

Acquisition Update Sky Gold

Gearing up for growth

Sky Gold has acquired Sparkling Chains Pvt/Starmangalsutra Pvt for INR26cr/INR24cr. It will issue 4,17,542 shares to the shareholders of Sparkling Chains Pvt and Starmangalsutra Pvt on a preferential basis. Apart from this, promoters have lent interest free loans of ~INR38cr, which will be paid off. These acquisitions will help increase SKYGOLD's addressable market in gold jewellery and diversify its product base. We recently [initiated coverage on SKYGOLD](#) which designs and produces gold jewellery. It operates in the casting jewellery space, which accounts for 35% of total jewellery sales in India.

About the acquisitions

SKYGOLD currently operates in a casting jewellery segment which accounts for 35% of total jewellery sales in India. Sparkling chains is in the business of manufacturing chains which accounts for 20% of total jewellery sales and Starmangalsutra manufactures mangalsutras which account for 15% of total jewellery sales in India. **Through these acquisitions, the addressable market for SKYGOLD has risen to 70% from 35%.** Both the entities achieved PAT of INR7.5cr in FY24.

Both the entities were started by promoters two years back. The promoters have grown the business over last two years and are now confident on the scalability of both businesses. Hence the management decided to go forward with the acquisition. Both the entities will continue to operate as 100% subsidiaries of SKYGOLD. New shares were issued at the market price of INR1,197 on a preferential basis, which increases promoters' stake by 3%. The management expects acquired entities to generate sales/PAT of INR600cr+/15cr+ in FY25.

Getting future ready

SKYGOLD has started the processes to recruit a product head for 18carat jewellery category, and sales head for exports. It plans to increase craftsmen by 2x in the standalone entity over the next three years.

Exhibit 1: Acquisitions

Acquisitions	Cost of acquisition	Revenue (INR cr)		
		FY22	FY23	FY24
Starmangalsutra Pvt	INR23.98cr	38	132	171
Sparkling Chains Pvt	INR26cr	70	130	200

Exhibit 2: Capacity post-acquisition

Particulars	Pre-acquisition	Post acquisition
Monthly capacity	750 kg	1,050 kg
No. of live designs	2lk	2.012lk
No. of designs churned every month	2,000	2,200

Valuation and view

With its latest acquisitions, the management upgraded its FY27 guidance. It is now targeting sales of INR6,300cr, with over 25% RoCE. We see minimum risk to achieving this guidance. The acquisition is done at 15x FY24 P/Ex which is at a discount to SKYGOLD's valuation. There is minimal increase in the shareholding of promoters. We see this acquisition as positive and new entities to grow at a faster rate from hereon. Shift to organised from the unorganised segment and growth in exports should drive volumes.

SKYGOLD is run by three brothers, each having over 20 years of industry experience and a sharp focus on scaling up the business. The promoters have shown tremendous execution capabilities and have built long-standing relationships with their clients. It continues to add new customers and gain wallet share from existing clients. Factoring in the acquisitions, we have upgraded our estimates. We expect revenue/EBITDA/PAT to grow 53%/56%/67% over FY24–27. SKYGOLD can be a long-term compounding story. We maintain 'BUY' but upgrade our TP to INR3,204 (25x FY27E earnings) from INR1,818 earlier.

Key financials

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR cr)	786	1,154	1,745	3,219	5,012	6,257
Revenue growth (%)	(1)	47	51	84	56	25
EBITDA (INR cr)	20	36	77	147	235	293
EBITDA margin (%)	3	3	4	5	5	5
Net profit (INR cr)	17	19	40	89	135	194
P/E ratio (x)	13	55	31	33	25	17
RoAE (%)	26	21	24	22	25	23
RoACE (%)	13	17	18	19	22	22

CMP: INR2,128
 Rating: BUY
 Target price: INR3,204
 Upside: 51%
 Date: July 12, 2024

Bloomberg:	SKYGOLD:IN
52-week range (INR):	250/ 2,298
M-cap (INR cr):	2,817
Promoter holding (%)	61.32

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Key takeaways from the management interaction:

- Around 65%/35% of SKYGOLD's business accrues from corporates/distributors. The management plans to raise the share of the corporate business to 100% over next three years.
- The organised jewellery market is growing by 15% annually. It is expected to capture a larger share from the unorganised sector which should drive the volumes for SKYGOLD.
- Around 90% of SKYGOLD's inventory is in the INR5k–1lk range with the balance in the INR1-2lk range.
- SKYGOLD operates in the casting jewellery space. It casts necklaces, bracelets, earrings, and rings. Currently, around 35% of total retail sales are casting jewellery which is the addressable market for SKYGOLD. With this acquisition, TAM has now risen to 70%.
- Exports contribute 6% to overall revenue. In FY25, exports are expected to rise to 9-10%.
- SKYGOLD produces 2,000 new designs monthly, thus ensuring exclusivity for its corporate clients.
- Its design and R&D team focuses on identifying trends on a monthly, quarterly, and yearly basis. The company has 80 designers.
- Its ability to create new and trendy designs every month is a strong moat.
- The management aims to capture market share by expanding its corporate client base, which currently consist of 15 of the top 20 corporate jewellery businesses.
- The company benefits from government policies promoting organised retail, with a significant shift in consumer preference towards branded jewellery.
- Till five years back, the focus was on boosting its customer base. It now aims to raise margin from value added products.
- Malabar Gold & Diamonds constitutes 20% of the total business followed by Kalyan Jewellers, Senco Gold, and Joyalukkas India Pvt which contribute 5–7% each
- SKYGOLD follows a 45-day working capital cycle. Inventory at the end of March looks inflated as it was preparing for growth in FY25. Inventory levels should normalise from Q1FY25.
- The focus is on maintaining a high inventory churn rate and reducing debtor days.
- Its major competitors include Emerald Jewel Industry India, which is primarily operates in cash and carry format. lead time for SKYGOLD is 15 days which is shortest in the industry.
- SKYGOLD differentiates itself given its expertise in casting jewellery, rapid inventory turnover, and strong corporate relationships.
- Due to steep growth in the business, cash flow from operations have been negative. Operating cash flow is expected to turn positive on reaching INR5,000cr in revenue.
- It has a debt of INR300cr.
- The company plans to manage its working capital effectively to support its growth targets.
- It is investing in machinery to reduce labour costs and enhance production efficiency.
- It continues to invest in high-tech equipment, with an annual capex of INR1–1.5cr in machinery.

Significance of manufacturers like SKYGOLD

Titan used to do 100% in-house manufacturing and design however its sales were not picking up. As it used to completely manufacture in-house, it found that all its designs were similar which led to a loss of customers as taste were different among geographies and communities. It then experimented with some suppliers which led to a pick-up in sales. It now leverages the design and research teams of B2B players to better understand the tastes and preferences of regional customers.

Focus charts

Exhibit 1: Revenue to scale up

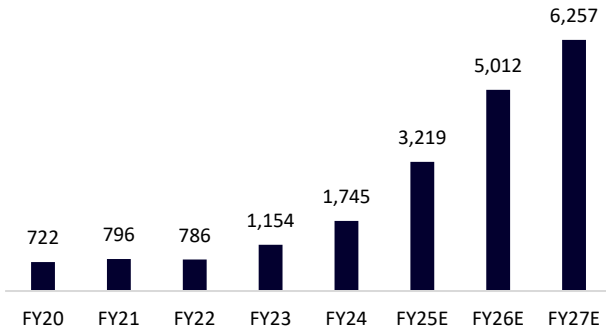


Exhibit 2: Volumes higher on acquisition...

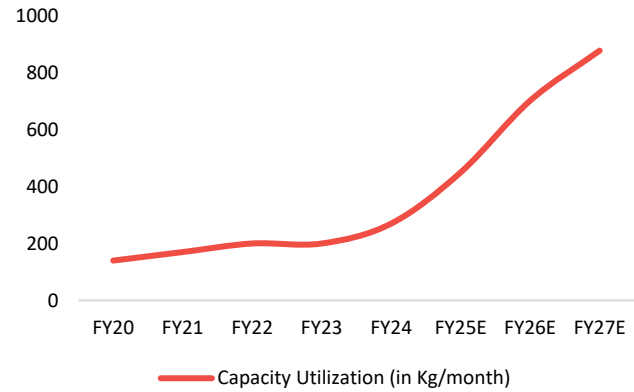


Exhibit 3: ...aided by realisation growth...

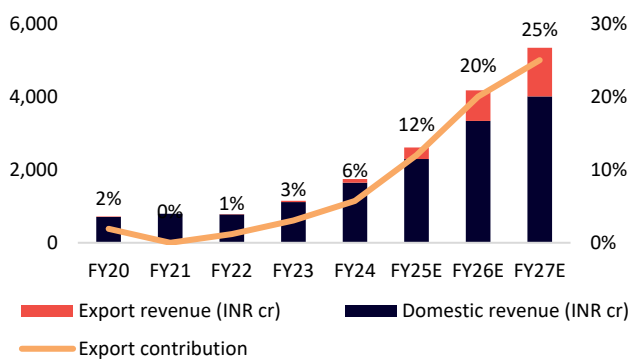


Exhibit 4: ...and healthy EBITDA growth

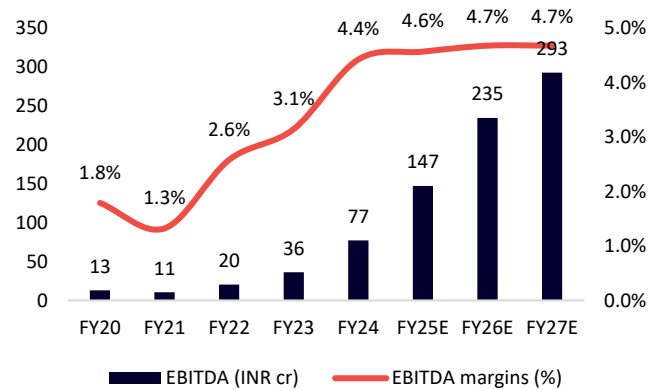


Exhibit 5: Profits to grow multi-fold...

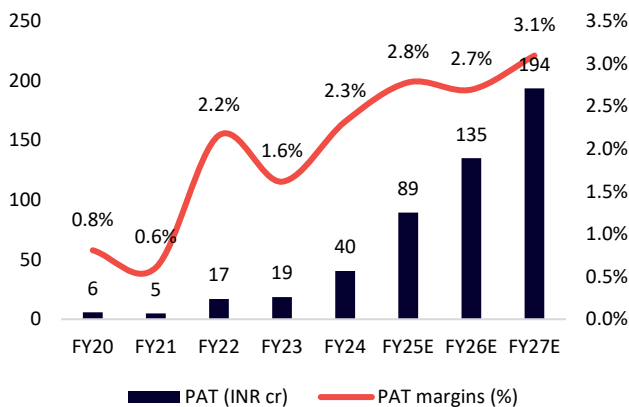
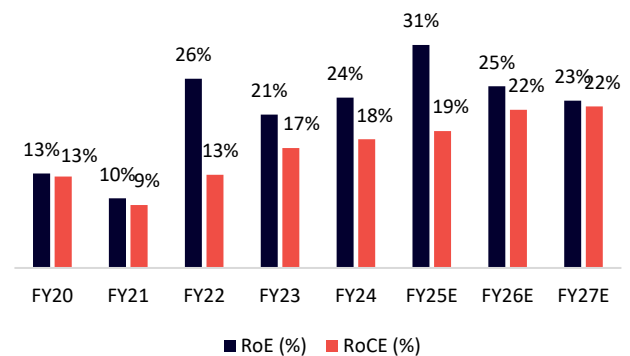


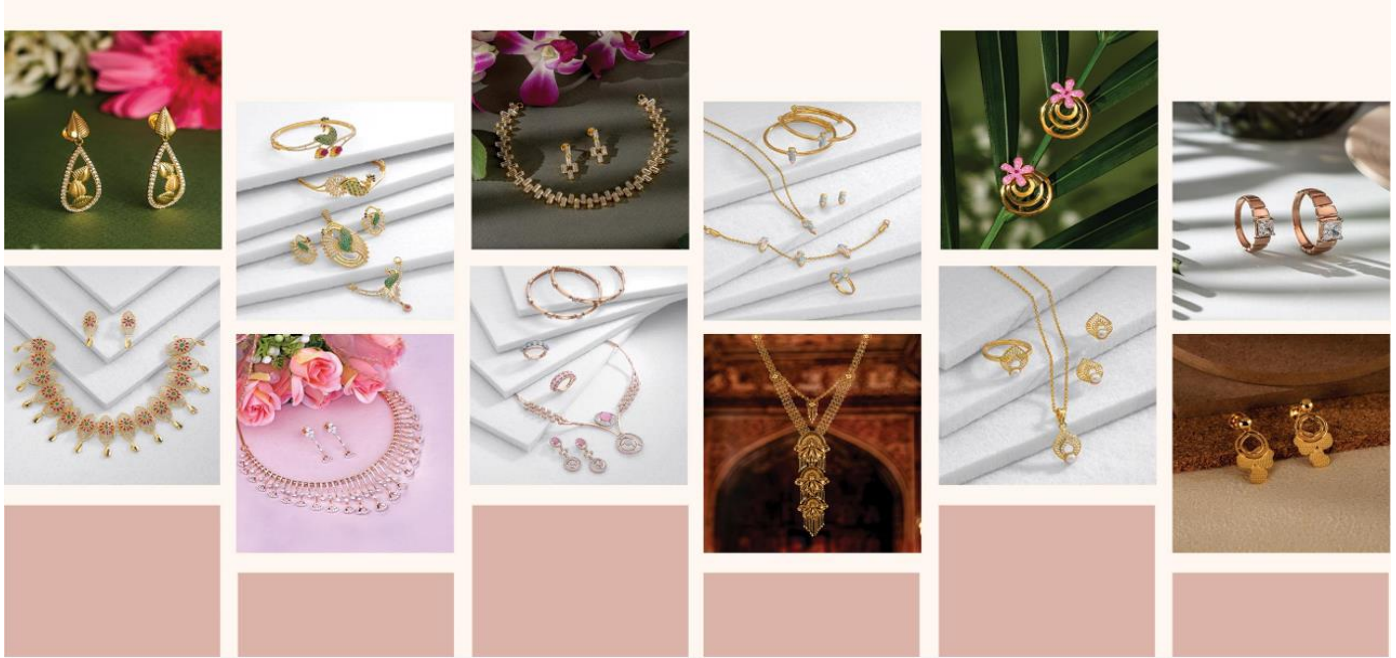
Exhibit 6: ...with return ratios expanding further



Source: Nuvama Wealth Research

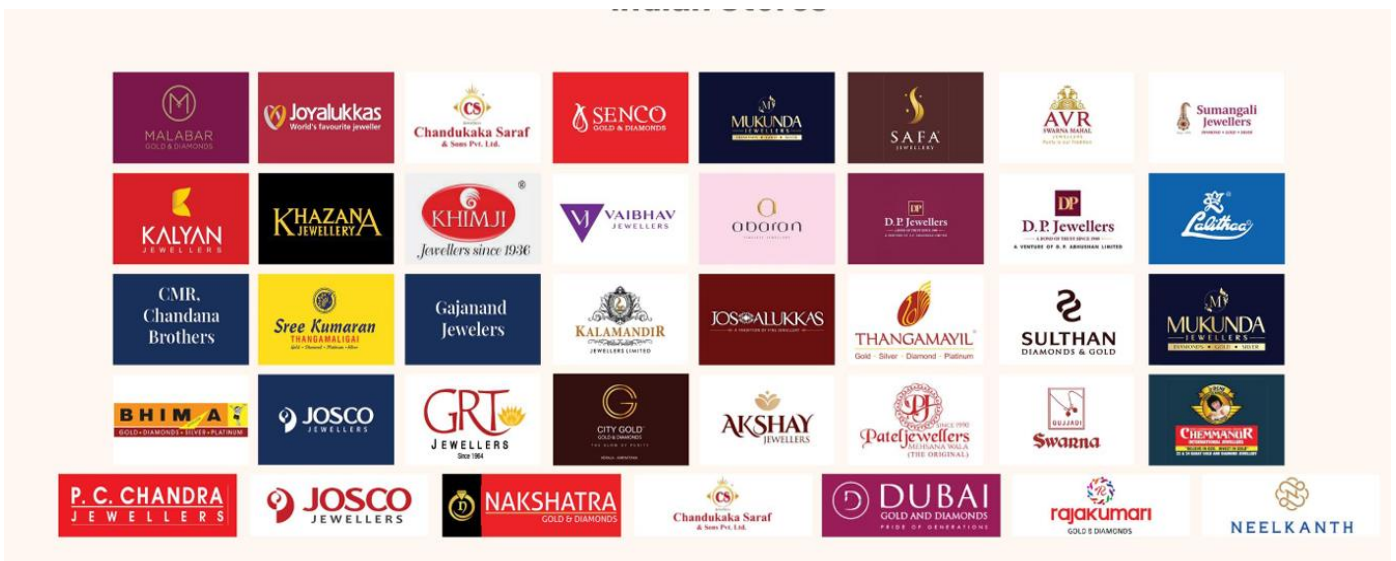
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Exhibit 7: Product portfolio



Source: SKYGOLD investor presentation

Exhibit 8: Indian client base



Source: SKYGOLD investor presentation

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Exhibit 9: Export client base



Source: SKYGOLD investor presentation

Exhibit 10: SKYGOLD's Navi Mumbai manufacturing unit



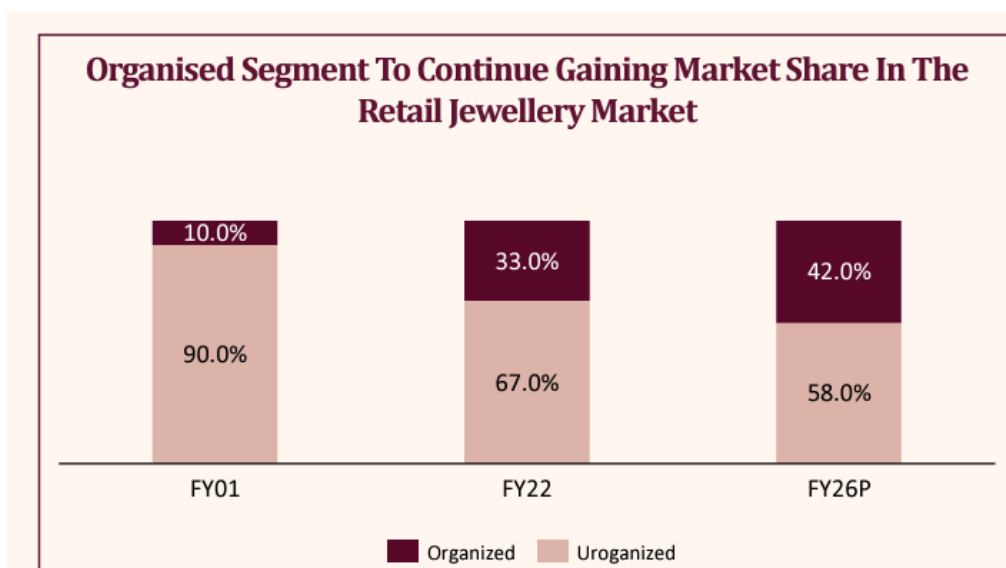
Source: SKYGOLD investor presentation

Exhibit 11: SKYGOLD's Vision 2027



Source: SKYGOLD investor presentation

Exhibit 12: Drivers for growth



Source: SKYGOLD investor presentation

Financials

Income Statement		(INR cr)				
Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Income from operations	786	1,154	1,745	3,219	5,012	6,257
Direct costs	757	1,104	1,641	3,022	4,702	5,869
Employee costs	3	5	13	24	38	47
Other expenses	5	8	14	25	39	48
Total operating expenses	765	1,117	1,668	3,072	4,778	5,964
EBITDA	20	36	77	147	235	293
Depreciation and amortisation	1	1	6	8	10	12
EBIT	19	35	71	139	225	281
Interest expenses	8	11	21	22	21	22
Other income	11	1	4	4	4	4
Extraordinary items	0	0	0	0	0	0
Profit before tax	22	25	54	121	207	262
Provision for tax	5	6	14	32	54	69
Core profit	17	19	40	89	153	194
Extraordinary items	0	0	0	0	0	0
Profit after tax	17	19	40	89	153	194
Share from associates	0	0	0	0	0	0
Adjusted net profit	17	19	40	89	153	194
Equity shares outstanding (cr)	1	1	1	1	2	2
EPS (INR) basic	31.6	17.3	30.6	67.6	89.8	128.7
Diluted shares (Cr)	1	1	1	1	2	2
EPS (INR) fully diluted	31.6	17.3	30.6	67.6	89.8	128.7
Dividend per share	2	3	2	0	0	0
Dividend payout (%)	5	16	6	0	0	0

Common size metrics as a percentage of net revenue

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating expenses	97.4	96.9	95.6	95.4	95.3	95.3
Depreciation	0.1	0.1	0.4	0.2	0.2	0.2
Interest expenditure	1.0	0.9	1.2	0.7	0.4	0.4
EBITDA margins	2.6	3.1	4.4	4.6	4.7	4.7
Net profit margins	2.2	1.6	2.3	2.8	3.1	3.1

Growth metrics (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	(1.2)	46.8	51.3	84.4	55.7	24.8
EBITDA	92.7	79.0	112.7	90.4	59.5	24.8
PBT	258.3	15.3	116.0	124.0	71.0	26.5
Net profit	251.7	9.9	117.4	120.9	71.0	26.5
EPS	251.7	(45.1)	76.4	120.9	32.9	43.3

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Balance Sheet		(INR cr)				
As of March 31	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity share capital	5	11	13	13	15	15
Preference Share Capital	0	0	0	0	0	0
Reserves & surplus	71	87	231	320	721	915
Shareholders funds	77	98	244	334	737	930
Secured loans	92	146	299	339	389	449
Unsecured loans	0	0	0	0	0	0
Borrowings	92	146	299	339	389	449
Minority interest	0	0	0	0	0	0
Sources of funds	169	245	543	672	1,125	1,379
Gross block	8	11	36	41	51	61
Depreciation	3	4	11	18	28	40
Net block	5	6	25	22	22	21
Capital work in progress	0	0	1	0	0	0
Total fixed assets	5	6	26	22	22	21
Right of Use Assets	1	0	10	10	10	10
Investments	45	68	91	101	111	121
Inventories	74	85	266	441	645	771
Sundry debtors	43	67	102	159	206	257
Cash and equivalents	1	18	77	254	220	306
Loans and advances	5	4	11	11	16	21
Other current assets	0	0	0	0	0	0
Total current assets	124	174	457	865	1,088	1,356
Sundry creditors and others	3	3	30	73	104	127
Provisions	0	0	0	0	0	0
Total CL & provisions	3	3	30	73	104	128
Net current assets	120	171	426	792	983	1,228
Net Deferred tax	-2	-3	-2	-1	-1	-1
Misc expenditure	-1	2	-7	-3	-0	-0
Uses of funds	168	245	543	921	1,125	1,379
Book value per share (INR)	143	91	184	252	490	619

Cash Flow Statement		(INR cr)				
Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net profit	18	18	40	89	153	194
Add: Depreciation	1	1	6	8	10	12
Add: Misc expenses written off/Other Assets	-3	10	17	-4	-3	0
Add: Deferred tax	0	0	0	-1	0	0
Gross cash flow	16	29	63	91	160	205
Less: Changes in W. C.	-25	-34	-202	-188	-215	-149
Operating cash flow	-9	-5	-138	-97	-56	57
Less: Capex	1	2	20	5	10	10
Free cash flow	-10	-8	-158	-102	-66	47

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Ratios

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROAE (%)	26.3	21.3	23.7	21.7	25.2	23.2
ROACE (%)	12.9	16.7	17.9	19.0	22.0	22.4
Debtors (days)	20	21	21	18	15	15
Current ratio	36	52	15	12	10	11
Debt/Equity	1.2	1.5	1.2	1.0	0.5	0.5
Inventory (days)	35	27	56	50	47	45
Payable (days)	1	1	5	5	5	5
Cash conversion cycle (days)	54	48	72	63	57	55
Debt/EBITDA	5	4	4	2	2	2
Adjusted debt/Equity	1.2	1.3	0.9	0.3	0.2	0.2

Valuation parameters

Year to March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Diluted EPS (INR)	31.6	17.3	30.6	67.6	89.8	128.7
Y-o-Y growth (%)	251.7	(45.1)	76.4	120.9	32.9	43.3
CEPS (INR)	33.6	18.7	35.4	73.3	96.2	136.6
Diluted P/E (x)	12.9	54.8	31.1	33.2	25.0	17.4
Price/BV(x)	15.7	24.5	12.2	8.9	4.6	3.6
EV/Sales (x)	0.4	1.0	0.8	0.9	0.6	0.5
EV/EBITDA (x)	15.3	31.6	19.2	20.8	13.4	10.6
Diluted shares O/S	0.5	1.1	1.3	1.3	1.5	1.5
Basic EPS	31.6	17.3	30.6	67.6	89.8	128.7
Basic PE (x)	12.9	54.8	31.1	33.2	25.0	17.4
Dividend yield (%)	0.4	0.3	0.2	0.2	0.2	0.3

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