SEC/19 /2022 -2023 May 13, 2022

To

1.	**National Stock Exchange of India Ltd.** Exchange Plaza Plot No. C/1, G Block Bandra –Kurla Complex Bandra (E), Mumbai 400 051 **Symbol: KALYANKJIL**	**2.**	**BSE Limited** Corporate Relationship Dept. Phiroze Jeejeebhoy Towers, Dalal Street Mumbai 400 001 Maharashtra, India **Scrip Code:** 543278

Dear Sir/Madam

Sub.: Transcript of the earnings call Q4 of FY2022

We have enclosed the Transcript of the earnings call Q4 of FY2022. The same is also available on the website of the Company.

Kindly take the same into your records.

Thanking you

Yours faithfully

For **Kalyan Jewellers India Limited**

Company Secretary & Compliance Officer

Jishnu R G

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"Kalyan Jewellers
Q4 FY2022 Earnings Conference Call"

May 11, 2022

ANALYST: **MR. ANIKET SETHI - ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. RAMESH KALYANARAMAN - EXECUTIVE DIRECTOR – KALYAN JEWELLERS LIMITED**
MR. SANJAY RAGHURAMAN – CEO – KALYAN JEWELLERS LIMITED
MR. V SWAMINATHAN – CFO – KALYAN JEWELLERS LIMITED
MR. SANJAY MEHROTRA – HEAD STRATEGY AND CORPORATE AFFAIRS – KALYAN JEWELLERS LIMITED
MR. ABRAHAM GEORGE - HEAD TREASURY AND INVESTOR RELATION – KALYAN JEWELLERS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Kalyan Jewellers Q4 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 a touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniket Sethi from ICICI Securities. Thank you and over to you, Sir!

Aniket Sethi: Thanks Neerav. Good afternoon everyone, thank you for joining. At ICICI it is our absolute pleasure to host the Q4 FY2022 and Full Year Earnings Call for Kalyan Jewellers Limited. From the management we have with us Mr. Ramesh Kalyanaraman - Executive Director; Mr. Sanjay Raghuraman – CEO; Mr. V Swaminathan – CFO; Mr. Sanjay Mehrotra – Head Strategy and Corporate Affairs and Mr. Abraham George - Head Treasury and Investor Relation. With that I will hand it over to Mr. Ramesh for the opening comments post which we will open the flow for the question and answer. Thank you and over to you Ramesh Sir.

Ramesh Kalyanaraman: Hi! Good evening everyone. Thank you. FY2022 was an excellent year with revenue growth of 26% over FY2021 recording the highest revenue in the history of the company so far. This is despite disruptions to business due to COVID second and third wave during Q1 and Q4. We ended the year with a PAT of 224 Crores however if you look at the PAT for the last three quarters, our PAT was at 275 Crores.

Now let me give you an overview of the recently concluded quarter and some important decisions taken during the quarter. We announced the board approval for the appointment of Mr. Vinod Rai as a Chairman and Independent Non-Executed Director on the Board of the Company. This appointment underpins our continued focus on not only strengthening the board, but also emphasize on corporate governance.

Q4 FY2022 as you are aware we started with a very high base, we faced disruptions to showroom operations during the first half of the quarter due to Omicron. The quarter also saw extreme volatility in gold prices driven by the geopolitical situation in Ukraine and its related impact on demand.

We ended the quarter with a marginal de-growth, but if you ask me as a team, we are extremely satisfied with outcome. 2023 financial year Akshaya Tritiya was excellent with significant traction across all regions including the non-south markets. We witnessed significant growth not just in terms of value, but also footfalls. April and first week of May have been very encouraging both in India as well as Middle East and it is in line with our plan for the current year. For the current financial year in India we target to open 12 to 15 new showrooms. Over and above that the franchisee owned showrooms which we plan to open during the year will also be there. We have made significant progress on our franchisee plans with 6 signed LOIs in place already. We will be opening our first franchise store during the first quarter.

Now an update on our Middle East businesses. We were cautiously optimistic on the region since resumption of business post COVID and after seeing the region witness good traction over the last three consecutive quarters, we now plan to restart our calibrated expansion there. The expansion will be fully funded by the internal accruals from the region. Further like in India, we have already received enquiries from potential franchisee partners for the Middle East as well. We plan to launch franchise operations in the region after successful launch of the first set of pilot showrooms in India.

Our online platform Candere has drawn up plans for its next phase of growth on the back of stellar performance over the last three years. As a part of the plan, Candere will open its first showroom during the first half of the financial year. Last financial year saw significant improvement in the share of new customers driven largely by the shift from the unorganized sector. While we expect this share to grow organically we are also planning to widen our customer base through the introduction of innovative new product segments for brands and collection. Another area of focus for the current financial year is to further improve the share of gold on lease. Gold on lease as you are aware helps us not only save interest, but has a natural hedge embedded in it. We could improve the share of gold on lease to some extent during the last financial year and given the current level of operations, there is limited scope of further improvement. We have now drawn up plans to convert a portion of exchanged gold that we receive from customers also into gold on lease thereby providing further headroom.

To sum up, with the continued momentum across all markets with India own store footprint growing by approximately 10%, franchisee model taking good shape, Middle East showing positive signs and Candere moving into the next phase of growth, we as a team are very excited about the current financial year. I will now hand over to Sanjay to take you through the financial highlights for the quarter as well as for the financial year. 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 financial year performance. I shall share some details now starting with the just concluded quarter. In Q4 of FY2022, the just conclude financial year, our company reported a consolidated revenue of 2857 Crores a marginal de-growth of about 6% compared to the corresponding quarter of the previous year. Consolidated EBITDA came in at 218 Crores versus 228 Crores in the corresponding quarter of the previous year and consolidated profit after tax, PAT came in at 72 Crores versus 74 Crores in the corresponding quarter of the previous year. I shall now give you a breakup of the Q4 performance starting with India numbers.

For the just concluded quarter, our India revenue was 2399 Crores versus 2615 Crores when compared with the corresponding quarter of the previous year and our India Q4 EBITDA came in at 188 Crores versus 194 Crores when compared with the corresponding quarter of the previous year. Profit after tax in India for the quarter came in at 70 Crores compared to 66 Crores in the corresponding quarter of the previous year.

During the quarter we had no wholesale bullion sale and our gold coin sale to retail and corporate customers was about 59 Crores, approximately 2.5% of total revenue.

Moving on now to talk about our Middle East business. Revenue came in, in the Middle East at 425 Crores quite similar to the level in the corresponding quarter of the previous year. EBITDA in the Middle East came in at 33 Crores versus 30 Crores in the same period of the previous year and profit came in at 4.3 Crores versus 7 Crores in the same period of the previous year.

Moving on now to talk about our e-commerce business, Candere posted revenue of 39 Crores in the quarter versus 22 Crores in the corresponding quarter of the previous year. The business recorded a loss of 2.7 Crores in the quarter versus a profit of 53 lakhs in the corresponding part of the previous year. Moving now to talk about our full year performance for the financial year 2021-2022, at a consolidated level the company revenue came in at 10818 Crores a growth of 26% over the previous financial year. Consolidated EBITDA came in at 815 Crores versus 594 Crores in the previous financial year and consolidated profit after tax for the year came in at 224 Crores versus a loss of 6 Crores in the previous financial year.

With this we are now done with the summary of the financials and we can take questions. Thank you.

Moderator: Thank you. 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 store expansion plan that you have laid out for FY2023. So if you can just repeat that again if I heard it right it is 12 to 15 showrooms in India that you will be opening by your own and in addition to that there will be six stores that will be opened on a franchisee basis. So is that right.

Ramesh Kalyanaraman: Yes, so 12 to 15 showrooms is what we want to open with our own internal accruals and then six LOAs we have already done so minimum franchisee store which will come in this year will be six.

Gaurav Jogani: If you can highlight what are the terms of this franchisees how will this be on a FOCO model, COCO model if you can give some details here.

Sanjay Raghuraman: This model is a franchisee owned company operated model as in FOCO. The way the model is going to work is we will be selling inventory to the franchisee at a suitable trade discount, franchisee will invest in the inventory as well as the fixed assets in the showroom and will be responsible for all the operating costs. Our staff will be managing the showroom so that is the company operator side of it.

Gaurav Jogani: One clarification here. I mean, so the inventory will be given by the company that will be directly selling to the franchisee and the staff expenses will be in our books right on Kalyan Jewellers books.

Sanjay Raghuraman: Yes we have set up the model such that this should deliver to us PBT very similar levels to what we are already delivering now in the comparable non-south markets about 4.75%.

Gaurav Jogani: And in terms of the store size if you can give any color of how much the store size will be and what will be the minimum inventory that initially will be sold to these franchises.

Sanjay Raghuraman: You are asking how much inventory will be held there.

Gaurav Jogani: Yes exactly I mean the first lot that will be given to these franchises the initial part.

Sanjay Raghuraman: This is mainly going to be in tier 3, tier 4 and maybe some tier 2 markets in the region of about 20 Crores to 25 Crores is how we are thinking about it.

Gaurav Jogani: Would that understanding be right I mean the booking for you the sales would be x of the franchisee discount and whatever the sales we have done how will be the accounting for this would happen in our P&L, I mean, we will book the sales and the commensurate cost will be taken x of the franchisee margin.

Sanjay Raghuraman: Like I said we will sell this at a trade discount to the price at which the consumer buys, we will book revenue when we sell to the franchisee all of it on cash and carry basis.

Gaurav Jogani: Just one last question from my end is in terms of the good traction that you have mentioned about the April and the May month if you can highlight how the performance is if we compare this to the pre-COVID normalized quarter if you can give some color vis-à-vis that.

Ramesh Kalyanaraman: So if you look at the traction it has been very good because yes even now it is coming after two years I cannot give any figures because unfortunately we will not be able to but we see a very substantial growth when you even compare with the pre-COVID level. If you look at the first 40 days there is a good growth which we see.

Gaurav Jogani: Is this only a phenomena for the organized player that you see or what is leading to this strong growth I mean is it again that market share gain or it is just a general demand momentum is strong from the consumers end.

Ramesh Kalyanaraman: One thing is very sure there has been a good shift of unorganized to organized in the last couple of years and we have already built a good customer base, lot of fresh customers we have gained over the past many quarters and these people have also started coming in again for the second time purchase. So the stickiness in our trade is very high. So over and above that this momentum is still high especially for organized players because organized players have gained a good traction over the past two years when it comes to the new customer gain which we have got in the past couple of years and of course Akshaya Tritiya people have not seen for two years now. So that also has contributed this momentum.

Gaurav Jogani: One last set of questions for my end. If you can just highlight the expansion plans for the Middle East and Candere that would be it from me.

Ramesh Kalyanaraman: Middle East because if you notice last three quarters Middle East have been consistently performing it has been in the range of 85% of the pre-COVID levels and you all know that we had reduced our footprint in the range of 10% to 15% in that area during the first COVID wave a couple of years before. So it is almost SSG level it is almost pre-COVID levels now or more than pre-COVID levels in Middle East. So for the past three quarters we were continuously monitoring that Middle East market and now we decided that we will slowly start our expansion. So we will open a couple of showrooms in Middle East with our own internal accruals and it will be fully funded by Middle East itself from the internal accruals which that market makes and over and above that, franchisee we have already starting to get some inquiries there without even you know that we have not advertised, we have not done anything in markets for franchise it is all mouth publicity between them but we are waiting we will not launch a franchisee store in Middle East unless and until the pilot in India is completely over and we are satisfied.

Gaurav Jogani: And Candere also we are planning to open our showrooms for this year for Candere.

Ramesh Kalyanaraman: Yes, so Candere if you have seen we have a very good revenue growth in Candere and just if you notice all the revenue growth is from online space itself for us because we have not opened any physical store till today. Now because we want to go to the next phase of expansion in Candere, we are slowly starting to expand in physical space also because it gives better conversion to the online space etc., if we have a physical store and the first store we want to open before the end of the Q2 this year we have already identified the space and the interior fit out etc., have began.

Gaurav Jogani: Sure. Thank you Sir that is all from me.

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

Aniket Sethi: Sir, on the quarter on a Y-o-Y basis the non-south revenues has grown while south had a degrowth why the divergent trends for this quarter.

Ramesh Kalyanaraman: If you remember last year Q4 our south revenue growth was higher than the non-south. So South had grown by 70% in Q4 last year and non-south had grown in the range of 40% in the last year because I had told you the reason where we saw a lot of migration happening, people from the non-south markets also they started migrating to their own hometown and we got that revenue in south so the base was already high at a Pan India level but south where the base was extremely high. So that is why the revenue has a de-growth in south India more than in non-south this time.

Aniket Sethi: Second on the asset side in the standalone balance sheet there is a 113 Crores of loans and advances which was not there last year what does this really pertain to.

V Swaminathan: We will come back to you during this call.

Aniket Sethi: Next, studded has seen a good increase 200 bps but you have also kind of articulated that some of it is coming from the low value studded. So if you could just split and how much is the margin differential in low value studded versus the actual studded business which you do.

Ramesh Kalyanaraman: So the low value and the usual studded there is a difference of 10% in the gross margin level.

Aniket Sethi: And this 200 bps increase how much would be on back of the low value studded.

Ramesh Kalyanaraman: That particular percentage of low value studded it is a very competitive information.

Aniket Sethi: Lastly Ramesh Sir, just wanted to hear your thoughts that given gold prices seen some decline in the last two, three months. So how is the consumer behavior during this time.

Ramesh Kalyanaraman: It is more or less down the volatility has reduced a bit over the past 30, 40 days. So when there is extreme volatility in gold prices people just take a pause for it to settle down at some level so that was the major issue rather than the gold price going up steeply. There was a hesitation when the price was very volatile, but that hesitation is almost settled down at least for the past 30, 40 days but of course if the geopolitical issue again worsens and if the price gets more volatile then it is a different issue but as we speak today it has settled down.

Aniket Sethi: Got it. I have a couple of questions I will come back in the queue. 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 for the opportunity. I just was trying to understand now you spoke about the store expansion as well as the franchisee store. So that effectively means about 18 to 20 stores we are looking to open in this particular financial year which effectively means about 12% to 14% increase in our total retail footprint as we seek now.

Ramesh Kalyanaraman: Yes.

Deepak Poddar: So overall that is the trend that we are looking to continue over next two to three years a little on the medium-term basis about 12% to 15% kind of a store growth.

Ramesh Kalyanaraman: So there are two things here one is yes as you rightly said 12 to 15 new showrooms we will put in our own internal accruals in India and six LOAs franchise we have already signed so that is the minimum number of franchise store which we will do this year and the pilot will be for three franchise and if the pilot works out very well it might go beyond six also and there is a correction needed then we will limit it at six that is the plan for this year. Next few years the franchise model and one thing what I want to tell you is of course all the stores cannot be compared with the existing stores today because franchise comes with a lesser bucket, lesser bucket means lesser revenue. So if the footprint expands by 12% to 15% it does not mean that revenue will increase by 12% to 15% that of course I know that but I just wanted to highlight that point, but over the next few years the franchise plan if it is laid well the number of stores which we might open it can go beyond 18 stores.

Deepak Poddar: Fair enough that is okay. So in the past as well we have spoken about doubling our revenue to 20000 Crores maybe in three years by 2025 that is the vision we have given out earlier. So that factors in this the franchise plan as well and to what extent.

Ramesh Kalyanaraman: So franchise actually has helped us to accelerate the plan otherwise we would have opened only 12 to 15 showrooms every year because that was our plan and now franchise can help us to achieve it more faster and the number of franchise stores can again be more than what it is for this year. So our objective is to reach that benchmark.

Deepak Poddar: And to achieve that you need at least 20% CAGR revenue right over next three years so that is what we are kind of looking at.

Ramesh Kalyanaraman: Yes.

Deepak Poddar: In terms of margins, I think we have spoken earlier as well steady improvement in margins right. So currently I think we are at about 8%, 8.5% so about next two, three years how the margin trajectory could look like if you can provide comment on that, that would be very helpful.

Ramesh Kalyanaraman: The first thing is that predominantly all the new showrooms the 12 to 15 showrooms which we mentioned will be non-south markets all franchisee stores will be in non-south markets. So this will surely help us to improve our margins because as you all know we have a 10% margin difference between south and non-south and if the number of stores outside south India goes up and if the revenue outside south India share improves it is going to improve our margins and that is our primary intention. So 2% margin growth improvement over the next three years is what we are looking for.

Deepak Poddar: 2% margin about 10% to 11% currently if I see second half, first half was kind of impacted due to Omicron.

Ramesh Kalyanaraman: You are talking about EBITDA.

Deepak Poddar: Yes EBITDA.

Ramesh Kalyanaraman: But EBITDA I will tell you when franchise comes in that the numbers may change. So that is why I am not talking about EBITDA margin levels, but I am talking about the gross profit margin level it will be about increasing by 2% what we target for the next three years and one more thing I have to highlight here is that gross margin also when you check franchisee you know that we are going to sell at a trade discount so margins will not be like a retail right so for all of you to understand better we will give you numbers in detail. So that you exactly know what is happening.

Deepak Poddar: But our investment in franchisee route would be much lesser right.

Ramesh Kalyanaraman: Investment is zero.

Deepak Poddar: So the return on capital.

Ramesh Kalyanaraman: Return ratios will be very high meaning improvement will be very much better because we do not invest anything there, but revenue comes in at a PBT level of what is it in Q3, Q4.

Deepak Poddar: Yes, I understood that is about it from my side. All the very 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 Sir, Sanjay Sir good evening and thanks for the opportunity. Three questions, I am referring to slide #31 and in that slide if way forward FY2025 you have mentioned that we will reach to 10% EBITDA margin so my question is on EBITDA margin, you touched upon the gross margin but then the larger question is that how would you plan to achieve and of course gold metal loan is one of the thing which is there but what are the low hanging fruits if you can fast track the margin growth.

Ramesh Kalyanaraman: First of all the EBITDA growth will be actually done in two ways, one is that the gross margins itself will improve because the South, non-South revenue mix is going to change studded ratio is going to improve over and above that there will be an organic growth in studded ratio which will help us to improve our gross margin. That is one lever to improve our EBITDA margin, the second lever to improve our EBITDA margin will be the operating leverage because all the extra revenue which comes in it comes at a lower cost because the corporate expenses are already taken care by my existing showrooms. So both this applied together our intention is to move the needle up by 2%, we are approximately at 8% now which we want to move it up by 2%.

Shirish Pardeshi: But operationally what I think that we will definitely have the inventory gains on the studded portion.

Ramesh Kalyanaraman: So studded if you see we as a player we have competition with unorganized as well as regional players. We have only a few markets where we compete only with the listed player so where if you are referring to the 190 Crores the inventory gain which I heard in a recent call for us we have actually not increased our diamond rates in almost any markets except for a very few markets where we compete only with the listed players. So in short we do not have any inventory gain as of now.

Shirish Pardeshi: My second question is that on the Candere business. That business, I mean, pure play online business showing a very good traction and now you mentioned I heard that you are doing one pilot for opening up a physical store. Now two questions there, is it going to be a pilot like a franchise or we are putting our own and what is the thought process, I mean, where do we want to grow this business in a medium to long-term maybe another year or so what kind of network you are trying to build.

Ramesh Kalyanaraman: Here first of all it is not a franchisee this is our own store which we are going to do because you know that the Capex for online showroom is in the range of only 2 to 2.5 Crores for our self it is a pilot wherein we really want to look at the math how the showroom operates, how the conversion rates are, what the stock rotation, stock turn, etc., are. So yes there is a possibility of franchise in the future but as we speak at least for the next first set of showrooms we would not look at a franchise on a physical store for Candere and that is how we are looking for Candere. So if you look at the growth, we have been growing at a very, very, good pace for the past three years and it will continue is what we feel with the physical stores also coming in I think the conversion rates are also going to be better and Candere is going to see the next phase of expansion is what we feel.

Shirish Pardeshi: So what I understand we are essentially talking about the omni channel attempt.

Ramesh Kalyanaraman: Yes, so omni channel works in two ways. Omni channel works for Kalyan Jewellers wherein a lot of people do online research on the products which they want and they end up shopping offline. That happens in Kalyan Jewellers even now, but Candere offline store actually more than the omni channel it gives a better conversion rate wherein many people want to have a physical touch and feel of the product where this so-called Candere store will enable them to have the touch and feel of the product even though some inventory is not the pure gold it is only a dummy product which they can see physically, it will look very similar to gold but they will be able to see the exact feel of the product and order it for us. So that is how Candere physical store helps more than the omni channel network.

Shirish Pardeshi: Ramesh let me dwell on little more on this. So you essentially say that this will be, physical store will be much smaller size in terms of its specs and that will more of a lead generation than selling a physical item or no.

Ramesh Kalyanaraman: Yes, so it will be more of a conversion rate increase rather than selling it physically.

Shirish Pardeshi: So your inventory or your merchandise which you are going to sell through Candere store which will be completely different and it will complement your online Candere channel.

Ramesh Kalyanaraman: Correct because the products which are showcased in that Candere store is what is already displayed in Candere. So the digital catalog which is already there in the Candere platform that same catalog is going to be there in the physical store as well as original products and dummy products will be displayed in the Candere physical store which will improve the conversion rates.

Shirish Pardeshi: And you just mentioned that you need about 2 and 2.5 Crores Capex.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: So essentially it would be roughly about 3000, 4000 square feet.

Ramesh Kalyanaraman: No, not about the square feet, so it is only 1000 square feet showroom but you will have to give a lot of what they call experience in that store where again the digital catalog itself will be displayed there where they can see products online there, they will be able to see that same product at the physical space there. So more than the square feet the ambience, the product placements, the digital experience which we will give everything will count. So that is how we are looking.

Shirish Pardeshi: My next question is on the pilot what you are saying you essentially said that you are looking for non-south for franchise on company operated store. So would you be able to share what kind of size you want to experiment or you will still go with the current size of your stores of 14000, 15000 square feet.

Ramesh Kalyanaraman: Yes, the size will be if you look at Kalyan Jewellers now we have showrooms which are of a bigger size in tier one market, tier two markets come with a smaller size, tier three markets we already have that comes with a lesser size even showrooms which we opened recently for example we opened in Bombay itself in Matunga that comes with an average of 4000, 5000 square feet. So that is the space which we are looking for on the non-south markets where we are going to bring in franchise.

Shirish Pardeshi: One related question if franchise will be in the tier one existing store location or you are trying to look at the different locations.

Ramesh Kalyanaraman: No so it will be in non-south markets and it will be in towns where we do not have showrooms and it will be basically tier three and tier four cities basically and a few tier two cities.

Shirish Pardeshi: My last question on the FY2022 what is the studded component and if you can help me where do you want to settle now in next year because things are normalizing very quickly.

Ramesh Kalyanaraman: So studded is already at 24% plus now on India basis on a console it is at a range of 22% now and it is almost in a pre-COVID level today in India but of course with the additional meaning the new set of studded is also inside this 24%. So way forward also if the SSG is going to be 6% to 7% which usually used to be pre-COVID, the conversion rates might be better for customers upselling might happen properly and there will be an organic growth for studded jewelry over and about that the major driver for improvement in studded jewelry is going to be your expansion in non-south markets.

Shirish Pardeshi: So essentially you are saying that you see that expansion will take you to 25% plus.

Ramesh Kalyanaraman: Yes, you are talking about console or India.

Shirish Pardeshi: India.

Ramesh Kalyanaraman: It is already at 24.6% or 24.8% is what Q4 recorded.

Shirish Pardeshi: Yes, so my question was 24.3% which is staying on slide #35.

Ramesh Kalyanaraman: So it should be upside of about 25% and year-on-year it will keep on increasing and in the next three years I think it should be near 28% to 30% because our non-south expansion is going to be very rapid.

Shirish Pardeshi: No I am only referring because in the sometime previous call you said that once studded reaches 30% definitely we will go beyond 10% EBITDA margin. So I think I am just trying to correlate that.

Ramesh Kalyanaraman: So it is in the similar line you said it right.

Shirish Pardeshi: Okay Sir thank you and all the best to you. I have more questions I will come back in queue.

Moderator: Thank you. The next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sir my questions are what was your gross margin this quarter on studded and gold. That is my first question. Second question is for this quarter what was your gold on lease percentage and exchange percentage and third is would you like to comment on your inventory days this quarter, I mean, what is expected and going forward what is it that you are expecting.

Ramesh Kalyanaraman: First thing gold versus studded margins we usually do not give because it is a very competitive information, so that I am very sorry, but if you look at exchange. Exchange has come up by 3% quarter-to-quarter and year-on-year exchange of gold.

Gautami Desai: What did you say sir.

Ramesh Kalyanaraman: 3% more exchange.

Gautami Desai: So that makes it how much of total.

Ramesh Kalyanaraman: It is 30.5% was the exchange old gold in Q4 it is 3% more than Q3 and 3% more than last Q4.

Gautami Desai: And how about gold on lease.

Ramesh Kalyanaraman: The gold on lease is approximately 1500 Crores versus 1400 Crores in the last quarter. So exact number is 1496 Crores now versus 1418 Crores last quarter.

Gautami Desai: And how about inventory you said like you were operating at like your whole year was not looking 2.4, 2.5 times but you said your current inventory turn when we spoke last time was that much. So then are you in line and would you like to talk something about your inventory days.

Ramesh Kalyanaraman: If you look at inventory turn first of all we would like to take it maximum two, three times plus because then only you will be able to substantiate your margins etc. you will not be only a player who look at stock turn meaning then it will be a pakka local kind of player. So stock turn we will be looking to be in the range of three and stock turn will also improve year-on-year because now if you look at Kalyan Jewellers showroom there are showrooms which have lesser stock turn that especially in the flagship stores which we have because we do not go only by stock turn in those showrooms because that is the flagship store of that particular state or region, but if you look at the small showrooms which we are opening and opened in the last financial year, the stock turn will be more than what it is on an annualized basis for the existing showrooms average route. So our intention is to take the stock turn to 3 plus not more than that and if you look at annualized our stock turn today is at 2.3 even after Q1 getting affected.

Gautami Desai: So annualize is 2.3.

Ramesh Kalyanaraman: Annualize is 2.3, but annualized numbers can be misleading for you because Q1 was not there know almost.

Gautami Desai: So would you like to say something on the current going rate because let me assure you the day you reach is three times plus inventory turn your valuations will be at a different level.

Ramesh Kalyanaraman: No, we do not go on valuations, but on a performance we surely go with you meaning this is a cycle which every brand will go it is a natural progress where your stock turn should be or will be lower in the flagship stores because you will need to invite customers, people have to see the experience and we will have some buffer stock because we might go wrong when we go to newer markets then post that when you come to tier two, your stock turn will be better, tier three stock turn will be better, new showroom stock turn will be better, and that is a natural progression which every retailer will have and that is where we also go.

Gautami Desai: So your current run rate would be like 2.4 or 2.5.

Ramesh Kalyanaraman: Current run rate if you look at the last three quarters yes it should be.

Gautami Desai: Fine Sir, thank you.

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

Aejas Lakhani: Thanks team for the opportunity and congratulations on a good set of numbers. Couple of questions. My first question is that in the Middle East you have now sort of stated that it will be a calibrated expansion that too with the capital that is generated for the Middle East operations. So the first query on that is that, that business employs give or take 1800 to 2000 Crores of capital and does not sort of generate significant return ratios for us and that drags down the entire company level return ratio so could you speak a little bit more about your optimism for the Middle East business.

Ramesh Kalyanaraman: So Middle East you have to first of all see that market, we have created a base in that market we are the number three player in terms of market share in that market and if you look at Middle East now, the extra revenue which we make from that market will surely help us to improve our margins, EBITDA margins everything we are almost in that area where we have at least stabilized in that big market in the universe. So if you look at now people are starting to expand in that region where we have already completed our expansion in the four big countries in Middle East and we have a good market share in those areas and if you look at the EBITDA margins for the past couple of quarters, it has been in the range of very similar to India now and all additional new showrooms which we are going to put there and all additional revenue which is going to come from that market will surely improve our ratio. So we will have to have some patience there and imagine a situation where we get franchisee options also there bring in additional revenue on the top level it is completely going to change the color of that business which I think we have to wait and watch for the next couple of years.

Aejas Lakhani: Given that the Middle East has their own cycles because it is linked to oil and crude. So you see the cycle playing out for the next couple of years where there is entire stability in that region or do you see any further volatility in that region.

Ramesh Kalyanaraman: If you look at the market now for the past three quarters that is why we were cautiously waiting for that market if you look at three quarters it has been consistently performing, the gross margin has organically improved because of the consolidation of the market, Opex is under total control, EBITDA margins are at the range of India and now if you see the market is very stable according to us that is why we have decided to expand a couple of showrooms there and we will also try out franchisee options after the India pilot is over. So if both applies properly wherein the franchisee also starts in Middle East that is going to see at totally different color for which I think will take a couple of years but as we speak we do not have any ambiguity in that market and we are very positive now because no other player has built a platform like we have did that is our major advantage.

Aejas Lakhani: Got it that is a helpful, and if you look at the average revenue, I am talking about the domestic business here that the average revenue that we earn from our stores is give or take 70 Crores so I just want to understand that as you are opening these 12 to 15 showrooms which are as I understand likely to be smaller and the franchisees are also going to be in tier two, tier three towns what do you think will be the revenues from these slightly more compressed showrooms.

Ramesh Kalyanaraman: The average revenue per store is in the 70 Crores level even after the affected Q1 on an annualized basis I think it will be more than what 85, 90 Crores I am talking about the existing showroom level. So for the new stores the per store revenue might be lesser than that because all stores are not in the bigger towns. So I think for the new showrooms we should keep a level of about 70 Crores.

Aejas Lakhani: So did I get it right when you said that the existing more matured stores have now reached the run rate of 80 to 85 Crores on a store level.

Ramesh Kalyanaraman: Yes, 85 to 90 Crores is the level for all the stores put together if you look at on an annualized normalized basis because now it is at 73 Crores because Q1 there was no revenue.

Aejas Lakhani: Okay, got it and just could you speak a brief about the Opex because you would have had some rental savings for the year as well so going forward will the Opex be in this current range and will the advertising spends also be in the current range or we should expect some higher numbers here.

Ramesh Kalyanaraman: Opex should be in the similar lines how it is as of now. So if you look at Q2, Q3, Q4 we have not got any savings from COVID so it is going to be under the same level.

Aejas Lakhani: Got it so I will extrapolate the 3Q, 4Q numbers got it, and lastly you mentioned at the start about how the exchange that you get which you said is give or take 30.5% you mentioned about that you are going to move to the gold on lease. So I have not understood how that benefits us so if you could expand on that a little bit.

Abraham George: So this is something which we are exploring right now. So the way we can do it is by selling our old goal which comes into our system through a bullion sale and then convert that money into gold metal loan, but we are still looking at that option we are evaluating all the plus and minus of that because of course it has the advantage of taking our gold on lease percentage up but we are looking at all options. We have instruments in MCX where we can sell these metal through MCX and even some of the industry leaders have also started doing this practice we are also evaluating that.

Aejas Lakhani: Could you quantify how this can help us in terms of how would this benefit us, I mean, I know of course that gold loan is in terms of the rates are lower.

Abraham George: With this option we are not aiming at increasing or reducing the interest rate. Gold loan has two advantages one it reduces the interest rate, secondly it also acts as a hedging instrument. So with this we are trying to increase the gold on lease which would help us the hedging percentage. So we do not need to create additional contracts for it for hedging.

Aejas Lakhani: I will probably take it offline.

Abraham George: Yes, we can take it, the details of this we can take it offline, but effectively in a nutshell the old gold that comes into our system we will have to find a way to sell that and create cash and using that cash we will have to create gold metal loan.

Aejas Lakhani: Got it and could you also just speak about the competitive intensity you face in the non-south market, is it more regional because I understand a lot of the gold players are still more south centric. So who is the large competition you face in the non-south markets except for the listed leader?

Ramesh Kalyanaraman: The competition actually comes from region players, unorganized segment there will be players in that particular market. So each micro market we will have competitors that is how we see competition and not with only one player or two player because we are a heavy hyper local player as you know and we do not only compete with national players. So last three months the competition intensity of course have been there in many pockets even within organized space.

Aejas Lakhani: Just one thing is that in the non-south markets where you are expanding the 12 to 15 stores is it that the plan is that where you already have a presence in a particular city you are adding a store there or adding a new geography in terms of a new city in that state.

Ramesh Kalyanaraman: Let me tell you in almost all the states in this country except for the small states in the northeastern part we have stores and we have good market share in almost all the states. So the showrooms which we are opening is not new geographies but of course new towns in states we are already present and again there will be some showrooms which is adding stores in some metros a few metro markets where we are already there like a Bombay, Delhi, Calcutta.

Aejas Lakhani: Got it. Thanks a ton, all the best.

Ramesh Kalyanaraman: Swaminathan. Should we answer the question which Swaminathan wanted to come back so that it does not misses out that advance or something one second.

V Swaminathan: The question regarding advance it is a majority due to reclassification last year it was in current and this has moved to non-current and the remaining amount of about 30 Crores is to loan to Candere.

Ramesh Kalyanaraman: Aniket I think you had that question, hope Swaminathan answered you.

Aniket Sethi: Yes, Sir thanks.

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

Shirish Pardeshi: I have two questions while looking at the standalone for FY2022 I think since the time the IPO happened the ad spend is one of the key criteria for you and I see that we have spent almost 193 Crores as a percentage of sales is about 2% so in the next two to three years when your store expansion is going to be very strong what kind of ad spent if you can give me a absolute number or maybe as a percentage sale that would be very helpful to model.

Ramesh Kalyanaraman: So if you look at this financial year also we actually opened 18 showrooms and this ad spend of around 2% is coming even after the expansion. So while we are expanding into markets the ad expenses is not going up steeply is because we are not going out of our core markets we are there we are expanding only in the markets where we are already having showrooms because we already have showrooms in almost all the states in this country. So ad the phase where we had to invest a lot of money on advertisements have actually gone and on a medium term I think the ad spend will come down to the range of 1.8% that is our target, a medium-term target.

Shirish Pardeshi: And if I may ask just it is a curiosity who is your creative agency. The reason why I am saying this because I recently came across the Marathi version for enticing the consumer and it was very impressive so that is why out of curiosity I am asking who is your creative agency you follow.

Ramesh Kalyanaraman: Thank you for the compliment but what we usually do is that we work with multiple creative agencies from every region because this hyper local flavor never comes from one particular creative agency. So we have tie-ups with lot of hyper local creative agencies across India and we utilize them to create ads for that region so that it has a pakka local flavor.

Shirish Pardeshi: Well I really compliment because the flavor and the taste and the people who have seen has really impressed and getting that local flavor I was pretty excited. My last question is on the BIS Hallmark, I mean, since the time we have been interacting, we have been talking about formalization but do you really see on ground things are changing quicker, faster maybe if you can give me some example which markets whether it is seriously seen because south was I would say that it was more formalized while north and central was little there is a lot of scope so you tangibly see these things are taking shape and size.

Ramesh Kalyanaraman: So if you look at Q4 we have seen markets where the inspection from those departments have started and the intensity of course, the expectations from each person is different. So the intensity has been mild, but instruction etc., has been started. We think that it will surely improve over time, I mean, the intensity because it is the government's vision to bring in 100% hallmarking and also the HUID code their objective is very clear. So we still have scope for the shift from unorganized to organized post the implementation of hallmarking and the strictness which the government departments will bring in.

Shirish Pardeshi: But then formalization will you think will have some role to play in a full scale in FY2023 second half.

Ramesh Kalyanaraman: So very hard for us to comment on the actions which a department has to do but technically speaking yes.

Shirish Pardeshi: All right thank you and all the best to you and the team.

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

Nillai Shah: Thank you. Ramesh ji my question is on the metal gold loan you mentioned it has gone up to 1500 Crores now and in the past on the calls you had mentioned there is scope to take it up to about 1800 plus Crores so what is stopping us from getting to that number.

Ramesh Kalyanaraman: Yes, so 1800 Crores is what we target and actually it had to be happening in Q4 itself, but we had a technical issue with a certain bank where, Abraham you want to add.

Abraham George: So as of now for the quarter we have increased it by approximately 80 Crores from Q3 like Ramesh was mentioning there was a technical issue with one of the banks with the gold metal loan limit. So that has been sorted and we are just starting to pick up gold metal loan from the beginning of next week. So we can take it up to approximately 1800. So we stand by that 1800 this bank limit will take it.

Nillai Shah: But Abraham 1800 is excluding what you are trying to do now with the exchange gold right. I think it was supposed to be on an average basis.

Abraham George: Yes, this 1800 like I was mentioning to Aejas a little earlier. This 1800 will be a gold metal loan without the new model that we are trying to explore, the new model will not give us any interest rate benefit that will only be to create a hedging instrument.

Nillai Shah: And that is the second question why is that the case the way I see this is that basically even Titan is doing it now every quarter when they are reporting bullion sales. So you will be doing it the same way, you will be reporting billion sales and then whatever you have as your metal gold loan that substitutes the interest in your term loans basically and I am assuming your term loans kind about maybe 10% and metal gold loan is at about 4%, 5%. So there is a clear 5% point sort of interest savings if I can put it that way which accrues to your bottomline. So why did you say that there is no interest benefit out here.

Abraham George: No but this old goal the metal we have to fund it somewhere because that is a metal that we already purchased that purchase happens with our own cash.

Nillai Shah: Yes, but you are doing a back-to-back transaction to sell it the same day I am assuming right.

Abraham George: No this gold metal loan will be a cash funded gold metal loan because we will be keeping cash to that extent and then taking gold metal loan if this is not out of the bank funded line of credit because first we have to fund the purchase of this metal from customer then we are trying to replace that old gold into gold metal loan so when we take that gold metal loan after that it will have to be funded with cash.

Nillai Shah: So last bit out here the customer has actually paid cash for his old goal or is it that he gets to pay lesser amount.

Abraham George: If it is an exchange it will lead up pay less for his purchase but our own customers we give a facility for customers to come and sell gold also to us if that is extreme cases.

Nillai Shah: Of this 30% which is gold exchange for sales how much of that is customers just coming and giving back their old gold without taking anything else and how much of it is actual exchange.

Abraham George: Very insignificant portion that the customer will give us for cash.

Nillai Shah: Right so then it should be an interest benefit right Abraham if I am not clear then I will take this offline if I am just not clear as to how this is not going to be interest accretive or PBT accretive.

Abraham George: Yes, we can take this offline because we will have bank limits as well which will be appreciated when we go this path.

Nillai Shah: Okay I will take it offline. Thanks so much. Bye!

Moderator: Thank you. As there are no further questions, I now have the conference or to the management for closing comments.

Ramesh Kalyanaraman: Thank you very much for the patience. I think this quarter is also going to be very good and the financial year also we are looking forward. Any questions over and above this, please reach out to IR team. Thank you.

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