

Q2FY25 Result Update

Sky Gold

Setting the *GOLD* standard

- Like-to-like revenue for SKY Gold (SKYGOLD) grew 81% YoY and 6% QoQ to INR717cr on higher volumes. Consolidated revenue stood at INR769cr (est. INR569cr) driven by volumes and higher gold prices.
- Gross profit surged by 137% YoY and 9% QoQ to INR50cr on higher sales and a superior product mix. Gross margin expanded by 120bp YoY to 6.5% on the back of a favourable product mix.
- EBITDA grew 154% YoY and 4% QoQ to INR39cr (est. INR27cr) on higher revenue, cost controls, and operating leverage. Operating margin expanded by 120bp YoY to 5%.
- Adjusted PAT, excluding other income, grew 166% YoY to INR19cr (est. INR16cr) on higher EBITDA. PAT, including other income, stood at INR37cr.
- We reiterate 'BUY' with a revised TP of INR4,500 at 35x FY26E earnings.

Robust festive demand and consolidation of acquisitions boost volume

Quarterly volume was slightly higher than our estimate at 345kg, with utilisation at 46%. The management aims to boost volume, with client additions and wallet share gains from existing customers. With retailers focusing on aggressive FOFO-led expansion and macro risk factors, investors are turning to the yellow metal as a safe asset class which is driving gold prices. We expect SKYGOLD to end FY25 with 363kg/month and 10% contribution from acquisitions. It is reaping the benefits of a shift to organised from unorganised players. The recent duty cut led to a surge in footfalls at the retailers' end and should accelerate the shift to organised from the unorganised market. Exports stood at INR69cr in Q2FY25 (9% contribution) versus INR14cr in Q2FY24. We expect exports to settle at 10% in FY25 and be one of the foremost drivers of volume in the medium to long term. With a consolidation of entities, new client additions, high gold prices, and a healthy demand for gold; we expect revenue to grow by 53% over FY24–27.

Margin healthy; other income boosts profitability

Margin expanded YoY as the management's focus is on raising contribution from value added products. Employee count rose to 830 from 650 by FY24 on consolidation of entities and greater hiring on higher volumes. GML stood at 22%, with blended cost of debt for GML ~3%. Management is confident of growing GML to 65% by December and 80% over the medium term. This will lead to an expansion in PAT margin. This can lead to the company achieving a margin that is better than our estimates. We expect EBITDA/ PAT margins to expand by 70bp/110bp over FY24–27. Though the management has indicated 4% PAT margin by FY27, we remain conservative at 3.4%. In Q2FY25, it sold its mutual fund holding and converted the proceeds into FDs. This resulted in higher profits. Excluding this, PAT stood at INR19cr. We expect higher other income in Q3FY25 as well.

Valuation and view

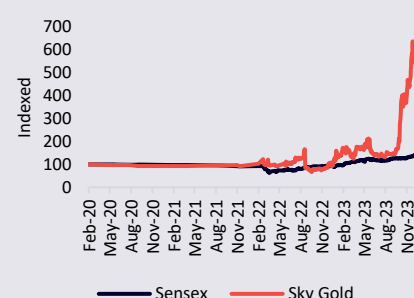
Factoring in its recent blockbuster performance and expected fund raiser at a higher price than earlier expected, we have upgraded our estimates. We expect revenue/EBITDA/PAT to grow 53%/61%/73% over FY24–27. It has added CARATLANE and PN Gadgil will boost volume in upcoming quarters. CARATLANE can achieve a volume of 50kg/month, with gold being supplied by CARATLANE which can boost profitability for SKYGOLD. Given its record of overachieving its targets in the past, aggressive growth over FY24–27, and the management's execution capabilities, we think that SKYGOLD can be a long-term growth story. **We maintain 'BUY' with revised TP of INR4,500 (35x FY26E earnings).**

Key financials

| Particulars | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) | FY24 | FY25E | FY26E | FY27E |
|-----------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|
| Net sales (INR cr) | 769 | 396 | 94 | 723 | 6.3 | 1,745 | 3,195 | 5,018 | 6,298 |
| Gross profit (INR cr) | 50 | 21 | 137 | 46 | 8.7 | 105 | 208 | 326 | 413 |
| Gross margin (%) | 6.5 | 5.3 | 116bp | 6.4 | 14bp | 6 | 6.5 | 6.5 | 6.6 |
| EBITDA (INR cr) | 39 | 15 | 154 | 37 | 4.1 | 77 | 159 | 254 | 321 |
| EBITDA margin (%) | 5 | 3.9 | 119bp | 5.2 | (11bp) | 4.4 | 5 | 5.1 | 5.1 |
| Adjusted PAT (INR cr) | 19 | 7 | 166 | 21 | (8.9) | 40 | 110 | 165 | 215 |
| P/E ratio (x) | | | | | | 31.1 | 44.6 | 29.7 | 22.8 |

CMP: INR3,593
Rating: BUY
Target price: INR4,500
Upside: 25%
Date: November 20, 2024

| Bloomberg: | SKYG:IN |
|----------------------|-----------|
| 52-week range (INR): | 250/2,440 |
| M-cap (INR cr): | 3,124 |
| Promoter holding (%) | 61.32 |



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Q2FY25 result highlights

| Particulars (INR cr) | Q2FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) | FY24 | FY25E | FY26E | FY27E |
|------------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|
| Income from operations | 769 | 376 | 104.6 | 513 | 49.8 | 1,745 | 3,275 | 5,134 | 6,443 |
| Gross profit | 50 | 24 | 112.2 | 35 | 40.7 | 105 | 213 | 339 | 428 |
| Gross margin (%) | 6.5 | 6.3 | (23bp) | 6.9 | (42bp) | 6 | 6.5 | 6.6 | 6.7 |
| Employee expense | 6 | 3 | 134 | 5 | 25.1 | 13 | 25 | 38 | 48 |
| Other expenses | 5 | 2 | 121.1 | 5 | (4.5) | 14 | 25 | 35 | 45 |
| EBITDA | 39 | 19 | 108 | 25 | 53.1 | 77 | 163 | 266 | 335 |
| EBITDA margin (%) | 5 | 5 | 8bp | 4.9 | 11bp | 4.4 | 5 | 5.2 | 5.2 |
| Depreciation | 2 | 1 | 114.5 | 2 | 2.9 | 6 | 8 | 11 | 13 |
| Interest expense | 10 | 4 | 143.6 | 7 | 53 | 75 | 180 | 261 | 329 |
| Other income | 20 | 1 | 2,308.4 | 2 | 1,156.9 | 4 | 26 | 5 | 6 |
| Profit before tax | 46 | 14 | NA | 18 | 154.8 | 54 | 153 | 236 | 305 |
| Profit after tax | 37 | 11 | NA | 14 | 169.7 | 40 | 113 | 174 | 225 |
| Extraordinary items | - | - | - | - | - | - | - | - | - |
| Adjusted net profit | 19 | 11 | NA | 14 | 42 | 40 | 113 | 174 | 225 |

Revised estimates

| (INR cr) | FY25E | | | FY26E | | | FY27E | | |
|---------------------|-------|---------|------------|-------|---------|------------|-------|---------|------------|
| | Old | Revised | Change (%) | Old | Revised | Change (%) | Old | Revised | Change (%) |
| Net sales | 3,207 | 3,275 | 2.1 | 5,038 | 5,134 | 1.9 | 6,282 | 6,443 | 2.6 |
| Other income | 4 | 26 | 540.2 | 5 | 5 | 7.7 | 5 | 6 | 29.2 |
| Total income | 3,211 | 3,300 | 2.8 | 5,043 | 5,139 | 1.9 | 6,287 | 6,450 | 2.6 |
| EBITDA | 147 | 163 | 10.8 | 236 | 266 | 12.7 | 294 | 335 | 13.9 |
| EBITDA margin (%) | 4.6 | 5 | | 4.7 | 5.2 | | 4.7 | 5.2 | |
| PBT | 125 | 153 | 22.5 | 211 | 236 | 11.8 | 269 | 305 | 13.3 |
| PBT margin | 3.9 | 4.7 | | 4.2 | 4.6 | | 4.3 | 4.7 | |
| Net profit | 92 | 113 | 22.9 | 156 | 174 | 11.6 | 198 | 225 | 13.6 |
| Adjusted net profit | 92 | 113 | 22.9 | 153 | 174 | 13.8 | 198 | 225 | 13.6 |
| EPS (INR) | 65.5 | 78 | 19.1 | 98 | 120.1 | 22.8 | 124 | 155.2 | 24.8 |
| Adjusted EPS (INR) | 65.5 | 78 | 19.1 | 98 | 120.1 | 22.8 | 124 | 155.2 | 24.8 |

Financials in charts

Exhibit 1: Volume growth continues (kg/month)

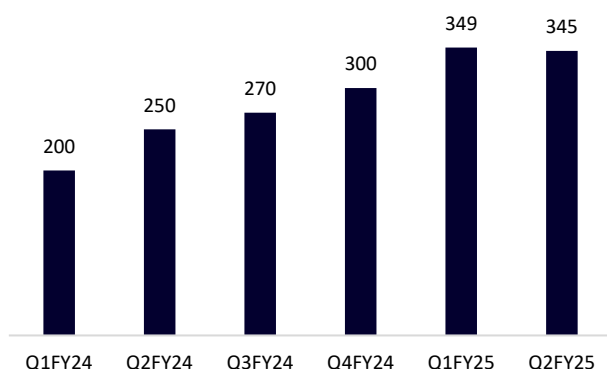


Exhibit 2: Average realisation (calculated) rises on surge in gold prices (INR/kg)

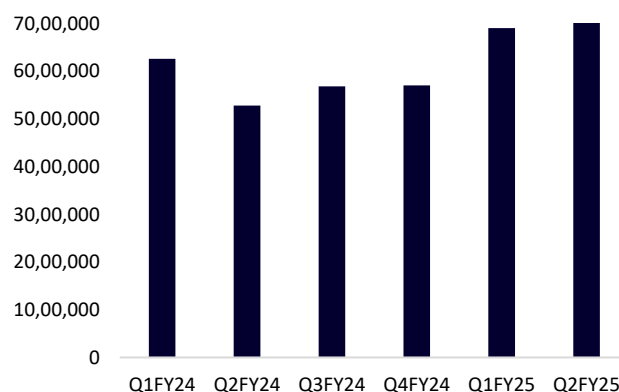


Exhibit 3: Revenue higher (INR cr) on consolidation

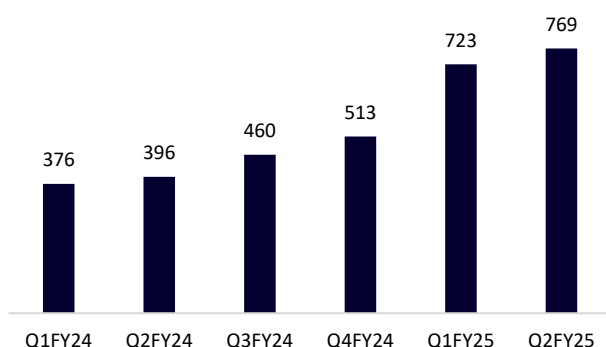


Exhibit 4: EBITDA trend (INR cr)

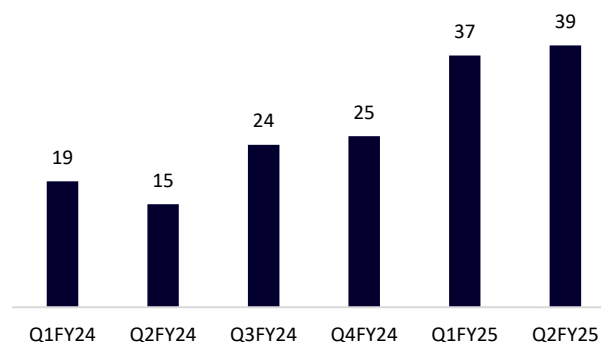


Exhibit 5: Margins expand

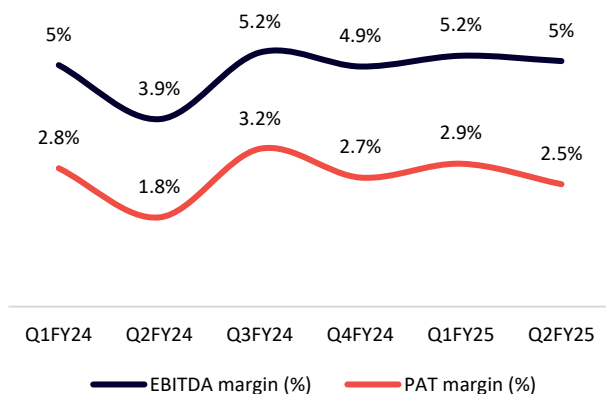
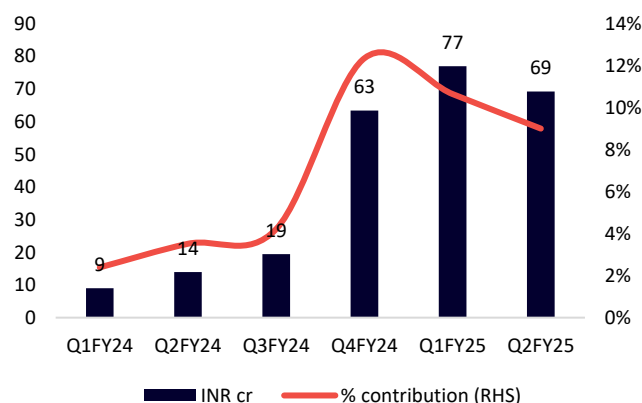


Exhibit 6: Exports rise exponentially



Source: Nuvama Wealth Research

Previous outlook

Q1FY25: Factoring in its recent blockbuster performance, we have upgraded our estimates slightly. We expect revenue/EBITDA/PAT to grow 53%/56%/70% over FY24–27. Its recent fund raising will result in a slight dilution in EPS which we expect to grow at 63% CAGR. SKYGOLD can be a longterm compounding story. Given its record of overachieving its targets in the past; aggressive growth for FY24-27 and execution capabilities of management, we think that SKYGOLD can be a long-term growth story. We maintain 'BUY' with revised TP of INR3,600 (35x FY26E earnings). We expect its EPS to grow at 84% over FY24-26E. Despite of such a high growth, the company should be able to grow at a healthy rate in upcoming years. This gives us comfort on our target multiple. Our EPS growth and target multiple imply a PEG ratio of 0.4 which leaves enough margin of safety for investors and room for further upgrade in P/Ex multiple as the company executes its strategy.

Coverage: SKYGOLD is run by three brothers, each having more than 20 years of industry experience and a sharp focus on scaling up the business. The promoters have shown tremendous execution capabilities by building long-standing relationships with its clients. The company continues to add more customers and gain wallet share from existing clients. 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 INR1,818 (20x FY26E earnings).



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Financials

| Income Statement | | | | | (INR cr) |
|--------------------------------|-------|-------|-------|-------|----------|
| Year to March | FY22 | FY23 | FY24 | FY25E | FY26E |
| Income from operations | 1,154 | 1,745 | 3,275 | 5,134 | 6,443 |
| Direct costs | 1,104 | 1,641 | 3,062 | 4,795 | 6,015 |
| Employee cost | 5 | 13 | 25 | 38 | 48 |
| Other expenses | 8 | 14 | 25 | 35 | 45 |
| Total operating expenses | 1,117 | 1,668 | 3,112 | 4,868 | 6,108 |
| EBITDA | 36 | 77 | 163 | 266 | 335 |
| Depreciation and amortisation | 1 | 6 | 8 | 11 | 13 |
| EBIT | 35 | 71 | 155 | 255 | 322 |
| Interest expenses | 11 | 21 | 27 | 25 | 24 |
| Other income | 1 | 4 | 26 | 5 | 6 |
| Profit before tax | 25 | 54 | 153 | 236 | 305 |
| Provision for tax | 6 | 14 | 40 | 62 | 80 |
| Core profit | 19 | 40 | 113 | 174 | 225 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Profit after tax | 19 | 40 | 113 | 174 | 225 |
| Share from associates | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 19 | 40 | 113 | 174 | 225 |
| Equity shares outstanding (cr) | 1 | 1 | 1 | 1 | 1 |
| Basic EPS (INR) | 17.3 | 30.6 | 82.8 | 127.5 | 164.8 |
| Diluted shares (cr) | 1 | 1 | 1 | 1 | 1 |
| Fully diluted EPS (INR) | 17.3 | 30.6 | 82.8 | 127.5 | 164.8 |
| Dividend per share | 3 | 2 | 0 | 0 | 0 |
| Dividend payout (%) | 16 | 6 | 0 | 0 | 0 |

Common size metrics as a percentage of net revenue

| Year to March | FY22 | FY23 | FY24 | FY25E | FY26E |
|----------------------|------|------|------|-------|-------|
| Operating expenses | 96.9 | 95.6 | 95.0 | 94.8 | 94.8 |
| Depreciation | 0.1 | 0.4 | 0.2 | 0.2 | 0.2 |
| Interest expenditure | 0.9 | 1.2 | 0.8 | 0.5 | 0.4 |
| EBITDA margin | 3.1 | 4.4 | 5.0 | 5.2 | 5.2 |
| Net profit margin | 1.6 | 2.3 | 3.5 | 3.4 | 3.5 |

Growth metrics (%)

| Year to March | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------|--------|-------|-------|-------|-------|
| Revenue | 46.8 | 51.3 | 87.6 | 56.8 | 25.5 |
| EBITDA | 79.0 | 112.7 | 110.8 | 63.2 | 26.0 |
| PBT | 15.3 | 116.0 | 183.2 | 54.0 | 29.2 |
| Net profit | 9.9 | 117.4 | 179.2 | 54.0 | 29.2 |
| EPS | (45.1) | 76.4 | 170.7 | 54.0 | 29.2 |

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Balance Sheet

(INR cr)

| As of March 31 | FY22 | FY23 | FY24 | FY25E | FY26E |
|-----------------------------|------------|------------|--------------|--------------|--------------|
| Equity share capital | 29 | 30 | 36 | 36 | 36 |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 |
| Reserves & surplus | 679 | 856 | 1,260 | 1,417 | 1,682 |
| Shareholders funds | 708 | 886 | 1,295 | 1,453 | 1,718 |
| Secured loans | 63 | 35 | 620 | 520 | 440 |
| Unsecured loans | 0 | 0 | 0 | 0 | 0 |
| Borrowings | 63 | 35 | 620 | 520 | 440 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Sources of funds | 771 | 922 | 1,915 | 1,972 | 2,157 |
| Gross block | 263 | 289 | 588 | 738 | 788 |
| Depreciation | 108 | 123 | 212 | 342 | 479 |
| Net block | 155 | 166 | 376 | 396 | 308 |
| Capital work in progress | 11 | 108 | 128 | 158 | 188 |
| Total fixed assets | 166 | 274 | 504 | 554 | 496 |
| Right of Use Assets | 130 | 113 | 173 | 165 | 215 |
| Investments | 42 | 372 | 196 | 211 | 271 |
| Inventories | 434 | 293 | 604 | 661 | 689 |
| Sundry debtors | 92 | 136 | 353 | 242 | 313 |
| Cash and equivalents | 13 | 24 | 127 | 182 | 226 |
| Loans and advances | 170 | 83 | 147 | 162 | 211 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Total current assets | 708 | 536 | 1,231 | 1,247 | 1,438 |
| Sundry creditors and others | 293 | 244 | 619 | 589 | 634 |
| Provisions | 37 | 44 | 56 | 61 | 66 |
| Total CL & provisions | 330 | 288 | 675 | 650 | 700 |
| Net current assets | 378 | 248 | 556 | 596 | 738 |
| Net Deferred tax | 12 | 31 | 41 | 41 | 41 |
| Misc expenditure | 43 | -116 | 445 | 405 | 395 |
| Uses of funds | 771 | 922 | 1,915 | 1,972 | 2,157 |
| Book value per share (INR) | 120 | 146 | 182 | 204 | 242 |

Cash Flow Statement

(INR cr)

| Year to March | FY22 | FY23 | FY24 | FY25E | FY26E |
|--|-----------|-------------|------------|-----------|------------|
| Net profit | 18 | 40 | 113 | 174 | 225 |
| Add: Depreciation | 1 | 6 | 8 | 11 | 13 |
| Add: Miscellaneous expenses written off/other assets | 10 | 17 | -4 | -3 | 0 |
| Add: Deferred tax | 0 | 0 | -1 | 0 | 0 |
| Gross cash flow | 29 | 63 | 115 | 182 | 238 |
| Less: Changes in working capital | -34 | -202 | -184 | -132 | -78 |
| Operating cash flow | -5 | -138 | -69 | 49 | 160 |
| Less: Capex | 2 | 20 | 10 | 10 | 10 |
| Free cash flow | -8 | -158 | -79 | 39 | 150 |

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Ratios

| Year to March | FY22 | FY23 | FY24 | FY25E | FY26E |
|------------------------------|------|------|------|-------|-------|
| RoAE (%) | 21.3 | 23.7 | 26.0 | 30.1 | 24.7 |
| RoACE (%) | 16.7 | 17.9 | 19.8 | 22.9 | 24.3 |
| Debtor days | 21 | 21 | 22 | 15 | 15 |
| Current ratio | 52 | 15 | 26 | 25 | 25 |
| Debt/equity ratio | 1.5 | 1.2 | 1.1 | 0.5 | 0.4 |
| Inventory days | 27 | 56 | 40 | 35 | 30 |
| Payable days | 1 | 1 | 1 | 1 | 1 |
| Cash conversion cycle (days) | 48 | 76 | 61 | 49 | 44 |
| Debt/EBITDA ratio | 4 | 4 | 2 | 2 | 1 |
| Adjusted debt/equity ratio | 1.3 | 0.9 | 0.2 | 0.1 | (0.1) |

Valuation parameters

| Year to March | FY22 | FY23 | FY24 | FY25E | FY26E |
|----------------------------|--------|------|-------|-------|-------|
| Diluted EPS (INR) | 17.3 | 30.6 | 82.8 | 127.5 | 164.8 |
| YoY growth (%) | (45.1) | 76.4 | 170.7 | 54.0 | 29.2 |
| CEPS (INR) | 18.7 | 35.4 | 88.7 | 135.4 | 174.3 |
| Diluted P/E ratio (x) | 54.8 | 31.1 | 43.4 | 28.2 | 21.8 |
| Price/BV ratio (x) | 39.3 | 19.5 | 13.7 | 6.1 | 4.8 |
| EV/sales ratio (x) | 1.0 | 0.8 | 1.5 | 0.9 | 0.7 |
| EV/EBITDA ratio (x) | 31.6 | 19.2 | 29.6 | 18.1 | 14.0 |
| Diluted shares outstanding | 1.1 | 1.3 | 1.4 | 1.4 | 1.4 |
| Basic EPS | 17.3 | 30.6 | 82.8 | 127.5 | 164.8 |
| Basic P/E ratio (x) | 54.8 | 31.1 | 43.4 | 28.2 | 21.8 |
| Dividend yield (%) | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |

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