



“Q1 FY14 Results Conference Call of TBZ”

12th August 2013

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



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Moderator: Good day, ladies and gentlemen. I am Yogesh Sharma, the moderator of this call. Thank you for standing by and welcome to the Q1FY14 Results Conference Call of Tribhovandas Bhimji Zaveri Limited organized by the Dickenson Seagull IR. For the duration of presentation, all participants' lines will be in listen-only mode and we have a Q&A session after the presentation. Now, I would like to hand over the conference to Mr. Nilesh Dalvi. Over to you, sir. Thank you.

Nilesh Dalvi: Thank you, Yogesh. On behalf of Dickenson Seagull IR, let me welcome you all to the earnings call of Tribhovandas Bhimji Zaveri for the first quarter of financial year FY14. Today we have with us the management led by Mr. Shrikant Zaveri, Chairman and Managing Director; Mr. Prem Hinduja, Chief Executive Officer; and Mr. Devesh Shah, Head Retail Business. I hope all of you have received the results presentation. In case not received, the presentation has been uploaded on the company website. With this, I would now like to hand over the call to Mr. Shrikant Zaveri. Over to you, sir.

Shrikant Zaveri: Dear friends, I would like to thank everyone for taking time out and joining us for the First Quarter FY14 Results Conference Call. First quarter of FY14 was a strong quarter for TBZ despite difficult macro economic conditions and rising gold import duties. The decline in gold prices and good wedding season led to significant increase in overall jewelry volumes. Strong performance at existing as well as new stores resulted in 88.8% year-over-year increase in revenue to Rs. 535 crores and 27.7% year-over-year increase in PAT to Rs. 21 crores.

Coming to the jewelry industry environment, the uncertain regulatory environment continues to remain an overhang. In order to address the high current account deficit, the government and the RBI have been taking various measures to reduce the gold imports in India. The recent RBI circular on 22nd July 2013 mandating at least 20% exports out of the total gold import in India. It is expected to pose a challenge for the industry to source its gold requirements. Given the global economic conditions, increasing the overall export from around 7% in the last year to 20% as mandated would be a challenging task.

TBZ continues to remain proactive in understanding these issues. We are currently revising various measures to secure our gold requirements. Around 26% of our sales constitute of exchange of old

jewelry. We shall try to incentivize our customers to bring their old jewelry for exchange. TBZ continues to remain focused on its expansion plans. We have already identified locations for our upcoming source and also have signed the LOI for the same. We maintain a positive outlook for FY14. The company shall continue to remain a strong wedding focal jeweller and stimulate the consumer demand through innovative designs and various tactical offers. The higher number of wedding days, launch of new collections and designs would further help drive the volumes and margins. With this, I would now like to hand over the call to Mr. Prem Hinduja, our CEO, to brief you of the operational highlights for the quarter. Thank you.

Prem Hinduja:

Thank you, Chairman sir, and good afternoon, friends. Let me just briefly run you through the operational highlights of the company for the first quarter. As you know the first quarter results, which have already been declared, the income from operations is 535 crores vis-à-vis on Y-o-Y basis as compared to last year where it was 283 crores has grown by a robust 89%. The EBITDA has 40 crores and grown by 40% over 28 crores for the corresponding period last year. The profit after tax has 21 crores as compared to 16 crores for the corresponding period last year have grown by over 28%.

Coming to the balance sheet, the net worth has increased from 410 crores. This is the comparison with 31st March 2013 to 431 crores at the end of Q1 which is basically the addition of profit of 21 crores. The loan funds have marginally increased from 414 crores to 432 crores. Of course, loan funds also include gold only and other long-term liabilities have increased from 6 crores to 12 crores.

Coming to the application of funds, the gross block which was 110 crores have grown to 113 crores, a marginal increase. And the net block is remaining the same at 88 crores. As far as the current assets, the inventories, they are more or less slightly increased from 1027 crores to 1064 crores. The short-term loans and advances have grown from 13 crores to 15 crores. And the current liabilities have grown from 350 crores to 386 crores driven primarily by increase in corpus of the Kalpavruksha plan and also advance from customers.

Now, to just give you an insight as to the margin analysis, the gross margin on gold jewelry was 12% for this quarter, I am rounding off, as compared to 14% for the corresponding quarter last year. Diamond jewelry was 34% as compared to 39%, but again 34% in the trailing quarter. The blended margin was 10% as compared to

19% for the trailing quarter and 20% for the corresponding quarter last year.

As far as the expenses are concerned, the salaries were 3.2% to the top line, more or less the same as compared to the corresponding quarter last year. The advertisement is also 2.5% vis-à-vis 2.4% for the corresponding quarter last year, more or less the same. Rentals, 0.9% as compared to 0.8%. And other overheads at 2.2% as compared to 2.5%, which has come down slightly by 0.3% as compared to the corresponding quarter last year.

The EBITDA margins have come down to 7.5% as compared to 10%, primarily because this blended margin has come down. Now, the blended margin has come down basically because the sales mix has changed between the gold and diamond ratio, which was typically a 75:25. For this quarter, it's 80:20 driven largely by the fall in gold prices. The income from operations during FY14 first quarter increased by 89% primarily due to addition of 12 new showrooms between June 2012 and April 2013. High jewelry sales volumes across all 26 showrooms due to the combination in gold prices in April 2013 and presence of auspicious days like Akshaya Tritiya, Guru Prushya and Gudi Padwa during the quarter.

Income from operations during Q1 FY14 increased by 19.7% Q-o-Q primarily due to addition of one new showroom in April 2013, higher jewelry sales volumes as mentioned above. Gross margin during Q1 decreased by 410 basis points Y-o-Y and 300 basis Q-o-Q primarily due to gold-diamond ratio, which I mentioned a few minutes back, went down to 80:20 as compared to 76:24 during the corresponding quarter last year. Change in gold jewelry product sales mix; however, the gold jewelry gross margins of 12% continues to be the average margin of about 11% which we had always been advocating. Incentivization of diamond jewelry sales, given a weak consumer demand, led to a slight – a very, very marginal debt in the gross margin of diamond from 35% to 34%.

Other expenses during the first quarter increased by 53% Y-o-Y and 32% Q-o-Q primarily due to an extensive increase by 4.8 crores Y-o-Y and 2.9 crores Q-o-Q driven largely by nation-wide presence across 20 cities versus 10 cities during first quarter of FY13. However, the adv ratio as a percentage of sales remained stable. Rent expenses increased by 1.75 crores Y-o-Y and 0.12 crores Q-o-Q driven by opening of 12 new showrooms; however, the rent as a percentage of sales remained stable.

To analyse briefly on the balance sheet, total loan funds increased in line with the increase in overall inventory; however, the interest expense during Q1 of FY14 remains stable compared to Q4 of FY13. Gold on lease has been classified as loan funds as for prudent accounting practices which we have been following in the past also leading to increase in loan funds at the end of the year. 50% of gold inventory is on lease which is about 251 crores excluding making charges and overheads.

Inventory build-up was slightly increased as compared to 31st March due to inventory build-up for the upcoming showrooms. The KP scheme advances on account of Kalpavruksha scheme increased by 11% from 97 crores at March 2013 to 109 crores at June 2013.

The outlook for FY14. With the successful completion of the first year of expansion, TBZ would continue expanding into new regions across India in FY14. The company shall continue to stimulate the consumer demands through innovative designs and various tactical offers to counter the general economic sluggishness. The wedding segment is expected to show improved performance in FY14 driven by a higher number of wedding days, 74 days versus 49 days in FY13 and auspicious days which will last till end of June 2014 highest in the last decade. And lastly but not the least, launch of new collections and designs would further drive volume and margin expansion. Thank you friends. Now, I leave the floor open for Q&A.

Moderator: Sure, sir. At this time, I request all the attendees, if you wish to ask any question, please press “0” “1” on your telephone keypad and wait for your name to be announced. I request all the attendees, if you wish to ask any question, please press “0” and “1” on your telephone keypad and wait for your name to be announced. We have a first question from Mr. Bisar Shah from Lucky Investments. Sir, your line is unmuted. You can ask your question. Thank you.

Bisar Shah: Thank you for taking my question, sir. First one would be what would have been the same store sales growth in value and volume terms for your stores which would have existed for more than a year?

Prem Hinduja: Hi. Like, in FY12 we had 14 stores and if you look at the same store, sales growth was 14 crores. And overall gold has grown by 43% in volume and 34% in value, where diamond jewelry has grown by 1% in volume and 8% in value. And average 29% value growth we have seen on the same store.

Bisar Shah: So you said 34% on the same store sales, right?

- Prem Hinduja:** Value-wise and volume-wise 43%.
- Bisar Shah:** Yeah, volume-wise, 43%. Sir, my question was like this, like, you know, your blended margins have gone down because gold percentage and overall sales has gone up, but with top line almost doubling, you don't seem to have got any significant economical scale on your salaries or advertisements or any other overhead. So how do we, you know, kind of understand that?
- Prem Hinduja:** The reason is very simple because to get to the economies of scale, the new stores, if you see, most of the stores have come in the end of last year. In fact, if you really go to see, post March we have opened four stores including one store which had opened in April onwards. However, we advocate and we keep on saying that our breakeven at the store level is 6 to 8 months. So none of these stores has really reached a break-even level as such. So by the time they scale up and secondly most of the stores having opened in the back end of last year when they did not really see the festive season and the marriage season which was already over, the real impact will be seen only when the year is over and then they had operated for at least one year. All the new stores have operated at least for one full year. Then we will see the economies of scale really kicking in.
- Bisar Shah:** Okay. Okay. Right, sir. I will come back, if I have more question. Thank you.
- Moderator:** Thank you very much, Mr. Hisar Shah. The next question we have from Mr. Jaisinh Suchak from JM Financial. Sir, your line is open. You can ask your question. Thank you.
- Jaisinh Suchak:** Good afternoon. Congratulations on strong revenue growth. Couple of questions. One is on the fact that the store expansion which you have spoken about in terms of 42 stores by FY14 and 57 on FY15 we still are on track for that or is there any change on that perspective?
- Prem Hinduja:** See, as far as the expansion strategy is concerned, the company has already committed that we will be expanding. Our expansion strategy is on track. There may be a tweaking of timing here or there, but we are committed to opening 47 stores in 3 years' time as we had promised with a pan-India presence in 11 states and 43 cities. So we are not holding back on our expansion strategy and that will continue what we had advocated and promised earlier. And, obviously, all new showrooms for which the Chairman mentioned in his speech.

LOI has been signed and the work is in full swing. You will see them in operation very soon.

Jaisinh Suchak: Sure. Secondly, you know, the recent initiative by the Trade Federation in terms of curb on sales of the gold coins and bars, which I believe, constitute close to 12% of our sales. So on first quarter also we had about, you know, for the rest of FY14, you know, whenever the curb is reversed, how do we see that impacting? I know they are low margin, but in terms of revenue how do you see that impacting the performance?

Prem Hinduja: See, let me give you a perspective that all the reputed jewelry companies and the single jewelry owner shop all have stopped selling gold coins. And what we have seen, those who used to buy gold coins earlier for their future purchases they are more and more converting into a jewelry sales. So that is what we have seen. In July, the trend was that even though the gold coin sale was almost like negligible, but still people have bought more and more jewelry. So I believe it's a more positive trend. If the gold coin is not available at closer places, then people will invest the same money in gold jewelry which might be a lower-making charges product, but that will indirectly result to improve your margins.

Jaisinh Suchak: Okay. Thirdly, just coming to my next question on that. How is July seen as a month year-on-year if we compare with the gold prices now, you know, more or less, like, out of that sharp fall in April? So how is July looking year-on-year in terms of the gold-diamond mix or in terms of the volume performance?

Prem Hinduja: See, overall the sentiments are positive compared to last year. Like, we are still seeing that there is an uplift of gold jewelry after the price correction has been taken place in the month of April. So still demand has no slowdown. I believe that is anything more than that probably I will not be able to talk about the second Q performance.

Jaisinh Suchak: Okay. And just one more thing that, you know, you had mentioned in the opening remarks that with the last circular of RBI you need to have a 20% export in terms of getting the import side and this is 7% last year. And one of the initiatives you just spoke about was the gold exchange that you encourage and supervise that. You know, any other measures being taken by in terms of because we are a pure domestic retail business to ensure that our supply of gold is not impacted?

Prem Hinduja: I will give you a brief about what measures the company is taking to overcome the challenges. Of course, we all know that the recent RBI

circular has put a restriction of obligation on 20% export. And that thing is really going to impact the supply chain. Now, fortunately for us, although we are not in the export segment, we have about 26% of the jewelry which comes old jewelry while we have exchanged, so which has a very, very good means of sourcing our raw material requirement, which we will try and increase by incentivizing. Secondly, what we proposed to do is that earlier we never used to buy back jewelry by payment of cash. We used to encourage customers to only exchange jewelry. Now, we have come out with the measurement that we are paying them upfront the prevailing rate and all that and also really buying the old jewelry from them. So that would also increase the supply for us.

And, thirdly, and the most important thing, we are in top currently with various PSU banks, some of them very major banks, I would not name them, who are holding huge gold deposits with them, you know, collected from the temples and various other trusts. And they have promised us and they are looking favourably at the option of giving us a gold on the same basis that we keep on getting our gold on lease. So these are the various options which you think the managements are exploring to how to overcome this challenge in the near future for the supply chain.

Jaisinh Suchak: Thank you so much. Wish you all the best.

Moderator: Thank you, Mr. Suchak. The next question we have from Mr. Abneesh Roy from Edelweiss. Sir, your line is opened. You can ask your question. Thank you.

Abneesh Roy: Hi, sir. Congrats on the good sales performance. Sir, my first question is on the gross margins and both diamond and gold we have seen dipped-in margins. So if you could explain in gold especially how much was the dipped-in margins because of gold price corrections or gold making charge, what has been the formula? And diamond, in spite of the making charge, not being charged which I understand was the scheme you are offering, the diamond sales do not seem to have been strong. So are we still continuing with the scheme on diamond sales?

Prem Hinduja: I will answer your question separately both on the gold and the diamond segments. If you see on the gold, we had nearly touched the gross margin of 12%. But if you see our previous presentations also, we have always been advocating that our gross operating margin on gold is 10 to 11%, so it is within the norms and all that. And when you make about 13-14%, those are some abnormal periods, but otherwise, we have been saying that 11 to 12% on gold and about 34

to 35% on diamonds. So it isn't keeping the tune. As far as your second question on KY, the gross margin – Okay, let me complete the first one. If you ask about making charges, see as far as the making charges is concerned, I mean, we have been mentioning and we continue doing so today that our making charges or the percentages of the price of gold making charge to the customer with a floor of 10% on downside which we correct or keep on reviewing from quarter-on-quarter basis and that was very much in place. So that was not really the reason for the squeeze in the gross margins. Again, coming to the making charges which we pay to our [inaudible] which is a cost which is more in the nature of a semi-variable cost because certain portion of it is fixed and certain portion is variable. So that really has been very much impacting the gross margin.

Now, coming to the diamond front. You see we did have some tactical offers in certain places, which was mentioned in our speech also, if we try to incentivize to increase a diamond portion. And this is when we notice that because of the correction of the price of gold, the demand was getting most screwed in favour of gold. So we took over some measures to uplift the demand for diamonds. And that's why there is a slight dip from 35% to about 34% in the gross margin of diamonds. Now, answering your second question, see, typically we do diamond promotion every second quarter. And this year also we did certain portion of the places we did in the first quarter. And the balance which were not in the first quarter, it will be taken up in the second quarter which is nothing unusual because we keep on bringing from year-to-year. And second quarter, as everyone knows, is a weak quarter for this industry. So one has to take various other measures to put down the sales.

Abneesh Roy: Sir, you have been expanding a lot. If I see your quarter-on-quarter sales growth, it's around 20%, but if you see the largest retailer in India, they have seen close to 24 to 25% quarter-on-quarter sales growth in the jewelry business. So, in spite of, maybe, expanding faster, why we are seeing a growth lower than number one player?

Prem Hinduja: See, it was again the same store like-to-like growth is 29% and quarter-on-quarter because we have added five stores in the Q4 where initially first 15 days to 20 days you find the exhibition impact, where the sales have always been higher. When you open up a new store in the newer city, people are more curious to come and buy in the initial first 15-20 days. So you might have seen that impact was there in the Q4 and that impact will rationalize in Q1 because Q1 we have not in any of the store. So I believe that is not about like how we are expanding faster and probably loosing the

rate. I believe that initially any of the month or any of the quarter when you open up more stores that initial exhibition or curiosity sales will see a larger positive trend on the first month, you know.

Abneesh Roy: Sir, my next question is on your cost front, your employee cost quarter-on-quarter has fallen from 19 crores to 17 crores in spite of expanding further. So, is the element of incentive also built in the employee cost?

Prem Hinduja: Yeah, we do have an element of incentive in the employee cost because certain portion has fixed template and certain portion is by way of incentive and the targets are given in volumes. So only if they achieve all the volumes, then the incentive is given.

Abneesh Roy: So, that's the reason for the fall quarter-on-quarter?

Prem Hinduja: Partly that but partly also I would say that it would answer the question which was asked by learned friend of mine that whether the economies of scale have kicked in. Yes, partly, they have kicked in, which is seen from this fall in the payroll cost.

Abneesh roy: And sir other expenditure.

Prem Hinduja: Salary cost don't go up in the same proportion as the expansion takes place

Abneesh Roy: Well, sir, I am not talking about percentage of sales. I am talking about absolute number. 19 crores quarter-on-quarter, it is down to 17 crores. I am not talking about percentage of sales.

Prem Hinduja: Yeah, yeah. So that's what I said. In the incentive, last portion is because of the incentives.

Abneesh Roy: Sir, other expenditure, sharp jump largely because ad spend?

Prem Hinduja: Yeah, ad spend are rental cost. We added so many new stores if you see and compared to corresponding quarter of last year there were 12 new stores, so the rental cost of 12 new stores. And even if you have to compare with the selling quarter, we set up three stores in the trailing quarter and one store in the current quarter. Now in the trailing quarter that three stores that literally impact was not there for the full quarter because they opened basically. In fact, four stores were set up in the trailing quarter. The impact was more towards the close of the quarter, so the whole impact is not there. Now, having seen the impact, the whole impact of the rental in this quarter, that's why you see there is increase in rental expenditure.

Abneesh Roy: Sir, my last question is on the forging of gold. You mentioned that you are working with PSU banks. My question was regarding the recent RBI change once again in the 20:80 rule. What assurance you are getting from the banks and trading house? When do you expect them to start doing business? And what is the stumbling block now? Is it that banks do not want to do too much because of the RBI pressure here because RBI regulation when commentary came it was clear that they want action ASAP but now a lot of these are gone but nothing has happened?

Prem Hinduja: See, basically, as far as TBZ is concerned, we are continually getting our gold as of today. And if you see our requirement as such, you know, it is very, very miniscule as compared to the industry requirement. Our requirement in a full year will be about four to six tonnes. So, getting the source of gold will not really be a challenge. Now, even if you are talking about banks, you know, who are importing gold from whomever taking on lease and all of that, to be very frank with you, as of date, I am still sourcing gold from them and getting them. Now whether they are importing or not importing, I mean that is what they must be doing, I really don't know. But going forward, I just mentioned to you the measures which we have in mind even supposing tomorrow there was some entrance in this back importing gold and all that. We are keeping our other avenues open outsourcing it domestically, which is one by way of exchange scheme, exchange of old jewellery, buying old jewellery and also tapping the banks who are holding huge gold deposits, which are nothing but source to internally.

Abneesh Roy: Sir, one last follow-on. You said, you will be incentivising the old jewellery. So, in that, how do you see impact on margins there?

Prem Hinduja: See, today whether the gold comes under exchange we deduct 5% as the service charge. And probably we will put some sort of leverage on that, so instead of 5 we might deduct only 2% but operation and gross margin will not get impacted because of that, you know. Like operation and gross margin will remain same. The only thing is like, today if I am procuring my gold under exchange which is 5% lower than the current market price, probably it will be 2 or 3% lower than the current market price in the future.

Abneesh Roy: Okay sir, thanks for the opportunity and all the best, sir.

Moderator: Thank you very much, Mr. Roy. The next question we have from Mr. Pranab Mehta from ValueQuest. Sir, your line is unmuted. You can go ahead and ask your question. Thank you.

Pranab Mehta: Sir, I would like to ask, the performance of the new stores, has it been, you know, as much as earlier because if I do back up the envelope I think, you know, run rate of the new stores would be probably slightly lower than, you know, what it was last year?

Prem Hinduja: Last year, all the 12 new stores, we added in different month, majority of them came in the second half. And so, probably any of the specific sales or if you do any other because the seasonal impacts are also there. Like, suppose third quarter is almost 30 to 33% of the annual sales, you know, 800. So, in that case, I believe the first quarter the performance of the all 12 stores are breaking as per the expectation and typically, you know, cash break-even, we make it six to eight months for any of the new stores. So, all the new stores, if we have added in Q4 of the last financial year, probably we will meet the cash break-even in the next couple of months. So probably all the stores will show that performance again.

Pranab Mehta: Okay. So, it is as per the trend. We don't expect the cash break-even or the break-even to get postponed.

Prem Hinduja: Correct.

Pranab Mehta: Okay, sir. Thank you.

Moderator: Thank you very much, Mr. Mehta. The next question we have from Mehak Shah from Enam Holdings. Ma'am, your line is open. You can go ahead and ask your question. Thank you.

Mehak Shah: Hi, this is Mehak Shah over here. Just a couple of questions. My first question is, any change in your strategy in terms of acquiring gold from, you know, in terms of gold on lease, you know, one of the things I have noticed is that on a Q-o-Q basis your gold on loan has gone up, 251 crores. So, you know, given all the uncertainty, do you believe that, you know, you had a target of being 100% gold on lease over two or three years timeframe? Has there been any change in that thought process?

Prem Hinduja: Actually there is no change. In fact, you know, even when the circular of RBI came on June 4 and we said 100% cash margin will be required and all that for the import even after that, you know. And we came out with a statement, at that point of time that the circular it does not really apply to us. We kept on sourcing our gold on lease from Nova Scotia and that continues even as of today. So, going forward also, there is no change in strategy or no this thing. We will continue doing so. And as I mentioned a few minutes back that even

when we are tapping some PSU banks and all that to source to us from their domestic deposit, that also, they will be giving on lease basis only where I will be providing them an [inaudible] [0:35:56] of some other bank. And they will be giving me the gold on lease.

Nihash Shah: Sure. So, essentially over the next one or two-year period, we should be seeing that the gold on loan has a percentage of total, sort of, gold on your inventory should be increasing going forward. Is that correct?

Prem Hinduja: Yeah, that's right.

Mehak Shah: Great. You know, my second question is on the gold margins. You know, they have come down both on the Q-o-Q and on a year-on-year basis. Has there been any, sort of, you know – because of the gold that you did not have on loan basis you used to sort of do the accounting for it on a weighted average basis. Has there been any, sort of, impact of the fall in gold prices that, you know, sort of impacted the margins besides that just, of course, you know, the change didn't make sense, and sort of the other factors?

Prem Hinduja: See, that may have impacted but very marginally. The major impact has come in the margin of gold prices. It's basically because of the change in the sales mix. And let me reiterate that we have always been advocating that our operating gross margin on gold is 10 to 11% and little [inaudible] [0:37:10].

Mehak Shah: Great. That's all from my side. Thank you so much.

Moderator: Thank you, Mr. Shah. The next question we have is from Mr. Amnish Aggarwal from Prabhudas Lilladher. Your line is unmuted. You can go ahead and ask your question. Thank you.

Amnish Aggarwal: Sir, I have a couple of questions. My first question is that as we are on 50% of gold, which is there in our stores. So, is there any impact of the decline in the gold prices and consequentially the inventory evaluation in this quarter?

Prem Hinduja: No. As I answered this question a few minutes back, the impact, if any, would be very, very minimal because we are following the weighted average method of inventory. So, that would not be really very significant.

Amnish Aggarwal: Okay. But if the gold price is sustained at the current level, so do you think by the year-end this could be a meaningful number?

Prem Hinduja: Sorry, I did not get your question.

Amnish Aggarwal: If the gold prices remain where they are now, okay, so by the end of the year, would we be having any loss on the inventory?

Prem Hinduja: No, not certainly because if the gold price remains the same, then the question of any loss or gain is not there at all. And again, you know, our purpose and our endeavour is to keep on increasing the proportion of gold on lease. So, this you are saying 50%, you know, our endeavour would be to more than this percentage upon inventory as much as possible and bring in gold on lease to the maximum extent possible.

And again one cannot really predict what the price is going to be, of course, whether it's going to be constant, whether it's going to go up or whether it's going to go down. We really don't look at those issues and at the same time also we try and do our natural hedging, which we were doing even when we owned the inventory. We used to do natural hedging by buying and selling on the same day. Even today we are continuing the same formula and going forward also we will be doing that.

Amnish Aggarwal: Okay. My second question is regarding the recent RBI regulations on the gold import. Sir, given the backdrop, I think part of the question you have already answered but you say, if you look at say Q2, now as we understand that at the end of the July month when the regulation came into effect, there was literally no import taking place. And currently from where the gold is being sourced by TBZ and even that the regulations remain like what they are now, what is going to be the strategy of the company in sourcing gold?

Prem Hinduja: Even after the gold import has been stopped, I'm still sourcing from Nova Scotia, which I mentioned a few minutes back. As of now also, all the quantities are much less because this is a weak quarter but I am still getting from them.

And to answer the second question, part of your question, this becomes a real challenge that imports stop altogether and [inaudible] [0:40:19] taking place. Then I mentioned that as we are banking upon other avenues which I just mentioned that increasing the sourcing of domestic gold from exchange scheme incentivising and buying old gold directly, and thirdly is also by tapping the banks for holding gold deposits with them. And again, my requirement being not very huge between 4 to 5 tonnes in a year of which one-quarter, more than one-quarter has already gone, we are pretty confident that we will be able to source our gold often.

Amnish Aggarwal: Okay. Sir, for example, you are referring to the gold deposit which the banks are having, okay, so, are you aware of what quantum of gold deposits these banks are holding? And another point to that is that you mentioned the gold held by the temple trust and all those, temple et cetera. So, are those people willing actually to give gold for sales in return by getting some minimum returns?

Prem Hinduja: See, basically, actually, both of them are linked in the sense that I do not source from the temple trust directly. It is these banks who have already sourced this gold, they have taken on deposit because these banks who are allowed by RBI long back to take gold on deposit. So, this gold from the temple and temple trust is already lying with this PSU bank who in return will be offering this gold to me on deposit or purchase.

Amnish Aggarwal: But, sir, are you aware of how much is the total tonnage of the temple?

Prem Hinduja: They are huge. I do not know how much is this but it is huge.

Amnish Aggarwal: Okay. And it is already with the bank?

Prem Hinduja: Yeah, it's already with the bank because only recently the RBI made it more favourable otherwise the gold deposit scheme has been there for a very, very long time.

Amnish Aggarwal: Yeah. Sir, that we are aware but as for my understanding at least from the retail investors the response to gold deposit schemes has been very good.

Prem Hinduja: No. That is with the retail investors but not with the banks. The banks have put the response.

Amnish Aggarwal: Okay. And sir, in this regard also, if the cap imposed by RBI that is the banks are having say, 100 kgs of gold sourced to this gold deposits, how much they can give to the jewellery industry out of that?

Prem Hinduja: No. I am not aware about it.

Amnish Aggarwal: Okay, sir. As per your understanding, if they are having 100 kgs, they can give 100kgs?

Prem Hinduja: Yes, that is my understanding.

Amnish Aggarwal: Okay, sir. Thanks a lot.

Moderator: Thank you very much, Mr. Aggarwal. The next question we have from Mr. Avi Mehta from IIFL. Sir, your line is unmuted. You can go ahead and ask your question. Thank you.

Avi Mehta: Thanks for taking my question. Just three questions. One, you know, given our present gold import guidelines, are you seeing on the ground requirement in terms of taking charges?

Divyesh Shah: Hello? Avi, hi, this is Divyesh Shah. Can you repeat the question? Your voice is breaking.

Avi Mehta: Sorry. So, what I am trying to understand is, you know, after this new gold import guidelines, you know, which the RBI has mandated and you know, early... it suggests that, you know, others have to pay a higher premium. Are we are still getting the old gold on lease?

Divyesh Shah: You know, Avi, I don't think so like that it will be a level playing, you know, for all of us whether organised or unorganised. On the contrary, probably I would rather say that we will have more benefits when we are still sourcing from the banks. So probably we will get at the much – will not be effective with the premium which is running in the local market, you know, to source the gold for someone as well. So, probably the organised place will get more benefit because they will get at the current international rate and whatever the exchange on the same day and lending price where the market premium or probably how the local units are sourcing, it will be more expensive than the organised there.

Avi Mehta: Correct, okay, okay. That was exactly what I was alluding to. So, have you noticed that already on the ground in terms of them?

Divyesh Shah: Yes, likely. Today whatever we are sourcing from the bank, market, local market is running about Rs. 650 to Rs. 750 premium, ten times, you know. So, that difference is already in the market.

Avi Mehta: Okay. Sir, secondly, you know, I did not get – just a book-keeping one, you said the diamond, what was the volume growth, sir, on the same store sales basis?

Divyesh Shah: See, same store values have grown by 8% in diamond.

Avi Mehta: And volume wise, sir?

Divyesh Shah: 1%.

Avi Mehta: And sir, how was the number in the fourth quarter, sir, if you could share that number?

Divyesh Shah: Sorry?

Avi Mehta: In volume and value, how was the number in the fourth quarter, sir?

Divyesh Shah: In the fourth quarter, and Q1 is like, 6 to 7% - We have done 7% higher than the fourth quarter.

Avi Mehta: So, fourth quarter, the volume growth in diamond was about 6 to 7% and now it is 1%. Okay. That's why you have started the promotional scheme.

Divyesh Shah: Correct. Now, see, typically, if you see like since the price has been corrected, the people are more focused on buying gold and gold and gold, and you have seen that 43% volume of the same store has grown especially in Q1. So, we will always endeavour to increase the diamond sales and we wanted to maintain the ratio of 75:25. So, the gold doesn't require any promotion. Why is that? Because people are buying gold more and more because the price has been corrected. So, we are trying to push more and more diamond and from 25, we have restricted our ratio to 80:20, which was the fall of only 20%. Compared to the industry, if you look at, the fall is much larger than what we have expected, you know.

Avi Mehta: Fair enough, sir. Now, I understand. And sir, lastly, you know, more on the gold sourcing and inventory on gold on lease, one thing I was not clear. You said when you are trying to incentivise customer buy backs and the way you would love to do that is probably, you know, tinker with the exchange cut that you know you typically charge, the 5% service charge. If you do that, sir, logically your margin should be impacted because that was earlier, you know, flowing through gross margins. Am I missing something, sir?

Divyesh Shah: No. See, today if you look at like what I was convincing that okay 5%, we used to charge service charges when somebody wanted to exchange their jewelry or upgrade their jewelry to TBZ jewelry. And we are planning to incentivise by 2% to 3% more value if you wanted to exchange it in the future. That is one of the keys, which you wanted to. But at the same time, if you look at the market premium is much higher than this 2% to 3%. So, my selling price will compensate 2% to 3%. If you do a mathematical calculation, probably it will remain flat, you know.

- Avi Mehta:** Okay, sir. I think I will just come back on that one. And lastly, sir, on the inventory share on gold by lease. Currently, you know, we have moved forward to 50% from almost 45% that you were earlier. So, congratulations on that. Just wanted to know, do we have a target in terms of when we look at reaching 75%, you know, two quarters, three quarters, one year? How do you look at that, sir?
- Divyesh Shah:** See, of course, we do have our internal targets and all. That we keep in place, you know, that our target was to reach fairly 5% by the end of the year and full by the next year. But also at the same time, we cannot ignore the fact, you know, this regulatory overhang in this. The sooner this keeps on coming in between from RBI that 100% cash margin that is where, you know, the stoppage came on this scheme and all that because banks were themselves confused. Of course, we were still getting even at that point of time. We were getting on the same basis. So, our endeavour will always be to reach this target.
- Avi Mehta:** No, no. Fair enough. So, that is a fair point. I mean, regulatory, you can't estimate. But sir, if there is nothing new regulatory, would it be fair to estimate just to reach 75% in, say, three quarters or do you think it could take well a little longer than that?
- Divyesh Shah:** No, three to four quarter, yes.
- Avi Mehta:** Three to four quarter, right, sir?
- Divyesh Shah:** Yeah.
- Avi Mehta:** Okay, sir. That's all from my side. Thanks a lot for taking my questions.
- Moderator:** Thank you very much, Mr. Mehta. The next question we have from Kirti Dalvi from Enam AMC. Ma'am, your line is open. You can go ahead and ask your questions. Thank you.
- Kirti Dalvi:** Good evening sir. Few questions, can I get, sir, gold sales in volumes in this particular quarter as well as diamond sales in Q1 FY14? In volume, sir?
- Divyesh Shah:** We don't give volume sales, but at the same time, we agree with the sales integration that 43% is the volume growth for the same store in gold. And overall in the company there has been a growth of 112% in gold sales. Well, diamond sales for the same store in volume has grown by 1% and diamond overall for the country it has grown by 44%.

- Kirti Dalvi:** Yeah, but would it be possible, sir, to get the absolute value in terms of how many kgs...?
- Divyesh Shah:** No, we don't share.
- Kirti Dalvi:** Okay. And what was the mix within gold coins and bars?
- Divyesh Shah:** See, out of 100% sales, 20% is diamond, 12.5% is gold coins and the balance is gold jewelry.
- Kirti Dalvi:** Okay. So, 12.5% was the coin shares?
- Divyesh Shah:** Yes.
- Kirti Dalvi:** Okay. And sir, going forward, given the current regulation stage, do we see any improvement in our margins going forward?
- Divyesh Shah:** Of course, as I mentioned, in July month, we have stopped promoting the gold coins and stopped selling the gold coin. We have seen an upward trend in the volume sales of the gold segment. So, that means more and more gold jewelry, that means your margin, of course, will improve because growth margin is much lower compared to the gold jewelry segment, you know.
- Kirti Dalvi:** Okay. Sir, you mentioned 43% volume growth in gold, right, in the same store?
- Divyesh Shah:** For the same store.
- Kirti Dalvi:** For the same store. And sir, in absolute terms? I mean, overall, all put together, your new stores and...?
- Divyesh Shah:** 112%
- Kirti Dalvi:** 112%, okay. And so, margins probably trend upward going forward given the gold coins sales have stopped.
- Divyesh Shah:** Correct. Again, if you look at like the forthcoming season is the wedding season, more and more sales in jewelry. So, of course, when the mix of coins falls, that will also help us to improve our gross margin as a gold segment level, you know.
- Kirti Dalvi:** Okay. But sir, even your expansion which is coming in second half onwards now largely, don't you think that probably our rent cost will also move up and that will have an impact on our OPMs?

- Divyesh Shah:** That is an ongoing process, you know. As we keep on saying that our break-even is six to eight months. So, it's an ongoing process. So, when you are putting up new stores and the store reaches this break-even point, you know, already few more stores are in line, you know. So, that we always have to factor in.
- Kirti Dalvi:** Okay, so what's the plan CAPEX, sir, for the year as a whole?
- Divyesh Shah:** See, basically, as we have said, you know, we always keep on saying the CAPEX is basically for the last store is about 1.8 crores. Now, our expansion is basically on track. We are going to put up 57 stores this year as promised. Today we have 26 stores. Four more are in the pipeline because they are coming up very soon, which you will be getting very soon. And normally we don't really try out the LOIs although the cities have been identified at the same time or various regions but we have identified those cities and we are working on it.
- Kirti Dalvi:** Okay. Thanks, sir. I will get back in the queue for further questions.
- Moderator:** Thank you very much, Ms. Dalvi. We have the next question from Nihar Shah from Enam Holdings. Sir, your line is open. You can go ahead and ask your questions. Thank you.
- Nihar Shah:** Sir, just a question on the inventory sir, you know. I noticed that your inventory is pretty much flat on a Q-o-Q basis but, you know, I would have expected, you know, some sort of, reduction in inventory especially given the fact that, you know, gold prices are down quite significantly on a Q-o-Q basis. So, maybe, if you can just give us some sort of numbers in terms of, in volume terms, your inventories, sort of, you know, gone up, gone down, you know, what's happening over there?
- Divyesh Shah:** See, basically as far as the inventory is concerned, let me put it this way, any fall of prices, the prices of gold, of course, is basically because we follow the weighted average method. So even the falling of price of gold will not really impact. Answering your second question is so, whether our inventory has gone up in volume, yes, marginally it has gone up for the simple reasons if there is an inbuilt of inventory as I mentioned to you that four more stores are in the pipeline. We already start building up our inventory much in advance of the opening of the stores. So, whatever is the incremental inventory is more towards the new stores, which are going to be opened very shortly.

- Nihar Shah:** Okay, sure. If I had to consider a trend sort of value terms on just the same store, which was opened last quarter, then that would be down quite significantly because, you know, your inventory is largely flat and you are building up inventory for the four stores that you have in mind.
- Divyesh Shah:** So there will be a marginal increase in quantity also. Of course, I cannot share the volume, what was the inventory in volume but it was only a marginal increase.
- Nihar Shah:** Great. Okay. Thank you so much.
- Moderator:** Thank you very much, sir. So, at this time there are no further questions from the participants. I would like to hand over the floor back to the speaker for the final remark. Over to you, sir. Thank you.
- Nilesh Dalvi:** Thanks, Yogesh. We are managing the investor relations for TBZ. Feel free to reach me at nilesh.dalvi@dickensonir.com to seek more information about the company. I once again thank you all for joining the call. Thank you.
- Moderator:** Thank you, speakers. That does conclude the conference call for today. Thank you for your participation. You may all can disconnect your line and have a great evening ahead. Thank you very much.