



**“Tribhovandas Bhimji Zaveri Limited Q3 FY 2016 Results  
Earnings Conference Call”**

**February 5, 2016**

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**Tribhovandas Bhimji Zaveri Limited**  
**Q3 & 9 Months FY16 Results Conference Call**  
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**Moderator:** Good Evening, Ladies and Gentlemen. Welcome to the Third Quarter and First Nine Months FY16 Results Conference Call of Tribhovandas Bhimji Zaveri Limited organized by Dickenson Seagull IR. At this moment, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Nilesh Dalvi. Over to you, sir. Thank you.

**Nilesh Dalvi:** Thank you. Good Evening, Everyone. On behalf of Dickenson Seagull IR, let me welcome you all to the Earnings Call of Tribhovandas Bhimji Zaveri for the Third Quarter and First Nine Months of Financial Year '16. Today, we have with us the management led by Mr. Shrikant Zaveri – Chairman and Managing Director; Mr. Saurav Banerjee – Chief Finance Officer; and Mr. Divyesh Shah – Head, Retail Business. I would now invite Mr. Zaveri to make his opening remarks. Thank you and over to you, sir.

**Shrikant Zaveri:** Thank you, Nilesh. Good Evening, Ladies and Gentlemen. Greetings and A Very Warm Welcome to Everyone present here for the Earnings Call for Tribhovandas Bhimji Zaveri Limited for the period Third Quarter and First Nine Months of the Financial Year 2015-16.

Before talking on the operating performance during the quarter, let me quickly Update you on recent Key Business Developments: We are happy to inform you that TBZ Opened Its First Franchisee Store in Dhanbad, Jharkhand in November 2015. Further, the company has Signed Two More Franchisee Agreements for its upcoming stores in Ranchi, Jharkhand and Jaipur, Rajasthan. We are committed to continue expanding our presence across India in an asset-like manner majorly through franchisee model. We are identifying prospective franchisees, applications on a continual basis and we are carefully evaluating them.

We have also commenced our e-Commerce operations through a tie-up with Snapdeal to sell an exquisite range of Diamond Jewellery and Gold Coins. Through this, we aim to extend our reach at a faster pace and also address younger generation effectively. The e-Commerce business is witnessing good traction since launch.

Coming to the Operating Performance during this third quarter, we witnessed decline in sales, primarily driven by absence of sales resulting from the Kalpavrushka Scheme which had contributed 14% to the sales in corresponding quarter last year. Going forward, we remain optimistic on the growth in Jewellery demand with the onset of the wedding season. Further, the newly re-launched Kalpavruksh Scheme which has witnessed good response from customers should help drive the sales starting from next fiscal year.

With this, I would now hand over the call to Mr. Saurav Banerjee, our CFO to brief you on the Financial and Operational Highlights for this Quarter and the First Nine Months of this Fiscal Year. Thank you.

**Saurav Banerjee:** Good Evening, Everybody. Let me first give you a brief about the Third Quarter and the First Nine Months for FY15-16. Beginning with Q3FY16 vis-à-vis Q3FY15, total income from operations for Q3FY16 is Rs.495.66 crores vis-à-vis Q3FY15 of Rs.612.50 crores which is a drop of 19.08%. Gross profit margins registered for Q3FY16 on a blended basis is 13.17% vis-à-vis for Q3FY15 14.26%. In terms of EBITDA Q3FY16 is at Rs.17.12 crores vis-à-vis Rs.22.60 crores for corresponding quarter of previous year, a drop of around 24%. EBITDA margins 3.45% for Q3FY16 vis-à-vis 3.69% for Q3FY15 and PAT reported for Q3FY16 Rs.3.25 crores vis-à-vis Rs.6.48 crores for the previous year, a drop of around 50%.

For the nine months FY16, we have clocked an income from operations of Rs.1349.61 crores Vs Rs.1471.19 crores for the previous nine months, a drop of about 8%. In terms of GP margins, we have managed to maintain virtually the same levels at 13.50% for nine months FY16 vis-à-vis 13.62% for nine months FY15. EBITDA for nine months FY16 Rs.36.18 crores vis-à-vis Rs.49.9 crores for the previous nine months, a drop of 27.5%. In terms of margins of EBITDA 2.68% for the current nine months, 3.39% for the previous nine months and PAT margin reported for nine months FY16 at (-0.45%) vis-à-vis (+0.51%) for the previous nine months. Thank you.

I now request the participants begin the conference call with questions as they would like to ask us.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. Our first question is from the line of Kapil Kumar from India Capital Fund. Please go ahead.

**Kapil Kumar:** How you do the inventory valuation, what is the process?

**Saurav Banerjee:** The inventory valuation is done on a cost or net realizable value basis and that is what we have been doing over the years.

**Kapil Kumar:** What is the current inventory level?

**Saurav Banerjee:** The current inventory level in terms of value is Rs.1040 crores.

**Moderator:** Thank you. The next question is from the line of Aditya Iyer from Dimensional Securities. Please go ahead.

**Aditya Iyer:** So in the last quarter you had mentioned additions from franchisee stores. So could I know the quantum of sales which has been added because of the new franchisee stores which you have added?

**Divyesh Shah:** Aditya, we have started the stores on 9<sup>th</sup> of November and the store for this quarter probably has worked for only 51-days. So I think it is too early to comment on the success and how the store has performed in the first 90-days. Second, we can take this question offline because we do not share store wise sales numbers.

**Aditya Iyer:** What will be the one-time inventory sold to the three stores?

**Divyesh Shah:** We have just started first franchisee store and the balance stores will come up in either this quarter end or the first month of the new financial year.

**Aditya Iyer:** You had mentioned a very strong Diwali season in the last conference call. So, why is there like no major uptick in sales?

**Divyesh Shah:** During the festival times, we have seen the demand was robust, but post festival we have seen that the demand has become flat and muted. If you see overall the same-store sales has de-grown by only 4-4.5%, largely this de-growth came from our Kalpavruksha Plan which has netted about 14% of the top line for last year which was completely absent because we have re-started recently in the month of May, so we are hopeful that from this quarter redemptions will start and probably we will see the full effect in the first quarter of the FY17.

**Aditya Iyer:** If I have to break it down on value terms, because even the price of gold would have changed, what would be your like-to-like sales growth if you like were to adjust for the price of gold changing over the quarter?

**Divyesh Shah:** Volume wise it is flat and value wise it is 4.5% de-growth if I exclude Kalpavruksha.

- Aditya Iyer:** So if you exclude the price of gold, it will be like 4.5%?
- Divyesh Shah:** Yes.
- Aditya Iyer:** Sir, the impact of this new Pan Card requirements which are there, so what percentage of your total sales would be falling under that bracket of Rs.2 lakhs to Rs.5 lakhs?
- Divyesh Shah:** I think I would probably try to put it in other way that when earlier the requirement of Pan Card was applicable for the transaction of more than Rs.5 lakhs, then it was mandatory only in Jewelry, but now since Rs.2 lakhs has been bought in all the other services and goods, it has now become a level playing ground. So we have not seen any resistance from the consumer side from the time the rules have become applicable from 1<sup>st</sup> January. So, I do not see a significant impact so far because of the Rs.2 lakhs Pan Card rule.
- Aditya Iyer:** So you would not put that down as a reason for lower sale?
- Divyesh Shah:** That has started from 1<sup>st</sup> of January. So it does not have any correlation with the Q3 sales.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.
- Manish Poddar:** Sir, just wanted to get a sense on the demand trends across the different parts of India. If you could allude to that because the companies in other parts of India are showing a significant amount of growth and their commentary has been different post the festival season or so, could you probably comment how have been your growth rates maybe in the different geographies?
- Divyesh Shah:** Currently, we have 30-stores and out of that 45% of our stores are present in western part of India and balance spread across India which is largely on the eastern part, central India and some of the parts of the southern region. So, what we have seen demand are muted in all those regions. So probably we will not be able to comment on the other people those who have seen the growth, but what we are seeing is that demand is muted, although we have not seen de-growth in footfall, the demand remains muted. Secondly we had about 14% of sales which was driven from Kalpavruksha and overall on an annual basis 22% sales came from Kalpavruksha last year which is not there this year, so probably that is the one reason why we have seen a de-growth, otherwise other than the Kalpavruksha sales, we have seen the footfalls are flat and we have not seen any large impact on the sales.
- Manish Poddar:** Is it possible to quantify your market share let us say in west India and how is the market share today versus?
- Divyesh Shah:** It is difficult to get the market share other than a couple of listed companies, nobody has declared the top line numbers. Again, our presence is in limited regions right now, so with the company which has a largest presence across Pan India it is not comparable apple-to-apple.
- Manish Poddar:** How is Jewelry actually industry wide among the four regions?
- Divyesh Shah:** We will get this off-line the data is not readily available right now.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** I just wanted to check if you felt any adverse impact from higher competitive intensity in terms of some of the players dropping Making Charges and have you made any changes to your portfolio in terms of that?

- Saurav Banerjee:** Not really. I think it is a competitive market that we are all acknowledging; every company has its own strength in terms of either the geographical reach or in design differentiation and marketing strategies across companies are different. While you are right, yes, there are companies who have given a drop in Making Charges or maybe a flat discount for virtually the entire year. But then that does not come in the way I think every company is having its own strength and its own customer base. So we have not seen that because of someone else doing something, the sales of TBZ get impacted in anyway so far atleast.
- Latika Chopra:** Secondly, if you can state your expansion plans over next 2-years and how much of that would be franchise-based?
- Saurav Banerjee:** So currently, in terms of overall square feet, we are at about 98,000-99,000, we have 30 stores across the country, 29 own stores and 1 franchisee store which is the one which we have opened recently. In terms of expansion plan, the first target is to get to 1,50,000 sq.ft., so about 50,000 sq.ft. in the next 3-years and in terms of per year it is an average of say approximately 20,000 sq.ft. We will be achieving probably 75-80% through franchisee expansion and the balance through our own stores. So that is the first target that we would like to achieve and we are gearing up for that. As we have already stated, we have signed two more franchisee agreements one at Jaipur and one at Ranchi and they should be operational within 2-3month's time and then we get into the next round of franchisee partnership.
- Latika Chopra:** Would you be able to share any terms of trade with the franchisees or how easy or difficult just to find franchisees given the low gold price environment that we are in?
- Saurav Banerjee:** So in terms of finding the right franchisees, at least we have not had a major challenge, in fact, we had a very positive and strong response when we came out with advertising and when we entered the market in search of a suitable partner, thereafter we have gone through a very stringent selection process including the background checks, meetings and the interactions with the franchisee and then finally we have come down to a level where we have selected the right people whom we think that we can partner with.. Yes, it has taken a little bit of time but then that is well worth it. In terms of the modulations as far as the franchisee arrangement is concerned, the important thing to note here is that the inventory is immediately passed on to the franchisee. So it is on their books. It is a sale of inventory and they become the custodian of the inventory, they are in charge of the stores with the support and help and the training which is given by the parent company. Largely, in terms of CAPEX, on a thumb rule basis 50% borne by the franchisee, 50% by the company. In terms of advertising, marketing spend, essentially the company takes the call. In terms of payroll for the franchisee, employees are on their books. So in short, this is the contours of franchisee agreement.
- Latika Chopra:** Would most of these franchisees that you are evaluating are existing jewelers or they would be in other normal business people who would be interested in taking TBZ franchise?
- Saurav Banerjee:** No, they are not jewelers, in fact, we have preferred to deal with and we partner with non-jeweler background franchisees who are very strong in their own area of business.
- Latika Chopra:** In terms of your store expansion plans, how would the region wise breakup look like?
- Saurav Banerjee:** We are looking at all regions, there is no particular affinity or a cue for any particular region. Currently, we have opened a store in the East and we are looking at one more as I said Ranchi is in the East, Jaipur is in the West or the Northwest. So, we are looking at all these regions and wherever we find suitable partners we shall do our expansion in those markets.
- Tanmay:** This is Tanmay from Edelweiss. I wanted to understand the scenario in which now gold prices are at 5-months high and it is expected that they can trend upward going forward given the macro scenario. So how do you see the overall trend because the competitor say that whenever the price is stable, the demand is generally not increasing, but whenever there is a

movement in gold prices, the customer shows interest. So do you think since now the gold prices increasing, there can be some inch up in demand giving the customer that, yes, gold can be a better investment option going forward? This is on demand. Secondly, how can it impact the financial as well as of the company?

- Divyesh Shah:** I will probably give you reply in two parts – one will be replied by Mr. Banerjee and one will be by my end. I think what you said is correct. Based on our past experience we have always witnessed that when the Gold price starts moving upwards, it always improves the overall footfalls in all the jewelry stores and and then whenever the gold prices soften, people believe there will be a further correction. In last couple of weeks we have seen that there is some improvement in the footfalls. Since now the prices are moving up steadily, I think consumers are out in the market, trying to purchase the jewelry for the next wedding season which is in April. So we are hopeful that the demand should improve during the quarter if the gold price remains consistent or suddenly goes up.
- Saurav Banerjee:** In terms of financial impact, it remains to be seen because gold as we all know is a very volatile commodity. It is difficult to say what will be the financial impact in terms of exactly where the gold price stands because it is already aligned to the market. I do not think one can really comment on a financial impact at this point of time because the gold prices are aligned to the market.
- Moderator:** Thank you. The next question is from the line of Sandeep Patel from **(Hornbill Capital)**. Please go ahead.
- Sandeep Patel:** I had a question about lab-grown diamonds and its impact on customers right now. Could you please throw some light on that?
- Divyesh Shah:** Sandeep, I still do not see that the consumer has any kind of fear buying from a reputed jewelry brand and second there are a couple of articles which were there in India about lab-grown diamonds. But again now it is more or less people are dependent on the certification, they verify the certificate and also they give equal weightage to the brand. From consumer side, we have not seen queries or any kind of resistance regarding selling of lab-grown diamonds, or with respect to who are selling and what kind of price differentials are there. So at retail store level, we have not seen such kind of enquiry from the consumer side.
- Saurav Banerjee:** In any case, all our Jewelry is certified, so there is no question of any such doubts in any customers mind. So, we are aware that lab-grown diamonds are there but we have not seen any impact or many queries around that news item.
- Sandeep Patel:** So basically there is not enough awareness in customers right now is what you are saying and therefore there are no queries?
- Saurav Banerjee:** I may not really say that way. I think there is enough awareness, people are aware of it, we are all aware, there are enough and more articles which keep on coming in the newspapers, and discussions happen probably in people's network areas and people are aware. I would say that there is a clear customer base which says that okay, I would like to own a natural diamond which is a mined diamond and a jewelry made out of that and that is a pride of place for the customer and that is how the customer looks at it.
- Sandeep Patel:** Our understanding of this is limited as you can figure out but what I have been trying to understand is since it is difficult to differentiate between lab-grown diamonds and natural diamonds, how do you go about getting the certification done, somewhere that DBOs also finds it difficult to differentiate between them, there was an article on Bloomberg and you can query it up?
- Divyesh Shah:** First of all, largely these diamonds are popular in a bigger size, not on a smaller size. So, almost 90% of our sales largely have a diamond of size of less than 7 cents apiece. Secondly,

nowadays there are machines available, even in Mumbai that are capable of differentiating between a natural and lab-grown diamond. In BKC, there is a diamond bourse, and the biggest diamond trading center building is there, where these machines are available. So, anyone who is buying diamond can verify the diamonds from these machines. Also, a couple of the machines capable enough to certify the diamond, whether it is a lab-made or it is a natural diamond. But as far as we are concerned, , we are only dealing with reputed DTC site holders in India for sourcing of diamonds, we are not dealing with local small time traders and we get certificate along with each of the diamond packets that it is natural. They are following guidelines prescribed by DTC which have been issued to each of the DTC site holder. So we have restricted our sourcing of diamonds from only reputed DTC site holders. Also, nowadays machines are available. So I do not see that it is going to increase significantly unless if you have a intention of doing it.

**Sandeep Patel:** There were some articles that we read where people who were mentioning lab-grown diamonds being packed along with natural diamonds.

**Divyesh Shah:** Unethical practices we have seen in many places, like if you look at the World Gold Council's couple of newsletters, where they said 60-70% of jewelry in India that jewelers are selling is not pure or not 22 carat also. So we have seen this from ages. So in fact, that is the strength that the TBZ brand has that in terms of trustworthiness and how we source and how we place the product to the consumers. In fact a consumer cannot even identify the difference between a cubic zirconia and a diamond. So if somebody wanted to take unethical route, then they probably can do it anytime, they do not have to wait for lab-grown diamonds to do it.

**Sandeep Patel:** On the Gold Jewelry demand, could you throw a little more light about consumer insight currently and what you are seeing across the regions, is there a wide variation across states?

**Divyesh Shah:** Except Andhra Pradesh, we have seen the Gold demand is pretty flat; Andhra we have seen some sort of negative sentiments, especially after the state was divided between Andhra Pradesh and Telangana. We have three stores which is about 12% sales out of our total sales. Otherwise, more or less the demand is flat, but we believe that with the gold price steadily going up, it will naturally improve the demand and which will help us to improve the sales of the gold jewelry.

**Sandeep Patel:** Are you likely to change your product mix or ticket size as in we currently have a slight degrowth of 4% at a like-to-like store level, so how would you correct this, what kind of levers do you have to overcome this?

**Divyesh Shah:** The moment we say value wise 4% degrowth, but volume wise it is almost flat. The gold price of the last year and this year has been degrown by 4% for the Q3 weighted average. So volume wise we have not seen the degrowth but there are various levers and probably one is of course Kalpavruskha because if you look at my earlier Kalpavruksha sale, where average consumer used to pay Rs.9,000 installment per month and for ten installments, the total value was Rs.90,000 plus bonus it was about a lakh rupee and they used to purchase about 50% more than the given amount. So my average bill value for Kalpavruksha account was Rs.1,50,000. So this year in absence of those transactions, my average bill value has been going down; so if you see in gold my average bill value has gone down from 82,000 to 79,000 and in diamond from 1,44,000 to 1,35,000. I believe that now that the redemption has started in Q4. So we will see that uptick on the ticket size.

**Sandeep Patel:** Is there a change in the returns implied IRR that the customer makes in the revised Kalpavruksha Scheme or is it the same?

**Divyesh Shah:** We are following all the changes in the rules. So it is 9-months Scheme which is going to complete in 10-months. So we are not going to cross 360-days.

**Sandeep Patel:** It will be one bonus?

- Divyesh Shah:** 75% of the one installment.
- Sandeep Patel:** The returns would be lower. In terms of new additions for Kalpavruksha are you seeing increased additions?
- Divyesh Shah:** Yes, every month we have seen there is a month-over-month growth of 5% in terms of the new customer acquire rate. So we find that it is improving and probably it is going to further improve since this plan has become popular and a lot of redemption has also started by people and those who are redeeming they are again re-entering into the new contract in Kalpavruksha. So, I think it is a very positive move and will help us to grow the numbers for the next year.
- Moderator:** Thank you. The next question is from the line of Aditya Iyer from Dimensional Securities. Please go ahead.
- Aditya Iyer:** Wanted to just know for the industry understanding, you mentioned a tie up with Snapdeal on your presentation. So I wanted to know what kind of business traction are you getting via the e-Commerce route?
- Divyesh Shah:** Going on Snapdeal was a strategic call to reach to a larger target audience who are young and who are addicted to buy on e-Commerce probably because of the largest marketplace which is available right now. So we believe that our presence will help us to increase our brand reach to the largest target audience. It is too early to comment on the top line, but probably we are also tying up with another two market players, trying to increase our reach across Pan India. So in coming few of the quarters probably we will be able to comment that how the e-Commerce is progressing in terms of generating top line for us.
- Aditya Iyer:** Would this be the same SKUS which have sold in your stores and franchisees or would they be like different SKUs?
- Divyesh Shah:** No, here the SKU price point has been restricted up to Rs.2 lakhs. So we are selling only gifting and casual jewelry and that of course in diamond.
- Aditya Iyer:** So that will be like higher margin products?
- Divyesh Shah:** Yes.
- Aditya Iyer:** Given that you will be adding about two franchisees in this quarter or the next quarter, what would be the one-time inventory sales that you would get in this quarter because of adding these two franchisee stores?
- Divyesh Shah:** Largely, we are opening on an average about 3,000 sq.ft. stores for the company and a similar kind of store size we are looking for the franchisee, but again the inventory mix depends on each of the markets and the opportunity. So probably right now we will not be in a position to give you the exact numbers, but probably we can take it offline.
- Moderator:** Thank you. The next question is from the line of Khadija Mantri from Dalal & Broacha. Please go ahead.
- Khadija Mantri:** Sir, your presentation states that the inventory level was within control as of December 2015 because the new stores that was opened was on franchise basis. So just want to understand how does arrangement work if you can just explain a bit more?
- Saurav Banerjee:** If you recollect just a short while back I had mentioned that it is an asset light model for us. So what it means is that the inventory as required for that market is sold off to the franchisee in the first instance. So whatever is the right optimal inventory level is decided and then the



franchisee does 100% advance remittance to us and then the inventory is sold off to them and from then onwards obviously it becomes their asset. So that is essentially the model on which the franchisee is working.

- Khadija Mantri:** Is this a model followed across the industry?
- Saurav Banerjee:** This is one of the most popular models across the industry. But this is not the only model, there are other models also which some of the companies are using.
- Moderator:** Thank you. The next question is from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.
- Keyur Pandya:** Just wanted to understand, when we look at your inventory breakup, 42% is in Diamond and the price of Diamond is very volatile. So what is the business risk as far as volatility in Diamond price is concerned?
- Saurav Banerjee:** I think as I mentioned in my couple of earlier replies that we are generally selling smaller size diamond where prices have low volatility.. For past many years we have been dealing in these sizes and we have not seen large amount of volatility in prices of this category of diamonds. Largely, the prices are volatile in the larger sizes of diamond which we call as Solitaire. The portion Solitaire sales is very small out of the overall sales of the diamond jewellery, so the impact is insignificant.
- Moderator:** Thank you, sir. There are no further questions. Now, I hand over the floor to Mr. Nilesh Dalvi for closing comments. Please go ahead, sir.
- Nilesh Dalvi:** Thank you, everyone for joining us for today's call. In case of any further questions you can reach us at [nilesh.dalvi@dickensonir.com](mailto:nilesh.dalvi@dickensonir.com) or else you can also get in touch with the company people.
- Moderator:** Thank you, sir. Ladies and Gentlemen, on behalf of Dickenson Seagull IR we conclude this conference call. Thank you for joining us. You may now disconnect your lines.