

Thangamayil Jewellery

Vanakkam Chennai!

We recently attended inauguration ceremony of flagship store (10,000 sq ft) with respect to Thangamayil jewellery (TJL) Chennai store and came back positive about medium term prospects on back of:

- Chennai being high potential market (40-45% of Tamil Nadu jewellery sales), TJL did not have any material presence on account of balance sheet constraints and non-availability of quality real estate space in main catchment area. In our view, both material issues are getting addressed on account of proposed right issue and company constructing the store from the ground level in right catchment area (T. Nagar). We expect TJL to adopt cluster strategy and go on blitzkrieg and launch another 10-15 jewellery stores over next 12-18 months in Chennai and adjoining areas, thereby giving maximum bang for the buck
- TJL has right to win despite Chennai despite it being hyper competitive market as it being "D-mart of jewellery retail", where focus is on optimizing inventory turns and maintaining reasonable making charges – thereby catering to low and middle income group; whereas most of other mainstream jewelers target middle and upper income group customers
- High decibel media campaign on back of Chennai foray within Tamil Nadu satellite media shall help management to create increased awareness about the brand in rest of Tamil Nadu (ex-Chennai), which in turn shall uplift SSSg at an aggregate level
- Increasing share from high margin studded jewellery (10% of sales in FY24 to 12% by FY27), as Chennai city has higher affinity towards diamond jewellery
- Increased consumer deposits from its Digigold app shall enable the company to mitigate risks related to sharp surge in interest rates on gold metal loan

Key risk to our call in near term: We can see EPS cuts of 6-7% for FY26-27, if interest rates on gold metal loan were to increase from current 2.5% to 6% on structural basis due to increasing global uncertainty.

Outlook and Valuation: We believe Thangamayil Jewellery, a leading jewellery player in Tamil Nadu, is set to achieve 28%, 34%, and 40% revenue, EBITDA, and PAT CAGR, respectively, over FY24-27. This growth will be driven by the benefits of formalisation, accelerated store expansion, its value-for-money offerings, and the easy availability of capital at competitive interest rates. We view TJL as the D-Mart of Tamil Nadu's jewellery retail sector, applying principles of "high inventory turns and reasonable margins," in contrast to other listed jewellery players who focus on "high operating margins and low inventory turns" to generate respectable return ratios. We continue to maintain a high-conviction BUY and a target price of INR 2,400 (25x FY27 EPS, representing a 25% premium to its five-year one-year forward average PE).

Financial Summary (INR mn)

Year Ending March	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	28,766	36,908	47,220	62,414	77,157
EBITDA	1,290	1,922	2,531	3,791	4,669
APAT	630	1,066	1,379	2,313	2,978
Diluted EPS (Rs)	23.0	38.9	44.4	74.4	95.8
P/E (x)	88.9	52.5	37.4	22.3	17.3
EV / EBITDA (x)	47.1	31.3	21.8	15.3	12.5
Core RoCE (%)	10.3	13.7	11.4	12.4	14.1

Source: Company, HSIE Research

BUY

CMP (as on 21 Feb 2025)	INR 1,657
Target Price	INR 2,400
NIFTY	22,796

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,400	INR 2,400
EPS %	FY26E 0.0%	FY27E 0.0%

KEY STOCK DATA

Bloomberg code	TJL IN
No. of Shares (mn)	27
MCap (INR bn) / (\$ mn)	45/524
6m avg traded value (INR mn)	221
52 Week high / low	INR 2,567/1,104

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(13.6)	(8.5)	28.9
Relative (%)	(11.2)	(1.6)	25.2

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	61.27	61.27
FIs & Local MFs	12.77	13.57
FPIs	4.52	4.06
Public & Others	21.43	21.10
Pledged Shares	1.60	1.15

Source : BSE

Pledged shares as % of total shares

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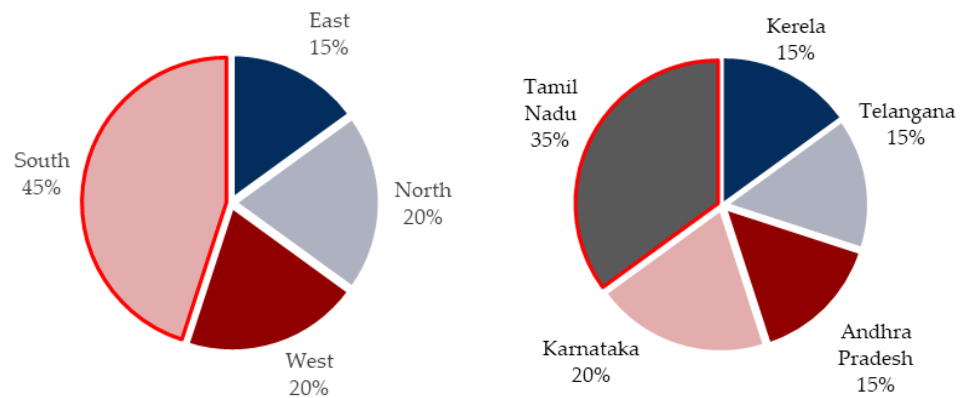
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Gold demand skewed towards South India

- Although demand for gold remains broad-based across India, south India has the highest share and constitutes 40% of total gold demand. People in the south are relatively more conservative (lower risk appetite) and prefer gold jewellery/real estate over other investments. Moreover, in the south, devotees give a lot of gold jewellery to temples as offerings to deities.
- Within South India, Tamil Nadu holds the highest share of the gold jewellery market due to economic prosperity and a larger area vs. other states. TN is the second-largest state economy in India and the largest in south India with a GDP of US\$ 321bn.

Exhibit 1: South constitutes meaningful chunk of India's gold demand ; Tamil Nadu has highest salience within South India



Source: WGC report, HSIE Research

Rapid store expansion on the horizon

- With TJL's flagship store launch in Chennai we expect store expansion to accelerate and the number of large format stores to go up from 50 stores in FY24 to ~80 stores in FY27, with meaningful expansion planned in Chennai. Chennai constitutes ~40% of the Tamil Nadu market, TJL is set to expand its reach in Chennai with 10-15 store openings planned in the medium term. Notably, the company does not have a presence in nearby cities as well—Vellore, Kanchipuram, Tiruvallur, Tindivanam, Ambur, Tiruvannamalai—which are a drive of 2-3 hours from Chennai.

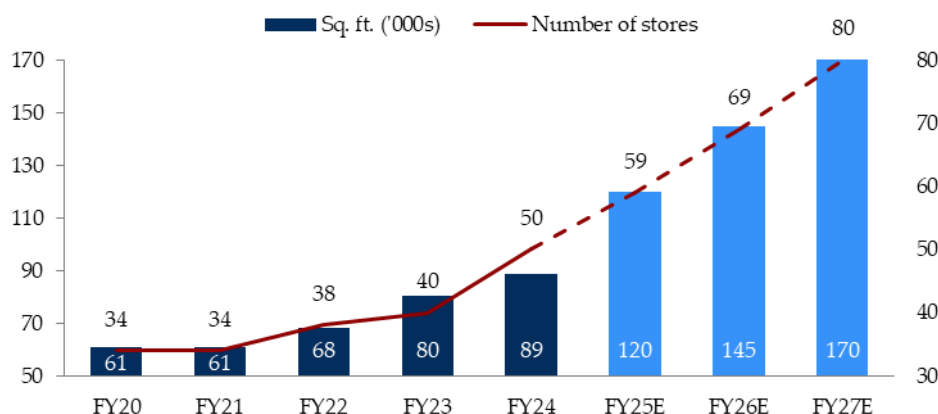
Exhibit 2: Flagship store in Chennai



Source: HSIE Research

- We expect the retail area to increase from 50 large format stores (88,518 sq ft area) in FY24 to 80 large format stores (1,70,000 sq ft area) in FY27.

Exhibit 3: Majority of store expansion targeted towards Chennai and adjoining areas



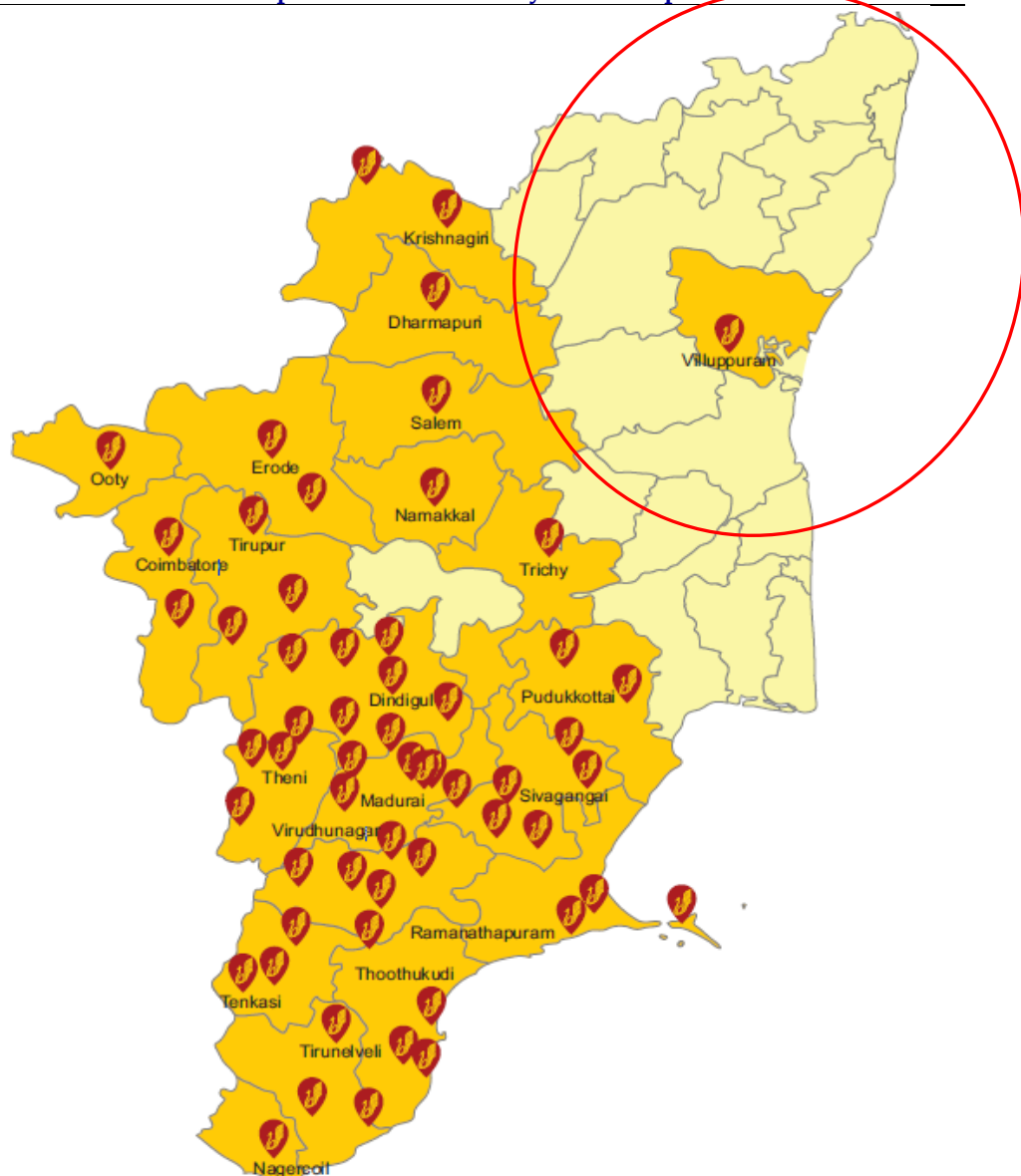
Source: Company, HSIE Research

Exhibit 4: Large potential markets in Tamil Nadu yet untapped; c40% of market by GDP yet to be tapped

District	FY24E GDDP (Rs. Bn.)	Thangamayil Number of Stores (FY24)	Non-penetrated districts' Contribution to Tamil Nadu GSDP
Thiruvallur	2,476		9.1%
Chennai	2,252		8.3%
Coimbatore	2,061	2	
Kancheepuram	1,891		6.9%
Vellore	1,384		5.1%
Erode	1,244	2	
Tiruchirapalli	1,169	1	
Thiruppur	1,049	3	
Salem	1,036	1	
Madurai	1,036	6	
Namakkal	944	1	
Thirunelveli	936	6	
Krishnagiri	855	2	
Kanniyakumari	759	1	
Cuddalore	758		2.8%
Virudhunagar	757	5	
Thanjavur	740		2.7%
Villupuram	725	1	
Thoothukudi	664	4	
Dindigul	630	6	
Thiruvannamalai	524		1.9%
Dharmapuri	484	1	
Pudukkottai	412	2	
Nagapatinam	358		1.3%
Karur	356		1.3%
Ramanathapuram	333	3	
Theni	321	4	
Sivagangai	300	6	
The Nilgiris	255	1	
Thiruvarur	236		0.9%
Ariyalur	184		0.7%
Perambalur	97		0.4%
Total	27,225	58	41.3%

Source: DES Tamil Nadu, Tamil Nadu Budget, Company, HSIE Research

Exhibit 5: North and east parts of Tamil Nadu yet to be captured



Source: Company, HSIE Research

Highly competitive market in Chennai

- Post numerous years of focusing on smaller cities, TJL’s venture into the cut-throat Chennai market hinges on its survival and successful servicing to the value conscious consumers. We are optimistic of Thangamayil’s performance in the Chennai market despite existing players having a large footprint in the market.

Exhibit 6: Key competitors / players store count in Chennai

Brand	No of stores
Kalyan	32
Tanishq	22
GRT	17
Malabar	7
Joyalukkas	6
NAC	5
Lalitha	5
Khazana	4

Source: Companies websites, HSIE Research

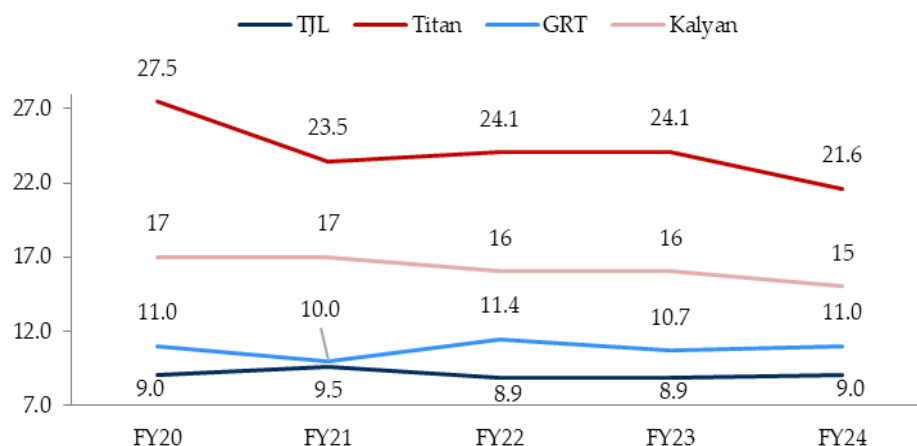
Right to win

- Our optimism on TJJ, despite Chennai being a highly competitive derive from (a) moat of “value for money” offering via charging the lowest making charges; (b) long standing brand presence in T2/T3 cities (70% of current stores) has engrained the brand in the population that has migrated to the Chennai metropolitan region over the recent years, and (c) increasing brand visibility through Satellite advertising for entire Tamil Nadu.

Positioning as a value-for-money jeweller

- Its positioning as a "Value Jeweller" creates a flywheel effect, ensuring customer loyalty through its commitment to the concept of "Everyday Low Prices." The majority of TJJ's customers belong to SEC B and SEC C, where price competitiveness serves as a significant moat for the company. Thangamayil is able to charge reasonable making charges due to several factors: a) best-in-class inventory management practices, b) low operating costs, with the majority of the staff based in Madurai, and c) the involvement of family members who bring varied and extensive experience to the business.

Exhibit 7: Gross margins of TJJ are considerably lower than competitors, as they embody principles of D-mart



Source: Company, HSIE Research

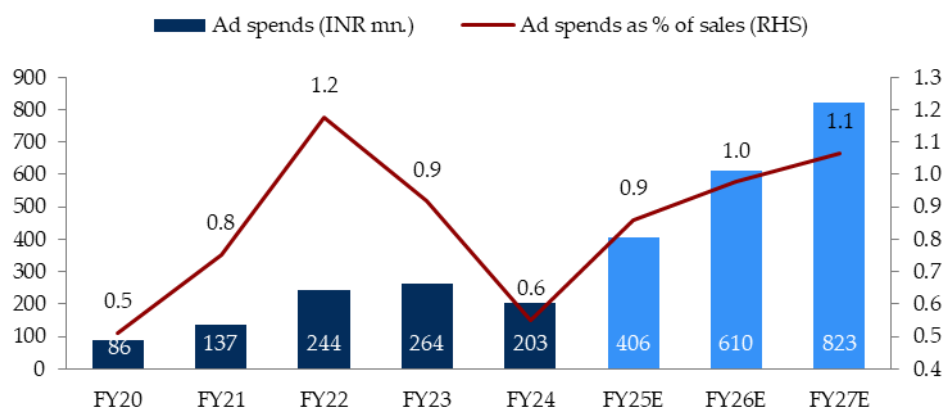
Exhibit 8: High-decibel media campaign to uplift SSS of stores in Rest of Tamil Nadu area (ex-Chennai)



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Source: Company, HSIE Research

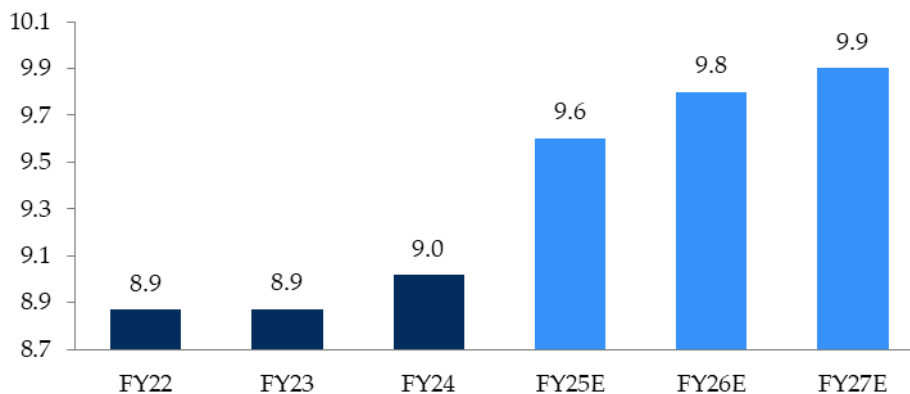
- **State level satellite advertising vs local advertisement earlier done in cable channels.** Through this medium, it is targeting the Cauvery region and the mainstream Chennai market. Given the strong brand recall, there is latent demand for TJL products – however, since stores were not available in the vicinity, the company was losing these customers.
- **Continuous promotional and marketing activities post-relaunch:** Once a store is launched, it conducts a range of activities to increase footfall, such as 1) The "Happy Sunday" program, where customers with birthdays within the week are invited to the store on Sunday, 2) hosting art and craft programs for kids, and 3) inviting senior citizen groups for singing and engagement activities.

Exhibit 9: Ad spends to see a noticeable spike

Source: Company, HSIE Research

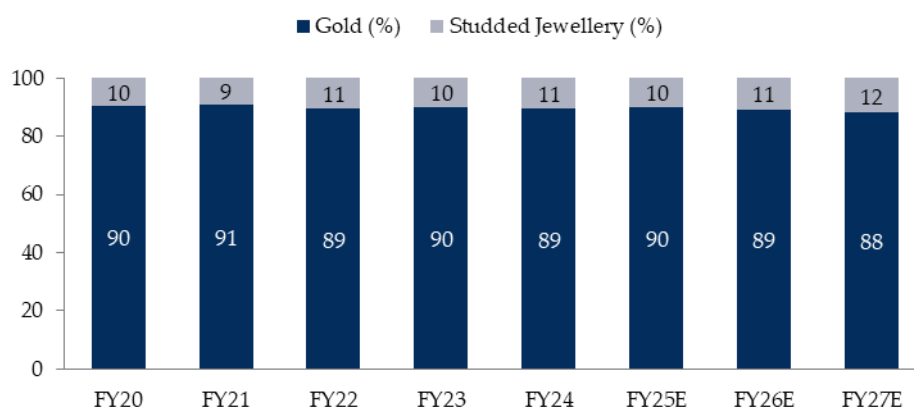
Margins to move northwards

- Gross margins are expected to improve by ~100 bps over FY24-27 due to: (a) increased contribution from high-margin studded jewellery as the company expands into metro and Tier 1 cities and focuses on enhancing the mix of value-added jewellery; (b) economies of scale and opportunistic increases in making charges for plain gold jewellery; (c) a reduction in benefits provided under the Advance Purchase Scheme, with the making charge waiver reduced from 100% to 75%; and (d) the redemption of deposits collected through the Digi Gold app, which we believe is relatively high margin since the company does not have to provide a waiver on making charges, though this is partially offset by the 4-5% incentives offered for driving deposits.

Exhibit 10: Adjusted gross margins to expand moving ahead

Source: Company, HSIE Research

Exhibit 11: Studded share to move up as it focusses on metro/T1 cities and driving sales



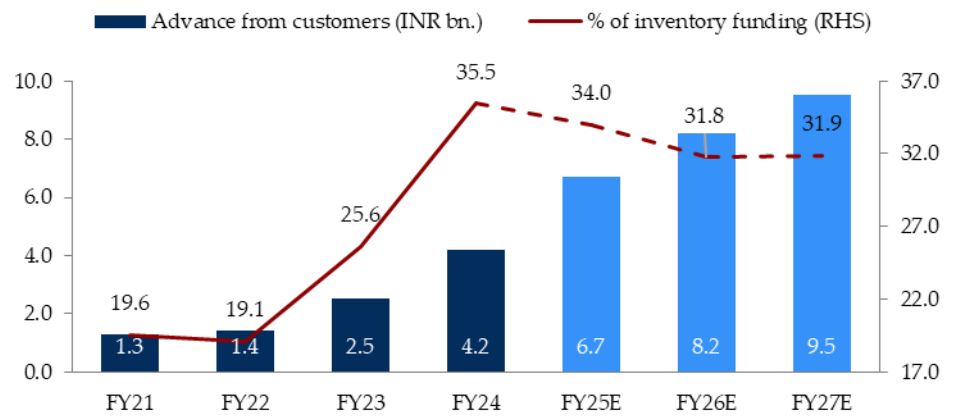
Source: Company, HSIE Research

- We expect the gross margin to remain stable and trend upward, without being significantly affected by fluctuations in gold prices.

Securing funds through Digigold, in case costs becomes too exorbitant for Gold metal loans

- TJL, in order to mitigate business challenges, has focused on diversifying its sources of borrowings and has relied on “customer advances,” in addition to internal accruals and bank borrowings. Customer advances/EMI-based schemes are more favourable for jewellers with high inventory turnover, since they will be in a position to allocate the discount, given by the jeweller (since generally one EMI is paid by the jeweller in 11-month schemes) over a much larger sales amount, thereby leveraging its profitability better. The icing on the cake is that EMI-based schemes provide TJL with assured sales, which might not be possible with any other source of funding.
- However, traditional EMI-based schemes have some challenges, which the company is trying to address through aggressive marketing of the “DigiGold” app. It has also started the process of collecting deposits virtually through the “DigiGold” app, whereas earlier deposits collected through the Thangamayil advance purchase schemes were restricted to existing customers of Thangamayil and only where the company had branches.
- **What is DigiGold app all about?** TJL is operating a gold savings scheme in the name of the “Digi Gold” scheme, wherein customers can pay any amount for 330 days at any time and convert the payment made to gold weight. An additional benefit of gold weight is provided to customers on a time-proportionate basis, not exceeding 5% at any point in time. These weights can be redeemed at the time of purchase by paying making charges and taxes. Our channel check indicates that the blended cost to the company is not more than 5-6% on an annualised basis, including marketing costs.

Exhibit 12: Advance purchase schemes funding meaningful part of inventory requirements



Source: Company, HSIE Research

Thangamayil trades at a decent discount to peers

Name	P/E (x)			EV/EBITDA (x)			% Cagr FY24-FY27E			ROE		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	Rev	Ebitda	APAT	FY25E	FY26E	FY27E
Jewellery												
Senco	27	19	15	18	13	11	19	18	21	9	13	14
Kalyan	68	47	36	34	27	22	30	22	32	17	21	23
Titan	79	58	48	52	40	34	15	18	19	30	32	31
Thangamayil*	37	22	17	22	15	12	28	34	41	17	19	21

Source: Bloomberg, Company, HSIE Research

Glimpses from the recent Chennai store visit



Source: Company, HSIE Research

Standalone P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	28,766	36,908	47,220	62,414	77,157
Growth (%)	38.8	28.3	27.9	32.2	23.6
Material Expenses	26,213	33,580	42,687	56,298	69,518
Employee Expense	584	682	969	1,251	1,556
Other Expenses	678	724	1,109	1,453	1,818
Adj. EBITDA	1,290	1,922	2,531	3,791	4,669
Adj. EBITDA Growth (%)	46.0	49.0	31.7	49.8	23.2
Adj. EBITDA Margin (%)	4.5	5.2	5.4	6.1	6.1
Depreciation	134	164	228	268	300
EBIT	1,156	1,759	2,302	3,523	4,370
Other Income	-	-	-	-	-
Interest	349	363	460	432	390
PBT	807	1,395	1,843	3,091	3,980
Tax	282	418	464	778	1,002
Profit from minority/associates	-	-	-	-	-
RPAT	797	1,233	1,379	2,313	2,978
Adjustment	-	-	-	-	-
Adjusted PAT	630	1,066	1,379	2,313	2,978
APAT Growth (%)	53.7	69.3	29.3	67.7	28.8
Adjusted EPS (INR)	23.0	38.9	44.4	74.4	95.8
EPS Growth (%)	53.7	69.3	14.2	67.7	28.8

Source: Company, HSIE Research

Standalone Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	137	274	311	311	311
Reserves	3,751	4,657	10,824	12,674	15,057
Total Shareholders Funds	3,888	4,931	11,135	12,985	15,367
Minority Interest	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Short Term Debt	5,483	5,005	9,271	9,088	8,871
Total Debt	5,483	5,005	9,271	9,088	8,871
Net Deferred Taxes	(24)	(25)	(25)	(25)	(25)
Other Non-current Liabilities & Provns	-	-	-	-	-
TOTAL SOURCES OF FUNDS	9,347	9,911	20,381	22,048	24,214
APPLICATION OF FUNDS					
Net Block	1,201	1,535	1,678	1,735	1,760
CWIP	16	24	24	24	24
Other Non Current Assets	-	-	-	-	-
Total Non-current Assets	1,217	1,559	1,701	1,758	1,783
Inventories	9,823	11,892	19,793	25,840	29,840
Debtors	32	43	43	43	43
Other Current Assets	606	474	569	652	733
Cash & Equivalents	764	818	5,744	2,787	2,232
Total Current Assets	11,225	13,227	26,147	29,321	32,847
Creditors	198	175	259	342	423
Other Current Liabilities & Provns	2,897	4,699	7,209	8,690	9,994
Total Current Liabilities	3,095	4,874	7,468	9,032	10,417
Net Current Assets	8,129	8,352	18,680	20,290	22,430
TOTAL APPLICATION OF FUNDS	9,347	9,911	20,381	22,048	24,214

Source: Company, HSIE Research

Standalone Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,080	1,651	1,843	3,091	3,980
Non-operating & EO Items	12	10	-	-	-
Interest Expenses	321	314	-	-	-
Depreciation	134	164	228	268	300
Working Capital Change	(1,173)	1,584	(5,401)	(4,567)	(2,695)
Tax Paid	(269)	(419)	(464)	(778)	(1,002)
OPERATING CASH FLOW (a)	105	3,304	(3,794)	(1,986)	582
Capex	(314)	(371)	(371)	(325)	(325)
Free Cash Flow (FCF)	(210)	2,933	(4,165)	(2,311)	257
Investments	(578)	25	-	-	-
Non-operating Income	28	49	-	-	-
INVESTING CASH FLOW (b)	(864)	(297)	(371)	(325)	(325)
Debt Issuance/(Repaid)	1,258	(2,393)	4,266	(183)	(216)
Interest Expenses	(327)	(343)	-	-	-
FCFE	(1,690)	5,743	(8,431)	(2,128)	474
Share Capital Issuance	-	-	5,100	-	-
Dividend	(151)	(192)	(276)	(463)	(596)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	780	(2,928)	9,090	(646)	(812)
NET CASH FLOW (a+b+c)	20	79	4,926	(2,957)	(555)
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	57	136	5,062	2,105	1,550

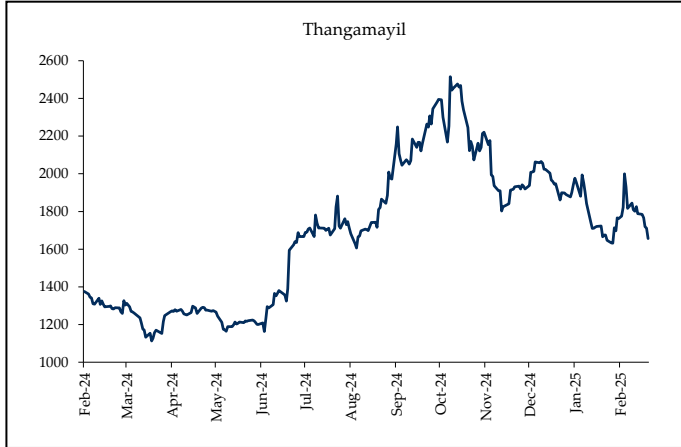
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	8.9	9.0	9.6	9.8	9.9
EBITDA Margin	4.5	5.2	5.4	6.1	6.1
EBIT Margin	4.0	4.8	4.9	5.6	5.7
APAT Margin	2.2	2.9	2.9	3.7	3.9
RoE	17.7	24.2	17.2	19.2	21.0
RoIC (or Core RoCE)	9.6	13.9	14.5	15.5	15.8
RoCE	10.3	13.7	11.4	12.4	14.1
EFFICIENCY					
Tax Rate (%)	35.0	30.0	25.2	25.2	25.2
Fixed Asset Turnover (x)	15.5	16.7	18.3	21.4	23.8
Inventory (days)	124.6	117.6	153.0	151.1	141.2
Debtors (days)	0.4	0.4	0.3	0.2	0.2
Other Current Assets (days)	7.7	4.7	4.4	3.8	3.5
Payables (days)	2.5	1.7	2.0	2.0	2.0
Other Current Liab & Provns (days)	36.8	46.5	55.7	50.8	47.3
Cash Conversion Cycle (days)	93.5	74.5	100.0	102.4	95.6
Net D/E (x)	1.2	0.8	0.3	0.5	0.4
Interest Coverage (x)	3.3	4.8	5.0	8.1	11.2
PER SHARE DATA (Rs)					
EPS	23.0	38.9	44.4	74.4	95.8
CEPS	27.8	44.8	51.7	83.0	105.5
Dividend	6.0	10.0	8.9	14.9	19.2
Book Value	141.7	179.7	358.2	417.8	494.4
VALUATION					
P/E (x)	72.2	42.7	37.4	22.3	17.3
P/BV (x)	11.7	9.2	4.6	4.0	3.4
EV/EBITDA (x)	38.9	25.8	21.8	15.3	12.5
EV/Revenues (x)	1.7	1.3	1.2	0.9	0.8
OCF/EV (%)	0.2	6.6	(6.9)	(3.4)	1.0
FCF/EV (%)	(0.4)	5.9	(7.6)	(4.0)	0.4
FCFE/Mkt Cap (%)	(3.7)	12.6	(16.4)	(4.1)	0.9
Dividend Yield (%)	0.4	0.6	0.5	0.9	1.2

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

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