before I conclude, let me give you a quick update on the current market situation. Month of July and first few days of August witnessed a very strong momentum in India very similar to Q4 FY2021. The new customer growth continues to be in the range of 50% largely driven by the shift from unorganized to organized. This trend has been visible over the past three quarters. In the Middle East, customer sentiment has been improving. Our primary focus has been on safety of our customers and well being of our employees. The brand communication has also been revolving around the store hygiene and safety measures taken, which also includes vaccination of store staff.

These initiatives were well accepted and appreciated by our customers. One important development during the quarter was the announcement of compulsory hallmarking by the Government of India. This we feel is a very significant step towards making the industry more transparent and will further accelerate the shift from unorganized to organized. Enforcement of quality will lead to a level playing field for the organized players because a few unorganized players were at advantage by selling inferior quality products at a lower price, also with the HUID coming into force non-billing sales will come down drastically, which was again an advantage for a few players in the unorganized segment. The final takeaway is that the momentum has been extremely positive. The SSG has been very positive. The margins are almost steady and the tailwind is very significant and well positioned for players like us and we will address this opportunity. I will now hand over to our CEO, who will take you through the performance highlights for Q1. Over to you, Sanjay!

Sanjay Raghuraman: Thank you, Ramesh and good afternoon everybody. I hope and pray all of you and your families are safe and well. I will start by giving you an overview of our India performance. For the recently concluded quarter, our India revenues were 1274 Crores a growth of 94% when compared with the corresponding quarter of the previous financial year and a degrowth of 42% when compared to Q1 of FY2020. We booked a loss of 43 Crores for the recently concluded quarter compared to a loss of 77 Crores in the corresponding quarter of the previous financial year. Our EBIT earnings before interest and tax for the recently concluded quarter was Rs.5 Crores versus a loss of 9 Crores at the EBIT level when compared with Q1 of the previous financial year.

Moving on now about our **inaudible 10:35** vertical continue to show good traction and contributed 23% to our total revenue and 37% to our goal saving scheme enrollments during the first quarter of this financial year. We have seen a lot of new customer walk-in and the new customer growth is in the range of 50%. Now I shall share some information about our Middle East business. Our revenue for the quarter was approximately 340 Crores, a growth of 183% compared to Q1 of the previous financial year and degrowth of 44% when compared with Q1 for FY2020. This is after closing down 20% of our showrooms in the Middle East during the first lock down in the previous financial year. We booked a loss of 9 Crores for the quarter compared to a loss of 8 Crores for the corresponding quarter in the previous year.

Talking now about our e-commerce business Candere, it posted a revenue of 24 Crores during Q1 of this financial year versus 5 Crores in the corresponding quarter of the previous financial year and we had a profit after tax of 31 lakhs in this quarter versus a loss of 1 Crore for the corresponding quarter in the previous year in Candere. Talking now about are consolidated numbers, on a consolidated basis our revenue for the quarter was approximately 1640 Crores which was a growth of 109% when compared with Q1 of the previous financial year and when compared to the corresponding quarter of Q1 FY2020 it degrew by 42%. Our consolidated loss for the quarter was 51 Crores versus a loss of 86 Crores in the first quarter of the previous year.

During this quarter we had no bullion sale and our gold coin sale to retail and corporate business to business B2B customers was approximately 40 Crores, which is about 3% of our total revenues. During the just concluded quarter, we opened 9 new showrooms out of which 8 were in South India and one in the non-south markets. With this, we are now done with the opening comments and can 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 taking my question, Sir. Sir, my question is with regards to the gross margins that we have seen in the base quarter. I understand that that was due to some exceptional cases in the base, however, how is your view on the gross margin going ahead given that we are seeing some increase in the competitive activity in the market, so any views there ahead at the level of discounting or promotions increased and just related to this even your promotions expenses have increased on a Q-o-Q basis as well having compared to Q4 versus Q1 so anything you can add to that?

Ramesh Kalyanaraman: So, we can divide the questions into two, so usually a steady state gross margin will be around 17%, but that 17% is when your south and non-south revenue mix is 65% and 35%, I mean 35% revenue should come from outside south markets and when your studded ratio is in the range of 24%. In this business scenario what is happening is that we see heavy footfalls in the store, huge momentum in terms of revenue, there is disproportionate growth for plain gold jewellery when compared to studded jewellery and the studded margin for the recently concluded quarter was in the range of 20% and the south and non-south mix is also 70:30 instead of 65:35, so now in this quarter the margins are in the range of 14.3% even with the 20% studded ratio and again with an impact of the customs duty loss because of the recently announced customs duty reduction by 2.5%, so this is about the gross margin and if I heard you right you are comparing with the gross margins of Q1 of the previous financial year.

Gaurav Jogani: No, I understand the Q1 base was quite high due to the...

Ramesh Kalyanaraman: We had some one off gains like metal gain and the higher realization of making charges from customers because of abrupt increase in gold prices in Q1 of the last financial year.

Gaurav Jogani: My question was more regards to Q-o-Q, not base, but you largely answered, would you like to highlight how much of the impact due to this custom duty loss on the gross margins, can you quantify that?

Ramesh Kalyanaraman: It is hard to quantify because you know it depends upon the gold metal value only because there is a making charge component, there is stone charge component in the revenue which is there, so it is very hard and it a delicate wherein we have to tell you the exact impact, but the customs duties 2.5%, which was reduced and if you look at the total turnover 15% to 20% goes away for making charges and stone charges put together so then that should be the calculations, the studded ratio deficit by 2% almost 0.8% to 0.9% of the turnover, there will be a deficit of 0.8% to 0.9% because of that.

Gaurav Jogani: Sir, on the promotion I mean there was a bit of increase even on Q-o-Q basis on the promotion bit despite our showrooms remaining closed for a month in Q1, so anything that you like to highlight there?

Ramesh Kalyanaraman: Usually the promotion expenses, if you divide it into four quarters it will not be an equal figure, Q1 and Q3 will be a bigger spent when compared to Q2 and Q4, so if the advertisement budget is in the range of about 150 Crores to 160 Crores, our Q1 and Q3 will be in the range of 40 Crores to 45 Crores and Q2 and Q4 will be in the range of the 30 Crores, so that is the usual scenario where we do marketing so it cannot be compared with Q4 as a limited point.

Gaurav Jogani: Got that, Sir. That is all from me. Thank you so much

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

Abneesh Roy: Thanks. My first question is on the international business, the other large listed competitor they are going into US and they are saying the diaspora is extremely an attractive opportunity. In 2018 you had said that you would be opening three stores in US, so want to understand what is your thought process now and on the stores shut in Middle East what would be the long term plan in terms of number of stores in Middle East?

Ramesh Kalyanaraman: So, regarding expansion in the US, we do not have any short-term interest in expansion to the US, we want to really leverage what we have created in the Middle East and India, India being a very big market and already we are there in almost 21 states in this country, we want to really leverage for what we have created in India. Regarding Middle East, we are looking for opportunity, we are closely watching that market and when the market is getting steady, we will surely expand there that is the plan and the expansion will be from the funds which we have in Middle East and that is our plan. So we are closely watching that market, we are one of the top three players in the Middle East even today.

Abneesh Roy: One clarification, in 2018 you had plans for going to US, right, has anything changed or it is just the prioritization of India now more than what was in 2018?

Ramesh Kalyanaraman: Yes, we have full priority on the expansion in India especially now because there is huge momentum, there is huge traction from unorganized to organized and we want to really utilize the situation and we will be expanding in India for the next two to three years to the maximum.

Abneesh Roy: My second question is gold as an asset class the prices are at a four to five months low and in comparison real estate asset class, which has been dead for 10 years is coming back reasonably okay terms initial terms across the across the country and many people believe that real estate could be seeing a multiyear good faith and stock markets also doing reasonably well, so near term do you see gold as a asset class becoming less attractive because it has come off significantly from a one year perspective from a five months perspective?

Ramesh Kalyanaraman: First of all let me just clarify that Kalyan Jewellers is a retail brand and we have zero bullion revenue we only sell gold coins and that is also not more than 2% to 3% of our total turnover, so more than an asset class we sell to customers who really want to wear and enjoy the product, but of course when they buy something and the prices going up they are always happy for it, but that is not the only reason why they are buying jewellery more than investment, culture, tradition, religious reasons, occasions, etc., are influencing our sector more than only the investment point of view.

Abneesh Roy: Sure, last question on affordable gold jewellery, if you could tell us what are the plans from a R&D perspective and what percentage of your gold jewellery comes from the affordable and what could it become in longer term?

Ramesh Kalyanaraman: So, as a brand for Kalyan Jewellers more than 50% of our revenue comes from marriage and marriage related, wedding and wedding related and affordable jewellery is always a part of our revenue share, it is an ongoing process we keep making designs, we ensure we have enough product portfolio and value for customers, it is a constant process as a jeweller.

Abneesh Roy: But will this become large enough because competitor is focusing a lot of efforts?

Ramesh Kalyanaraman: We are also as a jeweller your primary focus of course is to get the trust of the customers, you have to really give a feel good factor for any customer who walks in, you have to meet his product demand so how will you meet his product demand, he or she, you will have to really showcase products which they are looking for so it is an ongoing process and we also keep on constantly looking for that, we launch lot of sub brands under the main brand usually for all festivals we launch sub brand, which is related to that occasion or wedding, etc., and this is a constant process and regarding gold price movement, which you asked that is also usual scenario for every customer, the customers have seen gold prices going up, coming down, etc., and certain customers by the shopping cycle, they prepone because the prices have gone down, certain people postpone because they think the price will go down further, so it depends upon customer to customer.

Abneesh Roy: That is all from my side, this is quite helpful. Thank 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, just wanted to understand maybe from one to two year perspective, so in a normalized year what sort of revenue growth we are looking at the normalized margins at the EBITDA level, gross margin you did mention that, that is the level we are looking at?

Ramesh Kalyanaraman: So, as I mentioned earlier if the SSG is in the range of 6% to 8%, which is a normal scenario, so the usual studded ratio will be in the range of 24%.

Deepak Poddar: Usual?

Ramesh Kalyanaraman: The studded ratio will be in the range of 24% is the usual studded ratio if the SSG is in the range of 6% to 8% and your south and non-south revenue mix is 65:35, so on a steady state EBITDA of 9% to 10% should be workable.

Deepak Poddar: And on the revenue side anything that you want to share?

Ramesh Kalyanaraman: So, the revenue, the kind of momentum which we see now to be very frank in July, august as well this is extremely we have never seen such kind of revenues coming so it is extremely positive, so this is a clear shift from unorganized to organized, this momentum we have never witnessed, only for the past one or two quarters we are witnessing, so if this goes like this the gross margins will be in the range which we see now maybe 0.5% or 1%, but not more than that because the plane gold demand is much, much higher than for the studded jewellery.

Deepak Poddar: But like previous peak maybe last three years or four years, 10000 Crores to 10500 Crores that is what we might look to target this year?

Ramesh Kalyanaraman: Yes, if you look at our revenue, we added nine new showrooms now in first quarter our usual per store revenue is in the range of about 70 Crores to 75 Crores, so that itself is going to give us an additional if you leave aside Q1 because Q1 you know that the showrooms were closed mostly, so that itself is going to give us an additional revenue of 500 Crores to 600 Crores, our SSG is only 6% to 7% to 7% to 8%, but now the kind of momentum which we see is extremely high, next nine months given the current momentum the revenue should be very exciting.

Deepak Poddar: Fair enough. That is it from my side. All the very best.

Ramesh Kalyanaraman: And as I had mentioned in the call before Q1 to Q1, if you look at the move the golfing scheme, the grow is 24% in April and we are seeing the same kind of traction in June as well so the growth is very sharp.

Deepak Poddar: It sounds exciting. All the best. Thank you.

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

Shirish Pardeshi: Hi, Ramesh, good afternoon and thanks for the opportunity. I have two questions, you had said that the momentum has increased in the month of July and August, what I wanted to understand this growth rate you have seen across is a broad base or is it more heightened in the non-south markets?

Ramesh Kalyanaraman: So, if you look at in April month actually the growth in south markets were more than non-south because as mentioned in the running score for the last quarter, in south India we are there in all tier 1, tier 2, tier 3 markets wherein certain customers who are now relocated to their suburbs in south, for example, a customer who was in Bengaluru today in Hubli or Belgaum, we will be able to cater them because we have chosen all tire 2, tire 3 markets in the south, but when you go outside south, our showrooms are predominantly in metros and tire 1 cities, so a customer who lives in Mumbai today relocated to say Kolhapur, we will not be able to cater them, so our growth rate was more in south India than in non-south markets in the month of April, but when it comes to June, we think that things are coming to normal because I think people are going back to their own cities to work because the growth rate has been very similar, the south and non-south revenue growth is very, very similar so in June when compared to FY2020, south has grown SSG by around 60%, non-south is in the range of 52% to 53%.

Shirish Pardeshi: Ramesh, my second question is on you kept on saying that the growth rates are also driven by the consolidation, if you can spend a minute or two explaining exactly what is the change which is happening I mean yes, we know hallmarking has become effective and that enforcement has happened, but which markets, which cities you have seen or is it primarily in the non-urban markets the phenomena is shifting towards organized player?

Ramesh Kalyanaraman: So, we see the shift is happening everywhere because we see a lot of new customers coming in predominantly because of two reasons, one is there is automatically a shift from an unorganized to organized which was their even in for the past many years, now especially people do not want to go to crowded streets, small shops, etc., people want to come to standalone stores like Kalyan where there is an automatic hygiene followed, over and above that the campaigns which we do also revolve around those advantages when they shop from Kalyan and of course there is a bit more momentum in the non-metro markets maybe because of the temporary dislocation of customers to their native places, but otherwise it is almost similar everywhere and post hallmarking into force we think that the shift is going to even more enhance.

Shirish Pardeshi: The reason why I am asking when I observe the BIS data in terms of registration, I think the number of registration over last four to five months has gone up is actually much higher in the no-south market and you alluded saying that the non-south market growth is much higher, so I was just trying to connect these two things because I guess south has got more stores in terms of penetration because traditionally gold is very inherent in the south India culture?

Ramesh Kalyanaraman: Already south know, already the organized market was in the range of according to a 50% when compared to non-south, the organized segment had only 30% so south move faster than non-south in every way when it comes to jewellery, so maybe that is the reason, but for Kalyan the south and non-south revenue growth or the SDG normalized for working days in June is very similar to south and non-south.

Shirish Pardeshi: But, would you like to call out this change in hallmarking is more visible in the non-south markets?

Ramesh Kalyanaraman: So, that is what, BIS, if you look at south India more than 50% or near to 50% is this already organized, non-south markets are yet to be organized, only 30% will be organized segment as of today, so we have a good tailwind for brands like Kalyan wherein we will foresee a huge shift from unorganized to organized, yes, you are right.

Shirish Pardeshi: My second and last question is on the industry discussion what we found that of course the gold jewellery association and they are putting a lot of efforts to get it organized and become more transparent, but what we also absorb there is strong industry lobby which is also pushing for delaying this certification in the non-metro markets for a period of three months, so that the argument is that they will be able to finish their inventory, so how truthful you are a leader and you are a participant, do you think such efforts will go waste or the industry will take a different view and maybe potentially do we see that because south is overcrowded, you see the competition behaving abnormally?

Ramesh Kalyanaraman: One thing for sure, the government has already announced this is going to come as a mandate is already in effect there may be temporary or flexibilities in terms of a few months but we do not think that the whole decision is going to be changed because it is really good for the country in two ways, one is that the quality is getting ensured, two this the security code is going to make the transaction very transparent because it is trackable right from the day of production the product is getting tracked to the jeweler or the manufacturer wherein the non-billing, etc., will not happen, so the non-billing will really come down or reduce or may stop because of all this coming into action, so that is only limited point wherein hallmarking is going to come of course there may be some flexibility when there are negotiations with the government but that is only a short term right not more than two or three months or maybe.

Shirish Pardeshi: Exactly if that is a strong tailwind I think the growth prospects for the organized indices is much faster and sharper and the related question which I wanted to get from you is that the store expansion what you are guided by 18, 15, 20 stores, will that take faster pace of opening the store in second half once things stabilized?

Ramesh Kalyanaraman: No, as of now the 2021 showrooms which we had planned to open nine are over, five more are almost getting ready, which will soon come into action and as of today the plan is to open as per the plan 21 showrooms in this financial year, regarding acceleration in the plan the only thing which we are evaluating is that we had plans to bring in franchise, but that was a plan which we would like to implement only after a couple of years that was the initial plan, we are trying to accelerate that plan because we see this huge momentum happening and we really want to utilize it and grab the market share.

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

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

Prashant Kutty: Thank you, Sir. firstly, a bookkeeping question at the interest level if you look at it we have not really seen too much of a significant change, just wanted to check in terms of what is the current debt level at this point of time and what is the target in terms of debt reduction going forward?

Ramesh Kalyanaraman: Swaminathan, can you take it?

V. Swaminathan: Yes, so the current debt levels on a gross is about 3600 Crores and we intend to keep it at that level only and it is pertinent to note that we have paid off COVID loans over the last quarter and interest rates by and large will show declining trend.

Prashant Kutty: I am sorry and did not get what is the quantum of debt at this point of time?

V. Swaminathan: It is on a gross basis 3600 Crores, consolidated.

Prashant Kutty: And this in the end of previous quarter was how much?

V. Swaminathan: Excuse me?

Prashant Kutty: As on FY2021 end, what was this number or FY2021 what was this number of debt?

V. Swaminathan: As of FY2021 end the gross debt was about 3400 Crores, so we have seen an increase in the debt as of now. Sorry Sir, we have to et factor in that out of this 3600 Crores 400 Crores is gold metal loan we have taken by placement of deposits so that is one to one matched by the deposits and loan so we have to factor in there so if you have to remove that then it should be only 3200 Crores compared to 3400 Crores at the end of March 31, 2021.

Prashant Kutty: So, when you are talking about 3600 Crores of loan at this point of time as I had presumed I think last quarter you had said that the gold metal loan is about 1400 Crores, that number is now 1600 Crores, is that the right number?

V. Swaminathan: Yes, you are right.

Prashant Kutty: Obviously 1600 Crores is gold metal loan?

V. Swaminathan: Correct.

Prashant Kutty: Sir, what is the target for paying off a debt, so I understand the gold metal loan part, but rest of that what is the target to reduce the other part of the debt?

V. Swaminathan: Sir, like we explained before IPO our debt equity ratio was 1.7 and post important it has come to 1.1 and our medium term target of debt equity ratio is 0.75, so we will move in that direction.

Prashant Kutty: Sure, Sir you just made a comment in terms of that the July demand was very strong, correct me if I am wrong, so just also wanted to understand that typically when we are talking about, you also said that studded is probably not seeing that share of a growth, but you also made a comment that gross margin were not be great, so is there a case that you are actually seeing at the very base end level of growth which is there or as a gold is concerned you are probably seeing a little bit of the higher end level also because this gross margin at this point of time is still a fairly moderate numbers compared to what you were doing in Q3 or what we did last year Q4 around 17% to 18% in March which we are talking about, so just want to pick your thoughts on that?

Ramesh Kalyanaraman: So, just before that the debt question, I think Swaminathan was not very clear, so the debt level, we have actually reduce the debt by around 200 Crores and that it is basically COVID loans, which we brought it down and the net debt with GML is 2626 and without GML 1064, so there is a gap between gross debt and that is in the range of 800 Crores to 1000 Crores that is predominantly because of the cash deposits, etc., in the bank, so the net debt is 2626 out of which if you do it without GML it is 1084 and regarding your question about the gross margins in July and the momentum, I would just clarify that the revenue growth which we see in July and August is very sharp, when the revenue comes from the unorganized market the demand first before the staple plain gold jewellery the customers from rural areas are really coming into the store for the first time when they shop it is very hard for us, so the momentum which we see in July is extremely positive, the revenue growth which we see the demand for plain gold jewellery is much higher than the studded jewellery, when you look at gross profit in terms of percentage the gross profit might come down but on a quantity value it is going to go up because the revenue growth is very, very steep why this happens because the demand for plain gold jewellery is much higher than the studded jewellery because of the shift from unorganized to organized.

Prashant Kutty: Sure Sir, but within plain gold jewellery also is the demand at the lower end is what I am trying to understand because basically?

Ramesh Kalyanaraman: Yes, it happens at certain times wherein your walkings from the unorganized segment when it comes they come for the plane staple low margin products initially usually we actually up-sell them to a better margin product in gold itself and also to studded jewellery, but now what is happening because of the crowd at the stores even otherwise the per store revenue is very high at Kalyan, so now with limited working hours and with limited staff only allowed it is just a bit tough for after up-selling which of course affects the studded jewellery conversion as well so on a normal state of mind when this unorganized segment comes it is actually not as toughest today's position wherein if you work on full working hours and with full sales team.

Prashant Kutty: Sure, understood and one bit from my end if I may, as of now all the stores are operational right or any store which is not functioning at this point of time or maybe at a translated hours?

Ramesh Kalyanaraman: As of today all the stores are opened as of today, but weekends the store opening is approximately in the range of about 80% to 82%.

Prashant Kutty: Sure, thank you very much and all the very best to you.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, my question is with regards to what is the previous participant asked while I understand because of the higher sale of the gold jewellery there might be some impact on the gross margin to an extent, but do you think the sheer volume could outmatch the impact at the

EBITDA level and the EBITDA margin actually could be higher versus what we had produced in the past?

Ramesh Kalyanaraman: If this momentum is continuing on a quantity wise or on volume wise your gross profit will be better than your estimate and your EBITDA should also improve in the current run rate if it goes because now the momentum was extremely positive, it is very similar to the Q4 levels is what we are seeing in July and August till today.

Gaurav Jogani: And Sir, how much of this would you early to your pent up demand scenario because while we have seen the stores remain closed and people trying to prepone their purchases for weddings so how much of this would be only 2% or 3% pent-up demand or that is the demand?

Ramesh Kalyanaraman: So, more than pent-up demand because if you see there has been shifting of marriages from quarter to quarter like Q4 marriages would have happened which is now into Q1, Q1 certain decisions which would have been taken will move to Q2 so there has been dislocations the demand but more than pent up demand what we see now is the shift from unorganized to organized, we are visibly seeing it in the store, we are seeing new customer walk ins, the new customer walk in growth is more than 50% and that we are seeing for the past two to three quarters now, so pent up demand is one way to look at it, but we think that more than the pent up demand it is because of the new customer walk ins and the shift from unorganized to organized.

Gaurav Jogani: Sure, thanks and one last bit from my end, but within this margins have been quite strong over the past two quarters that we have seen, so how much according to you are sustainable and what should be a steady state margin levels for the Middle East?

Ramesh Kalyanaraman: The Middle East, the pre-COVID margins were in the range of 13% to 14% and post-COVID the market has really consolidated to organized players, a lot of small players are winding up, they have come out of the market, etc., there has been consolidation in the market and now the gross margin for the past two quarters are in the range of 17% to 18%, so this should go forward in the range of 17% to 18% unless and until the market totally revise back and all those small players again come into action from India, etc., but for the next couple of years we think that this margin is sustainable.

Gaurav Jogani: Sure, Sir. Thanks again for answering my question. That is all from my end.

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

Manoj Menon: Hi, teams have asked the questions on hallmarking already, so I have only some sub blocked question on that, in this one short-term and one medium to long term, in the very short-term which could be a few months or a few quarters does not really matter, is there a scenario because of the inventory liquidation necessity significantly higher price ups that is what I believe I am serving as a consumer 3%, 4%, 5% sort of consumer communications which jewellers are telling me that is one, so how do we think about that, but having said that I am also aware that there is a life cycle well if the consumer whom you are incrementally recruiting, so probably it is a very, very short cost for a longer term benefit that is one, second, one the dust settles in some form, two sub-questions there, how do you think about this 12 month or 18 months from today because history tells me that Indian customers are very, very creative and revolution is not necessarily very destructive so just some thoughts on that actually, second once the level playing field actually happens the equilibrium would then shift to designs and brands, etc., so how do you think about it, so lot many more brands will spend more to up themselves or which probably linked to the earlier question, so how do we think to medium term, thank you, Sir?

Ramesh Kalyanaraman: So Manoj, first of hallmarking, on a short-term or a mid-term analysis you know that more than 70% of the business with unorganized segment even today; however, hard to push that shift was this come only to the extent of 30% for the past many years now, now if in while come way this acceleration is further kind of going into a level where this become ultar meaning 70:30 because of enforcement the hallmarking, this is a big change for organized players, so the hallmark what is the impact, number one is that polices getting standardized, now there might be a lot of unorganized players who have no quality inventory, if they have to move it to hallmarking inventory they will have to melt their existing ornaments, they will have to add that quantity of gold and make hallmark jewellery right, so additional equity is needed which of course at this tough time it very hard for an unorganized segment to put more money on gold and make his ornament more pure, otherwise you will have to reduce the quantity in the store, which is actually going to be a bit tougher in a short-term, midterm for unorganized segment, the second thing is that you know there is a lot of non-building, which happens in our sector, how can a non-billing happen, only if you have stock which is not in your books you can do a non-billing, right so now what will happen this unaccounted inventory if it had to be hallmark with this QID code, how will it happen, so there is no account for them to bring that inventory into the display so these kind of unorganized segment will really go away from the market, which is going to really bring in ore revenue for organized segment in the short-term, midterm is what we really feel, in the long-term with hallmarking coming in purity, it will not be differentiated anymore that is where efforts by players like us bring design brand power, etc., really is going to help brands like Kalyan.

Manoj Menon: Understood, thanks and I had one more question on how do you expect as an industry leader on the equilibrium stabilizing in 12 to 18 to 24 months?

Ramesh Kalyanaraman: Can you repeat it, Manoj once more?

Manoj Menon: So, what I am just trying to understand, maybe this was asked last time also, but since there is an evolution happening that is the season probably repeating it maybe for some more time, once everyone complies with it once shakeout happens, etc., how do I think about it, is it like that the design is the only differentiator or is there also will be a necessity for large players to even let us say increase the add spends to even communicate even more than what you are doing today, how do you think about that situation once the dust settles?

Ramesh Kalyanaraman: First of all let me make thing very clear, Manoj, to create a brand it takes years, it does not happen over time, it cannot be done in a couple of years, okay, it had to take its own time and it depends upon what your brand value, so now if you look at Kalyan, we have invested huge money in our brand, we have invested more than 1000 Crores if you look at for the past five years, the brand has been built on the core values of trust, transparency, hyperlocal, design elements, we have sub-brands for almost all the segments which a customer is looking for, so this is a very long-term pain wherein you will have to really spend for many years to get into that space which already we are in, so now it is an utilization period for us wherein if the shift come from unorganized to organized, Kalyan will be in the front row because it will be unorganized to organized, we have a very hyperlocal brand, the inventory is hyperlocal, the brand name is very hyperlocal, we have my Kalyan centers across a villages wherein you can really convert those customers into your brand, so we are well positioned and that is the major advantage which we have, we also have a very good digital spend or digital space wherein it really helps to convert customers to Kalyan Jewellers.

Manoj Menon: Thank you, Ramesh. Malika, are there any further questions, otherwise it is already three or one little more than an hour now, if no further questions, we can hand over back to Ramesh and team for the closing remarks.

Moderator: Yes, there are no further questions.

Ramesh Kalyanaraman: Thank you, Manoj. I will just end the note by saying that the momentum is very high, we see very good footfalls, the gross margins are almost steady and we look forward for this momentum for the rest of the year if things are almost in the similar lines.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.