Branded Jewellers' FY25 Revenues Set to Grow 20%, Margins May Moderate

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Synopsis

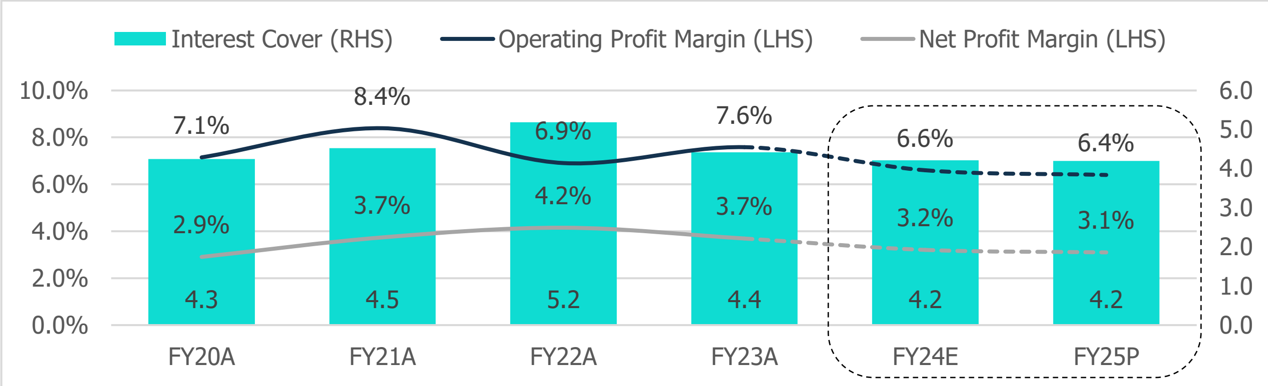
- The domestic jewellery industry is expected to record muted volume growth in FY25 due to a steep rise in gold prices in the recent months, the evolving macroeconomic scenario and the likelihood of high volatility in prices.
- The **branded jewellery retailers** are, however, expected to record healthy revenue growth of 20-22% on a YoY basis in FY2025, with projected volume growth of around 5% YoY, led by aggressive store additions, changing consumer preferences, continued rise in gold prices and steady wedding and festive demand due to the strong cultural affinity of Indians to gold.
- CareEdge Ratings' sample of 8 large jewellery retailers, which account for ~50% of the organised jewellery retail industry by revenue, aggressively expanded their retail footprint in FY2024 with an estimated addition of around 260 stores (~22% of the store count as on March 31, 2023). CareEdge Ratings expects the jewellers to continue the store addition momentum over the medium term to capitalise on industry-wide tailwinds.
- While revenue growth of jewellery retailers is expected to remain healthy, their profitability is projected to moderate in the near term due to front-loaded operating expenses on new stores, higher advertising to drive store footfalls and increased discounting. The steep rise in gold prices in recent months could lead to a temporary liquidity squeeze from margin calls on gold metal loan funding. Nevertheless, the overall credit metrics of organised jewellers are likely to remain comfortable with projected median interest cover above 4.0 times and median Net TOL/TNW below 1.5 times in FY2025 for CareEdge Ratings' sample.
- Average gold prices rose by ~14% on a YoY basis in FY2024 with a steep uptick in price volatility in H2 FY24 owing to economic uncertainties fuelled by global geopolitical tensions and evolving macroeconomic scenario. The recent escalation of conflicts in the Middle East region coupled with speculations around the likelihood of a reversal in the interest rate cycle by central banks will likely keep gold prices on tenterhooks in the near term.

Accelerated store additions by branded jewellers amid changing consumer preferences

After a brief hiatus in FY2021 and FY2022, wherein the operations were impacted by the pandemic-induced uncertainties, most jewellery retailers recommenced their store addition plans in FY2023 and continued it in FY2024 with an addition of around 260 stores by the top six listed jewellery retailers (~22% of their combined store count as on March 31, 2023). CareEdge Ratings expects the organised jewellers to continue expanding their retail network by more than 20% YoY in FY25 to capitalise on the industry-wide tailwinds regarding market share gains and shifting consumer preferences towards branded jewellery retailers.

<u>Impact of aggressive store additions on the financial performance of jewellers</u>: Despite the expectations of high volatility in gold prices translating into muted same-store-volume growth for the industry, the branded jewellers are expected to record a healthy revenue growth owing to contribution from new stores and sustained rise in gold prices. However, the profitability of jewellers is likely to be impacted by front-loaded operating expenses on new stores till the breakeven period (generally 8-12 months), higher advertising expenditure to drive store footfalls and increased discounting to counter rising competition from other jewellers. This is likely to be partly mitigated by inventory gains in the current year and benefits accruing from economies of scale.

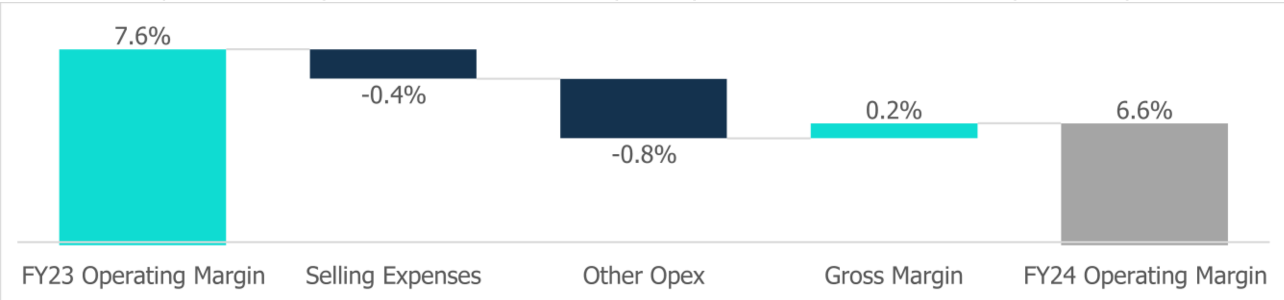
Chart 1: Trend in profitability and interest cover of branded jewellery retailers (median)



Source: CareEdge Ratings

Note: The median values for the sample of 8 jewellery retailers (Titan Company Limited, Kalyan Jewellers India Limited, Senco Gold Limited, Thangamayil Jewellery Limited, Tribhovandas Bhimji Zaveri Limited, Caratlane Trading Private Limited, Khazana Jewellery Private Limited and P.N. Gadgil and Sons Limited) has been considered to correct for outliers.

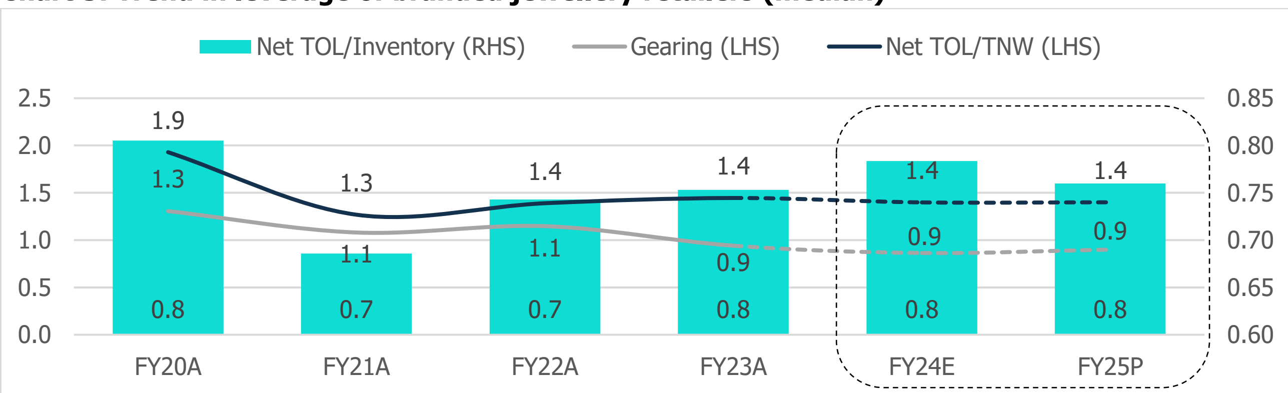
Chart 2: Projected change in median operating margin of entities in CareEdge Ratings' sample



Source: CareEdge Ratings

The credit metrics of CareEdge Ratings' sample of 8 entities are expected to remain comfortable in FY2025 with projected median gearing below 1.0 times and median interest cover sustaining above 4.0 times. The entities are expected to open ~70% of their new stores under the franchisee model (wherein the capex and inventory are funded by the franchisee partner), thereby keeping the incremental capital requirements in check, translating into comfortable credit metrics.

Chart 3: Trend in leverage of branded jewellery retailers (median)

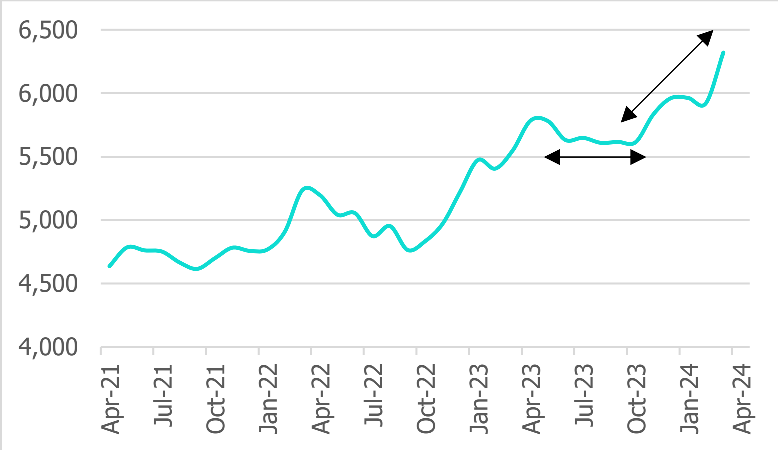


Source: CareEdge Ratings

Note: The median values for the sample of 8 jewellery retailers (Titan Company Limited, Kalyan Jewellers India Limited, Senco Gold Limited, Thangamayil Jewellery Limited, Tribhovandas Bhimji Zaveri Limited, Caratlane Trading Private Limited, Khazana Jewellery Private Limited and P.N. Gadgil and Sons Limited) has been considered to correct for outliers.

Heightened volatility in gold prices since H2 FY24

Chart 4: Trend in gold prices (995 purity; INR per gram)



Source: World Gold Council; complied by CareEdge Ratings

The average gold prices increased by ~14% on a YoY basis in FY2024, on top of a ~7% YoY rise in FY2023, driven by global geopolitical developments, evolving global macroeconomic scenario and persistent domestic inflation. While the volatility in gold prices remained under check in H1 FY2024, with prices remaining range-bound, the yellow metal has demonstrated heightened volatility since H2 FY2024 as evident from the steep rise in prices in Q4 FY2024.

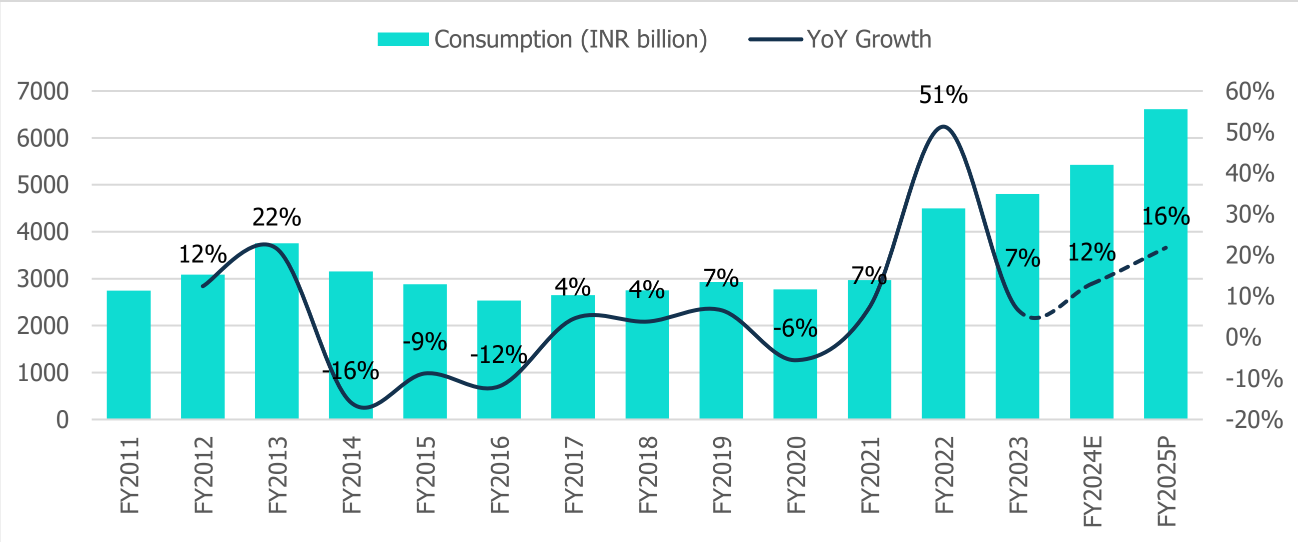
The following factors are expected to induce volatility in gold prices in the near term:

- <u>Global geopolitical uncertainties</u>: Gold has been considered a haven investment with increased demand during periods of economic uncertainty, including territorial conflicts and wars. The evolving escalation of conflicts in the Middle East, particularly between Iran-Israel, Israel-Hamas and Ukraine-Russia is likely to induce gold price volatility.
- <u>Evolving domestic and global macroeconomic landscape</u>: Periods of persistent inflation induce demand for gold for its wide acceptability as a hedge against general price rise owing to its limited supply. The persistent inflationary headwinds in the Western countries and India coupled with speculations around the timing of interest rate cycle reversal by central banks are likely to fuel gold price volatility.
- <u>Steady demand from Chinese consumers</u>: China, which is the world's largest consumer of gold, recorded an uptick in gold consumption by ~15% YoY in CY2023, against a contraction of ~3% YoY in India. This was largely driven by shifting asset allocation towards gold in the light of a crisis in its real estate sector, volatile stock markets and weakening yuan. Amidst limited investment avenues, the steady Chinese demand is expected to support gold prices, going forward.
- <u>Impact of volatile gold prices on domestic jewellery demand</u>: High volatility in gold prices translates into muted volume growth for jewellery as consumers tend to postpone discretionary purchases. Moreover, a steep rise in gold prices over recent months is likely to result in lower sales volumes for jewellers as purchases tend to be a function of the budget. Nevertheless, the strong cultural affinity of Indians to gold and sustained wedding and festive demand are likely to support domestic consumption over the coming quarters.

Industry volume growth to be impacted by gold price volatility and evolving macroeconomic factors

As per data released by the World Gold Council (WGC), India's domestic gold jewellery demand volumes (including bars and coins) declined by ~1% on a YoY basis in 9M FY2024 largely due to elevated price levels. With gold prices having continued the rising momentum with higher volatility since January 2024, CareEdge Ratings expects domestic jewellery volume growth to remain muted over the coming quarters with the evolving domestic macroeconomic indicators remaining key risks to demand. Nevertheless, the expectations of a normal monsoon in the current year coupled with improving consumer confidence and sustained wedding and festive demand for gold are likely to support consumption.

Chart 5: Trend in domestic gold jewellery consumption (INR billion)



Source: World Gold Council, CareEdge Ratings

CareEdge Ratings' View:

CareEdge Ratings expects the branded jewellery retailers to outperform the industry in terms of revenue growth in the medium term aided by expanding store network and shifting consumer preferences. The branded jewellers are expected to record a revenue growth of 20-22% in FY2025 largely on account of a sustained rise in gold prices, purchases backed by cultural considerations and the rapid addition of new stores.

According to Sudarshan Shreenivas, Director, CareEdge Ratings, "The volume growth for the domestic jewellery retail industry is expected to remain muted in FY2025 with factors including high volatility in gold prices in the recent months and the evolving global geopolitical and macroeconomic landscapes remaining key demand constraints. Nevertheless, the expectations of a normal monsoon in CY2025 and sustained wedding and festive consumption of gold in India are likely to support demand in the near-to-medium term."

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