

Tribhovandas Bhimji Zaveri Limited Q3 FY14 Earnings Conference Call

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This Transcript will be available at ([Analyst Kit for TBZ](#)) along with other relevant documents & Media Interview

Moderator Good evening ladies and gentlemen, I am Viola, moderator for this conference. Welcome to the Q3 FY14 Results Conference Call of Tribhovandas Bhimji Zaveri Limited organized by Dickenson Seagull IR. At this moment all participants' are in listen-only mode, later we will conduct the question and answer session at that time if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nilesh Dalvi.

Nilesh Dalvi Thank you. On behalf of Dickenson Seagull IR let me welcome you all to the earnings call of Tribhovandas Bhimji Zaveri for the third quarter FY14. Today we have with us the management lead by Mr. Shrikant Zaveri – Chairman and Managing Director, Mr. Prem Hinduja – Chief Executive Officer and Mr. Divyesh Shah – Head Retail Business. I hope that all of you have received the results presentation, in case not then the presentation is available on the company website. With this now I would like to hand over the call to Mr. Shrikant Zaveri for the opening comments, over to you sir.

Shrikant Zaveri Dear investors I would like to thank everybody for taking time out and joining us for the first nine months and third quarter FY14 results conference call. The overall macroeconomic environment continued its slow path to recovery during the third quarter of FY14. The discretionary consumption demand and the weak consumer sentiments affected by persistent high inflation and rising cost of living, saw limited traction during the quarter. The domestic jewelry industry faced a tough environment in the quarter and witnessed a substantial decline in demand. The regulatory restrictions in the form of high customs duty disallowances of gold loan model and the 80/20 gold import rule constraint the domestic gold supply leading to higher gold premiums and rising supply costs.

TBZ being a reputed jeweler with a legacy of 150 years in this business has been witnessed to many economic down cycles even though this one that we are going through we have managed both supply and demand side challenges. On the supply side we are able to secure adequate gold

supplies to support operations to all the 27 stores. On the demand side we have made persistent efforts to stimulate consumer demand by introducing appealing jewelry designs and innovative marketing strategies. Going forward TBZ will continue to focus on sales growth whilst maintaining its operational efficiency. The wedding season which began in the third quarter is gaining momentum. TBZ remains committed on its expansion plans and shall take well calibrated approach, gauging the demand and supply dynamics. To achieve its overall goal of opening 57 stores. With this I would now like to hand over the call to Mr. Prem Hinduja our CEO to brief you on the financial and operational highlights for the first nine months and the third quarter of FY14.

Prem Hinduja

Thank you Mr. Chairman and good afternoon friends. I will just briefly touch with you on the financial and the operational aspects of the company during the last quarter and year to date for the nine months. Now, if you see the last quarter the company has clocked a turnover of Rs.517 crores which as compared to Rs.323 crores in the trailing quarter, which is a jump of about 60%. On the gross margin side it's more or less the same in percentage terms 18.5% as compared to 18.3% in the trailing quarter. In absolute amount of course it is again bigger by 60% which is in line with the top line growth. The EBITDA margin has improved substantially to 8.4% as compared to 5.1% during the trailing quarter. As far as the finance cost is concerned because of the higher utilization of the bank overdraft limit due to the gradual reduction in the gold loans scheme, the finance cost has gone up by 27% from Rs.10 crores to Rs.13 crores. Consequently, the PAT at Rs.19 crores as compare to the Rs.3.--

[Disconnection of Line]

I will brief you on the quarter-on-quarter results. Now, the turnover for this quarter was Rs.517 crores as compare to Rs.574 crores on Y-o-Y basis which is a decline of 10%. On the gross margin front it was 18.5% during this quarter as compared to 17% during the corresponding quarter of last year. The EBITDA margin at 8.4% is better than 7.6% as compared to the quarter of last year. Again because of the increase in the finance cost on account of the higher utilization of the bank overdraft limit due to the gradual reduction in the gold loan scheme which has been stopped by the government. The finance cost went up from Rs.5.8 crores to Rs.13.5 crores. The PAT at Rs.19.1 crores which is 3.7% of the top line as compared to Rs.24.7 crores in the corresponding quarter last year which was 4.3%. Now, if one were to look at, you have to take figures that is the nine month figures for this period as compared to the corresponding period of last year. The turnover till date is Rs.1,378 crores as compared to Rs.1,211 crores for last year which is a jump of about 14%. The gross margin percentage is 17.6% as compared to 18.6% last year but in absolute amount it is higher because of the higher turnover by about

14%. The gross profit is Rs.242 crores as compare to Rs.225 crores for the YTD of last year. The EBITDA margin at 7.3% as compared to 8.5%. This is again on account on the increase in the number of showrooms, which were 21 showrooms as of December '12 as compared to 27 showrooms as of December '13.

Incidentally, during this last quarter one more showroom has been added by the company at Udaipur on 9th of October. The finance cost of course for the nine months has gone up substantially from Rs.14 crores to Rs.31 crores which is again a result of the higher utilization of the cash credit limit because of the gradual reduction in the gold lease plan. Consequently, the PBT is Rs.65 crores as compare to Rs.86 crores and the PAT is Rs.43 crores as compare to Rs.60 crores. Now, coming to the balance sheet if one were to compare the balance sheet as of 31st December compared to 30th September of the same year the net worth has increased from Rs.434 crores to Rs.454 crores which is a consequence of the profit which has been accrued during the period. The company has made all out efforts to bring down the loan funds which have come down from Rs.563 crores to Rs.501 crores this is as a result of effective utilization of the working capital and all the internal accruals have been pumped into the company.

The gross block has increased from Rs.117 crores to Rs.119 crores this is because of the capital expenditure on the Udaipur showroom which was opened during this quarter. The inventory level in absolute term has remained more or less same, same in spite of the fact that one more showroom was opened which just shows the company's intention to effectively use the existing working capital which means the inventory which was already there in the system was utilized even for this additional showroom which was opened during this quarter. The currently liabilities were increased slightly from Rs.332 crores to Rs.347 crores which is primarily because of the increase in the KP scheme of the monthly installment scheme the company as in place and this is also a good source of working capital for the company. So, thank you gentlemen. Now, if there are any questions you are free to ask.

Moderator

Thank you sir. Ladies and gentleman, we will now begin the question and answer session. If you have a question please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1 again. First question is from Mr. Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy

We are hearing that some part of the industry is now bringing gold jewelry, finished gold jewelry by import route because there is no

premium on that and the rules are also easier, are we also using this and any plans to increase this?

Divyesh Shah

Hi Abneesh this is Divyesh here. What you have heard is true there are many players might be doing it that is the same thing what we have heard from the industry, but no company do not have any plan to import finished jewelry because we are selling Indian traditional gold jewelry or diamond jewelry which we manufacture in our own factory and I think the current duty structure is almost 15% and more or less we procure our raw material from the bank so our costing is more or less same so I don't think we need to import this for any other reason.

Prem Hinduja

And to add to that Abneesh this is Prem Hinduja. The company likes to follow the law both in letter and in spirit.

Abneesh Roy

Why I am asking this currently there is 10% premium which you have also mentioned and in terms of letter and spirit is there a problem because this is allowed, there is import duty which is there and you are paying it and is it possible to bring that finished jewelry and melt it and then convert this in to traditional jewelry what is the economic which works out because there will be some loss of gold menu to do the melting again.

Prem Hinduja

See I will answer your as to the premium portion about 10% premium portion which you are talking about of course it keeps on fluctuating on a daily basis and even on an hourly basis. Now, as far as TBZ is concerned let me put things in the proper perspective, our entire supply chain does not come from procuring from outside from the local bullion dealers. See we have also gone and taken recourse to which I had mentioned in my last call also for the last quarter that we are tying up with a leading PSU Bank to get gold on lease from their domestically procured gold another local GDS scheme, so that is enough to source about 25% of our requirement then traditionally we have our gold – gold exchange scheme which is also doing pretty well and which fluctuates anywhere between 26% to 30% of our requirement, plus we had also started our own gold deposit plan which is also doing pretty well. So, I would say that it is only 35% to 40% of our total requirement where we have to go and tap the local bullion dealers where the premium comes into the picture. So, the impact is not on the entire 100% it is only on a fraction of that portion.

Abneesh Roy

If I see the diamonds percentage of sales last four – five years that has been fairly constant that 22% - 23% of sales and this quarter obviously because of the festive, the gold was higher but currently the way sentiment is diamond sales under more stress from an annual perspective quarterly there will be ups and down but are you facing more issues in the diamond sales?

Prem Hinduja Abneesh if you look at my average ticket size in diamond we show the growth of about 10%, we show that still people are buying a higher ticket size product how however we have seen some sort of disappointment in discretionary spend from the consumer side and specially low ticket size product or probably a gifting product we have seen some sort of disappointment in numbers. But I think the trends will overcome and again we are planning few of the activation in the fourth quarter so we don't see that kind of large deficit in diamond sales compare to the previous year by the end of the March.

Abneesh Roy We have seen sentiment impacting your sales for the last few months. You in the opening remarks mentioned in the later part of December quarter there was an uptake in terms of the trend so how you are seeing that the trends plan out in Q4 and in terms of the regulatory norms which one do you think is more required the 80/20 or the 10% customs duty or gold on lease, which one did a higher priority as per your requirements?

Prem Hinduja See I will answer the second part of the question to you first. As far as the company is concerned we would like all the three to be in our favor, so really if you ask us we will not be able to comment upon which is better for us, each has got his own merits and obviously no if you are talking about the import duty everyone knows the higher import duty how it is impacted, how it has gone and created some other sources which is not good for the government as well as for the industry and also the ultimate consumer. The 80/20 scheme has restricted the supply of gold into the system which has led to this premium which is prevailing. And thirdly if you ask the gold lease scheme, basically if it was being used by the jewelers which was the end result when it was last band which is just 4% of the total requirement which was generally used by actual jewelers for manufacturing and trading. I think that should be a resource, so if you ask us as a company we would lock all the three to be back in place as it was done earlier.

Abneesh Roy The dip in demand how much is due to the illegal gold how much is it due to high price and how much is the structural problem in terms of the sentiments etc. Gold price internationally is quite weak so is some part of the investor now not seeing gold as a good asset class?

Prem Hinduja See basically, yes no doubt the price of gold internationally is today about \$1240, \$1250 not those \$1900 and \$1700 what we have seen in the earlier days but always Abneesh you look at it this way that there is always a slight disconnect between the price which is prevailing internationally and which is prevailing here locally because here the price is also a factor of your rupee dollar parity, the way if your rupee keeps on weakening and if your gold price internationally keeps on falling maybe both match each other so impact is not much and added to that

if you see these type of problems where you have this 80/20 scheme where it creates some sort of scarcity or artificial scarcity in the systems so thereby even if you have some price advantage in terms of the gold price falling internationally those get wiped out by this premium which comes into play. So, in the Indian context you cannot really 100% link it to what is happening internationally of course it is the reflection of what is happening internationally. Again it is difficult for anyone to predict as to what's going to happen, people keep on hearing various theories from various sources that prices, gold has its run for the last five years so maybe now it will get into a better strength. One would like to wait and watch and if that does happen also as we have always been keeping on saying if there has been a huge price correction we have seen huge jump in volume so it will be more than welcome.

Moderator Next question is from Mr. Adhidev Chattopadhyay HDFC Securities. Please go ahead.

Adhidev Chattopadhyay I have couple of questions. Firstly, just want to know what is our plan on the store additions for the next three or four quarters keeping in mind the current demand scenario and secondly with the wedding season have been begun from our own December onwards so how are we seeing a demand on Y-o-Y basis and are we seeing more demand towards, are we trying to push our standard products more or we are just focusing on the gold jewelry portion? Thank you.

[Disconnection of Line]

Prem Hinduja So, let me continue as we were talking about the expansion plan, the company is committed to expansion plan but right now it's taking a measured view and a calibrated view of the same because of various factor which are prevailing the external environment, the demand sentiment, the regulatory over and but at the back end the measures are very much in place so and you know the things do and improve and all that there will be put into action and we will be going forward with our plan reaching a target of 57 stores. Now, basically let me put it this way that the gold post is there only thing the gold post get shifted slightly in terms of the timeline and that's it. So, as a company we do want to take all these measures but at the same time we want to take calculated measures look at the overall view and then put it into action.

Adhidev Chattopadhyay And coming to my second question mainly, the wedding season started and how are you seeing the demand on Y-o-Y basis so far and is it more demand there for gold jewelry or for studded jewelry if you could share some color on that?

Prem Hinduja Sorry if you can just come back again with the question because I think the line was not-

Adhidev Chattopadhyay Yes, I will just repeat myself. I am just saying that the wedding season had begun and how do we see the demand on Y-o-Y basis and is the demand more towards gold jewelry or towards the diamond or the studded portion of it.

Prem Hinduja See, regionally if you look at the whole wedding buying purchasing pattern the gold is always on a dominating side and even if you look at the selling trend what we have seen in the past 10 years, majority of the gold jewelry sales for a wedding occasion, so during wedding we always see that the gold sales goes up and diamond is more of a fashion and discretionary spend than the wedding, so whenever the wedding season is there you always find that the gold jewelry demand increases compare to the diamond jewelry.

Adhidev Chattopadhyay And how are you seeing the demand on Y-o-Y basis is it better or is it worst or if you could quantify it for us?

Prem Hinduja See, right now it's still too early to say because every year in the fourth quarter we do couple of activations on sales side and our activations are going to be start from probably in Feb and in March again the first and second week. So, right now it's too early to say but overall wedding demand is still there in the market but on the discretionary side the consumer sentiments are still quite low.

Moderator Thank you. Next question is from the Mr. Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh Just wanted to know if there is gold premium which is there in the market from local bullion dealers but that premium will not be there when you are buying from public sector bank or even from bullion bank etc so in that case are you enjoying that kind of higher margin because of that extra premium?

Prem Hinduja Yes, definitely of course but to that extent we do enjoy that advantage more than 50% of our gold comes from either exchange of gold jewelry or sourcing from PSU Bank under the old gold loan scheme. We do enjoy that advantage that goes without saying, yeah.

Sanjay Singh So, if 80/20 rule is withdrawn, I mean as of now is it fair to say that you are getting whatever supply of gold you want, is it a fair statement to make?

Prem Hinduja Yes, very much absolutely.

Sanjay Singh So, since you are getting the fair supply that you want the 80/20 rule in that sense is not hurting you the only way it is hurting you or hurting the industry in way is the gold premium and that probably keeps some customers away in one way or the other but if 80/20 rule goes away the premium goes away and then typically because you are getting gold as much as we want you will be in the worst situation then you are currently in then local jewelers plus the extra margin that you are enjoying currently in gold jewelry to be also under pressure. So, is it in a way that it could be, it's not harmful neutral to you 80/20 rule going away? I can't see how it is positive for you, it can be neutral or negative, but I can't see how is it positive to you.

Prem Hinduja I will put it, it will be neutral rather than negative. Yeah it will be neutral but only in the sense I will put it this way that like you mentioned during the course of your question that this sort of thing is putting away some of the customers who are coming and buying after that these very customers may start coming in and improve on the demand side. So, yes to that extent it can be positive, because you see today the more concern is not so much the supply, it is more on the demand side where the people are holding back because of various factors, economic factors the overall environment and as my colleague just mentioned that discretionary spend has impacted to a very, very great extent so it's the more the demand pattern, so if they see some good price correction happening and which we have seen in the past also we expect that the same consumers who are resisting from buying will come forward and make a purchase.

Sanjay Singh For any reversal of the gold loan or 80/20 it has to come on the RBI not from the finance ministry right?

Prem Hinduja See, basically as far as the 80/20 scheme is concerned it has to come from the commerce ministry in consultation with the finance ministry, even if you see the last advice which was given by the chairperson of the ruling party it was given to the commerce ministry, in her capacity as the chairman of the NAC, National Advisory Council and was reported by the finance ministry because it had a financial impact, so ultimately the decision because it relates to import export it is under the commerce ministry and not under the finance ministry.

Sanjay Singh What about gold on lease?

Prem Hinduja Gold on lease of course the RBI.

Sanjay Singh Okay now, I mean I know it is a hypothetical situation but if you want to take a call or be in a situation that which among these three things

customs duty, gold loan lease and 80/20, is there any possibility of some of these or all of these or any of these going away in the next six months?

Prem Hinduja A very hypothetical question. I think I would say that your guess would be as good as ours.

Sanjay Singh But I am sure as an industry leader you are engaging the government in some of these discussions so anything that you can share in your thoughts that is there what they are saying.

Prem Hinduja In fact that is happening and that was the reason when the chairperson of the NAC went and made this recommendation or made a suggestion to the commerce ministry and to the finance ministry to look into the custom duty aspect and into the 80/20 which was the result of the pressure from the industry of a body to the government, so those efforts are continuing on an ongoing basis.

Sanjay Singh And you mentioned that gold on lease to be made only for jewelers. So, does it mean or does it imply that gold loan lease was being misused by some other parties as a source of financing.

Prem Hinduja It was being misused by the bullion traders. If you see the entire procurement of gold out of that only 10% was on lease with 6% till the earlier days it used to be use by the bullion traders and 4% by the jewelry industry. So, before this entire portion was stopped the bullion traders were first stopped so that means at the end when the last stoppage came it impacted only those balanced 4% which were the jewelry traders which are genuine users.

Sanjay Singh So, it was basically misuse of the cheap source of financing?

Prem Hinduja Yes, I mean so called and that's what we heard but no way to really collaborate all these statements.

Sanjay Singh And your 57 stores I understand these are very difficult times but is it possible because let's say if gold on lease stays for a long time, I mean gold on lease is not reversed back then is it possible that your opening of store may get delayed by more than a year or so or it will still happen maybe in maximum delay of 12 months so can you just give any timeline by if not FY15 maybe FY16?

Prem Hinduja See it is very difficult to give any timelines because obviously if we are going to open 57 stores with own funds and borrowed funds that will be a huge strain, so one doesn't want to indulge in that type of an exercise. Secondly, it also depends upon how the demand pattern is gelling out, which itself today is not so good so it is a combination of several factors

which will take a call so very difficult really to tell you at this point that that will be within 12 months or beyond 12 months but we are constantly monitoring the situation and keeping a close watch on the same and the company will take an appropriate decision depending upon how the circumstances are prevailing.

Sanjay Singh But it is appropriate not to open overstores at this point of time. In Mumbai, lot of these guys Joyalukkas or Malabar they have opened any kind of impact you are seeing from these, are they have been able to make any kind of dent at all?

Prem Hinduja I think TBZ enjoys a customer loyalty since last 150 years and especially in Mumbai because we have established our first store in Mumbai and again our customers are coming to us because of the trust what we build over last 150 years and the kind of designs what we manufacture and we provide to them and the customer service. So, I think customers are more loyal so we haven't seen any downsides by adding few more number of jewelers in the city.

Sanjay Singh Thank you very much, wish you all the best. It's a difficult time so hope you get over it, thanks.

Moderator Thank you. Next question is from Mr. Jaisinh Suchak from JM Financial. Please go ahead.

Jaisinh Suchak In terms of the PSU Bank arrangement which is like the domestic gold lease usually it can go up to 25% of our requirement what will be the status right now?

Prem Hinduja Right now it's around 20%.

Jaisinh Suchak Now, you have mentioned in the presentation our interest cost going forward to be round about 8% to 9% so this is going to take 20% - 25% how would the interest cost come down to 8% - 9% level overall.

Prem Hinduja On a weighted average basis because you see if 25% I am getting at 5% and the balance I am getting at 11% so my weighted average will work to about 8% to 9%.

Jaisinh Suchak And so that you can say that 9% to 10% effective interest cost going forward?

Prem Hinduja Yes.

Jaisinh Suchak But in FY14 last quarter now that these 20% happened to be will still increase interest cost to increase further going forward?

Prem Hinduja No not really because 20% will go up to 25% so on an average.

Jaisinh Suchak Let's say we did around Rs.13 crores - Rs.14 crores this quarter, in the fourth quarter do we see this number going up drastically?

Prem Hinduja Not really.

Jaisinh Suchak In terms of store count you said that obviously, the gold process moved in terms of time but just in terms of any immediate like we had said that there are three four stores which are in the finalization stage, so are those stores expected to come in any time in the near future, next couple of quarters?

Prem Hinduja Now, as I mentioned that at the back end our work constantly goes on, so basically if you look at the current and the opportune time so as and when we find the time is opportune and the demand is in place and things are well in place in terms of more or less everything as per our requirement we will open, so right now it's very difficult to give any commitment as to the timelines.

Jaisinh Suchak In terms of even 79/21 gold diamond mix for this quarter that's like gone in favor of gold even though the prices were slightly high so is that one reason would be the slightly higher premiums in gold, is there any other particular reason that started as being slightly muted in terms of percentage?

Divyesh Shah This is Divyesh here. As I mentioned to my earlier reply that traditionally during wedding season we always see gold jewelry demand increases compare to the diamond and same scenario is right now if you look at-

Jaisinh Suchak Last year it would be the same quarter, would be last year also would be wedding season right?

Divyesh Shah Correct, but last year the discretionary spend sentiment was not as low as this year so people and again last year wedding season was not that large as we are finding in this year so I think there are couple of differences are there compare to last year.

Jaisinh Suchak Sure. And last one question this time our gold gross margins is at 14%, one would primarily because of the gold coins being out of the picture any other particular reason that they are as high as 14%?

Divyesh Shah No I think primarily that is the reason.

Moderator Thank you. Next question is from Mr. Abhi Mehta from IIFL. Please go ahead.

Abhi Mehta What I wanted to understand is A, if you could share what is the current portion of inventory which you would be carry in the gold risk and whether there was any hit in this quarter because of that?

Prem Hinduja Not really we are not, see if I tell you if we were saying that 25% of my inventory is going to be on lease, it's only the balance 75% which is owned by the company. In the last quarter of course there has been no hit absolutely and going forward also we are proposing to exercise the hedging option on the commodity exchange so that will take care of that risk also, we will derisk to that extent.

Abhi Mehta I just wanted to check what is the volume that we are looking at, what is the current volume of inventory and how much of is the volume that we are looking at, whether we have all the approvals in place for that?

Prem Hinduja See I think we will be able to answer this question better when we meet in the next con call because by that time everything would have been in place and we would be able to share with you definite figures and all that. Of course, the intention of the company always has been to derisk the entire inventory which is owned by the company and to that extent we will put in our best effort and we will keep inform when we will meet up next because by that time everything would be in place and we will be able to share with you some definite data.

Abhi Mehta Fair enough, lastly just wanted to understand. What we see that obviously in this weak environment diamond sales has come under stress they are down about 11%, how versus the competition while there might be competition has seen a much lower decline but probably if you could give some more guidance or is it because of the average realization that decline is hire for us or do you think it is more to do with design that we should or lack of promotions, lower promotions. If you could give any sense on that because diamond sales are down closed to 17% versus, your competition was saying that it's flat for them so if you could give any sense on that that would be helpful and how are you looking to improve it going forward?

Divyesh Shah Actually, from the day one we are continuously harping that we are very strong in a wedding jewelry segment and whenever the more number of days and more of higher wedding demand as compare to the casual demand we always see that there is change in gold to diamond ratio. Second, if you look at like couple of activation as I mentioned that every year we do it during the last quarter which are pending, which are going to be executed in next probably three to four weeks so I think overall we are not seeing the large downside but still I would say that yes overall it will remain lower discretionary spend especially on the diamond category and which is as we have seen at our retail stores but we are

much better compare to the industry. According to the latest some of the interviews given by the local jewelers, mom and pop and the federation there is a large number of downside they have seen at the mom and pop jewelers so I think we are still far better than them.

Abhi Mehta Okay, no I mean diamond growth but not share but what you are suggesting is the lower players are probably see even weaker growth in diamond. If I may squeeze in one last question what I wanted to understand is the gold versus last quarter you had indicated you were looking at a kind of deposits scheme, how is that being doing and if you could share any numbers on that is that the reason why the current liabilities have increased or?

Prem Hinduja Yes, basically that scheme we have already started with all the _____ **38.50** expenses in place and it's doing pretty well and we are collecting about on an average of about a kilo a day so absolutely we are satisfied as of course as we grow further and all that the momentum will keep on growing even in the existing stores and of course with expansion it will grow even further, so we are quite optimistic about it.

Moderator Thank you. Next question is from Mr. Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth I had a couple of questions, first is on the gold deposit scheme. How is it planning out?

Prem Hinduja I answered this question few minutes back that yes it's doing pretty well, we just started late about two months back and on an average we are collecting about kilo a day and we expect the momentum together further even in the existing stores and of course when we expand it will also be to the newer stores which will keep adding.

Ritwik Sheth And on the presentation on Page #8. We see that the revenue per square feet is decreasing since the past two years from 301 it is currently at around 206 which is annualized. So, what would be the primary reason for it?

Prem Hinduja See primary reason of course if you are comparing say FY12, FY12 there were only mature stores which were in place it is only post IPO we have started adding stores so basically FY13, FY14 so basically this revenue per square foot is a mix of both the mature stores and the newly catered stores and-

Ritwik Sheth How many more like another two or four quarters should we expect for the revenue per square feet to turnaround?

- Prem Hinduja** Basically, we do not give any forward-looking guidance. Now, again we are also as we said in a conversation few minutes back that as far as our future expansion is concerned we are very much there but we will take an appropriate decision at the right time. As far as this year is concerned we have added two stores earlier of course we all know that we have added about 11 stores, so if you see the newly set up stores they require a certain period to reach up to the level of maturity so that's why you will find that as and when we are adding stores the revenue per square foot which is a mix of both the old stores and the newly capacity stores will not give you the same amount of revenue which was there earlier when only the matured stores were working. So that is the primary reason.
- Ritwik Sheth** The mature stores would be still around the 300 mark or so?
- Prem Hinduja** Nearer to that but at present we don't have separate figures but we can work it out, but yes.
- Ritwik Sheth** And one last final question. Do you think that all these gold policies the RBI and government is doing will benefit the unorganized sector?
- Prem Hinduja** Very difficult to answer this question. I think we should pose this question to the unorganized sector to answer, they will be in a better position. But we know that how is it impacting us and then we can answer that question certainly.
- Moderator** Thank you. Next question is from Mr. Bhavesh Shah from CLSA. Please go ahead.
- Bhavesh Shah** Two questions. First one is on your Kalpavruksha scheme, was there any impact of inventory gain or loss in your numbers during the quarter?
- Prem Hinduja** There is none because under the Kalpavruksha scheme in any case as we have already been saying earlier that we collect the advances for jewelry which belongs to the depositor at the end of the maturity period and the price risk gain/loss is on the depositor not on the company, which is the price prevailing on the day the scheme matures, so there is no question of any gain/loss on that portion of the Kalpavruksha scheme.
- Bhavesh Shah** And one more thing you also mentioned that you are collecting kilo a day that is under a different new scheme which you have started the last quarter, am I right?
- Prem Hinduja** Yes, the gold deposit scheme which we had mentioned in our last con call also whereby we are collecting in kind and we also return in kind with an additional return of 5%.

- Bhavesh Shah** Is this the same scheme where you have already collected 74 kilos out of-
- Prem Hinduja** Yes, that's our.
- Bhavesh Shah** So, just to asking you a question how much do you anticipate this to contribute to your overall supply growth in next one to two years growth, this is very impressive of correcting 74 kilos to so quickly.
- Prem Hinduja** So, basically even if you take the same prevalent average of 1 kilo a day so one can come and look how much it will contribute but it can keep on going up and it can be 5% at present, it can go up to 10% - 15% yes thoroughly our intention is to get more and more as possible and which is also actively happening also. But at the same time of course the maturity will also keep on starting after 12 months. The scheme is for a period of 12 months so some people may opt to get out of it after 12 months with the return, some may rollover. One doesn't know one have to wait and watch.
- Bhavesh Shah** Do you anticipate any regulatory risk to this particular scheme, do you see any regulatory risk for this particular scheme or there were some newspaper article which you were talking of reducing this tenure from 12 months to 6 months or there could be even some value caps so can you share some views on this?
- Prem Hinduja** No, basically you see when we started the scheme it took us a good six months to get into deliberations with our lawyers and accountants and this has been gone through very, very carefully before it was launched and now it has been some times since there is any loss so touchwood we have not faced any problem and we are hopeful that we will not be facing any problem. The other aspect which we are talking about is referring to the new company's bill which is only going to get implemented after April of '14 but in the meanwhile we are already in consultation with our experts, as even that come from when it is launched what measures to take to get over this problem.
- Bhavesh Shah** I was just looking at your balance sheet also, can you just explain me the fall in the loan funds which is happened between September to December?
- Prem Hinduja** Yes, which I mentioned in the top when I made **(Inaudible)** 45.55 top, basically the company is trying to utilize less and less of loan funds and rely more and more on internal accruals so all the internal accruals have gone into this which has helped us in improving our gearing ratio and at the same time bringing our loan comes down.

Moderator Thank you. Next question is from Mr. Pratik Biyani from Standard Chartered. Please go ahead.

Pratik Biyani I had a question on the competition, basically in the studded jewelry we have seen a lot of promos going on by existing player as well as new entrants. So, do you think that can hurt your margins at least in the near term it can impact your margins in the studded jewelry portion.

Prem Hinduja I think all the promos you are talking about the quality and gold price tags, so I think no one will be talking about reducing their margin and offering jewelry at the lower price and again the consumer whom we are targeting are more matured consumers especially in metro and Tier-1 and Tier-2 cities and those who come to TBZ because of our 150 years of legacy, trust, design and services so the kind of premium what we charge compare to the mom and pop jewelers it still exist and is going to continue to we don't see that any margin impact will be there because of all those promotions.

Pratik Biyani Sorry if I am repeating but what percent of gold are we hedging right now or it's completely whole our inventory is unhedged?

Prem Hinduja See basically as I mentioned few minutes back that we have earmarked on the hedging process because of the intention of the company is to protect all its inventory but we would be able to give you a better picture and definite picture once we meet at the end of this quarter because by that time the whole scheme would be in place and implemented.

Pratik Biyani Because I had one question related to that some companies have enjoyed the import duty hike benefits basically in month of June and August when there were import duty hikes they enjoyed some inventory gains on their inventory. So, let's say for us in the first nine months what would that amount be we will not be able to enjoy same benefits any longer and if import duties reverses there can be some inventory losses on the gold that we are not hedging. So, just wanted to have a sense one on?

Prem Hinduja No exactly, that is one of the reasons because as I said we want to protect our inventory and going forward if everyone is anticipating and we are also expecting that there will be some reduction in the duty element and we don't want to be caught unaware so we have already earmarked we have started on the hedging process and we are going through it and we are pretty confident that if and that would happen, we will be able to supplement it because of our hedging process being in place.

Pratik Biyani But can you share the number in terms of inventory that we enjoyed in the first nine months?

Prem Hinduja We didn't have any hedging in the first nine months, we did the hedging only now we have started.

Pratik Biyani So what would be that inventory gain amount that we would have enjoyed because of the import duty hikes in June and August in the first nine months if you can give some number?

Prem Hinduja We don't have any such figures and I don't think there is any much, but we don't have any such separate data available.

Pratik Biyani Okay no issues, thanks a lot.

Moderator Thank you. Next question is from Mr. Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani I just wanted to clarify, you said in the earlier statement that 20% is on lease for TBZ currently which will improve to 25% is that understanding correct?

Prem Hinduja Yes that's correct.

Mayur Gathani So, this will be through PSU Bank that you would do they would buy on spot and give it to you on lease because I thought it's not allowed?

Prem Hinduja No, it's not that they are buying on spot it is the gold which they are already holding and deposit and collected from the various temples.

Mayur Gathani Okay so that they can lease it that is permissible?

Prem Hinduja That is permissible, yes because that is domestically procured gold that is not imported so that they can do.

Mayur Gathani And that you will tap with one bank and you will increase –

Prem Hinduja We have already tied up and it is already in place that's why you get that figure of 20%.

Mayur Gathani Okay which will improve to 25%?

Prem Hinduja Yes.

Mayur Gathani And regarding the hedging you said that by next quarter you will be able to give us more clarity?

Prem Hinduja That's right.

- Mayur Gathani** And this net debt of 434, what will the peak debt that a company can go up to or is that a good level.
- Prem Hinduja** See basically, even at this 434 we are 1:1 gearing and our intention is always to keep it within this normal, even lower than this that's why you will see the difference between 30th September and 31st December there is a slightly reduction in debt so we are keeping a close watch on the debt level and we do not want to be overleveraged at any point of time.
- Moderator** Thank you. Next question is from Mr. Gaurav Jagani from Prabhudas Lilladher. Please go ahead.
- Gaurav Jagani** I wanted to know say hypothetically if the gold import restriction stays as where it is with all the 80/20 restrictions. How do you see the demand planning out in the future?
- Prem Hinduja** See I think on the priority side the sentiments are very negative so if sentiments improve I don't see that as a gold price current level of the price and even this duty and additional premium will be a biggest probably a hurdle for the consumers to come and buy gold jewelry, so overall sentiment has to improve which we have seen weaker in last couple of quarters and we are seeing that since general election comes it will remain same, we don't see there is any upward momentums in that particular side.
- Gaurav Jagani** One more question like because of this entire restriction do you see consolidation in the entire jewelry industry as such like do you have seen the non-serious players are getting out of the business?
- Prem Hinduja** See again basically this industry does not have lot of data as to what happens in the unorganized sector so again very difficult to answer that question and like other industries where there is clear cut data available as to how much percentage is unorganized and what they are doing here since the even today predominantly the industry is unorganized and there are various figures of unorganized 90% to 95% so one doesn't know so it's very difficult to really say as to what is happening at the ground level we can only talk about the organized sector which we come to know as to what is happening but the other side it's very difficult to really say.
- Gaurav Jagani** I would like to refrain my question, what I am trying to ask you is have you seen any demand shift from the unorganized player to the organized players as such.
- Prem Hinduja** On ongoing basis because as I have been saying in the previous statements also in the previous quarters this is again some published data how far it is authentic one doesn't know what keeps on saying that

if we will say that the unorganized that has 90% and the organized is 10% which was earlier less than 10% and the growth in the organized sector is about 35% to 40% than in the unorganized 15% to 20% which clearly shows that the shift is happening from the unorganized to the organized sector. I am only referring to that report but other than that we don't have any other data available.

Gaurav Jagani Okay so you are not seeing as such demand pick up from those players?

Prem Hinduja No, basically as my colleague just mentioned that the overall sentiment itself is so weak that sentiment changes we really don't see of shift in the demand pattern.

Moderator Thank you. Next question is from Mr. Abhijit Kundu from Antique Stock Broking. Please go ahead.

Abhijit Kundu My first question was on your cost structure if I look at the ad spends and other overheads during the quarter, ad spends as it is has come off quite substantially as a percentage of sales and other overheads also have been controlled so anything in particular like going ahead firstly, would we be focusing more on increase ad spends going ahead and other overheads would be controlled and what has gone into it currently?

Prem Hinduja Yes, so basically the intention of the company always has been and will keep the cost within certain controllable limits and all that and especially at times when things are difficult that exercise is an ongoing exercise which has happened and is going to go. Going forward also that is going to take place. As far as the ad spend is concerned if you are talking about that keep on doing our promotions which are below the line activities if we reduce the above the line activities so we do not do away with them altogether because we want to maintain our visibility, we want to maintain the visibility of the brands with the general public as such, but at the same time all around we do take measures to control cost wherever possible and we are keeping a close watch on all these costs and going forward also which is an intention or which is a benchmark of any good company, I would say not only ours but company in any industry would be doing that.

Abhijit Kundu So, with the competition going up and a lot of branding activities being done by them, do you see the ad spends going up then overall, particularly ad spends as a whole, so you would also required to spend on branding?

Divyesh Shah Hi Abhijit this is Divyesh here. See, TBZ is a more matured and oldest player in especially jewelry retail in domestic market and the brand has already been build so we don't see that kind of ad spend increase as far

as TBZ marketing strategy is concerned but overall we already said that we will remain 2.5% of the ad to sales ratio and more over we will work within that limit only.

Abhijit Kundu So, in Q4 any new stores would you be opening because these two month visibility you would be having right?

Divyesh Shah See basically as I said, I had mentioned earlier also that we have two or three stores already in the pipeline but we are waiting for an opportune moment to open so as of now it will be very difficult for us to commit as to when we want to open and we are just watching the situation closely. We will take an appropriate decision at the right time.

Abhijit Kundu What would be the gold inventory right now of the December ending total inventory that you have given, how much of that would be gold inventory?

Divyesh Shah See typically our ratio is always very, if you see of the total inventory in value between 55% to 57% of the total inventory and the balance is – it's the same ratio which we are enjoying that is there.

Moderator Thank you sir. Thank you management team. Now I hand over the floor to Mr. Nilesh Dalvi for closing comments.

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

Divyesh Shah Thank you.

Prem Hinduja Thank you.

Shrikant Zaveri Thank you.

Moderator Thank you sir. Ladies and gentlemen this concludes your conference for today. Thank you for your participation and you may now disconnect your lines.