

Company Overview

Kalyan Jewellers Limited ("Kalyan Jewellers") is one of the largest jewellery companies in India based on revenue as of March 31, 2020, according to the Technopak Report. The company was established by their founder and one of their Promoters, T.S. Kalyanaraman, who has over 45 years of retail experience, of which over 25 years is in the jewellery industry. The company started their jewellery business in 1993 with a single showroom in Thrissur, Kerala. Kalyan Jewellers has since expanded to become a pan-India jewellery company, with 107 showrooms located across 21 states and union territories in India, and also has an international presence with 30 showrooms located in the Middle East as of December 31, 2020. All of their showrooms are operated and managed by them. In Fiscal 2020, and in the 9 months ended December 31, 2020, the revenue from operations was ₹10,100.92 crore and ₹5,516.70 crore, of which 78.19% and 86.21% was from India and 21.81% and 13.79% was from the Middle East. Their total showrooms have increased from 77 as of March 31, 2015 to 137 showrooms as of December 31, 2020, and they intend to continue to open additional showrooms as they expect significant opportunity for further penetration in their existing markets as well as in new markets, primarily in India.

Objects of the issue

The issue consist of Offer for sale (INR 3.75 bn) and Fresh issue (INR 8.0 bn). Company proposes to utilize the net proceeds from fresh issue for:

- A) Funding working capital requirements of the company (INR 6.0bn)
- B) General Corporate Purposes (2.0 bn)

Investment Rationale

One of India's largest jewellery companies with a pan-India presence

Kalyan Jewellers has a pan-India presence with 107 showrooms located across 21 states and union territories in India and also has 30 showrooms located in the Middle East, as of December 31, 2020. In Fiscal 2020 and 9 months ended December 31, 2020, 78.19% and 86.21% of their revenue from operations was from India and 21.81% and 13.79% was from the Middle East. As of December 31, 2020, 72 of their 137 showrooms were located outside of South India (South India includes Kerala, Tamil Nadu, Andhra Pradesh, Telangana, Pondicherry and Karnataka). Their operations outside of South India contributed 57.69% and 49.92% of the gross profit and 47.81% and 40.40% of the revenue in Fiscal 2020 and 9 months ended December 31, 2020. In addition, they have a relatively diversified presence across larger and smaller cities, semi-urban and rural regions. For Fiscal 2020 and 9 months ended December 31, 2020, approximately 51.29% and 53.08% of their revenue in India was generated from sales outside of tier-I cities. The total showrooms have increased from 77 as of March 31, 2015 to 137 as of December 31, 2020.

Widen the product offerings to further increase their consumer reach

The company intends to continue to increase their focus on studded jewellery going forward as these products have widened the consumer base to which they cater and also typically have a higher gross margin profile than their gold jewellery. They have launched a number of sub-brands around their studded jewellery range. The revenue from sales of studded jewellery increased from 20.65% of their revenue from operations in Fiscal 2018 to 23.36% of revenue from operations in Fiscal 2020. In the last few years, they have introduced a range of jewellery collections under distinct sub-brands, such as "Muhurat", "Mudhra", "Rang", "Nimah" and "Anokhi", which are designed to cater to specific customer niches such as antique jewellery, temple jewellery and polki diamonds and precious stones jewellery. These brands are marketed through distinct promotional campaigns and have separate shelf-space in their showrooms.

Valuation and Outlook

Kalyan Jewellers is one of the largest jewelry companies in India. Company design, manufacture and sell a wide range of gold, studded and other jewelry products. Currently, the sales of gold jewelry is 75% and studded Jewellery (diamonds and precious stones) contributing to 23% and balance 2% from other other jewellery products. On the valuation front, at the upper price band, the company is valued at 63x P/E based on FY20 numbers considering its diluted equity shares. Despite its robust brand name and higher distribution network its financial performance remain weak. Therefore, considering its expensive valuation, fluctuating revenues and negative profitability (i.e 9MFY21). we assign an 'AVOID' rating to this IPO issue.

Issue Details

| | |
|----------------------------------|--------------------------|
| Offer Period | Mar 16th - 18th Mar 2021 |
| Price Band | INR.86 to INR.87 |
| Bid Lot | 172 |
| Listing | BSE&NSE |
| Issue Size (no. of shares in mn) | 135.0 |
| Issue Size (INR. in bn) | 11.75 |
| Face Value (INR) | 10 |

Issue Structure

| | |
|--------|-----|
| QIB | 50% |
| Retail | 35% |
| HNI | 15% |

| | |
|------|--|
| BRLM | Axis Capital, Citigroup Global, ICICI Securities, SBI Capital Markets, BOB Capital Markets |
|------|--|

| | |
|-----------|----------------------------|
| Registrar | Link Intime India Pvt. Ltd |
|-----------|----------------------------|

Particulars Pre Issue % Post Issue %

| | | |
|--------------|------------|------------|
| Promoter | 67.99 | 60.53 |
| Public | 32.01 | 39.47 |
| Total | 100 | 100 |

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

| Particulars | FY18 | FY19 | FY20 | 9MFY21 |
|---------------------------------------|-----------------|---------------|-----------------|---------------|
| Revenue | | | | |
| Revenue from operations | 1,05,479 | 97,708 | 1,01,009 | 55,167 |
| Total revenue | 1,05,479 | 97,708 | 1,01,009 | 55,167 |
| Expenses | | | | |
| Cost of sales | 88,017 | 81,983 | 83,918 | 45,184 |
| Employee benefit expenses | 3,687 | 3,814 | 3,572 | 2,346 |
| Other expenses | 6,228 | 6,107 | 5,917 | 3,971 |
| Excise Duty | 219 | - | - | - |
| Total Operating expenses | 98,152 | 91,904 | 93,406 | 51,501 |
| EBITDA | 7,327 | 5,803 | 7,603 | 3,666 |
| Depreciation and amortisation expense | 2,020 | 2,236 | 2,392 | 1,700 |
| Other income | 323 | 433 | 801 | 331 |
| EBIT | 5,630 | 4,000 | 6,012 | 2,297 |
| Finance costs | 3,492 | 3,791 | 3,803 | 2,888 |
| PBT | 2,138 | 209 | 2,209 | (591) |
| Current tax | 754 | 204 | 591 | 455 |
| Deferred Tax charge | (26) | 53 | 195 | (246) |
| Total tax | 728 | 258 | 786 | 208 |
| PAT | 1,410 | (49) | 1,423 | (799) |
| Diluted EPS | 1.4 | - | 1.4 | - |

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

| Particulars | FY18 | FY19 | FY20 | 9MFY21 |
|---|--------------|--------------|--------------|--------------|
| Cash Flow from operating activities | 10,431 | 3,889 | 3,195 | (2,281) |
| Cash flow from investing activities | (6,151) | (1,237) | 343 | 1,452 |
| Cash flow from financing activities | (4,503) | (2,933) | (3,431) | 501 |
| Net increase/(decrease) in cash and cash equivalents | (223) | (281) | 108 | (328) |
| Cash and cash equivalents at the beginning of the period | 2,005 | 1,782 | 1,501 | 1,609 |
| Cash and cash equivalents at the end of the period | 1,782 | 1,501 | 1,609 | 1,280 |

Source: RHP, BP Equities Research



Balance Sheet (In mn)

| Particulars | FY18 | FY19 | FY20 | 9MFY21 |
|---|---------------|---------------|---------------|---------------|
| Equity | | | | |
| Share Capital | 8,392 | 8,392 | 8,392 | 8,392 |
| Compulsorily convertible preference share capital | 1,190 | 1,190 | 1,190 | 1,190 |
| Other Equity | 10,121 | 10,459 | 12,028 | 10,992 |
| Non-Controlling Interests | (23) | (36) | (30) | 4 |
| Net worth | 19,681 | 20,006 | 21,581 | 20,579 |
| Long-Term Borrowings | 1,786 | 1,075 | 848 | 557 |
| Lease Liabilities | 6,230 | 7,305 | 6,674 | 5,994 |
| Long-Term Provisions | 200 | 240 | 307 | 343 |
| Total Non Current Liabilities | 8,216 | 8,620 | 7,829 | 6,894 |
| Short Term Borrowings | 18,436 | 21,000 | 23,382 | 26,355 |
| Metal Gold Loan | 19,529 | 14,964 | 11,671 | 8,035 |
| Trade payables | 7,486 | 4,194 | 5,576 | 5,284 |
| Lease Liabilities | 715 | 681 | 903 | 834 |
| current tax liability | 448 | 5 | 391 | 749 |
| Other current liabilities | 9,273 | 10,084 | 10,119 | 10,454 |
| Short Term Provisions | 68 | 71 | 78 | 90 |
| Other Financial Liabilities | 1,661 | 974 | 656 | 1,956 |
| Total Current Liabilities | 57,616 | 51,973 | 52,777 | 53,757 |
| Total liabilities | 85,512 | 80,599 | 82,187 | 81,230 |
| Assets | | | | |
| Tangible Assets | 10,083 | 10,897 | 10,792 | 9,862 |
| Capital work in Progress | 180 | 167 | 242 | 384 |
| Intangible Assets | 125 | 100 | 97 | 80 |
| Intangible Assets Under Development | - | 50 | 2 | 1 |
| Right Use of Assets | 7,905 | 9,849 | 10,110 | 8,405 |
| Goodwill on Consolidation | 51 | 51 | 51 | 51 |
| Investments | 11 | 26 | - | - |
| Investment property | 622 | 622 | 622 | 611 |
| Other Financial Assets | 372 | 744 | 588 | 624 |
| Deferred tax Liabilities | 426 | 302 | 81 | 331 |
| Other non-current assets | 1,028 | 666 | 617 | 567 |
| Total Non current assets | 20,802 | 23,475 | 23,203 | 20,918 |
| Trade Receivables | 1,818 | 1,467 | 2,137 | 1,305 |
| Cash and cash equivalents | 1,782 | 1,501 | 1,609 | 1,280 |
| Bank Balances | 8,397 | 6,753 | 5,893 | 4,231 |
| Other Financial Assets | 432 | 461 | 812 | 379 |
| Inventories | 50,221 | 45,007 | 47,203 | 51,682 |
| Other current assets | 2,060 | 1,936 | 1,330 | 1,435 |
| Total Current Asset | 64,710 | 57,125 | 58,984 | 60,312 |
| Net Current Assets | 7,094 | 5,151 | 6,207 | 6,554 |
| Total Assets | 85,512 | 80,599 | 82,187 | 81,230 |

Source: RHP, BP Equities Research

Key Risks.

- ⇒ Its ownership structure in the Gulf Cooperation Council states may have foreign ownership restrictions and risks associated with shareholder arrangements with local shareholders.
- ⇒ The company may be unable to maintain or establish arrangements with contract manufacturers or suppliers through whom they manufacture its products and procure raw materials and may experience disruptions in the operations of such parties.
- ⇒ It may not respond to changes in consumer demands and market trends in a timely manner which would have an impact on the operations of the company.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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