



Tribhovandas Bhimji Zaveri Ltd. Q2 FY16 Quarterly Update

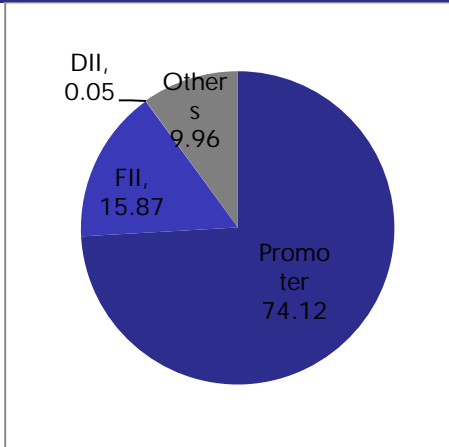
MARKET DATA

Net worth (₹ Cr)	457
P/BV Ratio (FY16E) (x)	1.7
EPS (FY16E) (₹)	14.6
Market Price (09/11/2015)	109
P/E Ratio (FY16E)	9.2
52 Week High (29/01/2015)(₹)	188
52 Week Low (9/11/2015) (₹)	105
Market Capitalisation (₹ Cr)	729.4

AVERAGE MONTHLY VOLUME ('000)

BSE	40.6
NSE	155.0

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Stock	-24.5	-27.8	-31.3
Sensex	-7.5	-3.6	-6.3

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Both Topline and Gross margin lower than expectation

In Q2FY16, revenue increased 2.7% y-o-y and 5.3% q-o-q to ₹437.9 crs. Blended gross margins declined y-o-y by 130bps to 12%. Gross margin for gold jewellery in Q2 FY16 was low at 7.4% (8.6% in Q2 FY15; de-growth of 120bps y-o-y) due to decline in gold prices and discounts offered to push sales. Gross margin for diamond jewellery for Q2 FY16 was at 29.5% (25.1% in Q2 FY15; growth of 440bps y-o-y). Revenue mix from gold and diamond jewellery for Q2 FY16 was 79:20 compared to 71:28 in Q2 FY15. Reported EBITDA margin fell by 316bps y-o-y and 417bps q-o-q to ₹-0.9 crs. as the company accounted for hedging loss of ₹9.2 crs. in Q2 FY16. Adjusted for hedging loss which is expected to be recovered in next quarter, EBITDA margin was 1.9% due to low gross margin and negative operating leverage.

Balance sheet take away

Owing to relaxation of RBI's gold related policies, the own gold and gold on lease ratio has improved to 56:44 in FY15 and continues to remain the same in H1 FY16. TBZ's inventory number of days have drastically increase from 132 days in FY12 to 210 days in FY15 and further to 244 days in Q2FY16 (inventory days for gold and diamond jewellery in H1 FY16 is at 162 and 484 days respectively). Such an elongated working capital cycle has led to increase in short term borrowing and higher borrowing cost.

Franchise Owned Franchise Model

TBZ will open its first Franchise store in November, 2015 in Jharkhand. The stores will be operated on an asset light model, entailing TBZ to scale up its domestic operations at a faster phase and help improve its return ratio. The franchise led expansion should increase the momentum of retail stores. The management has not firmed up its plan. They highlighted that it will involve over a period of time.

We expect 2 and 5 own stores for FY16 and FY17 respectively. The company has opened 1 store in H1 FY16 and as per the management TBZ will focus more on Franchise store and will open company owned stores at a slower pace, we expect TBZ to open 1 store in H2FY16 and 2 stores in FY17.

Outlook and Valuation

We expect PAT to improve to ₹33 crs. in FY16E and ₹49 crs. in FY17E on improving store performance. At current market price of ₹109, the stock is trading at a P/BV multiple of 1.7x FY16E and 1.5x FY17E. We maintain BUY rating on the stock with a revised price target of ₹132 at 1.8x P/BV with an upside of 21% by Mar'16, backed by strong brand, aggressive store expansion, increasing focus on diamond jewellery and consumer shift towards large brand jewellers. We have valued the company using P/BV valuation method and have assigned P/B multiple of 1.8x on FY17BV. We expect TBZ to achieve better results in the coming years and will then switch to P/E valuation method on sizeable earnings.

Quarterly Performance:

Particulars ₹ Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	437.9	426.2	2.7	415.8	5.3	1,933.7	1817.7	6.3
Gross Margin	12.0	13.3	130	15.7	-370	13.8	17.0	-320
EBITDA	-0.9	12.6	NM	16.5	NM	73.8	134.0	-44.9
EBITDA Margin	-0.2	3.0	-316	4.0	-417	3.8	7.3	-353
PBT	-12.1	0.6	NM	2.6	NM	24.3	55.0	-55.8
EPS	-1.8	0.1	NM	0.4	NM	3.6	8.2	-55.8


QUARTERLY PERFORMANCE:

Particulars (₹ Crs.)	Q2 FY16	Q2 FY15	QoQ%	Q1 FY16	YoY%	FY15	FY14	YoY%
Sales	437.9	426.2	2.7	415.8	5.3	1,933.7	1,817.7	6.4
Other Operating Income	0.1	0.1	42.7	0.1	32.1	0.5	6.6	-92.9
Net Sales	438.0	426.3	2.7	415.9	5.3	1,934.2	1,824.3	6.0
Expenditure								
Raw Material	385.5	368.8	4.5	350.7	9.9	1,650.1	1,500.0	10.0
Employee Cost	17.6	16.5	6.6	15.3	14.9	62.3	66.0	-5.6
Other Expenses	35.8	28.4	26.0	33.4	7.3	148.0	124.3	19.1
Total Expenditure	438.9	413.7	6.1	399.4	9.9	1,860.4	1,690.3	10.1
EBITDA	(0.9)	12.6	-107.0	16.5	-105.4	73.8	134.0	-44.9
Other Income	0.9	3.7	-76.8	4.6	-81.5	13.5	5.5	144.9
Depreciation	1.9	3.2	-40.2	2.3	-16.7	8.7	10.3	-15.9
EBIT	(2.0)	13.1	-114.9	18.8	-110.4	78.7	129.2	-39.1
Interest Cost	14.7	12.2	20.2	14.8	-0.6	50.2	46.4	8.2
PBT	(16.7)	0.8	NM	4.0	-516.5	28.4	82.8	-65.7
Tax	(4.6)	0.3	NM	1.4	-425.9	13.4	27.8	-51.6
PAT	(12.1)	0.6	NM	2.6	-565.3	24.3	55.0	-55.8
Networth	457.2	447.7	2.1	465.5	-1.8	465.5	447.7	4.0
FV	10.0	10.0	NM	10.0	NM	10.0	10.0	NM
EPS	-1.8	0.1	NM	0.4	NM	3.6	8.2	-55.8

P&L on 100

Particulars	Q2 FY16	Q2 FY15	Q1 FY16	FY15	FY14
Sales	99.97	99.98	99.98	99.98	99.64
Other Operating Income	0.03	0.02	0.02	0.02	0.36
Net Sales	100.00	100.00	100.00	100.00	100.00
Expenditure					
Raw Material	88.00%	86.50%	84.32%	85.31%	82.22%
Employee Cost	4.01%	3.87%	3.68%	3.22%	3.62%
Other Expenses	8.18%	6.67%	8.03%	7.65%	6.81%
Total Expenditure	100%	97%	96%	96%	93%
EBITDA	-0.20	2.96	3.97	3.82	7.35
Other Income	0.19	0.86	1.11	0.70	0.30
Depreciation	0.44	0.75	0.55	0.45	0.56
EBIT	-0.45	3.07	4.52	4.07	7.08
Interest Cost	3.36	2.87	3.56	2.60	2.54
PBT	-3.80	0.20	0.96	1.47	4.54
Tax	-1.04	0.07	0.34	0.70	1.52
PAT	-2.76	0.13	0.63	1.26	3.01



OUTLOOK & VALUATION: -

TBZ performance has remained weak. The matured stores continue to do well while the new stores (Post IPO) haven't achieved sizeable traction for the company. Aggressive rollout of stores through franchisee and own stores in the new geographies may help TBZ achieve better brand recollect and improvement in performance. We expect gradual pick-up in sales for the company from these new stores. Sales during the upcoming festival season may buoy sales and remain key monitorable for us. The impending 7th pay commission hike next year is also expected to boost consumption of discretionary products like jewellery. Accordingly, we remain positive on players like TBZ.

We expect PAT to improve to ₹33 crs. in FY16E and ₹49 crs. in FY17E on improving store performance. At current market price of ₹109, the stock is trading at a P/BV multiple of 1.7x FY16E and 1.5x FY17E. We maintain BUY rating on the stock with a revised price target of ₹132 at 1.8x P/BV with an upside of 21% by Mar'16, backed by strong brand, aggressive store expansion, increasing focus on diamond jewellery and consumer shift towards large brand jewellers. We have valued the company using P/BV valuation method and have assigned P/B multiple of 1.8x on FY17BV. We expect TBZ to achieve better results in the coming years and will then switch to P/E valuation method on sizeable earnings.

REVISED ESTIMATES: -

Particulars (₹ Crs.)	FY16			FY17		
	Revised	Old	%Change	Revised	Old	%Change
Sales	2,107.8	1,996.7	5.56%	2,054.0	2,658.6	-22.74%
EBITDA	107.7	149.9	-28.17%	123.8	199.6	-38.00%
PAT	32.6	72.8	-55.19%	49.3	114.7	-56.98%

Peer Comparison:

Titan Jewellery

Titan Jewellery (₹ Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Sales	2,347.4	1,827.9	2,072.0	1,981.7
Sales growth (y-o-y)	10.38	-15.27	-10.89	-32.35
Branches*	205	209	212	216
Gold Diamond Mix	74:26	63:37	71:29	76:24
EBITDA Margin	NA	NA	NA	NA

*Stores include Gold plus and Tanishq stores

PCJ (Domestic Business) (₹ Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Sales	1,297.9	1,464.7	949.6	1,293.4
Sales growth (y-o-y)	25.53	32.72	21.38	30.14
Branches	50	51	54	54
Gold Diamond Mix	64:35	69:30	67:32	68:31
EBITDA Margin	11.57	12.18	NA	13.30

TBZ (₹ Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Sales	612.5	463.0	415.9	438.0
Sales growth (y-o-y)	18.45	3.97	-3.82	2.74
Branches	28	28	28	29
Gold Diamond Mix	75:22	76:21	75:21	79:20
EBITDA Margin	3.7	5.4	4.8	-0.2

Although the demand for jewellery has remained subdued, PCJ's sales have grown y-o-y by 30.14% when compared with TBZ at 2.74% and de-growth in Titan at 32.35%. While the Gold Diamond mix remains higher for TBZ and Titan, PCJ has better EBITDA margins as gross margins are higher for diamond jewellery.


INCOME STATEMENT

(` Crs.)	FY14	FY15	FY16E	FY17E
Net Sales	1,824.3	1,934.2	2,107.8	2,134.0
Growth (%)	10.0%	6.0%	9.0%	1.2%
Total Expenses				
RM Expenses	1,500.0	1,648.6	1,786.6	1,778.1
Employee Costs	66.0	62.3	67.4	74.7
Other Expenses	107.1	124.3	148.0	146.1
EBITDA	134.0	75.3	107.7	129.7
Growth (%)	-11.9%	-43.8%	42.9%	20.5%
EBITDA (%)	7.3%	3.9%	5.1%	6.1%
Depreciation	10.3	8.7	9.8	11.7
Other Income	5.5	13.5	-	-
EBIT	129.2	80.1	97.8	118.1
Interest	46.4	50.2	48.5	38.0
PBT	82.8	39.2	49.3	80.1
Less: Taxation	27.8	13.4	16.7	27.1
Effective Tax Rate (%)	33.6%	34.2%	33.9%	33.9%
PAT	55.0	25.8	32.6	52.9
Growth (%)	-34.8%	-53.1%	26.3%	62.2%

BALANCE SHEET

(` Crs.)	FY14	FY15	FY16E	FY17E
Equity Capital	66.7	66.7	66.7	66.7
Reserves	380.7	398.0	421.0	458.5
Networth	447.4	464.7	487.7	525.2
Total Borrowing	16.5	12.0	12.0	12.0
Non Current Liabilities	6.2	2.8	2.8	2.8
Current Liabilities	845.9	811.2	786.1	721.4
Total Liabilities	470.2	479.5	502.5	540.0
Net Block	98.1	111.5	128.3	151.6
Investments	0.1	0.1	0.1	0.1
Current Assets				
Inventories	1,110.6	1,169.5	1,081.1	981.1
Debtors	2.9	0.8	5.8	5.8
Cash	73.8	(20.8)	39.9	89.1
Other Current Assets	11.4	13.4	17.3	17.5
Total Assets	470.2	477.6	500.7	538.2



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