Tribhovandas Bhimji Zaveri Limited
Q1 FY 2020 Earnings Conference Call
August 14, 2019

Moderator: Good evening, ladies and gentlemen. I am Chris, the moderator for this conference. Welcome to Q1 FY 2020 Earnings Conference Call of Tribhovandas Bhimji Zaveri Limited organised by Dickenson Seagull IR. At this moment, all participants are in the listen-only mode. Later we will conduct a question-and-answer session at that time if you wish to ask a question, please press '*' and then '1' on your telephone keypad. Please note this conference is recorded.

I would now like to hand the floor over to Mr. Chintan Mehta. Over to you, sir. Thank you.

Chintan Mehta: Good evening, everyone. Let me welcome you all to the Earnings Call of TBZ Limited for the First Quarter FY 2019 - 2020. Today, we have with us management represented by Ms. Binaisha Zaveri -- Wholetime Director; and Mr. Saurav Banerjee -- CFO.

Before we get started, I would like to remind you that our remarks today might include forward-looking statements and actual results may differ materially from those by these forward-looking statements. Any statements we make on this call today are based on our assumptions as of day and we undertake no obligation to update these statements as a result of new information or future events.

I would now invite Ms. Binaisha to make her opening remarks. Thank you.

Binaisha Zaveri: I welcome you all to the earnings call of Tribhovandas Bhimji Zaveri Limited for the First Quarter of 2019 - 2020. The new financial year has begun on a positive note. Higher revenue growth along with strict control on operating expenses helps us generate improved margins and profitability.

Our constant focus on offering innovative jewellery designs and marketing initiatives helped us drive higher walk-in, coupled with a healthy conversion rate, resulting in higher sales during the quarter.

Revenue growth on a stable cost base generated positive operating leverage and led to overall improvements in margin and profitability. While consumer sentiments were encouraging particularly during the two major festivals in the quarter. We believe that the persistent activation efforts will lead to improve sales.

We are confident on delivering an improved financial performance during the current financial year. Our major focus areas are healthier margins while keep our operating expenses under control. With our continued efforts to strengthen the TBZ brand recall and presence we have been judicially and consistently investing in marketing activities and introducing unique jewellery collections for our customers.

Recently we have launched new gold and diamond collection ranges at affordable entry level prices targeted towards the younger audience. They are Noor, Trinity and Jiva

Our country is gradually progressing towards the US$5 trillion economy by 2024. That will sustain the maximum growth in discretionary consumption spends including in the jewellery business.

Stricter instrumentation of rules, regulations and GST and hallmarking will go a long way in improving the organised sector sales in the years to come. There is already a visible consumer shift towards trusted brands with a rich legacy and in favour of the organised sector, which will ensure better growth trends in future too.

I would now like to hand over the call to our CFO, Mr. Saurav Banerjee for a quick overview of our financial performance during the quarter.

Saurav Banerjee: Good evening, everybody. I am Saurav Banerjee, I shall take you through the key highlights of quarter one FY 2019 - FY 2020 vis-à-vis Q1 FY 2018 - FY 2019.

Total income from operations ₹429.77 crores vis-à-vis ₹410.93 crores Y-o-Y improvement of 4.58%. Gross profit in absolute terms ₹65.91 crores vis-à-vis ₹61.21 crores, Y-o-Y growth of 7.67%. Gross margin percent 15.34% for the current quarter vis-à-vis the previous Q1 14.90%. EBITDA in absolute terms ₹25.7 crores vis-à-vis ₹13.87 crores, an improvement of 85.21%. EBITDA margins 5.98% vis-à-vis 3.38%. PBT in absolute terms ₹4.97 crores vis-à-vis ₹2.04 crores. PBT margin 1.16% vis-à-vis 0.5%. PAT ₹3.09 crores vis-à-vis ₹1.31 crores. PAT margin 0.72% vis-à-vis 0.32%.

We can now begin the Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. Our first question is from Prashant. Please go ahead.

Prashant: We have two factories in this quarter, right? That is what you mentioned. And the other thing is, in March 2018 we had a 37 retail outlets and retail square feet is 1.10 lakh per sq. In March 2019 we have 41 retail outlet, square feet is 1.206, almost 10% of increase in our retail outlet plus retail square foot. Now, if we see the increase in the turnover is negligible. It is 5%. It is not a big one, even though had two festivals falling into this season. So is there any reason for that, it is 1.2% year-on-year and the store wise growth of 4.97% is just negligible with two factories also and 10% of our retail expansion.

Saurav Banerjee: Yes, understood your question, let me explain. When we open new stores, there is opening of the new store and the inventory, the expenses begin from day one, but the resultant top tier performance in terms of top-line take time. Because the store has to settle down and there is a gestation period before which the stores start performing to its desired level. So, that is why you will always see that whenever there is a new store addition or when we are adding square feet in terms of store space, it takes some kind of gestation period, minimum of about 8 months to 10 months for the cash breakeven to happen. And in terms of the store maturity it takes a much longer time, about 2.5 years to 3 years. That is why the growth is not commensurate with the opening of the stores in terms of timing. For example, we have opened 5 new stores in the previous financial years, some of which were open towards the fag end of the financial year. So, naturally, those stores will take a little bit of time to settle down in a new environment in new market in terms of new customer base in that particular city. And once that settling down effect is over then we shall find higher contribution from those stores in terms of turnover, in terms of profitability and then the justification will be more balanced in terms of the store addition for square feet and the store addition in terms of the top-line. So, that is generally the reason we need you to know probably give a little more time to these stores. Most of these stores except in Pune are new market for us and generally, it is seen that it takes, as I said, minimum of 8 months to 10 months for the stores to start performing at a satisfactory level, if not at a peak level.

Prashant: All right. Then we have 27 stores in FY 2014, and we have currently 41 stores, increased almost by 14 stores. I am talking about 2014, 27 stores, right. Our turnover remains the same, what is the explanation for that?

Saurav Banerjee: Yes, we have explained in the past, there have been certain challenges, which the company has faced in terms of regulatory challenges. And also, we have taken several steps in recent times, in the last 1 year - 1.5 years, in terms of inventory rationalisation, in terms of upgrading our automation efforts, in terms of controlling our operating costs plus the store additions, which have already happened in virgin markets for TBZ. Most of the cities that we have entered into have been first time source for TBZ. And while yes, your observation is correct, we have also explained that the corrective action and the measures have been already taken in terms of internal efficiencies and sprucing up the front-line sales incentive scheme. In terms of the ERP and the automation, which has brought about savings in cost as well as turnaround time, all these things have happened, in terms of inventory rationalisation. So, we are expecting that in the near future, that growth will be at a faster rate than what it has been in the past and we shall be able to post better same store sales growth, which will be visible as we move along in this current financial year.

Prashant: And what kind of gross margin we can expect? Like 15.3% for Q1 FY 2020? Last year, the same thing has happened, we have uptick in quarter one and then it has gone down to 14.1 by the end of the year. What kind of improvement in gross margin, we can see going ahead?

Saurav Banerjee: Certainly, we shall be able to post improved gross margins. Currently we have been able to bring about some kind of improvement from 14.9% for Q1 last year to 15.3%. So, while you mentioned about Q1 and then the margins tapering off, but when we compare on Y-o-Y basis, there is clear improvement. We are consistently working towards improving the margins further, it shall improve by dint of the product mix, which is always being a focused area for us between gold and diamond for example, and also I would say a more profitable kind of registering our revenues and we shall be able to demonstrate to you improved gross margin from here onwards.

Prashant: How much gold we have sold in this quarter?

Saurav Banerjee: I will not be able to share the exact details about how much we have sold. But we have seen a growth in terms of both volume and value as far as gold sales are concerned, top-line is concerned.

Prashant: Because I think net realisation is almost 5% more than last year right?

Saurav Banerjee: Yes. We have seen a higher percentage of gold getting sold both in terms of volume as well as value and we saw the sale of diamond as well.

Prashant: Volume percentage?

Saurav Banerjee: Volume percentages is approximately around 6% to 7%.

Prashant: So, last year the gold price was more than this quarter?

Saurav Banerjee: The gold prices have started going up from June. In April and May, they were fairly stable. However, from June onwards the gold prices have gone up and it continues to go up or remain at a very high level, which we have seen in the entire month of July, and even now in August. The impact of gold prices on value is only in the month of June, not entire June but part of the June. A small part of the Q1 would have seen an impact of gold prices, the impact will be greater in Q2. But now since we are discussing Q1, I think the price impact is marginal and not substantial.

Prashant: And what about interest cost, can we see any downward movement in the quarter or it is going to be remain the same range of ₹12-14 crores?

Saurav Banerjee: Sorry, I could not catch which cost are you talking about?

Prashant: Interest cost, finance costs?

Saurav Banerjee: Interest cost, yes. Interest cost has gone up marginally from ₹10.6 to about ₹11.2, it will remain at these levels. There was a higher utilisation of limits earlier because of the addition of new stores and the inventory that has been allocated to those stores. But as we move along, the inventory turns will take care of the lower utilisation of limit to a certain extent. And we are expecting that with Reserve Bank of India passing on certain benefits in terms of lighter interest rates, we should also be able to bring out those benefits in our financials and report a lower interest cost on an overall basis.

Prashant: And this advertisement cost, it is down from 3.6% - 2.9%, what kind of increase you can expect, 3.5%?

Saurav Banerjee: Yes, advertising cost is mostly a strategic function. So last year, in Q1, there were certain strategic measures that were adopted by the Company and hence, the advertising spends were deliberately put on the higher side to take care of those strategic advantages. However, in this quarter we have had normal advertising spends, which we generally have. And hence, on a Y-o-Y basis, the advertising expenses have been brought down and rightly so. On an average, of course, as we all know that if you take a long -term average than the average advertising costs are around 2.5% or so of the top-line.

Moderator: Thank you very much. The next question is from Zain Iqbal of Alpha Invesco. Please go ahead.

Zain Iqbal: I just want to know your inventory turn and blended inventory turns under gold and what is the long-term outlook on inventory turn?

Saurav Banerjee: Blended inventory turns currently will be around 1.7 to 1.8 times. In terms of gold inventory turn it will be in the range of 2.5 to 3 and for diamond it will be around 1. The effort of the company is to improve upon these turns and in terms of blended go beyond two times. In terms of gold, specifically, if you ask me on an average of 3 plus and diamond around 1.2 - 1.25, that is the endeavour of the company and we should be able to achieve it. I would say medium to long-term range may not be possible in the very next quarter. But by the year end, we should be able to do that.

Zain Iqbal: Okay, sir. My second question is on your new designs and collections. Specifically talking about Jeeva and new launches. So how is the response?

Saurav Banerjee: Well, we have seen very encouraging response of the new launches that have been made in terms of design. Primarily because it has been focusing on the younger audience, the uninitiated customers who have not yet had an experience of the TBZ brand of jewellery, it has also been priced accordingly, it is easy on the pocket, it has been priced lower and I would say in a very affordable manner. And hence, we have already seen some kind of traction, which is very encouraging. The launches have been well received both in terms of design differentiation and also, in terms of the attractive price range, we are expecting that they will gain in popularity, and the word will spread, and the collection ranges will be a success in the longer-term. In the coming future also in the next few months, we shall continue to launch newer collections. So that we can cater to the younger audience, people who would like to probably try out the TBZ brand for the first time. And for those who have been loyal to the company and have been coming back to the stores often.

Zain Iqbal: Okay. So, if I may ask, sir, what is the average ticket size under the brand Noor, for example, what is the average ticket size of the jewellery?

Saurav Banerjee: The average ticket size will be probably in the range of maybe ₹30,000 to ₹50,000 kind of range, depending on the intricacy of the design. It is difficult to pinpoint. But as I said a range can be from ₹30,000 to ₹50,000. There are other collections, which have been introduced, like Pretty Little Things, which are priced a little bit lower and are in the range of about ₹10,000 to ₹20,000. So, we have that kind of price range, as I said just now ₹30,000 to ₹50,000 and then we move right up to the higher levels beyond ₹5 lakhs. So what TBZ has been able to do is to offer the entire range of products to suit every walk of life, every pocket, every generation, whether the young or the middle aged or the old, whoever may be our customer. And that's what has been our forte in the recent past.

Zain Iqbal: And how are we going about positioning these new brands, are you targeting malls or via franchise? What is your strategy on these new launches?

Saurav Banerjee: Yes, it is an all-round kind of strategy. So, earlier we have opened mall stores, which completely catered to the low-ticket diamond jewellery, something that one can just walk in and make an impulsive purchase, probably swipe a card and take something attractive away for their use. So, the malls or their franchisee stores we have, introduced all these products in the A and the B class of cities, where there is an aspirational value for the TBZ brand. And these products have been doing well there. So, every store that you visit, you will find all these collections, which are being displayed and sold consistently.

Zain Iqbal: Okay. Sir one last question on franchisee expansion. Sir, what is your target for FY 2020 and FY 2021?

Saurav Banerjee: In terms of store addition? Are you asking in terms of store addition?

Zain Iqbal: Yes, sir.

Saurav Banerjee: For franchisee stores, yes. So, it is something is in the pipeline, we have identified three or four cities where we think franchisee arrangements will work well. We are in discussions with couple of these potential partners and we expect that during the course of this financial year, we should be able to close the conversation and open two or three stores, which will be a franchisee stores. So, the cities have been identified. And discussions are ongoing.

Moderator: Thank you very much, sir. The next question is from Ashish Kanodia of Ambit Capital. Please go ahead.

Ashish Kanodia: So, sir you talked about increasing gold prices during June? So, is it possible to quantify what kind of impact you noticed? Was there any decline during June?

Saurav Banerjee: Well, we have not seen a decline in volumes, if you are asking that. In terms of the level of the sales, we have not seen any significant or any decline on an overall basis. In terms of pricing impact, probably a percentage impact would have been there on the value. So the first quarter has not been very significantly impacted by gold prices. Obviously there will be customers who will probably wait and watch to figure out what is happening on the prices. But on an overall basis, we have managed the expectations and will come out with the strategic offerings to the customer and thereby, ensure that walk-ins have been at a healthy level of conversion. And finally resulting into decent number of sales.

Ashish Kanodia: Okay, that is great. So sir, even during July and in mid of August, the prices of gold have remained elevated, what is your feedback? I mean, do you see the footfalls and the volumes increasing? Or have you seen some sort of a slowdown because of increased gold prices?

Saurav Banerjee: Not really. Again, you know, if it is something to do with the strategies that a company adopts, when you deal with a volatile metal like gold, one should expect that the prices will sometimes rise and sometimes fall. I agree that, on this occasion, the prices have risen very rapidly because of various international reasons that we are aware of and they have stayed at a very high level. But nevertheless, if somebody is in the jewellery retail industry, then we should be always geared up. And that is what TBZ has demonstrated through a good marketing strategy. We have been able to continuously drive footfalls into the stores, the sales have been encouraging, not only in the first quarter, but so far in the second quarter as well. And we expect that trend to continue. Unless of course the gold prices just go through the roof and are something, which is totally unmanageable. Currently, we are given to understand that the prices continue to be high or may even rise a little bit more. We are geared up for that. And the stores are performing for the past about two months now with higher gold prices. And we have been able to demonstrate some kind of good traction.

Ashish Kanodia: Right, that is really helpful, sir. And just last question, what is the revenue mix broadly in terms of diamond jewellery and gold jewellery, if you can just help me with that sir?

Saurav Banerjee: Sure. For Q1, you know, we have shared the data, I think the number is close to around 76:24. On an average that is the range that we have, sometimes 75:25. Ideally, our endeavour is to have a mix of approximately 73:27, which will give us much better blended GP because as we all know that the diamond GPs are almost three times higher than gold. That is the aim for the company to be at 73:27. But as of now currently, I think we are at 76:24.

Moderator: Thank you very much, sir. The next question is from Krishnan, an Individual investor.

Krishnan: Sir, basically, we have ₹1,200 crores inventory and we have a borrowing of around ₹600 crores and I think our PBT is around ₹4.96 crores but whereas we are paying finance cost of around ₹14 crores per quarter. So, as an investor we are not seeing much fruits.

Saurav Banerjee: Yes, Let me quickly explain to you the interest cost particularly for this quarter. You probably have seen our presentation. If not, then let me just quickly update you that there is a new accounting standard, which is called IndAS 116, which has been introduced from this quarter and is applicable to all the companies and so it is to us. And hence, one of the impacts of this IndAS 116 is on interest costs, because the rent expenses that are normally taken as a part of the operating costs and which impacts the EBITDA has been redistributed in a sense to depreciation and interest expense. And part of the interest expense increase that you find there, which you just mentioned about in a layman's language, it is just a rearrangement of expenses, which are governed by this IndAS 16 the actual increment of interest costs for this quarter is about just ₹40 lakhs or ₹50 lakhs and not more than that. And as I explained that, because of the higher utilisation of limits for a slightly longer period of time, we expect that once the stores start performing more equitably, the new stores, there will be a higher inventory turn, which I just talked about, in my last conversation with another gentleman. And once that happens, the limit utilisation to a certain extent will come down, there will be a better cash generation in the system. And we should be able to control the interest costs, too. The previous levels are maybe a little bit lower. We also know that Reserve Bank now has a fairer outlook in terms of reducing interest costs. And we expect that , a little more work will be done by them and benefits shall we passed on to the customers to the bank, that will also help us reduce the overall borrowing cost.

Moderator: Thank you. The next question is from Kunal Vora of BNP Paribas. Please go ahead.

Kunal Vora: There are some news reports that indicate that physical gold in India is trading at a discount to import parity price. Does it impact your business anyway? Is there any opportunity to buy gold cheaper? If you just explain like how this works?

Saurav Banerjee: Yes, I will, just briefly touch upon I would not be able to really explain the market dynamics in that way. But yes, we are also given to understand we have also observed that, you know at times the price that is available on the open market, let us say if we were to buy outright, is relatively lower than let us say the bank price because of whatever reasons. But one must remember that while it is possible to buy gold outright from the market, it is a cash flow kind of situation where you know you have to go cash out immediately. And number two is that when you buy gold outright, the price risk is on the buyer, because you have that inventory in your books, whereas, when we do a gold metal loan, which is the preferred way of procurement of gold, then the price risk is not being taken by the customer in this case us. So, we are naturally hedged. And also, as we know that since it is a gold on loan kind of a product. So, the average number of days that are available to us to settle the payment is around 150 days. But one can go technically up to 180 days. So, what I mean to it is instantly attractive to look at the so called market price advantages and by outright maybe in the longer run, it makes greater sense to continue to rely or to patronise the gold on loan mechanism that is infinitely more consistent and better mechanism of procurement of gold, which we have seen over several years now.

Kunal Vora: Sure. And does it make more sense to encourage gold exchange in that case at least from a customer perspective, if the physical gold is trading at a discount maybe companies buying like say, would you encourage exchange in this situation and liquid and how large is exchange for you?

Saurav Banerjee: Well practically, you know, there is no need to encourage because we have seen that as a natural phenomenon, whenever prices of gold start going up. The old gold or the exchange that you are talking about that percentage starts going up as well. It is a market trend, which happens all the time, which is happening currently and, in the past, also. On an average, our old-gold percentage is approximately around 30%. But in recent times, we have seen it has sometimes gone over 40% as well. So, the adjustment has to be made internally between the gold that comes in from old gold exchange and what we buy from based on the gold on loan mechanism. It is something that is ongoing the percentages keep on moving up and down. And the adjustment happens on its own. So, as I said it is a natural phenomenon, no real need to additionally encourage customers. In any case, we have committed that. when you bring in the old jewellery, we are having that commitment, longstanding commitment to every customer that we shall accept the old jewellery. Obviously, there are some technicalities, which needs to be fulfilled. And then the customer is welcome to choose a piece of new jewellery as per his liking.

Moderator: Thank you very much. Ladies and gentlemen, so as we have no further questions, I would now hand the call to Mr. Chintan Mehta for closing comments.

Chintan Mehta: Thank you very much for joining us today for this call. In case of any other questions, you can get in touch with us, write back to us. Our coordinates are provided in the presentation. Good evening and thank you very much.

Moderator: Thank you very much. Ladies and gentleman that concludes this conference for today. Thank you for joining us and you may now disconnect your lines.