Tribhovandas Bhimji Zaveri Ltd.
Earnings Conference Call Q1 FY23
August 03, 2022

CONFERENCE CALL DETAILS: **TRIBHOVANDAS BHIMJI ZAVERI LIMITED Q1 FY23 Results Earnings Call held on Wednesday, 3rd August 2022.**

The management of Tribhovandas Bhimji Zaveri Limited was represented by Ms Binaisha Zaveri – Director & Mr Mukesh Sharma - Chief Financial Officer.

Conference Call Transcript

Moderator: Ladies and gentlemen, good day. I am Rochelle, the moderator for this conference. Welcome to the Q1 FY23 Earnings Conference Call of Tribhovandas Bhimji Zaveri Limited organised by Dickenson World IR.

At this moment, all participants are in a listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I would now like to hand over the floor to Ms Sandhya Sutodia. Thank you. And over to you, ma'am.

Sandhya Sutodia: Thank you, Rochelle. Good evening, everyone. I welcome you all to the Earnings Call of TBZ Ltd for the 1st Quarter of FY23. Today, on this call, the management of TBZ Ltd will be represented by Ms Binaisha Zaveri, the Whole-Time Director, and Mr Mukesh Sharma, Chief Financial Officer.

Before we get started, I would like to remind you that remarks made today might include some forward-looking statements, and actual results may differ materially from those contemplated by forward-looking statements. Any statement made today on this call is based on our assumption as of the date. We are under no obligation to update the statement as a result of any information or future events. I would now invite Ms Binaisha Zaveri to make her opening remarks. Thank you. And over to your ma'am.

Binaisha Zaveri: Good afternoon, everyone. I would like to welcome you to the Tribhovandas Bhimji Zaveri limited earnings call for the first quarter of FY2023. I would like to thank everyone for taking the time to join us today. After two years of COVID-induced lockdowns, we had an excellent start to FY2023 with robust sales in Q1 FY23 on the back of the rising demand during the festival, such as Gudi Padwa and Akshaya Tritiya in April and May, respectively.

This financial year began with opportunities to expand and grow with all our thoughts, fully operational. To put it in context, Q1 of FY23 was the first non-destructive first quarter in the last three fiscal years. This quarter also saw a continuation of consistent footfall growth with new customer walk-ins increasing YOY. Several strategic marketing activation programmes helped in the performance.

To begin with, around 12% of dormant customers returned through a win-back campaign, indicating a resilient demand to increase our footfall and conversion rate. We also implemented brand-centric marketing campaigns in both the gold and diamond categories. Our extensive digital advertisements also helped to increase the footfall through these numerous activities. TBZ has maintained a prominent position as a top jewellery retailer that offers jewellery for every occasion, including weddings and everyday use. Furthermore, the government's mandatory hallmarking has helped us to better compete with players in the unorganised sector. As an established and renowned brand, we have been selling hallmark jewellery for a long time, so there's nothing new regarding TBZ hallmarking. Customer preferences for branded jewellery remain stable, giving us a distinct advantage. Other factors such as the strength of our brand and the breadth of our Kalpavruksha scheme, and our adaptability to market dynamics have put us in a strong position to absorb driving demand. Going forward, we will also concentrate on increasing customer engagement generating healthy profits and acquiring new customers. We believe in our strong position to capitalise on the increase in customer spending in the coming months. We are laying the groundwork for our strategy of emphasising modern design, consumer-friendly tech interventions and a well-trained and highly motivated sales team. We are then placed to take advantage of the upcoming festive and wedding seasons. I would like to give the call to Mr Mukesh Sharma-our CFO. Thank you very much.

Mukesh Sharma: Hi, good evening, everyone. I would like to begin with the operational highlights of quarter one. We have done the first quarter achievement of revenue of ₹579 crore vis-a-vis the same quarter last year revenue of ₹193.7 crore which is whopping 200% rise in the sales numbers. We have achieved a gross margin of ₹60.5 crore vis-a-vis the same quarter last year of ₹23.2 crore, the previous year's very healthy growth of 261% over the same period. The EBITDA margin earned in the Q1 FY23 is ₹18.7 crore vis-a-vis ₹80 lacs loss in the same quarter last year. The EBITDA margin stands at 3.2% in the Q1 FY23 vis-a-vis 0.4% negative EBITDA margin, the same period last year. The PAT during the Q1

FY23 is ₹2.9 crore vis-a-vis ₹9.1 crore loss during the same quarter the previous year. The PAT margin stands at 0.5% in the Q1 FY23 vis-a-vis negative 4.7% same period the previous year. Now we can open this session for the Q&A.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Rahul from R Consultancy. Please go ahead.

Rahul: So I want to know what your ideal advertisement expense would be as a percentage of sales at a normalised level or let me ask it differently, like what is your advertising spend target for the next two years?

Mukesh Sharma: Marketing cost, if you see it in the TBZ, is in the range of between 2% to 3%, but it continuously varies quarter-to-quarter, season to season. Specifically for the next two years, it is tough to predict today because the marketing situation combines the competition in the market. These diverse festivals fall into different periods in India; Diwali may fall in some other period this year; next year, it will be in some other month and the festive moves around within the respective month. So, quarter-on-quarter, the marketing spend will also see the skew in terms of the percentage of the sales. We would like to maintain the same percentage of this spent linked to our revenue every year. So when revenue increases, the absolute number may keep increasing; however, the percentage will be maintained at the same level.

Rahul: We understand that diamond jewellery has a high margin. So what could be the triggers for growth in that part of jewellery? And how can we see an increased share in the overall revenue pie?

Mukesh Sharma: Yes, so it is a market-driven force that decides the percentage. As an organisation, we would not like to leave any opportunity untapped regarding gold or diamond jewellery sales. You are correct in saying that diamond jewellery has a higher margin percentage. Still, the number of customers purchasing diamonds and gold jewellery is entirely different. However, we are very conscious of it. So, when you see the data regarding the percentage of diamond in sales, it is going into the same ratio. Gold jewellery sales are increasing similarly, and our diamond jewellery sales are also improving. Still, you are correct that the margin percentage is much better in the diamond jewellery segment, and we know about it. We will be working to improve the sales in that category.

Rahul: Okay, and my last question is the last time we were on a call, the same investor call management mentioned the inventory terms. Can we know what the current inventory for diamonds and gold is?

Mukesh Sharma: Turns for an inventory will constantly vary for different quarters and months. For every festive, you have to stock up the inventory; the inventory numbers are different after the festival. When you see the balance sheet, the inventory numbers are on a particular balance sheet date. But internally, we keep working on the inventory turns within the organisation. During the different months and periods, it is a continuous activity. To come specifically to your numbers, the inventory turns are around 2 in gold jewellery and about 1.3 in diamond jewellery. This is a current number now; however, it is a continuous exercise in terms of improvement. You must have seen in our balance sheet that the inventory turns improvement are there. We are constantly working towards improving the number of inventory turns.

Moderator: Thank you, our next question is from the line of Sonali Rao from SR Financial Services. Please go ahead.

Sonali Rao: I have three questions. I will shoot one by one. So the first question is what should be the ideal step to be taken by the management to improve the gross margins relatively. As an internal assessment, what is the ideal gross profit margin TBZ should have as a professional earning group?

Mukesh Sharma: Okay, there is no ideal scenario regarding the gross margin percentage. It again depends on a combination of what discount you run during different campaigns. How much inventory can you sell at that price and that discounted period? Quarter-on-quarter, the gross margin number defers because of the festive periods. You see, during Quarter one of financial year FY23, we achieved our gross margin of 10.4%, whereas, in the same quarter, it was 12% last year. Last year was a lockdown period, so gross margin differed from the Q1 FY23 numbers. We ran an independent campaign during the Akshaya Tritiya festivals, and the gross margin decreased because of those discounts here. So, it is the input margin we are maintaining the numbers; the output margin may differ from quarter –to quarter. So there cannot be an idealistic scenario that we will end up at a so and so gross margin. Though we have internal targets, we do not miss those targets in terms of achieving the margins. Still, it would be tough to pinpoint a particular gross margin idealistic in a business.

Sonali Rao: There's a follow-up question to that. We have rationalised certain costs in the last two previous thanks to COVID. However, we see some costs returning to the system again, so how should an investor know a margin touch tree?

Mukesh Sharma: You are talking about operating costs?

Sonali Rao: Yes, operating cost.

Mukesh Sharma: Yes, so look, if you compare with the financial year 2020-2021 or FY21-22, which is a period that falls under the COVID. There were a lot of business disruptions which have happened. Those numbers may not be exactly comparable with the current financial year. So if we see the numbers in line with the pre-COVID period, we are catching up in terms of the revenue, the EBITDA margin, the cost, and the same period of the pre-COVID period. So it is more or less in the same line. The cost will always vary with the revenue; the variable cost will go directly in line with the revenue number. So when you see a huge jump into the absolute number and when you put in perspective with the revenue percentage, the cost may remain in the same range bound.

Sonali Rao: Okay, I have one more question on the growth front. I would like to understand the growth volume year-on-year and the quarter-on-quarter in terms of the grammage of gold.

Mukesh Sharma: I think we have achieved very handsome growth. If you see the grammage perspective in quarter one, we have made the sales of roughly 600 KG in the gold vis-a-vis same period if you see the last year, it was around 50% of that volume. A similar situation is in diamond sales as well. Since FY21-22 and FY22-23 may not be precisely comparable numbers because of the COVID situation. If it is compared with the previous quarter, there has been a huge jump of 20% in the number achievement.

Moderator: Thank you very much. Our next question is from the line of Neha Sharma from VK Capital. Please go ahead.

Neha Sharma: Can you please elaborate on which quarter of the year the Company would have the maximum inventory and in which quarter can we see the liquidations or the sale of a buildup inventory?

Mukesh Sharma: So the answer is very straight and simple. You can count 15 days before we build up the stock for any season; the inventory reaches its peak during the season, and the sale happens. After the event, the inventory gets neutralised. So if you see the cost, the inventory and sales go hand-in-hand in terms of going up and then sales also go up during those particular periods of the festive season and then come to an average level. So we try to maintain the ratio of the stock turns so that the absolute volume and value numbers should not increase the inventory number.

Neha Sharma: Okay, and so one more question, how are we targeting the growth in marketing campaign as mentioned in your presentation, but also what I see is what is the inventory mechanism for the same? What are we chasing as an organisation- margins, top line, market share or ROE? It could be great if you could share some road map to understand in detail.

Mukesh Sharma: There are too many questions in your one question. I will answer one by one. So one part is you are talking about the inventory. As I replied, the inventory goes hand in hand with the sales team, we try to maintain the inventory turn, so if we can achieve this sale, we try to retain the inventory. We are maximising the gross margin. As I said, gross margin again depends on the sales team and how the festive goes. Offers are rolled out to achieve a particular number; we are conscious of internally fixed targets and about hitting a specific sales number. Then set a particular gross margin number. And we have not missed any of these numbers in this Q1 internally. Returning to the expenses remains in the same line as the targets. Whatever we have fixed and we are very hopeful of achieving at least 20% sales growth in terms of the number we have reached quarter-on-quarter. I am talking about the compatible numbers of the pre-COVID level. So that is what we are seeing currently.

Neha Sharma: Okay, and so one last question regarding the opening of stores we have seen addition and deletion in previous five years. So now, what is the road map? What are your targets?

Mukesh Sharma: We look forward to growing the business in the newer markets. We are exploring opening new stores in the next three quarters. So, that work is going on currently.

Moderator: Thank you, ladies and gentlemen. Our next question is from the line of Sagar Shah from Shah Investments; please go ahead.

Sagar Shah: Yes, good evening. Sir, I would like to understand what component of revenues comes from the Bullion sales, if any, and whether it would be a recurring one.

Mukesh Sharma: Bullion sales are a very negligible part of our business. In terms of percentage, if I put it will hardly be 2-3%.

Moderator: Thank you very much. Our next question is from the line of Barkha, please go ahead.

Barkha: I see the personal expenses in FY21 were ₹54 crore, while in FY22, it was ₹63 crore. Now, if we analyse Q1 of FY23, it is ₹70 crore already. My complete understanding is that when we are not growing on the profit front, why are expenses are personal expenses increasing?

Mukesh Sharma: I think you are right in terms of the number. In the current year, FY23, you have just multiplied quarters' numbers. You are right; we are at ₹17.5 crore in the Q1 in the personal cost. But if you compare immediately with the years FY21 and FY22, it may not be a comparable number. However, if you see as a percentile to the revenue, you will see the movement is in the line. So personal cost is again catching up at a pre-COVID level because to achieve a particular revenue number, we have to have similar strength in terms of manpower, and that's the reason for bringing this number. If you see FY2019 numbers also, our manpower cost used to be around ₹72 crore.

Moderator: Ladies and gentlemen, as there are no further questions, I now hand the floor over to Ms Sandhya Sutodia for the closing comments.

Sandhya Sutodia: Thank you for joining us today for this call. If you have any further queries, you can get back to us or our coordinates provided in the investor presentation. Thank you so much.

Moderator: Thank you very much. Members of the management team, ladies and gentlemen, on behalf of TBZ, conclude this conference call. Thank you for joining us, and you may now disconnect your lines.