December 31, 2024

Kalyan Jewellers India Limited: Ratings reaffirmed and outlook revised to Positive for bank facilities; [ICRA]A+ (Positive) assigned for fixed deposit programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund-based Working Capital/ Cash Credit	2,600.00	2,345.00	[ICRA]A+/ [ICRA]A1; Reaffirmed; outlook revised to Positive from Stable
Short-term – Interchangeable Limits	(1,808.00)	(1347.00)	[ICRA]A1; Reaffirmed
Short-term – Non-Fund Based Limit - Forward Cover	-	50.00	[ICRA]A1; Reaffirmed
Long term/ Short term – Unallocated Limits	-	205.00	[ICRA]A+/ [ICRA]A1; Reaffirmed; outlook revised to Positive from Stable
Long term - Fixed deposit programme	-	525.00	[ICRA]A+ (Positive); Assigned
Total	**2,600.00**	**3125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating to Positive from Stable considers the expected improvement in the credit profile of Kalyan Jewellers India Limited (KJIL) over the near-to-medium term. KJIL's financial profile is characterised by healthy growth in revenues and earnings in FY2025 (estimated) led by the steady ramp-up of operations of the new stores opened in recent years, healthy same-store-sales growth, continued store expansions (especially in non-South markets), increasing share of margin-accretive studded jewellery sales and gradual conversion of unorganised to organised trade amidst formalization of the sector. KJIL's focus on accelerated growth in the non-South markets primarily through the asset-light franchisee owned, company operated (FOCO) model, wherein the inventory at the store level is held by franchisees, is also resulting in steady and sustained reduction in working capital intensity and improvement in debt protection metrics. The ratings also consider KJIL's large scale of operation, its established market position and being among the top few players in organised jewellery retail industry, well diversified operational profile, strong brand name and track record of over three decades in the industry. These, coupled with increased footprint outside tier-I cities are likely to result in a sustained growth in KJIL's revenues and earnings, going forward.

KJIL's consolidated operating income rose by ~32% on a YoY basis in H1 FY2025, following a strong 30% and 32% growth in FY2023 and FY2024, respectively. The growth has been supported by various factors – healthy same store sales growth, conversion of unorganised to organised trade, better realisations, rising share of studded jewellery sales and store expansions in the non-South markets through the franchisee route. KJIL's revenue from the non-South markets grew by ~46% in FY2023, ~70% in FY2024 and ~46% in H1 FY2025 on a YoY basis, uplifting the share of non-South revenues (in KJIL's standalone operation) to 48.5% in FY2024 from ~34% in FY2022. It introduced the FOCO[1] model in FY2023 and added 133 FOCO stores till H1 FY2025 (including Candere and Middle East stores) vis-à-vis only 12 own/COCO[2] stores added since FY2023. An increasing share of revenues from the asset-light FOCO stores, which currently contribute nearly one-third of the turnover, has resulted in a steady decline in KJIL's inventory days and NWC/OI ratio to 154 and 20% respectively, in H1 FY2025 from 221 and 41% respectively, in FY2022. KJIL's consolidated ROCE too has steadily increased to 13.5% in FY2024 from 8.9% in FY2022, and is likely to improve further, going forward, with lower capital requirements. The company's deleveraging plans and focus on asset-light expansion strategies are likely to support the leverage and coverage metrics, going forward.

[1] Franchisee owned, company operated

[2] Company owned, company operated

The ratings, however, also consider the risks of intense competition both from organised and unorganised players, which limits players' pricing flexibility, vulnerability of earnings to the volatility in gold prices and the inherent regulatory risks in the gems and jewellery industry. These apart, lower gross margin from FOCO stores (due to profit sharing with franchisees) is likely to keep KJIL's operating margin expansion restricted, though lower interest expense attributable to the asset-light FOCO model would support the net margin. In H1 FY2025, the company's operating margin declined to 6.1% from 7.2% in H1 FY2024, partially owing to a one-time loss of ~Rs. 69 crore booked in Q2 FY2025 on account of a reduction in the customs duty on gold import by 9%. The company is likely to book such loss of Rs. 50-60 crore in Q3 FY2025 as well. The overall impact of the customs duty cut on KJIL's operating margin in FY2025 is estimated at ~50 basis points. KJIL hedges the entire gold inventory through gold metal loans, gold-on-lease and derivative routes, which mitigates its exposure to adverse fluctuation in gold prices.

Key rating drivers and their description

Credit strengths

Strong revenue and earnings growth, aided by improving business diversity and significant store additions – KJIL's operating income grew by 32% in FY2024 following a growth of 30% in FY2023. In FY2024, the company added 71 stores which coupled with improved realisations, increasing share of studded jewellery sales and stable consumption supported the company's revenue growth. In H1 FY2025, the company registered a healthy YoY revenue growth of 32%, aided by its expanding store network and an uptrend in realisation. The company increased its number of stores to 303 as of September 30, 2024 from 137 as on March 31, 2021; the 166 stores added during this period include 130 Kalyan stores and 36 stores for Candere, its affordable/lightweight jewellery brand. The company plans to add ~80 Kalyan stores and ~50 Candere stores in India in FY2025, out of which a major portion has been executed. Going forward, faster conversion of unorganised to organised trade (with increasing formalisation of the sector) is expected to support KJIL's same store sales growth. Besides, increased footprints outside tier-I cities are likely to result in sustained growth in its revenues and earnings.

Improving geographical and product diversification to strengthen business risk profile – The share of non-South markets in KJIL's Indian operation increased in recent years and stood at ~49% in H1 FY2025, rising from ~35% in FY2022, on a standalone basis. Besides, out of KJIL's consolidated revenue, ~14% was derived from Middle East countries in FY2024 and H1 FY2025. Sizeable store expansion in non-South markets along with plans to expand business in Middle East and other countries (a store has been opened in the US recently) are likely to drive further improvement in KJIL's geographical revenue mix. The company's share of studded jewellery remained healthy and improved consistently to 30% in H1 FY2025 from 28% in FY2024 and 26% in FY2023, on a standalone basis, supported by expansion in the non-South markets, where the demand for studded jewellery is relatively higher. The studded share in Middle East stood at 19% in Q2 FY2025 against 18% in Q2 FY2024. Improving geographical diversification and rising share of studded jewellery, which fetches relatively higher margins, will strengthen KJIL's business profile.

Expansion through the asset-light franchisee model, backed by KJIL's established market position and brand, reducing capital requirements and improving return metrics – KJIL opened its first franchisee store in Q1 FY2023 and has since adopted the FOCO model as the preferred mode of retail expansion. The model minimises incremental capital requirements as the stores' inventory and most of the operating expenses are borne by the franchisee partners in return of a share of KJIL's gross margins. As on September 30, 2024, KJIL had 133 FOCO stores (including 105 Kalyan stores and 24 Candere stores in India and 4 Kalyan stores in Middle East) vis-à-vis 170 own stores. Expansion through the asset-light FOCO model has led to a gradual reduction in the company's inventory days to 154 in H1 FY2025 from 221 in FY2022, in turn, reducing its NWC/OI to 20% in H1 FY2025 from 41% in FY2022. Reduced working capital intensity has translated into a rise in the company's ROCE to 13.5% in FY2024 from 8.9% in FY2022, which is likely to rise further in the medium term.

Inventory hedging to mitigate risk of price volatility – Volatility in gold prices may lead to variation in profitability of jewellers. However, KJIL hedges the entire gold inventory through gold metal loans, gold-on-lease and derivative routes, which mitigate its exposure to adverse fluctuation in gold prices.

Favourable long-term growth prospects of organised jewellers – Increasing regulations in the jewellery segment, aimed at greater transparency and standardisation and higher compliance costs have been resulting in the shifting of market share in favour of the organised jewellery retailers. This is likely to be an advantage for KJIL due to its pan-India presence and brand equity. ICRA expects KJIL to continue to increase its revenue base while riding the industry tailwinds over the medium term, supported by a loyal customer base and an extensive network of stores. The customs duty cut by 9% in July 2024 is expected to disincentivise illegal import, benefiting the organised players like KJIL.

Credit challenges

Moderate coverage and capitalisation metrics, notwithstanding likely improvement going forward, given the company's planned deleveraging and healthy earnings growth – KJIL's debt protection metrics are moderate, though the same are improving over the years. Its TOL/TNW ratio stood at 2.0 times in FY2024 while the consolidated interest coverage stood at 3.9 times in FY2024 and 4.0 times in H1 FY2025, gradually improving from 2.5 times in FY2022. Going forward, the debt protection metrics are likely to improve amid expected improvement in earnings, and asset-light growth strategy, reducing the working capital requirement. The company has plans to reduce debt by ~Rs. 300 crore in FY2025, and Rs. 350-400 crore in FY2026.

Intense competition and fragmented nature of the industry limit pricing flexibility – The jewellery retail business is highly fragmented and is exposed to intense competition from organised and unorganised players. These limit the retailers' pricing flexibility to an extent, though mitigated by an established brand and differentiated products offered by large, organised players like KJIL. Besides, its earnings are susceptible to the volatility in gold prices.

Exposed to regulatory risks and seasonality in demand – The domestic jewellery sector continues to remain exposed to the regulatory risks, which could have an adverse impact on the business. Restrictions on bullion imports, mandatory PAN disclosure on transactions above a threshold limit, imposition of GST and demonetisation are some regulatory developments that have impacted demand and supply in the past. Revenues and cash flows of the jewellery players are also exposed to seasonality in demand, based on the numbers of auspicious days, festivals, crop harvest etc.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/ flooding in the operating regions, impacting its jewellery stores. Additionally, possibility of rural demand for jewellery moderating during periods of crop loss, caused by physical climate change, also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour, including a shift towards less gold-intensive daily/ fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on the margins, given the skilled nature of work.

Liquidity position: Adequate

KJIL's liquidity position is adequate. Its consolidated cash flow from operations (CFO) remained healthy above Rs. 500 crore in FY2024, and is likely to be above Rs. 600 crore in FY2025, supported by reducing working capital intensity amid expansion through the FOCO model. KJIL incurred a capex of Rs. 350-380 crore in FY2024 (excluding right-of-use assets), however, a major portion of the same was spent for franchisee stores. It has incurred capex of ~Rs. 70 crore for franchisee stores in the current fiscal, but in its new FOCO model, the capex for franchisee stores will be undertaken by the business partners. Hence, the annual capex is likely to remain in the range of Rs. 160-170 crore in the medium term vis-à-vis Rs. 210-220 crore estimated for FY2025 (including maintenance/renovation capex). KJIL has sizeable encumbered cash of Rs. 797 crore as on March 31, 2024 on a consolidated basis, representing margin money and collaterals. Its free cash and liquid investments stood at Rs. 182 crore as on March 31, 2024 on a consolidated basis. This along with nominal long-term debt repayment obligation (excluding lease liabilities) of ~Rs. 8 crore in FY2025 and an adequate cushion in working capital limits support KJIL's liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to maintain a healthy growth in revenue and earnings and reduce its working capital intensity on a sustained basis. Improvement in liquidity, capital structure and debt coverage metrics would also remain critical for ratings upgrade. Specific credit metrics that could lead to ratings upgrade include an interest cover above 4 times and TOL/TNW below 2 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is sustained pressure on KJIL's operating performance or a deterioration in its working capital cycle, adversely impacting the coverage metrics and liquidity position. Specific credit metrics that could lead to ratings downgrade include an interest coverage below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Jewellery - Retail
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KJIL along with its subsidiaries and step-down subsidiaries listed in Annexure-II.

About the company

Kalyan Jewellers India Limited (KJIL), promoted by Mr. T. S. Kalyanaraman and his sons, is an established jewellery retailer in India with an established market presence for more than three decades. It is one of the top jewellery retailers in India having showrooms in more than 20 states and union territories. As of September 2024, the company had 267 stores in India including 231 Kalyan stores and 36 stores of Candere, the lightweight/affordable jewellery brand of the Group. Candere is housed under a subsidiary, Enovate Lifestyle Private Limited (Enovate). KJIL's equity stake in Enovate has increased from 85% to 100% in the current fiscal after acquisition of its minority stake by KJIL. The company also has 36 Kalyan showrooms in the Middle East. The stores in the Middle East are operated through its overseas wholly-owned subsidiary, Kalyan Jewellers FZE (UAE) and other step-down subsidiaries. Recently, the company has opened a showroom in New Jersey, US, through a US-based wholly-owned subsidiary. KJIL is listed on BSE and NSE since March 2021.

Key financial indicators (audited)

KJIL Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	14,031.2	18,500.0	11,601.0
PAT	431.9	596.3	307.9
OPBDIT/OI	7.7%	6.9%	6.1%
PAT/OI	3.1%	3.2%	2.7%
Total outside liabilities/Tangible net worth (times)^	1.9	2.0	2.1
Total debt/OPBDIT (times)^	4.0	3.5	3.2
Interest coverage (times)	3.6	3.9	4.0

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Unaudited; ^Total outside liabilities and total debt include lease liabilities*

Note: The financial indicators mentioned above are as per the company's reported numbers, however, ICRA also makes various adjustments for analysis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022
				Dec 31, 2024	Nov 03, 2023	Sep 25, 2023	Apr 20, 2023	Oct 28, 2022	Jun 03, 2022	Oct 28, 2021
1	**Fund-based Working Capital/ Cash Credit**	Long-term/ short-term	2345.00	**[ICRA]A+ (Positive)/ [ICRA]A1**	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+
2	**Interchangeable Limits**	Short-term	(1347.00)	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
3	**Non-Fund Based Limit - Forward Cover**	Short-term	50.00	**[ICRA]A1**	-	-	-	-	-	-
4	**Unallocated Limits**	Long term/ Short term	205.00	**[ICRA]A+ (Positive)/ [ICRA]A1**	-	-	-	-	-	-
5	**Term Loans**	Long-term	-	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)
6	**Unallocated Limits**	Long-term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
7	**Fixed Deposit Programme**	Long-term	525.00	**[ICRA]A+ (Positive)**	-	-	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A (Stable)	MA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based Working Capital /Cash Credit	Simple
Short-term – Interchangeable Limits	Simple
Short-term – Non-Fund Based Limit -Forward Cover	Very Simple
Long term/ Short term – Unallocated Limits	Not applicable
Long term - Fixed deposit programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	**Fund-based Working Capital /Cash Credit**	NA	NA	NA	2345.00	[ICRA]A+ (Positive)/ [ICRA]A1
N.A.	**Interchangeable Limits**	NA	NA	NA	(1347.00)	[ICRA]A1
N.A.	**Non-Fund Based Limit - Forward Cover**	NA	NA	NA	50.00	[ICRA]A1
N.A.	**Unallocated Limits**	NA	NA	NA	205.00	[ICRA]A+ (Positive)/ [ICRA]A1
N.A.	**Fixed Deposit Programme**	NA	NA	NA	525.00	[ICRA]A+ (Positive)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name^	KJIL Ownership	Consolidation Approach
Kalyan Jewellers India Limited	Rated entity	Full Consolidation
Subsidiaries		
Kalyan Jewellers FZE, UAE	100.00%	Full Consolidation
Kalyan Jewellers, Inc., USA	100.00%	Full Consolidation
Enovate Lifestyles Private Limited	100.00%*	Full Consolidation
Step-down subsidiaries		
Kalyan Jewellers LLC, UAE	100.00%	Full Consolidation
Kalyan Jewellers For Golden Jewelries, W.L.L., Kuwait	49.00%	Full Consolidation
Kalyan Jewellers LLC, Qatar	49.00%	Full Consolidation
Kalyan Jewellers SPC, Oman	100.00%	Full Consolidation
Kenouz Al Sharq Gold Ind. LLC, UAE	100.00%	Full Consolidation
Kalyan Jewellers Procurement LLC, UAE	100.00%	Full Consolidation
Kalyan Jewellers Procurement SPC, Oman	100.00%	Full Consolidation

*Source: KJIL; *KJIL's shareholding in the entity has increased to 100% in the current fiscal from 85% as on March 31, 2024; ^As on September 30, 2024*

Note: The erstwhile step-down subsidiary Kalyan Jewellers Bahrain W.L.L. ceased to be a subsidiary as on March 31, 2024

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