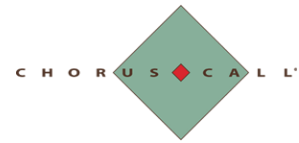




“Kalyan Jewellers India Limited
General Call”
January 14, 2025



MANAGEMENT: **MR. RAMESH KALYANRAMAN – PROMOTER AND EXECUTIVE DIRECTOR – KALYAN JEWELLERS INDIA LIMITED**
MR. SANJAY RAGHURAMAN – CHIEF EXECUTIVE OFFICER – KALYAN JEWELLERS INDIA LIMITED
MR. V SWAMINATHAN – CHIEF FINANCIAL OFFICER – KALYAN JEWELLERS INDIA LIMITED
MR. SANJAY MEHROTRA – HEAD OF STRATEGY AND CORPORATE OFFICE – KALYAN JEWELLERS INDIA LIMITED
MR. ABRAHAM GEORGE – HEAD OF TREASURY AND INVESTOR RELATIONS – KALYAN JEWELLERS INDIA LIMITED

MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES**

Moderator: Ladies and gentleman, good morning and welcome to the Kalyan Jewellers India Limited General Update Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will remain in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Please go ahead sir.

Manoj Menon: Hi, everyone. It's a wonderful good morning, good afternoon, good evening depending on the part of the world you are joining this call from. At ISEC, we are hosting the general business update call of Kalyan Jewellers today. So we have the entire management of the team. So just requesting Abraham from the management to introduce the management participants. Post which, we'll open the floor for Q&A. Thank you.

Abraham George: Hi. Good morning, everyone. Today, we have on the call Mr. Ramesh Kalyanraman, Promoter and Executive Director; Mr. Sanjay Raghuraman, Chief Executive Officer; Mr. V Swaminathan, Chief Financial Officer; Mr. Sanjay Mehrotra, Head of Strategy and Corporate Office and me Head of Treasury and Investor Relations. Yes. I'll leave the floor open for the call.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hi, team, a few days back we --Ramesh, actually, so we saw you on CNBC. There's a lot of questions asked by our Mangalam and team. I think beyond what was there in the quarterly release about, let's say, are you planning to buy more aircrafts or let's say, is there any issues regarding auditors or some stuff like that? I think what will be helpful in a floor like this would be to clarify anything which are coming your way and what's your stance on some of these aspects?

Ramesh Kalyanraman: Yes. Thank you, Manoj. So again back to aircraft after a long time. So at Kalyan we do not have any plans to buy any aircraft. So, in fact, you are all aware that we had initiated steps to sell two business jets during FY2023. We received the funds by the end of FY2024. And as we speak by September, there are no aircraft in the books, except for a helicopter which we have not told that we will sell and there is no plans to sell the helicopter.

And regarding what you spoke about the auditors, there's absolutely no basis for this. We are in regular touch with our auditors. And as we speak, the auditor is conducting the audit for the third quarter. In any case, you would get the audited financial statement for December quarter in the coming weeks. And let me re-emphasize at this juncture that we have always strived to maintain a very high standard in our bookkeeping, quality of auditors, diversity and depth of our Board of Directors, disclosures, internal control processes and overall corporate governance. Did I answer you, Manoj?

Manoj Menon: Yes, Ramesh. Thank you.

Moderator: Thank you. We take the next question from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: Hi, Ramesh and team. Sir my question is again with regards to certain rumours that are floating around. So one is regarding there has been some IT raids that has been conducted by the department. And then there is some overvaluation of inventories and also the fact that the other question is that Manoj has already asked. So plus there are -- this is franchisee thing where you have changed the franchisee agreement retrospectively and then there are many franchisees that are leaving. So probably if you can clarify all of these?

Ramesh Kalyanraman: Yes. First of all, you told about three or four things. I can confirm that there are -- there have been no raids at any of our premises. As you mentioned, it was just a rumour. And then you were talking about what inventory. So inventory levels as mentioned in our financial statement, go through multiple levels of audits which all of us know.

In fact, I would like to draw our attention to free cash flow generated over the last couple of years. As you are all aware, we have repaid around INR450 crores debt over the last 18 months. In addition to around INR170 crores of dividend which we paid last pay-out. And we are well on target to achieve this year's target to reduce debt. So I don't think there's meaning -- that's all I can tell you about the inventory and stuff.

And then you were asking about the franchisee terms. This also we have mentioned in our previous interactions. We have, of course, made changes to the franchisee agreement during the current financial year, but this is only for the new showrooms which are coming up in the financial year and it will not impact any of the agreements that we have signed in the past under the previous model.

Gaurav Jogani: Yes, just a last thing here just in terms of the franchise agreement, the new ones at least, are you - what kind of traction are you seeing post introducing this the new terms? Is it favourable to the franchisee? Are they agreeing for it or there is any resentment from them?

Ramesh Kalyanraman: We are, of course, you know that we opened 50 showrooms this financial year. We are again going to open 30 more in the financial year, which was there in the update and which is in the new model. Next year's expansion plan is also there in the update which we did in the last week. Next year, 75-plus Kalyan showrooms and everything this is a new model. And we have started signing for the next year and it is very favourable for the next financial years.

Gaurav Jogani: Sure. Thanks. That's all from me.

Moderator: Thank you. The next question comes from the line of Vihang Subramanian from Zaaba Capital. Please go ahead.

Vihang Subramanian: Hi, thanks for taking my question. Just one question if you could clarify on the promoter's pledge. If you could just clarify at what price has that been done and what are the terms of your pledge?

Ramesh Kalyanraman: Yes. So the pledge of shares reflecting against the promoter name, all of us know. And I'm just reconfirming that it was to acquire shares from Warburg Pincus. And one thing which we can say is that before entering into promoter financing agreement we, of course, had enough attention, have given enough attention to liquidity and pledge levels and have controlled our exposure accordingly.

And as promoters we have always prioritized the company interest ahead of everything. And it would be very inappropriate for me to talk about it further because this call is not a promoter call meaning it's for Kalyan and let me please stop at this.

Vihang Subramanian: Sir, just actually...

Ramesh Kalyanraman: And one thing which I can tell you is the shares were brought from Warburg at the end of FY20. So that also I'll tell you for your comfort.

Vihang Subramanian: But could you just clarify if the pledge has been went to one party or multiple parties?

Ramesh Kalyanraman: Yes. So there are multiple parties, multiple lenders for the transaction.

Vihang Subramanian: Okay, got it. That's it from my side. Thank you.

Moderator: Thank you. The next question comes from the line of Prem Prakash, an Investor. Please go ahead.

Prem Prakash: Yes hi Ramesh. Good morning. I'm one of the retail investor actually. So, I mean, congratulations first for the fantastic business update that KJ has given for the Q3. However, at the same time, on the day of when this business update was given to the market, we are seeing continuously fall in the market. Market has not taken hit in a positive way. That's what we can see from the last 6 days.

So is there something that the market is sensing that this increase in this or it will not continue further for the next quarter or the next year something, or even it is government issue or something that the retail industry is not aware of?

Ramesh Kalyanraman: No. So as I gather from the questions on this call, I presume that there might have been some rumours floating around and which is all baseless. And that is the main intention of this update call also. In the business front, nothing has changed because Q3 was great and we have updated the numbers of Q3. The results will also come in the next 2 -- few weeks. And nothing majorly can change over a week.

So there can be possibly some rumours which have been floating around and that was the main intention of this update call as well.

Prem Prakash: Okay. Thanks so much. Thank you.

- Moderator:** Thank you. The next question comes from the line of Raj S Vyas from TM Investment Technologies Private Limited. Please go ahead.
- Raj S Vyas:** Thank you for the opportunity. As you mentioned rightly so that you made some changes to the franchisee agreement and it is only applicable for the new showroom that are coming up for, I guess, for next year. So, can you elaborate on the same like what are the changes like with respect to the existing this agreement that is a old agreement, franchisee agreement and the new? So what are the difficulties or any challenges that you guys have faced?
- Ramesh Kalyanraman:** No. So there are no challenges being faced as I mentioned before because this change of franchisee is not a surprise for anybody. It has been a planned execution and the major change is that initially the franchisee stores we were investing for the capex fit-out and the franchisee partner was investing for the inventory. Now the new model is capex and inventory is being invested by them. That is the major change which we have done.
- Raj S Vyas:** Okay. Rest of the looks like good.
- Ramesh Kalyanraman:** Yes, everything is perfectly aligned and that's why we gave the next year expansion plan also and everything is on track.
- Raj S Vyas:** Okay. Thank you.
- Moderator:** Thank you. The next question comes from the line of Vikrant Kashyap from Asian Market Securities. Please go ahead.
- Vikrant Kashyap:** One just one of the participant asked that is there any termination of franchisee agreement if you can clarify on that?
- Ramesh Kalyanraman:** No, I'm not -- it's not really clear. Your voice is not very clear. Can you repeat the question again?
- Vikrant Kashyap:** Is there any termination of franchisee agreement that you had already signed or maybe the store has been opened?
- Ramesh Kalyanraman:** Yes. Of course, we have a few terminations of contracts where there can be somewhat we call some breach of contracts done by some franchisee partners and stuff, not major maybe three or four.
- Vikrant Kashyap:** Okay. And there are even more rumours...
- Ramesh Kalyanraman:** That also has been intimated before meaning when we have changed our franchisee, we have told before that there has been terminations in the franchisees.
- Vikrant Kashyap:** Okay. There is one more rumour going around in the market. I won't in the agency, but the rumour is there is one agency which may have or likely to conduct an inquiry on Kalyan

Jewellers stating that the promoters or promoter group has bribed some fund managers to raise the price in the market. That's one I have heard?

Ramesh Kalyanraman: Yes that is also very absurd allegation. We have always conducted our business and our interactions with all stakeholders are with very high level of integrity and transparency. So I can only leave this like this wherein I cannot answer further on this and it's very absurd when you hear itself.

Vikrant Kashyap: Thank you Ramesh. That's all from my side.

Moderator: Thank you. The next question comes from the line of Prolin Nandu from Edelweiss Public Alternatives. Please go ahead.

Prolin Nandu: Hi, team. Thank you for doing this call. So few questions one is that on this franchisee agreement. So, let's say, if I'm a franchisee who joined in FY '24, FY '25 and FY '26. For me everything else remaining equal, how will my IRR change for a franchisee who has joined in FY '24, '25 and '26?

If you can just help us understand whether there is any significant change in IRR to make it a little less attractive for franchisee to come and take the franchise of Kalyan? If you can just give some color on this part?

Ramesh Kalyanraman: Yes. So, as I mentioned before, the major change would be the investment wherein the ROCEs can be a bit more lower, because initially they were investing only in the inventory. Now they are investing for the capex as well as inventory. Sir the ROCEs can go around by approximately 2%.

Prolin Nandu: And sorry, can you give some approximately range as to will it go down from 18% to 16% or what could that number be?

Ramesh Kalyanraman: Yes. So the usual ROCEs are approximately 17%. So now it can come down up to 15%.

Prolin Nandu: Okay. And when you think from a franchisee point of view, I mean 17% to 15% is a decent enough difference. So how is the franchisee thinking whether that 15% still makes sense because there are not many opportunities that will give you 15% or how should one -- if you, as a business owner step into the shoes of another business owner, let's say, the franchisee, what is it that is bringing him on table even at 15% IRR?

Ramesh Kalyanraman: Here again, the proof of the pudding in eating. So as I mentioned 50 showrooms this year is in the new model. And all the new showrooms for the next year is in this model. And we have almost signed up all the franchisees for the next financial year. And even now there is a huge waiting list for taking our franchisee. And the major advantage for a Kalyan franchisee is the FOCO model, wherein they do actually nothing and they get 15% ROCE. And again, most of the people leverage also. So the return on equity is much higher than the ROCE.

- Prolin Nandu:** Right. I understand. Thank you for clarifying this and so is there any change in the franchisee agreement between the franchisee that you have signed in FY '25 and the ones which you intend to sign next year or it remains -- it's the same?
- Ramesh Kalyanraman:** So the last -- the second half of the financial year is almost everything the new model. That is the same model for the next financial year. And let me be very clear that there is no retrospective change. So only the new showrooms are being changed this model. It's not changed in the back meaning people who have taken the first showroom cannot come to this model now.
- Prolin Nandu:** I understand. So just from a slightly more longer term if we leave some of the noises apart, which you have adequately kind of answered you as again owners of this business has had a fantastic run in past few years since listing outperforming the jewellery sector, organized jewellery sector. So what is it that -- on the business side that keeps you awake at night or you worry about some of the things which you think can derail this fantastic run that we have? If you can just - from a longer-term perspective, right, just share your thoughts on this?
- Ramesh Kalyanraman:** Again, I have done this in the previous calls when people ask wherein the only area which we focus now is on execution because we are into expansion mode. We are going to open 80 showrooms in the financial year wherein 50 have been already opened by September and next year also we are going to open 170 showrooms spread across Candere and Kalyan. So execution is our primary focus. There is no new strategy which has to be in place.
- There is no new R&D which has to be done for Kalyan Jewellers. It is predominantly focused on execution for which we are aligned. Our whole team is working only to make this execution in tune with our execution plan. So otherwise business is the same, everything remains the same. And there is nothing major which can change over a week.
- Prolin Nandu:** That's it from my side team. Thanks a lot and the very best.
- Ramesh Kalyanraman:** Yes. Thank you.
- Moderator:** Thank you. The next question comes from the line of Abhishek Sengupta from AB Capital. Please go ahead.
- Abhishek Sengupta:** I just wanted to ask that we have been growing very nicely for the last few years. I just wanted to ask in the long term like for next 3 years, 4 years, will the same type of sales growth continue going forward like next maybe for next 3 years?
- Ramesh Kalyanraman:** So again I will tell you that like what you said in the last 2 years, 2.5 years, the SSGs have been very strong. It has been in the double digits. And the store expansion plan is also on track. The new franchisee model is really working for the brand. The expansion for the brand is really happening. Market share gain is really happening, huge shift from unorganized to organized is in place.

So there is nothing major which can change in the near future. That is the only thing which I can tell you. And again, there are n number of markets where we can go and expand. Even with this store count we are only 50% to the industry leader. And there is -- there are markets where we can go and enter. I cannot tell further on the 3 year or 4 year number, but this is what I have to tell for you to actually observe.

Abhishek Sengupta:

Okay. Right.

Moderator:

Thank you. The next question comes from the line of Vikrant Kashyap from Asian Market Securities. Please go ahead.

Vikrant Kashyap:

Ramesh sir on the franchisee closure -- have we offered the franchise agreement that we have - have you offered to other franchisee our -- and the store has been closed on the locations, closure has been done?

Ramesh Kalyanraman:

You were talking about the franchisee closure, right?

Vikrant Kashyap:

Closure, yes.

Ramesh Kalyanraman:

Okay. So there is a -- you -- all of us know that there is a lock in of 4 years and we if we close the franchisee, it will be only if there is some breach and even if we do it will be converted to own store rather than closing the premise because the premise is also in the name of Kalyan Jewellers. The lease is in the name of Kalyan Jewellers. And that is why the lease has been in the name of Kalyan Jewellers because the relationship can weary, but we cannot leave the premise because it's a Kalyan brand.

Vikrant Kashyap:

Okay. And in the international market you have also given update that you are going to open new stores. So are they continuing on the stores or you have planned for franchisees terms?

Ramesh Kalyanraman:

So all the new stores for the next financial year as updated recently will be FOCO model franchise in India.

Vikrant Kashyap:

So this franchise agreement will be similar in the international markets too?

Ramesh Kalyanraman:

International markets there are small tweaks, but there is no major change in the international model per se.

Vikrant Kashyap:

Okay. So we are offering similar margins to the franchisee partners?

Ramesh Kalyanraman:

Margins?

Vikrant Kashyap:

No, similar margins we are offering to the franchise partners that we are doing in the Indian markets?

Ramesh Kalyanraman:

Yes. So margins can vary because international markets the gross margins can vary, but the methodology is the same.

- Vikrant Kashyap:** Okay. Got your point. Thank you.
- Moderator:** Thank you. The next question comes from the line of Prafull Rai from Arjav Partners. Please go ahead.
- Prafull Rai:** Yes, Prafull. I just wanted more clarity on what would be the impact of these manufactured diamonds on our business? I'm also hearing that the price of natural diamonds is on a steady decline. Will there be inventory markdown because of this and how do you see our future versus the changing industry trend in the future?
- Ramesh Kalyanraman:** Now again as mentioned before, the lab-grown diamonds predominantly is in the Solitaire product. And as a brand, Kalyan Jewellers, we have not focused too much on Solitaire even before. And hence, we don't see an impact on our standard ratio. And even if you look at the last week update which we did the revenue growth was approximately 41% in India. And we have also said that the revenue growth is across our products gold, studded, etcetera.
- Prafull Rai:** Okay. That's it sir. Thank you.
- Moderator:** Thank you. The next question comes from the line of Pradip from Strings. Please go ahead.
- Pradip:** I want to ask you like to reduce the stock fall because the PE is so high. Why can't this be promoter decided buyback some shares? Maybe the -- clarify on the margins, because the margin cut are the INR60 crores onetime loss which has been expected in this quarter maybe promoter can bear it maybe if you [inaudible 25:14] in the market, maybe sentiment will change.
- Even you buyback to reduce the fee or you can simply say that promoter wants to bear the -- or maybe -- somehow it's illegally. You can bear the INR60 crores one-time loss maybe next quarter. I don't know. Sir can you do that?
- Ramesh Kalyanraman:** You're asking about company buyback, right?
- Pradip:** Yes, the company buy back because the problem basically you say that fee is very high. The only way to reduce the [inaudible 25:44] and basically the major concern basically is the one-time loss into it because of duty cut which will continue on this quarter as well. So my question was basically is this continue on the Q4 as well?
- Is it going to reduce only in this quarter only, have you made basically such a mitigation or something that so that this margins will not be less as revolve in Q2 or are you planning to the promoter maybe especially planning to get INR60 crores somehow through them to avoid continuing on the balance sheet maybe because the market sentiments are basically because of that because they are expecting this onetime loss will continue for a few more quarters because I don't know whether the inventory has been completely settle now in the past inventory before the rate cut. Can you answer that?
- Ramesh Kalyanraman:** Yes because the question is long, I would just recheck the question. One was you are talking about a company are we planning for a buyback or can we plan? So as of now...

- Pradip:** There's already the fee, yes.
- Ramesh Kalyanraman:** Yes. So as of now we are using the free cash flow generated to reduce our debt and release the real estate collaterals which is making the balance sheet very heavy. So post the debt repayment if we do not find appropriate avenues to invest the free cash flow we could surely evaluate cash buyback. And if you are mentioning about the promoter buyback, of course, you know that we are on a silent period now and we just do the buyback from a couple of months before.
- Pradip:** So what happens to this onetime loss of the inventory because the inventory you had previously before the gold will be cut? You stated in the previous inventory that it has been maximum INR120 crores and that INR70 crores has been adjusted in Q2 and remaining INR60 crores will be adjusted in Q3. This will continue like Q4 as well?
- Ramesh Kalyanraman:** No. We clearly told the inventory loss, onetime loss will be partially in Q2 and then remaining in Q3. So it is all done by now. There is no more what you call inventory loss which can come in Q4.
- Pradip:** Have you not basically raise the margin on, like, this in your diamond stated products to mitigate all this onetime loss?
- Ramesh Kalyanraman:** We will not be able to -- as you know that we are in the retail business. 40%, 50% of customers are coming back to the same brand. Because we had a onetime loss, we will not be able to increase our gross margin. And again, it might not be very favourable for the customer. And customers are all lifetime customers and we will not be able to frequently change things because of some macro-economical reason.
- So -- and it is what -- the revenue is also growing, strong market share growth. So we cannot disturb anything. And this is onetime and all investors also understand that it's one time and we also understand.
- Pradip:** Because the back inventory has been completely like -- you are like whatever the inventory was there, whole inventory is completely be fulfilled? You're or you're still being pending like?
- Ramesh Kalyanraman:** No. I did not get you there. Can you repeat?
- Pradip:** The inventory was there, so the loss is there because of the inventory loss. What will be purchased before the duty cut the inventory raise was there. That's why there is loss?
- Ramesh Kalyanraman:** Basically the inventory loss, duty cut is majorly for the gold loan quotient because we will not be able to hedge it, the duty cut meaning duty. So it's not an impact for the whole inventory. It's for inventory which is majorly into the gold loan quotient, GML.
- Pradip:** Is that completely like fulfilled for -- in this quarter?
- Ramesh Kalyanraman:** Yes. Q2 plus Q3 the onetime loss will be fully covered. Q2, the number you already know and the remaining will come in Q3.

- Pradip:** But is promoter can tell the media something that basically you are ready to bear maybe I'd ask -- in terms of loan or something like that, it's legally allowed. It's not you are being manipulating some balance sheet, but will give the positive sentiment to the -- the market is saying that basically, you see, promoters are willing to pay INR60 crores from their side somehow because the market has crashed and that Kalyan Jewellers stock has been crashed more than INR600 crores.
- So INR60 crores maybe INR600, so it's a bit of a minimum amount. It's 0.0001, maybe, right, which promoter bear just for market sentiment?
- Ramesh Kalyanraman:** No, I don't know how you are pending all this. According to me, there is no avenue where INR50 crores, INR60 crores can be done by the promoter. This has happened to all the players. All the registered players have the same issue. All the other players also have the same issue. It is a onetime loss and everyone knows about it.
- Pradip:** So has your OPM grown from Q2 to Q3 now?
- Ramesh Kalyanraman:** Pardon.
- Pradip:** Your operating margin has been growing from Q2 to Q3 or it still the same?
- Ramesh Kalyanraman:** For Q3, you mean?
- Pradip:** Yes. If Q3 results is coming up?
- Ramesh Kalyanraman:** No, Q3 result is not yet out. So I will not be able to tell you about the number. In the next few weeks you will be able to understand about it.
- Pradip:** So when will the Q3 results coming up?
- Ramesh Kalyanraman:** We are yet to announce, but yes in a few weeks.
- Pradip:** Okay. But has the OPM has been increased so far like in your case. So have we increased?
- Ramesh Kalyanraman:** No, I will not be able to tell that number because you understand that this update call was not for that and please cooperate. You can please come on after a couple of weeks when we announce our results I will surely clarify.
- Pradip:** No, what I'm not asking about the scale of the result. I'm asking about the margins you have been giving away to the store or taking from the store has the same in Q2 and Q3 or they have changed?
- Ramesh Kalyanraman:** The gross margins are very stable. At the store level gross margins are very stable.
- Pradip:** For the same thing they have not changed. You are now adjusted to recover any losses?
- Ramesh Kalyanraman:** No, we are not.

- Pradip:** So you're not adjusted to recover any onetime loss?
- Ramesh Kalyanraman:** No.
- Pradip:** And so the buyback if I ask, is there a plan for that?
- Ramesh Kalyanraman:** As I told you, we have already layered out our strategy for the next 1.5 years, 2 years. We will use the free cash generator to reduce our debt and release the real estate collateral which is making our balance sheet look very heavy. Post the debt repayment, if we don't find appropriate avenues to invest the free cash flow then we would surely evaluate a cash buyback.
- Pradip:** Has the promoter has placed any shares in last 1 months, 2 months?
- Ramesh Kalyanraman:** Pledged you mean.
- Pradip:** Pledged your share for collateral?
- Ramesh Kalyanraman:** Yes, we pledged 3 months, 4 months before when we bought stock from Warburg Pincus.
- Pradip:** The last part I understand that what the result was there, but last 1 month, 2 months has there been?
- Ramesh Kalyanraman:** No.
- Pradip:** Thank you.
- Moderator:** Thank you. The next question comes from the line of Pavan from Fident Asset Management. Please go ahead.
- Pavan:** Are you seeing any increase in competition either at like store rent levels because there are more people looking to open stores in a similar location that you would be looking or in the making charges that you can charge to customers because the competition is reducing or at the at the karigar fee that you pay to them from manufacturing charges? Any places that you are seeing and in terms of not at the country level, if not at the country level are you seeing any particular pockets like Maharashtra or West Bengal, like in Eastern Asia, any such thing?
- Ramesh Kalyanraman:** The competition you know that it has always been there. And we are a brand. We are very hyper local. So we compete the local players, regional players and also national players. It is not a new thing which has come up for us. And if you look at competition you have seen the numbers for the past many quarters. Revenue has been growing. There is no impact on the gross margin at the store level, so that leaves a message for you.
- Pavan:** Got it. One more thing in reference to the earlier discussion on diamond inventory, how do you -- like is that -- what part of the inventory would be coming from diamonds alone? Is this number of materials if you can't disclose it and how do you hedge that if you see a steady decline in prices?

- Ramesh Kalyanraman:** So first of all let me tell you that the decline in prices are on Solitaire's and as a brand we don't stock too much Solitaire and we don't focus on it. And diamonds we cannot hedge and one-fourth of inventory or approximately one-fourth of the inventory will be standard.
- Pavan:** Okay. Thank you so much.
- Moderator:** Thank you. The next question comes from the line of Manish Poddar from Invesco Asset Management. Please go ahead.
- Manish Poddar:** Hi, Ramesh. Thanks for taking the call. So just two things. One is there anything, let's say, any resentment or any change, let's say, of whatever is happening in the last 1 week? Any feedback, anything from, let's say, vendors or let's say our franchisee partners? If you can call out if there is any, that will be helpful?
- Ramesh Kalyanraman:** But how are they even related to stock market? Stock market volatility is always there. So I don't think the vendor or a franchisee partner is even bothered about our stock market volatility. And nothing has changed over the last week. Everything is on track and everything is going the direction which we want, except for the stock price.
- Manish Poddar:** Okay. And that's very comforting and just one more thing. You all mentioned about, let's say, franchisee closures. Is this marginal or this is part of course this is anything material?
- Ramesh Kalyanraman:** Come back.
- Manish Poddar:** In the earlier comments, you mentioned that there have been some franchisee closures. Is this part of the course or is this material is what I'm trying to understand?
- Ramesh Kalyanraman:** Majorly out of the 100-odd franchisee which we have. There has been closures of around 3 or 4. And predominantly it is because of some breach of contract terms which they would have done. And we have a lock in 4 years. So it cannot be voluntary. They cannot -- we cannot do a voluntary -- they cannot volunteer for a what you call closure. If there has been some breach, then we would have surely, we would have terminated the contract. One franchise who has a couple of showrooms that is the termination that I referred to.
- Manish Poddar:** Got it. This is useful. Thank you so much for taking the call.
- Moderator:** Thank you. The next question comes from the line of Sanjay Singh from Ten X Capital. Please go ahead.
- Sanjay Singh:** Hi, thank you for taking my question. Just wanted to understand how many FOCO franchisees you have as on date?
- Ramesh Kalyanraman:** As on date or as on September?
- Sanjay Singh:** I mean, whatever as of last whatever you've reported?

- Ramesh Kalyanraman:** So we have around 120-odd franchisee stores FOCO.
- Sanjay Singh:** Okay. And rest are COCO or rest are FOCO?
- Ramesh Kalyanraman:** Everything is FOCO. We don't have any other model except for company-owned and then otherwise if you're a franchisee, it's FOCO. So FOCO and COCO.
- Sanjay Singh:** 110 FOCO models and rest are company owned?
- Ramesh Kalyanraman:** Yes.
- Sanjay Singh:** And so when the franchisee in the franchise FOCO stores, is the gold hedged by the franchisee? How does it work because we own the inventory, so technically you cannot hedge it. So how does it work?
- Ramesh Kalyanraman:** Yes. So we do not get into that. The only thing what we do is that the inventory they do a cash flow hedge. So whatever inventory is sold then they buy it back. So that's what we forced to because we have two bank accounts wherein that cash can be used to only do replenish the inventory.
- Sanjay Singh:** Okay. So is there any agreement with the franchisee that if gold prices fall because these franchisees are not more a financial partners per se because they're not involved in the business. They are effectively giving finance and for them anything which gives the highest return is where they would go. So is there agreement with franchisees where in case the gold price falls, it's Kalyan's prerogative that they would have to kind of compensate the franchisees?
- Ramesh Kalyanraman:** No, how can we compensate for the gold price. The inventory is owned by them. The only thing that we have done is we have put in a system wherein to ensure that the volume of gold at the showroom is maintained at the initial level which we have fixed for them. Even though when we tell you INR20 crores inventory internally it's not INR20 crores inventory. It is XYZ kilograms of gold and XYZ units of standard. That level has to be maintained. That system we have put in place.
- Sanjay Singh:** Yes. But what I'm trying to say is these are financial partners. If in case, for some reason, I mean last year or last few years or last many years for 20 years now gold has been on upswing. And if you look at the previous 20 years, 1980s to 2000 gold halved -- gold price had halved. So in case we see some kind of issue with gold prices, then I mean it's -- the franchisee is a financial partner. You would say no I need my returns. So in that sense -- in some sense, Kalyan is also exposed to the -- even if the franchisee holds the inventory?
- Ramesh Kalyanraman:** Returns are in two levels. One was the inventory, for example, if they have invested INR20 crores, say after 7 years, 10 years, that inventory of INR20 crores might have been INR25 crores or might be INR18 crores whatever the case is according to you. The major area where they focus is the return of the so-called 15%, 17% is on the day-to-day business where cash is generated.

So that is where they look at their return rather than the gold price. The returns from making charges is where they focus on. That is the actual return by cash. The other thing is only either increase in their inventory investment or decrease in their investment. There is no cash flow impact on that. That's why we have put the system in place, as I told you.

Sanjay Singh: Typically, when you open a franchisee store, what is the sales which you get from one store on average INR20 crores, INR30 crores?

Ramesh Kalyanraman: It depends upon inventory. So the inventory can vary from INR20 crores to INR30 crores. For making our life easier if it is a INR20 crores store, we will target a 2.5 stock turn, but that's the target for us for revenue. So INR50 crores revenue for a INR20 crores inventory.

Sanjay Singh: Okay. So when you open a store, the first sale is INR20 crores in your books?

Ramesh Kalyanraman: Yes, the initial revenue will be INR20 crores in our book. And we will keep a target inventory turn of around 2.5x, a 3-year average, the first 3-year average.

Sanjay Singh: Okay. Thank you very much. That's it from my side.

Moderator: Thank you. The next question comes from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: Sir, just one last clarification on rumour -- about the rumour only. And there was also one rumour stating that there was an FIR against the promoters so...

Ramesh Kalyanraman: Pardon. I'm not able to hear you properly.

Gaurav Jogani: Sir is it better now?

Ramesh Kalyanraman: Yes, clear.

Gaurav Jogani: Yes. So I think there is one more rumour that is floating around regarding there is some FIR done against the promoters. So go on with a clarification on that one too?

Ramesh Kalyanraman: So I can confirm that we have not received any FIR against the company or the promoter. Anyway, if there was something then we should surely update in the stock exchange so that itself makes it clear that we have not received any FIR against the company or promoter. Yes, we are in the seat of summon which has a reference to an FIR number.

This pertains to litigation with a franchisee partner where the dues were settled and the contract was terminated due to breach of contract terms. According to the legal advice we received this is purely commercial and civil in nature and does not warrant an FIR. We have already taken legal action on it. But to your question, we have not received any FIR against company or the promoters.

Gaurav Jogani: Sure. Thank you.

- Moderator:** Thank you. The next question comes from the line of Rajiv from Nuvama Wealth Management Limited. Please go ahead.
- Rajiv:** Hi, Ramesh. Sir, how long were these terminated franchisees in the system?
- Ramesh Kalyanraman:** How?
- Rajiv:** How long were they associated with us?
- Ramesh Kalyanraman:** This core franchisee whom I was referring to was only for about 6 months or something.
- Rajiv:** Okay. Secondly, the SSG just for a clarification the SSSG report this is largely on secondary sales or it is on secondary sales not on primary?
- Ramesh Kalyanraman:** Only secondary.
- Rajiv:** Okay. And the primaries are largely in tandem with the secondaries or because of, let's say, the momentum you've seen that you're trying to push a little more primaries now?
- Ramesh Kalyanraman:** No. So we follow a replenishment model wherein when the inventory is sold, we refill.
- Rajiv:** Sure. Sure. And thirdly, in terms of the agreement there used to be -- if I my ambition is right there used to be a minimum guarantee in terms of the yields, your franchisee makes, has there been any tweak on that front?
- Ramesh Kalyanraman:** No minimum guarantee for franchisee. We have not given any minimum guarantees. And for Candere, yes, we had what we call given certain minimum guarantee for Candere because we also know that Candere as a brand we have to open the stores and then with a so-called number of stores only we will be able to start our campaigns so for which we have a minimum guarantee in place for Candere.
- But for Kalyan Jewellers, we give only one guarantee which is the gross margin. So gross margins we tell them that there's a gross margin guarantee, but we don't have a return guarantee. We don't have a revenue guarantee.
- Rajiv:** So my question was that they get 60% of the...
- Ramesh Kalyanraman:** Yes that is there. So 60% of the gross margin is guaranteed.
- Rajiv:** If it falls below 12% we'd be guaranteed 12%?
- Ramesh Kalyanraman:** Yes, of course, yes. That's the guarantee which we give.
- Rajiv:** Okay. Thanks a lot sir. That's all from my side.
- Moderator:** Thank you. The next question comes from the line of Sanjay Singh from Ten X Capital. Please go ahead.

- Sanjay Singh:** I just had another question. For your inventory is it gold on loan or I mean, do you hedge it by gold on loan? How much percentage do you hedge and how do you hedge it?
- Ramesh Kalyanraman:** Abraham, do you want to take it?
- Abraham George:** We use gold metal loan also to hedge our inventory. All our gold inventory is completely hedged. Gold metal loan constitutes about close to 40% of our overall gold inventory.
- Sanjay Singh:** And the rest would be -- how do you hedge it through MCX I mean through exchanges or?
- Abraham George:** Through exchanges, through multiple exchanges, yes.
- Sanjay Singh:** Okay. Thank you very much. That's it.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for its closing comments.
- Ramesh Kalyanraman:** Hi, all. Thank you very much for joining the call. It was a very last minute call. Thank you very much and we'll meet you again in a couple of weeks. Thank you very much.
- Moderator:** Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.