

## Kalyan Jewellers India Ltd.

SSIS IPO GRADE 4.5/5 (Great Fundamentals)

15<sup>th</sup> March, 2021

### Rating Overview

Kalyan Jewellers India Limited (“Kalyan Jewellers”) was incorporated in 1993. The company is one of the largest jewelry companies in India based on revenue as of March 31, 2020. The company was established by their founder and one of their Promoters, T.S. Kalyanaraman.

Kalyan Jewellers has expanded to become a pan-India jewelry company, with 107 showrooms located across 21 states and union territories in India, and also has an international presence with 30 showrooms located in the Middle East as of December 31, 2020. They also sell via their online platform.

The company is supported by an experienced board of directors which consists of eminent personalities from varied fields and includes the former CEO of Shoppers Stop, former CEO of L&K Saatchi & Saatchi, the former Deputy Governor of the RBI, as well as former leaders of well-reputed banking institutions such as Catholic Syrian Bank, Indian Overseas Bank and State Bank of Travancore.

Kalyan Jewellers faces competition from organised and unorganised companies in the Indian jewelry industry. A majority of the Indian jewelry industry consists of unorganised players who have historically dominated a large part of the market, although their share of the market has been falling and is expected to continue to decline.

Company is bringing the issue at P/E multiple of approx 63x at higher end of price band of Rs 86-87/share on FY20 PAT basis. Our overall rating of Kalyan Jewellers is fundamentally strong but it holds a high valuation post issue. The industry growth depends a lot on gold and precious metal rates and they are currently trading high. So we would recommend Investors with high risk appetite to subscribe it for medium to long term share appreciation, others may avoid.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

## Business Overview

Kalyan Jewellers India Ltd. (KJIL) is one of the largest jewellery companies in India based on revenue as of March 31, 2020, according to the Technopak Report. It has since expanded to become a pan-India jewellery company, with 107 showrooms located across 21 states and union territories in India, and also have an international presence with 30 showrooms located in the Middle East as of December 31, 2020. All of its showrooms are operated and managed by themselves.

KJIL intends to continue to open additional showrooms as it expects significant opportunity for further penetration in existing markets as well as in new markets, primarily in India. The company also sells jewellery through our online platform at [www.candere.com](http://www.candere.com). KJIL designs, manufactures and sells a wide range of gold, studded and other jewellery products across various price points ranging from jewellery for special occasions, such as weddings, which is our highest-selling product category, to daily-wear jewellery.

**The company's domestic showrooms covered a total aggregate area of 465235 sq. ft. and Middle East showrooms covered a total aggregate area of 38056 sq. ft. For the FY18 to FY20 and 9 months period ended on December 31, 2020, the company's advertisement spending was in the range of 2.07% to 3.04%.**

## Financial Performance

On the financial performance front, for the last three fiscals, KJIL has (on a consolidated basis) posted total income/net profits (loss) of Rs. 10580.02 cr. / Rs. 141.00 cr. (FY18), Rs. 9814.03 cr. / Rs. - (4.86) cr. (FY19) and Rs. 10181.02 cr. / Rs. 142.28 cr. (FY20). For the first nine months of FY21 ended on December 31, 2020, it has incurred a loss of Rs. - (79.95) cr. on a turnover of Rs. 5549.80 cr. Thus, based on 9M-FY21, the issue is having negative P/E.

For the last three fiscals, KJIL has (on a consolidated basis) posted an average EPS of Rs. 0.98 and an average RoNW of 4.46%. The issue is priced at a P/BV of 3.97 based on its NAV of Rs. 21.94 per share as of December 31, 2020, and at a P/BV of 3.14 based on post issue NAV of Rs. 27.75 (at the upper price band).

**Based on FY20 earnings the issue is priced at a P/E of 63.04 (based on fully diluted equity post issue). But considering its negative earnings for FY21-9M, it is at a negative P/E.**

Summary of financial Information (Restated Consolidated)				
Particulars	For the year/period ended (₹ in millions)			
	30-Dec-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	81,229.88	82,186.80	80,599.14	85,512.31
Total Revenue	55,497.98	101,810.16	98,140.29	105,801.99
Profit After Tax	(799.48)	1,422.75	(48.64)	1,409.97

## Issue Details

To part finance its need for working capital (Rs. 600 cr.) and general corpus funds, KJIL is coming out with its maiden combo IPO of fresh equity issue worth Rs. 800 cr. and an offer for sale (OFS) of Rs. 375 cr. taking the total issue size to Rs. 1175 cr. It has fixed a price band of Rs. 86 - Rs. 87 per share for shares having a face value of Rs. 10 per share. The company will be issuing 91954124 as fresh equity shares and 43103448 shares as OFS (total 135057572 shares). The Minimum application is to be made for 172 shares and in multiples thereon, thereafter. The issue opens for subscription on March 16, 2021, and will close on March 18, 2021. The issue constitutes 13.11% of the post issue paid-up capital of the company. The company has reserved shares worth Rs. 2 cr. For eligible employees and offering a discount of Rs. 8 per share to them. From the residual portion, the allocation of IPO quota is 50% for QIBs, 15% for HNIs and 35% for Retail investors.

Having issued initial equity at par, KJIL issued further equity in the price range of Rs. 50.58 to Rs. 100 per share (FV of Rs. 10 per share) between March 2011 and March 2021. It has also issued bonus shares in the ratio of 9 for 1 in October 2014. The average cost of acquisition of shares by the promoters and selling shareholders is Rs. NIL, Rs. 0.04, Rs. 0.31 and Rs. 56.61 per share.

**KJIL's current paid-up equity capital of Rs. 938.10 cr. will stand enhanced to Rs. 1030.05 cr. Based on the upper price band of the issue, the company is looking for a market cap of Rs. 8961.46 cr.**

Book Running Lead Managers (BRLMs) for this issue are Axis Capital Ltd., Citigroup Global Markets India Pvt. Ltd., ICICI Securities Ltd., SBI Capital Markets Ltd., and BoB Capital Markets Ltd. While Link Intime India Pvt. Ltd., is the registrar to the issue. Post allotment, shares will be listed on BSE and NSE.

**The company has paid a dividend for the last four fiscals including the ongoing one. For FY18 it paid 55% on pre-bonus equity. After that, it paid a dividend on ex-bonus equity at 10% for FY19 and FY20 and 15% for FY21. The company has paid a dividend of 0.001% of CCPS for all these years. However, the company is confident of maintaining a prudent dividend policy going forward.**

<b>Application Dates</b>	<b>Mar 16, 2021 – Mar 18, 2021</b>
<b>Issue Type</b>	Book Built Issue FPO
<b>Face Value</b>	₹10 per equity share
<b>IPO Price</b>	₹86 to ₹87 per equity share
<b>Market Lot</b>	172 Shares
<b>Listing At</b>	BSE, NSE
<b>Issue Size</b>	[.] Eq Shares of ₹10 (Up to ₹ 1,175.00Cr)

### Issue Timeline

<b>Basis of Allotment Date</b>	Mar 23, 2021
<b>Initiation of Refunds</b>	Mar 24, 2021
<b>Credit of Shares to Demat Account</b>	Mar 25, 2021
<b>IPO Listing Date</b>	Mar 26, 2021

## Investment Strategy

KJIL is the second-largest PAN India retailer of gold and other fancy jewellery. It has shown static financial performance for FY18 and FY20, whereas it suffered a minor setback for FY19 due to the flood situation in southern regions, its prime locations. It has suffered a setback for FY21-9M following pandemic and incurred losses. Thus, the offer price is at a negative P/E based on the latest financial data. There is a big difference in financial parameters between the two mega players in the field. As the pricing of the issue is having a negative P/E based on the latest workings, cash surplus, risk savvy investors may consider investment at their own risks.