KALYAN JEWELLERS

SEC/85/2022-2023 **November 15, 2022**

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 400001 Maharashtra, India **Scrip Code: 543278**

Dear Sir/Madam,

Sub: Earnings Call Transcripts

Pursuant to Regulation 46(2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform the exchanges that the transcript of audio call recording of the Company's Analyst Call to discuss the Unaudited Financial Results (standalone and consolidated) for the second quarter and half year ended 30th September 2022 is attached herewith.

Kindly take the same into your records.

Thanking You

Retnavilasam Gopinathan Nair Jishnu

Digitally signed by Retnavilasam Gopinathan Nair Jishnu
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Jishnu RG
Company Secretary & Compliance Officer

“Kalyan Jewellers India Limited Q2 FY23 Earnings Conference Call”

November 10, 2022

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MANAGEMENT: **MR. RAMESH KALYANARAMAN - EXECUTIVE DIRECTOR, KALYAN JEWELLERS INDIA LIMITED**
MR. SANJAY RAGHURAMAN - CEO, KALYAN JEWELLERS INDIA LIMITED
MR. SWAMINATHAN VISWANATHAN – CFO, KALYAN JEWELLERS INDIA LIMITED
MR. SANJAY MEHROTTRA – HEAD (STRATEGY & CORPORATE AFFAIRS), KALYAN JEWELLERS INDIA LIMITED

MR. ABRAHAM GEORGE – HEAD (INVESTOR RELATION & TREASURY), KALYAN JEWELLERS INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Kalyan Jewellers Q2 FY23 Earnings Conference Call.

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. Rahul Agarwal. Thank you, and over to you, sir.

Rahul Agarwal: Good evening, everyone. And thank you for joining us on the Kalyan Jewellers India Limited Q2 and H1 FY23 Earnings Conference Call. We have with us Mr. Ramesh Kalyanaraman, Executive Director; Mr. Sanjay Raghuraman, who is the CEO; Mr. Swaminathan – CFO; Mr. Sanjay Mehrottra – Head of Strategy and Corporate Affairs; and Mr. Abraham George, Head of Investor Relations and Treasury.

I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on Company's website and stock exchanges. We will begin the call with opening remarks from Management, following, we will have the forum open for questions and answers session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Ramesh Kalyanaraman, Executive Director of Kalyan Jewellers India Limited to give his opening remarks. Thank you, and over to you, sir.

Ramesh Kalyanaraman: Thank you. Good evening, everyone. The recently concluded quarter has been very good. It was really exciting for Kalyan Jewellers. We achieved robust momentum in footfalls and revenue across all our markets, and we are continuing to see strong profitability trend and meaningful expansion of our return ratio post-COVID.

We recorded consolidated revenue growth of more than 20% in Q2 as compared to the same period in the previous financial year. Moreover, our revenue as a company has meaningfully expanded through COVID with Q2 consolidated revenue having grown at a CAGR of more than 18% over the last three years.

If I now sit back and look at our business over the last year and aggregate the last four quarters, Kalyan has achieved revenue in excess of Rs 13,000 crore and PAT in excess of Rs 420 crore.

Now let me spend some time on the current quarter. We are extremely excited with the way the quarter has started despite a very high base last year. We tracked the festive season as Diwali day minus 30 days, and in this period, we have witnessed a revenue growth of approximately 25% versus a prior year. This has been driven by very strong customer walk-ins across all the markets. What has also been really encouraging was a share of new customers during the festive period. It is in excess of 35%.

As indicated on the previous call, operating model at the existing five franchise showrooms have stabilized, and we are extremely satisfied with the business traction on ground. We are aggressively pursuing the next phase of franchised showroom expansion. As of now, we are at various stages of discussions with 50 odd potential franchisee partners and have signed the next set of six LOIs in India, and the first LOI for the Middle East Market.

While discussing driving strong day-to-day execution, we have developed a strategy and roadmap to further improve the profitability of the business and build a robust return on capital profile.

First area of focus is to expand showroom network predominantly through the more capital efficient FOCO model enabling us to utilize sizable part of the profits earned to pay down the cash credit facilities and to reward the shareholders.

The second area of focus is to convert some of the existing owned showrooms in South India to franchised showrooms and redeploy the capital to grow the higher margins non-south markets aggressively.

Thirdly, we will reduce invested capital in the Middle East and improve its return profile by converting some of the existing owned showrooms to franchised ones and simultaneously expand the showroom network through the franchise model. Our international operations will be predominantly franchisee driven in the next three years.

Finally, diverse non-core immobile assets which will be released due to the reduction in working capital cash credit and also divesting certain non-core mobile assets, thereby, lightening the balance sheet. We will update you on the progress in these matters periodically.

Now, let me hand it over to Sanjay to take you to the financial highlights of the quarter. Thank you.

Sanjay Raghuraman: Good evening, everybody, and thank you, Ramesh. I am really happy to be talking to you all after a great quarterly performance. For this just concluded quarter, our Company reported consolidated revenues of Rs 3,473 crores, a 20% growth compared to the corresponding quarter of the previous year. Consolidated EBITDA came in at Rs 266 crores versus Rs 228 crores in the corresponding quarter of the previous year, a 54% growth.

I shall now give you the breakup of the Q2 performance starting with the India numbers. Our India revenue came in at Rs 2,841 crores for this quarter versus Rs 2,503 crores when compared to the corresponding quarter of the previous year. And India Q2 EBITDA came in at Rs 222 crores versus Rs 201 crores when compared with the corresponding quarter of the previous year. And India PAT came in at Rs 95 crores compared to Rs 68 crores in the corresponding quarter of the previous year.

Moving now to talk about our Middle East business. Revenue in the Middle East came in at Rs 601 crores for the quarter compared to Rs 360 crores in the corresponding quarter of the previous year. EBITDA for the Middle East business came in at Rs 47 crores versus Rs 26 crores in the same period of the previous year. Lastly, Middle East profits came in at Rs 14 crores in the quarter compared to Rs 35 lakhs in the corresponding quarter of the previous year.

Talking now about our e-commerce business. Candere posted revenues of Rs 37 crores in the quarter versus Rs 32 crores in the corresponding quarter of the previous year. The quarter recorded a loss of Rs 3 crores versus the profit of Rs 54 lakhs in the corresponding quarter of the previous year.

During the just concluded quarter, we had no bullion sale, and gold coin sale to retail and corporate customers came in at about Rs 13 crores, about 0.5% of total revenues. We opened five new outlets in the quarter, four in Kalyan Jewelers and the first offline outlet in Candere during this quarter taking the total stores opened during the first half of the current financial year to nine.

With this, I am now done with the summary of the financials, and we can now open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: I have got couple of questions and need some clarification. We have opened five new franchise stores in India. Correct?

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: At various point of time, it would have done its sales, but maybe if you can highlight what is the contribution in the current quarter we have got of these five franchise?

Ramesh Kalyanaraman: Yes. So, it is very minimal. So, hard to share the number because it's a very competitive information.

Shirish Pardeshi: Second on, again, some data points. In that 20% growth what we have reported in the quarter, what is the absolute grammage growth we have experienced?

Ramesh Kalyanaraman: So, the revenue growth will be higher than the volume growth because, you know, that the gold prices have moved by 5 to 6%. So, it should be in that level.

Shirish Pardeshi: So, if it is 20%, maybe two-third is volume?

Ramesh Kalyanaraman: But you should reduce standard quotient where the volume has gone up, meaning the revenue has gone up. So, that will also have to --

Shirish Pardeshi: Maybe if you have handy, what is the gold tonnage growth we have experienced in this quarter?

Ramesh Kalyanaraman: So, it will be in the range of 5 to 7%.

Shirish Pardeshi: 5 to 7%?

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: And just you touched upon the studded portion would have been close to about 28, 29% now?

Ramesh Kalyanaraman: The ratio you mean?

Shirish Pardeshi: Yes.

Ramesh Kalyanaraman: So, studded ratio for Q2 will be in the range of what, 26%.

Shirish Pardeshi: 26. So, it's moved from 24 last quarter to 26.

Ramesh Kalyanaraman: Yes. 25.6 if you want to be accurate.

Shirish Pardeshi: 25 point?

Ramesh Kalyanaraman: 25.6 is the studded ratio.

Shirish Pardeshi: That's really helpful. My larger question is that in this quarter, I mean, the quarter three, we have seen a very strong wedding season, and there are various numbers which are floating out. But it comes to a hard number, which is 41 days muhurat, which is there for wedding.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: So, how do you see this demand on the ground? And per se where I am more interested is that where do you see the interaction with the client, and maybe if you can offer what kind of footfall or advance interest which we have seen in terms of the client interaction?

Ramesh Kalyanaraman: So, here, of course, yes, there is going to be lot of weddings in November, December, but most or we would have absorbed a lot of wedding demand in October as well. It should be there, but November, December I think the momentum is still there as we speak. As I have mentioned, we have actually a revenue growth of around 25% if you look at Diwali minus 30 days. That's how we look at it, and that is partially because of this wedding demand.

Shirish Pardeshi: No, the reason why I am asking because this muhurat is really going to be till say around 17th, 18th of December.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: So, there is some demand which is coming, and this one observation, since we have been tracking the industry. All these big bang weddings which are supposed to happen in Jan, Feb, March which got some postponed in the month of April and May, but the larger portion is going to come now.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: So, in terms of your consumer interaction, do you really see the high ticket wedding jewelry, whether it is studded or even in gold which is getting picked up?

Ramesh Kalyanaraman: So, if you look at the high-ticket wedding, there is a natural growth for the high ticket products, majorly because the unorganized segment are not now focusing too much on the higher ticket products. Because you know, during COVID they had liquidity issues etc., where they had to reduce their inventory levels. So, they basically reduced inventory levels in the non-stable products like high ticket size. So, there is a demand or there is a higher growth in those kind of products in general.

Shirish Pardeshi: Yes. So, that's what we found. So, I just wanted to reconfirm on those.

Ramesh Kalyanaraman: Yes. You are correct.

Shirish Pardeshi: Second on the gold metal loans. Where do we stand now? And what is the aspiration which we want to close it by March?

Ramesh Kalyanaraman: Earlier we had actually guided towards Rs 1,800 levels. We have achieved that. As of now, we have Rs 1,819 as on 30th September, we have Rs 1,819 crore of gold metal loan. Probably, at the current level of sanction limits, we should be settling at these levels, maybe another Rs 50 crore higher. That's it.

Shirish Pardeshi: And my last question on the margin. I think, directionally, we have seen the market leader is also expanding its studded ratio, and we are also gaining lot of traction and momentum in the non-south market. Of course, the franchise operation will tell us where we want to head. But in the medium to long term, say, can we achieve, say, March or maybe next four quarters should be excess of 8.5, 9%? I mean, I am not asking for guidance, but directionally, do you think we should be achieving that target?

Ramesh Kalyanaraman: So, first, if I tell about Q2, the gross level, actually, at the gross level, the margins have improved year-on-here, and even with the high competitive intensity prevailing the market. And the EBITDA margins, there is a drop when compared to the last year, and it is majorly driven because of some lower ad spend in the base year because we were just coming out of the Covid Wave 2. And in this quarter, we also have a one-time promotion which has been done, and if these two are negated, actually, the EBITDA margins would have been in the range of 8.1 to 8.2%. I think you should look at it that way because very hard for me to give a guidance. So, I wanted to tell you that the EBITDA margins in this quarter or the quarter which just ended would have been in the range of 8.1 to 8.2% if these two things were negated. So, that is the clarity which I want to give.

Shirish Pardeshi: No, you touched upon the same thing. In fact, if I have seen your number, and the observation is that as a company level, our ad expense has gone up by 43% while domestic expense has gone up by 46%. And when I look at the sales promotion expenses, which has gone up by 13.8%, while in the domestic market, it is 7.7%. So, I just wanted to understand, is this ad spend is because of the season and we are seeing the strong current and of course, that will help the franchise also to get the confidence? Was that the necessity or it will continue in the quarter f three and quarter four also?

Ramesh Kalyanaraman: So, Q2, the ad expenses were high because we launched the campaigns in India and Middle East a bit early, because Diwali was coming a bit early this time. So, September by around the second week itself we started our campaign.

Shirish Pardeshi: But is it going to be recurring?

Ramesh Kalyanaraman: It should be in the range of what, 1.8 to 2% is what we generally look for on ad expense.

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

Manoj Menon: Few questions from my side. Ramesh, one thing about demand, let's say, for the second half, normally, I don't get into too much of quarterly and half term stuff, but it's a very peculiar situation. So, when I look at the gold prices, let's say, exit September 30th, and I think about that, let's say, it stays where it is for the next six months, you know, for your basis it looks like there is no gold inflation. So, just wanted your top down view on consumer behavior that, let's say, in a scenario of no gold inflation, just the volumes can make it, make up, let's say, and get to a good sort of a double digit growth?

Ramesh Kalyanaraman: Yes. So, if you look at our Diwali minus 30 days, Manoj, we have grown by around 25%, right, and majorly, it is volume driven, right? Because the price has not been moving when compared to last Diwali. And the footfalls are very high. The footfalls are very high. Diwali was like mad wherein I would also tell you that we should not expect that Q3 ends up with 25%, because Diwali has been like a revenge shopping. The market has been very vibrant during Diwali time, and we are happy that we could actually grab the revenue. But even otherwise, we are very confident about Q3. And like I always say, when prices actually are lesser, the volume increases and vice versa, because people come with a budget.

Manoj Menon: Fair point. Cost stability driving volumes. Understood. And also you mentioned about, understood, a very heartening to hear. Now second on the franchising bit, you know, just one qualitative comment for the record would be helpful, you know, what's the sort of color of franchisees which you are having? What I mean by what sort of background they come with? What are the selection criteria you use? Are they existing jewelers? You know, are they auto dealers? Do they come from, let's say, apparel retail? I don't know. I am just trying to understand what sort of, you know, let's say criteria you use when you select a franchise, and the current ones what you have or maybe you can talk qualitatively the pipeline which you have, you know, what sort of background they come from?

Sanjay Raghuraman: So, as we have shared before, we have worked with one of the top four consultants to kind of set up a template to help us shortlist franchisees. And like you said, from our experience, we have found that the kind of people who are having like affiliation to do this are from the retail background either from the auto business or from the two-wheeler business or from existing franchisees of textile brands etc. So, it's an assortment of all of that.

Manoj Menon: Fair point. Sanjay, do you already have, let's say, someone with jewelry background etc. or no?

Ramesh Kalyanaraman: So, first of all, Manoj, Ramesh here. Let me highlight that an existing jeweler franchise does not bring in any additional benefit as we are working on a FOCO model. You know that, okay. I know where you are coming from. If you are checking whether the same franchise is working for KJ and its peer group, both of us are right in saying yes and no, reason being no partner will work with the same competition brand in the same entity, right? But yes, we are working with associates of franchisees of our peers.

Manoj Menon: Loud and clear, sir. I will not push this envelope anymore. Understood that. And Ramesh, third, I am sorry if I missed that. When I go back, you know, 30 days back on the quarterly announcement, you put it on Exchanges in the first week of October. There is one line which spoke about, you know, which basically called out gross margin pressure during the September quarter, essentially to do with the customs duty pass through. So, you will get the trips, right. So, is there a quantification which you have? That's point number one. Let's say, for example, you have to give x percentage or x quantum higher discounts because of this substantial gain which unhedged players would have got one off. Point number two, you know, a general comment about competitive intensity otherwise.

Ramesh Kalyanaraman: Yes. So, first thing, Manoj, competitive intensity has increased. The gold rate meaning the board rate continued to remain under pressure throughout the quarter. The board rate is decided by the local associations everywhere across the country, and there have been pressure in the board rate itself. That is majorly because of the customs duty one time advantage which the other organized one-store, two-store kind of jewelers would have got. So, they were completely passing it over to the customer, and we also had to do that. So, there is no one-time advantage because of that, and the continued competition intensity was there throughout the quarter.

Manoj Menon: I'm sorry, sir. Actually understood, I got the answer for the second one, but the first one what I was asking was, you know, because of the custom duty entry somebody who was, let's say, unhedged would have got the one-time inventory gain which, you know, that particular competitor may have chosen to use it as a discounting tool. Obviously, you being a hedged player, you know, didn't have that luxury. So, it has to come from your P&L. So, I am just trying to understand is there some sort of a quantification you have that you have to give this extra discounts, maybe because that is the one-time which happened only in September quarter? So, just trying to understand that so that I don't have to assume that, you know, this will recur in the next 12 months, 24 months.

Ramesh Kalyanaraman: Yes. So, Manoj, what is happening, how is an organized meaning or unorganized or a regional player giving that one timer to the customer, he is actually bringing down the gold rate, board rate which he displays. Okay. That is done through associations. So, we also had to follow the same board rate in the markets. In short, we also had to give away that as a discount. So, it will not come as a discount. Customer will not even know that he has been discounted, but it is actually given away to the customer.

Manoj Menon: Sir, it is not counterintuitive because if I am that XYX player who's unhedged and I got the gain, I would have loved to tell the consumer that I am giving you, you know, let's say, lower making charges or something else, so that it's also, you know, customer recruitment tool for me.

Ramesh Kalyanaraman: Yes. You are right. So, what happens is that players, not all players do like what we are doing wherein they don't reduce the board rate to the so-called player, right? There are players who keep a premium on gold rate. Of course, the premium has come down drastically, but there are players who keep a premium on that so-called gold rate, right. So, that is actually a competition win for them, but when they compare to Kalyan Jewellers, it's not a win, because we also sell it at the same board rate of their.

Manoj Menon: Understand. And one last thing, I found in your investor presentation on the slide about strategy ROC, there is one comment. If I remember correctly, it's I think the last line, which talks about, you also mentioned briefly in your opening remark about divestment of some non-core assets movable as well as immovable. Could you elaborate a bit on it because there is also a comment about which is on the presentation about their corporate aircraft divestment possibility?

Ramesh Kalyanaraman: Yes. So, we have signed a mandate to an agency to sell their crafts. And a longer-term plan is as I have mentioned in the presentation, our expansion will be majorly driven by franchisee. It is a FOCO model, very asset light, capital light, and this will actually bring in lot of cash in the books, and that will be again used for producing our cash credit, which will take out the assets which we have mortgaged the collateral and which can again be liquidated to further improve the return ratios.

And moreover, you know that there are a lot of indirect benefits in you going and reducing your cash credit facilities. It is not that we claim to be a debt-free company. It is actually to bring in more negotiations on table in terms of cash credit facilities, better bank facilities. You can improve your gold loan facility. You can reduce your collateral which you are given. Your ratings are going to improve. So, there are a lot of indirect benefits as well. And of course, your ROCEs will also get better meaning your return on capital will also be better. And we will also start rewarding the stakeholders.

Manoj Menon: And also, if you recall, few months back, you know, there is again an exchange release about, you know, likely refinancing options which you are considering. Could you just update on where are we at this point?

Ramesh Kalyanaraman: So, the international bond you mean, right?

Manoj Menon: Yes.

Ramesh Kalyanaraman: Yes. So, that is still on wherein the market now is meaning we will not be able to do it right now, but it is still on. And it really now sinks to the long-term plan also meaning the three-year plan which we have put in the presentation. Because anyway we are going to retire the debts, and if bond comes in, that retirement for the banking purpose will happen very, very swiftly meaning immediately so that the collateral all comes out, and we can go in liquidating assets etc. So, the bond is still on, but we are waiting for the markets to get settled.

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

Ratish Varier: Thanks for the opportunity. Just one clarification, sir, this one of the participants asked you about margins where you mentioned couple of one-offs for the quarter, and you mentioned if you exclude all that, we are looking at 8, 8.5% margin. Just to understand them better, are we trying to say that as you get into the second half because upfronting has happened in terms of our spending, we will move towards 8, 8.5% margins? Thanks.

Ramesh Kalyanaraman: Yes. So, I don't want to give a forward-looking statement, but yes, if without the adjustment relating to the advertisement and promotion, the EBITDA margins would have been in the range of 8.1 to 8.2% in the quarter which just ended.

Ratish Varier: So, are we trying to say that we have upfronted these expenditures for the quarter? Because you also mentioned Diwali is ahead, so we would have done some spending.

Ramesh Kalyanaraman: For the ad expenses, yes. Yes. Some of the ad expenses, yes, but relating to promotions, no, because it's onetime.

Ratish Varier: Ad expenses for the full year we should consider between 1.8 to 2% as we have been mentioning earlier, isn't it?

Ramesh Kalyanaraman: Yes. That is the target for the brand.

Ratish Varier: Just to add one more clarification, when earlier participant Manoj asked you about, you know, the gold price, you mentioned, right, the unorganized or smaller players have produced the gold price and they are sold, and we also in parallel had to do that somewhere. So, we are, you know, from a Kalyan brand per se where the positioning comes in here when we also have to follow what our competitors do? We just wanted to understand where the branding comes into play then in that per se?

Ramesh Kalyanaraman: So, it is actually we charge a premium in terms of making charge etc. That is all a very hidden kind of charges wherein customer really looks at the product design, the product portfolio which we offer etc. But when it comes to a gold rate itself, it is very hard for a consumer to say that okay, the product is better, and we pay a gold rate better than a competition, because we are competing with regional players who have a good brand value in the specific markets. So, to some extent actually, we have negated the impact of the board rate pressure because of the charge of premium in making charge which we had.

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

Nillai Shah: So, the question that I had essentially is, first of all, you spoke about festive-to-festive 35, 36 days growth being 25%. That is obviously much higher than what we have seen in the past and what you have kind of guided for or alluded to in the past also. This leads to operating leverage obviously. So, you expect this stronger book to drive margins much stronger over the next two quarters? Or will some of it be taken away by higher ad spends?

Ramesh Kalyanaraman: So, first of all, it is just to correct, of course, it is Diwali minus 30 days. It is not 35, 36 days. Okay. So, that is the way we see the festive. And yes, the growth has been in the range of 25% and already starting from a higher base. And Diwali, it was like a revenge shopping. The market was extremely vibrant and growth has been there for all, mostly, all the large players in this festive season. And we as a brand started our campaign well in advance. We managed to do a good job. But this 25% is a very bullish number. We should not keep that as a Q3 or a Q4 target. But of course, the quarter has begun very well, and we should see a good, a strong double digit growth is what we see.

And regarding the operating leverage which will step in, yes, of course, when your revenue grows, operating leverage will step in, but there has been pressure in the gross margin itself by way of gold rate. Competition has been intense, and that also has to be considered. And you know that when the revenue comes in, our primary focus is to grab new customers. We cannot leave them. They are going to give us better quality revenue in the future, and we have been seeing very high good contribution from new customers in the range of 35% plus. So, market share increase is what we will focus as a primary vision, but of course, margins will be better because OpEx will be surely taking a role.

Nillai Shah: The second question is, you spoke about your collateral being freed up by potential sale of non-core assets. I am aware of a piece of land which you have mortgaged to get some collateral for your metal gold loans. Is there anything else that you are alluding to or that is the piece of land itself that you are speaking about apart from the aircrafts?

Ramesh Kalyanaraman: So, I will just give you a view. Yes. So, aircraft is separate. Aircraft is, I told you it's a movable assets which we are already signed with an agency to liquidate it. Apart from that, all our credit sanction facilities come with a 35% collateral which we have given to the banks, be it be a GML, be it be a usual working capital limit. So, when we retire the debts, 35% of it will come out.

Nillai Shah: And that gives you better bargaining power for future mechanisms. That is what you were talking about.

Ramesh Kalyanaraman: Yes. So, there are a lot of advantages. Once you start retiring your debts, banks will surely come out with better interest rates, better deals. Your balance sheet becomes lighter. Again, your rating improves because a strengthened balance sheet surely comes with better negotiations. All put together, it is not that we will be a debt-free company. That's not the target, because that should not be the way we do it. But of course, primarily, we will focus to retire the debts, take out the collaterals, again liquidate it, put it back to the company in terms of improving your return ratios. And if the future negotiations come with a lighter collateral engagement with a better interest rate, we might again go for an exposure, but not at this level, not with 35%. We will optimize it.

Moderator: The line for the current participant has got disconnected. We will move on to the next question that is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: I'm sorry if my questions are repeated because I joined a bit late. Sir, my question is with regards to the performance in the Middle East. While the top line performance there has been into tracking well ahead and largely, as you mentioned in the PPT also, that it's largely SSSG driven. So, what is the outlook in terms of store opening there? One. And second, how should one look at the margins there because margins there has been tracking a bit lower, but equally gold rates would increase. So, how should one look at the EBITDA margin given there will be the operating leverage benefits as well?

Ramesh Kalyanaraman: For Middle East if you look at the revenue, there has been a substantial growth in revenue in Q2, and that is not the way we should look at it, because Q2, actually, in the last year, the market was just starting to become vibrant. So, from Q3, the Middle East was back in form in last year. So, as we speak, Diwali has been good in Q in Middle East also. The revenue growth has been very similar to that of India, and even now the market is vibrant. So, regarding expansion for Middle East. It will again be more of the franchisee based which we will look for. We have signed the first LOI for our Middle East franchise business, which we will be launching this year.

Gaurav Jogani: And sir, my next question is with regards to your experience with the other set of franchisees that has been opened more in the last couple of quarters. How has been the experience there with both you and the partner? What has been the early learning in this process and what confidence does it give to you in opening the future franchisees going ahead?

Ramesh Kalyanaraman: So, it has been extremely satisfying. The revenue is on target. The operating model is on target, and the kind of momentum which we are getting from the franchisee, new franchisee partners whom we are going to trying to tie up is also very positive. As we speak, we are in talks with more than 50 franchisee partners, and existing partners are again seeking more showrooms with us. So, it has been very positive as we speak.

Gaurav Jogani: And sir, my next question is with regards to, you know, you had mentioned about the divestment of non-core assets and, you know, maybe as **aircraft** asset you are speaking about. So, is there a tolerated debt number that we are looking to maybe at the end of not say '23 or '24 that we are targeting? And because, you know, we also see the good increase in the share of the gold metal loans now. So, how should one look at the overall interest cost going ahead in the next couple of years?

Sanjay Raghuraman: Our target actually for the next three years will be to retire most of the cash credit facilities which we have in India. That is our primary target, but once we start preparing it, if we get Bank facilities with better options, like leaner security, leaner collateral, again, more of gold loan quotient etc., we might go for that. So, it is not a target of making your company a debt tree. But we will be heading to Rs 1,200 crore cash credit which we have in India. We will be making it, we will be predominantly reducing it in the next three years.

Gaurav Jogani: I think the last part I didn't get it. So, right now you said that the cash credit facility is around Rs 1,200 crores in India, right?

Sanjay Raghuraman: Yes.

Gaurav Jogani: And that you were looking to reduce too. So, is there a number that you would like to --

Sanjay Raghuraman: Yes, that will be mostly reduced meaning I am not using the word zero, but that will be the mostly meaning that's the focus area. It will be mostly reduced.

Moderator: Thank you. The next question is from the line of Anurag Dayal from HSBC. Please go ahead.

Anurag Dayal: So, sir, my first question is, I want to understand the throughput difference between the South and the non-South stores because if you look at per store basis, the non-south revenue is lower, and we don't have breakup of sales per square feet. But assuming that the studded ratio and all is higher in non-south market, so want to understand, I mean, my reading is correct that non-south should be higher throughput or it's currently low for you and you expect it to improve in the coming quarters?

Ramesh Kalyanaraman: So, you are asking about, first of all, revenue growth in south and non- south, right, if I heard you right?

Anurag Dayal: Yes. Not more about revenue, but it's more about per square feet sales.

Ramesh Kalyanaraman: So, revenue per showroom will be surely higher in south than in non-south.

Anurag Dayal: And so that will continue you believe or it will, I mean, the gap is narrow.

Ramesh Kalyanaraman: So, revenue per store in South India will be higher than in non-South. That is because, first of all, in South India, we are there in, the number of showrooms if you see, we are there in almost all the Tier 1 and Metros in South India. In non-South area, we are only starting to expand. So, if you look at the Tier 1 stores in the non-South, that is actually similar to the revenue for store in South India. So, that's a different way to look at it. Because now if you see, one thing we need to actually keep in mind. Okay. Newer showrooms are smaller in size when compared to the existing ones. The CapEx which we are investing in newer showrooms are also lesser when compared to the South showrooms where the CapEx was higher. So, it all depends upon the stock turn, right? So, when you go with the leaner investment per store, the stock will be lesser, and the stock turn will be higher, but the revenue per store will be surely lesser than in South India.

Anurag Dayal: And the second question is basically you are looking for a franchisee expansion version of some stores in South into franchisee stores, but what I understand that the gross margin is quite low in South stores.

Ramesh Kalyanaraman: Yes.

Anurag Dayal: So, how the economics works otherwise or why the franchisee will come? So, I have this on some interest or you have some other kind of economics package we are offering to them which is different than the non-South stores?

Ramesh Kalyanaraman: Yes. So, we are working on a package which is different from the non-South. And we will be because there are lots of franchisee inquiries which is coming from the South India where they don't want to do franchise outside of India. So, they are okay to take the package which we are actually offering to them which is a bit different than in the non-South markets, and that is why we are exploring that.

Anurag Dayal: But basically, the ROEs for you will be similar, right, for you.

Ramesh Kalyanaraman: Yes.

Anurag Dayal: What I calculated basically for franchisee stores in Mumbai it would be right for you because we hardly put any investment. It should be similar to South as well or it should be pretty lower?

Ramesh Kalyanaraman: So, it will be similar if you look at approximately.

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

Shirish Pardeshi: Thanks for the opportunity. I have a few questions. Some clarification if you can provide on the movable and immovable property. So, what is the quantum of that? And if I am not saying you did mention that it will happen in two years, but is this has further charged within the other group companies or it's purely on the balance sheet of Kalyan?

Ramesh Kalyanaraman: We have only one company no, meaning Kalyan Jewellers owns the land, and the charge is only for Kalyan Jewellers.

Shirish Pardeshi: So, you mean to say that this Rs 1,200 odd crores will be retired in next say 18 to 24 months.

Ramesh Kalyanaraman: Three years.

Shirish Pardeshi: Three years.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: My second question on the franchise. I did remember that there was a full page ad for a franchise inquiry which was done in Business Daily in Mumbai. So, obviously, your pipelines look very strong, but if my interaction goes back a quarter before, you did mention that we want to stabilize this for five, six franchise and gets a good learning and then expand.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: So, do you have, in that journey, you have got enough understanding, and now you are fast forwarding the apoointment of franchisee? And the related question on that. By March, what number you are having in mind?

Ramesh Kalyanaraman: So, first of all, I told you, we were going slow because we wanted to actually do the pilot phase properly. We have existing five franchises. We are extremely happy. It has been stabilized, and that is why we have signed six more LOIs. And regarding the 50 prospective franchisee partners, we are engaging with them, and we are already, we think that we have covered the learning curve. But we can do minor corrections even before signing those 50. So, 6 LOIs we have signed now. Again, we have done minute corrections from the six which we have earlier done, the first 6 LOIs which we did, and first 5 showrooms which we opened. So, that is about the learning curve and the experience which we have had with the 5 franchisee which we have opened.

And if you are asking for before March, how many more stores, we would say that as we speak actually, we have opened seven owned showrooms and five franchise showrooms in Kalyan Jewellers. One owned showroom in the Middle East, one owned showroom in Candere. So, totally 14 showrooms we have opened as we speak. So, the plan till March is to open six more immediately because LOI has been signed, and again, six more before March. That will be the plan for Kalyan Jewellers for this year. And we will be opening two more Candere stores, and we will be opening one more showroom in Middle East that will be a franchise. So, total 24 Kalyan Jewellers, 2 in the Middle East, 3 Candere, 29 showrooms this year is our target.

Shirish Pardeshi: Just one clarification on that. Even Candere is also will have a mix of owned and franchise or Candere will have only franchise?

Ramesh Kalyanaraman: So, this year we will limit it with our owned stores because owned store itself is a new experience for us in Candere. We opened only the first showroom last month. So, this year we will actually do only owned store in Candere. We already have franchisees who are inquiring for Candere, and we are actually interacting with them, but we will wait for stabilization of the owned store at Candere, and then we will be looking for franchise there.

Shirish Pardeshi: And just last question on the tax rate. What, now, these all things which are happening and given the benefit of franchise operations versus our owned store, what will be the tax rate one can assume for '23?

Ramesh Kalyanaraman: Tax rate is 25%. Yes. Franchise will not have tax rate.

Moderator: Thank you. The next question is from the line of Rajiv from DAM Capital. Please go ahead.

Rajiv: Sir, on the balance sheet side, so there is on the current liabilities which is increase of Rs 243 crores on the console, can you explain what exactly is that?

Ramesh Kalyanaraman: You mean the creditors, right?

Rajiv: Yes.

Ramesh Kalyanaraman: Yes. So, that is supply credit increase because it is a what you call preparing for the festive. So, the inventory would have increased and creditors would have gone up. The normal pre-festival build up inventory.

Rajiv: And on the Middle East gross margin, so we have seen close to 200 that's dropped there, and which is slightly different from the Indian piece. What is the difference because of?

Ramesh Kalyanaraman: So, Middle East margins have been in the range of 15% no? It is almost steady.

Rajiv: It used to be 17.5.

Ramesh Kalyanaraman: Yes. It used to be 16 to 17%, because now, you know, tourists are back, customer sentiments was very positive, lot of traffic. So, now you know that the competition will also behave, and people will demand for plain gold staple products again. So, even Q1 was in the similar range 15%. So, Middle East should we looked at this range because the momentum in revenue is very high.

Rajiv: And similarly, on the Candere part, so we stepped up investment there, right? What is the, for example, the OpEx rate going forward there on the Candere portfolio? I know it's still early days.

Ramesh Kalyanaraman: So, if you are talking about the physical store?

Rajiv: No, no. So, the loss in Candere is Rs 3 crores, right, as compared to?

Ramesh Kalyanaraman: Yes.

Rajiv: I just wondered what is the burn which we are shooting for on a annual, yes.

Sanjay Raghuraman: So, this year we are making investments coming back to investment mode in this business in the current year. Essentially, we are undergoing a major upgradation in our tech platform and have made some investments in technology as well as people, so staff costs and technology costs have got front ended. And I expect that because we are in an investment mode, we will have a marginal kind of loss this year with that business.

Rajiv: And then you, so you alluded to some provision in this quarter, right? Can you spell out what exactly is that? And you said that adjusted for that, we would have been 8.1% EBITDA margin.

Ramesh Kalyanaraman: The provision is predominantly for the bond issue which we were planning, and it pertains to that. So, on a conservative way, we have put a provision for the bond expenses, not fully, but marginally.

Rajiv: That's all.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.

Ramesh Kalyanaraman: Thank you very much, and looking forward for a good quarter, and hope to see you again soon. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kalyan Jewellers India limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.