

## Sky Gold Ltd

Analyst Recommendation: BUY

BSE Code: 541967

NSE: SKYGOLD

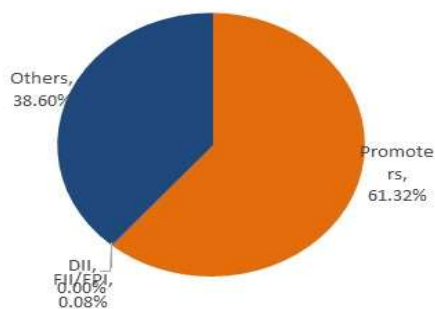
**CMP:** Rs 2,606  
**2 Year Target -** Rs 3,632

Face Value	10.0
Market Cap (Rs Cr)	3,558
52 week high/low	2606/280
Beta	1.16
Shares O/S (Cr)	1
Book Value per Share (Rs)	184
Sensex	82,365
Nifty	25,235

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 30<sup>th</sup> June 2024



### Investor's Rationale

#### ➤ Huge potential to scale up

As India's organised gold jewellers are expected to clock more than 15% CAGR over FY24–26, driven by greater demand for gold and shift to organised from unorganised players, we expect the company to scale up on industry tailwinds, wallet share gains from existing customers, and new client additions. SKYGOLD has shifted to a new manufacturing facility which has boosted its monthly capacity to 750kg which will result in a steep rise in revenue. It has long-standing relationships with a marquee set of clients and is expected to add more to its portfolio. We expect it to achieve 100% utilisation by FY27, which can result in aggressive sales growth. Exports contribute 6% to overall revenue and can be scaled up in the future. We expect exports to be a key growth driver, contributing over 20%. We forecast 55% revenue CAGR over FY24–26 driven by higher volumes and exports.

#### ➤ Operating leverage, lower cost of debt to aid profit

With better utilisation over the next two years, we expect operating margin to expand led by positive operating leverage. The company will need to boost its employee base by ~2x to fully utilise its existing capacity (sales 3x from current levels) and doesn't need much capex which will drive margin expansion. We expect margin to touch 4.5% by FY26. Interest cost is expected to fall as it is planning to shift to gold metal loans to meet its working capital needs. Cost of debt stands at 9.5% and interest cost on gold metal loans is 4.5%. As contribution from gold metal loans rise, we expect interest costs as a percentage of sales to fall to 0.5% in FY26 from 1.2% in FY24. Driven by higher sales, better operating leverage, and lower interest costs, we expect an EBITDA/PAT CAGR of 56%/72% over FY24–26.

#### ➤ Acquisitions to drive growth

SKYGOLD has acquired Sparkling Chains Private Limited (FY24 sales: INR200cr) and Star Mangalsutra Private Limited (FY24 sales: INR171cr) which are also involved in manufacturing of gold jewellery. We expect these businesses to be earning accretive for the company. We haven't considered financials of newly acquired businesses into our estimates and expect these to provide further upside

#### ➤ Valuation

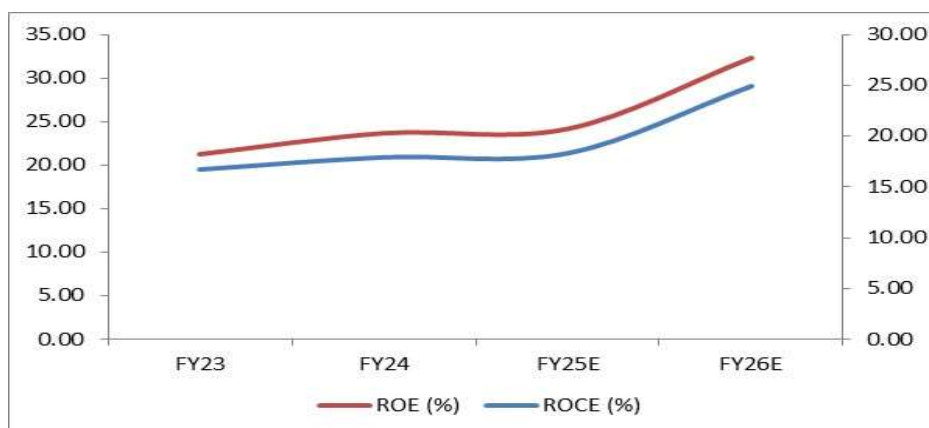
We think that SKYGOLD can be a long-term compounding story as it can scale up its asset-light model which allows it to operate at high return ratios (RoE/RoCE in FY24 stood at 24%/18%). We initiate coverage with a 'BUY' rating and TP of INR 3632 (40x FY26E earnings).

(Rs Crores)	FY23	FY24	FY25E	FY26E
Revenue	1,154.0	1,745.0	2,618.0	4,189.0
EBITDA	36.0	77.0	116.0	188.0
Adj. profit	19.0	40.0	67.0	120.0
Adj. EPS (Rs.)	17.3	30.6	50.9	90.8
P/E (x)	150.5	85.1	51.1	28.7
ROE (%)	21.30	23.70	24.20	32.30
ROCE (%)	16.70	17.90	18.30	24.90

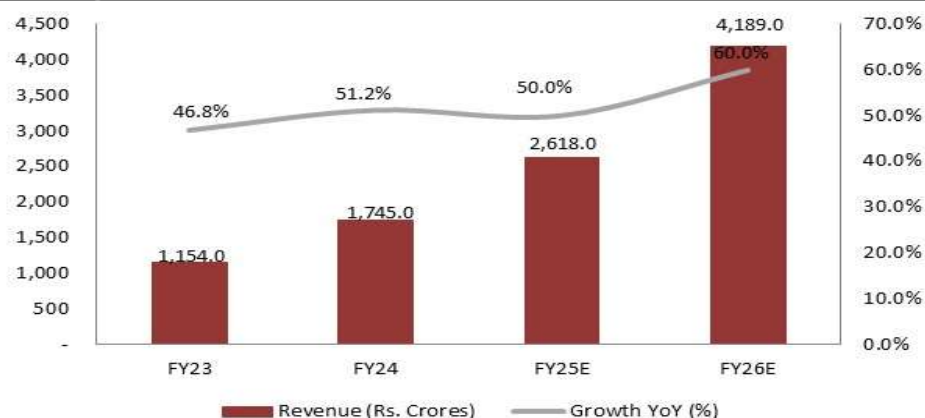
**Investment Rationale**

- Jewellery retail has been experiencing a significant trend towards formalization, with the organized market accounting for 36% of the total market (compared to ~22% in FY19). The total jewellery market reported ~8% revenue CAGR during FY19-24, reaching a market value of INR6,400bn. The organized market clocked ~19% revenue CAGR with the biggies of the sector clocking 20%+ revenue CAGR during FY19-24. We expect this trend to continue going forward.
- With ongoing rapid shifts in consumer purchasing behaviour, transitioning from unorganized to organized channels, factors such as increasing ticket size, enhanced shopping experiences, greater product variety are fuelling this momentous trend, we think that SKYGOLD will be sailing the ship comfortably and scaling up its volumes.
- SKYGOLD has long-term relationships with most large gold retailers in India. These retailers should continue to grow at 15– 20% going forward. We expect the company to sign large corporate clients such as Titan, Aditya Birla Retail and Reliance Retail and focus on exports in the near term. This gives us confidence that it can aggressively grow volumes.
- Though there are more than 200 gold manufacturers in India, very few firms have been able to achieve the scale that SKYGOLD has achieved.
- The management believes in growing under an asset-light model which gives it an edge over its peers. Also, scaling up becomes easy, and return ratios are higher.
- SKYGOLD operates on a modular approach. It can easily shift its manufacturing to a bigger factory whenever it needs to scale up (as evident from its recent move to a factory in Navi Mumbai).
- SKYGOLD has a marquee profile of clients like Malabar Gold, Joyalukkas India, Senco Gold and Kalyan Jewellers, and many medium & smaller retailers. Over the years, these clients have grown multi-fold, allowing it to piggyback on this growth train. It has more than 200 clients. The management is scouting for clients in India and overseas. It is adding 10–15 new clients every quarter and should maintain this run-rate.
- One of the reasons for its strong client relationships was that SKYGOLD never shied away from accepting returns. It always took back the designs that did not work for its clients. As it has a large portfolio of clients, it can resale these designs to other clients, and this gave clients the assurance that they will not face the problem of dead inventory and their relationship with SKYGOLD grew stronger.
- The shift towards the organised gold jewellery market in India will boost demand and margin for the company as corporate clients offer consistent and large volumes. Organised retailers which contributed 33% to overall jewellery sales in India and its contribution is expected to reach 44% by FY26 and SKYGOLD will continue drive this industry tailwind.
- Over the years, margin expanded on higher volumes and operating efficiencies kicking in as the company gained scale. Going forward, as volumes grow at an exponential rate, it only needs to grow its workforce by 1.5–2x. This will boost operating leverage as its employees are on a fix payroll basis. Driven by higher revenue and margin expansion, EBITDA can clock 56% CAGR over FY24–26.

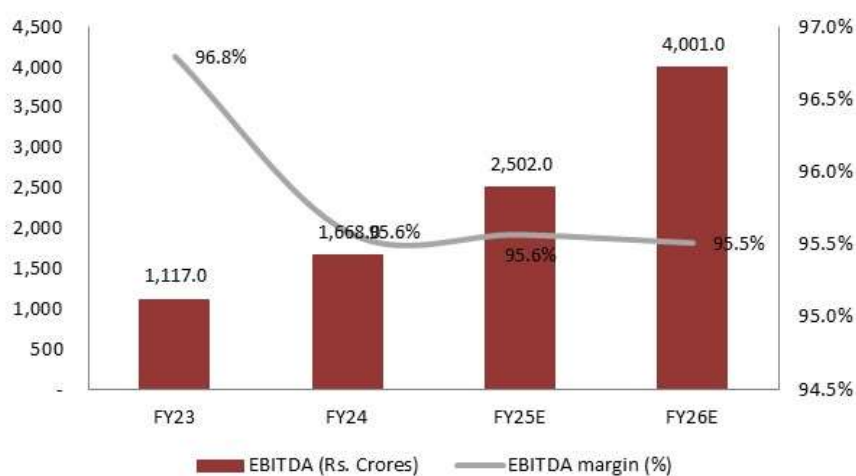
## Return ratios to show growth



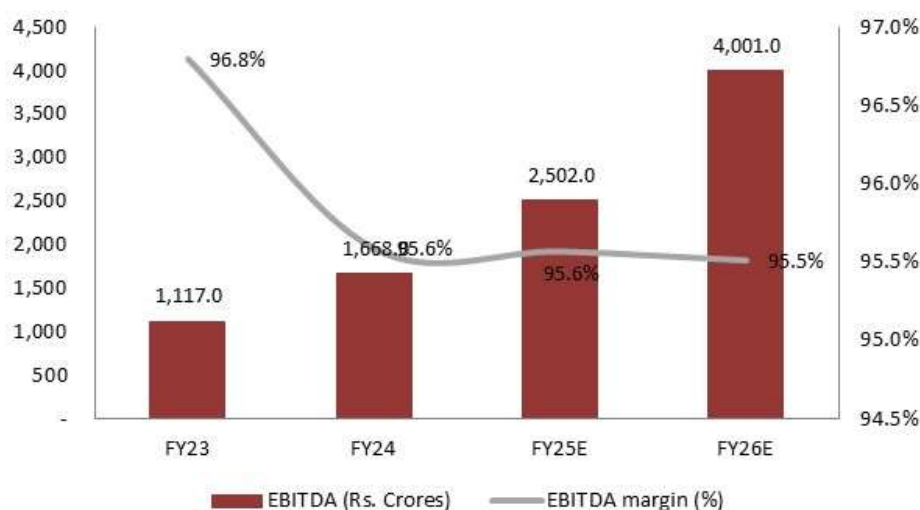
## Revenue growth will be strong



## EBITDA will maintain strong growth



### Net profit will maintain strong growth



### Outlook and Valuation

We think that SKYGOLD can be a long- term compounding story as it can scale up its asset-light model which allows it to operate at high return ratios (RoE/RoCE in FY24 stood at 24%/18%). We initiate coverage with a 'BUY' rating and TP of INR 3632 (40x FY26E earnings).

### Sky Gold Limited - Company Overview

Sky Gold Limited is engaged in the business of designing, manufacturing, and marketing gold jewellery. The co. follows a B2B model where the products are mainly sold to mid-range jewellers and boutique stores who sell these products through online platforms and retail stores

The Company mainly deals in 22 Karat gold jewelry, offering a wide variety of designs to suit the preferences of the end customer. They provide an extensive range of designs and also use studded American diamonds and/or colored stones in many of their jewelry products. The company has exclusive designs across 14 Product categories. Their Fast Moving Segment has an average ticket size of Rs. 50,000. It has an Inhouse ~80 Member Design Team and ~2000-2500 designs being floated every month. The catalogue is exhibited to corporate purchasers every month. It has SKUs of ~3 Lakhs



## Balance sheet (Consolidated)

Rs In Crores	FY23	FY24	FY25E	FY26E
<b>Equity share capital</b>	11	13	13	13
Preference Share Capital	0	0	0	0
Reserves & surplus	87	231	298	418
Shareholders funds	98	244	311	432
Secured loans	146.00	299.00	329.00	369.00
Unsecured loans	-	-	-	-
Borrowings	146	299	329	369
Minority interest	-	-	-	-
<b>Sources of funds</b>	<b>245</b>	<b>543</b>	<b>640</b>	<b>800</b>
Gross block	11	36	41	51
Depreciation	4	11	18	28
Net block	6	25	22	23
Capital work in progress	-	1	-	-
Total fixed assets	6	26	22	23
Right of Use Assets	0	10	0	0
Investments	68	91	101	111
Total current assets	174	457	579	749
Total CL & provisions	3	30	64	87
Net current assets	171	426	514	662
Net Deferred tax	-3	-2	-1	-1
Misc expenditure	2	-7	4	6
<b>Uses of funds</b>	<b>245</b>	<b>543</b>	<b>640</b>	<b>800</b>

## Profit & Loss Account (Consolidated)

Rs In Crores	FY23	FY24	FY25E	FY26E
Income from operations	1154	1745	2618	4189
Direct costs	1104	1641	2461	3938
Employee costs	5.0	13.0	20.0	29.0
Other expenses	8	14	21	33
Total operating expenses	1117	1668	2502	4001
<b>EBITDA</b>	<b>36</b>	<b>77</b>	<b>116</b>	<b>188</b>
Depreciation and amortisation	1	6	8	9
EBIT	35	71	109	179
Interest expenses	11	21	21	20
Other income	1	4	4	4
Extraordinary items	0	0	0	0
Profit before tax	25	54	91	163
Provision for tax	6	14	24	43
Core profit	19	40	67	120
Extraordinary items	-	-	-	-
<b>Profit after tax</b>	<b>19</b>	<b>40</b>	<b>67</b>	<b>120</b>
Share from associates	0	0	0	0
Adjusted net profit	19	40	67	120
Equity shares outstanding (cr)	1	1	1	1
EPS (INR) basic	17	31	51	91
Diluted shares (Cr)	1	1	1	1
<b>EPS (INR) fully diluted</b>	<b>17</b>	<b>31</b>	<b>51</b>	<b>91</b>

## Free Cash Flow (Consolidated)

Rs In Crores	FY23	FY24	FY25E	FY26E
Net profit	18	40	67	120
<b>Add: Depreciation</b>	<b>1</b>	<b>6</b>	<b>8</b>	<b>9</b>
Add: Misc expenses written off/Other Assets	10	17	-11	-2
Add: Deferred tax	0	0	-1	0
Gross cash flow	29	63	62	127
Less: Changes in W. C.	-34	-202	-100	-163
<b>Operating cash flow</b>	<b>-5</b>	<b>-138</b>	<b>-38</b>	<b>-36</b>
Less: Capex	0	0	5	10
<b>Free cash flow</b>	<b>-5</b>	<b>-138</b>	<b>-43</b>	<b>-46</b>

## Key Ratios & Valuations (Consolidated)

Year to March	FY23	FY24	FY25E	FY26E
ROAE (%)	21.3	23.7	24.2	32.3
ROACE (%)	16.7	17.9	18.3	24.9
Debtors (days)	21	21	20	20
Current ratio	52	15	9	9
Debt/Equity	1.50	1.20	1.10	0.90
Cash conversion cycle (days)	48	72	65	55
Debt/EBITDA	4	4	3	2
Adjusted debt/Equity	1.3	0.9	0.8	0.7
Diluted P/E (x)	150.5	85.1	51.1	28.7



## Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

*\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



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