

**Tribhovandas Bhimji Zaveri Limited**  
**Q3 FY'15 Earnings Conference Call**  
**February 04, 2015**

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**Moderator**

Good Evening Ladies and Gentlemen. I am Zaid, moderator for this conference. Welcome to Q3 and 9M FY'15 Results Conference Call of Tribhovandas Bhimji Zaveri Limited organized by Dickenson Seagull IR. As a reminder, all participant' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Dalvi. Thank you.

**Nilesh Dalvi**

Thank you, Zaid. Good Evening, everyone. On behalf of Dickenson Seagull IR, let me welcome you all to the Earnings Call of Tribhovandas Bhimji Zaveri Limited for the Q3 and 9M FY'15. Today, we have with us the management led by Mr. Shrikant Zaveri – Chairman and Managing Director; Mr. Prem Hinduja – Chief Executive Officer; Mr. Saurav Banerjee – Chief Finance Officer; and Mr. Divyesh Shah – Head, Retail business.

Before we get started, I would like to remind you that our remarks today might include forward-looking statements and actual results may differ materially from those contemplated by these forward-looking statements. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information of future events. I would now invite Mr. Zaveri to make his opening remarks Thank you. Over to you sir.

**Shrikant Zaveri**

Thank you. Dear Investors, I would like to thank everyone for taking time out and joining us on this Conference Call for the Q3 and 9M FY'15 results. The Q3 fortunately saw consumer sentiments turning positive. There were several favorable developments on the business and economic fronts with the RBI revoking the 80:20 regulation, drop in headline inflation and decline in oil prices.

The company witnessed healthy performance during the quarter driven by robust sales on festival occasions and on the onset of the Wedding season. New Wedding Collections were launched with focus on innovative Diamond Jewellery Designs which received strong response from the customers.

The company also launched its First New TV Commercial, showcasing the New Wedding Collections. We believe this should help the company to strengthen its brand presence pan-India and create a long-term positive impact on sales.

The company won 3 Prestigious Awards in 2014 at 3 Prestigious Forums - "Asia's Most Promising Brands", "Best Jewellery Company", and "Best Diamond Jewellery and Bracelet

Designs". These awards endorse and reinforce the company's brand goodwill, its strong design expertise, customer trust and recall, and its commitment and dedication to become an even more respected entity across India than it already is.

With this I would now like hand over the call to Mr. Prem Hinduja — our CEO to brief you on the Financials and Operational Highlights for the quarter. Thank you.

**Prem Hinduja**

Good Afternoon, everyone. I will just brief you on the results for the quarter as compared to the results of the previous quarter and of the corresponding quarter last year. The top line for the quarter has been Rs.612.5 crores as compared to Rs.517.1 crores in the corresponding quarter last year, which is an 18.4% jump and as compared to Rs.426.3 crores in the trailing quarter thereby showing a jump of 43.7%. The gross profit has been Rs.88.4 crores as compared to Rs.95.8 crores in the corresponding quarter of last year and Rs.57.6 crores in the trailing quarter. The gross margin percentage was 14.4% as compared to 13.5% in the trailing quarter and 18.5% in the quarter of the previous year. The EBITDA is Rs.22.6 crores as compared to Rs.43.6 crores for the corresponding quarter last year and Rs.12.6 crores in the trailing quarter. The EBITDA margin percentage is 3.7% as compared to 3.0% in the trailing quarter and 8.4% in the quarter of last year. The PAT is Rs.6.5 crores which is 1.1% of the top line as compared to Rs.60 lakhs which was 0.1% in the trailing quarter and Rs.19.1 crores in the corresponding quarter of last year which was 3.7% of the top line.

With this, I leave the floor open to the question-and-answers. Thank you, gentlemen.

**Moderator**

Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Prashant Kanuru from Karvy Stock. Please go ahead.

**Prashant Kanuru:**

Can you give the breakup of other expenses; does it include any loss in terms of our positions on the commodity exchange MCX and what made up the other expenses?

**Prem Hinduja**

Basically, there is no loss in terms of the commodity exchange. As far as the hedging is concerned, we follow AS30 which is basically hedging our future sales. As far as the breakup of the other expenses is concerned, it will be primarily remuneration, your power and fuel, packing material, repairs, maintenance, rent, advertisement, traveling and conveyance, rate, taxes, legal and professional, bank charges and other miscellaneous expense. This is broadly what is covered under the head of other expenses.

**Prashant Kanuru:**

What is the amount of quantity of gold that we hedge on the exchange?

**Prem Hinduja**

Right now I can tell you the company is fully hedged both in terms of the gold lease where typically 53% of our inventory is on gold lease, 22% is hedged on the commodity exchange. We all know that more than 25% is our exchange jewellery which is the natural hedge. So, if you add up all of this, we are hedged fully. In terms of quantity, 650 Kgs as of now is on the commodity exchange that is the MCX.

**Prashant Kanuru:**

What is the percentage of total Gold and Diamond Jewellery Wedding sales?

**Divyesh Shah** Typically, in Gold segment, the Wedding sales is about 65% to 70% during this wedding season specifically on the Q3, so, more or less it was in line, and Diamond, the wedding is about 35% to 40% and I think this time we have seen some sort of increase in Diamond Wedding Jewellery sales. Moreover, momentum towards the advertised product which we have advertised on the TV commercials, so, it has reached about 45%.

**Prashant Kanuru:** What is the volume of sales of Diamond, were they higher than FY14 nine months or...?

**Divyesh Shah** Our like-to-like growth is about 22% in volume in Diamonds, and overall company has seen a growth of 24% because we have added one store this year. So, that is the reason why the growth is about 24% for Q3. For 9 months, the Diamond Jewellery sales has grown by about 20%.

**Prashant Kanuru:** Gold lease is expected to increase; 80:20 rule does not stand anymore and also quite a few trading entities were allowed to import Gold, just like canalizing agency, so is it expected to increase further in the rest...?

**Prem Hinduja** Yes, it is obvious, that is an ongoing exercise basically, if you see in the beginning when the gold lease was stopped and we were doing only with SBI under the GDS scheme, about 25% covered with that. Today, they mentioned we are almost about 53% and going forward, this percentage keeps on increasing whereby our target is to cover the entire quantity under the gold lease and do away with MCX hedging altogether. This will happen and this also helps us reduce our overall finance cost. This today typically on an average is about 8.5% against the cost of about 12% if one were to bank or pay solely on bank overdraft. Going forward as the gold lease portion keeps on increasing, this average cost of funding will also keep on coming down.

**Prashant Kanuru:** Metal Gold lease interest rate comes out of around 6.5% or 8.5%?

**Prem Hinduja** It is all total including the bank guarantee commission, all total cost because one has to offer a bank guarantee to the lending bank which is lending with the gold, and it is about 6%.

**Moderator** Thank you. Our next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.

**Bhautik Chauhan:** A couple of questions from my side. Are we still holding the Kalpavruksha Scheme this quarter?

**Prem Hinduja** The Kalpavruksha scheme which was there earlier, we have stopped taking long back any new application, of course, the ongoing scheme which was there earlier when we had that 18 and 24-months scheme that kept on continuing as was advised to us. As far as going forward is concerned, very soon we will be re-launching the scheme based again on the legal advice where we have to ensure that we comply with all the rules and regulations of the Companies Act. So, as of now, we have the old scheme continuing, we had stopped and we are still not

taking fresh applications, but once we re-launch the scheme which we will be doing very soon, then we will start taking new applications.

**Bhautik Chauhan:** Sir, this scheme has contributed how much of our sales last quarter, like if I compare it to FY13?

**Prem Hinduja** Basically, because we had stopped taking any fresh applications it kept on declining. I can tell you for last year it contributed about 7% of the sales. Of course, over a period of time from 1<sup>st</sup> April, the new law came into play whereby we stopped this scheme around that time. So, is kept on declining. Now, of course, we hope once we re-launch the scheme, again, we will scale up and we will try and get as much as possible sales under this scheme.

**Bhautik Chauhan:** My next question is on expansion front. Are we looking to add up another 9,000 sq.ft. in Q4 to achieve 1 lakh sq.ft. mark?

**Prem Hinduja** Basically, we are targeting, right now we are looking at this whole exercise, we may look at these options, right now as you are aware we have also started looking at the franchise model. So going forward, our expansion will be both on company-bound and franchise stores. We already had one or two stores where the renovation work is going on, and once that is completed, we may be able to launch. If we are not able to complete with the renovation work this year, then probably it may spill over to the beginning of next fiscal. But, of course, our target will be to try and open as much as possible and as soon as possible during this year.

**Bhautik Chauhan:** Any CAPEX plan going forward for FY16?

**Prem Hinduja** Basically, CAPEX plan again as such will be depending upon what is the mix of our expansion through our company owned stores and the franchise stores. The franchise model which we are looking at is basically FOFO method where the inventory will sit on the books of the franchise and which is the major investment. Barring that the CAPEX investment is just Rs.1 to 2 crores per each store. So, once we have decided internally as to what the mix is going to be between the two, we will get a clear crystal picture of what our CAPEX is going to be for next year.

**Moderator** Thank you. Our next question is from the line of Apurva Shah from Dimensional Securities. Please go ahead.

**Apurva Shah:** In your opening remarks, you mentioned about you are observing some improvement in consumer sentiment. So how should we measure in terms of improvement in say consumer sentiment because in top line we have seen 18% growth but if you look at average ticket size for gold it has been in continuous declining mode?

**Divyesh Shah** If you look at in Gold in volume, we have grown by about 23%, but of course, the overall Gold price has declined by about 10% to 11% compared to the previous year. So, when consumers are consuming, the similar weight or similar grammage of gold, they have to pay about 11% less. So, in that case, the average value has declined because the Gold commodity price itself has declined by about 11%. If you look at overall in volume, volume growth is about 23% and

value growth is about 14% in Gold category. So, it is about 9% difference you can see in volume and value growth compared to the previous year for the same story.

**Apurva Shah:** In last quarter you were giving footfall conversion and a number of footfalls. So this quarter you have stopped giving or like I am missing in the presentation?

**Divyesh Shah** No, what we are doing right now, the whole process we are refining it. So, once we refine and once we take the comments from the auditor, then we will put it again here. Overall footfalls have increased by about 25% this year.

**Apurva Shah:** My second question is on advertisement. In current quarter it was very high and that was visible on television sets as well. So what will be the outlook for Q4 and for FY16?

**Prem Hinduja** Q-o-Q one cannot really measure the advertisement cost as a percentage of sales. Typically, if you see the Q3, always our advertising and marketing cost had been high because that is the busiest and the heaviest quarter for us. You are very right, you have seen our visibility on television, of course, television is a medium, is an extensive avenue for advertising, but then, we are looking at the long-term benefits of going on television. We are spending in this quarter and we are not permitted as per accounting norms to defer the expenses but all the same the benefit is going to be long-term. So, in that pattern of what our advertising expenditure is going to be next year, we are in the process of making our internal budget. We do an annual budget exercise every year based on our sales forecast and all the other parameters. At that time, we will be in a position to really come out and figure out is what our advertising cost is going to be for the next year where we take the help of every stakeholder basically, be the retail team, be the marketing team plus our advertising agency, and then we frame the budget accordingly.

**Apurva Shah:** Basically, I wanted to just have some rough idea about next year's EBITDA, because gross margin may vary depending upon the gold price, but I was looking at the costs which are under your control. So what can be the target for the next year EBITDA?

**Prem Hinduja** Basically, as a listed company, let me put it this way, we are not allowed to give any forward-looking numbers, in the beginning, I mentioned that we are in the process of making our exercise for next year. So, right now we are in the process of putting our figures together. Thirdly, the endeavor of the company always will be to keep all our costs under control. Although in this industry per se, except for the cost of material more or less the other costs are fixed in nature. To the extent possible, we take all measures, and this is an ongoing exercise to keep all our costs under wraps and under absolute control, and that will also be the endeavor for future.

**Apurva Shah:** Have you finalized your franchisee model like have you come out with any strategy or when can I expect a franchisee store?

**Prem Hinduja** Basically, we opt out a strategy, we had put in an ad, which you must have also seen, we had a fantastic response to that, right now, we are going through the process of shuffling all those enquiries which we have come through getting additional feedback, then there is a process which has to be done in terms of interview process, and selecting the right person. So, it may take a little more time, but once we are ready and we also want to go on it very fast, then we will announce to all of you once we have launched on the franchisee. Definitely, by next year, you will have our franchisee stores and as I mentioned in the beginning of the conversation somewhere down the line that we are also in the process of figuring out that our future expansion for next year is going to be in what mix, how much of company-owned stores and how many of franchisee stores.

**Apurva Shah:** Can you brief us about your strategy on eCommerce like, I think we have tied up with some company, but any other progress on eCommerce side?

**Prem Hinduja** On the eCommerce also, we are working with the same zeal and enthusiasm as we are working on the franchisee front. There also we are in talks with several service providers. So, basically, again we are looking at two models there — One is going into marketplace of some service provider; and Secondly, we are also in the process of developing our own website for eCommerce which will be in the future. So, that also is a process which takes some time. So, once we are ready with some definite answers, we will get back to you and tell you what it is. But, we are also keen and we also want to come to that mode of selling and we are working towards it.

**Moderator** Thank you. Our next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

**Gautami Desai:** From the last year's quarter 18.4% increase in the revenue. So how has been the Gold price movement like over last year's quarter, is it 11% down from like third quarter FY14?

**Divyesh Shah** On an average if you look at first 9 months, the Gold price has gone down by about 10% to 11%.

**Gautami Desai:** But sir what was like quarter-to-quarter if you are saying this 18.4% growth from last year's quarter, from there how has been the gold price movement?

**Divyesh Shah** If you look at only Q3 comparison, then overall Gold prices has gone down by about 9%.

**Gautami Desai:** What is the number of inventory days as of now?

**Prem Hinduja** I will tell you what is are inventory days in value terms, basically, you have the balance sheet and you have the inventory figure there which is about Rs.1000 crores and odd and you have the sales for the 9 months. So, if you are in an estimate, I think on value basis for the full year it will be about 2 times which is the mix of again both Gold and Diamond. Of course, going forward the endeavor of the company will be always to keep on improving this inventory turns. Now, this inventory is again the bare minimum inventory which essentially we have to keep in

the store irrespective of the sales. Now, sales is a function of so many factors — the wedding demand, the consumer sentiment — which again we are keeping on trying to target more and more through various measures which we come out from time-to-time.

**Gautami Desai:** And then for franchisees, as you say the inventory will be on their books?

**Prem Hinduja:** That is right.

**Gautami Desai:** So the company will not increase any inventory because of the franchisee?

**Prem Hinduja:** Absolutely not, because it is an asset-light model that is what we are targeting at. So, what we will get is basically only incremental sales. Once, we have sold to the franchisee, as far as we are concerned, the sales is already done, then it is the franchisee's look out as to what sales takes place at his end, and he will hold the inventory at his own risks and costs.

**Gautami Desai:** As of now can I take that there would not be any new expansion from our side like it is only going to be through franchisee, like it could be from a distant future but over next one year what could be the scenario?

**Prem Hinduja:** No, as I said, we are filtering through the process of franchisee. So, once we have had interaction with them and once we have taken a call as to how many will be appointed as franchisee, then we will be in a better position to really answer as to be it is going to be totally franchisee or it is going to be partially predominantly franchisee and partially own or the otherwise. So, as of now, that question will be very-very difficult to answer. So, I think give us a few more days and a few more this thing, we will be in a clearer picture. And as I mentioned, we are also in the processing of drawing up our budget for the next year. So, all this will be dealt into our budget.

**Gautami Desai:** What are the kind of cities that you are targeting for your franchisee?

**Divyesh Shah:** Most of the cities are Metro and Tier-I, it is a mix of all.

**Gautami Desai:** Which regions, it is more like again western region or you are trying out a new region or something like that?

**Divyesh Shah:** No, of course, we are increasing our presence pan India, so, we are not only targeting western. So, the overall franchisee ads what we have released is in eastern part of India, western, and also northwest. So I think it is a combination of all.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Dalvi for closing comments. Over to you, sir.

**Nilesh Dalvi:** Thank you everyone. Dickenson Seagull IR is managing the Investor Relations for TBZ. Feel free to reach to me at [nilesh.dalvi@dickensonir.com](mailto:nilesh.dalvi@dickensonir.com) for further information on the company. I once again thank you all for joining the call.

**Moderator**

Ladies and Gentlemen, on behalf of Tribhovandas Bhimji Zaveri that concludes this conference call. Thank you for joining us. You many now disconnect your lines.