

**Tribhovandas Bhimji Zaveri Limited**  
**Q3 FY20 Earnings Conference Call**  
**February 14, 2020**

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**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY20 Earnings Conference Call of Tribhovandas Bhimji Zaveri Limited organised by Dickenson World IR. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Ms Manasi Bodas. Thank you and over to you, ma'am.

**Manasi Bodas:** Thank you. Good evening everyone. Let me welcome you all to the earnings call of Tribhovandas Bhimji Zaveri Limited for the third quarter of '19-20. Today we have with the management represented by Ms Binaisha Zaveri—Whole Time Director and Mr Saurav Banerjee – Chief Finance Officer.

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 contemplated by the forward-looking statements. Any statements we make on this call today are based on our assumption as on date, 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:** Good evening, everyone. I welcome you all to the earnings call of Tribhovandas Bhimji Zaveri Limited for the third quarter of 2019-20. We displayed a strong revenue growth of 9% year-on-year in the third quarter of FY20. Consumer sentiments continued to improve and resulted in healthy footfalls during the festive and wedding season despite the rise in gold prices. The onset of the wedding season in November and December 2019 along with promotional and marketing initiatives taken by the company enabled us to maintain healthy sales growth.

For Q3 FY20, we recorded 9% same-store sales growth driven by increased footfalls at our stores and a higher proportion of gold jewellery sales. The sales mix of gold versus diamond was skewed towards gold jewellery. We expect the mix to recover to its normal course in the coming quarters. Our continuous efforts that are the effectiveness of our marketing spend, manpower rationalisation, helped us to keep tighter controls and operating overheads which resulted in a stable EBITDA margin.

We believe the demand for jewellery in India is here to stay for a long period of time on the back of the supporting macroeconomic factors that are rising income levels and increasing per capita of spending. We at TBZ are confident of delivering consistent financial performance. Our major focus area will be refining our product mix and to keep the operating expenses under strict control. With our continued efforts to strengthen the TBZ brand recall and presence, we have been consistently investing in marketing activities and adding to our jewellery collections over the year. With this, I would now hand over the call to our CFO, Mr Saurav Banerjee for a quick review of the financial performance during the same quarter. Thank you.

**Saurav Banerjee:**

Good evening. I shall now take you through the key highlights of Q3 FY20 and nine-month FY20 numbers. Total income from operations Rs 644.56 vis-à-vis Rs 591.75 crores a YOY growth of 8.9%. GP margin Q3 FY20 12.15% vis-à-vis 13.85% for the previous quarter. EBITDA at Rs 40.07 vis-à-vis Rs 30.14 crores, EBITDA margins 6.22% vis-à-vis 5.09%. PBT Rs 20.19 crores vis-à-vis Rs 17.03 crores, YOY improvement of 18.56%. PBT margin 3.13% vis-à-vis 2.88%, PAT Rs 14.04 crores vis-à-vis Rs 11.11 crores, an improvement by 26.37%.

For the nine months numbers, the total income from operations Rs 1467.53 crores vis-à-vis Rs 1348.34 crores. YOY growth of 8.34%, GP margin 13.5% versus 14.56%, EBITDA Rs. 87.78 crores vis-à-vis Rs.59.80 crores, EBITDA margin 5.98% versus 4.44%. PBT 26.41 vis-à-vis 21.63 YOY improvement of 22%, PBT margin at 1.80 vis-à-vis 1.60, PAT at Rs 17.98 crores vis-à-vis Rs 14.14 crores, an improvement of 27%. PAT margin 1.23% vis-à-vis 1.05%.

We can begin the Q&A session now.

**Moderator:**

Thank you. We will now begin the question and answer session. The first question is from the line of Parthav Kumar, Individual Investor. Please go ahead

**Parthav Kumar:**

In one of your earlier calls you said that you couldn't comment much on your competitors. I want to inquire do you internally benchmark against anybody because a lot of our competitors seem to be doing better in terms of whether it is return ratios, whether it is the asset turns, they seem to be doing much better than us. So do you internally benchmarked against anybody, do you have some internal benchmarks set?

**Saurav Banerjee:**

Yeah, of course, we do. We look at the performance, and the strategies of the competitor's in the marketplace, to the extent possible, and we also keep an eye on what the competition is doing. So we do that, and we also try and follow what they are doing and also pick up certain cues from and how they perform and what they are doing in the marketplace. In terms of benchmarking I would not say that there is a direct benchmarking that is done but we are very much aware of what's the competition is doing to the extent that is visible, and to the extent, it's there on the public platform and from the local market in the region also, we certainly do that.

**Parthav Kumar:** What do you think would be the disadvantage of maybe linking management compensation to their performance? What might be the possible disadvantage of doing that?

**Saurav Banerjee:** I'm not sure what exactly you are asking. In terms of remuneration and performance, there is a link to that for everybody; it depends on how the company is performing. And we also have certain guidelines and certain rules and regulations which are there as per the statutory guidance.

**Parthav Kumar:** Let me clarify the question. So, the past few quarters, the markets have been handsomely rewarding companies which have taken minority shareholders block. But in our company what I feel is that the management gets the remuneration which is a fairly substantial amount and if you look at the net profits of the company that is hardly anything on the table for the minority shareholders. So don't you think it would be win-win for both the promoters and the minority shareholders if the minority shareholders were also taken along and their interests were also taken care of simultaneously?

**Saurav Banerjee:** My answer in another manner, the same thing that you are asking. When the company performs well, all shareholders benefit from that. If you look at our performances in this quarter and the nine months, you will appreciate that there is a reasonably good performance that we have submitted. We are quite sure that once the financial year comes to an end, we shall be able to do justice to all shareholders who are there in this company, in terms of minority or majority whatever be the shareholding, they will all be looked after. In the past also as you are aware dividends have been declared fairly regularly. So I do not think there is any cause for concern on that front.

**Parthav Kumar:** Have we done any cost-benefit analysis of going for brand endorsements by very well known Bollywood actors? Have we seen what exactly are we gaining out of it, and what are the costs that we are paying for it?

**Saurav Banerjee:** Yes, we have done that. As you are aware that currently Ms Sara Ali Khan is our brand ambassador and obviously we do look at cost-benefit analysis and what kind of remunerations or fees are paid to a brand ambassador or a celebrity that is done within the organisation and then we zero in on somebody who is the best fit for the brand like TBZ, so yes, of course, that is done. The benefits are there for all to see. The brand ambassador has taken the brand forward in a very positive manner. We have seen a lot of good response from the younger age group that we have targeted through that particular brand ambassador kind of a strategy and its there for all to see. The walk-ins have increased. The kind of jewellery which is preferred by the younger lot has seen some substantial growth in terms of the revenues or the revenue share, and hence we are confident that going forward also this association with Sara Ali Khan will be a great benefit to the company.

**Moderator:** The first question is from the line of Ninad, an Individual Investor.

**Ninad:** My question is on same-store sales growth, can you please give us some guidance on SSG, how you're going to see traction going forward in SSG?

**Saurav Banerjee:** To begin with, let me say that the same-store sales growth is 9% which we have recorded for the quarter. Going forward what is happening is that in this financial year TBZ has consciously not opened any new stores, so for all practical purposes all the stores that we have been contributing as a category of same-store sales. So going forward obviously the focus and the entire strategy is on ensuring that the walk-ins keep on increasing in the stores from where we are operating. The entire marketing, advertising and the pricing strategy is skewed towards that and ensuring walk-ins. We believe that we have a very good conversion ratio which is close to about 78% to 80%, one of the highest in the industry. So once we ensure that the walk-ins are high, which is what is happening currently, we should be able to convert into the revenues and our topline will further grow. In terms of opening new stores, going forward in the next financial year, we are certainly planning to come up with certain new stores in areas where we think that the store needs to come up. It can be locations where we are already present, and also it can be in locations where we would like to enter the market for the first time. This financial year we thought it prudent and not to go for further expansion because the economic scenario was muted, and the overall marketplace was also not very congenial for new stores to come up. But we have that in the pipeline. The strategies are there in place, and we shall open new stores in the near future. So it will be a two-pronged kind of strategy in terms of growth of topline, one is the same-store sales growth which is currently at 9%, and we expect, and we are aiming it to be a double-digit number by the end of this year and secondly also new stores coming in. So that's part of the overall strategy in terms of growing the top line for the company.

**Ninad:** Internally have you worked on any ballpark number you can give for how many stores you are planning to open next year?

**Saurav Banerjee:** We are planning to work on anything between 5 to 8 stores in the next financial year. We are focusing on a mix of franchisee stores and also owned stores, probably a little more of franchisee stores because it's an asset-light model for us. So that's the plan. But as I said, this is subject to improvement in the market condition, improvements in an economic scenario which is currently prevalent in India. So we are very hopeful that with the measures that the government has taken, there will be good traction in the coming months and that will allow us to open new stores who will be able to settle down quickly and then turn on their performance toward higher revenues.

**Ninad:** My last question would be on the diamond; so what is our strategy going forward to improve the sales in the diamond segment?

**Saurav Banerjee:** Diamond is it's one of the biggest focus areas for the company. It is just that in this quarter, the product ratio between gold and diamond has been slightly skewed towards gold. But on an

overall basis, we generally have a product ratio of around 76-24 between gold and diamond. Going forward the focus continues what we have done in the recent past is that we have introduced a full range of jewellery which is called affordable diamond which is light on the pocket, easy on the budgets of anybody who is a newcomer, who is a new initiator in the jewellery space or somebody wants to try out TBZ brand of diamond jewellery, so we are completely focused on that. Of course, we have a high range of diamond products as well for those who would like to opt for that. We have also a full range of diamond wedding jewellery. We already have an inherent strength in the wedding jewellery space as far as gold jewellery is concerned. We also have a full line of diamond jewellery. We have mall stores wherein we are essentially diamond inventory stores where we have this small ticket, low-value diamond items which can be purchased just off the cuff which we call impulsive purchase. People who are visiting the mall stores walked into our stores, and they purchase something that they like, maybe they swipe the card, and they can do that very easily. So a huge planned kind of purchase is not always required. So we are doing everything possible, our marketing strategies are also focused on the diamond. As I said, the aim is to allow everybody to buy TBZ diamond jewellery whatever may be the price range as per their budget and as per their preference.

**Moderator:** The next question is from the line of Sajal Gupta from FE Securities.

**Sajal Gupta:** My question to the management is wanted to know what kind of a CAPEX are we planning next year. The second thing is what kind of debt do we have as of now and is the management thinking, has any plans to reduce the debt levels going forward? Third thing what I wanted to know was how is the ground situation right now. As you are saying that you have done a 9% SSG growth for the first nine-months and you should be ending up with a double-digit SSG growth, so is it safe that to assume that you should be doing 14%-15% SSG growth in this Q4 as of now. And lastly, as you said that your diamond sales to gold sales are; this quarter has been skewed more towards gold sales, when do we start saying the margins improving, what kind of sales do we see happening in diamond where the margins will start improving more?

**Saurav Banerjee:** I will answer your question in the order in which you have asked me. First, to do with CAPEX, CAPEX for the company, I would say a minuscule number. It is completely dependent on how many stores we open. So let me explain further, if we were to open more of franchisee stores, then the CAPEX is a bare minimum number. Per store it is about on an average, depending on the size for a small store, it will be about one crore, for a larger store it can be about 1.5, at max 2 crores. What we generally do is that we share 50-50, so the franchisee partner pays 50% of the CAPEX, and the company pays 50%. So if we were to open five stores and if we were to take an average of 1 crore or even \_Rs 2 crores then it's a number of about Rs 10 crores odd which is a relatively small number. In terms of debt, if we were to look at our previous debts and the debts that we have reported as on 31<sup>st</sup> December, there is a substantial reduction already. Currently, we have a debt of about Rs 530-540 crores odd, before this, we were at about Rs 600 crores odd, so I would say a fairly substantial reduction in the debt of the company which is also reflecting in the finance cost. Let me also quickly add that the finance cost that

has been reported has the influence of Ind-As 116 which is mandatory now, but if one were to look at the standalone finance cost, then you will find that there is an improvement in that and we are bringing it down gradually. Going forward yes, there is some scope for reduction of debt. I think we have done a reasonably good job, but yes we have some further scope for reducing debt. What we are continuously doing is that we are rationalising our inventory numbers. In terms of volumes, the inventory numbers have also been brought down both in gold and diamond and going forward we will keep on focusing on that. We will maintain the right-sized inventory as we call it, and you will find that the release of this inventory will result in better cash flows and will bring down the debt to a certain extent. In terms of the ground situation you have referred to the same-store sales growth, yes we have recorded 9% same-store sales growth as of now. Going forward, we are working towards same-store sales growth of double digits. It is difficult to say whether it will 14% or 15%, but yes it will be a double-digit sales growth which is certain, which is what we are aiming at. Let us work towards achieving 14% or 15% same-store sales growth. May not be possible in just one quarter but I think over a period of time you will find that we shall be able to demonstrate to you same-store sales growth of 14% to 15%. In terms of margin improvements, yes as I said earlier that generally, we have a 76:24 kind of a ratio between gold and diamond but this quarter has been slightly different. Sometimes we have to cater to the consumer tastes and preferences, and it's not entirely, I would say in our hands, but as I explained that we have a complete strategy in place. To improve our diamond share, we have been marketing diamond jewellery very aggressively; we have ensured that we reach out to all kinds of customers. When I say all kinds, I refer to their budgets, to their purchasing power and as I said that in future when we open stores in locations and cities which have an appetite for diamond jewellery or an aspiration for diamond jewellery, we shall see an improvement in the ratio automatically. So rest assured that, that's a big focus area for us. We are aware that it automatically improves the gross margin which is what we have seen in the past and you will find that we will be able to demonstrate very clearly that diamond ratios will continue to improve.

**Sajal Gupta:** Tell me another thing that when we are talking about Rs. 70-80 crores reduction in debt right now, so this has happened because of the inventory rationalisation which you have done?

**Saurav Banerjee:** Yeah, definitely one of the major contributors I would say.

**Sajal Gupta:** What kind of debt do we see coming down for the next year, is there any thought process on that, what kind of debt will you come down to?

**Saurav Banerjee:** Yes, so currently let's say we are at about Rs 540 crores or so. If we were to take that as the base now, suppose we take that as the base then subject to our opening new stores and I say this and I will explain this. If we were not to open, let us take an assumption that we are not opening own stores in the future then there is a good chance of reducing the debt by another 40 to 50 crores, to begin with. One can always improve upon those numbers. However, if we were to open own stores in future naturally the investment in inventory for those stores, we

will probably have to fall back on certain kind of borrowing. So then the scenario is different but then obviously, when we add new stores it adds to the revenues, it adds to the profitability, it gets balanced out.

**Sajal Gupta:** So how many your stores are you planning to open up next year?

**Saurav Banerjee:** As I explained overall, we are looking at say about 5 to 8 stores in the next financial year. Probably we can look at the ratio, and there is no hard and fast rule, of course. It's based on opportunities, it's based on location, so I would say maybe 60% of the stores will be franchisee stores 40% will be own stores, but as I said it depends on the opportunities, it depends on the location. There are certain cities and locations where the company thinks that it's better to have own stores then we shall open own store. If we think that partnering a franchisee and getting the benefit of the local intelligence and the kind of network that he has in that particular location, then we shall go for a franchisee store.

**Sajal Gupta:** My last question, when we do an SSG growth of 9% which you have done which is excellent, how many of your stores over and above 10 years; are they still showing an SSG growth in that stores or is it the new stores which are contributing to the SSG growth right now?

**Saurav Banerjee:** On an overall basis all stores are contributing to the growth, so my first statement is that whether it's an old store or a new store, all stores are contributing to the SSG growth. In our case, as I explained earlier, we have not opened a single new store in this financial year, and we are not likely to open in the next couple of months or so. So for us, as I said, the entire lot becomes the same-store sales, and we are all contributing. So that way contributions come from all the stores. Naturally, a new store which takes a little bit of time to settle down or break-even will have a slightly lower contribution whereas the established stores will have a higher contribution. In another manner, if we were to look at top-10 stores of the company, they contribute a very healthy per cent of around 40% to 45% or close to 50%, one can say to the overall top line. All these stores are old stores which have opened several years back, and that's a very clear indication that the matured and older stores are also doing pretty well I would say.

**Moderator:** The next question is from the line of Mehul Kadam, Individual Investor.

**Mehul Kadam:** I have just one question, so borrowing from the previous participant's question, you said that the company is planning to add 5 to 8 stores next year. So I just wanted to confirm 5 to 8 company-owned stores, so I just wanted to understand what would be the CAPEX per store required here and how will we be funding this expansion?

**Saurav Banerjee:** Let me clarify; what I said is that we shall be opening overall 5 to 8 stores. However, there will be a good percentage of those stores coming from the franchisee. So when we open a franchisee store, the inventory rests with the franchisee. So he is the owner of the inventory,

and he invests in the inventory upfront plus he invests 50% of the CAPEX. So if we open a franchisee store, it's an asset-light model for us and for that we do not require any additional funding. Whatever we require it will be a minuscule number so that we can generate from our internal resources however when we open a new store the investment in a new store which is an own store is relatively higher because we invest in the inventory as well as the CAPEX. So for that, the first instance that we do or the first step that we take is that we carve out the inventory from the existing inventory that we have that is another way of reducing the inventory. So the number of stores go up, the square feet overall goes up, but the inventory remains the same. So in a way, we have not invested in additional inventory, but there is a limitation, we cannot keep on carving out our existing inventory for opening new stores. If we do that, then the overall inventory will become very thin, and it will affect the revenues and the customer's preferences. So we have to maintain the right balance and only in those scenarios I will say that we fall back on funding and in that case, the debt may go up a little bit. But as I said, it all depends on what strategy the company adopts for a particular store, not generally but for a particular store.

**Mehul Kadam:** I think we launched a collection with Sara Ali Khan as the brand ambassador called Sitara. So how is this collection performing if you can give any colour on that?

**Saurav Banerjee:** So Sitara is one of our highlights I would say in terms of the collections that have been launched. It has invoked a lot of positive response from the customers who have sort of identified themselves with that kind of jewellery, and of course, the brand name of Sara Ali Khan and TBZ going hand-in-hand has helped in popularising that particular collection. So it's doing very well, and we are encouraged to launch further collections along the way with Sara Ali Khan as our brand ambassador.

**Moderator:** The next question is from the line of Vahishta Unwalla from Care Ratings.

**Vahishta Unwalla:** My question is that can you please give a brief industry picture of the jewellery industry right now? Is the industry still facing challenges in terms of borrowings from banks, and what other challenges is the industry specifically going through a broad view?

**Saurav Banerjee:** Yeah, very specifically jewellery retail industry has faced challenges for several years now because of various factors, the most prominent one being regulatory challenges which have been thrown at this industry. I'm not saying that those regulatory changes were not required, perhaps they were the right decisions taken by the various government; however, unfortunately, most of those regulatory challenges have hampered the natural progress of this industry. I will not go into great details because I'm sure you are aware which are those regulatory challenges that I am referring to and secondly in the recent times as we are all aware, the overall economic condition has seen a downturn. There is a muted kind of scenario because of various reasons, because of global influences as well as the scenario in India itself where the growth is being questioned by all quarters and is not visible, and there is a big

struggle going on. The government is trying its best to put in place measures, and a few measures have already been introduced, which is there in the budget and also earlier. Hopefully, there will be a turnaround very soon, but these challenges are faced by the industry. So yes it is tough times, you can see that within these tough times the industry is performing. There are other challenges in the sense that there have been some instances in the past wherein some players in this industry have resorted to foul means or I would say illegal means, and that is why also the image of the industry has taken some questioning but all that is beyond us and behind us now. I think you can see that despite so many challenges that the industry is facing, we are doing well. I think we are posting healthy numbers. There is a growth which we have demonstrated, and we have reported and going forward we shall be able to do the same. So challenges will come, and it's already there, but I think we need to ignore them, do our things, continue with the strategies, continue with a dynamic strategy which is what TBZ has demonstrated that despite challenges, we can find the right answers and sell jewellery. I think that's the bottom line that we should be able to sell jewellery. We should be able to live up to the legacy and the trust that this brand has, and we should have more and more customers, aspiring and maybe enjoying the jewellery that we make. That is being demonstrated.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Ms Manasi Bodas for closing comments.

**Manasi Bodas:** Thank you, everyone, for joining us today for this call. In case of any further questions, you can get in touch with us and write back to us. Our co-ordinates are provided in the presentation. Good evening and thank you so much.

**Moderator:** Thank you. On behalf of Tribhovandas Bhimji Zaveri Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.