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IPO Note – Kalyan Jewellers India Limited

13-March-2021

RETAIL RESEARCH

Kalyan Jewellers India Limited

Issue Snapshot:
Issue Open: Mar 16 – Mar 18, 2021

Price Band: Rs. 86 –87 (Discount of Rs.8 for eligible employees)

*Issue Size: 135,057,471 eq shares (Fresh issue 91,954,023 + Offer for sale of 43,103,448 eq sh) including employee Reservation of 2,29,885 eq sh

Issue Size: Rs. 1161.5 – 1175.0 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 24.52 (December 31, 2020)

Bid size: - 172 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 938.09 cr
*Post issue Equity:	Rs. 1030.05 cr

Listing: BSE & NSE

Global Co-ordinator and Book Running Lead Manager: Axis Capital Limited, Citigroup Global Markets India Private Limited, ICICI Securities Limited, SBI Capital Markets Limited, BoB Capital Markets Ltd.

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	68.0	60.5
Public & Employee	32.0	39.5
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Kalyan Jewellers India Ltd (KJIL) is one of the largest jewellery companies in India based on revenue as of March 31, 2020. 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 has an international presence with 30 showrooms located in the Middle East as of December 31, 2020. In Fiscal 2020 and in the nine months ended December 31, 2020, its revenue from operations was Rs.101,009.18 million and Rs.55,167.04 million, of which 78.19% and 86.21% was from India and 21.81% and 13.79% was from the Middle East. Its total showrooms has increased from 77 as of March 31, 2015 to 137 showrooms as of December 31, 2020, and intends to continue to open additional showrooms as it expects significant opportunity for further penetration in its existing markets as well as in new markets, primarily in India. The Company also sell jewellery through its online platform at 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 its highest-selling product category, to daily-wear jewellery.

Hyperlocal Jeweller: One of KJIL's key competitive strengths is its ability to operate as a hyperlocal jewellery company. It endeavour to cater to its customers' unique preferences, which often vary significantly by geography and micro market, through local market expertise and region-specific marketing strategy and advertising campaigns.

Trusted Jewellery Brand: KJIL prides itself on being a trusted jeweller and has endeavoured to establish a strong brand that its customers associate with trust and transparency.

"My Kalyan" Neighbourhood Centres: KJIL's grassroots "My Kalyan" customer outreach and service centre network is another key element of its hyperlocal strategy which enables to be a neighbourhood jeweller and is focused on marketing and customer engagement across urban, semi-urban and rural areas in India. Its "My Kalyan" network consists of multiple service centres that are located in a wide radius around most of its showrooms.

Information Technology: KJIL has built robust information technology and operational management systems for its operations.

Promoters and Management: KJIL is led by a management team with extensive experience in the jewellery and retail industries and with a proven track record of performance.

Objects of Issue:

The Offer comprises the Fresh Issue and the Offer for Sale, aggregating up to Rs. 11,750 million.

Offer for Sale

KJIL will not receive any proceeds from the Offer for Sale. The Selling Shareholders will be entitled to receive their respective portion of the proceeds from the Offer for Sale after deducting their respective portion of the Offer related expenses and relevant taxes thereon.

Fresh Issue

The Net Proceeds from the Fresh Issue are proposed to be utilized towards the following objects:

- Funding working capital requirements of the Company Rs.6000 mn;
- General corporate purposes.

Further, KJIL expects to receive the benefits of listing of the Equity Shares, including to enhance its visibility and brand image among its existing and potential customers and creation of a public market for the Equity Shares in India.

Competitive Strengths

Established brand built on the core values of trust and transparency: The Indian jewellery industry has largely been unorganised and fragmented, comprising more than 500,000 local goldsmiths and jewellers. Indian jewellery customers have historically struggled with a lack of transparency embedded in the purchase process for jewellery, finding it difficult to verify gold purity and weight and to deconstruct the various components of jewellery prices, including differentiating between raw material costs and jeweller mark-ups or making charges. KJIL has endeavoured to establish a strong brand in the Indian jewellery market that its customers associate with trust and transparency. Its marketing strategy focuses on maintaining consistency in its brand messaging across all of its communication channels and markets in which it operates. Its reputation and brand image built on trust and transparency are critical to the success of its business and it continue to focus on operational and marketing efforts based on these principles.

One of India's largest jewellery companies with a pan-India presence*:* KJIL is one of the largest jewellery companies in India based on revenue as of March 31, 2020. It has a pan-India presence with 107 showrooms located across 21 states and union territories in India and also has 30 showrooms located in the Middle East, as of December 31, 2020. While it started its operations in Kerala, over time it has been able to successfully expand to become a pan- India jewellery company. In addition, it has a relatively diversified presence across larger and smaller cities, semi-urban and rural regions. For Fiscal 2020 and in the nine months ended December 31, 2020, approximately 51.29% and 53.08% of its revenue in India was generated from sales outside of tier-I cities. Its total showrooms has increased from 77 as of March 31, 2015 to 137 as of December 31, 2020.

Hyperlocal strategy enabling to cater to a wide range of geographies and customer segments: Jewellery consumption patterns in India are highly localised with customer preferences varying significantly by region. It strives to appeal to a broad base of customers via a multi-faceted hyperlocal strategy by deploying the following initiatives in its operations:

Localisation of product portfolio: KJIL appeals to a wide audience by endeavouring to understand the local market preferences and trends in the geographies in which it operates and offering a range of jewellery products in its showrooms that are tailored to such tastes. Its local procurement expertise coupled with its ability to simultaneously showcase a wider variety of pan-India jewellery designs in comparison to its competitors in local markets provides with a significant competitive advantage in the markets in which it operates.

Localisation in brand communication and marketing: KJIL's region-specific marketing efforts, including state and city-specific brand campaigns with differential, localised creative content and the use of various relevant brand ambassadors with national, regional and local appeal, is a core element of its brand positioning. It select regional and local creative agencies in the markets in which it operates to tailor the marketing and the medium of communication to suit local preferences.

Localisation of showroom experience for customers: Localisation strategy is further supported by KJIL's policy of hiring personnel for each of its showrooms with local language and cultural knowledge, as well as its practice of designing its showrooms to reflect local tastes and sensibilities.

Localisation through "My Kalyan" network: KJIL generally hire "My Kalyan" employees from the communities in which they serves, and with relevant language skills and local relationships. Through its strategy of catering to local preferences, it endeavour to compete with both unorganised and organised jewellers in markets in which it operates by establishing customer rapport on a local level.

Its localisation strategy, combined with large scale of operations, allows KJIL to cater to a wide range of customers across geographies, age groups, socio-economic status levels and genders as well as across urban, rural and semi-urban markets, all of which greatly widens its appeal and addressability to broad segments of jewellery consumers across India.

Extensive grassroots "My Kalyan" network with strong distribution capabilities enabling deep customer outreach: KJIL's grassroots "My Kalyan" customer outreach network is a key element of its hyperlocal strategy enabling to be a neighbourhood jeweller and is focused on marketing and customer engagement across urban, semi-urban and rural areas in India. A significant proportion of India's gold jewellery demand originates from rural and semi-urban markets where the penetration of organised jewellery companies has historically been even lower than that of the overall Indian market. Its network of "My Kalyan" centres provides with a marketing tool to help address the latent demand that exists in some of these markets.

Visionary Promoters with strong leadership and a demonstrated track record supported by a highly experienced and accomplished senior management team and board of directors: KJIL is led by a management team with extensive experience in the jewellery and retail industries with a proven track record of performance. It is further supported by an experienced board of directors with diversified expertise which actively contributes to and participates in its strategy. Its Board consists of eminent personalities from varied fields such as banking and finance, retail, marketing and regulatory bodies 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. Furthermore, its shareholders include Highdell, belonging to the Warburg Pincus group.

Wide range of product offerings targeted at a diverse set of customers: KJIL's products span jewellery for special occasions, such as weddings, to daily-wear jewellery, and its product portfolio also caters to a wide range of price points. It has launched numerous sub-brands that address specific customer niches such as:

- Ornate wedding jewellery
- High-volume, mass market jewellery
- Antique and heritage gold jewellery

Technology savvy customers, to whom the Company caters through online platform. Recognizing early the powerful potential of engaging customers online in an increasingly digitally connected world, KJIL invested and acquired a majority stake in Enovate Lifestyles Private Limited and its online platform, www.candere.com. Through this platform, its customers can purchase a wide variety of jewellery under the Candere and Kalyan brands, as well as enroll in its purchase advance schemes.

Robust and effective internal control processes to support a growing organisation and showroom network with a pan-India presence: KJIL has established a robust set of operational and control processes to manage business operations and to support future growth at both the showroom and corporate level. Given the high value nature of its jewellery, its inventory management and internal audit procedures are critical to the success of its business. It closely tracks its inventory starting from the initial procurement of raw materials to its ultimate sale in its showrooms, including by barcoding each piece of finished goods inventory and conducting daily counts at its showrooms. Further profits generated by the company should be primarily derived from the value addition the company creates, which reflects the strength of the Kalyan brand, and not from changes in the price of gold. Consequently, KJIL generally employ various techniques to hedge its gold inventory to protect it from price fluctuations, including the use of gold metal loans, forward contracts and options.

Business Strategy:

Leverage scalable business model to expand showroom network and diversify channels of distribution*:* The Indian jewellery industry is expected to continue to witness a shift in demand in favour of organised jewellery companies, which are likely to continue to gain market share from the unorganised market. Its strong brand, scalable business model, effective operational processes and proven track record of profitable expansion, all positions it well to capitalise on this market opportunity, and accordingly KJIL intends to further expand its network of showrooms. It intends to leverage its substantial past efforts and experience, to expand its presence across several markets in India which it has identified as having potential for opening further showrooms. The significant investments it has already made in (a) brand building across a large number of local markets, (b) understanding the varying nuances of customer behavior across geographies, and (c) building an artisan network across various parts of India, will enable KJIL to effectively utilise its previously proven playbook in successfully expanding its showroom network. In addition, it plans to continue to diversify its channels of distribution. It intends to set up Candere kiosks in shopping malls, as well as at some of its showrooms in order to offer its customers the option to purchase products offline and also offer them the opportunity to tangibly experience its products offered online. It also intends to leverage its increasing engagement with a digitally savvy consumer base to increase revenues for jewellery sold online through www.candere.com.

Widen product offerings to further increase consumer reach: KJIL intends to continue to increase its focus on studded jewellery going forward as these products has widened the consumer base to which KJIL caters and also typically has a higher gross margin profile than its gold jewellery. It tailor its showrooms to offer prominent displays of diamond and other studded jewellery and, in many cases, has entire floors dedicated to such jewellery. Furthermore, it has launched a number of sub brands around its studded jewellery range. Indian jewellery consumers are also becoming increasingly brand conscious and developing greater sophistication in their jewellery preferences. Given this trend, KJIL is continuing to explore opportunities to expand its range of sub-brands and to introduce new branded jewellery lines that are targeted at both specific customer niches as well as the luxury market focused on high-end gold and studded jewellery. It has introduced a range of jewellery collections under distinct sub-brands, such as "Muhurat", "Mudhra", "Rang", "Nimah" and "Anokhi", which are designed to cater to specific customer niches such as antique jewellery, temple jewellery and polki diamonds and precious stones jewellery. KJIL intends to build further on this portfolio of branded jewellery, which allows to engage in distinct marketing efforts targeted at certain customer niches, and to couple this with its strategy to increase range of jewellery offerings, in order to widen its appeal across larger cross sections of the Indian jewellery consuming population.

Leverage "My Kalyan" network to deepen customer outreach and strengthen the distribution network in core markets: KJIL intends to continue leveraging its extensive "My Kalyan" network of 766 centres across India to deepen customer engagement and actively bolster its efforts to acquire a larger customer base in the markets in which it operates. Furthermore, the local and unorganised jewellery players who dominate some of these markets have been and may continue to be adversely impacted by the COVID-19 pandemic. Given this opportunity to access latent demand, it plans to build the employee strength across its "My Kalyan" centres to increase customer engagement and drive traffic to its showrooms. Additionally, it intends to expand its "My Kalyan" network in areas where its network is currently underpenetrated relative to the scale of the latent demand opportunity in those particular markets. Based on KJIL's past experience, its "My Kalyan" network and strategy significantly enhances its distribution footprint in a manner which would be difficult for its peers to easily replicate and enables it to access India's large pool of jewellery customers across urban, semi-urban and rural markets

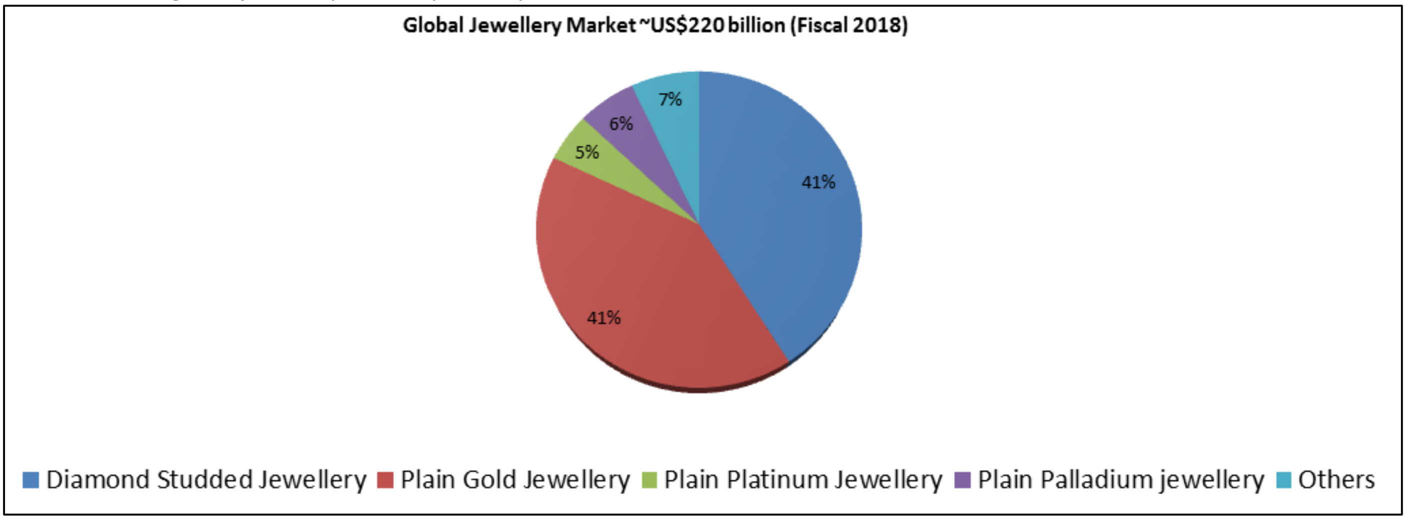
Invest in CRM, marketing and analytics to more effectively target consumers and drive sales: KJIL intends to continue to invest in customer relationship management, or CRM, strategies, campaigns and technologies to analyse and manage customer interactions and related data throughout the customer lifecycle, with the goal of creating a long-term relationship with customers, building customer retention and driving sales. It acquire data to identify and understand its customers from numerous sources, including its showroom sales, in-person customer visits, mobile app, online platform candere.com, Kalyan Matrimony site and its "My Kalyan" network. It has micro websites for each of its showrooms as well as for various jewellery designs and products that enables search, leads generation and tracking in a hyperlocal manner. Its access to data allows to understand customer consumption patterns and preferences, enabling targeted advertising campaigns and hence influencing its merchandising strategy. KJIL is able to target customers through SMS messages, WhatsApp, e-mails and phone calls in order to inform customers of promotions and sales that are of particular interest and relevance to them, as well as to build its brand image. KJIL plans to leverage the "near me searches" technology through which it is able to make its "My Kalyan" centres and showrooms discoverable across internet searches and allows its customers to contact a showroom or "My Kalyan" centre closest to them seamlessly. It also intends to further build its relationships with external agencies that assist with analytics in order to use data more effectively and to target new uses and methods of analyzing customer data.

Industry

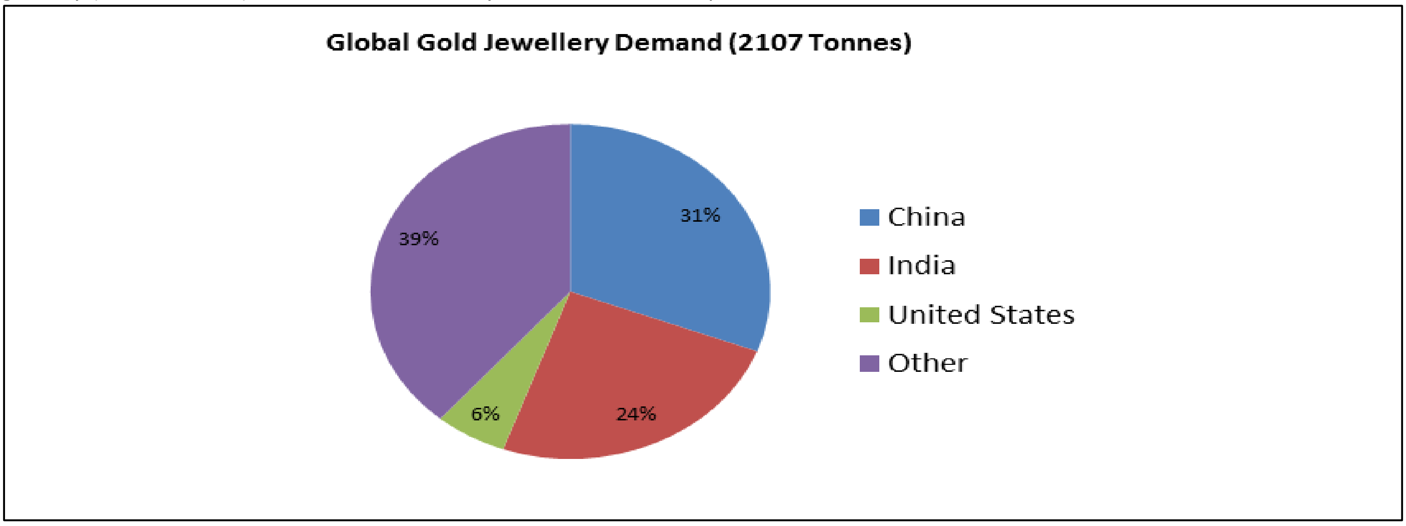
Overview and Structure of the Jewellery Industry

Global Jewellery industry

The global jewellery market consists of several types of jewellery products. Diamond Studded Jewellery and Plain Gold Jewellery form 41% and 41% of the global jewellery mix, respectively.



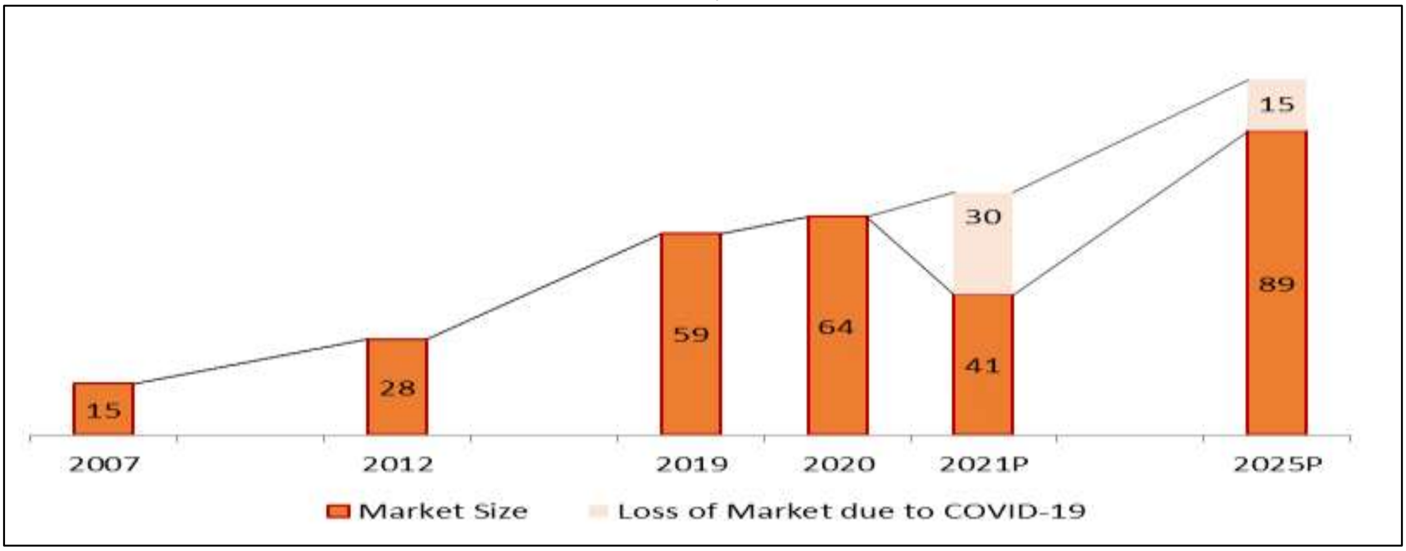
China, USA and India are the top three gold jewellery markets of the world, and the Indian gold jewellery industry is the second largest globally (behind China). *Global Gold Jewellery Demand 2019 – Top Countries*



Indian Jewellery Retail Industry

The Indian jewellery retail sector's size in Fiscal 2020 was approximately US$64 billion. The sector's organized retail share stood at approximately 32%, comprised of national and regional players, while the rest of jewellery retail continues to be dominated by the unorganised segment, comprised of over 500,000 local goldsmiths and jewellers.

Indian Domestic Jewellery Retail Market Size (US$ billion)



In the wake of the COVID-19 crisis, the demand for Fiscal 2021 is projected to drop by 37% and thereafter estimated to bounce back and grow at an accelerated CAGR of 22% for the next four years. Within the jewellery retail industry, the organized segment is expected to de-grow by 32% whereas the unorganized segment is expected to de-grow at 40% in Fiscal 2021. It is expected that the larger players in the organised space will consolidate the market share away from the unorganised segment because of weak balance sheets of the smaller players and their inability to sustain during the lockdowns which severely constricts their ability to maintain their operations. Furthermore, on the demand side, consumers' desire for a safer shopping experience with larger shop space which permits social distancing, well trained store personnel and strong systems/processes that ensure a safe retail experience will also benefit the large organized jewellers. Consequently, some players such as the industry leaders many not face as deep a contraction as the smaller players.

The impact on jewellery has been less severe as compared to other discretionary categories like apparel and accessories given:

Wedding-related element: Price and income inelasticity of wedding-related jewellery demand underpins the sustenance of this category. Wedding and wedding-related jewellery, which constitutes 60% of India's total demand, will remain resilient.

Investment-related element: As gold will continue to be a safe haven asset class and be perceived to have intrinsic value, jewellery demand is also expected to remain protected.

There will be an overall reduction in spending to compensate for income loss and in order to save for any further uncertainty. While jewellery as a category is expected to be more resilient, the demand of daily wear and non-wedding related occasion wear jewellery which constitutes 40% of the total demand may face some near-term headwinds.

Health and economic concerns have reduced consumer confidence. There may be a long-lasting impact on consumer behaviour and retailers will have to devise transformational strategies to match the changed times, reevaluate the store portfolio, invest in service, experience, omni-channel to serve new customers, look at newer payment methods and manage costs through operational improvement measures.

Key trends that signify the construct of the Indian jewellery market:

Heterogeneous demand influenced by strong regional preferences

Indian consumers' jewellery consumption is influenced by multiple factors such as region, income, cultural notions and generally vastly differs across states. Southern states make up 40% of the Indian gold jewellery market while the Eastern states account for 15%. Gross weight of gold worn by a bride in Kerala is more than double the weight of gold worn by a bride in Gujarat signifying that cultural factors scores over per capital income when it comes to regional skews observed in jewellery purchase in India. Customer service expectation also varies from one region to other. Wedding jewellery demand in particular is influenced by local traditions and designs. While the gross weight of an average wedding jewellery purchase is 200 gm in Uttar Pradesh, it is 350 gm in Kerala. In the southern states of India, consumer purchasing behaviour gravitates towards traditional plain gold jewellery where margins are typically lower. Consumers in the Northern and Western regions of India are more receptive to studded jewellery and impulse-led lighter-weight jewellery purchases (14k, 18k jewellery) *viz-a-vis* their southern counterparts. Plain gold jewellery typically has gross margins ranging from 10% to 14%, while diamond-studded jewellery has gross margins ranging from 30% to 35%. Consequently, as the studded ratio (studded jewellery/total revenue) goes up, profitability improves, thereby incentivising the expansion of south focused retailers towards the north, west and east.

Demand heterogeneity is also influenced by seasonality in jewellery purchases witnessed across regions in India. Jewellery demand peaks during the run up to marriage months such as May-June, September-November and January. Agriculture output and monsoon influences gold demand in Tier II and Tier III towns. Rural households invest their proceeds from harvests in gold jewellery during the months of November and December. Demand for gold and silver jewellery goes up during auspicious religious events like Diwali/Dhanteras in October and November and Akshaya Trithiya in April and May.

Such pronounced regional preferences also act as a strong barrier for organized retail to scale up from a regional to a national presence, because it demands a nuanced understanding of varying consumer preferences in local markets, an ability to market effectively to a differing audience, localized sourcing and product strategy, and significant working capital. It is a challenge for organized players to operate at a meaningful scale in each micro market and have reasonably large procurement volume that entice the best of the artisans in each market to work with them. For this reason, only a few local players have managed to become regional players and fewer yet have managed to expand nationally.

Accelerated Growth of Organized Jewellery Retail

Demand Side factors

Urbanization and migration**:** Rapid urbanization given economic opportunities have led to the formation of new households and new arrivals in metros, cities and towns. Migrating consumers' association with their family jewellers is hence disrupted and they rely on trusted brands that can offer transparency, purity and designs.

India's Demographics**:** India has more than 65% of its population under 35 years of age and more than 229 million women aged 20 years to 49 years. Though gold based wedding and daily jewellery continue to remain the main component of their demand these consumers are influenced by global trends and seek studded jewellery, better designs and triggers for purchases that average out throughout the year (for instance gifting). They are better aware and look for the assurance of quality, authenticity and purity of jewellery during their jewellery purchase process. These shifting consumer trends offer natural advantages to organized players who can cater to these needs.

Price transparency and product quality: Indian jewellery consumers are becoming increasingly brand conscious and developing greater sophistication in their jewellery preferences. They are exposed to a variety of global and national brands for luxury products. They expect similar transparency and product quality for their jewellery. They wish to understand the price methodology followed (cost of materials such as gold, silver and precious stones, making charges etc.) and be assured of quality of the final product, which can be aptly handled by organised retailers only. Players like Tanishq and Kalyan were among the pioneers in the Indian jewellery market in adhering to the highest quality standards for jewellery and introducing price transparency into their products.

Service Expectations**:** Jewellery represents an asset with lifetime ownership and tacitly acts as an investment asset. Therefore, consumers now expect jewellery purchases to be amply supported by after-sales service like product buyback at fair market price, transparency in billing and product customization, among others. Such demands necessitate services to accompany product retailing and organized players are better placed to bundle them to address this need. Also, organized jewellers offer readymade products which eliminated wait time for customers.

Impact of promotional campaigns and sustained brand building effort: Organized jewellery retailing has been on a sustained brand building trajectory since 2000. Jewellery retailers now adopt a multipronged marketing approach that leverages social media, print, television, PR and radio. Organized retailers have successfully used this approach to educate customers about purity, transparency and trust to build their brand and that has helped them to capture the growing incremental demand.

Retailing experience**:** Organized jewellery retailing today signifies ready-made ornaments, wide product range that offers designs and selection, and a superior showroom experience that augers well with the changing expectation of the consumers. Its ability to offer a better retailing experience has therefore shifted jewellery consumption demand in its favour.

Response to COVID-19: Given greater awareness of safety and security, consumers' desire for a safer shopping experience with more space, hygienic conditions, well trained store personnel and robust systems/processes that ensure a safe retail experience will also benefit organized jewellers. Consumers will continue to avoid going to crowded areas where many unorganized players typically have their outlets.

Supply side factors

Demonetisation**:** This led to the adoption of plastic/digital money in the jewellery sector. The adoption of cashless transactions has brought in further transparency into the sector. Demonetization helped organized players to further penetrate the wedding market and the high-value jewellery segment by capturing market share from unorganized players whose business was predominantly based on cash.

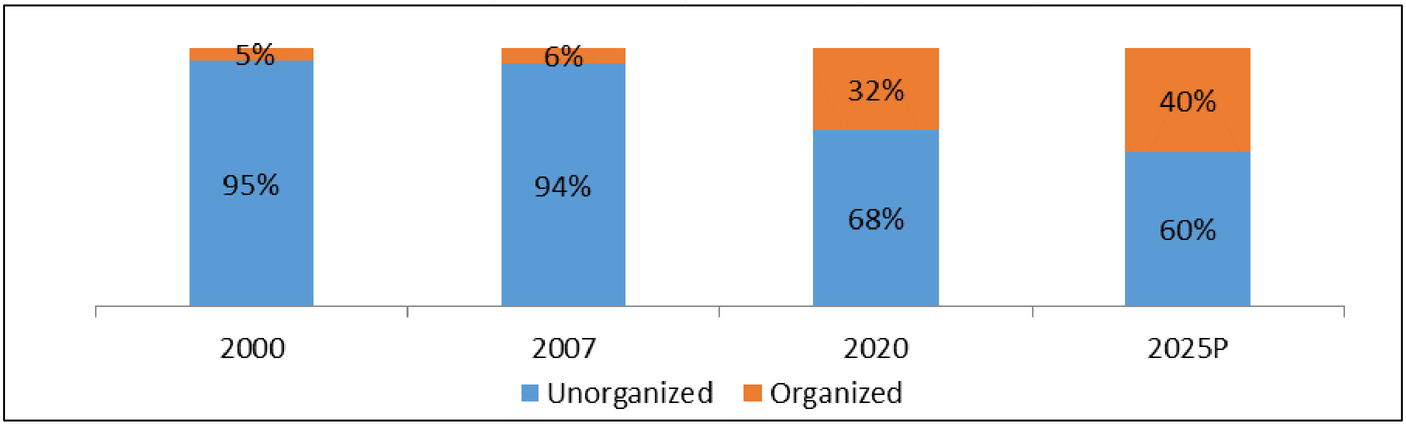
Goods and Services tax**:** The Goods and Services Tax ("**GST**") with effect from July 1, 2017 brought in greater transparency in the jewellery market by enforcing tax compliance. It favours organized players that can manage prescribed processes

Compulsory hallmarking of Gold Jewellery**:** Under-caratage has been a long-standing challenge for jewellery retailing in India and had provided an unfair advantage to many unorganized jewellery retailers who were not required to disclosure purity standards. Compulsory hallmarking which will take effect from 2021 puts additional cost and process requirements on unorganized players and aims to address this issue. It will lead to a further shift of business from the unorganized to the organized jewellery segment.

Mandatory permanent account number (“**PAN”)** Card on transactions above Rs.200,000 with effect from January 1, 2016 for jewellery purchase: As per government estimates, jewellery was a major destination for undisclosed income (black money) in India. The PAN card requirement makes it compulsory to establish the identity of the buyer which makes it difficult for unorganized retailers to operate.

Immunity to COVID-19**:** The future impact of the COVID-19 crisis would depend on how immune businesses are to the crisis. Companies that have a strong immune system (balance sheet strength, reliable promoters and a good product/service proposition) would continue to thrive, resulting in the further consolidation of the market with these stronger players and increase in market share for them. The resilience will also be reflected in the way these companies adapt to operating in the new normal. Only some of them will be able to position themselves as responsible businesses duly following the norms of social distancing, sanitization, and to invest in digital transformation as well as their service proposition.

Organized and Unorganized Jewellery Market breakup



Distribution of Urban / Rural Consumption

Urban India accounts for only 40% of gold jewellery demand and the rest is contributed by rural India. Gold ownership is higher in rural India and it rises with income levels. The government’s intervention in reviving the rural economy through investments, agri-reforms, increasing MNREGA allocation, provision of essential supplies and restoring opportunities for workers will improve conditions in villages going forward and as that happens, jewellery demand will benefit both because of its cultural significance and safety element as a store of value.

The share of organized retailing in rural jewellery retail continues to be low. This is owing to the fact that rural demand is dispersed which increases the cost of retailing for organized retailers. Hence, organized retailers have adopted a two-pronged approach. The first is to increase their presence beyond Tier I cities into Tier II and Tier III towns to capture rural demand from the vicinity of these towns and therefore, organized retailers with a better mix of stores in favour of non-tier I towns are advantaged in capturing this demand. Second, few organized retailers have also been refining their retailing models to directly tap into the rural demand. Tanishq launched GoldPlus in 2005 and created a presence in rural and semi-urban focused retail play in 30 towns across 5 states. In January 2017, GoldPlus was subsumed under the Tanishq brand to consolidate Tanishq’s offering under a single brand to cater to both rural and urban demand. Kalyan Jewellers with its 766 “My Kalyan” stores channelizes demand partially from the rural hinterland and drives customers to the nearest Kalyan Jewellers showroom as well as directly enrols customers into the company’s gold savings schemes.

Strong Influence of Gold in Indian Jewellery will continue with emerging sub-segments

India is the second largest gold market in the world. In 2018, gold demand in India stood at 760 tonnes and 70% of this demand was utilized for jewellery. The diamond jewellery market of India accounted for approximately 13% of the total Indian jewellery market in 2018. Due to the COVID-19 crisis, consumption priorities have changed and have been skewed in favour of need based products and services. Pure gold jewellery is seen to have an intrinsic value and therefore is likely to get less impacted. Also, the wedding-related jewellery segment will remain steady as weddings will continue to take place. However, the sale of studded jewellery, daily wear and occasion wear jewellery may get deferred as other product categories which complement the new style of living, working, socialising and travelling could take priority in the near-term.

Emerging Sub-Segments

The Indian jewellery market is strongly skewed towards fine jewellery that is signified by an ornamental look, embellishments, and higher weight, among others. This is a direct outcome of the fact that 90% of the jewellery sold in India caters to wedding-related wear and daily wear and only 10% was meant for fashion wear (that signifies light weight). In a market like the United States, such a market composition is usually found to be opposite.

However, these sub-segments within jewellery such as light weight gold, silver and studded jewellery have been registering a consistent growth over the last 10 years and now contribute almost 10% to the total fine jewellery segment. While jewellery in India has had a strong association with social occasions and traditions, the growth of this segment signifies a gap that existed in the space of contemporary design sensibility and affordable price points. Through this segment, businesses are targeting younger women with a modern outlook, often residing in urban centres. Businesses have started to address this demand by spinning new lines of products either as separate brands or collections. Tanishq launched its first sub-brand Mia for women with modern sensibilities in 2011 and now has 30 stores in 26 cities. Mia by Tanishq mostly sells 14k, 18k gold variants and recently it has launched a line of silver jewellery as well. Players such as Fabindia and Amrapali are important players in the silver jewellery segment. Platforms like Caratlane and Bluestone are also catering to the same segment.

The Way Forward for E-Commerce in Jewellery Retailing

The current growth of online jewellery retailing is driven by the affordable range of low carat gold, studded and silver jewellery that caters to urban demand in Metro cities and Tier I towns. While the daily wear segment may also merge with this demand and open up for e-commerce especially in the urban centres, the wedding-related segment will remain challenged for this channel given the higher ticket value and low incidence of purchase. Mirroring the global pattern, online penetration of organised jewellery retail is likely to increase over time. Most leading national players understand the growing importance of this trend and therefore have started to invest in digital marketing and online sales.

Unique advantages of gold retailing

Gold has special place in Indian culture. It is used for traditional purposes like marriage, religious rituals and gifting. In India gold jewellery has an aspirational value. It serves a dual purpose of ornamentation and investment. Selling gold in form of jewellery, bar and coins does not require a push like other lifestyle retail categories such as footwear and apparel. There is no inventory obsolescence risk in jewellery retailing as products can be recycled to make new ones. Jewellery being a high-ticket item, means the relative cost as the percentage of revenue on rent, employees and promotions with respect to footwear and apparel is low. The majority of the cost of setting up jewellery store goes into inventory

Key Trends Impacting the Jewellery Market in India

Goods and Services Tax (GST)

Since its launch on July 1, 2017, GST has replaced a number of indirect taxes and duties levied by the Central and State governments with three types of GST, that is, central GST ("**CGST**"), state GST ("**SGST**") and interstate GST ("**IGST**"). It has created a uniform national market. Prior to GST, taxes on gold included customs duty of 10%, Excise duty of 1% and value-added tax of 1.2% in most states in India. Currently, taxes on gold include customs duty of 12.5% and GST of 3%. However in the recent budget of 2021, the government reduced the customs duty to 7.5%

Demonetization

On November 8, 2016, the Government of India announced Demonetization of Rs.500 and Rs.1,000 currency notes that accounted for approximately 86% of total currency in circulation. This step was taken to curtail the shadow economy and use of counterfeit cash to fund illegal activities. This measure had temporarily led to a cash shortage in economy and has boosted digital transactions and the cashless economy. Demonetization helped organized players to penetrate the wedding market and the high-value jewellery segment by capturing market share of unorganized players, who operated mainly in cash thereby creating a level playing field. It also led to the adoption of plastic/digital money in jewellery sector. The adoption of cashless transactions has brought in transparency and efficiency in the sector. It incentivised unorganized players to adopt digital payments which improved regulatory compliances by unorganized retailers. This levels the playing field and to some extent favours organised retailers as they were already bearing the cost of regulatory compliance.

KYC Compliance

The Indian government introduced a requirement for a PAN card to purchase jewellery worth Rs.200,000 and above (earlier, the threshold was Rs.500,000 and above) from January 1, 2016 onwards. This requirement removes the advantage of unorganized retailers who have a predominantly cash based business model for which transactions are largely untraceable from a compliance perspective. In addition, organized retailers are better equipped to handle the processes associated with the PAN card requirement.

Hallmarking

Gold serves a dual purpose of investment and ornament and is prone to contamination. Historically, there has been 10% to 15% of gold leakage due to over-valued or under-carated purchase in India which negatively impacts Indian gold buyers Less than half (approximately

40%) of the gold jewellery sold in India is currently hallmarked. To overcome these challenges, hallmarking of gold jewellery and artefacts with purity of 22 CT, 18 CT and 14 CT will be made mandatory across the country from 2021. The Ministry of Consumer Affairs, Food and Public Distribution issued a notification in early 2020 stating that a year's time will be given to jewellers and retailers to register themselves before January 15, 2021 with the Bureau of Indian Standards ("**BIS**") and clear their old stock but due to disruptions in the wake of COVID, the deadline was later extended to June 1, 2021. It will catalyze penetration of organized retail as unorganized players will lose their advantage of adulteration propelled profits. However, type of gold jewellery demand in India depends on the region and occasion of purchase. The regulatory framework is evolving to ensure customers get fair value for their money.

Foreign direct investment norms

The Government of India allows 100% foreign direct investment in the jewellery sector under the automatic route.

Challenges for the Jewellery market in India

Gold imports in India attract a custom duty of 12.5%. This increases the cost of gold jewellery in India. Jewellery demand by frequent travellers has also shifted to other countries due to significant price advantage. The growth of small/family jewellers is limited due to paucity of funds from formal lending sector. Historically, they have been running their business in cash, which makes credit evaluation difficult for formal lending institutions. Gold jewellery manufacturing suffers from poor infrastructure and informality. It is currently dominated by small manufacturers that do not have access to transport, vaulting and credit facilities. This makes the sector prone to a higher cost of business. Jewellery industry depends on import for key raw materials. A majority of diamond and gold is imported from few foreign suppliers that have control over the raw material supply and can dictate the terms. Also, demand of gold and diamond jewellery is subjected to uncertainty with their prices governed by national and international events such as rate hike by United States Federal Reserve and demand from key markets, among others. Formal lending by banks to the Indian gems and jewellery segment has reduced after 2017. Increasing non-performing assets across the sector coinciding with certain cases of fraud have led the bank to increase collateral and disclosure requirements.

Overview of the Middle East Market

The expansion by Indian jewellery retailers outside of India is primarily to meet the demands of Indian diaspora abroad who have similar product preferences as Indian customers. Therefore, the sale by Indian jewellers of their jewellery in the international market is largely viewed as an extension of their domestic businesses. Kalyan Jewellers was the third largest Indian jeweller with an international presence in Fiscal 2019. The gulf cooperation council ("**GCC**") region comprising Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain and Oman host approximately 8.5 million non-residential Indians (approximately 15% of the total population in this region). For the size of the Indian diaspora, over 90% of global stores of key Indian jewellery retailers (organized) are in the GCC region to cater to the jewellery needs of Indian diaspora in the region. Indian jewellers have established themselves quickly in the GCC region which has resulted in increase in market share of Indian jewellers in the GCC region.

Key Concerns:

- The strength of brands is crucial to KJIL's success and it may not succeed in continuing to maintain and develop its brands.
- KJIL's ownership structure in the Gulf Cooperation Council states where it operates, while consistent with the approach taken by many other companies operating in the region, is subject to risks associated with foreign ownership restrictions and KJIL's shareholder arrangements with local shareholders.
- KJIL may be unable to respond to changes in consumer demands and market trends in a timely manner.
- KJIL may be unable to maintain or establish arrangements with contract manufacturers and suppliers through whom it manufacture its products and procure raw materials, and may experience other disruptions or quality control risks in the operations of such parties.
- Ability to attract customers is dependent on the success and visibility of its showrooms.
- KJIL is subject to succession risks as it has entered into nominee shareholder arrangements with natural persons.
- The agreements governing KJIL's indebtedness contain conditions and restrictions on its operations, additional financing and capital structure.
- KJIL's Subsidiaries have availed unsecured loans from the Company that are recallable, at any time.
- KJIL's Promoters have provided personal guarantees to secure certain of its loan facilities, which if revoked or invoked may require alternative guarantees, repayment of amounts due or termination of the facilities.

- KJIL may be subject to negative publicity with respect to its products or brand or any third party using the name “Kalyan” or similar trade names.
- The Company may not be able to successfully adapt its systems, including internal controls and procedures over financial reporting, as a result of increasing business complexity.
- Any failure of or disruption to information technology systems could adversely impact the business and operations.
- KJIL has received certain inquiries involving its gold schemes, any adverse outcome of which may adversely affect it and/or its Directors under applicable laws.
- Inability to appropriate the advances received from customers under purchase advance schemes, against the sale or supply of jewellery within the timeline(s) specified under applicable laws, may adversely affect KJIL and/or its Directors under applicable laws.
- The current geographic concentration of KJIL’s operations creates an exposure to local economies, regional downturns and severe weather or other catastrophic occurrences.
- Changes or a downturn in economic conditions, in particular in principal markets, may affect consumer spending, including on KJIL’s products.
- May be unable to expand product offerings and distribution channels or manage significant growth.
- KJIL could face customer complaints or negative publicity about customer service.
- Income and sales are subject to seasonal fluctuations and lower income in a peak season may have a disproportionate effect on results of operations.
- Business depends on Promoters and senior management and KJIL’s ability to attract and retain sales personnel.
- KJIL have significant working capital requirements and its ability to access capital at attractive costs also depends on its credit ratings.
- KJIL obtain a part of its gold requirement through metal gold loans which is subject to RBI regulations in India. Any adverse change in the regulations governing metal gold loans may adversely affect its financial condition and results of operations.
- KJIL may require additional capital and financing in the future and KJIL’s operations could be curtailed if it is unable to obtain required additional capital and financing when needed.
- KJIL is required to maintain various licences and permits for its business.
- KJIL may not be able to protect its trademarks from infringement
- The Company may fail to protect its jewellery designs.
- KJIL may be subject to fraud, theft, employee negligence or similar incidents.
- Business generates or processes customer data, and the improper use or disclosure of such data could subject KJIL to significant reputational, financial, legal and operational consequences, and deter current and potential consumers from using its services.
- KJIL may be subject to risks from strategic acquisitions.
- Faces competition in the markets in which it operates and may not be able to effectively compete in the future.
- KJIL may be subject to fluctuations in prices or any unavailability of the raw materials that it use in its products.
- Introduction of new value added tax regimes into the GCC may adversely affect the business and financial performance.
- Changing regulations in India could lead to new compliance requirements that are uncertain.
- If inflation rises in India, increased costs may result in a decline in profits.

Profit & Loss

Particulars (Rs in million)	9MFY21	FY20	FY19	FY18
Income				
Revenue from operations	55167.0	101,009.2	97,707.6	105,479.5
Other income	330.9	801.0	432.7	322.5
Total revenue from operations	**55,498.0**	**101,810.2**	**98,140.3**	**105,802.0**
Expenses				
Cost of sales	45,184.3	83,917.7	81,983.4	88,017.0
Excise duty on sale of goods	0.0	0.0	0.0	219.3
Employee benefits expense	2,345.9	3,572.3	3,814.0	3,687.4
Finance costs	2,887.8	3,803.15	3,790.6	3,491.8
Depreciation and amortisation expense	1,700.5	2,391.7	2,236.2	2,020.3
Other expenses	3,970.8	5,916.6	6,106.8	6,228.3
Total expenses	**56,089.1**	**99,601.3**	**97,931.0**	**103,664.1**
Profit before Tax	**-591.2**	**2,208.9**	**209.3**	**2,137.9**
Tax expense				
Current tax	454.8	591.3	204.4	753.7
Deferred tax (credit) / charge	-246.5	194.8	53.5	-25.7
Total Tax Expenses	**208.3**	**786.1**	**257.9**	**727.9**
PAT	**-799.5**	**1,422.8**	**-48.6**	**1,410.0**
EPS	-1.0	1.7	-0.1	1.7
Equity	8392.4	8392.4	8392.4	8392.4
FV	10	10	10	10
PATM (%)	-1.4	1.4	0.0	1.3

(Source:RHP)

Balance Sheet

Particulars (Rs in million)	9MFY21	FY20	FY19	FY18
Assets				
NON CURRENT ASSETS				
Property, Plant and Equipment's	9862.4	10791.9	10897.3	10082.9
Capital Work-in-Progress	384.5	242.3	167.1	179.9
Right of Use Assets	8405.4	10110.5	9849.4	7904.7
Investment property	611.4	622.3	622.3	622.3
Goodwill on Consolidation	50.6	50.6	50.6	50.6
Intangible Assets	80.0	96.6	100.2	125.4
Intangible assets under development	1.1	2.2	50.2	0.0
Investments	0.0	0.0	25.6	10.6
Financial Assets				
Other financial assets	624.4	588.4	744.2	371.5
Deferred tax assets (net)	331.4	81.0	302.3	426.5
Other non-current assets	567.1	617.3	665.6	1028.1
TOTAL NON CURRENT ASSETS	**20918.2**	**23202.9**	**23474.6**	**20802.5**
CURRENT ASSETS				
Inventories	51682.0	47203.4	45007.0	50220.7
Financial Assets				
Trade Receivables	1305.0	2136.5	1466.9	1818.2
Cash and Cash Equivalents	1280.2	1608.7	1501.0	1781.7
Bank balances other than (ii) above	4230.7	5892.7	6753.4	8397.4
Other Financial Assets	379.1	812.2	460.5	431.5
Other Current Assets	1434.7	1330.4	1935.6	2060.3
Assets held for sale				
TOTAL CURRENT ASSETS	**60311.6**	**58983.9**	**57124.5**	**64709.8**
TOTAL ASSETS	**81229.9**	**82186.8**	**80599.1**	**85512.3**
LIABILITIES				

EQUITY AND LIABILITIES				
Equity Share Capital	8392.4	8392.4	8392.4	8392.4
Other Equity	10991.5	12028.2	10459.3	10120.9
Compulsorily convertible preference share capital	1190.5	1190.5	1190.5	1190.5
Non-controlling interest	4.5	-30.3	-35.8	-23.2
TOTAL EQUITY	**20578.9**	**21580.8**	**20006.4**	**19680.6**
NON CURRENT LIABILITIES				
Financial Liabilities				
Borrowings	556.8	848.4	1075.0	1786.1
Lease liabilities	5993.8	6674.1	7304.9	6229.6
Provisions	343.0	306.8	239.7	199.9
TOTAL NON CURRENT LIABILITIES	**6893.6**	**7829.2**	**8619.7**	**8215.6**
CURRENT LIABILITIES				
Financial Liabilities				
Borrowings	26,354.6	23,382.1	20,999.5	18,435.7
Metal gold loan	8,035.3	11,671.4	14,964.3	19,529.3
Lease liabilities	834.4	903.4	680.6	714.7
Total outstanding dues of micro and small enterprises	1.0	0.0	0.0	0.0
Total outstanding dues of creditors other than micro and small enterprises	5,282.7	5,575.6	4,194.1	7,486.4
Other financial liabilities	1,956.2	656.4	974.5	1,661.3
Provisions	90.4	78.2	70.6	67.8
Other current liabilities	10,453.8	10,119.0	10,084.3	9,272.7
Current tax liabilities (net)	749.0	390.7	5.2	448.3
TOTAL CURRENT LIABILITIES	**53,757.4**	**52,776.8**	**51,973.1**	**57,616.1**
TOTAL EQUITY AND LIABILITIES	**81,229.9**	**82,186.8**	**80,599.1**	**85,512.3**

(Source:RHP)

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