KALYAN JEWELLERS

SEC/23/2023-2024 **May 18, 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 400 001 Maharashtra, India **Scrip Code:** 543278

Dear Sir/Madam

Sub: Transcript of the earnings call Q4 of FY2022-23.

We have enclosed the Transcript of the earnings call Q4 of FY2022-23. The same is also available on the website of the Company.

Kindly take the same into your records.

Thanking you
Yours Faithfully

for **Kalyan Jewellers India Limited**

Retnavilasam Gopinathan Nair Jishnu

Digitally signed by Retnavilasam Gopinathan Nair Jishnu
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KALYAN JEWELLERS INDIA LTD.

Jishnu RG
Company Secretary & Compliance Officer

Encl: As above

“Kalyan Jewellers Limited

Q4 FY '23 Earnings Conference Call”

May 15, 2023

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

MODERATOR: MR. RAHUL AGARWAL – STRATEGIC GROWTH ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 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 an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Agarwal from Strategic Growth Advisors. Thank you, and over to you, sir.

Rahul Agarwal: Thank you. Good evening, everyone and thank you for joining us on the Kalyan Jewellers India Limited Q4 and FY '23 Earnings Conference Call. We have with us Mr. Ramesh Kalyanaraman, Executive Director; Mr. Sanjay Raghuraman, CEO; Mr. Swaminathan, CFO; Mr. Sanjay Mehrottra, our 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 presentation which just got 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 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. FY 2023 was an excellent year for the company recorded revenue of over INR 14,000 crores, a growth in excess of 30% over FY 2022, PAT of INR 432 crores. This is despite a onetime extraordinary pretax write-off of around INR 33 crores relating to divestment of certain noncore assets. Excluding the onetime extraordinary write-off, the PAT for the year is INR 457 crores, a growth in excess of 100% over FY 2022.

Last financial year has also been a remarkable one in the history of the company. While driving the day-to-day execution, we had developed and successfully rolled out a strategy and roadmap to further improve the cash flow profile of the business and build a robust return on capital profile. Primary area of focus under the strategy roadmap has been to expand showroom network predominantly through the more capital-efficient FOCO model franchise model.

During the last financial year, we launched 15 franchised showrooms in India as a part of our Phase 4 expansion. The first half of this financial year should see launch of around 30 showrooms and remaining 22 showrooms during the second half of the year, totalling 52 rooms for financial year 2024. We are continuing to receive many inbound franchisee inquiries for the non-South markets in India and have started engaging with prospective franchisee partners for the next set of expansion. In addition, we also have started getting inquiries for south markets, and we plan to launch the first set of pilot franchised showroom in South in this financial year. This will be over and above the 52 showrooms planned for the non-South markets.

In addition to launching new showrooms through the franchise model, we also have initiated steps to convert some of the existing old showrooms in South India to franchisee showrooms and have made considerable progress in the same. We have also drawn up plans to 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 to the franchise model. There has been a slight delay in setting up the vertical, largely due to the local regulatory compliances and we expect to launch the first franchised showroom shortly.

Another significant area of focus has been to undertake divestments of noncore assets and use the proceeds to reduce the capital employed in the business, thereby lightening the balance sheet. We have signed LOIs with prospective buyers for some of the noncore assets and expect to complete the first set of divestments during the first half of this financial year.

All of these steps will enable us to witness significantly higher free cash generation during FY 2024, which, in part, we expect to reduce the existing non-GML working capital loans. This will reduce our leverage and disproportionately reduce our interest expense as we will be repaying the higher interest cost bearing non-GML working capital loans. Another significant decision has been the announcement of the maiden dividend for the last financial year.

Yet another high focus project, which we are excited about this is to transform our digital first platform, Candere, into a truly omnichannel one. We have drawn up an exciting network expansion plan of at least 30 showrooms during the current financial year through a mix of owned and franchised showers.

Talking about the ongoing quarter, we had a fantastic start to the financial year and a very strong Akshaya Tritiya, despite continuing volatility in gold prices. We are witnessing encouraging momentum in consumer demand, especially around the wedding purchases during the current quarter. We are upbeat about the current season and have fully geared up the system to ensure that we have yet another memorable quarter.

With this, let me hand over to Sanjay to take you through the financials. Thank you.

Sanjay Raghuraman: Good afternoon, everybody. Thank you, Ramesh. I'm really very happy to be talking to you all after a solid performance in the just concluded financial year. I'll share some details now, starting with the just concluded quarter.

In this just conclude quarter, we reported a consolidated revenue of INR 3,382 crores, an 18% growth over the same quarter in the previous year. Consolidated EBITDA came in at INR 257 crores versus INR 218 crores in the corresponding quarter of the previous year. And consolidated profit after tax PAT was INR 95 crores versus INR 72 crores in the corresponding quarter of the previous year.

I shall now give you a breakup of the numbers between India and the Middle East, starting with India. Our India revenue for the quarter just concluded was INR 2,805 crores versus INR 2,399 crores when compared with the corresponding quarter of the previous year. Our India Q4 EBITDA was INR 217 crores versus INR 188 crores when compared with the corresponding quarter of the previous financial year. And our India profit after tax was INR 91 crores compared to INR 70 crores in the corresponding quarter of the previous year.

Moving now to talk about our Middle East business. Revenue for the quarter in the Middle East was about INR 549 crores compared to INR 425 crores in the corresponding quarter of the previous year. EBITDA in the Middle East came in at INR 42 crores for the quarter versus INR 33 crores in the same quarter of the previous year. The Middle East business posted a profit of INR 6 crores for the quarter compared to a profit of INR 4 crores for the corresponding quarter of the previous year.

Talking now about our e-commerce in Candere. The business posted a revenue of INR 32 crores in the quarter versus INR 39 crores in the corresponding quarter of the previous year. The quarter recorded a loss of INR 1.9 crores in Candere versus a profit of INR 2.7 crores in the corresponding quarter of the previous year. During this past quarter, we had no bullion sale, and our gold coin sales to retail and corporate customers was about INR115 crores, approximately 4% of total revenue.

Moving on now to talk about full year performance. On a consolidated level, our revenue came in at INR 14,071 crores, a growth of 30% over the previous year. Consolidated EBITDA came in at INR 1,114 crores versus INR 815 crores over the previous year. Consolidated PAT for the year came in at INR 457 crores before a onetime extraordinary write-off of INR 33 crores versus a profit of INR 224 crores during the previous year.

Moving on now to give you a breakup of these numbers between India and the Middle East, starting with India. For this just concluded year, our India revenue came in at INR 11,584 crores, a growth of 28% when compared to the previous year. Our India EBITDA for the year was INR 933 crores versus INR 692 crores when compared with the previous year. And our India PAT came in at INR 415 crores compared to INR 214 crores in the previous year, a growth of 94%.

Talking now about our Middle East business. Our revenue in the Middle East came in at INR 2,364 crores for the year, recording a growth of 44% compared to the previous year - and Middle

East EBITDA came in at INR 188 crores for the year versus INR 123 crores in the previous year. The Middle East business posted a profit of INR 50 crores for the year compared to INR 11 crores for the previous year. Talking lastly about our e-commerce in Candere, the numbers for the year in revenue came in at INR 157 crores versus INR 141 crores in the previous year. And the loss for the year was INR 7.8 crores versus INR 1.6 crores in the previous year.

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

Moderator: Thank you very much sir. We have the first question from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Good set of numbers. If you can touch upon in the volatile gold price market, how this last 45, 50 days because we also had the escalation of the festive season. So if you can provide some strength to your numbers?

Ramesh Kalyanaraman: Yes. So without telling you the number, I can only tell you what is happening on the ground for the first 45 days in Q1 versus the first 41 days, 45 days of Q1 of the last year, the growth rate has been extremely strong. It is much stronger than the Q4 growth.

Shirish Pardeshi: I would push because there is one other real estate player from DN has given the sales number and quantum for Akshaya Tritiya. So I'm not sure what is the hesitation, but anyway, I'll go with that. But just tell me how this growth panned out, maybe some qualitative understanding in versus South versus non-South?

Ramesh Kalyanaraman: So South and non-South are performing equally well in the first 45 days of Q1.

Shirish Pardeshi: Okay. Okay. One follow-up here. On the quarter 4 performance, when we see that South growth was 4% in the quarter gone by and non-South growth was 38%. Was it largely related to the FOCO addition or there is a qualitative growth in terms of the core studded portion, which is also contributing. So

Ramesh Kalyanaraman: Both of them is, of course, all the -- most of the new showrooms were added in non-south, and that is why the non-south revenue has grown. And over and above that, one thing is that Q4 has never been a very strong quarter for South, okay? Actually, if you look at a couple of years before, suddenly after the COVID come back, the Q4 revenue had a very high base, and we could at least de-grow only by 6%, 7% in the last Q4.

But even then Q4 base is high for us for south players, okay? And that is the reason why SSG is a bit softer for South. And the non-South revenue growth, of course, the SSG is stronger than South India, but over and above that, this much percentage differences because of the new store additions which we have done.

Shirish Pardeshi: Okay. Okay. Just one clarification on FOCO. As on date, we have 15 stores. In the opening remarks, you said that you will add 52 stores.

Ramesh Kalyanaraman: As of date is not 15; as of March 31, is 15, as of today, it is 22.

Shirish Pardeshi: Okay. Okay. Now what I wanted to clarify, in FY '24, you have guided that 30 stores and 20 stores, which will come. So total 52 stores, you are expanding under FOCO model.

Ramesh Kalyanaraman: Yes, correct. And all non-South.

Shirish Pardeshi: All non-South. Correct. Correct. But would you spend a minute or to saying that because you've been saying this FOCO opportunity in the Middle East also which you have not said anything. So maybe if you can give some color.

Ramesh Kalyanaraman: Okay. So in Middle East, we have signed an LOI for franchise, and we were supposed to open in the Q4 or at least early Q1. But there has been a delay in implementation there, and we still go with that LOI, and we are now, I think, all the technical issues there have been solved. And I think, hopefully, it should be opened in Q1 or maximum of early Q2. So after that - after the pilot phase, then Middle East expansion with franchise, etcetera, we will explore more.

Shirish Pardeshi: But would you have any number in mind which we can build in, in our model for FY '24?

Ramesh Kalyanaraman: FY '24 better be safe, we don't put a model for expansion -- too much of expansion in the Middle East. And we will be keeping on updating you and better put it that way.

Shirish Pardeshi: Okay. Okay. My last question on the gold metal loan. As of March '23, would you be able to give us or quantify some more details, what is the quantum? What is it that we want to achieve? And what is the rate at which we are expanding?

Abraham George: Shirish, Abraham here. So gold metal loan balance as on March 23 is INR 1,853 crores which is consolidated, of which India is INR 1,091 crores and the remaining is Middle East. We have been able to increase this number from INR1,496 crores last year. And so we've made a meaningful increase in the Middle East, and we have done about INR 100 crores increase in India. And from here, we have probably another INR 50 crores, INR 75 crores headroom in India to increase beyond which we will need further sanctioning of limits - sub limits from the overall banking limits.

Shirish Pardeshi: Abraham, thanks for that but I'm just seeding in a little more in detail. You said that there is a divestment of noncore assets, which is going to happen. So directionally, that money should come in our gold metal loan should come down by half. Is that assumption is right?

Abraham George: No. So whatever debt repayment that we are planning for the financial year, we are planning for repayment of the higher-cost non-gold metal loan debt. And in parallel, we will also be trying to increase the gold metal loan limits within the bank. So in any case, goal metal loan will not come down from this level.

Shirish Pardeshi: So what is the non-gold metal loan debt today?

Abraham George: It is INR 1,650 crores around.

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

Nillai Shah: Yes hello? Yes, okay. So you want to talk about the growth for fiscal '24, 52 new franchisee stores to be added plus the fact that these 23, 24 stores added this financial year -- or last financial year, those stores will mature. So can you give some sort of indication of how the growth is making to pan out? And even companies like Titan has been giving an indication of what the growth is. So I agree with Shirish, why is there so much reluctance to give a broad range of growth guidance for fiscal '24?

Ramesh Kalyanaraman: Yes. So there is no, what you call, hesitation. I will tell you, I can give you a view on it, wherein as you rightly said, 52 new showrooms, which we are going to open in the running financial year that itself should take care of at least a mid-teen -- late-teen revenue growth, okay?

Nillai Shah: Late teens so then franchisee stores, okay, sir?

Ramesh Kalyanaraman: Yes. And again, in addition, SSG of the showrooms is usually 5%, 6% of the existing showroom. And the full year revenue for the showrooms, which we opened in the last, what we call last financial year, okay, that the full year revenue should also come for the next financial year.

Nillai Shah: Got it, sir. So we are looking at 18-plus SSG plus the fact that the old stores mature and you get the full impact of the revenues coming through for the full financial year in fiscal '24. That is very clear.

The other question is on margins. For the quarter, you reported about 7.7% operating margins. This appears a little bit lower in context of what you've said in the past before the franchisee stores opened up. But really, the impact of franchisee stores for this financial year is going to be fairly low, given that there are only 15 stores as you close the financial year. So 7.7% margins for this quarter, given the South, non-South mix also has improved through the financial year. How should we think about margins going forward? Now I understand that there's going to be 52 of the franchisee stores opened up. And last year, you -- or last quarter, I think you spoke about 5% PBT margins, I think, for these stores.

Ramesh Kalyanaraman: Yes.

Nillai Shah: So how should we think about margins going forward?

Ramesh Kalyanaraman: So I think, first of all, let us do a deep analysis on this. If you look at the gross margin in Q4, it was in India, it is like 15.6%, okay? And meaning franchisee revenue according to you, what should be the percentage of franchisee revenue on the top line?

Nillai Shah: Normally, I would take it as about 60% of your Kalyan scope.

Ramesh Kalyanaraman: Yes. Per showroom. So 15 showrooms of franchise with the sustain revenue of the -- about 9 showrooms which we opened in Q4, okay? So the revenue, if we look at for -- just for a conversation, if you keep it as 10% of the revenue comes from franchise at 8%, the rest 90%

actually have delivered the gross margin is becoming better, okay? It is in the what, 16%, 16.5% range. Again, it's coming to back to our old 16%, 16.5% margin on gross level. So EBITDA, I think we should slowly start moving from EBITDA margins and gross margins to PBT margins so that we are both on the right direction because as we said, the next year expansion is completely going to be on FOCO model, okay? And we might also start doing South franchise. So if we go in this direction of trying to build an EBITDA margin, I think we will get lost somewhere because we will not be looking at the same -- we'll not be looking in the same direction, no?

Moderator: Thank you. We have the next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: My first question is with regards to the capex number. If you see for the year FY '23, as per the cash flow comes to around INR 187 crores on the consol basis and around INR 160-odd crores on the standalone basis. Now we understand that the capex for the store is around INR 5 crores, INR 6 odd crores for the stores that we have opened. And I think we have opened our own stores of around 11 or 12 own stores. So in that context, what is the remaining capex for?

Ramesh Kalyanaraman: So, capex will be what INR 80 crores, INR 90 crores will be maintenance capex itself and the rest will be for the new stores which we opened. So the new stores which we opened also the FOCO model -- even in the FOCO model, we have done a model wherein except the first 3 showrooms, the fit-out capex was done by Kalyan Jewellers. So that is the capex increase that you see.

Gaurav Jogani: Okay. Okay. So sir, in future also --

Ramesh Kalyanaraman: Out of the 23 showrooms opened last year 20 rooms capex, we have only added, okay? Plus, the INR 90 crores maintenance capex. So that is how it should be looked.

Gaurav Jogani: Sure. So sir, going ahead also, like the purpose or that is opened, will the capex be incurred by us or I mean, how should we build the capex going ahead given that we were thinking that this FOCO would be an asset-light model in that range?

Ramesh Kalyanaraman: You are talking about the 52 showrooms of FY '23, right?

Gaurav Jogani: Yes. Yes.

Ramesh Kalyanaraman: So these 52 or has been signed as capex done by Kalyan wherein the full asset will be done by Kalyan. And that is a model which people are opting. So actually, we have 2 models. One is that full capex, meaning inventory plus fit-out will be done by franchise. That is model #1. Model #2 is that inventory will be put by them and fit-out will be done by Kalyan. So preference for people to put money on inventory rather than into fit-out and people opt for the option two. And the 52 which we have signed is for -- meaning all the 52 has been signed for that.

Gaurav Jogani: Sir, one follow-up here. So in that case, does the margin profile changes with the partner there?

Ramesh Kalyanaraman: Can you tell me once more?

Gaurav Jogani: Sure. So I'm saying because see --

Ramesh Kalyanaraman: We have put a fee for AMC, meaning for the asset, which we build for them. So there's an AMC in case that such on us, we charge them.

Gaurav Jogani: Okay. And sir, if you can share that number, so it will help us to build in the margins?

Ramesh Kalyanaraman: So we charge what 1%, right, Sanjay?

Sanjay Raghuraman: Yes 1% --

Ramesh Kalyanaraman: So it's like 1% of the revenue, which are for assets.

Gaurav Jogani: Okay. Sure. Sir, my next question is with regards to the interest cost. Now if you see the interest cost on a quarterly basis, it is kind of consistently going up. Now I understand that the interest rates have also moved in the interim. So if you can help us out, how should we build in the interest cost given that you will also be reducing the debt during the same period and some portion would also be shifted to the gold metal loans, which will be lower interest cost loan. So how should we build the interest cost going ahead?

Ramesh Kalyanaraman: Yes. For interest, the conversion to gold loan is not going to be predominantly majorly high for the running financial year because we have a headroom only about INR 50 crores, INR 75 crores more for us to increase our gold loan. Okay? Debt reduction plan is yes, it is there. We will start with the cash, which is going to come in from aircraft and of course, there is going to be free cash flow for the company in the running year.

And there are going to be savings. The savings is going to be disproportionately higher than the percentage of debt reduction, which we will do. So the plan for this financial year, debt reduction should be in the range of 15% on a gross level. And interest reduction should be more than that because this is going to be reduced, the non-GML is going to be reduced, all the 15%.

Gaurav Jogani: Okay. So, sir, when you say gross, I mean, that is the total loan of around INR 3,000-odd crores? That's the number you're saying?

Ramesh Kalyanaraman: So 15% on a gross level, yes, you are right.

Gaurav Jogani: Yes. So that's like INR3,400-odd crores right?

Ramesh Kalyanaraman: Yes, I am talking about India.

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

Anurag Dayal: So I have just one basic question. Now you have around 22-odd franchisee stores opened across North India and a few of them are open for more than 6 months. So I mean, how has been your experience so far in terms of how the stores are developing for the throughput you expected, inventory turns or studded ratio are they different from your own stores? So some color on that will real help.

Sanjay Raghuraman: This is Sanjay here. So in terms of difference, there's no real difference to talk about except that -- some of these outlets are slightly smaller in size compared to our regular outlets. Some of them are as good -- as big as our larger outlets. Just to give you a frame of reference, the outlet we opened in Agra this month -- last month is as big as any of our flagship outlets, so similarly Gorakhpur. So essentially, it's a market-specific strategy. This has now been running for about 9 months from the earliest outlet, and we've had good experience. Our franchise partners have also had a good experience.

And I think the studded ratios are in line with what we have budgeted and modelled. We have already got the same franchise partners who signed up for the initial outlets, putting their hands up for multiple outlets, which they have asked for in other locations. So in summary, I'd like to say that it's been progressing the way we envisage it to pan out.

Anurag Dayal: Great. Great color. And just a small question. Basically, I can see that apart from your expansion in non-South, you're looking for expansion to franchisee model in South, then you're looking for expanding the Candere model as well as the Middle East. So just want to understand how much the management bandwidth, is it getting too stressed because already you have ambitious plan of opening 50 plus stores? So how you are managing this entire expansion plans? We have certain leaders who have assigned to a different region to look into this.

Ramesh Kalyanaraman: I think the only different thing that needs to be done is to get the model right at the start. We have kind of got that down to our satisfaction in the India context for the North as well as the South. And then those things are stable. The modelling phase in Candere is now in progress, and I think we will sign a few partners in this quarter. And to that extent, we will have some activity there, but handled by a separate team. I don't see any challenges there. Same thing in the Middle East. We've got the model rolled out.

The first couple of LOIs have been signed. There were some time lags in the franchisee partners getting their documentation and their incorporation of firms, etcetera, stabilized. That's now done. So in this first half of this financial year, the first franchisee outlet in the Middle East will come online also for Candere. South India will also definitely happen.

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

Naresh Vaswani: So first question is on the margins. So if I look at full year FY '23 versus.

Moderator: I'm sorry to interrupt sir, your audio is not clear.

Naresh Vaswani: Is it proper?

Moderator: Yes, sir, please continue.

Naresh Vaswani: Yes. Sir, my first question is on the margins. So for FY '23, EBITDA margins were 7.9%, which was flat compared to last year -- full year FY '22. But if we see our studded ratio and non-South share has gone up meaningfully in this year. Now I understand that you mentioned that franchisee margins should be lower. But again, the contribution from those stores would be pretty low right now. So if you can throw some color on it? And second, next year for '24 since all the stores will be on the FOCO model, what sort of EBITDA range would you guide us?

Ramesh Kalyanaraman: Yes. So we should slowly move out from the EBITDA also and go to PBT percentage. So otherwise, it is very hard for us to give a guidance because franchisee model is scaling up in such a way that all the expansion is doing -- meaning is being done by franchisee, okay? So EBITDA margin, if you look at this year, it has been in the range of 4.7%, 4.8% annually. I think we should focus on that. And there you should see a growth in the PBT margins as a percentage to revenue.

Naresh Vaswani: Okay. Got it. And second, on the inventory days. So if I compare from first half, it has gone up from 175 days to 182 days. I understand that in franchisee, you would be requiring very less inventory days hardly 10, 15 days. So again, for FY '24, where should we see the inventory days going? Because I presume it should go down substantially. So any guidance on that you should -- if you want to share?

Ramesh Kalyanaraman: So you are talking about the inventory turn, right?

Naresh Vaswani: Yes, correct.

Ramesh Kalyanaraman: Yes. So inventory turn, if you look at our inventory, the revenue went up by 30% and inventory went up by 20% okay. So we are surely in a direction where the inventory turn is going up. And over and above that, we should consider a few things: One is that we opened 11 own showrooms in the financial year. And we again opened -- we had to keep inventory for the 5 new showrooms, which we opened in April, wherein franchisee billing will happen only in April, but we would have stocked in March itself.

And in this financial year, Akshaya Tritiya came in April third week instead of last year, it was in May. So we had stocked heavily in all our stores by March in itself that also comes as a stock in March itself, okay? Over and above all that, we also renovated and actually upgraded 11 to 12 of our Tier 1 showrooms to gain market share as well as to complete the leading players there, okay?

And when your gold price increases, of course, we cannot increase the -- we cannot keep the same volume because then you will have to invest the same kind of money. For example, 15%, there was increase in gold price in the last financial year. And if I keep the same volume in all my stores, I would have to keep 15% additional inventory increase there, which we have not done because we have worked in such a way that we have been not maintaining the same volume at the stores, but some increase in inventory is also because of the gold price increase. And growth, of course, is going to be predominantly franchisee-driven. And going forward, inventory turn improvement should be there and that's what I want to tell you.

Naresh Vaswani: Yes. So just to ask it another way. So for franchise stores, what would be the inventory days on our books, if you can guide us some range -- would it be more than 10 15 days or --

Ramesh Kalyanaraman: It will be 15 days of our -- yes, 15 days we'll have to keep inventory on 15 days.

Naresh Vaswani: Okay. Okay. And one last question. I wanted to know your payout policy from here on. I know that for '23 it is 12% of PAT, but should we expect improvement from here on?

Ramesh Kalyanaraman: So we will surely come up with a dividend policy very soon. But our intention for the next financial year, meaning running financial year is to at least deploy 40% to 50% of our profits generated for repaying debt as well as rewarding investors.

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

Ashish Kanodia: So on the gold metal loan, you talked about reducing the gross borrowings at India level by maybe 15%, which basically means maybe around INR 300 crores worth of repayment of borrowings. So is it fair to say that at least the gold metal loan will go up by INR 300 crores because even if we assume that the sanction limit does not change, you will use that repayment of borrowings to increase the gold meter loan? And second, related question on that is for the sanction limit to increase, right, what are the drivers or -- I mean, how can we increase that limit?

Ramesh Kalyanaraman: So first thing is that we will be repaying the debt and the debt repayment will be for the non-GML, okay? It does not mean that the GML, as an amount, will increase. It only means that the proportion of GML versus the other loan will surely increase because the repayment is going to be non-GML, okay? And for your second question as to how we will increase the GML, it is all -- meaning what we believe is that, first of all, we are trying to bring in 1 or 2 new banks who can give us GML instead of our non-GML. And again, when we start repaying, we will surely get into negotiation with banks to increase the GML limit instead of the non-GML. So it is a process.

So for a conservative approach, better we don't budget for any increase in GML as an amount, except for what INR 50 crores, INR75 crores because that's the way we should do is what I feel. And debt reduction, of course, you can plan in such a way or we can budget in such a way that it comes to 15% of the gross amount in India and all that will be non-GML.

Ashish Kanodia: Let me ask my question this way, right, so if you look at the last 3 years, right, gold metal loan has been around INR 1,000 – INR 1,700 crores, right? Now I mean once you repay the debt, right, your overall borrowing remains the same. So effectively, if you want, you can increase the gold metal loan. And given that GML is a natural hedge and it's also very cost effective, right, because the borrowing cost on payments are delivery attractive. So, I mean, from a strategy perspective, keeping aside modelling, but tell you from a strategy perspective, do you intend to increase this amount if you have the opportunity just because if you're repaying debt?

Ramesh Kalyanaraman: Yes, it's a separate set of discussion with banks on that behalf wherein as we speak, the things in our control, full control of repayment of non-GML loans, okay? To increase the limiting

GML, it is, again, a discussion with the banks, which we have to do, which we will surely do, but we don't want to commit anything for the financial year because meaning it's not in our full control because banks also see that this much percentage of loans should be gold loan, this much not gold loan. And there are banks in our consortium, where they don't have a gold metal loan, what you call, product itself. So we are trying to bring in 1 or 2 new banks who have a gold loan, what we call vertical with them, etcetera. So the interest in saving will be higher than the reduction of 15% loan because even if we reduce 15% loan, the interest saving will be proportionately much higher because we are going to reduce the non-GML quotient and not the GML quotient.

Ashish Kanodia: Sure, sure. Got it. And second question is just on the cash flow, right? With the incremental cash flow you have generated in Middle East because in the Middle East, you have the intention to do franchisees as well. So first, from whatever profits that has been generated into Middle East what's the strategy there? Do you want to deploy stores, open more company-owned stores in Middle East or will that be bought back into India? And second thing is, in terms of sale of noncore assets while on aircraft, you said that most probably, it will happen in 1H, but the second leg of noncore asset is sale of land. So if you can provide any color, any guidance in terms of when can start expecting cash flows coming in from land sale that would be very helpful.

Ramesh Kalyanaraman: Yes. Middle East, as you know, our plan was to -- in the last financial year we wanted to try franchise, okay? But we don't want to block our expansion there. So we were -- like in India also, for example, we have opened, for example, 11 showrooms, all 11 showrooms in the Q4, we wanted to open as franchise only. But at the end, what happened, 9 was franchise and 2 was owned.

And both the 2, we actually converted to franchise, we will convert to franchise very soon because there was delays from there for getting their GST and things like that. So we jumped in and made it our own store, and we will make it a franchise store in the future very soon. So same in the Middle East. Our intention in the Middle East is to expand only by a franchise. That is our intention.

And conversion, we want to do in such a way that when we open 3 showrooms, okay, one will be converted. So 3 franchise if we open, one will be old store conversion and 2 will be new. That is what we want to do because otherwise, franchisee will not be able to make money because the base revenue will not satisfy to take care of the operating cost there -- the fixed operating costs, meaning the corporate overheads, okay? So we will do that way in Middle East and then bring back the cash to India, and that's our intention in Middle East. And cash flow from aircraft, we should expect what, 5 to 6 months for the full cash to come in. And that proceeds will also be used for repaying the non-GML debt.

Ashish Kanodia: Sir, my second question was on the land that I understand aircraft cash will come in by 1H '24. Any clarity in terms of in the second --

Moderator: I'm sorry to interrupt sir, I would request you to kindly re-join the queue for the follow up.

Ramesh Kalyanaraman: Yes, one second. So just as an earlier question I just answered. So, we're in debt reduction plan, no, when we repay this INR 300 crores, INR 400 crores debt, we will start to negotiate with the banks to release certain collaterals, and then we will divest that also and bring it back to the system. It's a long-term process. Don't budget anything for this year. And it's a process, meaning it will take 2, 3 years for us to do all this, but we will start this year.

Moderator: The next question is from the line of Bhavin Shah from Sameeksha Capital Private Limited. Please go ahead.

Bhavin Shah: Could you explain the differences in terms of gold metal loans that you get in India versus Middle East?

Abraham George: Yes. India, we get the gold metal loan at about 3.75%. In the Middle East, it's slightly higher than that. It must be in the region about 5%.

Bhavin Shah: What about collateral?

Abraham George: Collateral it functions in a similar way, you have to keep margin and rest everything works in that similar way.

Bhavin Shah: But I thought in India, you had to provide some other collateral or real estate or something, which limited how much --

Abraham George: You're asking for the other okay. So here in India, initially when we had taken the line of credit from these banks, the line of credit required 35% real estate collateral or some other collateral. That requirement is not there. But for gold metal loans, specifically, if you ask, whatever you have to keep the margin that we have to keep, it is similar across Indian metrics.

Bhavin Shah: So in Middle East, you are saying you don't have any additional collateral that you give?

Abraham George: Because those arrangements were -- because Middle East, we entered Middle East in 2013, '14. By then these structures were not -- because our India structure is even older than that.

Bhavin Shah: And you mentioned that you were committed to some -- I think you said I will forget what you said, 40% to 50% of profit used for paying debt and dividend. But I think what investors will look for is a committed policy on payout, whether it's dividend or buyback. So would you want to spell that out? And if not, why not?

Ramesh Kalyanaraman: Yes. So we will surely give you clarity on that. The Board is yet to come out with a dividend policy as such, but we will surely update you very shortly on that.

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

Aejas Lakhani: Congratulations on the numbers and congratulations on a phenomenal '23 and wishing you the best for '24. If you could just spell out the franchisee model, again, because my understanding, and I could be wrong, was that the capex was likely to be borne by the franchisee. And from the gross margin, a certain percentage was shared by the franchisees, certain percentage was borne-- came to you from the gross margin, and then you had a certain opex line and you were expected to earn 4% to 5% on a PBT. So is that understanding correct? Could you just spell out that if it's a 2,500 square foot showroom, how will the unit economics work?

Ramesh Kalyanaraman: Yes. So your understanding is perfectly okay wherein there are 2 models. One model is that capex, meaning fit-out plus inventory will be invested by the franchisee partner, okay? And there will be a margin share between franchisee partners and Kalyan Jewellers. And we take care of the operations, meaning the staff, etcetera, and we will end up in a situation where we make 5% PBT, okay? That is the first model.

Second model is that they invest only in inventory and the fit-out is done by us. If we do the fit-out, we take 1% of the revenue also as asset, what you call, maintenance charge like AMC. But PBT, of course, instead of 5, it will become 6. But EBITDA will -- or yes, instead of 5 it will become 6. But when you come to the depreciation will come, no, so that will be almost the same, and there will be no impact in the PBT.

Aejas Lakhani: Okay. So broadly under both the models, you will continue to -- okay, so you'll continue to net 4.5% to 5% under both of the models?

Ramesh Kalyanaraman: Exactly.

Aejas Lakhani: Okay. But then tell me something a say on 2,500 square feet on the capex cost will be much smaller, right? So why would the franchisees be willing to give up that 1% incremental for, I don't know, let's say, a INR 3 crores capex for 2,500 square feet showroom because roughly you do INR 5 crores for the larger --

Ramesh Kalyanaraman: Almost the showrooms which we opened are in the range of 3,500 square feet when the capex will be in the range of INR 3.5 crores.

Aejas Lakhani: Okay. Okay. And the inventories there will be roughly INR 20 crores, INR 22 crores?

Ramesh Kalyanaraman: I'll tell you, the model which we are doing now, the lease agreement today is done by Kalyan Jewellers with the landlord, and they are investing for the capex there, okay? We don't want to actually do the lease in their name because if there is any kind of misunderstanding with the franchisee owner, we don't want the property also to go because of the misunderstanding of the franchisee partners, okay?

So for them, there are 2 ways. One is that they are -- they want to invest in metal instead of fit-out, which gives them actually more comfort. Number two is that the lease is in our name. And when they have to do the fit-out in their, what you call, from their pocket, that also they wish to actually not do like that. So when we invest, we calculate AMC, incorporating the actual capex and cost of capital.

Moderator: The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes. Congratulations on this good set of numbers. On the pre-tax ROIC, we've seen an improvement to 13%. Would you be willing to share some target 2- to 3-year target on where you see the pre-tax otherwise?

Ramesh Kalyanaraman: So I don't want to give you a target, but one thing what we should understand is that the return on capital is going to be anyway going up because we are going with the FOCO model of expansion, wherein the investment is small and the returns are higher. So directionally, you should see a lot of improvement. And also, you will see a lot of reduction in capital employed because the divestment of certain noncore assets, etcetera, and rewarding investors, etcetera. And that should be the way we should look at. So I don't want to give you a target, but you can easily -- meaning you should understand the way forward for the next 2, 3 years. The returns are going to be anyway better.

Pallavi Deshpande: We saw a good improvement this year. So I hope we can do that. Second -- my second question was on the south side. You mentioned about converting some of them to the franchisee model. So would you to put a number to how many stores you're looking to convert in the south to franchisees?

Ramesh Kalyanaraman: So we don't want to -- because we have not tried a pilot, okay? So post the pilot, then only we will set up a target for how much stores we should convert from South, non-South to South owned store to franchise, okay? Inquiry is very strong, but we are capping ourselves to the pilot to be completed. And then we will give you -- or we will internally put a target of how much to convert, etcetera.

Pallavi Deshpande: And the pilot will be completed in the first half of first quarter?

Ramesh Kalyanaraman: Ideally, we should start the pilot conservatively by the H1.

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

Rajiv B: This additional capex you did because of the change in franchisee, the second route, which you've chosen, is there a clause in which you sell it back later, let's say, as the store starts delivering a little better number?

Ramesh Kalyanaraman: No, no, I could not understand that.

Rajiv B: So instead of AMC, the 1% AMC, you basically recover the entire INR 3 crores or some consideration and lighten up the balance sheet?

Ramesh Kalyanaraman: Yes, we have not considered it right now but yes, we can consider it later. But as of now, nothing.

Rajiv B: And it's safe to assume that all the remaining 52 or the remaining part of the 52 are also on a similar kind of arrangement?

Ramesh Kalyanaraman: The signed LOI is 52 is all these models.

Moderator: The next question is from the line of Hiten Boricha from Sequent Investments.

Hiten Boricha: Yes. Sir, I have only one question left. So can you quantify the amount you told we will be selling some noncore assets this year for debt reduction. So can you quantify the amount of how much is going to come from noncore? And after this selling, do we have any other noncore assets, which will be monetized later? So, INR 134 crores is the first round of noncore asset divestment, which will completely go for better traction.

Ramesh Kalyanaraman: So -- and now there is only one chopper there, which is a INR 30 crores, what you call, book value. Otherwise, all the noncore assets is a task wherein you'll have to repay the debt and then negotiate with the bank, take it out and then resell etcetera, which means -- it's not as easy as what we are doing for the aircraft and chopper. So, this INR 134 crores, the deal has been done. That is our first round, and we will do it very shortly. And real estate, etcetera, we will start the process this year. And chopper also I don't want to comment as of now because, first, let us complete these 2 aircraft and then commit on the third one.

Hiten Boricha: So sir, what would be the total value of all the noncore assets if you can give some ballpark number?

Ramesh Kalyanaraman: So around INR 500 crores plus crores.

Hiten Boricha: Okay. Okay. Understood. Sir, this INR 500 crores will be going to monetize later this year or maybe next year?

Ramesh Kalyanaraman: Yes. So yes. So 500-plus aircraft, okay, to be clear.

Moderator: The next question is from the line of Pankaj from Affluent Assets. Please go ahead.

Pankaj: Congrats, sir for delivering such as great numbers for the whole year. Just wanted to understand, now you -- now that the FOCO model -- you have a complete handle over the FOCO model and which you started with non-South market and want to expand the same model to both Middle East and South. So there going forward, maybe this year in FY '24 or beyond, what are the levers of margin expansion from -- and where do we take this margin from -- you can pitch any, I mean, EBITDA margins or PBT margins from EBITDA margins, I mean from 7.98% to what level can we go?

And secondly, I mean, same for the return ratios, where do we see return ratios of maybe FY '24 or so, do we see it from mid-teens to closer to higher teens or lower 30s?

Ramesh Kalyanaraman: Yes. So here, again, I will tell you, we should surely come out of this EBITDA margin and go to PBT margin because then only both of us will go in the same direction. Because when you go for FOCO model, you know that FOCO model comes with a lesser gross margin and lesser EBITDA, okay? And own store even though your EBITDA margins will slowly go up, that cannot negate or that cannot even go near the revenue growth, which is going to come from the franchise.

So there will be surely an EBITDA margin pressure and gross margin pressure for Kalyan Jewellers, okay? Because we are opting a FOCO model. But when you ask me PBT margin, there should be surely a growth in the PBT margin as a percentage. And now we are at 4.7%, 4.8%. We should be closer to 5% by the end of the financial year. And way forward, it should again go up because operating leverage will also start coming in. So that should be the way we should look at it is what my limited request is.

Pankaj: And what about the RO -- return ratio, where do you see the return ratios?

Ramesh Kalyanaraman: So ROCE, I don't want to give a target, but you will see significant improvement because we have already crossed a 17% pre-tax ROCE now. So medium-term target is to take it well past 20%.

Pankaj: For FY '24?

Ramesh Kalyanaraman: The medium term, meaning in a couple of years.

Pankaj: Okay. And one more clarification -- just a clarification just a clarification. In the last question, you mentioned the value of noncore assets, which would be disposed as be INR 500-odd crores. So is this a book value of the asset or the market value since it is a land?

Ramesh Kalyanaraman: It's market value, meaning INR 500 crores is market value and plus the aircraft. Aircraft, you know, the market value will be usually lesser than the book value, meaning that's what we saw now. But the other thing is, meaning the book value will be lesser and the market value will be higher.

Pankaj: In case of land?

Ramesh Kalyanaraman: The INR 200 crores I mentioned is what the banks have valued at.

Pankaj: So that would be the book value, right? It would not be the market whenever you have --

Ramesh Kalyanaraman: Book value is the purchase value. Banks value at the market value, valuation they do -- the banks do valuation on the marketplace INR 200 crores.

Pankaj: Sir, then valuation so it would not be revalued on daily basis, right or yearly basis?

Ramesh Kalyanaraman: Every year.

Moderator: The next question is from the line of Harshil Sethia from DAM Advisors.

Harshil Sethia: Sir, what is our target of reduction of debt for the current year?

Ramesh Kalyanaraman: So it's 15% on a gross level. That's what our target is 15% of the gross debt in India, we want to reduce, maybe INR 300 crores to INR 400 crores.

Moderator: The next question is from the line of Soham Samanta from Centrum Broking. Please go ahead.

Soham Samanta: Sir, what is our full year grammage growth for FY '23?

Ramesh Kalyanaraman: Volume growth you mean? We don't track it because customer comes with a particular budget.

Soham Samanta: And SSG for full year?

Ramesh Kalyanaraman: SSG for the whole year?

Soham Samanta: Yes, yes.

Ramesh Kalyanaraman: It's around what upside of 5%.

Soham Samanta: And the studded ratio is similar to Q4?

Ramesh Kalyanaraman: Studded ratio?

Soham Samanta: Yes, yes.

Ramesh Kalyanaraman: You are talking about Q4, right? It's 20 --

Soham Samanta: No, I'm talking about for full year studded ratio.

Ramesh Kalyanaraman: Full year studded ratio is around 25%. I'll just check --

Soham Samanta: Okay. And last one from my side that is there any further one-off?

Ramesh Kalyanaraman: No, nothing. No further one-off because aircraft, there is no further write-off at all because we have valued in the LOI --

Soham Samanta: Okay there is no write off right.

Ramesh Kalyanaraman: No, no write off.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: So just one clarification in terms of store openings in Middle East. 52 that you mentioned will only be in India, right? And Middle East and Candere will be over and above that?

Ramesh Kalyanaraman: Yes, 52 mentioned is only non-South India, okay? Over and above that, South India, Candere and Middle East is separate.

Moderator: Sorry to interrupt, Mr. Jogani, we are not able to hear you clearly. There is a lot of disturbance in your background and as well your audio is not clear. We move on to the next question, which is from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Right, sir. In terms of the aircraft, the 2 aircraft you said just confirming that we have another INR 300 crores worth of aircraft to be sold or?

Ramesh Kalyanaraman: No, no, no. So the -- now we have only one more aircraft remaining in the book, which is INR30 crores 3-0, not 300.

Pallavi Deshpande: Right. And so, you mentioned the 17% ROC. So that's calculated excluding this land of INR 500 crores and total aircraft value of INR 300 crores talent because our number was 13%.

Abraham George: No, that is excluding the gold metal loan, if you include gold metal loan, then it will be about 14%.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Ramesh Kalyanaraman, for closing comments. Over to you, sir.

Ramesh Kalyanaraman: Thank you very much. Again, if you have any more queries, our team is always available because I understand that there are more people who wanted to ask questions. And due to the limitation of time, we are forced to end the call, but you are always welcome, and Abraham and Sanjay are always available. Of course, if you want me, I can also join in. Okay. Thank you very much.

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