"Third Quarter FY13 Result Conference Call of TBZ"

8th February, 2013

Speakers: **Mr. Shrikant Zaveri, CMD, TBZ**
Mr. Prem Hinduja, CFO, TBZ
Mr. Divyesh Shah, Head Retail Business, TBZ

Moderator: Good afternoon, ladies and gentlemen. I am Tanmoy Mukherjee, the moderator of this call. Thank you for standing by and welcome to TBZ Q3FY13 Conference Call organized by Dickenson Seagull IR. For the duration of presentation, all participants' lines will be in listening-only mode. We will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Nilesh Dalvi. Over to you, Mr. Dalvi. Thank you.

Nilesh Dalvi: Thank you, Tanmoy. On behalf of Dickenson Seagull IR, let me welcome you all to the earnings call of Tribhovandas Bhimji Zaveri Limited for the quarter ending December 31st 2012.

Today we have with us the management led by Mr. Shrikant Zaveri, Chairman and Managing Director, Mr. Divyesh Shah, Head Retail Business, and Mr. Prem Hinduja, CFO. I would now like to handover the call to Mr. Shrikant Zaveri. Over to you, sir.

Shrikant Zaveri: Dear friends, I would like to start by thanking you all for taking time out and joining us for the Third Quarter conference call.

As you are all well aware that Tribhovandas Bhimji Zaveri has ambitious plans to triple its retail network over the next three years from 50,000 square feet at end of March 31st 2012 to 1,50,000 square feet by the end of March 31st 2015. We have already embarked on that journey by rolling out seven new stores in the first nine months of this year, adding approximately 21,000 square feet of retail space. Let me now take you through the industry environment for the quarter. We have witnessed strong demand during the festive season leading to a higher sales growth during the quarter. However, we witnessed some sluggishness in demand during the month of December and January. We have opened tactical discounts and incentives during the quarter to drive sales and bring footfalls to the stores. Further, we have had significantly higher spends on advertisements and sales promotions during the quarter.

We believe that these activities are important in order to strengthen our brand and induce consumer loyalty which will pay rich dividends in the future. We expect to end the year strongly and expect our margins to bounce back in the coming quarter. We will continue to undertake tactical promotions to attract customers. However, our ad spends are expected to be lower during the next quarter. We expect the brand to improve for the quarter compared to the last year. We believe positive trends to continue in the first half of the FY14 driven by higher wedding seasons. Let me now spend some time on the new stores that we have opened during the quarter. The performance of the new stores continues to be encouraging and has been significantly better than our internal benchmarks, signifying the strength of our brand. We remain on track to achieve our expansion plans. With this, I would like to hand over the call to Mr. Prem Hinduja, our CFO, to brief you on the operational highlights for the Quarter.

Prem Hinduja: Thank you Shrikant bhai and good afternoon, friends. Now I will just briefly run you through the financials of the company for Q3 vis-à-vis the previous quarter. The income from operations is Rs. 577crores for Q3 vis-à-vis Rs. 350crores for Q2 showing a 65% jump. The EBITDA has improved from Rs. 30crores in Q2 to Rs. 43.6crores in Q3 showing a jump of 44%. The PAT has jumped from Rs. 19crores to Rs. 24.7crores which is again a 30% jump. My YTD profit is Rs. 60crores which I am very glad to inform you is much more than Rs. 57crores which I achieved in the last full financial year of FY12. Although, my sales YTD is 87% of the sales achieved in the last one full year or FY12, my PAT is 105% of the profits which I achieved for FY12.

Now, let me just give you a brief on the balance sheet as of 31st December vis-à-vis the previous quarters. As of 31st December, my equity is Rs. 403crores as compared to Rs. 378crores as at the end of September 2012. This is primarily because of the increase in profit during this quarter. My loan funds have increased from Rs. 206crores to Rs. 286crores as of 31st December 2012. But, this is predominantly because my gold loan is also parked in this. Out of the Rs. 286crores, Rs. 153crores is towards gold loans and the balance is the utilization of the CC limit which is Rs. 133crores which was Rs. 100crores as of 30th September 2012. So there is a marginal increase in the utilization of my CC limit of Rs. 33crores which was primarily towards funding for my diamond inventory and my other working capital expenses for the additional showrooms which have come up during the quarter. My gross block has improved again because of the new stores which I had set up during this quarter from Rs. 100 to Rs. 103crores. Similarly, my inventory which was Rs. 735crores as of 30th September has gone up to Rs.

875crores which is again to fund the inventory for the additional stores which was set up during the quarter.

My other current assets have increased marginally which is primarily because of the rental deposits I have placed with my new showrooms. The current liabilities primarily comprised of customer advances which includes both my advances from the Kalpavruksha scheme and also customized orders which both together add up to Rs. 112crores. And, that also includes my trade creditors or payables from my diamond and for making charges. Now, if you see the reasoning which I will just explain to you for the variations quarter-on-quarter both in my income statement and in the balance sheet you will notice and which I mentioned right at the outset that my top line has grown in sequential quarter by 65%, that is on account of the higher sales in the existing showrooms and also on account of the opening of the two new showrooms. My gross margins have declined Q-on-Q primarily due to mix of gold, diamond which was slightly higher at 76:24 as compared to 73:27 ratio for the second quarter FY12. Further, share of gold coins as a percentage of sales has been higher during the quarter as compared to Q2 FY12. Now, this is primarily an industry phenomenon because third quarter being the festive season, the uptake of coins is on a very large scale. Thirdly, we did a lot of incentivization and discounts were also offered during this quarter mainly to attract footfalls, and primarily this was in the diamond sector where the industry-wide diamond sales were sluggish, which has reflected in our volumes as in the top line. We had to go tactical to some extent to get the footfalls and convert them into sales.

On the expenses side, the other expenditure has increased by 59% as compared to the sequential quarter mainly due to higher ad spent on account of TV campaign. We did the last sale TV campaigning during this quarter to increase visibility during the season. And secondly, higher launch expenses of about Rs. 2.5crores on account of opening of two new showrooms. Now, let me just dwell on the subject a little bit. Prudent accounting norms demand that all my pre-launch expenses for the new showrooms have to be charged up to the P&L account upfront. They are not allowed to be amortized. I had number of pre-launch expenses when I opened a new showroom mainly in the form of pre-launch advertising. Then, there will be certain manpower which I will be engaging for the showroom much before the opening of the showroom. So salaries towards these people before the commercial sales start taking place. Plus, there would also be instances where I have to start paying rent even before I had started commercially trading in my showrooms. So for every showroom these expenses will be charged up of the P&L account. And, since I was opening practically one showroom every month in the past and in the next year it is going to be practically one showroom every 21 days. These expenses will keep on loading to my P&L account.

Increase in loan funds as I just mentioned that gold on loan has been classified in loan funds as a prudent accounting practices; which I had also mentioned in my previous quarter concalls leading to increase in loan funds as at the end of the quarter. Inventory on gold loans is Rs. 153crores as of the third quarter end, which is basically one-third of the total gold inventory I am having. Typically, all my new showrooms right from day one are on gold loans which I have been mentioning even previously and going forward also we will be engaging in the same practice. And, plus the gold loan of my old showrooms will be placed out in two to three years period to be converted into gold loans. Increase in inventory as I just mentioned was on account of the opening of the new showrooms. And, my collections from the Kalpavruksha scheme which is lying in current liabilities – the advances from the customers towards the monthly scheme have increased by 50% to Rs. 82.5crores as at the close of 31st December 2012 as compared to Rs. 54crores as at the end of 31st March 2012.

Briefly to take you through the margin analysis, my margin on gold jewellery which was 12.9% in Q2 has come down to 11.8% in Q3. As I had explained to you, we had a larger uptake of coins in the third quarter and being the festive season which is an industry-wide phenomenon. And, also there was some sort of tactical offerings. In the diamond segment my margins have come down slightly from 34.9% to 33.8%, because there I had to get tactical to increase and push my sales. Now, diamond sales were sluggish during Q3 in the entire industry. Still, with these margins of 11.8% in the gold segment and 33.8% in the diamond segment by a blended cross margin is 17%. And, if you see my guidance in the past I have always been saying my operating margins on a blended scale is going to be around

17%. So I have not breached that level, I have maintained that level. Now coming to the expense portion, my salaries are 2.3% of the top line. Advertisement, as I mentioned that we had a higher ad spent during this quarter. One, we had a lot of spending on TV ads which is a costly medium of advertising. Secondly, we were very aggressive on advertising because we wanted to bring footfalls to our stores to increase a visibility and to push up our sales. So hence this advertisement expense was consciously increased during this quarter. Our rentals at 0.7% of the top line are within the norms and other overheads are 2.4% giving an EBITDA margin of 7.6% as compared to 8.6% during the previous quarter. Primarily, the drop in the EBITDA margins can be seen is due to the drop in the blended gross margins. But, my present gross margin is again as per the guidance I have always been given. And, there were reasons which I explained to you a few minutes back as to why there has been a drop in my gross margins of both gold jewellery and my diamond jewellery.

And, on the blended scale my margins also fell because my sales mix slightly got skewed more in favour of gold during this quarter as compared to the previous quarter. Lastly friends, I will just dwell upon a subject which is on your mind and the minds of everybody at this juncture which I have not spent it out in the presentation – obviously, copies are already with you. This is about the intention of the regulator to link the base rate to the gold loan rending. See, the other day the working committee group of RBI has approved about the suggestions made by the Rao Committee for linking the base rate to the gold loan rate. Let me just briefly tell you the process how this goes forward. The working committee having approved and next step is that this measure has to be approved by the board of RBI. After the board of RBI approves, then they have to wait for the nods from the ministry. Once the nods from the ministry comes this rule will be notified, the whole structure will be explained. Now, till that stage as to what the government intends to do or what the ministry intends to do one is not very clear about and one cannot really forecast at this stage. But, all the same, let me just further add that if this comes how it will impact TBZ and what measures we propose to take to mitigate this. As far as the impact is concerned, it will mean an additional cost of 5% on my gold loans, because at present I am paying 5%, the base rate typically is 10% which in effect means my inventory turn in gold is four times in a year. So my effective cost is going to be 5 divided by 4 which is 1.25%. And this, I intend passing on to the customers as 1.25% is not a very major amount. So there will be no impact or hit on the company. And, even the customers I don't think will feel the pinch much. With this, thank you gentlemen. I now close my speech and I leave the floor open for Q&A.

Moderator: Thank you sir. If any participants wish to ask any question at this point of time you can press "0" and "1" on your telephone keypad and wait for your name to be announced. Participants who wish to ask to any questions can press "0" and "1" on their telephone keypad and wait for their names to be announced. The first question is from Abneesh Roy from Edelweiss. Mr. Roy, your line is unmuted now. You can go ahead and ask.

Abneesh Roy: Sir, thanks for the opportunity. My first question is on the diamond sales. The largest retailer also said that diamond sales have been sluggish which you also said. So you see this as a trend reversal or is it just one quarter bleak? And, what are the reasons you see in diamond percentage being lower?

Divyesh Shah: Hi Abneesh, this is Divyesh here. So yes, of course, the entire industry has seen that the diamond uptake sales have been sluggish in the entire third quarter. However, the TBZ has retained the sales and from the typical ratio of 25:75 my diamond sales has just gone down by 1% and the ratio of it is now 24:76 for this quarter. So we believe that what we have done we have incentivized people and motivated them to come and buy diamond. But we believe that till next three months the overall scenario will not improve dramatically until and unless we start the next year with the new wedding season and the festivals which will be there in the April and May.

Abneesh Roy: But, sir what's the reason because gold prices are also not going up? So I would have thought that people would have thought that buying diamond makes more sense. So is that because diamond prices are also – there is some softness? What's the reason? I was looking for the reason.

Divyesh Shah: See, the reason what we found at our stores floor level is that the consumers, those who are matured buyers they are still buying diamonds. But, we found that the demand has gone down from the new entry-level buyers. Those who have started buying diamond jewellery they start buying the first or second piece of diamond jewellery, you know. So I believe the sentiments are negative the consumer has. Because of the inflation your expenses have increased. So people are right now – those who are newly buying jewellery they are seeing less in numbers in all the stores. So that was the only impact what we see, but matured buyers are still buying it. So we don't see any impact on the matured buyers those who already have couple of pieces of diamond jewellery in their house.

Abneesh Roy: Sir, my next question was on diamond margins. They also fell 90 bips quarter-on-quarter. I understood the gold margins because of coin sales. And, diamond margins I understand it will be because of the incentivization and, maybe, the customer schemes. So in this quarter you said Q4 also you expect diamond sales to be a bit on the slower side. So does it mean margins in diamond will remain at the lower end in Q4 also?

Divyesh Shah: No. As my CMD and CFO both have mentioned that the margin will bounce back on the Q4. So we are not incentivizing largely in this quarter to push diamond sales, but we believe it will be much, much better than the last year Q4 and margins will bounce back in the Q4, especially for the diamonds.

Abneesh Roy: And, sir next question is on advertising. 4.1% of sales in this quarter. Was this 2.4% for the full year? So is this because of, again, specific schemes or is it also that you try to prop up this month? So what is the level you are looking at in the next one, two quarters when sales might be a bit sluggish at least on the diamond side – advertising?

Divyesh Shah: See, typically if you look at TV's ad expend is always in the range of 2.25 to 2.5% on an annualised sales if you look at the ratio. But, typically, largely we spend during festival season every year, so 3% typically – traditionally, we are spending every year against the sales ratio, especially, during the festivals. This year we have gone aggressive for two reasons. One is, of course, we wanted to increase of our diamond sales as we have seen the market where the diamond demand was very sluggish. And, the second is we are expanding in the newer cities and opening the newer stores. So we wanted to build our brand nationally. So that was the reason why we have spent a bit more and with an understanding that yes, Q4 advertisement spend will be significantly lower. So that will compensate an overall ad spend will be in the same range amount what we are estimating every year.

Abneesh Roy: Sir, last question is on full year margins. We are expanding aggressively in the coming quarters also. So for FY13, FY14 full year taking the expansion into account do you think the overall EBITDA margins will dip because of the new stores' impact on profitability and upfront cost elements? Because, every quarter you will have the advertising, employee cost, rentals, upfront payment being there. So margin expansion in the light of diamond sales being sluggish. Does it look very difficult as of now?

Prem Hinduja: First of all coming to the gross margin level we see an uptake definitely with the next wedding season coming up in April '14 onwards that we will improve our margins on diamonds. It will not be the same amount of sluggishness. As far as the second part of your question is concerned about the ongoing expenses on expansion that, of course, will remain. But, at the same time since I am setting up store after store, month after month, now the stores which have been set up during this year will start maturing in the next year. So they will start giving me better return. So overall, I think, the impact should be more or less even out. I don't see much of a dip in the same on an overall basis.

Abneesh Roy: Sir, one follow up on that. How is the wedding season Q4? You said Q1 is looking good. Q4, how is it looking?

Prem Hinduja: As we have said the case, this is much robust than the last year's Q4. And, currently we have seen out of total footfalls large amount of footfalls are for the wedding.

Abneesh Roy: Okay sir. Thanks a lot and all the best, sir.

Moderator: Thank you, Mr. Roy. The next question of the day is from Rakshit Ranjan from Ambit Capital.

Rakshit Ranjan: Hello. Just a couple of questions. First of all, in terms of the overall sluggishness in demand that you have witnessed on the diamond side, you broken down into new buyers and matured buyers. Is that uniform across tier one, tier two, tier three cities, because you are present both in – this is like in Bombay, in Bhavnagar and all?

Divyesh Shah: No. Your question is correct. In very strong cities like Bombay, especially, metro and non-metros where you have more of a matured buyers, but the moment you go down to tier one and tier two cities you will find more of an entry-level buyers – those who are buying their first diamond jewellery or second diamond jewellery because of the unavailability of the organized diamond jewellery retailers in that market. So typically, if you look at like for the third quarter my all store has performed in the ratio of 76:24 where my all the new store sales – diamond was 28% out of that total sales. So all the new stores largely we have opened up in tier one and tier two cities and where we found demand pattern was completely different in metro and non-metro cities.

Rakshit Ranjan: Okay. So the new stores have done more diamond than the old stores?

Divyesh Shah: That's correct, that's correct. Yes.

Rakshit Ranjan: Okay. Fair enough. And, the second one was when you talked about your intentions to pass on any increase in cost of gold loan to the customers, the 1.25% calculation that you gave. Do you see no price elasticity of demand at all or do you see some sort of a negative impact once these effects get passed on to the customers?

Divyesh Shah: See, typically, the gold price volatility every week is about 1% to 1.5%. So this will not really make a large impact. Yes, of course, I completely agree that if the price rise would have been 3 to 4%, then there will be an impact on the sales. And, earlier times also we have seen the similar situation when last year February when the excise came into the picture and we had increased our selling price by about 0.5%. We have tried to pass on the additional cost to the customers. And, increase in this interest rate is probably going to impact all the organized players. So I believe that will be the trend in common in totality. So I don't see that it will be a big challenge for us.

Rakshit Ranjan: Okay. Thank you that is it from my side.

Divyesh Shah: Thank you.

Moderator: Thank you Mr. Ranjan. The next question is from Ashish Kacholia. Mr. Ashish your line is unmuted now, you can ahead and ask.

Ashish Kacholia: Yeah. Good afternoon sir. This is Ashish Kacholia here. I just wanted to ask that this import duty that the government has decided to keep hiking now, you know, first they made it 2%, now 4% and now they are talking about 6%. So how does this impact the share of the organised retailer versus the smaller retailers? You know, the smaller retailers can probably sell some smuggled gold in the market, so won't you guys lose market share?

Divyesh Shah: Ashish bhai thank you so much for asking that question which I would love to give a reply. Typically, we have seen this in the past where the gold coins were available 2-3% cheaper from smaller retailers. But all the organised players have been charging a premium of about 5% or 5-7% on the gold jewellery compared to the unorganised jewellery player. Despite this people are paying higher price to us. So we believe that trust, quality and transparency with which the organised industry deals with the customers matters more. So this will not have any impact largely on the sell side.

Ashish Kacholia: Okay. Right sir. And sir, the second question that we had was the interest on the gold loan and the Kalpavruksha scheme, do you pass it through the, you know, above the line, above the EBITDA line or below EBITDA?

Divyesh Shah: It is below the EBITDA line because it comes as finance cost as an interest cost.

Ashish Kacholia: So both -- both on the gold loan as well as the Kalpavruksha scheme?

Divyesh Shah: As far the Kalpavruksha scheme, we give it in the form of a discount. So that is above the line.

Ashish Kacholia: Okay. Thank you.

Moderator: Thank you. The next question is from Sanjana Jogani of HDFC Securities. Ms. Jogani, your line is unmuted now, you can go ahead and ask.

Sanjana Jogani: Hello.

Divyesh Shah: Hello.

Sanjana Jogani: Could you please tell me the percentage of discount that you offered in this quarter?

Divyesh Shah: Yes. Hi, every discount what we have offered for diamond is about2.5% on selling price and gold was about 1.5%.

Sanjana Jogani: Okay and do you plan to continue to give this discount of the next quarter?

Divyesh Shah: No, not really, as I mentioned like a... during the festivals we have seen the entire industry struggling to retain diamond sales, so we don't want to disturb our ratio. So we have offered a larger discount instead of a half percent on very quarter what we offered to a customer. So I believe this was for only Q3 and the trend will not continue for the next quarter.

Sanjana Jogani: Okay, fine thank you.

Divyesh Shah: Thank you.

Moderator: Thank you Ms Jogani. The next question comes from Bhawani Modi of ICICI Direct. Ms. Modi your line is unmuted, now you can go ahead and ask your question.

Bhawani Modi: Yeah. Good afternoon and thanks for the opportunity. Sir, I just would like you to break down your - this quarter performance into what has probably coming from your existing store versus what kind of sale had come from the near stores? And if you could make some comments on how the existing stores have been performing.

Divyesh Shah: See, basically if you see my existing stores and both my new stores have been performing very well. Now, as far as the existing store is concerned it has been flattish basically, so the growth which has come is typically from the new stores. And again as a few minutes back my colleagues mentioned the ratio of gold to diamond, primarily in the old stores it has remained at 76:24, but for my new stores this is basically 72% gold and 28% diamond.

Bhawani Modi: Okay. Fine and sir, I am sorry I join in late, this is repetitive, just wanted to get a sense on what is the volume growth that you have seen this quarter.

Divyesh Shah: No, we haven't seen any volume growth or probably in diamond we are seeing about 5 to 6% degrowth and gold we have seen about 8% degrowth. And on a consolidated basis we have seen the growth in both gold and diamond volumes.

Bhawani Modi: Okay.

Divyesh Shah: Gold, we have seen about 6% and diamond, we have seen 16%.

Bhawani Modi: Yeah, that will be more from the new stores.

Divyesh Shah: Correct.

Bhawani Modi: Okay, great. Thank you.

Divyesh Shah: Thank you.

Moderator: Thank you. Any other participant who wish to ask any question can press "0", "1" on their telephone keypad. Any other participant who may ask -- wish to any question can press "0" and "1" on their telephone keypad.

There is a question from Amit Purohit of Dolat Capital. Mr. Purohit, your line is unmuted now.

Amit Purohit: Yeah. Good afternoon, thank you for the opportunity. Sir, I just want to check what would be the inventory, since you already have plan for expansion for the Q4 by March FY-13, what would be the inventory level both the diamond and gold combine and break-up?

Divyesh Shah: See, basically - typically if I say that today my inventory as of Q3 is 800 crore, and if I am going to add I am putting up another five stores. So five stores into about even I say 30 crore for about gold and diamond, so that will be another about Rs. 130crores.

Amit Purohit: Okay.

Divyesh Shah: Of course, of which the gold portion will be on the loan basis and the diamond portion of course will be on our book.

Amit Purohit: Right. And what would have been the trend, I mean, Q1 FY13 diamond-gold mix, just I mean, just for an understanding the trend.

Divyesh Shah: The Q1 was 25:75, Q2 was 26:74, and Q3 is 24:76.

Amit Purohit: Okay, thank you.

Moderator: Thank you very much Mr. Purohit. The next question is from Ankit from Subhkam Ventures. Ankit, your line is unmuted now.

Ankit: Good afternoon sir. Sir, just wanted to know what has been your sale EBITDA and PAT last year third quarter.

Divyesh Shah: See, basically if you see I have my have YTD result up to last December as compared to YTD figures up to this quarter. This quarter of course, you know, I mean, YTD for this year, you already know this thing. And as of last year YTD, my gross margin was 17.7%.

Ankit: 17.7% ?

Divyesh Shah: Yes

Ankit: Okay, and sales sir? Top line?

Divyesh Shah: See, my top line YTD this year as compared to last year has increased by 8.4%.

Ankit: In value terms, okay.

Divyesh Shah: In value terms.

Ankit: And what was the profit after tax?

Divyesh Shah: The profit after tax has increased YTD by 19%. It was Rs 50crore as of 31st December, 2011 and is Rs. 60crore as of 1st December, 2012.

Ankit: Okay. And sir, your EBITDA margin, you have discussed gross margin as 17.7%.

Divyesh Shah: Yes. EBITDA margin was about 8.8% last year YTD and this year YTD it is about 8%.

Ankit: So they have fallen by 80bps.

Moderator: The next question is from Mr. Abneesh Roy of Edelweiss. Mr. Roy, your line is unmuted now. You can go ahead and ask.

Abneesh Roy: Hello.

Divyesh Shah: Hello

Abneesh Roy: Yes, my question is, sir, in terms of new stores if I see gold is 72% while in the existing stores, the gold is 76%, so wanted to understand in the new stores why diamond is higher. Is it because of some incentive scheme or is it because of some promotion?

Divyesh Shah: No, we have always seen in our seen past all the store opening is, especially in Tier-I and Tier-II cities, we found the similar kind of experience that all the cities where really the market is not mature and people have just started buying diamond jewellery and number of trusted jewellers, specially organised players numbers are less. And the availability of the diamond jewellery is certified as much, much lower compared to any metro cities. So the moment any organised player and especially a trusted jewellery brand like TBZ enters and opens a store, people start buying the diamond jewellery. So that was the reason why we have seen that large amount of uptake in diamond jewellery not because of discount but that is the same experience we have seen from the day one when we have started all new stores other than the Zaveri Bazaar.

Agnish Roy: Sir, during marriage season, what do customers buy more for the industry gold and for you also do they buy more gold versus earlier quarter when marriage season is lower?

Divyesh Shah: If I give you the traditional consumer's behaviour, it was always largely about gold, but now as the gold price also has grown significantly and has become comparable with diamond price, we have seen that a huge amount of uptake is there in the diamond jewellery for the wedding jewellery buying.

Abneesh Roy: And lastly, if you see the competition they are launching brands targeting the youth and working women, so where are we in terms of this strategy and if at all you have done how is it doing?

Divyesh Shah: See, the philosophy of this brand is to create a right design for the target consumers and offer them in the stores. So we have never said that we are just a wedding jewellery brand. We do keep all those jewellery which is largely a fashion jewellery to target the younger audience. However, we believe our brand TBZ which is existing since last 149 years and which is again one of the most trusted brand in India. So we believe that that's only to create additional brand, so we can promote this brand to target youth and as well as wedding jewellery consumers in market.

Abneesh Roy: And sir, we are not targeting the direct import of gold, right? With the recent change of RBI norms in terms of credit base, where are we in terms of direct import of gold? Are we planning to get this approval, what is the process, what is the stage?

Divyesh Shah: Now, no longer it is attractive. At some point of time we were also exploring the possibility, but with the recent change in the policy of reducing the credit period from 180 days to 90 days, it is no longer lucrative. So now we are not looking at option.

Abneesh Roy: Okay sir, thanks a lot.

Moderator: Thank you Mr. Roy. The next question is from Ankit again from Subhkam Ventures. Ankit, you line is unmuted again. You can go ahead and ask.

Ankit: Yes sir, the last question was not complete. Actually I was asking that...

Divyesh Shah: Yeah, I will answer. I was about to, but sorry, the line got disconnected. You see, the reason for the drop in the EBITDA margin from 8.8% to 8% is primarily because of the pre-operative expenses on the seven new showrooms we have opened YTD up to December. Had that not been there then my EBITDA margins for the current year would have been straight away more than 9% as compared to 8.8% last year.

Ankit: Okay.

Divyesh Shah: So this could be in terms of rental, in terms of pre-launch advertising and in terms of staff which are engaged before the showroom open and all other related expenses which go into before the showroom actually start operating.

Ankit: Okay sir, I was just asking that since your top line growth was 8% and your EBITDA growth is just 3%, still your PAT growth is 19%, so what has changed really below the EBITDA?

Divyesh Shah: Basically, the gold loan model which has brought down my interest cost substantially by more than half, so that's why my PAT margin keeps on improving.

Ankit: Okay. And sir, in the longer run do you have any target sir for you know, that the how much the diamond jewellery would be contributing towards the total sales like at present it is somewhere around 25 to 26%, so over a period time like 30, 35, 40, is there any target?

Divyesh Shah: See, we are targeting to reach about 65, 35 % by end of March 2015, once we complete our 57 stores. All the newer expansion which 43 we have planned in next three years you know. So we believe that we will reach because largely our expansion which is coming up in Tier-I and Tier-II cities, and we believe that on all cities the diamond sales compared with the gold ratio will be much, much higher. And the company is completely emphasizing this all efforts to improve the diamond sales from designing to the marketing, to train the staff how to sell diamond more and more in the stores. So by putting all those effort we believe that we will reach to the target of about 65, 35 in next coming 2 years.

Ankit: And sir, any sensitivity analysis you have done that every one 1% increase in the share of diamond jewellery improves margin by how many basis point, something... any thumb rule kind of thing?

Divyesh Shah: See, basically you can put it this way that if my... today with my ratio of 75:25 and it is now operating margin at 17%, but every 1% which will keep on improving with improve my blended gross margin by about .33%

Ankit: Okay sir, so the gross margin in diamond is three times than gold.

Divyesh Shah: That's the reason.

Ankit: Okay. Thank you so much.

Moderator: Thank you Ankit. The next question is from Mr. Sorik Marchit from Ambit Capital. Mr. Marchit, your line is unmuted now, you can go ahead and ask.

Sorik Marchit: Hi sir, this Sorik here. I just wanted to confirm one thing, you mentioned on the old store growth rate, just wanted to confirm if the same store sell growth was flat for the year for this quarter so far.

Divyesh Shah: Yes. That's what we have mentioned that for the Q3, same store sale growth was flat in terms of value. Volume wise, we have seen the growth in both gold and diamond.

Sorik Marchit: Okay. Because some of your competitors have had shown almost double digit same store sales growth. So in those terms has there been some kind of market share lost?

Divyesh Shah: No, I believe the kind of transparent communication what we are making it to investor and we are clearly demarcating all the negatives and positives. So we don't know how they are revealing the figures, but we are very sure that the figure what we are revealing that's the kind of transparent environment what we are in, trust and relation we are building with our investors. So entire industry also has seen a degrowth in both gold and diamond.

Sorik Marchit: And sir, one last thing. Some of the numbers that you shared indicates that you had very strong Q4 last year. So is that something you can expect as a trend going into 4th quarter this year as well?

Divyesh Shah: Very true. My CMD in earlier speech indicated that we are very positive about the 4th quarter, compared to last year we will do much better.

Sorik Marchit: Okay sir, so, could you give some sense of the seasonality beyond the wedding season demands, because seasonality for you all is, I am guessing much stronger than some of your competitors being the very strongly focused on the wedding season. So sir, if I were to break-up the 4 quarters, how would it generally stand in terms of percentage contribution?

Divyesh Shah: See, Q1 is a mix of festivals and wedding. Q2 largely is sluggish because the festival largely starts again and bounces back from August. Then Q3 is full of festivals and wedding, and Q4 is again a part of wedding jewellery because of the April and May wedding, people start buying in the month of February. So largely you find the wedding demand across about seven months. And then couple of months of festivals and then rest three months are sluggish during the year.

Sorik Marchit: So it would be fair to say that Q3, Q4 would be around 60 odd percent of the full year sale.

Divyesh Shah: Yes.

Sorik Marchit: Alright sir. That's it from my side. Thank you so much.

Moderator: Thank you Mr. Marchit. The last question is from Ashish of Lucky Investment. Ashish, your line is unmuted again, you can go ahead and ask.

Ashish Kochalia: Thank you for taking for my question, so just two small questions. First is, sir, if we go by your inventory number or about Rs. 880crores, and you have also mentioned in your presentation that about 30% of your gold is funded by gold loan, so rough calculation would suggest that about Rs 500crores is gold inventory and remaining Rs. 380crores is diamond inventory, is that correct?

Divyesh Shah: Yeah that's right.

Ashish: Sir, for 21 stores, you have always mentioned roughly about Rs. 10crores of inventory for diamond per store, but for 21 stores you seemed to have Rs. 380crores of diamond inventory, that is the closer to Rs. 18-19 crores per store. So if you could just help us understand the dichotomy out here.

Divyesh Shah: See, some of the stores are large stores, so obviously they will require a larger amount of inventory and again let me put... let me tell you one thing that when you are looking at inventory at the quarter end that also includes some amount of inventory which we start building up for the showrooms which are going up in the 4th quarter.

Ashish Kochalia: Okay.

Divyesh Shah: So, that Rs. 880crore inventory is not entirely the inventory of these stores, 21 stores which are operating, it also includes for some of the stores which are immediately to come up in the fourth coming quarter.

Ashish Kochalia: So, how many are you planning to open in the fourth quarter sir?

Divyesh Shah: 5 stores. Of these two we have already set-up and three are on the way.

Ashish Kochalia: Okay.

Divyesh Shah: Ashish, I just would like to add that diamond, the WIP period is about four weeks. So typically you buy the inventory four months prior to the requirement, so the WIP is also higher compared to gold where typically turnaround time WIP have 8 to 10 days.

Ashish Kochalia: Sure sir. Thank you. And the last final question is, sir, you just mentioned on that import license basis that now that the tenure has been reduced from 180 to 90 days, it is not lucrative anymore, if you could just briefly explain us why is it so? Or how does it work and why does this reduction not make it lucrative anymore?

Divyesh Shah: See, basically because the reduction really doesn't make any sense. Initially also you know when we were exploring this import license option, there were so many impediments because we were told that there are so many issues, you know, I just brought in the form of raw material then you have this refining cost. Now, whether that refining really is tantamount to manufacturing and if tantamount to manufacturing then you have the excise duty elements in it. And number 2, you can really get benefit only when you are importing on very large scale otherwise the other cost of transporting and bringing in out also can be very tremendous. And thirdly, as far as the tenure is concerned bringing it down from 180 days is basically there we were enjoying a credit of 180 days on the loan which you are getting although you had the option of closing it much earlier, but now, is that credit period itself is forcefully reduce to 90 days, it doesn't make any sense because in any case you have to make sure by the time you import the gold and then you refine it and then you convert it into jewellery and then you place it into the store for sale. That the entire exercise the turnaround have to take place within a period of 90 days, which may or may not be possible. If that doesn't happen and if one has to do a force closure at the end of 90 days then one doesn't know at what price you may land up in paying in terms of purchase price vis-à-vis whatever the price you realise on your sales. So that's why because of these uncertainties it is not very lucrative to really look at this option right now.

Ashish Kochalia: And would probably also mean that if you are not able to take the whole gold cycle within 90 days, then that would probably also mean that you would have to end up, you know, whatever the price you buy the gold you will have to fund it by a higher interest cost loan. Is it that is the way to look at it?

Divyesh Shah: Yeah, absolutely.

Ashish Kochalia: Okay, so, that's why the 90 days tenure if it is implemented doesn't make sense.

Divyesh Shah: Doesn't make sense absolutely. In fact imported gold is already implemented.

Ashish Kochalia: It's already implemented. So it's really not making any sense.

Divyesh Shah: Because we don't have an import license, so we are not impacted but those entities who have import license they are definitely impacted.

Ashish Kochalia: Okay. But when you import... The import duty still remains the same even if you have the license, right?

Divyesh Shah: Yeah. The import duty remain the same.

Ashish Kochalia: So, anybody who directly imports also has to pay the 6%.

Divyesh Shah: Absolutely.

Ashish Kochalia: Sure. Thank you so much sir.

Divyesh Shah: Thank you.

Moderator: Thank you Ashish. There are no further questions at this point time. So, I would like to hand over the floor back to the speakers. Over to you sir.

Nilesh Dalvi: Thank you Tanmoy. Dickenson Seagull IR is managing investor relation for TBZ. Feel free to reach me at nilesh.dalvi@dickensonir.com to seek more information about the company. I once again thank you all for joining for the call.

Divyesh Shah: Thank you.

Moderator: Thank you all. With this we conclude this conference call for today. Thank you for participating. You may all disconnect your lines now. Have a nice day. Thank you.