SEC/21/2024-2025 **May 14, 2024**

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 audited Financial Results (standalone and consolidated) for the quarter and year ended 31st March 2024 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
Membership No – ACS 32820

Encl: As above

"Kalyan Jewellers Limited

Q4 FY '24 Earnings Conference Call"

May 10, 2024

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MANAGEMENT:	**MR. RAMESH KALYANARAMAN – EXECUTIVE DIRECTOR – KALYAN JEWELLERS LIMITED** **MR. SANJAY RAGHURAMAN – CHIEF EXECUTIVE OFFICER – KALYAN JEWELLERS LIMITED** **MR. V. SWAMINATHAN – CHIEF FINANCIAL OFFICER – KALYAN JEWELLERS LIMITED** **MR. SANJAY MEHROTTRA – HEAD OF STRATEGY AND CORPORATE AFFAIRS – KALYAN JEWELLERS LIMITED** **MR. ABRAHAM GEORGE -- HEAD OF INVESTOR RELATIONS AND TREASURY – KALYAN JEWELLERS LIMITED** **SGA, INVESTOR RELATIONS - KALYAN JEWELLERS LIMITED**
MODERATOR:	**MR. RAHUL AGARWAL – STRATEGIC GROWTH ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '24 Earnings Conference Call of Kalyan Jewellers India Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the 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 the conference call, please signal an operator by pressing star then zero on your touchtone 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 Kalyan Jewellers India Limited Q4 and FY '24 Earnings Conference Call. We have with us Mr. Ramesh Kalyanaraman, Executive Director; Mr. Sanjay Raghuraman, CEO; Mr. V. Swaminathan, CFO; Mr. Sanjay Mehrottra, Head of Strategy and Corporate Affairs; and Mr. Abraham George, Head of Investor Relations and Treasury.

I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on 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 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. So good evening, and let me welcome everyone to the call. Q4 has been fantastic. We ended the financial year on an excellent note. We recorded consolidated revenue growth of approximately 34% and PBT growth was approximately 44%. And this is after adjusting the onetime write-off in the previous financial year regarding the asset.

Improvement in PBT margins during the quarter was driven largely by higher share of revenue from franchised showrooms. For the full financial year, we recorded a revenue in excess of INR 18,500 crores and a PAT of INR 596 crores. We began the financial year setting certain targets around the key objectives of revenue growth, improvement in cash flow and return on capital and rewarding shareholders.

It gives me immense satisfaction to reflect back on the targets. Let me spend a few minutes here. In line with our already announced showroom network expansion plan, we launched 58 new Kalyan showrooms through the capital efficient FOCO model in India during the last financial year. We are also successfully converted 2 existing showrooms in South India to franchised ones. The year also saw the launch of our first franchised showroom in the Middle East.

While we reduced our non-GML loans in India by INR 435 crores, we have been successful in securing additional GML limits of INR 170 crores. Overall, working capital loans in India came down by INR 270 crores.

With respect to the divestment of mobile noncore assets, we have completed the sales process and have received the proceeds. In line with our announced dividend policy, Board of Directors has recommended a dividend of approximately INR120 crores, payout in excess of 20% of the net profit generated during FY 2024. This represents more than doubling of the dividend paid for FY 2023.

There has been a delay in the rollout of the first set of Candere showrooms as the last financial year was a year of transition for the platform. We launched 11 off-line showrooms in Candere during the last year, taking the total number of showrooms to 13 as on March 31, 2024. For the current financial year as well, keeping in mind the similar set of objectives, we have set certain targets. We have drawn upon our plans to add 130 showrooms in India, 80 Kalyan and 50 Candere. And we will also open 6 showrooms overseas during the current financial year.

Free cash generated during the current financial year shall be utilized to further reduce the working capital loans by around INR 350 crores to INR 400 crores by March 2025. We have also initiated discussions with banks for the release of real estate collaterals associated with the working capital loans reduced during FY 2024, which could be then divested to lighten our balance sheet further.

And now talking about the ongoing quarter, we had an excellent start to the financial year despite continuing volatility in gold prices and ongoing general elections across various parts of the country. We are witnessing encouraging momentum in consumer demand, especially around the wedding purchases during the current quarter and Akshaya Tritiya advances. Today is Akshaya Tritiya, and we are seeing strong consumer walk-ins across all the showrooms. Thank you. And I'll hand over it to Sanjay. He will read you through the numbers.

Sanjay Raghuraman: Thank you, Ramesh. Good afternoon, everybody. I'm really happy to be talking to you all after a great ending to the financial year. Starting with some numbers on just concluded quarter, our company reported a consolidated revenue of INR 4,535 crores, a growth of over 34% compared to the corresponding quarter in the previous year.

Consolidated EBITDA was INR 306 crores versus INR 257 crores in the corresponding quarter of the previous year. Consolidated profit after tax, PAT was INR 137 crores versus INR 70 crores in the corresponding quarter of the previous year. This PAT growth is optically looking higher.

Please bear in mind, however, that the previous year PAT numbers were suppressed by a onetime write-off of INR 32 crores in Q4 of last year. After adjusting for this onetime write-off, the growth in the operating PAT is about 34%.

Now let me give you a breakup of the financial year performance between India and the Middle East, starting with India. In this just concluded quarter, our India revenue was INR 3,876 crores versus INR 2,805 crores compared with the corresponding quarter of the previous year.

Our India Q4 EBITDA was INR 263 crores versus INR 217 crores when compared with the corresponding quarter of the previous year. And India profit after tax came in at INR 131 crores for the quarter compared to INR66 crores in the corresponding quarter of the previous year. I draw your attention again to what I just mentioned a while ago, the onetime write-off that happened in the previous year was pertaining to the India books.

Moving on now to talk about the Middle East business. Middle East business revenue for the quarter was INR 624 crores versus INR 549 crores in the corresponding quarter of the previous year. EBITDA in the Middle East was INR 46 crores versus INR 42 crores for the corresponding quarter of the previous year. And the Middle East business posted a profit after tax -- a profit of INR 10 crores for the quarter compared to INR 6 crores for the corresponding quarter of the previous year.

Moving on to our e-commerce business, Candere. The company posted a revenue of INR 36 crores in the quarter versus INR 32 crores in the corresponding quarter of the previous year. The quarter recorded a loss of INR 70 lakhs versus a loss of INR 1.9 crores for the corresponding quarter in the previous year.

Talking about the full year numbers. For the full year FY '24 on a consolidated level, revenue came in at INR 18,547 crores and consolidated profit after tax came in at INR 595 crores. With this, I'm done with the summary of the financials. And we'll now open the floor for questions. Thank you.

Moderator: We have our first question from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: Congratulations on the great set of numbers. I mean your margin expansion has been also heartful in the challenging times. So my first question is with regards to actually the debt reduction. I mean, though we look at a net debt basis, the debt has come down only by around INR 250-odd crores in that sense. And we have received around INR 130-odd crores or I would say, net INR 100 crores from the sale of planes itself. So what explains that the lower debt reduction in that sense?

Ramesh Kalyanaraman: Yes. So the plan was to reduce around about INR300 crores. So it ended up in, say, INR 260-odd crores. INR 435 crores non-GML, actually we have reduced, okay? INR 170 crores additional GML, we received from banks after a lot of negotiations, okay? So this was the initial plan itself. And if you see this year, the franchisee model, which we have actually chosen is CapEx is going to be from Kalyan and only the inventory comes from them. So that is why the initial plan itself was only to reduce around INR 300 crores debt forecasting all this. And aircraft, of c ourse, INR25 crores more amount is yet to come as of March, which has come now as we speak.

Gaurav Jogani: Okay. So sir, one related question, I mean to this part only. So, if you look at the inventory -- absolute inventory increase also, I mean, given that we have now moved to the franchise model, ideally shouldn't be the absolute inventory amount be much lower versus the sharp increase that we have seen Y-o-Y of around INR 1,200-odd crores.

Ramesh Kalyanaraman: So inventory levels have gone up, yes, by around INR 1,000 crores in India. INR 1,000-odd crores, okay? So there, we have to understand that, first of all, we have opened around 58 showrooms in the financial year, wherein we will have to keep some pipeline inventory for the same. The gold prices have moved by around 14% during the year. Inventory, of course, we have to maintain volume-wise. We will surely reduce some volume when the price go up, but we cannot reduce by 14% itself, okay? So there, we'll have to put some -- meaning the money will go to inventory. And SSSGs if you see, it has been very strong around 12%.

And to maintain those SSSG levels also, we will have to add inventory in certain stores, certain areas. Over and above certain stores, which we revamp to actually capture market share, we will have to add additional inventory there also. So all put together, that is what you see, okay? So if you want a split up of approximate numbers on these, I can give you in a few minutes, meaning so that you get a better idea.

Gaurav Jogani: Sure, sure, sir. That will be helpful.

Ramesh Kalyanaraman: A couple of minutes. Of course, we will move on but I will come back to you on the numbers.

Gaurav Jogani: Sure, sure. Sir, my next question is with regards to the Capex as you mentioned that because the Capex has been incurred by you this year around and hence, we had incurred around INR 370 crores out of Capex this year. So, what kind of Capex now can we expect going ahead in the next couple of years? And in that context, what will be the net debt reduction targets that you would like to give?

Ramesh Kalyanaraman: Yes. So 2 questions. One is Capex investment for next year and the year after that. Next year, as we have mentioned earlier, we have signed 80 franchise stores for Kalyan. Out of which approximately 50 are in the new model wherein the whole investment come from the franchise partners. The rest 30, the Capex for the -- those 30 stores, we will have to put. So, keep INR 3 crores, INR 3.5 crores into INR 30 crores, maybe INR 100-odd crores for that, plus the asset maintenance CapEx, that will be, what, around INR 100 crores, INR 150 crores. So overall, the Capex will be in the range of INR 250 crores for the next year.

Now you talk the year after that, the INR 100 crores will also be not there because all the showrooms which we expand will be under the new model, wherein Capex will not be put by Kalyan. So there, it will be only INR 150 crores. So here INR 250 crores, the year next INR 150 crores. And again, it will continue that way. So that is the question number one. Second is debt reduction. So as I mentioned in my intro, the plan is to reduce around INR 350 crores to INR 400 crores next year. And again, INR 400 crores to INR 500 crores the next -- year next. So that's the whole plan. Within a couple of years, as we have mentioned earlier, there will be only gold loan in the book. We would like to reduce the working capital limits completely from India, the non-GML portion. And one second, I think Abraham is ready with the numbers, which you asked.

Abraham George: Yes, Gaurav. So, the pipeline inventory that we had to invest was roughly about INR 200 crores. We also invested around INR 300-odd crores into the existing showrooms because of the price rise. And we also took care of the year-end inventory because there were some showrooms which were supposed to be opened in the first, second week of April. So those showroom inventory also, we are keeping at the end of the year, that was close to INR 200 crores. And the existing stores, we had about INR 300 crores.

Gaurav Jogani: So, Abraham, it will be INR 200 crores pipeline, INR 300 crores existing showrooms price rise, INR 200 crores at the end of the year, right? So that is like...

Abraham George: Sir, last INR 300 crores is basically the refurbishment of the existing showrooms.

Moderator: We have our next question from the line of Ashish Kanodia from Citi.

Ashish Kanodia: So the first question was in terms of...

Moderator: Sorry to interrupt, Mr. Ashish. Can you please be a little louder?

Ashish Kanodia: Yes. Is this better?

Ramesh Kalyanaraman: Yes, I can hear you. I can hear you, Ashish.

Ashish Kanodia: Yes. Okay. So the first question was that historically, we have seen that in some quarters, because of GST or some other reasons, there were a few stores which would be opened as a company stores and then subsequently get converted into franchise stores. So at the end of the current financial year, was there any such stores which were at the end of FY '24, it was basically a COCO store, but then subsequently, either that has already been converted into franchise or will be converted into franchise store in the same next 1, 2 week or something like that?

Ramesh Kalyanaraman: No. So all the 58 showrooms which we opened during the financial year in India, all the 58 are franchise stores, meaning there might have been owned store converted to what you call franchise later, but fully if you see the whole year, 58 new showrooms we opened, all 58 are today are franchise stores, except 1 -- a couple of showrooms, like in Bombay and all, we had to convert our own store also because the stores were near to that so-called proximity, like meaning Matunga, right? Yes. So Matunga store was our own store for the past 3 years, which got converted this year. Otherwise, all the stores were converted to franchise stores, which we opened this year.

Ashish Kanodia: Sure, sure. And secondly, if you can just give some ballpark SSSG trends, which you have seen in April because gold price has been pretty volatile. So just trying to get a sense that in terms of SSSG, what kind of a trend you are seeing in April?

Ramesh Kalyanaraman: So April has been strong, as I mentioned. It has been -- the footfalls are there, except for the first week where the gold prices were going sharply high. Otherwise, when we saw customers coming back, Akshaya Tritiya as we speak, is also strong. What we will do, we will -- because it will be deceiving if I tell only April SSSG because last time, Akshaya Tritiya was in April. And this time, we are in May, okay? So there has to be degrowth in SSSG only if you look at April versus April because Akshaya Tritiya comes April last year, right? So we are -- we will surely try to come up with a revenue update post the weekend because then it will be apple-to-apple because first 40 days versus last 40 days or something that we are really trying on right, Abraham, we'll really try, okay?

Ashish Kanodia: Sure, sure. That's helpful.

Ramesh Kalyanaraman: But the momentum is strong, just for your...

Ashish Kanodia: Sure, sure. That's good. And secondly, like from a competition perspective, right, and just what we pick up is that the competition, some of the players have started to give more discount, et cetera. So what changes have you seen from a competitive intensity perspective in the last, say, 3, 6 months? Has there been any change whether by local players, organized payers, anything which you can call out?

Ramesh Kalyanaraman: I presume that your question about competition is related to margin, right?

Ashish Kanodia: Yes, margin...

Ramesh Kalyanaraman: Competition comes in many ways, no? Competition comes when you -- when competitors have better inventory, better campaigns or what you call better locations or something. But your question goes majorly into margin, right, pricing?

Ashish Kanodia: Yes.

Ramesh Kalyanaraman: Yes. So pricing, if you look at, we have not seen anything drastically different over the past, what, 4, 5 quarters because the competition intensity has always been there in our industry. And Kalyan, you know we are a very hyper local player. So we are used to competing with local unorganized and organized players with around 30% to 40% of our regionalized inventory, and which we price also very competitively. So we have not seen a major difference in price competitiveness over the past 4 or 5 quarters. And you see our margins have also been stable over the last 4 quarters year-on-year.

Ashish Kanodia: Sure. And then since franchise stores have scaled up, if you can just give a ballpark number in terms of what is the share of franchise revenue for the full year? I mean, either absolute number or on a percentage, so that just from a margin perspective, we get a better flavour? And just the other question I had was in terms of the net debt reduction plan, which you said is to reduce by INR 350 crores, INR 400 crores.

I presume that this INR 350 crores, INR 400 crores is purely from the free cash flow generation that you would generate from your operating business. And if there is any further sale of the non-core assets, the land, then the net debt reduction could even be higher. Is that understanding correct?

Ramesh Kalyanaraman: No. So, we have -- meaning INR 350 crores to INR 400 crores, why I have kept a range of INR 350 crores to INR 400 crores, because it depends upon the -- what we call the liquidity, which comes again because of the asset sale, because asset sale is not as easy. First of all, we have to get that asset from the bank, then we'll have to put it on sale. So we have budgeted a certain amount for that. But even if that does not happen, the range will be between INR 350 crores to INR 400 crores.

Ashish Kanodia: Sure sir. And the franchise revenue, if you can help with that from a full year perspective?

Ramesh Kalyanaraman: The franchisee revenue approximately for Q4 was in the range of 25%, the franchise revenue share. And for the full year, will be around 20%.

Ashish Kanodia: Sorry, for the full year, it will be around 20%.

Ramesh Kalyanaraman: Yes.

Moderator: We have a next question from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, first up, just wanted to understand now this new showroom, we have spoken about 130. So 80 Kalyan stores all are FOCO model, right?

Ramesh Kalyanaraman: Yes, 80, all are FOCO model. The only difference between the FOCO model in that 80, is that 50 will be fully funded by the franchise partner, including the Capex. The rest 30, only the inventory will be funded, the Capex will be put by Kalyan. That's the only difference.

Moderator: Sorry, sir, we have the line for the participant disconnected. We'll move on to the next participant. We have a next participant from the line of his Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Just two questions in the beginning. You have especially said that you want to expand your Middle East and also in the other geographies business. Can you throw some light what are your aspirations for next 1.5, 2 years, 3 years?

Ramesh Kalyanaraman: For India and outside India?

Shirish Pardeshi: Outside India.

Ramesh Kalyanaraman: The India, I told you, it's like we want to open 80 Kalyan and 50 Candere for the next financial year, okay? And we would like to add 20% at least more footprint every year, meaning if we open 80 next year, we would like to go 20% more than 80 in the next financial year for India. And Middle East or outside India, 6 in the next financial year and it will go in that range for the next 2, 3 years.

There the only difference is that focus is not only in opening new stores. we would like to really convert our existing stores into franchised ones and reduce the capital invested in that region. So there are 2 primary focus outside India. One, open 6 showrooms a year. Two, convert a few showrooms every year. And in the next couple of years, try to make Middle East a predominantly franchise-driven market by reducing the invested capital in that space.

Shirish Pardeshi: Okay. So if I understand correctly, at the current juncture, you are at 36 stores in Middle East. Now this 36 of that are 2 franchises at this time.

Ramesh Kalyanaraman: 1 franchise.

Shirish Pardeshi: So that 1 can become 5 or 6 or 7, whatever it is there.

Ramesh Kalyanaraman: Yes. So franchise number will keep on increasing.

Shirish Pardeshi: And in addition to that, you will add 6 more stores.

Ramesh Kalyanaraman: Yes, exactly. So there will be opening new stores through franchise, but you will see conversions also over and above the 6 targeted. And enquiries come from different parts today. Enquiries are there from Singapore or U.K. or Canada, Australia. But our focus now is Middle East and entry into the U.S., which we have already started. The process has already started. And the first store in U.S. will be owned store.

Shirish Pardeshi: Okay. So U.S. stores will be operational in the next 1 quarter or 2 quarter?

Ramesh Kalyanaraman: It should be ideally before the end of H1, the first one.

Shirish Pardeshi: Okay. Second, I just wanted to have some broad understanding. Our non-South sales used to grow upwards of 70%, 80%, which in this quarter, obviously, I give the best effect, has grown 55% to INR 1,900-odd crores. Now arithmetically, if I reduce 16% SSSG in the non-South market, I get a number of 38%, which is primarily a number which matches with the store expansion, what we have done on non-South.

So my whole question is that this SSSG is driven by the ticket size or driven by the volume or driven by something else? So give some qualitative comments that how this in the near term is stronger despite the gold prices over the last 90 days were very volatile. And why I'm asking this because if you need to understand whether this double-digit SSSG will be defended on a high base in FY '25 as well?

Ramesh Kalyanaraman: We surely don't recommend to budget a double-digit SSSG. The SSSG, which has come last year has been excellent, meaning Q1 was 15, Q2 was around 10, Q3 was again 12, 13. Q4 was again 15. So that is not the way we should really budget for because that is a very strong SSSG, okay? And this Q1, you imagine, we are trying to grow over and above the SSSG, which we've done 15% last year.

So SSSGs 7%, 6% is the best way to budget for. But however, what we see on ground today, as we speak, is much higher than that. And that is predominantly the new customer walk-in. There is a portion of ticket size growth. And volume versus value, it is the same old slogan wherein if the gold prices are very high, volume will come down, value will go up because people have a budget for what they can buy. So now SSSG in South is in the range of around 17% to 18%. Non-South SSSG in the range of 15% to 16% for the last year, 38% is new customer growth.

Shirish Pardeshi: Okay. My second question is on the South business. Despite the South businesses over-banked in terms of gold, when I look at the competition, they have also reported a very strong set of numbers. So what exactly is happening in the south market? Are we trying to have the discounting and promotion as a tool and to grab more footfall and customers? Or really, the competition is weakening and the branded players are expanding their market share.

Ramesh Kalyanaraman: South is already a 50% organized market. And again, I mentioned price factor is no more there because for the past 4, 5 quarters, we have not done anything major to improve on the pricing for the consumer. It has been stable. Why the revenue is coming because of many -- and it is really strong in non-South also if you see. Non-South also is in the range of 16%, South is in the range 18%. So across the country, there has been a strong, SSSG, predominantly because of the new customers, which we have acquired over the past 2, 3 years, especially during COVID.

And the only area where we put more money today, even though I mentioned that there is no competition on the margin front from competition, but local players have also started spending on ads. Even unorganized player, semi-organized regional players have started to spend more on ads where we are also investing a bit of money than budgeted because we have to have that, what you call the noise level has to be there. Otherwise, there can be a lose in market share, okay? The share of voice has to be there in terms of marketing. Otherwise, there is no pressure on gross margin or price competition is not prevailing for the past 4, 5 quarters.

Shirish Pardeshi: No, the reason why I'm asking if I go back 3 years before, and in the initial conversation, our story was that we will increase the non-South revenue. Today, non-South revenue is around 49%.

Ramesh Kalyanaraman: 50%.

Shirish Pardeshi: Yes, but in terms of when I use the same lens, our margins has come down. So the point here is that if we need to build the more number of franchises, which will come in the non-South market and if the strategy is going to continue how this margin may look like? Because what we said 3 years before non-South revenue scale-up will happen and our margins will improve. But in reality, the margins has not moved upward.

Ramesh Kalyanaraman: No, no. So margin, I think margin is not improving. So South actually revenue grew by 25%, non-South revenue grew by 55%, okay. So growth in non-South is still happening. Why you are not seeing a growth in margin is because we came into franchise model. Franchise margins are lesser, no, than owned store. The franchise margin comes at 8%, whereas my non-South margin is 20%, okay? So there will be a degrowth in margin. But PBT margins will go up because the franchise PBT is 5%, whereas own store PBT is only 4.6%, 4.7%. So PBT margins will go up, ROCE will go up, but gross margin will come down, EBITDA will also come down.

Shirish Pardeshi: Okay. So aspirationally, again, I'm going back to ROCE that we were aspiring 18% to 20%. Now in the current state of strategy, do you think we'll be able to exit 18% end of '25?

Ramesh Kalyanaraman: So, ROCE expansion is very strong because you know that now for the next year model of franchise, again, ROCE is going to be much higher than, what, 60%, 70%, which we have for the franchise model wherein Capex is invested by Kalyan because their investment comes only in the pipeline inventory. So ROCE is much higher. And our focus is to grow by franchise for the next couple of years. So ROCE should be in the range what you mentioned shortly.

Shirish Pardeshi: One last question. Have we now framed the dividend policy?

Ramesh Kalyanaraman: Yes. I mentioned it's between 15% to 30%. And this year, there's 20% of net profit approximately, which we have already announced.

Moderator: We have our next question from the line of Anurag Dayal from HSBC.

Anurag Dayal: First is, I want to understand about seasonality. So Q1 has traditionally been a strong quarter for you given higher savings of South. Now with the share of non-South growing, how does this impact the seasonality? it stands or our Q1 could be weaker now compared to what you used to do earlier, even in North markets even traditionally has been weak. Some view on the seasonality basically for you right now?

Ramesh Kalyanaraman: Yes. So Q3 is now our best from revenue because, again, Diwali and non-South revenue share is approximately about 50% as we speak. And then Q4 -- after Q3, Q1 and then Q4 and then Q2. That's how usual scenario, it works.

Anurag Dayal: Okay. So it was similar, I think what you mentioned earlier as well last year hasn't changed, still Q2 -- Q1 is again best basically for you?

Ramesh Kalyanaraman: Second best. So Q3 is the number 1.

Anurag Dayal: Okay, got it. And secondly, on this -- you said in non-South, you make 8% gross margin, but now you're converting in South as well. But we don't know exactly how the franchise rate is there, even the gross margin also tends to be much lower. Can you throw some light on it, how the economics is working in South?

Ramesh Kalyanaraman: Yes. So South again, it cannot be 1 model across South India because Kerala works differently from Tamil Nadu to Karnataka to Andhra/Telangana. And it's very early, we are only having 2 franchises, South franchise as we speak. and we are flexible on the working also with the franchise partner. So we will come back to you once it settles down. So too early to speak too much out loud on it because we ourselves have not come to a conclusion on the model because 4 states work in 4 ways.

Anurag Dayal: Okay. Got it. So thanks for actually sharing the SSSG numbers. I would really love that you start giving retail sales as well, since franchise also is gaining a lot of scale now.

Ramesh Kalyanaraman: Yes, sure. We will come up with it.

Moderator: We have our next question from the line of Aliasgar Shakir from Motilal Oswal Financial Service.

Aliasgar Shakir: I just had a same question on your margins. So of course, as you mentioned, your PBT margin has improved a bit due to franchise shift. I just want to understand from an EBITDA point of view, also, I mean your EBITDA for the fourth quarter stand-alone is probably reduced around 90 bps and maybe gross margin also, I think about close to around 120 bps. So can you just explain out of this, how much would be the impact because of the franchises? And is there any impact because of any pricing or making charge impact that we are seeing in other players in the market?

Ramesh Kalyanaraman: No. As I mentioned earlier, gross margin, we don't -- you see the numbers. There is no pressure on the gross margin. And on ground also, for the past 4, 5 quarters, we have not had any pressure from competition because we have -- our price is already set to prepare for competition in certain products where the competition prevails.

The EBITDA margin will keep on degrowing because all the incremental revenue which comes, it is coming with 5% EBITDA. Our own box is closer to 7.5% to 8%. So EBITDA will be keeping on degrowing because franchise revenue share will keep on growing. India Q4 PBT before exceptional has improved from 4.4% to 4.6%. That is the way we have to see rather than EBITDA because EBITDA will be keeping on degrowing.

Aliasgar Shakir: So safe to assume this decline in EBITDA margin is only because of that and there's no other impact because of any reduction in the making charges that you would have seen?

Ramesh Kalyanaraman: Yes, yes, only because of that. Nothing on -- except that the EBITDA margin there might have been a -- what I call a small dip because we would have invested some more money for advertisements because there has been competition from the unorganized and regional competitors in terms of spending money in their market. That's the only area where we have invested money. So there, there can be a, what you call, effect in EBITDA, but not on gross margin.

Aliasgar Shakir: Correct. So just to -- I mean, there was a question EBITDA affecting gross margin of 130 bps is entirely because of the shift from mainly owned to franchise. No change because of the making charges or pricing of gold, right?

Ramesh Kalyanaraman: Nothing. Nothing. Nothing.

Aliasgar Shakir: Understood. This is clear. Second thing is on Candere. So we're about doing revenue to 13 stores. And I think now we are moving to the franchise billing model as you also mentioned earlier, you have quite a decent amount of industry. So just want to understand a little longer, a 3-year, 5-year story in Candere, we are aggressively increasing our store and so we don't really think this will reach in 3 to 5 years. And given the fact is right now just around breakeven or marginally loss-making, I just miss the numbers. So how do you expect the profitability to move over 3 to 5 years?

Sanjay Raghuraman: Sanjay here, I'll just take this one. See presently we are laying the foundation for the off-line expansion. And at the same time, we are taking a calibrated approach in driving the pure online piece of the business. The business is continuing to go through a transition phase, both at operational and the management level. Like we guided in the past, we are on track to do another 50 stores this year. We've already got about 10 operational as of March 2024. We started building the leadership pipeline and strengthening management there.

But we think it's not yet the right time to comment or give a picture on the financial model and how it would look like, say, 2, 3 years out. But I think we should be able to come back to you on this one by the time of, say, Q1 when we end this year, we should be able to put some projections out on how the other financials will look.

Aliasgar Shakir: Sure. This is useful, but even qualitatively because I was just thinking given that is still not profitable. So an accelerating pace with the 50 store addition. I mean, what gives you that confidence? And I mean qualitatively, can you just help a little bit on the outlook and profitability?

Ramesh Kalyanaraman: Yes. So here -- Ramesh here. So we have done a lot of ground on how to take Candere to the next level. And that is the confidence which we are working on. But execution, why we are delayed for the last financial year is because on the management level, we have brought in new talent. On the mid-level management, we have brought in new talents and focus is on expansion of physical stores. And that transition was there last year, and that is why we took a small pause. But otherwise, on the confidence in Candere, that is because of the work which we have done over the past 1 year as in where to take it forward.

Moderator: We have a next question from the line of Bhavya Gandhi from Dalal & Broacha Stockbroking.

Bhavya Gandhi: Just wanted to have a broad level understanding what impact will we see if there's sort of a change in the gold prices on the downside? So will it like take a hit on the revenue? Or how will it be like if you can explain from your past experience?

Ramesh Kalyanaraman: Yes. So as I have mentioned earlier, gold price, sudden impact like it goes up very high over 1 week or if it comes down in a week, people take a pause, they wait and watch where this is going to settle down, and then start coming to the stores again. That is the only impact, the revenue can move from 1 quarter to another. But the demand will never be lost.

And wedding demand, the postponement or preponement also does not happen too long because the wedding has to happen, and they cannot postpone the demand -- postpone the purchase too long. So otherwise, there is no impact in gold price coming down or going up on a midterm, long-term level. But of course, when it comes down, people take more volume. When it is very high, people purchase less volume because they come with the budget, they will not be able to exceed that budget because their pocket does not increase if the gold price increases also.

Bhavya Gandhi: Right. And what will be the average ticket size for FY '24?

Ramesh Kalyanaraman: So approximately about INR1 lakh.

Bhavya Gandhi: Approx INR1 lakh. And what was it last year, if at all, you can give some number to compare?

Ramesh Kalyanaraman: So, it was in the INR 85,000 range, INR85,000.

Bhavya Gandhi: INR 85,000. And I just wanted to know on the hedging policy, are we 100% hedged or we do keep some exposure?

Ramesh Kalyanaraman: No, we don't take any price risk on our price, what is called gain because we are -- as I mentioned before, we are always hedged.

Bhavya Gandhi: 100% hedged, that is what?

Ramesh Kalyanaraman: Yes, 99%, 98% hedged.

Bhavya Gandhi: Yes. Okay. And just if you can share what would be the average rate on the gold metal loan?

Ramesh Kalyanaraman: Just a minute. So 3.75% is in India.

Bhavya Gandhi: 3.75% in India. Okay.

Moderator: We have our next question from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: I just wanted to understand the advertising spend, what was it this year versus last year? And second was, I think there was a guidance of -- on a standalone basis, we'll do a PBT margin of 5%. Are we still a little shy of that? Any colour on that?

Ramesh Kalyanaraman: Can you repeat on the PBT, I did not get you there?

Pallavi Deshpande: Yes. So, I think there was a guidance at the beginning of the year of a 5% standalone PBT.

Ramesh Kalyanaraman: No. 5% was standalone PBT for franchised stores. That was the guidance, and that is almost in line. Not the total franchise because our own store PBT margins are in the range of 4.7%. New franchise stores come with a PBT margin of 5%. And franchise revenue share is approximately 20% for the full year. So the PBT margin has to be in between 4.7% to 5%, which is what you see.

Pallavi Deshpande: Right. Okay. Okay. And the advertising expense for this year versus last time?

Abraham George: In India, it is 1.9% for this current quarter versus 2.1% last year.

Pallavi Deshpande: So you mentioned that it's gone up, and that's hurt the margin. So for the year, the advertising...

Sanjay Raghuraman: Yes, we'll explain.

Ramesh Kalyanaraman: That you will not see on a percentage-wise because the revenue also has the franchise revenue, okay? On an -- as an amount, it would have gone up.

Pallavi Deshpande: Okay. Okay. So then as a percentage then it's not really impacting that margin, you were saying that it impacted the margin.

Ramesh Kalyanaraman: No. One second.

Abraham George: No, it does because for all the new showrooms that we are launching, ideally speaking, we were not budgeting for any extra ad spends. So that would have actually come in and given us 5%. But if that means then the leverage on the ad spends on the own showrooms, should have been higher because of the revenue growth that we are seeing because the SSSGs have been significantly higher, 12%, 13% SSSG for the year. So the leverage should have been much higher. The leverage is not as much as we thought it is because we spend a little higher.

Moderator: We have our next question from the line of Pulkit Singhal from Dalmus Capital Management.

Pulkit Singhal: Congrats on a good set of numbers. My first question is on the franchise margin of 5% PBT. As the business expands, obviously, as you yourself are seeing double-digit SSSG versus high-single digit and mix also changes. So actual business margins will be more volatile at a franchise level. But is the understanding very clear that we get only 5% irrespective of whatever be the margins on the therein? Or do we also participate in case there's an increase in business margins?

Ramesh Kalyanaraman: Yes, it's not like that wherein 5% is assuming 20% overall gross margin at the store level. So if the margin goes beyond 20%, we will have a share for that also for the increased gross margin. But since we are expanding into Tier 2, Tier 3, Tier 4 cities, even though at our own store level non-South, it is actually more than 20%, but that are all in metros, mostly. So since we are going into suburbs, we assume only 20%. Higher margin than 20%, better not do wherein because 20% is the right margin to target for.

Pulkit Singhal: But scale also does have an impact, right? I mean so while you're focusing on gross margin, but I'm saying doesn't scale of the business impact below the gross margin to also create a leverage on the business margin?

Ramesh Kalyanaraman: Agree. Yes. But we have -- we are spending on ad and what we call stuff now, employee cost also, we are investing, okay? And it's front-ended also because we will have to employ the staff at least 2 to 3 months before. And then only we can post them to the new stores because then only they will become a Kalyan kind of employee. And ad also, we are at this stage when we are growing into new markets, we are getting strong SSSGs at the ground level. When we see competition also from the unorganized/organized in ad spends, we don't go in that way. So leverage will be there, but I suggest that we don't bake too much leverage into projections and let us earn it when it comes.

Pulkit Singhal: So that's my point. I'm just trying to understand how the contract is structured? Is it structured such that any kind of leverage benefits or whatever that is. Should that be...

Ramesh Kalyanaraman: So that goes to him. That will go to him because for us, the only advantage when the margin goes up at the store level, we might get better than 8% because there can be a share there also. For the future franchise stores which we are signing, there, we have baked in all what you expect. That's why we are not telling how much margin for the new franchise stores. It can be more than 8%, it can be more than 5% on an EBITDA level.

Pulkit Singhal: Okay. Understood. And secondly, if you look at this quarter, I mean, your PBT margins have gone up from 4.35% to 4.55%. Is this in line with what you had expected initially? Or is it coming slightly lower or better than what you were thinking this could be?

Ramesh Kalyanaraman: Maybe what we would have missed it by around what INR10 crores, INR15 crores, meaning more or less INR10 crores because of mainly -- majorly because of advertisements.

Pulkit Singhal: And that's what I'm trying to understand. So going ahead, I mean, full year, we are at 4.77%. There will be a higher mix of franchise. But I mean, how do we see this 4.77% moving the pace of it, I'm trying to understand going ahead? Is the competition intensity significantly increasing because the market leader is clearly calling it out, right? And they're saying that they're going to kind of...

Ramesh Kalyanaraman: We cannot talk about them. But for Kalyan, we don't see competition intensity in pricing, whereas we just want to maintain the market share or maintain the targeted market share. We have to have the noise level in the market where we see that the local competitors are spending money on campaigns.

But to -- for you to budget in for own store level, PBT margins cannot go up too much. There will be some leverage. But if you -- if the SSSGs are only about 6%, 7%, the leverage will be smaller. So new set of stores, franchise will come at around 5.25%. Franchise PBT margins will be at 5%. Own store cannot grow up too much, but of course, there will be some operating leverage, which will step in.

Pulkit Singhal: Okay. But in case -- let me put it this way. Suppose finance cost is right now 1.5% of sales in the standalone. Now -- and as you're getting more cash flows and your revenue will go up and your absolute finance cost...

Ramesh Kalyanaraman: No, there will be leverage. Finance cost, 100% there will be leverage. I spoke about EBITDA, okay. But finance cost, there is going to be leverage for own stores.

Pulkit Singhal: Exactly. So I mean, so far, we are focusing on PBT, and we have to consider finance cost as well.

Ramesh Kalyanaraman: Yes, yes, 100%. There is going to be leverage in PBT margin for own store because finance costs will come down as we are reducing our debts.

Pulkit Singhal: So theoretically, about 2, 3 years, therefore, because I'm considering the finance cost as well. Our business model can cross the 5% PBT margin as well.

Ramesh Kalyanaraman: Yes, yes 100%. Of course, yes, of course, yes, because of 2, 3 reasons. One, all the new franchise stores are budgeted for approximately 5.25%, and existing stores PBT are already in the range of 4.8%, which can go upside of 5 because we are in a debt reduction journey. So all put together, PBT margins should see above 5%, maybe in -- but maybe give it a year more.

Moderator: We have a next question from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: Just two questions. One, the pace of debt reduction at INR 400 crores, INR 500 crores means that -- INR400 crores means that you reduce your interest costs at about INR 30 crores -- INR30 crores, INR 35 crores per annum. Considering you will first reduce the corporate loan, which would be about 8% to 10% rate of interest?

Ramesh Kalyanaraman: Yes. Yes. We will only reduce that. We will not reduce our -- we will only reduce our gold loan.

Pr itesh Chheda: But theoretically, a point in time you...

Ramesh Kalyanaraman: INR30 crores for the full year. Yes, it is spread across the year. And predominantly, loan reduction will come in H2 because I told you 80 showrooms, 30 is our Capex, which will be all in Q1, Q2 because that model we stopped signing 1 quarter before, right? So interest reduction for this financial year, will mostly be in the second half?

Pritesh Chheda: Okay. Yes. So, you will basically reduce at about INR 30 crores, assuming it is 8% of INR 400 crores. And if you're, let's say, this year's cash flow, if you have a INR 1,300 crores EBITDA, you managed to reduce at about INR 300 crores. So next year onwards, we can reduce at about INR 400 crores. So that's a INR 30 crores run rate. On the depreciation side, we'll actually enter into a situation where a depreciation number doesn't expand, right? Because if you are not putting Capex, you don't have an asset to depreciate for. So this INR 275 crores, INR 280 crores depreciation stays where it is.

Ramesh Kalyanaraman: Yes. So depreciation cannot increase too much because we are not -- except for the, what we call the stores which we have, so it will not go up in the direction which it was going up.

Pritesh Chheda: But it will still increase a little bit, right?

Ramesh Kalyanaraman: Pardon?

Pritesh Chheda: Will it increase a little bit, the depreciation number? Forget the next year. Any case we are moving to a model where you're not putting any Capex or inventory.

Ramesh Kalyanaraman: Yes. So we -- of course, we do create certain assets, but you can put it as flat because it will be very marginal in case if it increases.

Pritesh Chheda: Okay. And what is there in the other income number this year?

Ramesh Kalyanaraman: So it is rent received from the franchise partners because what we do is that the premise we take it for lease and then sublease to the franchise owner, because we don't want the premise to sit on the franchise books.

Pritesh Chheda: So it started with effect this year, right?

Ramesh Kalyanaraman: Last June. Last June, means the June FY 2025 -- yes '23. Yes.

Moderator: We have our next question from the line of Siddhant Dand from Goodwill Wealth.

Siddhant Dand: I wanted to know the sales number, excluding the onetime sales to the franchise partners, the new franchise stores or the ones we converted to franchisee, what would the number be?

Ramesh Kalyanaraman: We put a ballpark number, 58 into INR 20 crores, that is the onetime revenue.

Siddhant Dand: Okay, 58 into INR 20 crores.

Ramesh Kalyanaraman: That's an approximate number.

Moderator: This will be the last question for today. I now hand the conference over to the management for closing comments.

Ramesh Kalyanaraman: Thank you very much for participating. So see you all shortly. Thank you very much.

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