

## Kalyan Jewellers India Ltd

Kalyan Jewellers India Limited (KJIL) was incorporated in 1993. The company is one of the largest jewellery companies in India based on revenue as of March 31, 2020. The company was established by their founder and one of their Promoters, T.S. Kalyanaraman. Kalyan Jewellers has 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.

**Positives:** (a) One of India's largest jewellery companies with a pan-India presence & strong brand equity (b) Wide range of product offerings targeted at a diverse set of customers; (c) Strong promoter background with extensive experience in retail and jewellery.

**Investment concerns:** (a) KJIL reported poor consolidated top-line & bottom-line (over FY2018-20), hence growth concerns remain; (b) Slowdown in the economy could impact the overall profitability of the company (Jewellery business is discretionary in nature).

**Outlook & Valuation:** In terms of valuations, the pre-issue TTM EV/Sales works out to 1.5 (at the upper end of the issue price band), which is low compared to Titan Company (trading at 7.7x). However, Titan company has a better financial track record compared to KJIL. Going forward, we believe that KJIL would perform better on the back of a strong brand and number of stores in India & internationally. **Thus, we recommend a subscribe rating on the issue.**

### Key Financials

| Y/E March (Rs cr) | FY2018        | FY2019       | FY2020        | 9MFY21       |
|-------------------|---------------|--------------|---------------|--------------|
| <b>Net Sales</b>  | <b>10,526</b> | <b>9,771</b> | <b>10,101</b> | <b>5,517</b> |
| % chg             | -             | (7.2)        | 3.4           |              |
| <b>Net Profit</b> | <b>143</b>    | <b>(4)</b>   | <b>142</b>    | <b>(80)</b>  |
| % chg             | -             | NA           | NA            |              |
| OPM (%)           | 7.3           | 6.3          | 7.9           | 6.6          |
| <b>EPS (Rs)</b>   | <b>1.7</b>    | <b>(0.1)</b> | <b>1.7</b>    | <b>(1.0)</b> |
| P/E (x)           | 51.8          | NA           | 51.3          | -            |
| P/BV (x)          | 4.1           | 4.1          | 3.8           | -            |
| RoE (%)           | 7.2           | (0.2)        | 6.6           | -            |
| RoCE (%)          | 9.5           | 6.8          | 9.7           | -            |
| EV/Sales (x)      | 1.1           | 1.1          | 1.1           | -            |
| EV/EBITDA (x)     | 14.5          | 18.0         | 13.8          | -            |

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## Subscribe

Issue Open: March 16, 2021

Issue Close: March 18, 2021

### Issue Details

Face Value: ₹ 10

Present Eq. Paid up Capital: ₹ 938cr

Offer for Sale: ₹ 375cr

Fresh issue: ₹ 800cr

Post Eq. Paid up Capital: ₹ 1,030cr

Issue size (amount): ₹ 1,175

Price Band: ₹ 86-87

Lot Size: 172 shares and in multiple thereafter

Post-issue mkt.cap: ₹ 8868-₹ 8961cr

Promoters holding Pre-Issue: 68.0%

Promoters holding Post-Issue: 60.5%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

|                   |     |
|-------------------|-----|
| QIBs              | 50% |
| Non-Institutional | 15% |
| Retail            | 35% |

### Post Issue Shareholding Pattern

|           |       |
|-----------|-------|
| Promoters | 60.5% |
| Others    | 39.5% |

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## Company background

Kalyan Jewellers is one of India's largest Jewellery companies. The key business activities of the company is to design, manufacture, and sell a variety of gold, studded and other jewellery products for various occasions i.e. wedding, festivals, etc.

Initially, the company was started with a single showroom in Kerala, and over the years, it has expanded its presence with 107 showrooms located across 21 states and union territories in India. It not just serves the domestic market but also serves overseas customers with 30 showrooms located in the Middle East. The company generates a significant portion of revenues from gold jewellery, accounted for ~75% in fiscal 2020 followed by studded (diamond and precious stone) and other jewellery segments.

## Issue details

KJIL is raising ₹1,175cr through fresh issue (₹800cr) and Promoter & Individual investors are selling equity worth ₹375cr through offer for sale in the price band of ₹86-87.

### Exhibit 1: Pre and post IPO shareholding pattern

|           | No of shares (Pre-issue) | %     | No of shares (Post-issue) | %     |
|-----------|--------------------------|-------|---------------------------|-------|
| Promoters | 637,823,614              | 68.0  | 623,455,798               | 60.5  |
| Others    | 300,275,421              | 32.0  | 406,597,260               | 39.5  |
| Total     | 938,099,035              | 100.0 | 1030,053,058              | 100.0 |

Source: Source: RHP, Note: Calculated on upper price band

## Objectives of the Offer

- To finance business working capital requirements.
- To meet general corporate purposes.

**Exhibit 2: Consolidated Income Statement**

| Y/E March ( ` cr)           | FY2018        | FY2019       | FY2020        |
|-----------------------------|---------------|--------------|---------------|
| <b>Net Sales</b>            | <b>10,526</b> | <b>9,771</b> | <b>10,101</b> |
| % chg                       |               | (7.2)        | 3.4           |
| <b>Total Expenditure</b>    | <b>9,752</b>  | <b>9,152</b> | <b>9,302</b>  |
| Raw Material                | 8,802         | 8,198        | 8,392         |
| Personnel                   | 369           | 381          | 357           |
| Others Expenses             | 582           | 572          | 553           |
| <b>EBITDA</b>               | <b>774</b>    | <b>619</b>   | <b>799</b>    |
| % chg                       |               | (20.0)       | 29.1          |
| (% of Net Sales)            | 7.3           | 6.3          | 7.9           |
| Depreciation & Amortisation | 202           | 224          | 239           |
| <b>EBIT</b>                 | <b>572</b>    | <b>396</b>   | <b>560</b>    |
| % chg                       |               | (30.8)       | 41.6          |
| (% of Net Sales)            | 5.4           | 4.0          | 5.5           |
| Interest & other Charges    | 390           | 418          | 419           |
| Other Income                | 32            | 43           | 80            |
| (% of PBT)                  | 15.1          | 206.7        | 36.3          |
| <b>Recurring PBT</b>        | <b>214</b>    | <b>21</b>    | <b>221</b>    |
| % chg                       |               | (90.2)       | 955.4         |
| Tax                         | 73            | 26           | 79            |
| (% of PBT)                  | 34.1          | 123.2        | 35.6          |
| <b>PAT (reported)</b>       | <b>141</b>    | <b>(5)</b>   | <b>142</b>    |
| % chg                       |               | -            | -             |
| (% of Net Sales)            | 1.4           | (0.0)        | 1.4           |
| <b>Basic EPS ( ` )</b>      | <b>1.7</b>    | <b>(0.1)</b> | <b>1.7</b>    |
| % chg                       |               | -            | -             |

Source: Company, Angel Research

**Consolidated Balance Sheet**

| Y/E March ( ₹ cr)           | FY2018       | FY2019       | FY2020       |
|-----------------------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>     |              |              |              |
| Equity Share Capital        | 958          | 958          | 958          |
| Reserves & Surplus          | 1,012        | 1,046        | 1,203        |
| <b>Shareholders Funds</b>   | <b>1,970</b> | <b>2,004</b> | <b>2,161</b> |
| Total Loans                 | 4,077        | 3,788        | 3,640        |
| Deferred Tax Liability      | 34           | 23           | 42           |
| <b>Total Liabilities</b>    | <b>6,079</b> | <b>5,812</b> | <b>5,840</b> |
| <b>APPLICATION OF FUNDS</b> |              |              |              |
| Gross Block                 | 2,249        | 2,650        | 2,777        |
| Less: Acc. Depreciation     | 370          | 498          | 610          |
| <b>Net Block</b>            | <b>1,879</b> | <b>2,152</b> | <b>2,167</b> |
| Capital Work-in-Progress    | 18           | 22           | 24           |
| Investments                 | 1            | 3            | -            |
| Current Assets              | 6,611        | 5,853        | 6,019        |
| Inventories                 | 5,022        | 4,501        | 4,720        |
| Sundry Debtors              | 182          | 147          | 214          |
| Cash                        | 1,018        | 825          | 750          |
| Loans & Advances            | 249          | 240          | 214          |
| Other Assets                | 140          | 141          | 121          |
| Current liabilities         | 2,506        | 2,271        | 2,420        |
| <b>Net Current Assets</b>   | <b>4,105</b> | <b>3,582</b> | <b>3,599</b> |
| <b>Deferred Tax Asset</b>   | <b>77</b>    | <b>53</b>    | <b>50</b>    |
| Mis. Exp. not written off   | -            | -            | -            |
| <b>Total Assets</b>         | <b>6,079</b> | <b>5,812</b> | <b>5,840</b> |

Source: Company, Angel Research

**Consolidated Cash Flow Statement**

| Y/E March (Rs cr)                | FY2018       | FY2019       | FY2020       |
|----------------------------------|--------------|--------------|--------------|
| Profit before tax                | 214          | 21           | 221          |
| Depreciation                     | 202          | 224          | 239          |
| Change in Working Capital        | 396          | (141)        | (424)        |
| Interest / Dividend (Net)        | 309          | 328          | 333          |
| Direct taxes paid                | (14)         | (39)         | (7)          |
| Others                           | (64)         | (3)          | (43)         |
| <b>Cash Flow from Operations</b> | <b>1043</b>  | <b>389</b>   | <b>320</b>   |
| (Inc.)/ Dec. in Fixed Assets     | (284)        | (293)        | (108)        |
| (Inc.)/ Dec. in Investments      | (331)        | 169          | 142          |
| <b>Cash Flow from Investing</b>  | <b>(615)</b> | <b>(124)</b> | <b>34</b>    |
| Issue of Equity                  | 0            | 0            | 0            |
| Inc./(Dec.) in loans             | (692)        | (9)          | (72)         |
| Dividend Paid (Incl. Tax)        | 0            | 0            | 0            |
| Interest / Dividend (Net)        | 242          | (284)        | (271)        |
| <b>Cash Flow from Financing</b>  | <b>(450)</b> | <b>(293)</b> | <b>(343)</b> |
| Inc./(Dec.) in Cash              | (22)         | (28)         | 11           |
| <b>Opening Cash balances</b>     | <b>200</b>   | <b>178</b>   | <b>150</b>   |
| <b>Closing Cash balances</b>     | <b>178</b>   | <b>150</b>   | <b>161</b>   |

Source: Company, Angel Research

### Key Ratios

| Y/E March                              | FY2018 | FY2019 | FY2020 |
|--|--------|--------|--------|
| <b>Valuation Ratio (x)</b>             |        |        |        |
| P/E (on FDEPS)                         | 51.8   | NA     | 51.3   |
| P/CEPS                                 | 21.3   | 33.4   | 19.1   |
| P/BV                                   | 4.1    | 4.1    | 3.8    |
| EV/Sales                               | 1.1    | 1.1    | 1.1    |
| EV/EBITDA                              | 14.5   | 18.0   | 13.8   |
| EV / Total Assets                      | 1.8    | 1.9    | 1.9    |
| <b>Per Share Data (Rs)</b>             |        |        |        |
| EPS (Basic)                            | 1.7    | (0.1)  | 1.7    |
| EPS (fully diluted)                    | 1.7    | (0.1)  | 1.7    |
| Cash EPS                               | 4.1    | 2.6    | 4.5    |
| DPS                                    | 0.0    | 0.0    | 0.0    |
| Book Value                             | 21.0   | 21.4   | 23.0   |
| <b>Returns (%)</b>                     |        |        |        |
| ROCE                                   | 9.5    | 6.8    | 9.7    |
| Angel ROIC (Pre-tax)                   | 11.4   | 8.0    | 11.1   |
| ROE                                    | 7.2    | (0.2)  | 6.6    |
| <b>Turnover ratios (x)</b>             |        |        |        |
| Asset Turnover (Gross Block)           | 4.7    | 3.7    | 3.6    |
| Inventory / Sales (days)               | 174    | 168    | 171    |
| Receivables (days)                     | 6      | 5      | 8      |
| Payables (days)                        | 26     | 16     | 20     |
| Working capital cycle (ex-cash) (days) | 154    | 158    | 158    |

Source: Company, Angel Research

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