

Q1FY25 Result Update

Sky Gold

Sky is not the limit: Scoring gold on all parameters

- Revenue grew 92% YoY to INR723cr (est. INR577) on higher volumes (up 75% YoY and 16% QoQ to 349kg/month) and higher gold prices.
- Gross profit surged by 95% YoY to INR46cr on higher sales. Gross margin expanded by ~10bp YoY to 6.4% on the back of a favourable product mix.
- EBITDA grew 2x YoY to INR37cr (est. INR26cr) on higher revenue, cost controls, and operating leverage. Operating margin expanded by ~20bp to 5.2%
- PAT grew 2x YoY to INR21cr (est. INR17cr) on higher EBITDA.
- We reiterate 'BUY' with a revised TP of INR3,600 at 35x FY26E earnings (0.4PEG ratio).

Robust demand during Akshay Tritiya and higher capacity boosts volume

SKYGOLD shifted to its new facility in FY24 which expanded its monthly capacity to 750kg/month from 200kg/month. It is working towards boosting utilisation (~47% in Q1FY25) with client additions and wallet share gains from existing customers. It has seen incremental volume growth since the last four quarters. Demand surged on Akshay Tritiya. Blended realisation grew 10% YoY on higher gold prices. The focus is on raising the contribution of value-added products which is aiding realisations. It expects to continue this growth trajectory and end FY25 at 360–370kg/month. The company is reaping the benefits of a shift to organised from unorganised players. We have factored in 360kg/month (4.3 tons) for FY25. We expect subsidiaries to clock in 960kg volumes for FY25. Recent duty cut announcements have led to a surge in footfalls at the retailers' end and should accelerate the shift from unorganised to organised market. The duty cuts will lead to lower capital requirements and management plans to focus on design and production to drive margin higher. Exports stood at INR80cr in Q1FY25 versus INR105cr in entire FY24. Contribution from exports in Q1FY25 stood at 11% vis-à-vis 6% in FY24. Surge in exports drove overall revenue higher. The company has added clients in the export segment and aims to add more in upcoming quarters. We expect exports to settle at 10% in FY25 and be one of the foremost drivers of volume in the medium to long term.

Announces fund raising; new capacities to scale up

SKYGOLD acquired Sparkling Chains and Starmangalsutra for a consideration of INR88cr in Q1FY25 (FY24 PAT of INR7.5cr). Through these acquisitions, its addressable market has risen to 70% from 35%. Both entities posted a PAT of INR7.5cr in FY24. The management expects to scale these entities and targets sales of INR500–600cr in FY25, with a PAT of INR15cr. It plans to raise INR270cr for capacity enhancements at new entities and to meet the working capital needs of the consolidated entity. It is focusing on the 18-carat gold category and diamond jewellery which can yield a higher margin. The management is targeting a revenue of INR6,300cr, with over 3% PAT margin and 25% RoCE by FY27. We see it comfortably achieving its target on higher capacities, recent acquisitions, higher contribution from exports, and market share gains. GML stood at 10% and is expected to rise to 100% by December. This will lead to an expansion in PAT margin. This can lead to the company achieving a margin that is better than our estimates.

Valuation and view

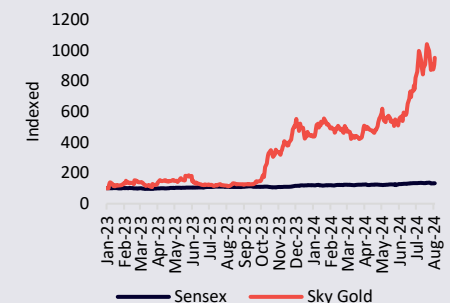
Factoring in its recent blockbuster performance, we have upgraded our estimates slightly. We expect revenue/EBITDA/PAT to grow 53%/56%/70% over FY24–27. Its recent fund raising will result in a slight dilution in EPS which we expect to grow at 63% CAGR. SKYGOLD can be a long-term compounding story. Given 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.**

Key financials

Particulars	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	FY24	FY25E	FY26E	FY27E
Net Sales (INR cr)	723	376	92	513	40.8	1,745	3,207	5,038	6,282
Gross Profit (INR cr)	46	24	95	35	29.4	105	196	312	389
Gross margins (%)	6.4%	6.3%	9bps	6.9%	-56bps	6.0%	6.1%	6.2%	6.2%
EBITDA (INR cr)	37	19	100	25	47.2	77	147	236	294
EBITDA margins (%)	5.2%	5.0%	19bps	4.9%	22bps	4.4%	4.6%	4.7%	4.7%
Adj. PAT (INR cr)	21	11	99	14	56.0	40	92	156	198
P/E (x)						31.1	33.9	22.7	17.9

CMP: INR2,347
Rating: BUY
Target price: INR3,600
Upside: 53%
Date: August 12th, 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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Q1FY25 result highlights

Particulars (INR cr)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	FY24	FY25E	FY26E	FY27E
Income from operations	723	376	92.4	513	40.8	1,745	3,207	5,038	6,282
Gross Profit	46	24	95.2	35	29.4	105	196	312	389
Gross margins %	6.4	6.3	9bps	6.9	-56bps	6.0	6.1	6.2	6.2
Employee expenses	5	3	82.0	5	(2.7)	13	24	38	47
Other expenses	4	2	71.4	5	(26.0)	14	25	39	48
EBITDA	37	19	99.9	25	47.2	77	147	236	294
EBITDA margins %	5.2	5.0	19bps	4.9	22bps	4.4	4.6	4.7	4.7
Depreciation	2	1	99.5	2	(4.3)	6	8	10	12
Interest expenses	8	4	92.2	7	20.8	75	143	231	287
Other income	1	1	50.6	2	(21.4)	4	4	5	5
Profit before tax	28	14	NA	18	57.0	54	125	211	269
Profit after tax	21	11	NA	14	56.0	40	92	156	198
Extraordinary items	-	-		-		-	-	-	-
Adjusted net profit	21	11	NA	14	56.0	40	92	156	198

Revised estimates

(INR cr)	FY25E			FY26E			FY27E		
	Old	Revised	Change (%)	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	3,219	3,207	-0.4	5,012	5,038	0.5	6,257	6,282	0.4
Other income	4	4	2.8	4	5	13.1	4	5	24.4
Total Income	3,223	3,211	-0.4	5,016	5,042	0.5	6,261	6,287	0.4
EBITDA	147	147	-0.3	235	236	0.3	293	294	0.3
EBITDA margin (%)	4.6	4.6		4.7	4.7		4.7	4.7	
PBT	121	125	3.0	207	211	2.0	262	269	2.5
PBT margin	3.8	3.9		4.1	4.2		4.2	4.3	
Net Profit	89	92	3.4	153	156	1.9	194	198	2.2
Adjusted Net profit	89	92	3.4	153	156	1.9	194	198	2.2
EPS (Rs.)	67.6	65.5	-3.1	90	97.8	9.0	129	124.4	-3.3
Adj EPS (Rs)	67.6	65.5	-3.1	90	97.8	9.0	129	124.4	-3.3

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Financials in charts

Exhibit 1: Volume growth continues (kg/month)

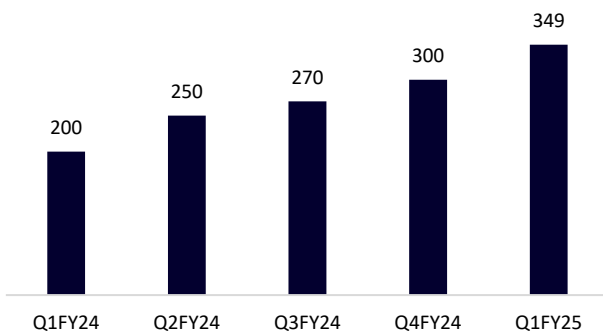


Exhibit 2: Realisations rise on surge in gold prices (INR/kg)

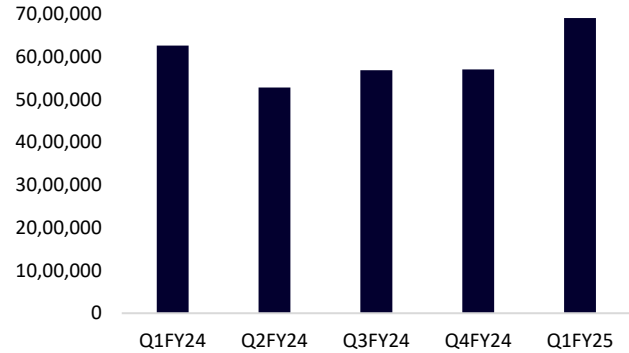


Exhibit 3: Revenue inches higher (INR cr)

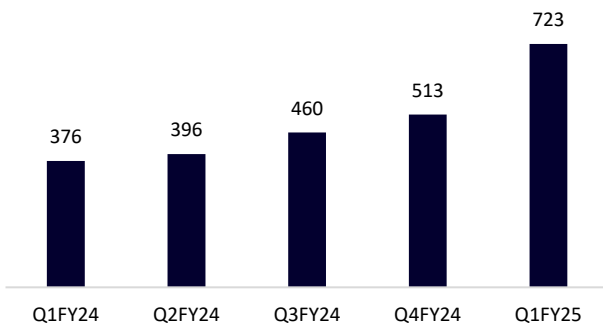


Exhibit 4: EBITDA trend (INR cr)

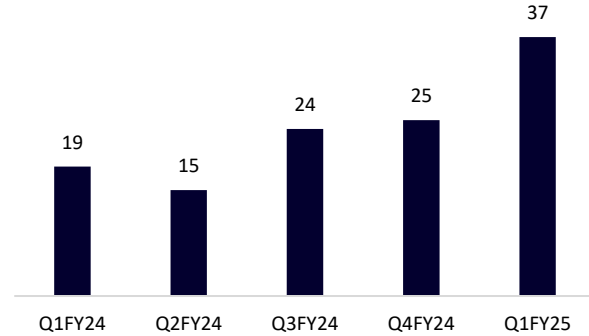


Exhibit 5: Margins expand

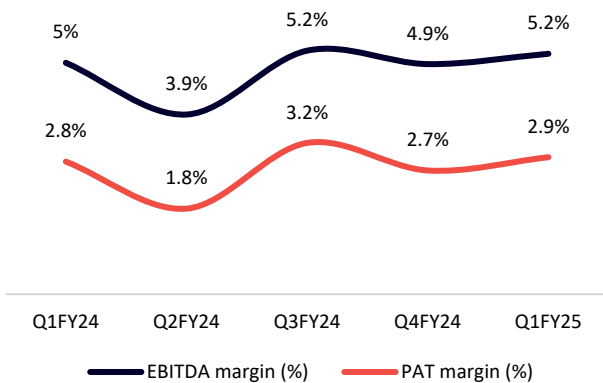
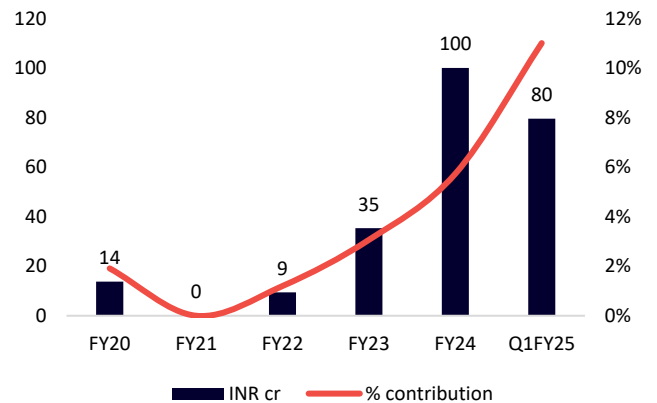


Exhibit 6: Exports rise exponentially



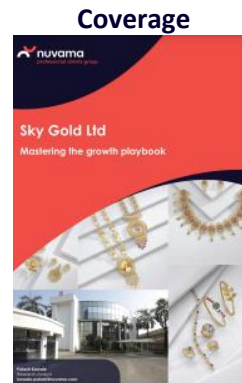
Source: Nuvama Wealth Research

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Previous outlook

Coverage: SKYGOLD is run by three brothers with 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 longterm 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).

Acquisition Update: 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



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Financials

Income Statement		(INR cr)				
Year to March	FY23	FY24	FY25E	FY26E	FY27E	
Income from operations	1,154	1,745	3,207	5,038	6,282	
Direct costs	1,104	1,641	3,011	4,726	5,892	
Employee costs	5	13	24	38	47	
Other expenses	8	14	25	39	48	
Total operating expenses	1,117	1,668	3,060	4,802	5,988	
EBITDA	36	77	147	236	294	
Depreciation and amortisation	1	6	8	10	12	
EBIT	35	71	139	226	282	
Interest expenses	11	21	18	19	18	
Other income	1	4	4	5	5	
Profit before tax	25	54	125	211	269	
Provision for tax	6	14	33	55	70	
Core profit	19	40	92	156	198	
Extraordinary items	0	0	0	0	0	
Profit after tax	19	40	92	156	198	
Share from associates	0	0	0	0	0	
Adjusted net profit	19	40	92	156	198	
Equity shares outstanding (cr)	1	1	1	2	2	
EPS (INR) basic	17.3	30.6	69.5	103.9	132.1	
Diluted shares (Cr)	1	1	1	2	2	
EPS (INR) fully diluted	17.3	30.6	69.5	103.9	132.1	
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	FY23	FY24	FY25E	FY26E	FY27E
Operating expenses	96.9	95.6	95.4	95.3	95.3
Depreciation	0.1	0.4	0.2	0.2	0.2
Interest expenditure	0.9	1.2	0.6	0.4	0.3
EBITDA margins	3.1	4.4	4.6	4.7	4.7
Net profit margins	1.6	2.3	2.9	3.1	3.2

Growth metrics (%)

Year to March	FY23	FY24	FY25E	FY26E	FY27E
Revenues	46.8	51.3	83.7	57.1	24.7
EBITDA	79.0	112.7	89.7	60.9	24.7
PBT	15.3	116.0	130.5	69.4	27.2
Net profit	9.9	117.4	127.3	69.4	27.2
EPS	(45.1)	76.4	127.3	49.4	27.2

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Balance Sheet					(INR cr)
As of March 31	FY23	FY24	FY25E	FY26E	FY27E
Equity share capital	11	13	13	15	15
Preference Share Capital	0	0	0	0	0
Reserves & surplus	87	231	323	747	945
Shareholders funds	98	244	336	762	960
Borrowings	146	299	367	389	389
Minority interest	0	0	0	0	0
Sources of funds	245	543	703	1,151	1,349
Gross block	11	36	41	51	61
Depreciation	4	11	18	28	40
Net block	6	25	22	22	21
Capital work in progress	0	1	0	0	0
Total fixed assets	6	26	22	22	21
Right of Use Assets	0	10	10	10	10
Investments	68	91	101	111	121
Inventories	85	266	439	649	774
Sundry debtors	67	102	158	207	258
Cash and equivalents	18	77	306	241	273
Loans and advances	4	11	11	16	21
Other current assets	0	0	0	0	0
Total current assets	174	457	915	1,113	1,327
Sundry creditors and others	3	30	73	104	128
Provisions	0	0	0	0	0
Total CL & provisions	3	30	73	105	128
Net current assets	171	426	842	1,009	1,199
Net Deferred tax	-3	-2	-1	-1	-1
Misc expenditure	2	-7	-3	-0	-0
Uses of funds	245	543	971	1,151	1,349
Book value per share (INR)	91	184	254	508	640

Cash Flow Statement					(INR cr)
Year to March	FY23	FY24	FY25E	FY26E	FY27E
Net profit	18	40	92	156	198
Add: Depreciation	1	6	8	10	12
Add: Misc expenses written off/Other Assets	10	17	-4	-3	0
Add: Deferred tax	0	0	-1	0	0
Gross cash flow	29	63	94	162	210
Less: Changes in W. C.	-34	-202	-186	-221	-149
Operating cash flow	-5	-138	-93	-59	61
Less: Capex	2	20	5	10	10
Free cash flow	-8	-158	-98	-69	51

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Ratios

Year to March	FY23	FY24	FY25E	FY26E	FY27E
ROAE (%)	21.3	23.7	21.7	28.4	23.0
ROACE (%)	16.7	17.9	18.3	21.3	22.6
Debtors (days)	21	21	18	15	15
Current ratio	52	15	13	11	10
Debt/Equity	1.5	1.2	1.1	0.5	0.4
Inventory (days)	27	56	50	47	45
Payable (days)	1	5	5	5	5
Cash conversion cycle (days)	48	72	63	57	55
Debt/EBITDA	4	4	3	2	1
Adjusted debt/Equity	1.3	0.9	0.2	0.2	0.1

Valuation parameters

Year to March	FY23	FY24	FY25E	FY26E	FY27E
Diluted EPS (INR)	17.3	30.6	69.5	103.9	132.1
Y-o-Y growth (%)	(45.1)	76.4	127.3	49.4	27.2
CEPS (INR)	18.7	35.4	75.3	110.3	140.0
Diluted P/E (x)	54.8	31.1	33.9	22.7	17.9
Price/BV(x)	25.8	12.8	9.3	4.6	3.7
EV/Sales (x)	1.0	0.8	1.0	0.6	0.5
EV/EBITDA (x)	31.6	19.2	21.7	13.9	11.0
Diluted shares O/S	1.1	1.3	1.3	1.5	1.5
Basic EPS	17.3	30.6	69.5	103.9	132.1
Basic PE (x)	54.8	31.1	33.9	22.7	17.9
Dividend yield (%)	0.3	0.2	0.2	0.2	0.3

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