

Tribhovandas Bhimji Zaveri Limited
Results Conference Call
November 5, 2014

- Moderator:** Ladies and gentlemen good day and welcome to the Q2 FY15 Results Conference call of Tribhovandas Bhimji Zaveri Ltd. hosted by Dickenson Seagull IR. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and then 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nilesh Dalvi from Dickenson Seagull IR, over to you sir.
- Nilesh Dalvi:** Thank you Chris, on behalf of Dickenson Seagull IR let me welcome you all to the earnings' call of Tribhovandas Bhimji Zaveri Ltd. for the second quarter and first half of FY15. 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 might 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 or future events. I would now invite Mr. Zaveri to make his opening remarks. Thank you and over to you, Mr. Zaveri.
- Shrikant Zaveri:** Dear investors, I would like to thank everyone for taking time out and joining us for the second quarter and the first half FY15 Results Conference call. The 2nd quarter witnessed improved economic sentiments following the formation of a stable government at the center further, lower inflationary pressure encouraged valued pick up in the consumer discretionary spending. Talking about the company's performance during the quarter, the company displayed satisfactory performance marked by higher jewelry sales and higher share of diamond jewelry. We maintained our focus on sales growth, while keeping operating cost and debt under a strict control. The gross margins were largely impacted by the gold price volatility and tactical discount schemes during the quarter. Talking about the store expansion, we opened a new store at Jamshedpur on 10th August, with a retail space of about 2965 sq feet. The company has now 28 stores operational across 22 cities in 9 states, with a total retail space of about 91,000 sq feet. Going forward, with improving economic environment, stable gold regulatory scenario and low gold prices, the consumers' sentiments are expected to improve as we head towards the upcoming festival season and the wedding season in the 3rd quarter. We shall continue to focus on innovative designs and products and aim to increase our sales with emphasis on higher diamond jewelry sales. With this, I would now like to hand over the call to Mr. Prem Hinduja, our CEO, to brief you on the financial and operational highlights for the quarter.
- Prem Hinduja:** Thank you Mr. Chairman and good afternoon everybody. The results are already with you but I will just briefly touch upon them. For the quarter ended 30th September, the turnover of the company was Rs. 426 crores on a YOY basis there is an increase of 32% as compared to Rs. 323 crores in the corresponding quarter of the last year. The EBIT is 9.4 against compared to 14.22. The Profit before Tax is Rs. 83 lacs as compared to 5.3 and the Profit after Tax is Rs. 55 lacs as compared to Rs. 3.5 crores. Now if one were to look at to comparison with the trailing quarter, the turnover for the quarter under consideration was Rs. 426 crores as compared to Rs. 432 crores, which was more or less similar. Similarly, the gross EBIT was 9.4 as compared to 11.1 and the Profit after Tax was Rs. 55 lacs as compared to Rs. 52 lacs, a small marginal increase of about 5.5% as compared to the trailing quarter. On a six monthly basis, if you were to see, the top line is Rs. 858 crores as compared to Rs. 855 crores, more or less flattish as compared to last year. Then the EBIT is Rs. 20.5 crores as compared to Rs. 52 crores and the Profit after Tax is Rs. 1.07 crores as compared to Rs. 24 crores. If one were to look at the balance sheet, of course there is a slight change in the net worth that is currently because of the profit for the six month period. Then in the long term borrowings have reduced because the repayment of term loans. There is a reduction in the long term provisions because of

reversal of certain gratuity and leave encashment provisions. The short term borrowing which is basically the cash credit limit from the banks utilized is more or less the same at Rs. 546 crores again Rs. 546 crores as of 31st of March. The Trade payables have reduced because of payment to creditors. The other liabilities have increased slightly from Rs. 197 crores to Rs. 204 crores, this is primarily because of the increase in advance from customers, which was partially compensated by reduction in the KPSscheme and the short term provision has reduced because of the payment of the proposed dividend, which was proposed at last year end amounting to Rs. 17.5 crores. The intangible assets have increased slightly because of addition to computer software, the capital work in progress that has changed because of the renovation work at the showrooms, which is an ongoing process. The long term loans and advances have increased from Rs. 11.8 crores to Rs. 19 crores, primarily because of certain capital advances given for renovations of showrooms, security deposits and also primarily because of the advance tax paid during the period. The inventories, if you see have reduced by about Rs. 34 crores. This let me just emphasize this, in spite of the fact that we have added one more showroom during this period at Jamshedpur, so even factoring that into account, the inventory has reduced by Rs. 34 crores. The cash and cash equivalents which also includes the FDs is more or less the same, there is a slight reduction. The short term loans and advances have increased slightly because of certain advances paid. So, this is briefly the report on the financials post the income statement and the balance sheet. Thank you gentlemen, now I leave the floor open for the question and answer session.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question please press * and 1 on your telephone keypad and await your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1. Our first question comes from Abneesh from Edelweiss, please go ahead.

Abneesh: Sir my first question is on the diamond gross margin. In the first half it was 28%, Q2 it has fallen further from quarter on quarter also to 25%. So, could you explain, is this because of higher discounting?

Prem Hinduja: There are two reasons for the drop in the margin. One is, what you rightly said because of higher margins which were touched higher discount levels or going tactical which was also touched above by the Chairman in his opening speech. And second is, of course we have also introduced solitaires which have traditionally enjoyed a lower gross margin than your normal diamond jewelry. So, the reason of these two has resulted in the drop in the gross margin. But at the same time, this has helped us, push up our sales of diamond. Diamond as a ratio of the total sales during the quarter has jumped up to 29%, I do not think which has happened any time before. This is the first time we are having such a large share of diamond sales in the overall sales of the quarter.

Abneesh: No sir my question is, that is fine 28-29%, my question is; when do we see diamond margins coming back because promotional intensity is increasing for you when consumer sentiments are improving so I do not understand why your promotions have increased and when do you see promotions easing off?

Prem Hinduja: See the consumer sentiments are of course improving, we all know, but getting translated into actions is taking some time. Now which was very much reflected in the 3rd quarter and we have seen a good sales during both Dhanteras and during Dussehra during this quarter. In fact, we had a double digit sales growth which is of course both for gold and jewelry as compared to last quarter, so now we have seen that there is an improvement in also the walk-ins and the demands for the product. But then we also add at the same time one thing; since we are talking about quarter 2 which is under review, traditionally quarter 2 is the weakest quarter for this industry because you do not have any of these occasions. So combined with the fact that there was consumer sentiment improvement but the traction towards demand was very slow and steady which has gathered momentum during the sessions and we are hopeful that going forward also it will gather further momentum. We will take an appropriate call at the right time, of course we are more interested just like you, your concern about the margins of the company, this too impact the overall profitability and the management will take up all at the appropriate time as to when to withdraw these tactical schemes.

Abneesh: So as of now, are you giving any timelines, so has it, so in the worst behind in terms of promotions and are you giving any timelines or is it too early for any timelines to be given?

Prem Hinduja: As of say, it is too early to give for any timeline, as I said as we are seeing, overall we are seeing the demand pattern improving. And now of course, we are also seeing the gold price correcting which means the affinity towards gold will keep on increasing. And the price sentiment towards gold is also becoming bearish but yes it will be a little premature at this juncture to give a definite answer as to at what point of time the management would like to withdraw these promotions altogether.

Abneesh: Some of the other jewelers are saying first month or Q3 has been pretty soft. What is your comment on that or how has October month been?

Prem Hinduja: I just mentioned a few minutes back, one thing you know we cannot comment about what the other jewelers are saying but fortunately we did had a good festive demand; both during Dhanteras and Dussehra. And as I mentioned, we did had a double digit sales growth on YOY basis on both these occasions.

Abneesh: Sir, on your previous comment, you said gold prices correction is happening and customer also feels large session that it might correct further. So in that context, do you see the diamond mix coming off because you too feel that it is a very good time to buy gold, they might still wait a bit but then eventually lot of gold buying might happen which is again impact your margin adversely. So what is your comment on that and diamond in general, last few quarters has been disappointing, it is largely coming from promotions, so what you see diamond sales recovery is gold is so attractive, that is negative from our margin perspective.

Prem Hinduja: It is very difficult to predict what the consumer will ultimately opt for. I was just talking only from the historic perspective as we had or may feel in Q1 of last year when the gold price corrected dramatically and there was more affinity towards gold purchase. But going forward, one does not know as to how the consumer will behave, added to that the fact is, that we are also now entering into wedding season, which is coming up very soon. In fact, the wedding season is starting from end of November and it is going to last up to June. And we being focused on wedding jewelry and during wedding time the customers buy both gold and diamond jewelry. So it will be very difficult to really judge at this point of time and again when I was talking about the outlook for gold being bearish, this is what we keep on reading in the reports by various so called experts and all that overseas and here but what in reality it will happen, one has to wait and watch.

Moderator: Our next call is from Prashant from Karvy Stock Broking. Please go ahead.

Prashant: First thing is, just wanted to know the in volume terms, what is the inventory of diamond because it was 78,000 carats at the beginning of the year so what is it now?

Prem Hinduja: I will put it this way, of the total inventory value which is seen at the balance sheet which is with you, 40% is diamond inventory and 60% is gold in terms of value but in terms of volume, I do not have the break up immediately, we can share with you later on.

Prashant: What was the total H1 gold volumes in tons because we do around 4 tons, right for the full year, so what was the volume?

Prem Hinduja: We will share with you separately.

Prashant: This Kalpavruksha scheme, are we still carrying on with the scheme?

Prem Hinduja: No, we have temporarily suspended the KP scheme and all that and we have in the meanwhile obtained legal opinion from the eminent legal luminaries and we are re-working on the scheme and taking those factors into account, we are supposed to re-launch the scheme very soon.

Prashant: If you marginally give it, for the total sales of H1, what were the sales from stores which were opened after FY12 and what was it for stores which were like you know, from the 47,000 square feet that we already had before FY13 when the major retail store expansion started, so what was the contribution from those 47,000 square feet for the H1?

Divyesh Shah: See as of now, attend in Slide #22 of our presentation, we have given the breakup of both; the old store and the new store and sales productivity per square feet I think you can have a look at those.

Prashant: Just one last question, what is your total expansion plan now for the end of FY15, it was around 1 lakh but if you sure we are going to touch that?

Prem Hinduja: We are walking towards that, right now we are 91,000 square feet, only a question of another 9000 square feet and we are hopeful and confident that we should be able to reach around that figure by FY15.

Prashant: Okay and FY16 it will be around..?

Prem Hinduja: FY16 we are in the process of drawing up of our plans at present so once we are crystallized, we will get back to you on that.

Moderator: Thank you very much, out next question comes from Adhidev Chattopadhyay from HDFC Securities. Please go ahead.

Adhidev Chattopadhyay: I have few questions. First is; is there been any one-time loss or gain in account of the gold price fluctuation during the quarter, if you would just quantify that?

Prem Hinduja: Basically there has been no gain or loss on account of gold price volatility, for the simple reason we are hedging on the MCX, which we were doing earlier also. Primarily, if you see we are also moving quite fast towards the gold metal scheme which has been reintroduced recently. So right now, a major portion of our inventory is on the gold metal scheme. We have some portion which comes from exchange of old jewelry which again is a natural hedge and the balance we are hedged on MCX, so we are fully covered so we do not incur any loss or profit if we were to say on account of any volatility in the price of gold.

Adhidev Chattopadhyay: But as I referred to the slide 10 of your presentation have said that the gross margins are largely impacted by the gold price volatility, so just wanted that, that was the reason why I am asking.

Prem Hinduja: Against that, there will be an offset by way of your hedging on MCX, which is also reflected in the financials.

Adhidev Chattopadhyay: So that is the hedging cost which you have to take it, the gross marginally is that correct, my understanding?

Prem Hinduja: Not the hedging cost because the whole hedging on MCX works on the premise that if you lose in business, you gain on commodity exchange and vice-versa. So the intention is, if there is no undue gain or undue loss on account of volatility in the price of gold but this only applies to that portion which is not covered under the gold metal scheme. As I said, till today I mean as of 30th September, 47% of our inventory was covered under gold metal scheme as of today it is 58% and we are certainly moving towards gold metal scheme so which means we will really come to a point where we will not require any hedging on the commodity exchange.

Adhidev Chattopadhyay: Sir second one was on our Kalpavruksha scheme, so this scheme would have contributed how much to our sales this quarter, in the last quarter?

Prem Hinduja: About 7% in the last quarter sales.

- Adhidev Chattopadhyay:** And in the second half, whatever advances we have around Rs. 130 crores, so when do we see all these advances, the scheme whatever balance is there, when do we see it closing, will that happen whether this year or later?
- Prem Hinduja:** This is an ongoing process, as and when they become due for redemption, the members come here and collect and all that and so basically it will be an ongoing process.
- Adhidev Chattopadhyay:** And last question was mainly on our interest cost now, so now our gold on lease what you are doing or gold loan, so what is the effective interest cost you are paying on that?
- Prem Hinduja:** The gold lease we are paying about 6.5% all term which also includes the commission which is paid to the bank which offers collateral SBLC or the so called bank guarantee. But today because we are, at present we are 58% on gold metal loan, our average cost of borrowing is 8.5% which also includes the CC borrowing which is for the balance portion. So as one what you do 100% CC borrowing that will be 12%, so from 12% we have brought it down to an average cost of 8.5% at present and going further, as we get more and more into gold metal loans' scheme, this cost will keep on coming down further.
- Adhidev Chattopadhyay:** How is the availability of gold loan, are we comfortable or are we seeing again a lot of fluctuation, one month is a high, another month is hard to get or how is it going?
- Prem Hinduja:** Those days are gone practically. I think it is easily available at a very minor, you can say, so called 'nil' premium, almost nil premium so availability is not a challenge, that has never been a challenge.
- Moderator:** Mr. Pratik your line is unmated; please go ahead with your question.
- Pratik:** I had few questions on your gross margins. So your gross margins which was 18% to 21% has come down to now 14%, 15%. In your presentation, sorry for being repetitive but you mentioned that it is both a function of your discounts as well as your gold price volatility. So do you explain this decline mainly because of discounts? Do you think the decline of gold prices has no role to play in our gross margin compressions?
- Prem Hinduja:** It is a combination of both; very difficult to segregate how much it is on account of the gold price decline and how much it is on account of the volatility. We all know that when there is a gold price decline and all that, it does impact the margins but segregation would be a challenge to really say how much it is on account of that and how much, discount of course we know, more or less how much we give and primarily the tactical discount in case of gold was not so much as it was in case of the studded portion where it was heavy discount and all. That combines with the fact as I was mentioning in the beginning; on diamonds we also have this solitaire as a sales mix which traditionally have a lower gross margin but yes it is very difficult to really pinpoint that how much on account of the gold price volatility the margins have been impacted.
- Pratik:** Why actually I was asking this was because gold has been soft, the prices have been declining and for the next half of the year if the prices remain where they are, around Rs. 25, 500, Rs. 26,000, then the gold price decline would be around 10%-12% for the next 2 quarters. So do you expect this 12% decline to again impact your gross margins going ahead or the gold gross margins now will be at 8% and you do not see any further decline from here.
- Prem Hinduja:** As I mentioned before, you know we keep on hedging; we are fully covered as far as hedging is concerned. It is either in the form of gold metal loan or it is in the form of hedging. So obviously, if there is an impact on the margin it is shown in the gross margin portion but correspondingly if there is an offset by a way of hedging, which obviously will be only in case of hedging under commodity exchange and not necessarily in case of gold metal loan scheme which is the natural heir, now that will not be reflected with the gross margin, that will be shown somewhere else but in the income statement itself.
- Pratik:** So what was that hedging gain, if at all was there, for this quarter and where is it captured?

Prem Hinduja: It is captured below the line, below the gross margin level but the trigger and all that we will share with you separately.

Pratik: So 8% odd, do you think there is no further downside at least from there because it has been historically 11-12% and 8% is really very low and..?

Prem Hinduja: Yes, 11% usually and if you see in the trailing quarter also it was 8%. 11% was what we were getting last year, yes. So basically, again as I said very difficult to predict how the price of gold is going to move but one factor in case of the Indian context is; you know here we talk about the gold price, vis-à-vis a Indian rupee, now again how the rupee behaves vis-à-vis a dollar will also have a bearing in the price of the Indian gold price. Internationally, the price of gold may fall but if it is offset to some extent or to a large extent by the rupee depreciating vis-à-vis a dollar then one would not see much of an impact on the gold price in the Indian context but even these things are very difficult to predict.

Pratik: I agree with that but currency will have no impact on you because you are not hedging internationally, everything is domestic for you, right?

Prem Hinduja: Yes, even our procurement is domestic and even our hedging price on the local commodity exchange, yes.

Pratik: You are also seeking some advice on international hedging, any updates on that?

Prem Hinduja: Yes, basically we have already forwarded our application to The Reserve Bank of India and we are awaiting the approval from them.

Pratik: One last question on discounts. Why has the discounting been so high in this quarter, is it because of the weak demand and you wanted to spur demand or has the competition really geared up so much because there have been loads of advertisements of people cutting their making charges. Kalyan Jewellers, etc., various other jewelers cutting their making charges significantly, so do you think these so called tactical discounts might continue at least for two-three more quarters because of that additional competition in the market?

Divyesh Shah: I think in previous reply our CEO, Mr. Hinduja, has already mentioned that, that traditionally second quarter is always the weakest quarter of the year for 'Gems and Jewelry' retail industry and specifically what we have seen, that there is a little positive momentum in especially for the demand of gold and gold jewelry but we have seen the momentum is not improved in diamonds or diamondstuddedjewellery. So to push it more and to push it aggressive, we have gone a little aggressive on discount but I do not think so that can be attained for the next couple of quarters, so more or less now the demand is settling up, there is a long wedding season is there so there is a wedding demand is therein the market. So I think more or less the discount will settle on now and I do not see that aggressive discount is required to generate a large number of customers.

Pratik: It is more because of weak demand trends rather than any aggressive competition that you are saying.

Prem Hinduja: Yes.

Moderator: Thank you Sir. As there are no further questions, now I hand over the floor to Mr. Nilesh Dalvi. Please go ahead.

Nilesh Dalvi: Thank you Chris. Dickenson Seagull IR is managing 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 the call.

Moderator: Ladies and Gentlemen, this concludes the conference for today. Thank you for your participation, you may now disconnect your lines, thank you and have a pleasant day.