“Tribhovandas Bhimji Zaveri Limited

Q2 & H1FY23 Earnings Conference Call”

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MODERATOR: **MS. SONAM RAGHUVANSHI – DICKENSON WORLD**

Moderator: Ladies and gentlemen, good day, and welcome to the Tribhovandas Bhimji Zaveri Q2 FY '23 Earnings Conference Call hosted by Dickenson Intelinetics Private Limited. As a reminder, all participant 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Ms. Sonam Raghuvanshi from Dickenson Intelinetics Private Limited. Thank you, and over to you, ma'am.

Sonam Raghuvanshi: Thank you. Thank you so much. Good evening, everyone. I welcome you all to the earnings call of Tribhovandas Bhimji Zaveri Limited for Q2 &H1 FY23. Today on this call, the management of TBZ Limited will be represented by Ms. Binaisha Zaveri, Whole-time Director and Mr. Mukesh Sharma, Chief Financial Officer. Before we get started, I would like to remind you that the remarks made today might include forward-looking statements, and actual results may differ materially from those contemplated by forward-looking statements. Any statements made today on this call are based on our assumptions as on date. Now I would like to hand over the call to the management. Over to you, Binaisha. Thank you.

Binaisha Zaveri: Good afternoon, everyone. I welcome you to the Tribhovandas Bhimji Zaveri Limited earnings call for Q2 & H1 FY 23. Thank you for joining us here today. To start with the financial performance front, we are delighted to announce a quarter demonstrating robust growth. The company experienced improved footfall and sales traction this quarter backed by the festive season.

We saw a 17.8% revenue growth in Q2 FY '23 and 71.8% in H1 FY '23, confirming the return of discretionary demand in a post COVID era. In addition, under our ongoing plan for growing our footprint responsibility, the company recently launched its brand-new store in Kalyan, Mumbai in October. Through this launch, we are now also present in another highly prolific micro market placed with the density of aspirational customers.

During Q2 FY3, the company implemented several marketing initiatives towards garnering higher traction from the seasonal demand derived from the wedding and festive season, which have historically proved to be a strong month for us. Our marketing initiatives included promotional offers, like no making on diamond jewelry and blocking gold prices. We also launched new wedding sets and a strong festive collection to take advantage of the upcoming wedding season. To support this, we implemented sharp promotional advertisements through digital and social media campaigns, featuring the renowned actor, Sara Ali Khan.

All these initiatives resulted in increased footfalls of more than 55,000 customer walk-ins during Q2 2022. Furthermore, we are focusing more on online pacer engagement and are also planning to use online platforms and social media to attract more customers and to grow our consumer base. Going forward, we remain in expansion mode and through our various initiatives, we are optimistic for the upcoming quarters ahead. The company's key focus will continue to be on acknowledging and reciprocating customer loyalty, increasing market share by expanding our customer base and penetrating untapped jewelry markets by opening new stores.

I thank you all for joining us on this call today. I would now like to hand over the call to Mr. Mukesh Sharma, our CFO.

Mukesh Sharma: Thank you, Binaisha. Good evening, everyone. I would like to begin with the key highlights for quarter 2 and half year ended FY 22- 23. I will first read out the quarter numbers and then the half year numbers for ease of reference.

In Q2 FY23, revenue numbers achieved INR 537 crores vis-a-vis INR 456 crores in Q2 FY22 with a YOY growth of 18%. In Q2 FY23, gross profit achieved INR 59 crores as against INR 49 crores during the same period last year with a YOY growth of 18%. In Q2 FY23, EBITDA achieved is INR 23 crores vis-a-vis INR 21 crores during the same period in last financial year with YOY growth of 10%. The EBITDA percentage in Q2 FY23, is 4.2% as against 4.5% during the same period in last financial year. In Q2 FY23, profit before tax achieved INR 7.6 crores vis-a-vis INR 9.1 crores during the same period last year. The PBT margin percentage in Q2 FY23 stands at 1.4% as against 2% during the same period in the last financial year.

Now I'll read out half-year performance of the company. In first half of FY23, revenue numbers achieved is INR 1,117 crores, vis-a-vis INR 650 crores in the first half of FY22 with YOY growth of 72%. The gross profit achieved is INR 119 crores vis-a-vis INR 73 crores during the same period in last financial year with a YOY growth of 64%.

The EBITDA achieved is INR 41.4 crores vis-a-vis INR 19.8 crores during the same period in the last financial year with a YOY growth of 210%. The EBITDA percentage to revenue stands at 3.7% as against 3.1% during the same period in the last financial year. The profit before tax achieved is INR 11.6 crores vis-a-vis a loss of INR 3.5 crores during the same period last year. The PBT margin percentage is 1.4% as against a loss of 0.5% during the same period in the last financial year. I would now like to invite everyone to the Q&A session.

Moderator: The first question is from the line of Sagar Shah, an individual investor.

Sagar Shah: Congratulations on the good set of numbers. My first question is what is our online sales strategy? And what percentage of sales we are expecting from the online platform?

Mukesh Sharma: Thank you, Sagar. We are working to be present on the online platform. Right now, we don't have any online sales on the product side. Yes, we have a presence for our Kalpavruksha promotion scheme, which is doing very well. Long term, for any healthy online business, any company would target somewhere around 20% of the revenue to come through the online channel. Rest assured, we are working on our online plans to be live very soon in the coming quarters.

Sagar Shah: Will the online presence be through the TBZ website, or through a channel partner?

Mukesh Sharma: No channel partner. We are working to an online presence on our IT platform, which will be company driven.

Sagar Shah: And my follow-up question is, what kind of competitive intensity do you see for the online channel?

Mukesh Sharma: We have a different strategy online. Looking at our competition, they all have a presence online, but the quantum of sales they are generating we are not sure. What I see is mostly in the gold coin category or maybe a lower ticket item, from a strategy perspective, is that the entry-level product would be more salable in an online platform rather than big-ticket items. It is a marketing strategy of getting customer share or maybe, low-ticket item product offerings. We are also working in the same line as the other market players are working currently for product category.

Sagar Shah: So how do you see online sales for the quarter? And what are the margins for online sales? Are they the same as store sales and what are your plans for further expansion of online sales going ahead?

Mukesh Sharma: Yes. As I have mentioned, we do not have an online presence for our product sales, except for the Kalpavruksha scheme. There are various things you can do online, as I said, like a marketing strategy to gain more customer share, or you can also sell through your gift cards. You can also sale low-ticket items. We are working on all these lines and are hopeful that they will be online very soon.

Moderator: The next question is from the line of Nagendra Gupta from South India Investor Group.

Nagendra Gupta: Hearty congratulations for the profitable quarter once again. Here my question is sir, during the IPO 2012, you had promised that 43 showrooms will be opened adding to the 14 existing at the time. Till today, you have only 32 showrooms. The prospectus clearly stated that these showrooms will be opened within a period of two years. Now, it is already 10 years past this milestone. What are the reasons for this?

Mukesh Sharma: Thank you, Mr. Gupta. We were already at 44 showrooms a year ago before COVID. Everyone knows what happened during the COVID and as a prudent business strategy, we had cut down the stores from 44 to 33 as of today, and we are consistently looking out for business opportunities for expansion.

Nagendra Gupta: Sir, you are telling me about the last two years, but this is 10 years ago.

Mukesh Sharma: Yes. We were at 44 stores two years ago before COVID and during COVID, we had rationalized our presence in all the mall stores, and we have cut down as a cost-saving strategy. As I said, we are working towards the opening of new showrooms breaking into newer markets. We have already opened one showroom in this financial year, and we are looking into opening a few more showrooms in the coming quarters.

Nagendra Gupta: Another question, sir. The revenue almost doubled if you compare it to IPO days. Gold price to raise almost more than doubled, but the shareholders' share price has come down to about 50%, although markets in good shape. What are the reasons behind this, sir? Is it something to do with the business model or something else?

Mukesh Sharma: See, the numbers are available. We are a public listed company, and our numbers are available to everyone. As far as the share market is concerned, it's a market-driven force, which decides the price. You can also see in the last six months, the share has gone up by 40%.

So, what I see is- share prices is how investors view the company in the longer term, rather than for the past performance. The investors are seeing the value, and that's how they are investing in the share pricing. I would not like to comment much on the share prices. As I said, it's decided by the market and as far as the numbers are concerned, it is available to everyone. The fundamentals of the company are very strong. The company is on a growth path, which is visible in the numbers also and that's it. Nothing more I can offer on this.

Nagendra Gupta: How many showrooms more we can expect in this current financial year to be open, sir?

Mukesh Sharma: Sorry, repeat your question, please?

Nagendra Gupta: This financial year, how many more showrooms can be expected to be opened?

Mukesh Sharma: Yes, So we have opened one new showroom, and we are looking for three more storerooms in this financial year.

Moderator: The next question is from the line of Surendra Shetty from ISR Investments.

Surendra Shetty: Congratulations. My question is, what is the gross margin breakup for the studded and plain gold jewelry for the quarter and nine months?

Mukesh Sharma: Mr. Surendra, I don't have readily available data for studded and plain gold segments separately. I don't have the exact numbers. In a normal scenario, the studded margin rates are anywhere between 15% to 25%, and for plain gold, it ranges somewhere between 9% to 15%. So the gross profit margin would be falling in between there somewhere.

Surendra Shetty: So what will be the EBITDA margin for plain gold and serrated jewellery?

Mukesh Sharma: As I have said, I don't have the calculation product line-wise on the EBITDA side because there are lots of costs that need to get allocated. So as I said, the normal gross margin range for the studded segment is anywhere between 15% to 25% , and for the plain gold jewellery, the normal gross margin is somewhere between 9% to 15%

Surendra Shetty: I would also like to know what the company’s strategy is for the recently launched branch in Kalyan? Also, how does the company plan for better penetration in the states we are already present in? Are we looking to expand into new geographies?

Mukesh Sharma: Yes. We are planning to expand into new geographies as well. Coming back to Kalyan, we are very excited to see the kind of response we have got in the showroom. The sales were very, very good during the first month, and as far as expansion is concerned, we are very hopeful to open three more new stores in the coming four months.

Surendra Shetty So three new stores in particularly Kalyan, or somewhere else?

Mukesh Sharma: It will be in completely new geographies. We are looking towards three more stores, two stores in Gujarat and one store in Rajasthan.

Surendra Shetty: Okay. So, any plans to target the South area for the expansion?

Mukesh Sharma: We are looking at newer markets in South India. The work is all there.

Surendra Shetty: Okay, plans are already in.

Mukesh Sharma: Yes. We are studying the market in a couple of important cities in South India.

Surendra Shetty: And my last question is, sir, what is the ideal inventory turnover as a company that is being targeted for both diamond jewellery and gold jewellery? And what is the strategy for the same so that we can improve the turnover issue?

Mukesh Sharma: Yes. This is a very good question, Mr. Surendra. See, for gold jewellery, the ideal inventory turns would be somewhere near 3 and for diamond jewellery, it ranges somewhere between 1.5 to 2. We are already at around 2.2 stock-turns of the gold jewellery and for diamonds, we are already at 1.5 turns of diamond jewellery, and we are consistently working to improve the turn of gold and diamond jewellery.

Surendra Shetty: So you mean 1.5 to 2x of the turnover inventory?

Mukesh Sharma: Yes, 1.5 turns of diamond jewellery that we have already achieved. As far as the gold jewellery is concerned, we are already at 2.2x, and we are looking to increase it somewhere around 2.5x and then to 3x.

Moderator: The next question is from the line of Kalpesh Agarwal from Lloyd LLP.

Kalpesh Agarwal: I have a couple of questions for the management. We understand that this business is highly dependent on gold. In light of this, what is the company's policy or its approach in the business model to be more resilient to gold prices? Is there a strategy to avoid having to take the sharp hedged when it comes to the volatility in the gold prices? Some of our peers have been able to withstand the volatility in gold prices.

I mean, we will be really glad to hear if there is any thought process behind the company wherein besides one could be the more and more studded jewellery, where the diamond share keeps on increasing. Besides that, any other thing? And my second question is, as we see that store opening has been after some years of gap, I want to understand what the material difference between the new stores could be, the difference between the one open now and the stores that have been shut down earlier, barring the malls one.

If I understand this store is 2.0, the second version of it, then what could be the material change in terms of financing, the store size, the design? What could be the primary difference? We will be happy to hear that from you, sir.

Mukesh Sharma: Thank you, Mr. Kalpesh. As far as the gold price is concerned, in India, there's no hedging mechanism, which is available to hedge the gold fluctuations. We don't want to gamble on the gold prices since there is no official mechanism for hedging the gold prices in India right now. So for gold prices, we - are hedging our sales on a natural hedging basis in whatever sales we do, we are putting the rates of similar quantity so that there are no gold fluctuation price hits to our margin.

Though in the short term, the movement of gold prices does impact the margin. But on a long-term basis, since similar sales quantity we also buy the moment we sale, the hedging mechanism of natural hedging to the extent of sales are taken care of. I'm not sure which other player you are referring to that is doing the hedging in the gold in absence of any of the hedging mechanisms in India.

Kalpesh Agarwal: I guess, I am completely wrong with what I might have told you, my question is can we make a business model more resilient to the gold price movements? I didn't say hedging it. I want to say that at the end of the day, there are many other companies besides say jewellery companies, who try to make our business model more resilient to that avoid that volatility. We are seeing too much volatility in our margins per se, right? Some of our peer's margins are not that volatile as compared to TBZ's. I want to understand if there any mechanism in place where we are developing a thought process to reduce the volatility in margins going ahead, sir?

Mukesh Sharma: See, in my mind, gold prices movement will hit the margin, and it does hit the margins of the other retail players. The depth of inventory may insulate this to some extent, but that depends on how much inventory who carry and how much inventory they are working upon. As far as the TBZ side is concerned, we are very clear that we want to play at a very optimum inventory level with optimal sales and the gold price movement does hit the margin in short term, but in long term, it gets paired up. That's what comes to my mind. I am happy for you to share more thoughts on this offline, I will be happy to discuss it.

For your next question on the gold studded segment, as well as the pure yellow gold is concerned, I think it's more driven by the market. It depends more on what the consumer demands and we work accordingly to what the consumer wants. So the ratio of the studded, as well as yellow gold, varies in each store. So it is not the same inventory, variety will always be there. So if you pick up a Kalyan store, the inventory spread will be very different in comparison to this Zaveri Bazar store.

The designs would all be top-notch. However, as you go and see the inventory in the Kalyan store, it will be more based on the local taste of what the local buyers like out there. I say there's a lot of work that goes behind that. The team works day in and day out before opening up any of our stores. And there's a lot of market study of customer taste and demands that are carried out. Only then are stores opened.

So this also partially answers your question in terms of presence in the mall stores, as well as high street stores. I think in a vicinity whether we open a mall store or you open a high street store, the consumer demands remain the same. The mall store has a footfall readymade. However, based on the brand pull that TBZ carries, it does not make much difference for us, except for the cost model, which would be definitely different than what is available in a high street store and a mall store. Moreover, I think with the product mix and the store design, everything remains static for us.

Kalpesh Agarwal: Right. So when we said that we opened a new store, this is the change that TBZ has implemented anew? Or I mean I wanted to understand the difference in approach to the old stores closed and the new ones opened-are we following the same strategy? If that is the case, what are the chances of the new stores sharing the same probability of making the same profit that the old stores were making? Is there any new strategy being applied into opening up the new stores?

Mukesh Sharma: Our strategy, as well as the products and spread and all these things concerns, remain the same. As far as the cost model is concerned, the cost model for the mall store as well as the high street store is very different. During the first two years of COVID, everyone is aware of the kind of restrictions the government had put on the operations of the mall, which was very different from the high street. The kind of cost we were incurring in the mall store and the high street store was very different.

So as a prudent businessman and as a prudent business strategy, we have taken a call where wherever the cost was very high vis-a-vis compared to what profit we are going to gain from those stores- we have shut those stores and largely, mall stores came into the ambit of the closer.

Kalpesh Agarwal: Sir, even when we're trying to understand that we have not changed our offerings for a long period of time, as we have been positioning ourselves as a wedding jewellery player for a long time. Is there any calibrated approach to introduce new products or to target any particular product, for example, jewelry watches that are high margin, rings that are higher margin, or necklaces? I want to understand that in terms of getting into more detail in terms of products offered, how do we try to get more into market share? One factor is the number of stores, but in terms of our product perspective, what are we targeting?

Mukesh Sharma: Yes. I think when you get into the detailing of the product, as to what is being sold at respective stores, you have touched only one side of it onto the inventory, in which particular category the product category is getting sold. We also look into the different weight ranges and the diamond and gold ratio. Yes. So there's a lot of work that goes in deciding on the product category. And as I said, this differs from store to store. We also look into which particular product is getting sold weight range-wise, as I said earlier, it is actually driven by the consumers. So, what does the consumer exactly want? There's a lot of interaction with the consumers when we work and basis the consumer demands we alter our product offerings accordingly.

Kalpesh Agarwal: What could be a ticket size change in the ticket size we are targeting or are we keeping the same ticket size which we were offering earlier? Ticket size could be in terms of gold prices, but I'm talking about the grammage wise ticket size.

Mukesh Sharma: Yes. So we have seen a slight increase in the ticket size, approximately 5%, I can say. We have seen an increase in ticket size.

Kalpesh Agarwal: On the volume front, I mean barring the gold price momentum, sir?

Mukesh Sharma: Yes.

Moderator: The next question is from the line of Neha Sharma, an individual investor

Neha Sharma: Congratulations on the good set of numbers, the top-line numbers. I just have a couple of questions. What are the reasons for our margins being so suppressed for the quarter?

Mukesh Sharma: You are referring to the gross margin?

Neha Sharma: Yes, gross, EBITDA, PAT?

Mukesh Sharma: So, I think the gross margin largely remains in the same range as what we have achieved into the last year in the same period as well. However, we could have seen a much better gross margin had the gold rates not gone down during the month of September, which has impacted us on the margin side. As far as the EBITDA and PAT is concerned, we had incurred a good amount of marketing expenditures, which were ticking up because of the festive seasons were being preponed in this financial year vis-a-vis last financial year.

Last financial year, Diwali and Dusshera were in November and October. This financial year, Diwali was in October as well as some part of the Navaratra was in the month of September. So we had to prepone a lot of our marketing activities which has actually added to our costs and because of that, the margins have gone down, EBITDA margin and PAT margin.

Neha Sharma: Sir, one more question. What are the various market activities you have done in the quarter? Can you throw some light on that?

Mukesh Sharma: Yes, madam. I think if you see our various marketing activity, July, we had done 'diamond no making'. In the month of August, we had run 'from flat 50% off to the making charges at the gold jewelry'. We have launched the 'Mangala Collection', which is a new collection, especially for the South market. It's more on the Temple jewellery collection side. In the month of September, we had done a pre-booking onto the gold rate. We have done the festival offer of flat

399. In the South market, we launched the Lowest Gold Rate plus a flat 30% off on making charges. We also had an offering from the State Bank for a cashback of INR 5,000 on shopping of INR 1 lakh and more. So, there were various kind of marketing activities which were done in this second quarter.

Neha Sharma: In terms of gold loans, where are we standing right now? And what are our aspirations for the future?

Mukesh Sharma: So for gold loan is a mechanism of buying the inventory. So for gold loans, do you want the exact numbers or what?

Neha Sharma: No, sir. If you just throw some light on that?

Mukesh Sharma: Yes. So the gold loan mechanism is that we buy the gold from the bank, largely, and also whatever old gold that the customer sells to us, that is the only two mechanisms. The mechanism of buying gold from the bank is through the gold metal loan, which comes at a very reasonable rate as of today. So these are the only two mechanisms.

Moderator: The next question is from Rahul Rathod, an individual investor.

Rahul Rathod: Sir, can you share our revenue guidance for the next few years? And do you have any big capex in line for the coming years?

Mukesh Sharma: Yes, Rahul, I can share pictures for this financial year. As I said, around three stores, are already in the pipeline. And as far as the CAPEX is concerned, approximately INR 2 crores to INR 2.5 crores per store is how the capex goes, which gets financed through our internal accruals. As far as the revenue guideline is concerned, we are working on same-store growth. There are two ways to increase revenue- inorganic and organic. We are consistently working to increase the revenue from each of our stores as well as an increased footprint in newer markets. As I said, three stores are already in the pipeline. And for the next financial year, various market studies are already in the pipeline, which are going on to identify newer markets to expand into.

Moderator: The next question is from the line of Viral Shah, an individual investor.

Viral Shah: What is your brand for promotion activities going forward? How much percentage of sales do you target for brand promotion?

Mukesh Sharma: So Viral, the marketing cost ranges somewhere between 2% to 3%. For quarter 2 specifically, we have incurred a marketing cost of around 2.4%. See in India, if the festive season falls in a different month the marketing cost also shifts accordingly.

So, the marketing spending may not be directly comparable from a quarter-to-quarter perspective, but as an overall number, when you see the marketing cost changes between 2% to 3%, this depends on the situation of the market, the situation of the gold prices, the situation of customer sentiment. So there are a lot of factors that work around it and accordingly, the marketing cost as a percentage varies from market to market. As far as how much revenue is coming directly to the marketing spend-there is no such mechanism to monitor that. But yes, marketing does play a very important role in terms of achieving a particular sales number for us.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments. Mr. Sharma, over to you for closing comments.

Mukesh Sharma: Yes. Thank you so much, everyone, for coming to this conference call. If there's any question which remains unanswered, I would encourage you to write to the company. We would be more than happy to answer your questions offline. Thank you so much.

Moderator: Thank you. On behalf of Dickenson World. This concludes our conference. Thank you for joining us. You may now disconnect your lines.