Tribhovandas Bhimji Zaveri Limited
Q2 & H1FY16 Results Conference Call"
November 4, 2015

Moderator: Good Evening, Ladies and Gentlemen. I am Aman, moderator for this conference. Welcome to the Second Quarter and First Half FY-'16 Results Conference Call of Tribhovandas Bhimji Zaveri Limited, organized by Dickenson Seagull IR. At this moment, all participants are in listen-only mode, later we will conduct a Q&A Session, at that time if you have a question please press '*' and '1' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Nilesh Dalvi. Over to you sir. Thank you.

Nilesh Dalvi: Thank you, Aman. Good Afternoon, Everyone. On behalf of Dickenson Seagull IR, let me welcome you all to the Earnings Call of Tribhovandas Bhimji Zaveri Limited for the Second Quarter and First Half of FY-'16 Earnings. Today, we have with us the management led by Mr. Shrikant Zaveri - Chairman and Managing Director, Mr. Saurav Banerjee - Chief Finance Officer and Mr. Diyvesh Shah - Head, Retail Business.

Before we get started I would like to remind you all that our remarks today might include forward-looking statements and actual results may differ materially from those contemplated by these statements; any forward looking statements that we make on this call are based on our 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 sir.

Shrikant Zaveri: Good Afternoon, Ladies and Gentlemen. Greetings and A Very Warm Welcome to Everyone present here for the Earnings Call of TBZ Limited for the Second Quarter and First Half of the Financial Year 2015-'16.

Before talking on the Operating Performance during the quarter, let me just quickly update you on the recent Key Business Developments: We are happy to inform you that TBZ has signed its First Franchise Agreement for its upcoming store in Dhanbad, Jharkhand, scheduled to be opened in November '15. Our Franchisee Store will Offer a Wide Variety of Innovative and Attractive Jewelry Designs and will provide the Same Standardized Shopping Experience to Customers as the Original TBZ Store. We will handhold our franchisee partners in the initial stages to take them through the learning curve of doing business with us and serving customers the TBZ way.

Secondly, we would also like to inform you that we recently opened our 29th Store in one of the most premium locations in Mumbai situated at Turner Road, Bandra on the 22nd October, 2015. With the opening of this Store, TBZ will now be present in every major Jewelry buying destination in the City of Mumbai. The Store will offer an entirely new collection of exquisite jewelry designs catering to the unique taste and preferences of the City's up-market customers.

Coming to the Operating Performance: Sales displayed growth during July and August driven by drop in Gold prices; however, September saw poor sales due to absence of any auspicious occasions. While the overall industry witnessed double-digit decline in sales, TBZ's strong brand and customer loyalty helped the company to record an overall growth in sales despite negligible contribution of sales from the Kalpavruksha Scheme which had contributed Rs. 650 million in sales during Q2 FY-'15 and Rs. 1160 million in sales during H1 FY-'15.

Commenting on the Margins: Gross Margins during H1 FY-'16 marginally improved to year-over-year from 13.2% to 13.7%. EBITDA margins declined primarily due to increase in other expenses which majorly included hedging loss during H1 FY-'16; the net hedging loss was 57.5 million. We would however like to inform that the entire hedging loss has already been reversed during the October-November 2015, hence the overall impact on cash profit as on date is minimal. We are positive on the future business outlook and hope to see good demand in the upcoming festival and the wedding season. Going forward, we aim to maintain a judicious mix of owned and franchisee stores to accelerate our growth and presence across India in an asset-light manner.

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 the Quarter and First Half of the Fiscal Year. Thank you.

Saurav Banerjee: Good Afternoon, Everybody. I am Saurav Banerjee here. Just to give you a flavor of the Quarterly and the Half Yearly Numbers: In the second quarter we have clocked revenues of Rs. 438.02 crores; this is a 2.74% increment Y-o-Y over September '14 where we had clocked Rs. 426.32 crores. In terms of half yearly numbers, H1 we have closed at Rs.853.95 crores, which is absolutely flat, previous year closed at Rs. 858.68 crores. In terms of gross margins, we have recorded a blended gross margin of 12% for the Q2 September '15 vis-à-vis 13.3% for September '14 blended margin; however in terms of H1 the margins have improved marginally from 13.16% for the previous H1 September '14 to 13.69% for current half year September '15. In terms of EBITDA, the numbers are a Rs. (-0.04) crores vis-à-vis Rs. 16.28 crores for September '14 and for H1 we have reported EBITDA of Rs. 21.13 crores vis-à-vis Rs. 33.52 crores for H1 previous year. In terms of profit before tax the numbers are Rs. (-16.66) crores vis-à-vis Rs.0.83 crores reported in September '14. In terms of half year the numbers are Rs. (-12.52) crores vis-à-vis Rs. 1.62 crores for September '14, and finally the PAT numbers are Rs. (-12.10) crores for the quarter September '15 vis-à-vis Rs. 0.55 crores for quarter

September ’14 and in terms of half yearly the numbers are Rs.(-9.38) crores for September ’15 H1 vis-à-vis Rs. 1.07 crores for September ’14 H1.

Just to Summarize: Very quickly the Q2 FY-’16 sales grew by 2.74% as I have already intimated Y-o-Y; Gold Jewelry sales grew by 13.5%. So if you take into account the Gold prices which have moved down rather by almost 7% Y-o-Y, the growth in volume terms have been much higher considering that the average Gold prices have moved down. In Diamond Category, Diamond Jewelry declined 25.8%, this is primarily because of weak discretionary consumption sentiments across the board. Gross margins for H1 FY-’16 marginally improved Y-o-Y from 13.2% to 13.7% as I have mentioned and this is despite lower gross margins during Q2 FY-’16, which Chairman has also explained, was mainly due to the discounts and also because of the other expenses wherein the hedging losses have been accounted for. As we have already informed by Mr. Chairman that the hedging losses have already been recouped in the months of October and November and as on date there is a marginal improvement in that position and hence that matter has been taken care of.

With this I leave the floor open for the Q&A Session.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of (Vishal). Please go ahead.

Vishal: This is Vishal here. Just if you can give some more color about your Franchisee and Own Store strategy, as you mentioned that the first store was opened last month, so going forward what kind of mix can you expect over the next 2-3-years? And #2 question would be on the hedging part. Still this is not very clear, why there was a loss in this quarter and next quarter the same loss has been recouped?

Saurav Banerjee: The answer to your first question as far as our Franchisee model of growth is concerned, so far we have not technically opened any Franchisees; the First Franchisee store is likely to come up this month and you will hear from us very shortly, the agreement has obviously been signed and we are on the verge of opening the First Franchisee Store; however, as mentioned by you, the Franchisee Store is not yet up and running. What we have done is that on the 22nd of October our 29th Store in Bandra West Mumbai has opened and that is the addition as far as the company-owned stores are concerned. So as we go into the month of November and thereafter, you will find that the Franchisee Stores will be coming up one after the other and we should be able to talk more about that at that time. So this is an answer to your first question. As far as your second question is concerned in terms of hedging, basically we are constrained because of accounting reasons and when a quarter closes the accounting standard is there for us to follow and we have to record the hedging losses or the hedging gains as the case may be as on the reporting date, and we have reported hedging gains in earlier quarters, this quarter as you all know the Gold prices have fluctuated very violently, and as on the closing date there was a loss in the books which we had to account for. So I would not put it as any business loss or any business strategy which has not been taken care of, but it is more of an accounting entry. Similarly, when we have gone into the October and November current month, if we look out our hedging position and if we were to hypothetically do an accounting as on date basis, then we will see that there is a corresponding gain and the earlier losses in the Q2 would have been completely wiped out. So that is what we meant by saying that the hedging losses had to be reported, at the same time as on date we have given you a status that nothing to be concerned about, and going forward we will again have to see how it pans out, but this is how it is because there is an accounting standard that has to be followed and that is what we have been doing.

Vishal: Can you give some more color also on your Stores opened after your IPO basically in the eastern part of the country some part in Udaipur, Raipur, Nagpur, how these stores are doing and what kind of traction you are seeing over the last couple of years or last 6-months or so?

Diyesh Shah: At the time of IPO, we had 14 stores and we have added 15 company-owned stores post IPO and till date our all the stores at a store level EBITDA they all are positive, so most of the stores has reached to that break even in 6 to 8-months as our business model which is there on our website and I think from last couple of years the growth rate has been moderate and has reduced because of the overall consumer sentiment and lower discretionary demand, but however what we have seen this year that last year our (KP) Kalpavruksha we had a plan where customer used to pay in installment, then they used to complete their purchases once the plan is matured; sales was about 20%. So this year even though that Kalpavruksha was not there, so negligible sale was there from the Kalpavruksha. Still the company in the second quarter we have increased total turnover by about 2.7%. So I think that is a strength of the brand which is the mix of both new and old store both, all the stores have grown in terms of volume and in terms of value.

Moderator: Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: Over the last few years what we have observed is that your reported gross margins on Gold have been declining and specifically this year there have been a kind of below 10%. So even if I adjust the hedging gains for this quarter so 7% probably becomes 10% but it is still very low compared to the 12-13% margins what we used to do earlier. So is there any element of kind of a inventory loss on Gold that is also impacting these margins?

Saurav Banerjee: No, I would not say that there is any impact from an inventory point of view. What is happening is that the Gold margins have declined primarily on an historical basis due to instances in recent past where the consumer sentiments have been lower, except in the month of July where because of Gold prices dropping sharply, there was renewal of consumer sentiments but on an overall basis the sentiments have been muted . Hence to attract customers and to maintain healthy top line the company has announced tactical schemes and wherein the discounting on the Jewelry has taken its toll in on the gross margins, this of course we have explained in the earlier quarters also, and that is something which continues as a trend; however, the company has been very conscious about offering tactical discounts only on special occasions and on occasions where it is required to be done because of the expectations of the market, but otherwise on an overall basis we have tried to control discounts. So, I would attribute drop in margins primarily to tactical discounts, and, of course, to a certain extent on price movements.

Aman Batra: If I recall correctly, in the last conference call, you had highlighted that the Gold margins are now improving and less discounting will lead to better margins as well going forward. So is it that as soon as we withdraw these tactical discounts on occasions, we are seeing reduced footfalls and that is the way forward that we would not be able to recover these margins?

Divyesh Shah: This is Divyesh here. Also you need to remember that whatever the inventory we were holding specifically in the month of July when the Gold price corrected, we were holding at the older price and specifically we have paid the making charges at the older gold price to our manufacturers. Now, when gold price declines recovery of the making charge also declines. So I will give you an example like in a situation where the Gold price is Rs. 2000 and if I am charging 10% as making charges, my making charges recovery is Rs. 200/gram, if gold prices decline to Rs. 1500 and still I am charging 10%, so my making charges recovery becomes Rs. 150. So when gold prices decline and your volume sales go up, gross margin as a percentage always will reduce.

Aman Batra: No, but since the Gold price is also declining, so your percentage gross margin should not get impacted to that extent?

Divyesh Shah: No, the inventory what you have purchased which has been sold in July was purchased at the price of the earlier price, so making charges whatever you have paid to the manufacturer at the earliest price.

Aman Batra: Second question I had was on this Franchisee arrangement; so you are opening this store in November, and I believe the inventory would be owned by the franchisee. So would you account for all the inventory as a sale for you in this quarter?

Saurav Banerjee: The arrangement with the Franchisee is that it is a Franchisee-owned, Franchisee-operated which means that the entire inventory will be purchased by the Franchisee upon the 100% payments that will be received by the company and hence it will be accounted as a normal sales activity within the month of November and yes, so that it will be accounted in Q3.

Aman Batra: And how big is the Franchisee in terms of square feet and size of the Franchisee arrangement would it be similar to what your large format stores are or is it a smaller format?

Divyesh Shah: If you look at our current average store size is about 3,000 square feet, and going forward for Franchisee also we are targeting on an average of 3,000 square feet store. So more or less on an average it will be about 3,000 square feet.

Aman Batra: Can you also provide some color on the Online Sales that you have had an arrangement with I think Snapdeal, so if you can provide some color on how is the traction over there?

Divyesh Shah: I think we have started very late in the 3rd quarter 20th October. So the initial response is quite good, it is quite motivating, currently, the sales mix is about 60% Diamond Jewelry and 40% is Gold Coin, but we believe that more and more people are recognizing our brand and we are getting more orders now from last week onwards. So we believe that it will grow but it will take its own time to grow.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: I wanted to know how does the hedging mechanism work? And secondly, since you actually account for inventory on a weighted average basis, the hit on inventory level should not be that way?

Saurav Banerjee: We have explained this earlier, but for your benefit, so, as far as the accounting is concerned and as I have been harping on this point that it is more of an accounting transaction rather than a business transaction as far as the quarter is concerned. So we are following the Accounting Standard 30 and the primary driver of this Accounting Standard is that the hedging is based on the best estimated sales for the nearest future month, so we take a couple of months of best estimated sales that are likely to happen and on that basis the quantity is hedged on MCX, and obviously the hedging procedure I would not like to go into the basics of that, but then the Gold price mechanism takes over from there, and as we are all aware an MCX contract is a 2-months contract, after that you have to compulsorily close the contract and take a fresh contract or in other words roll over. So in a scenario where the Gold prices fluctuating extremely violently and moving in a negative direction, there are instances where we may have to close the contract a little earlier in order to avoid further losses in terms of accounting. So that is when the hedging transaction has to be ended or closed and then either the positives or the negatives have to be accounted for. In terms of policy, as explained, it is the Accounting Standards 30 that is applied, and based on those standards the hedging is done by the company. In terms of inventory, yes, the inventory is being valued at moving weighted average and hence there is no real impact on the inventory from a net realizable point of view.

Abhishek Ranganathan: So this explains that your earlier gross margin erosion is because of making charges declining as percentage of gold price?

Saurav Banerjee: Primarily, yes, and in a slow moving market where consumer sentiments are down, there are these instances where we have to attract customers. If you see across the industry that has been the trend as well.

Abhishek Ranganathan: How much is the Gold Loan in the book now?

Saurav Banerjee: In terms of a percentage the Gold Loan is around 56%, so we have moved upward from 49% in June quarter to 56% in the September quarter, you will further find that in the coming quarters and particularly by the end of this financial year we should be able to increase the percentage of getting the inventory through the Gold Loan model which is a healthy thing to do in terms of both interest cost mechanisms and reigning in the interest cost and also from a natural hedge point of view. So that is the strategy of the company; we are working on that, and you can clearly see that the results are there as with gold on loan increasing from 49 to 56% already and further increase in percentage of gold on loan to happen in the coming quarters.

Abhishek Ranganathan: So quantum would be how much and what are the lease rates that you are having right now in terms of cost?

Saurav Banerjee: So in terms of finance cost, Gold on Loan will cost the company on an overall all inclusive around 4.5% to 5% depending on from which bank the Gold Loan is obtained. So nowadays there are several banks which have come forward and are offering this product, there is a marginal difference in cost from one bank to another, but as I said on an average basis you can say it will be around 4.5% inclusive of all costs.

Moderator: Thank you. The next question is from the line of **(Archit Ranka from Kowal Investment)**. Please go ahead.

(Archit Ranka): I will just carry forward on the Gold Loan question that the participant just asked. How does the mechanism exactly work? What is the disruption that was caused during the last 1-year? What makes the management confident going ahead in the years or quarters ahead there will not be further disruption, of course, natural hedge goes for a toss and your finance cost goes up and all that?

Saurav Banerjee: Basically the term itself explanatory; it is basically a loan on the books of the company. The metal is obtained on loan and it is period of 180-days, within those 180-days one can close the Gold Loan or rather one can convert the loan into a purchase mechanism. So, on an overall broad base that is how the Gold Loan works. The facility was earlier provided only by State Bank of India through the temple gold that they have domestically accumulated & of course, there was Nova Scotia. But, we must remember that the disruptions have happened because of the government policies, where the 80:20 regulation was withdrawn and later on they have been reintroduced and currently there is no embargo on the Gold Loan, so the scheme continues well enough, as I said many other banks have come forward and they are offering the Gold Loan products, we do not see any reason why there should be disruptions going forward, in fact, we can see that there is a lot of enthusiasm, there is a lot of benefit that is accruing to not only TBZ but various other companies. So we are pretty confident that unless something extremely drastic and very-very unfortunate happens, the government is not going to intervene any further, the Gold Loan mechanism is here to stay, as I said, all the banks have started offering their products and it is very much available to the companies. The only restriction that a company can think of is in terms of the actual limits which they have been assigned by the consortium of banks they have. So I think that is the only restriction, otherwise there is no real restriction on the usage of this product.

(Archit Ranka): In terms of quantity, how much did we sell Gold in FY15 and how much Gold have we sold this H1FY16?

Saurav Banerjee: I beg your pardon; the information we will not be able to share right now on the call, so we can take offline.

(Archit Ranka): FY15 even historical would be just to get a sense how significant a player we are and also on the very same number on the demand outlook, if you could just on the industry as a whole, help us understand that how has been the number moving because if I understand entire consumption for India is about 1,000 tons or something right, please correct me if I am wrong, and where do we stand and where do you see that number moving because rural consumption have been going down and rural price gold largely, just a broader perspective on the volumes demand sort of over the years to come, not just a few quarters year-to-year how do you see it pan out, if you could share that?

Divyesh Shah: I think what you are talking about the 1,000 ton is a total net import, but actual Jewellery sales is roughly around 550-600 tons which has been published in many reports, and overall, the industry if you look at in last three years the growth has been almost muted and what we have seen is largely the consumers have moved from unorganized to organized, so organized sector has seen a single digit growth and same-store like-to-like. I believe now especially post-September, we are in a festive period, so during Navaratri and now, we are just 9-days away from the Diwali, we have seen that the consumer sentiment has improved, there is an improvement in overall demand and we believe looking at the long wedding season till February end, with wedding jewelry being a compulsion buying, having a 65% share of the overall Jewelry sale in India, I think the volume should go up in second half of the year.

Moderator: Thank you. The next question is from the line of Resham Jain from B&K Securities. Please go ahead.

Resham Jain: Basically, we currently sell through our independent stores and now are going through Franchisee route. Have you ever considered selling your Jewelry through departmental stores or through mall format stores, what is your view on that?

Divyesh Shah: I think the company believes that Jewelry purchase itself is an event and consumers always are looking for an experience which is why we believe that largely most of the successful stores in India are on high street in an independent store format. So I think we believe that we will continue with the same format and at present we do not have any plans to sell Jewelry through departmental stores or stores in the mall.

Resham Jain: Because in your stores also, there is a lot of jewelry stuff which are fashion-based jewelry and yes, you are right because for wedding and those are events where consumer may not like to buy from those places, but yes, for Fashion Jewelry, do you think that is a separate segment or a separate vertical can be introduced that can give a faster growth because those are the modern retail formats which are growing at a much faster pace now?

Divyesh Shah: Of course, our Jewelry is more driven by the latest trend and fashion, but of course it is all precious Jewelry. Currently, the business plan what we have is completely focusing on independent stores, be it Franchisee-model or a company-owned model. Also, we will make some minor improvements in our e-commerce side. So probably we will try to be on marketplace model where we will be able to increase our reach pan India to a completely new consumer segment, but as of now, immediately there is nothing on the plate and we are completely focusing on independent stores.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions, I now hand the conference over to Mr. Nilesh Dalvi for closing comments. Thank you and over to you, sir.

Nilesh Dalvi: Thank you, everyone for attending today's call. In case of any further questions, you can get in touch with me at nilesh.dalvi@dickensonir.com

Moderator: Thank you very much. On behalf of Tribhovandas Bhimji Zaveri Limited, that does conclude this conference call. Thank you for joining us and you may now disconnect your lines.