KALYAN
JEWELLERS

SEC/65/2023-2024 **August 14, 2023**

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 **Q1 FY24** is attached herewith.

Please take the above information on record.

Thanking you.

For **Kalyan Jewellers India Limited**

RETNAVILASAM GOPINATHAN NAIR JISHNU

Digitally signed by RETNAVILASAM GOPINATHAN NAIR JISHNU
Date: 2023.08.14 17:37:21 +05'30'

KALYAN JEWELLERS INDIA LTD.

Jishnu RG
Company Secretary & Compliance Officer
Membership No – ACS 32820

“Kalyan Jewellers India Limited Q1 FY24 Earnings Conference Call”

August 9, 2023

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 Q1 FY'24 Earnings Conference Call of Kalyan Jewellers India Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 '*' and '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 Q1 FY'24 Earnings Conference Call.

Today on the call, we have with us Mr. Ramesh Kalyanaraman – Executive Director; Mr. Sanjay Raghuraman – 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 the results and investor presentation uploaded on the company's website and stock exchanges. We will begin the call with opening remarks from Management, following which we will have the forum open for a question-and-answer 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 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: Hi all, good evening. The quarter was a fantastic quarter and we witnessed continued robust momentum in footfalls across all our markets in India and Middle East over the last several quarters now. While our consolidated revenue growth was approximately 31%, the consolidated PAT grew by around 33%, up from INR 108 crores to INR 144 crores. Revenue from India operations grew by approximately 34%. Strong operating momentum has been consistent and sustained throughout the entire quarter, including during Akshaya Tritiya underpinning the resilience of our category within the overall consumption basket and demonstrating strong execution in the market by our operating team on ground. We continue to see encouraging trends around the share of new customers, which was in excess of 36%. Also, our share of revenue from the non-South market is now at 44%, up from 35% in the prior year.

This year so far we have opened 16 new showrooms and we are on track to open 10 more showrooms during the current month. It's in line with our already announced plan to launch 52 showrooms across the non-South markets. The month of August will also witness the launch of our 200th showroom. It's in Jammu, a milestone in our showroom expansion journey. In the Middle East, we continue to see robust momentum driven largely by the strong economic activity in the region. Revenue growth was around 22%. Eid holidays driven sales, which was not part on the base year. In the prior year also contributed to the same store sales growth. We expect to launch the first franchisee showroom in the region before the end of the current quarter. Talking about our online platform Candere in line with our already announced omnichannel expansion strategy, we plan to launch 20 plus physical showrooms of Candere during the next six months starting from August.

We've made meaningful progress towards the divestment of the non-core assets which has been previously announced and we expect to conclude the transaction around the end of the current quarter. As I look at the current quarter, we continue to be encouraged by the underlying momentum in footfalls across all our major markets, even though there has been a slowdown in the wedding demand post 18th of July primarily due to the ongoing Adhik Maas, which is once in a three-year phenomenon. We are upbeat abound the upcoming new showroom launches and are gearing up with fresh corrections and campaigns for the upcoming festive and wedding season across the country.

I'll now hand over to Sanjay. He'll take you through the highlights of the numbers. Thank you all.

Sanjay Raghuraman: Thank you Ramesh. Good afternoon everybody. I'm really happy to be talking to you all after a very satisfying quarter.

I will just highlight the major points now so we can have enough time for questions.

We reported a consolidated revenue of INR 4376 crores, a growth of over 31% year-on-year. Consolidated profit after tax was INR 144 crores versus INR 108 crores during the corresponding quarter of the previous year, a growth of 33%.

Talking about the India numbers, when you came in at INR 3641 crores, a growth of 34% over the corresponding quarter in the previous year. And India, profit after tax came in at INR 129 crores, a growth of 35%. Our Middle East revenue for the quarter was approximately INR 700 crores, a growth in excess of 21%.

The Middle East business posted a profit of INR 17 crores, a growth also in excess of 21%. Our e-commerce initiative, Candere posted a revenue of INR 34 crores, a degrowth of 23%. Understandably so as we are transitioning into the next phase of growth via an omnichannel strategy. The offline store rollout will accelerate from this month onwards. During the recent quarter, we opened 12 outlets all across the non-South markets. With this, I'm now done with the summary of the financials and we now open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity and congratulations on a good set of results. Sir, my first question is with regards to Candere in the Middle East the franchisee store openings. So, I missed the earlier part. How many physical stores are we expecting to open in Candere in this particular year and how much would there be on the franchise basis in the Middle East?

Sanjay Raghuraman: On Candere we expect to do about 25 stores by the time we end this financial year, most of which would be on the franchise model. On the Middle East, the first of the franchise outlets will open this quarter by the end of September. And then we will see how many more we can do this year. We have a few in the pipe.

Gaurav Jogani: But apart from this one store in the Middle East on the franchisee, are you also looking to open more stores around in the Middle East part?

Ramesh Kalyanaraman: Yes, Ramesh here. So, here, yes, Middle East as a market, the first franchise showroom we will open before the end of this quarter and we will wait that to settle down. We might open one more as a pilot but we are not stopping any expansion there. We might go and open two or three own showrooms and then convert it later, so we don't want to lose the opportunity. But once the first franchise settles down only we will do the next set or maybe one more we will try, but not more than that because we want it to get settle down before we go and expand more on franchise in Middle East.

Gaurav Jogani: Also, Sir, if you can highlight in your press release you mentioned that new stores or franchise would now be coming in the Eastern part of India largely on Jharkhand, Bihar in these regions. If you can give us some background of how your own stores are opening, how the brand is performing in these regions and you know what gives the additional confidence to open these stores on the franchisee basis in these regions?

Ramesh Kalyanaraman: Yes, we are already there in those markets for the past couple of years or more than that and we have a very strong brand and what we call revenue share in the market where we are in Bihar and Jharkhand so we are just expanding again wherein we will be opening more showrooms in that region. So, Patna already has been one of our large footfalls or larger showrooms there and we are well settled in those regions.

Gaurav Jogani: And Sir, the demographics size I mean, is it more gold oriented market or is it more studded oriented and because we are also hearing many other competitors entering these markets and planning to take a larger pie there. So, how will be the competitive scenario there? How is the demographics here?

Ramesh Kalyanaraman: Yes, in every market depends upon the brand wherein certain brands are target only staple plain gold jewelry. For example, in Tamil Nadu, Tamil Nadu, there are large players who target only plain gold. But as a brand, Kalyan there we target on studded ratio as well, the brand is placed that way. Same as in the case of Bihar or in Jharkhand wherein our brand will surely be not only targeting plain gold, of course it's a good market for plain gold, but we will target plain gold as well as studded. It's the way you place your brand there.

Gaurav Jogani: Sure. And Sir, just one last question from my end is on the debt part, so if you can highlight what would be the debt and the net debt at the end of Q1 and what would be the breakup between gold on lease and the actual, I mean the other debt?

Ramesh Kalyanaraman: Yes. So, gold on lease is almost the same wherein we are in the INR 1800 – INR 1850 range. And debt you are talking about the end of the financial year, right?

Gaurav Jogani: No, Sir. End of the Q1.

Ramesh Kalyanaraman: Yes. So, it's almost the same. So, gross debt are almost in the same region.

Moderator: Thank you. The next question comes from the line of Ashish Kanodia from Citi. Please go ahead.

Ashish Kanodia: Congratulations on the good set of number. So, the first question was on the growth trend, right, because I mean, if I go through your PPT and maybe even your opening commentary, so I think in the Middle East there will be some impact in the current quarter because of Eid. And then again there is some impact of Adhik Maas in India as well. So, just trying to get some sense, if you look at the last 40 days, how has been the growth both for India and Middle East separately?

Ramesh Kalyanaraman: So, as I told you in the opening remark wherein July the first two weeks, the revenue was very good, okay? It was almost as good as Q1. And post Adhik Maas, the wedding part of the revenue has been muted especially in the non-South markets but weekends are very strong. Momentum was very strong. So, yes, there might be some -- it's not a lost sale, you know that, okay? It can move partially, it can come in Q2 itself, partially it can go to Q3. It might have absorbed in Q1 itself, which we don't know. So, that is the present scenario but we are extremely bullish on Q2 as well because momentum is very strong and weekends are strong. And first two, two and a half weeks were extremely good and that's it about Q1. And you know the wedding season starts from August 17th.

Ashish Kanodia: Sure. That's helpful. And secondly, on the gross margin side, right, I mean definitely a very sharp improvement in the studded mix. So, you have provided that the showroom gross margins are YoY and we understand that because of the franchisee model there will be a dilution in gross margin and EBITDA margin. So, I mean if you can provide some broad numbers in terms of what the gross margin was for your own store as well as for the franchisee store during the current quarter that would be very helpful.

Ramesh Kalyanaraman: Own stores are in the range of say what 16%. And franchisee store, you know that our margin is in the range of 8% because we take our margin and only then sell it to them.

Ashish Kanodia: Okay, sure. And thirdly, on the Middle East side, there are some volatility in the margin. So, on a sustainable basis or on a normalized basis, what should be the gross margin and EBITDA margin for the Middle East business?

Ramesh Kalyanaraman: The Middle East this time because we got that Eid sale and that was an Eid weekend wherein it was a long weekend and that sale was absorbed in Q1 and that mostly comes with plain gold because a lot of footfalls happens during that time. So, it should be settling in the range of what 15 to 15.5 as usual and EBITDA at the range of 8%.

Ashish Kanodia: Sure, that's helpful. And just last bit on the divestment on the non-core assets, you said unit should maybe conclude by end of current quarter. So, do you expect the cash to come in by end of current quarter? Is that understanding correct?

Sanjay Raghuraman: Yes. Perfect.

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

Shirish Pardeshi: I think I'm reading little deeper from the P&L numbers. Our revenue has increased close to about 34%. But when I look at other expenses, which has grown in tandem at 33.6% while employee expenses have gone a little higher at 45%. So, is there any one-off or how we should look at it and is this the base? I mean, one part is that yes, we have opened more number of franchise stores and we are since actively controlling that. But is there any one-off or how we should look at it for the rest of quarters this number?

Ramesh Kalyanaraman: Yes, so two things. One, of course, all of us know that there is a huge expansion plan wherein we will have to absorb employees much before the store gets opened, okay? So, employee cost will go up because of that because they stay in our books and it will be non-operational also. It will be in the training stage wherein they will have to go to the new showrooms, okay? We added approximately 600 plus employees only in Q1. That is, one. Second is that there is of course a small quotient of INR 1.5 crore to INR 2 crore that is an ESOP, which is not a one-off, but we just started this financial year. We have given ESOP to 400 employees, which started from Q1.

Shirish Pardeshi: Just a little more clarity. You said that you have added 600 people in the month of June.

Ramesh Kalyanaraman: Quarter.

Shirish Pardeshi: In the quarter.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: And this ESOPs what you have said is given to how many people?

Ramesh Kalyanaraman: So, ESOP, there are two versions. One is ESOP to only the senior management, which was issued pre-IPO just after IPO, okay? And now we have issued ESOP to more than 400 employees.

Shirish Pardeshi: 400 employees. So, till what level? I mean, you've gone up to the store manager level?

Ramesh Kalyanaraman: Till store manager level.

Shirish Pardeshi: Okay. And this obviously, I would believe that will be recurring or this is going to be once in a year or I mean as and when you will declare this. So, I just wanted to understand, is there any policy we have around ESOP?

Ramesh Kalyanaraman: Yes, so policy around ESOP means what do you mean?

Shirish Pardeshi: Is it going to be a once in an annual phenomena in quarter one you will deliver the ESOPs or -?

Ramesh Kalyanaraman: Yes, as of now, we plan to do this for this year and next year. And post that we will evaluate whether it is ESOP or some other product which we should introduce. But for the next two years it's ESOP.

Shirish Pardeshi: So, this INR 2 crore issued at what price?

Ramesh Kalyanaraman: This issue will be at INR 140 and INR 150.

Shirish Pardeshi: 140 and 150.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: Okay. Second, when I look at the ad spends, we said that from the time of IPO, we will be able to manage between 1.5% to 1.8%. But this quarter it has gone up. So, could you give us some on ground what is happening, why this has gone up or is it primarily because of something else?

Ramesh Kalyanaraman: No. Ad expenses will be always around 2% to 2.2%, which is again still continuing. And of course, store openings are coming and we open 12 new showrooms in Q1. You will have to at least spend for micromarketing in that area for you to go and open the stores. We were talking about 1.8% to 2% over a period and for our existing showrooms. Now because the store expansion is much more than what we had estimated a year before, we'll have to do campaigns when we launch the stores, right? So, we opened 12 new showrooms and campaigns were around that as well as our usual campaigns of around 1.8% to 2%.

Shirish Pardeshi: Okay. My second last question on the top line growth, though we have a visibility on the franchise operation, would you give a final number? Is there any revisit on the plan what we have targeted 52 stores under FOCO this year or we will expand more than that or you stay with the number which you have told us before?

Ramesh Kalyanaraman: So, as we speak, what we are planning is that we want to open maximum number of showrooms before Diwali, the 52 planned and there will be openings in Q4 as well. We are increasing our bandwidth to more than 52. So, that is what we can tell you right now. But we are trying to do most of the 52 before Diwali.

Shirish Pardeshi: I understand. But just curious to know that what will come in second half?

Ramesh Kalyanaraman: Yes. So, second half cannot go. It will be anyway not lesser than last Q4.

Shirish Pardeshi: Okay. And my last question on the Middle East. Though you have given some explanation but I mean qualitatively the Middle East last four or five quarter, we have given a very strong commentary, tourist footfall is also improving. How should we look at the entire business in full year FY'24? Will it grow beyond '25? Will it go beyond '30 or will it go between 2025?

Ramesh Kalyanaraman: So, there we are only looking at same store sales growth basically because the number of showrooms which we are opening are not like India, we are not adding too many showrooms there, okay? So, last year also if you see, we have added hardly what one or two showrooms in that space. So, 21% growth in this Q1 itself is actually it is better than usual. That is because of this Eid revenue which came in. Okay? And it has been growing over the past one, one and a half, two years, it has been growing. So, we should not estimate more than double digit is what I feel on Middle East.

Shirish Pardeshi: So, you said just one follow up or to get little more deeper explanation. You said it is driven by SSSG. So, against 22%, what is the SSSG growth?

Ramesh Kalyanaraman: Now almost everything maybe 1% lesser.

Shirish Pardeshi: Okay. So, 21% is SSSG growth.

Ramesh Kalyanaraman: Yes.

Shirish Pardeshi: And what is that number for India?

Ramesh Kalyanaraman: India's South SSSG was in the range of 15% and very similar levels on non-South as well.

Moderator: Thank you. The next question comes from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Mahesh Jham: Sir, I had two questions. First was you did give a sense of the gross margins for the store business except franchising. Just if I compare versus last year and I'm talking about the India business ballpark or gross margins are similar whereas the non-South share even if I exclude the transfer that may have happened to the franchisees and the studded there has significantly increased. So, is it the case as you'd highlighted a few quarters back that maybe the incremental margins on the studded are not as high as what is generally understood to be because these are low value studded items.

Ramesh Kalyanaraman: So, non-South share has been largely from franchisees, okay, that comes with more studded. So, that's why you see that's the studded ratio or the studded share has increased too much because that studded also come with a lesser margin because it's a franchise revenue.

Nihal Mahesh Jham: Understood. Okay. So, it is primarily because of all the incremental growth in non-South and even the studded share is coming in from the franchisee so that then won't reflect on the gross margin side is what has happened?

Ramesh Kalyanaraman: Yes. Of course, there is growth in our own store also, okay? But mostly, it is coming from the new showrooms, which is again from franchise.

Nihal Mahesh Jham: Sure, Sir. That is helpful. The second question was that you have highlighted in detail the plan on non-core assets and then on debt plans going forward assuming that you get the payout as you said by the end of Q2. Is there a plan to use those proceeds to then pay down debt and let go of the line and all those aspects?

Ramesh Kalyanaraman: Yes, of course. All the money received from aircraft will go directly to production of debt and that's it net of tax, right?

Nihal Mahesh Jham: And maybe there is a target that maybe by Q2 or somewhere in Q3 you do plan to reduce your debt immediately?

Ramesh Kalyanaraman: Yes. So, the money will come and directly reduce the debt on the aircraft. Over and above that also you know that we are planning to reduce around 15% of our debt in India.

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

Anurag Dayal: Sorry, I missed the comment of same store sales growth for India. Could you please repeat that once?

Ramesh Kalyanaraman: Yes. So, the same store has been in the range of 15% in South as well as non-South.

Anurag Dayal: Okay, thanks. And the second question is that there was some comment, the demand slowdown you also mentioned that. So, I mean, what steps averting some specular steps to improve that? For example, is there any more focus on exchange gold or something like that?

Ramesh Kalyanaraman: So, demand, as I told you usually for the first two, two and a half weeks, it's not that we have a panic on demand, okay? Demand on the wedding segment has taken a pause. That is because of this Adhik Maas. And whatever you do, those customers will not come before the Adhik Maas gets over. So, we are sure that they are going to come back after August. 17th. And the only thing is that all the revenue might not come in Q2. It can go to Q3 as well and a few would have been observed in Q1. That's it. Otherwise, old gold as an instrument, our old gold policy, old gold exchange program has always been very customer friendly and it is effective customer acquisition tool as well, okay? In the past, we have done old gold activation only during periods where there is a slack in demand, especially due to volatility in gold prices, okay? And in the recent past including Q1, fortunately, we had no meaning, we did not do anything of that sort because momentum was extremely strong. Even now, as we speak, momentum is strong during weekends and the first two, two and a half weeks were good, very good comparable to Q1. And we think that this demand is not going to go away. It's an Adhik Maas related wedding demand revenue loss, which is not a loss, it is only a timing issue.

Anurag Dayal: Got it Sir**.** Very clear. So, basically this old gold will be around one-third of total sales or -?

Ramesh Kalyanaraman: Yes, it's almost one-third. Yes, it's in the range of what, 30%?

Anurag Dayal: And so, one little bit quest no I have is on the gold import which is being done from UAE under that Comprehensive Economic Partnership Agreement. Are you guys also looking at that or it has already started doing things in that?

Ramesh Kalyanaraman: Yes. So, we have done work on that and we will do this and we planned to do it in this financial year.

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

Manoj Menon: Hi, team. Congratulations on a very good performance and wishing a good luck into the medium term. Ramesh, the first is on some qualitative region you know, color on the same store growth trends region wise broadly because while I heard you commenting couple of times about South 15 and non-South 15, are there any further color you'll be able to provide on non-South?

Ramesh Kalyanaraman: Yes. So, South 15 is there and non-South also it is almost in that range. So, it's not exactly 15 non-South and it's in that range of slightly higher than what we call South, maybe in the range of 16 in non-South.

Manoj Menon: So, what I'm trying to understand is there is no standard deviation -- high standard deviation on the rest of non-South right? West, North, and East?

Ramesh Kalyanaraman: No. It's almost, yes. The reason wise, it's almost the same.

Manoj Menon: Interesting. Secondly, the comment on Adhik Maas, just help me understand this please. I mean, so this happens every year, right? It's not this year's phenomena. So, this must be there in the brief also, right?

Ramesh Kalyanaraman: No. Adhik Maas is once in three years. So, you are confused with Aadi Maas or what Kadagam and all know that's not this. Adhik Maas is coming only once in three years.

Manoj Menon: Okay, understood. So, that's what we're calling it out. And then couple of clarifications FY'25, let's say what is the thought process maybe the early thought process on the franchise expansion because you would have added these 52 stores in FY'24 and you would have got those primary revenues in FY'24 itself, right? What is the broad thought process? What is the thought process of let's say will it be again another 52 in FY'24, sorry FY'25 or a different number, which you are thinking currently.

Ramesh Kalyanaraman: Yes, whatever we do in this financial year, we will better it for the next financial year.

Manoj Menon: Okay, fair enough. And lastly, the 52 stores number, this is excluding Candere, right?

Ramesh Kalyanaraman: Yes, it is excluding Candere. It is excluding Middle East. It is excluding any conversion from South India.

Moderator: Thank you. The next question comes from the line of Naresh from Sameeksha Capital. Please go ahead.

Naresh Vaswani: Firstly, congratulations on a very good set of numbers. The first question on the other expenses. So, it has remained around 4.5% of your revenue. Now as this FOCO stores scale up, while you explain that gross and EBITDA margin will go down slightly, these other expenses should also as a percentage coming down, right because these expenses will be borne by the partners. So, if you can throw some color on that. And going ahead, what should be the range which we should expect?

Ramesh Kalyanaraman: Yes. So, you're right as a percentage. The OPEX percentage on our revenue will surely come down. But on an amount it's not going to come down because our own store is remaining as our own store only.

Naresh Vaswani: Right. No, I'm asking as a percentage only. So, this quarter while we have seen some compression in margins due to this higher revenue from FOCO stores, but in OPEX, we have not seen that. So, I just wanted to understand that better.

Ramesh Kalyanaraman: Yes. So, that impact is fully taken by the salary cost.

Naresh Vaswani: So, can you guide that this 4.5% should go down to what percentage of sales in next two, three, four quarters?

Ramesh Kalyanaraman: So, here the same store sales growth is coming more majorly in our own store only. And I always conservatively tell everyone that even though there was a 15% same store sales growth in Q1, we cannot estimate a 15% throughout the year, right? So, the percentage growth of SSSG usually we keep in the range of what, 5% to 7%. And operating leverage will come only to that extent on your expenses as well.

Naresh Vaswani: Okay. And what was the contribution?

Abraham George: Abraham here. On the franchisee showroom just to explain it, see, we will get only a portion of the overall gross margin as our share to that. And that is the impact that we have taken as the gross margin level for the current quarter. So, if you compare YoY from 15.46 it has come down to 15.07 in India. And that impact is because we have shared a part of our gross margin with the franchise owner and the expenses most of the expenses are shared with the franchise partner. We take care of only the employee expenses at the showroom.

Naresh Vaswani: Right. So, in that context only, your growth in other expenses going ahead should be lower than your top line growth, right?

Abraham George: Yes, that is where Ramesh mentioned that as a percentage it will come down.

Naresh Vaswani: Okay, sure. And what was the contribution of this franchise stores to your revenue if you can give that number for Q1?

Ramesh Kalyanaraman: Yes. So, it will be in the range of what, I do not want to give an exact number there, but you can easily keep it as 15%.

Naresh Vaswani: Okay. And so the last question, any update on the payout policy? Last quarter you had said that you will come out with a policy, so any update on that?

Ramesh Kalyanaraman: For dividend policy, we are yet to. We will surely come back to you.

Moderator: Thank you. The next question comes from the line of Manish Poddar from Motilal Oswal Asset Management. Please go ahead.

Manish Poddar: Thanks for giving me the opportunity. So, just if you can call out how many stores did you open from last quarter and how many of them were franchisee?

Ramesh Kalyanaraman: So, last quarter we opened 12, out of which 11 were franchisee.

Manish Poddar: 11were franchisee. And if you can help me with the number, how much was the cash flow from operations during this quarter?

Swaminathan: So, the total cash flow from operation is INR 426 crores.

Manish Poddar: INR 426 crores. And how much is the CAPEX done in this quarter?

Swaminathan: INR 78 crores.

Manish Poddar: So, then you would have got let's say it is INR 350 odd crores release, right? So, where is this -- so this is just casual books right now because earlier you mentioned there has been no change in debt or let's say in terms of gold on lease limits. So, I'm just trying to understand, let's say the incremental cash flow generated after CAPEX was roughly INR 350 crores, right?

Ramesh Kalyanaraman: Incremental cash flow will not be INR 350 because it's a total cash flow, which Swaminathan was telling. So, the cash flow is now sitting as cash in hand, which I told you about gross debt, but net debt is of course lesser than March 31st.

Manish Poddar: So, how much is the number?

Ramesh Kalyanaraman: Maybe around INR 150 crores lesser than March 31st?

Manish Poddar: So, you've already paid INR 150 crores of the INR 300 crores.

Ramesh Kalyanaraman: We're not paying. So, that's the difference. So, we will not pay you back because -.

Manish Poddar: You've not paid it but you have the ability to payment.

Ramesh Kalyanaraman: We have only kept it there because we don't know all this expansion is coming. We are planning to do it before Diwali, a lot of CAPEX is required. There can be some contingency. So, we don't want to go and pay back right now. But we will go as per the plan and our intention is to go and reduce the CC limit by INR 300 crore before the end of the year.

Manish Poddar: So, just one more data point. If you can help me, let's say so INR 150 crores is the additional cash which is generated or let's say which is gross and net debt, where is the remaining INR 200 odd crores? Is it in inventory right now?

Ramesh Kalyanaraman: The total cash flow is what Swaminathan was telling. So, out of which interest would have been paid and rent would have been paid. So, the net cash in hand surplus is only in the range of INR 150 crore.

Moderator: Thank you. The next question comes from the line of Shantanu Kantakk from iWealth Management llp. Please go ahead.

Shantanu Kantak: Sir. Congratulations on a good set of numbers. I had two questions. One of them being regarding the ROE. In the PPT, we had given that we have done around 13.5for FY23. So, say by FY'25, what would be our ROE percentage? And the second question would be so I missed out on the ESOP, so how many ESOPs are we planning to give out on a yearly basis?

Ramesh Kalyanaraman: Yes. So, regarding return on equity, it will surely go up because all the franchisee stores which we are opening their office are in the range of 75%, okay? And that's how we are also meaning the expansion is completely taken care by them. And you want to give more color on the -.

Abraham: But yes, I agree with Ramesh. Return on equity will definitely go up because but we would not want to give a target for FY'25.

Shantanu Kantak: Okay, Sir. And regarding the ESOPs, how many ESOPs do we plan on giving?

Abraham: We have already created a pool of about 30 lakh shares. Right now, we're giving out of that pool to the employees.

Moderator: Thank you. The next question comes from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Thank you for the opportunity and congrats on the great set of numbers. First, the question is on the franchisee model itself. Obviously, this is a first full quarter of the impact. Just if you could give some comments as to how has the experience been, whether the assumptions that you made initially are playing out? Is it working out better or some areas you might have to go back that would be a great start for that?

Sanjay Raghuraman: So, I think after we started, we did the pilot and we got some learnings from then and did some calibration to kind of make sure us as well as the franchisees got what you wanted out of this rollout. So, broadly speaking, our expectations have been met, franchisee expectations have been met and I think we are in a good place as far as being confident about being able to roll this out on schedule.

Pulkit Singhal: Understood. And you believe that this can be much more scalable now or would you take -- think it would take some time to reach that conclusion?

Sanjay Raghuraman: No. Absolutely not. We are very confident of the scalability and I think this is on the roll now.

Pulkit Singhal: Okay. Secondly, in terms of the margins, the PBT margins are at around 4.3% at the company level and I presume that is what one should focus on now with the newer model. Two questions out there. Firstly, is franchisee broadly tracking similar numbers are below or above? And secondly, I thought that with the growth we should have seen some kind of leverage on a YoY basis on this PBT margin. So, any comments on that?

Abraham George: So, Pulkit, hi. Abraham. So, the PBT, now if you split that between India, Middle East and Candere, that's how one should look at. So, India PBT was about 4.7% YoY, which has gone to about 4.77% close to 4.8% now, so it's improved. And for the franchisee showrooms, the PBTs are in the region of close to 5%. That's why it's showing an improvement at the PBT level. And there is some amount of loss in Candere. We've done about INR 2.2 crores of loss in Candere and that has also affected the consolidated PBT.

Pulkit Singhal: Understood. Last question, I thought from a return on capital perspective, I mean what is really the capital employed in the franchisee model? Has that changed? I thought it was just two weeks of inventory or something like that.

Abraham George: Yes. It's about 15, 20 days of inventory, correct. And the CAPEX for the showrooms in the current financial year, we are taking care of the CAPEX.

Pulkit Singhal: Understood. Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Ashish Kanodia from Citi. Please go ahead.

Ashish Kanodia: Yes. Thank you for the opportunity. So, first is on the wedding share, what would be the rough mix of wedding in the overall India revenue and if you can split that between South and North?

Ramesh Kalyanaraman: So, usually the wedding share for the brand is around 55% to 60% and it's very similar South and non-South, meaning South can be 60 and non-South can be in the range of what, 55?

Ashish Kanodia: Sure. And secondly, in terms of employee cost and the number of employees, right, so when I look at 1Q23 versus 1Q24, we have added around 2500 employees and even the employee cost has gone up by almost say from INR 100 crores to almost INR 140 crores. So, when you're talking about maybe similar or higher store expansion in FY'25 as well. So, is it fair to say that the momentum in terms of new employee addition as well as the employee cost will be very similar to what we have seen in the last one year?

Ramesh Kalyanaraman: Yes, it should, meaning the employee cost is going to grow at the same pace for the next year as well.

Ashish Kanodia: Okay. And lastly, I understand there has been some conversion of stores maybe from company owned to franchisee. So, just at the end of 1Q 24, can you just give the number of franchisee stores and COCO stores in India?

Ramesh Kalyanaraman: So, it's not about conversion there. So, what will happen is that for example in this quarter itself, meaning the Q1 out of 12, 11 were franchisee and one was own, right? But that one owned store, the intention was not to keep it as own. Due to some technical issue, the franchisee could not take it there because of some GST related or something like that, okay? Now already as we speak we have converted that. So, conversion is more related to that rather than converting own store. The original conversion of our own store will happen only in South wherein we will specifically tell you about it.

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

Shirish Pardeshi: Hi. Thanks for the follow-up opportunity. Sir, just wanted to check, you said the aircraft sale will happen. So, just wanted to understand what is the ballpark number which we are getting? And you said there is a tax also. So, that's the first part. And second, you said that there is also non-core asset. So, is those non-core asset will get divested in the financial year FY'24 or it will get next year?

Ramesh Kalyanaraman: Yes. So, the aircraft amount is around INR 134 crore. Net of tax will be in the range of INR 100 crores. Again, real estate, we will not be able to commit anything for the financial year because we would have to go and repay the bank loans and then take out that asset then put it for sale. It's going to take time. So, the other non-core assets we should look at as a medium-term wherein two to three years mission we should look at in that way, okay? We will start the process of course but not commit anything for the financial year.

Shirish Pardeshi: Okay. My second question on how much spot buying we have done for gold in Q1? You said the exchange is 30%.

Abraham George: Yes. Shirish exchange is about 30% and gold metal loan levels have remained at similar levels at about the late 40s. The remaining we've bought from spot.

Shirish Pardeshi: So, say about 30%.

Abraham George: Correct.

Shirish Pardeshi: Okay. My last question while hearing from the market leader, we have heard that there is a local competition, there is a regional competition and especially the competition took a route for dropping the price, not dropping the prices, I mean giving the similar value to the gold exchange and even the market leaders can aggressively push to these promotions. So, in your lens, have you seen this specifically hitting any particular pockets or maybe at this time what is the competition angle or do you recognize there is a competition?

Ramesh Kalyanaraman: Yes, competition has been very strong always in the industry and for the past one, one and a half years it has been even strong because of the excise duty increase. And now, it is actually a part of life, meaning it's a new normal today for us because we are adapted to it and the margins are steady, which you can see.

Shirish Pardeshi: The reason why Ramesh I'm asking, if I look at the history normally the making charges we used to have a standardized of about 25% - 30%. But now the incremental quantum has gone up. I don't want to name any particular player but I see that the making charges, there is a lot of discounting which is happening. So, I just wanted to understand this quantum which used to be a phenomena somewhere in the wedding season, but this has become a normalize. So, is it being industry is now normalizing and these expenses are given expenses or still the novelty is going to be there?

Ramesh Kalyanaraman: Yes. So, we have not been given the meaning making charges are always according to the market and according to the product and we have not given any extraordinary discount on making charge even for Q1. And old gold as I told you before, our exchange policies actually very customer friendly and we don't have to do any further promotion on old gold unless and until we have a very strong reason like very high volatility in gold prices, very low momentum at the store, etcetera. Fortunately, in Q1 the momentum has been extremely strong right from day one and Akshaya Tritiya was also strong. And we did not do any activation on old gold as well. And competition now it is like one and half, two years, wherein we have adapted to the new normal today. The gold rate is also same across the country today and making charges are almost stabilized to where we want. Margins are getting steady. Studded ratio is always there. So, we don't see any major deviation in the competition between what the last two or three quarters now.

Shirish Pardeshi: Okay. And just last one question. In your market intelligence or from the procurement level, do you think during Diwali the gold prices will remain stable or will also see the volatility because if you look at the macroeconomic conditions are still very, very volatile?

Ramesh Kalyanaraman: Yes, that is very hard to predict all that because it's a global environment, which again takes care of the gold price. So, extremely hard for us to predict that.

Shirish Pardeshi: Okay. I was just asking whether we see in a quarter three some inventory gain because you're seeing the gold exchange is still sitting at 30%.

Ramesh Kalyanaraman: But we would not get any because we don’t take any risk or gain in metal.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Ramesh Kalyanaraman for closing comments.

Ramesh Kalyanaraman: I thank you very much for attending the call. Hope to see you again in the next quarter. Thank you very much.

Moderator: On behalf of Kalyan Jewellers India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.