SEC/92/2023-2024 **November 21, 2023**

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: 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 2023 is attached herewith.

Kindly take the same into your records.

Thanking you
Yours Faithfully

for **Kalyan Jewellers India Limited**

RETNAVILASAM GOPINATHAN NAIR JISHNU

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KALYAN JEWELLERS INDIA LTD.

Jishnu RG
Company Secretary & Compliance Officer

Encl: As above

“Kalyan Jewellers India Limited Q2 FY24 Earnings Conference Call”

November 16, 2023

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MANAGEMENT: **MR. RAMESH KALYANARAMAN – EXECUTIVE DIRECTOR, KALYAN JEWELLERS INDIA LIMITED**
MR. SANJAY RAGHURAMAN – CEO, KALYAN JEWELLERS INDIA LIMITED
MR. V. SWAMINATHAN – CFO, KALYAN JEWELLERS INDIA LIMITED
MR. SANJAY MEHROTRA – HEAD OF STRATEGY & CORPORATE AFFAIRS, KALYAN JEWELLERS INDIA LIMITED

MR. ABRAHAM GEORGE – HEAD OF INVESTOR RELATIONS & TREASURY, KALYAN JEWELLERS INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 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 date of this call. These statements are not the 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 this conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Rahul Agarwal. Thank you, and over to you, sir.

Rahul Agarwal: Thank you. Good morning, everyone and thank you for joining us on Kalyan Jewellers India Limited Q2 FY24 Earnings Conference Call.

We have with us Mr. Ramesh Kalyanaraman – Executive Director, Mr. Sanjay Raghuraman – CEO, Mr. V. Swaminathan – CFO, Mr. Sanjay Mehrotra – 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 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 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 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 morning and welcome everyone to the call. Hope everybody had a great Diwali. Let me wish everyone an excellent New Year.

It has been a fantastic year so far. Both the quarters have been excellent. Revenue growth for the first half of the current financial year is around 29%. We are extremely excited with the way the current quarter has progressed thus far, despite the higher number of Shradh days and volatile gold prices. We have witnessed approximately 35% growth in revenue for the current quarter till 12th of November and compared to the same period during the prior year. This financial year so far, we have launched 41 Kalyan showrooms in India, and we plan to launch another 9 showrooms in the next 45 days. Actually, these 9 stores were planned to open before Diwali.

There has been a delay. Additionally, we plan to launch around 15 showrooms during Q4 of this financial year, making it 65 showrooms for the current financial year.

As we speak, we have 55 franchise Kalyan showrooms in India. And looking at the performance of these showrooms thus far, we are extremely satisfied with operating momentum on the ground as well as with the return profile, both for us and for our franchise partners. As we speak, we are finalizing terms with potential franchise partners for FY 2025. For the next set of franchise showrooms, we have brought in changes in the model with the objective of improving our share of margin and the return profile. For the next financial year, we have drawn up plans to launch around 80 Kalyan showrooms across India.

In the Middle East, we opened the first franchised showroom during the recently concluded quarter. In addition, we have signed another 5 LOIs, 2 for new showrooms and 3 conversions. The launch and conversions of these showrooms will happen during Q4 of this financial year.

Regarding the debt reduction plan, we are well on track for the current financial year, having already achieved one-third of the total reduction plan for the year. Non-GML working capital loan in India has been reduced by Rs. 157 crores and we have successfully increased the GML by around Rs. 40 crores. Overall, we reduced working capital loans by Rs. 116 crores in India. In the Middle East with the conversion of the existing 3 showrooms in the region, we are embarking on a debt reduction journey there as well. We expect to garner around Rs. 100 crores from the conversions of pre-existing showrooms before the end of the current financial year, which will be fully utilized to reduce the debt in the region. We are upbeat about the upcoming new showroom launches and are gearing up with fresh collections and campaigns for the ongoing wedding season across the country.

Now, I will invite Sanjay to take you to the financial highlights of the quarter. And over to Sanjay.

Sanjay Raghuraman: Thank you, Ramesh. Good afternoon, everybody. We are happy to be talking to you all after a very satisfying quarter. We had a couple of days between putting out our results and today I assume you might have all gone through the numbers and the investor presentation that's up on our website. Hence, I will just highlight the major points now, so we have more time for questions.

For this quarter just ended, we reported consolidated revenue of Rs. 4,415 crores, a growth of over 27% over the corresponding quarter of the previous year. And consolidated PAT came in at Rs. 135 crores versus Rs. 106 crores during the corresponding quarter of the previous year, a growth of 27%. In our India business, growth in revenue as well as PAT was about 32%. As we had indicated in previous interactions, people’s costs are getting front-ended as we continue to invest ahead of our outlets beginning to earn revenue. Adjusted for this, PBT would have been higher by about Rs. 5.5 crores. In our Middle East business, we opened our first franchise store as per our planned rollout. Profits in the Middle East business are lower by about Rs. 3.5 crores on account of the one-time sale to the franchise. I am calling this out specifically since this is the first time, we are seeing this in our Middle East business. As we scale up on our franchise model, we expect return ratios to improve like we are already seeing in India.

Talking now about the first half of this year, the consolidated revenue came in at Rs. 8,790 crores, a growth of 29% compared to the corresponding first half in the previous year. And consolidated PAT came in at Rs. 278 crores, a 30% growth compared to H1 of the previous year. During this just concluded quarter, we opened 15 stores, 13 in India, one in the Middle East, and one in our Omnichannel Candere format.

With this, I am done with the summary of the financials. We can 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 is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, my first question is with regards to the store expansion. Now, given that we have also upped our guidance in terms of the store expansion to 80 stores in the next year. So, if you can highlight which regions, are we getting these stores open? And the related question is what is the potential number that we expect to reach in terms of these stores in the next 5 years? And the third related to this is, these franchise partners that we are opening the stores with are these existing franchise partners or we are also adding the new franchise partners?

Ramesh Kalyanaraman: Yes, so thank you. So, three questions, one around the 80 showrooms which we are opening for the next financial year, mostly it will be in non-South markets. Five to eight showrooms will be in the southern part of the country as we speak. And the second question was around whether the franchise partners are old or new. It is a mix, mostly new franchise partners, but yes, there are old partners who are taking extra showrooms for next year's expansion as well. Third was what?

Gaurav Jogani: Yes, the third was with regards to the store potential. So, we are already reaching with these 80 stores odd, they will be crossing the 250 odd mark number in India itself. So, just wanted to understand the potential in terms of stores in the next 5 years for you?

Ramesh Kalyanaraman: Yes, potential you know that we are now meaning the non-South markets, there are a lot of markets where Kalyan is still not there. So, for our projection, maybe 20% growth in footprint over the next 3-4 years, that should be the target.

Gaurav Jogani: And so, my next question is with regards to the working capital requirement. Now, given that we are growing at a very strong pace, so it's not only through the franchise stores, but the existing stores are also growing at a very strong pace. Now, in that context, how should we look at the inventory days and by inventory days, I mean for example in FY23, we closed with around 180 days of sales as an inventory day. Now with the franchise proportion increasing and probably the franchise stores will be higher in the next year versus our own stores, so in that light how should one look at the inventory days or the overall working capital?

Ramesh Kalyanaraman: Yes, inventory days stock turn will surely go up because franchise stores come with only 20 days of inventory, for our own store it is around 160 days. So, stock turn should ideally go up. Over and above that, for our own store also, the stock turn is surely increasing because the revenue growth is higher than the inventory which we are adding in certain stores where we renovate the stores and add inventory to take market share.

Gaurav Jogani: So, any number that you would like to guide in terms of the inventory days, how should we project the inventory days? You know, given the fact that the franchise numbers is also increasing, and you said that only 20 days is required for the inventory of that kind of a stores. So, any number that you would like to highlight?

Ramesh Kalyanaraman: So, now as we speak in Q3, okay, 20% of the revenue approximately comes from franchise. Over the next 2 years, it should ideally be 50-50. So, 50% of the revenue comes with 20 days of inventory days. And the rest 50% will be anyway better than 160 because there is an SSG which is happening at the store level. And we are not adding that much inventory, meaning if the revenue growth is, say, 10%, we are not adding inventory in the stores for 10%, no? So, that is how we should take it forward.

Gaurav Jogani: And sir last question is with regards to the CAPEX that we incur for the store franchise, so I understand while the CAPEX is being incurred by us but we also receive a one-time fee every year from the franchise partners for the same, so just wanted to understand which line item this number gets booked and what is the time it is recognized?

Sanjay Raghuraman: It gets booked on a monthly basis and it's there in other income I think, so we will just clarify by the end of this call if it is in other income or it should be there, it won't be in other operating income.

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

Shirish Pardeshi: I just wanted to understand for our stores, what is the same store sales growth if we can specify? And in the stores which we opened last year, say first set of stores of those 12 stores, what is the SSG we have seen in YOY in the franchise stores?

Ramesh Kalyanaraman: Yes, so SSG for Q2 overall is in the range of 10% and 8% is in South India, 15% is in the non-South markets.

Shirish Pardeshi: Okay, that's really heartening. Second again on the inventory side, just to extend the thoughts, you said that 160 days directionally will go up, but I am a little afraid because I don't think we are opening our stores at the speed at which we are adding the franchise stores. So, why that number is going up? Are we taking a bigger number of bigger sized stores or how we should look at it? And the other question is that on a year-on-year basis for the next set of stores which you are opening under franchise stores in FY25, are you resizing the store size?

Ramesh Kalyanaraman: Yes, so two questions. One is I think you are talking about the inventory addition which you have seen over the last 6 months, meaning Rs. 350 crores, right? So, all these Rs. 350 crores is not for our additional store. I will just deconstruct that for you so that things are easier. Part of the inventory required for showrooms we launched during the month of October would also reflect in the end September inventory that we are talking about. We have launched a dozen showrooms during the Navaratri period, and around one-third of this inventory would have been already there in our books in September. Okay, that is number one. Number two, like you said, we have refurbished or relocated 20 odd showrooms during the last 6 to 8 months. Cases like Jayanagar in Bangalore, Coimbatore, our own, what do you call, old store. Karol Bagh in Delhi, we relocated the store. So, these kinds of stores, when we relocate or renovate, we add some inventory to gain market share there. And the third is one more point where I would like to highlight here. During October, we opened 3 of our own showrooms also. This inventory and all were in the first week of October. This inventory also would have shown up in the overall inventory figure. And of course, two out of these will be converted to franchised ones over the course of quarter. The third one is an example where in Pitampura in Delhi, as a part of relocation of the existing showroom, we launched a new showroom. We normally keep the old showroom live for a few weeks, even after the relocation. Surprisingly, both the showrooms are doing well now. And therefore, we have decided to maintain 2 showrooms in Pitampura as we speak. That might not be converted very soon because that was a positive surprise for us. So, we had not tied up any franchise partners for the same. You want the breakup number for your comfort? I would have that.

Shirish Pardeshi: If you can help that.

Ramesh Kalyanaraman: Again, you know pipeline inventory is needed for the 40 odd operational franchise showrooms which we have. That can quantify around Rs. 80 crores to Rs. 90 crores out of the 350. Inventory that we would have carried for the showrooms launched during Navaratri period would be in the range of what Rs. 60 crores to Rs. 70 crores. Inventory into the renovated or relocated stores will be in the range of Rs. 80 crores to Rs. 100 crores. Pre-owned showrooms, that would have been in the range of Rs. 80 crores. I'm talking about approximate numbers.

Shirish Pardeshi: That's really helpful. And any thought on the resizing of stores? Are you trying to resize the stores for the next set of franchise coming in FY25?

Ramesh Kalyanaraman: Franchise we don't intend to. Even now, all the franchises are not of similar investment or similar size. We are telling you a Rs. 20 crores as an example for us. So, it is an average. So, there are stores which has a Rs. 30 crores inventory, there are stores which has a Rs. 17 crores inventory. So, even now the size is not the same for or constant for all the showrooms which we have opened. So, it will remain like that for the rest of the year as well as the next years also.

Shirish Pardeshi: Now I was just looking for the explanation in the opening remark you said that for the next set of franchise, we have negotiated the better terms. So, maybe if you can quantify what is that?

Sanjay Raghuraman: So, broadly we have one driver, just gross margins that we work with on the franchise front. Now, we will action plans that we have to improve this and deliver something that is better for us at the same time, doesn't interfere with the franchise expectations. We have found some solutions. We will of course only be able to implement that from the second wave of the stores that we do next year. I don't think I want to share more at this point because it is sensitive information in that aspect. We'll probably get between 25 bps to 50 bps thereabouts. And the cash flows on the capital expenditure that we put out on the shop that going to move from our balance sheet to the franchise balance sheet as I think Ramesh had mentioned previously. So, that's anyway going to be a huge thing for us next year.

Shirish Pardeshi: That's helpful Sanjay. I just wanted to check, are we moving to franchise on franchise operated models next year?

Ramesh Kalyanaraman: No. It is a FOCO model. Two major changes. One, CAPEX store fit out, we are doing the store fit out now for this year. Next year it will be done by the franchise partner. Second is margin will improve for us and it has been decided that franchise partner will also be happy. But because we know the performance of the existing stores and we thought that there is a merit of improvement.

Shirish Pardeshi: Okay, that's helpful. My second question on the gold metal loan. Maybe you can spell out end of September what is the gold metal loan and related question, what is the status on the non-core asset which we have spoken about divestment?

Ramesh Kalyanaraman: Yes, so non-core asset, everything is done. So, we are just waiting for the final NOC from banks and that is it. So, maybe hopefully it should be done in the next 3 or 4 weeks. So, in this quarter we should surely expect that. And regarding gold metal loan, it's on the similar level, right? We added about Rs. 30 crores – Rs. 40 crores in India. Otherwise, it is consistent.

Shirish Pardeshi: So, what is the number?

Abraham George: India gold metal loan is now Rs. 1,132 crores and consolidated gold metal loan is Rs. 1,856 crores.

Shirish Pardeshi: My third and last question, there is an incremental noise around the lab grown diamond. In your lens, in your thought, in your exchange of discussion, what is it that is it going to be disruptive in nature for us and for the industry or it's wait and watch, the consumer is still not picking up the trend?

Ramesh Kalyanaraman: Yes, so lab grown diamond, it is still very nascent stage for lab grown diamonds in India. Too early for us to comment on the impact. Internationally as well, meaning only for the engagement rings for a solitaire, it has been popular as we speak. So, as we speak now at our store level, there is zero demand. But of course, we are cautiously looking whether there is some demand which will come in etc. which will be taken care of at that point in time, but as of now it is zero demand.

Moderator: Thank you. Next question is from the line of Ashish from Citi. Please go ahead.

Ashish: So, the first question was on the franchise stores, right? So, if I look at the 15 stores which were present at the end of FY23, right? In some way they have seen almost more than 6 months of business. So, can you talk a bit about their revenue trajectory, the gross margins which those stores have seen and also the inventory turn, those 15 stores have seen because they might have seen a bit of a maturity in some way?

Ramesh Kalyanaraman: Yes, so most of the stores are doing what we wanted in terms of stock turn, in terms of margin, and that is why we are reworking on the franchise partner share also for the next year. And of course, there are minor tweaks which we do in certain showrooms wherein inventory has been added in certain stores, inventory has been reduced in certain stores. So, that is a part of the business which we do for our customers.

Ashish: So, Ramesh, just to kind of dig into that, have you seen a similar 20% kind of a gross margin in those stores at a showroom level and 2.5x inventory turn? Have you seen that?

Ramesh Kalyanaraman: Yes.

Ashish: And the second thing is in terms of the delay in store opening, can you please talk about that, what led to the delay in the store opening?

Ramesh Kalyanaraman: Majorly that was because of certain markets where elections were around wherein, we do not want to create our noise level cannot be disturbed with their noise level and again, there are certain markets where there were some restrictions in the interior decoration work etc. because of some pollution issue. So, those kinds of issues were making us delay that store openings, otherwise it was planned to be done before Diwali.

Ashish: And then on the deleveraging of balance sheets, so I understand you will get almost Rs. 100 crores from the sale of aircraft net of tax, and that will lead to repayment. But from our next 2 years' perspective, right, FY25 and 26 and given that now you are tweaking the franchise model to, so that your CAPEX kind of reduces, so what are the plans for the next 2 years in terms of reducing the debt levels and on the sale of land parcel?

Ramesh Kalyanaraman: Yes, so land parcel sales, let us keep aside now because it is going to come once we, for example, this year we are planning to reduce our debts by around Rs. 350 crores, right? So, once we do that, then only we are communicating with the banks to take out the asset because the land parcels are not very small. So, at least we should get a Rs. 100 crores land parcel and for which at least we need to reduce Rs. 350 crores. So, that is a process which has to be followed. So, even if you keep aside the land parcel liquidation, which will happen, which we need not budget for immediately because I don't want to make your budgeting complex. But otherwise, easily next year, Rs. 400 crores to Rs. 450 crores and the year next again Rs. 550 crores to Rs. 600 crores. That should be the plan. So, within a couple of years, after the financial year and it's the worst scenario, there will be only the gold loan in our books in India, the cash credit will be completely moving away.

Ashish: Sure, this is very helpful and lastly, I think, you know in the opening remarks, I think you guys talked about that Middle East profit was lower due to one-time sale of franchise business. Can you please elaborate a bit on that?

Ramesh Kalyanaraman: So, we opened our first franchise showroom in the Middle East in the last quarter, which comes with a lesser gross margin, as you know, because it's also a FOCO model, okay. So, if you keep that aside, our own store gross margins were the same, the EBITDA margins were also the same. But you still see a PBT margin coming down, that is because there was an increase in the rate of interest from banks there, and that is why the PBT margins are lesser.

Moderator: Thank you. Next question is from the line of Naresh from Sameeksha Capital. Please go ahead.

Naresh: So, first question, what was the contribution from the franchise stores this quarter?

Ramesh Kalyanaraman: Approximately 20%.

Naresh: 20% of the India business, right?

Ramesh Kalyanaraman: Yes, India business. I'm talking only India.

Naresh: Second, on the PBT margin front, so earlier I think we had said that we would be around the 5% PBT margins on a full year basis. So, first half we have maintained last year's margin. So, for to reach to 5% we have to better the last year's margin in the second half. So, what would be the drivers for that if we have to reach 5% this year? And if not then in the next year, maybe next 2-3 years, what would be the guidance which you would like to give as far as PBT margins are concerned?

Ramesh Kalyanaraman: Yes. So, the first thing what I want to say is that PBT growth will be surely higher than our revenue growth. For Q2, the PBT growth and revenue growth were similar. So, as Sanjay mentioned, during Q2, we had some, one, mainly one front-ended employee expense of around Rs. 5.5 crores. That was because we had to launch 20 plus stores for the festival. So, if you adjust that Rs. 5.5 crores, PBT growth would have been higher than the revenue growth in Q2 also, like in Q1. I would like to highlight that in Q1 again, our PBT growth was higher than the revenue growth, as I said now. So, for what you asked going forward, the impact of this front-ended employee expenses will keep coming down, right because as the footprint addition, as a percentage in FY25, when compared to FY24, will be surely lower. And additionally, like what Sanjay said, we are improving on the margin for the new set of franchise stores which we are opening for the next year as well. And that is how we should look at it for the next couple of years.

Naresh: Sure. So, I got your point. So, one last question. So, you said that the non-GML loan will be completely paid out. So, in what timeframe are we anticipating that?

Ramesh Kalyanaraman: Next 2-3 years. And that also I will tell you, it is a base scenario wherein you know that we are doing this mainly to take the non-core assets, right? Because there are a lot of assets sitting in the book. The balance sheet is heavy. Our intention is to repay these debts, take out these assets, again liquidate that and bring it back to the system so that the balance sheet is lighter. So, in case once we do this or once we start this process, if we are getting a better solution for our exposure, then we will come back to you and say that we have got a better solution and then that will be the plan. So, what I told you is the base scenario wherein this will be anyway seen if nothing happens from the other side also. In any case, non-GML will come down.

Naresh: Sure. And one last question. So, now given that we are generating very strong cash flows, I know that you have a debt reduction plan as well, but any update on the dividend policy like how do you plan to reward the shareholders over the next 2-3 years as we generate these cash flows?

Ramesh Kalyanaraman: Yes. So, we have a dividend policy now. The dividend 18% to 20% of the profit which we make, so it will be ranging between about 15% to 30%. That's the policy which we have decided to do for dividend.

Naresh: Between 15% to 30% of the PAT.

Ramesh Kalyanaraman: Yes.

Moderator: Thank you. Next question is from the line of Rucheeta from iWealth, please go ahead.

Rucheeta: So, most of my questions are answered. There are just a few that I still have a doubt on. So, current quarter if you see, your absolute sales growth has come a bit lower than your store-addition growth. So, how do we look at it is going ahead because I believe, as you add new stores, this number should further start coming down only. So, what is your take on that?

Ramesh Kalyanaraman: So, you are looking at how many percentages of showrooms opened and how many revenue increased. That's what you are asking for, right?

Rucheeta: Yes.

Ramesh Kalyanaraman: So, it comes with a different bucket size, no? The newer stores come with, the target itself is like average Rs. 20 crores inventory and revenue for the first year Rs. 50 crores but our own store average per showroom is around Rs. 85 crores to Rs. 90 crores, so new ones are 50 and old ones are 85-90. So, the percentage of store footprint will cannot be directly meaning it cannot be same as the revenue growth going forward as well.

Rucheeta: And also, this year, how many Candere stores are we going to add? Like one has already been launched and I think you were planning around 22. So, are we in line with that?

Ramesh Kalyanaraman: Yes, so we have 5 now.

Sanjay Raghuraman: So, we have 4 operational as of now, which are company operated. Actually 4 operational as of 30th September. We opened 2 more earlier this week. Our plan is to end the FY with about 25 to 30 outlets in India itself. As we stated earlier, we will be coming out, when I say earlier, I mean earlier meetings or interactions, we will be coming out with a detailed 3-to-5-year kind of plan for that business by the end of the current financial year. By this time, we would have about 30 outlets operational.

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

Anurag Dayal: Regarding the expansion plans, earlier you had mentioned that existing company operational capacity supports around 60 odd showrooms. Now you're planning to target 80 showrooms and higher. So, could you highlight some of the steps internally which you are taking apart from staff recruitment in terms of to ensure that there's a smooth execution of this expand but not to roll out? I mean, are you going for more procurement centers or more internal hirings on the management levels? Just how you're able to digest higher number of stores?

Ramesh Kalyanaraman: Yes, so we have been able to improve the bandwidth over the years because we also understand that expansion is happening. So, again, bandwidth does not mean only staff, as you rightly said, right from contract manufacturers, right from the internal professional team, right from the mid-level management, training, online, offline. So, there are a lot of things which we parallelly do to cater for the expansion plan which we have. And it has been successfully done and executed.

Anurag Dayal: Okay, great. Thank you so much. And the second thing is about the gross margin. So, this quarter, basically the gross margin was similar in YOY terms. But if you see, even the studded ratio has improved, share of revenue from higher margin, non-South markets have increased, but the gross margin is still low, I mean, it's not improving. So, is it because of some competitive intensity which is higher, so you could get more discounts or make charges reduction? So, what answers this gap?

Ramesh Kalyanaraman: Yes, so studded improvement is shown, yes, but you know that the new showrooms have contributed for that mostly, right, because all the new stores were in the non-South markets and predominantly all the new stores were franchise, FOCO model, which comes with a lesser gross margin. So, even if the studded ratio is more, the margins cannot improve because that has come through a FOCO model. Only for the existing showrooms, the revenue growth, again studded shares were similar and South also grew, non-South also were growing. So, that is why your margin point is not taken care of there.

Anurag Dayal: But I'm asking at the store level, it's mentioned that margin was flattish.

Ramesh Kalyanaraman: Yes. So, store level studded ratio, because gold also, the revenue was growing up and studded also revenue was growing up and it was almost flat. So, the studded revenue growth which you see is majorly because of the new store additions and it came through the FOCO model of franchise. But now, because you asked, Q3, we are at the moment seeing some margin improvement, which of course is only 45 days, and it cannot be what you call taken for the full year or for the coming years. But as we speak, competition intensity has come down predominantly because we are getting revenue share from the organized segment as well. And their competition becomes easy because it is high ticket size products where that does not compete or that does not compete with unorganized segment. So, there we are seeing some improvement in the margin on the ground level for our own stores as well as franchisee stores.

Moderator: Thank you. Next question is from the line of Nihal Jham from Nuvama. Please go ahead.

Nihal Jham: Couple of questions. First was on the demand bit of it, as you highlighted, post the quarter. Actually, based on what we were picking up, given the recent spike in gold prices that had happened, demand had stalled while there were footfalls, demand was obviously not getting converted because prices increased. Our growth was obviously pretty strong at 30% plus. So, is this in your opinion a case where wedding demand has got activated, which is in a way slightly price insensitive and more time sensitive. Just your comments on that?

Ramesh Kalyanaraman: Yes, so you are right. There was a bit of pause in between wherein gold price suddenly had huge fluctuation, but momentum for Diwali, Dhanteras was very strong. Wedding revenue has also started to come in. Post Diwali is also good as we speak. Momentum is still strong at the stores as we speak. And even with more number of Shradh days, we have been able to get a 35% revenue growth on a console, India being better. Of course, there is a revenue which has come with the 12 odd showrooms, franchise showrooms which we opened in the first 45 days, that revenue would have been added to. But even without that, the revenue growth was strong.

Nihal Jham: Absolutely, because I'm assuming the first 15 days, given Shradh got shifted into October, the performance would have been much weaker than last year. So, it's basically after Shradh got over till now that we must have seen a robust performance to deliver this 35% kind of growth?

Ramesh Kalyanaraman: Yes.

Nihal Jham: That's helpful. The second question was that on our franchise model, have we got any sense of if we can take this model forward into South India? Have we had an opportunity to take? Another related question was that in case we are able to find a model which is ideal for South India, would we want to franchise majority of the existing network if that is possible, but for owning some of the key stores and some of the key markets? Just your thoughts on that?

Ramesh Kalyanaraman: Yes, so now we have signed up 6 franchise stores for the South. It is a pilot stage. We have worked upon a model which suits them as well as us. So, we will open 2 or 3 showrooms in the financial year in the Southern part of the country and again South is not an uniform across, South itself comes with different margins in different states, so we are actually piloting it now and we'll be able to guide you more once this pilot stage is over regarding conversions or regarding expansion within the South etc., we will come back to you with the solid plan once this 6 store gets stabilized.

Nihal Jham: Point taken. But in case the pilot works out well for you, is there may be a long-term thought that majority of the existing network you would want to franchise, or you may want to take it one step at a time? Just your thoughts at this point?

Ramesh Kalyanaraman: No, actually, if you ask me now, of course, it's too early for me to comment. But more than converting the South stores, we would go into expanding in the Southern markets as well, because there are markets like Bangalore or Hyderabad wherein, we still have lesser number of stores compared to certain competitors, wherein we would like to gain market share in those markets.

Moderator: Thank you. Next question is from the line of Suneesh, individual investor. Please go ahead.

Suneesh: And my question is a continuation of the question just after. Do we have a clear strategy on franchise model going forward? Like in metros, we'll be opening stores ourselves and other places, some sort of strategy like that. Second is, are these franchises basically happy? Not a quantitative question, are the franchises basically happy? Are we getting references from the franchises? Any franchisees who have left after joining? Basically, these are my questions.

Ramesh Kalyanaraman: Yes, so next 3 years basically, our growth will be completely fueled by franchise partners because as I earlier mentioned, we have other missions like lightening our balance sheet, reducing our debt, improving our ROCEs, improving the return ratios etc. So, for the next 2-3 years, it will be completely fueled by franchise partners. And for your question whether they are happy, yes, they are. And we have done a working, we have done a math and that is why we are going for new model wherein we, as Kalyan will get more benefit on margin side and again investment also, we are making them do the CAPEX as well so that it comes with a minimal investment from Kalyan side. In fact, we are restricting the number of showrooms taken by one single person because we have adequate demand for taking up showrooms by new people.

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

Shirish Pardeshi: Sir, I have three questions. First to Sanjay, what's happening on Candere? I mean, I know we are looking for offline stores, we are a little behind, but why the decline is happening? I mean, it declined in Quarter 1, it has declined in Quarter 2 also. So, when do you stabilize this business and when do you see the growth will come back?

Sanjay Raghuraman: Like we have said earlier that business is in a stage where we are only rolling out our offline outlets. Till we build a network of these outlets, we will have a situation where we are only growing the store count. So, it is not at all of any worry for us to kind of see what those numbers are declining because those are fairly inconsequential numbers at the present moment. What we want to do is to build out the network and then come back and talk about it. So, you will see us coming back to you in about 6 to 9 months' time on this.

Shirish Pardeshi: Okay, my second question is on the revenue growth momentum till 12th of November, what Ramesh has mentioned in the beginning saying that 35% growth. Just one data point here, because last quarter we have seen Middle East business has declined and understandably we had the Eid movement which has happened. But then is that in the Middle East is also firing well and maybe if you can give some quantitative number or maybe some growth parameter in the Middle East business, especially till 12th of November?

Ramesh Kalyanaraman: The Middle East is doing well, SSG is healthy and again Middle East is very sensitive with gold rates also because their gold rate impact is much higher than in India because it does not have the dollar what you call pegged. So, the gold price impact is completely taken, absorbed immediately in that market. So, there has been volatility. But the momentum is strong. SSG is healthy. But again, I will tell you, always SSG when you budget for 5% to 7% is a healthy SSG according to me. And that should be budgeted for the market. Of course, on the ground it is much higher. But on a budget, 5% to 7% is healthy.

Shirish Pardeshi: Got it. Second, related on the 35% growth, our wedding share has always been very strong. So, maybe in first half, what is the wedding share we have in the plain gold jewellery? And it has moved significantly YOY?

Ramesh Kalyanaraman: So, you are talking about the first 45 days?

Shirish Pardeshi: No, first half.

Ramesh Kalyanaraman: So, not meaningfully different. We are always in the range of about 55%-60% wedding share, which has been constant over the years except for one quarter immediately after the COVID wherein wedding demand was the only demand at that point in time because casual customers were not there, they were not coming out of their home, otherwise it has been the same.

Shirish Pardeshi: I was basically checking on your commentary you said that margin expansion will happen, so maybe studded portion is going up that is one part but if wedding is also coming down also will be able to get an improvement in our margin profile. That's what the thought I had?

Ramesh Kalyanaraman: No, but higher ticket size product competition actually on ground is lesser wherein very high-ticket size product is unorganized segment might not cater. So, there we have lesser competition. There of course studded conversion also is higher on that category. Their competition is also lesser because competition is majorly with organized players. There we get a better margin share. And that is what we saw in the first 45 days as we speak during Diwali. Of course, the competition is still there. It is intense competition. But now for October to November, we have seen an improvement in the market.

Shirish Pardeshi: And just last question. You mentioned that we have converted our store in the South under the franchise operation. So, I'm sure now you would have some good understanding. So, how that store is faring, what are the learnings if you could share? I'm not saying about the strategy, but have you been able to garner the newer customers or the growth or maybe some parameters you can say that what is it that our learning is?

Ramesh Kalyanaraman: No. I think we have not converted any store in the South. We have only signed 6 LOIs for South and we have not opened that as well. We will be opening a couple of showrooms in the financial year. South, we have not done anything. We have only signed LOIs.

Shirish Pardeshi: So, that's a misunderstanding. So, you're saying that these 6 LOI will get executed before March 24th?

Ramesh Kalyanaraman: Yes. So, far conversion for our information is only which got opened temporarily as owned. Like for example, we would have opened a showroom in Q1 as owned, which we will convert in Q2. Otherwise, we have not done anything major.

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

Rajiv: Sir with regard to your comment on the reworking some of the franchise partner negotiations in terms of the contract. So, earlier from a counter sale of let's say 100, you were getting Rs. 8. Are you saying that this will go up by 50 bps in a sense it will become 8.5 is what you're shooting for next year?

Ramesh Kalyanaraman: Yes, so I don't want to give an exact number, but yes, you can budget for around 0.25% to 0.5%.

Rajiv: And is there a chance that you will also try to sell the existing franchises, the 40 or 60 number, which will take the asset back to the franchise partners because it is already clocking, let's say, 20% plus kind of store level gross margin?

Ramesh Kalyanaraman: We will not get into it now because it's all, meaning don't budget for that. We might or might not, but as we say, please don't budget for that.

Rajiv: And are they clocking already (+20%) on a run rate basis, that kind of gross margin, like the stores which are 6 months older before?

Ramesh Kalyanaraman: Yes.

Moderator: Thank you. Next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, question was with regards to that you mentioned that from next year onwards, the franchise CAPEX model would again be tweaked, and you know that CAPEX will be now shifted from our balance sheet to the franchise's balance sheet. So, in that case we would be left with a higher FCF. So, is that understanding right?

Ramesh Kalyanaraman: Yes, so first thing where I want to correct is that the CAPEX will still be in our books, but the money will flow from them. That is a model because as you know, it's a FOCO model, the premise is actually signed by us, and the asset cannot be owned by them. So, the assets will be still owned by us, but they will prepay the asset maintenance charge to compensate the CAPEX which we do. So, in the books it will be there, but the money we would have taken from them.

Gaurav Jogani: So, in terms of cash flows, basically they will fund the CAPEX right in that case. So, your cash flows would be much higher in that case. I mean what we are actually making right now because right now we are also entering the CAPEX from our books. So, in that case, don't you think you know that the debt repayment should be higher in FY25-26 given that we will be making much higher FCF in that case?

Ramesh Kalyanaraman: Yes, so what I am always saying is that we budget for this, if we do more it's good. Meaning that's why I said we will be able to overachieve the next year debt repayment target.

Gaurav Jogani: Yes, and the last question on the other expenses side. So, even the other expenses this quarter was a bit higher. So, anything on that front and should that be a normalized run rate going ahead?

Ramesh Kalyanaraman: Yes, no major change. Basically, the salary cost will keep on moving up because the staffs are on our books, and it has to go up. Otherwise, it should remain, meaning the usual what you call the 5%-6% expenses growth will be there. Otherwise, it should remain constant.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.

Ramesh Kalyanaraman: So, thank you very much. Thanks a lot. It has been good talking to you after a good quarter. Thank you very much.

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