



Tribhovandas Bhimji Zaveri Ltd. Q3 FY16 Quarterly Update

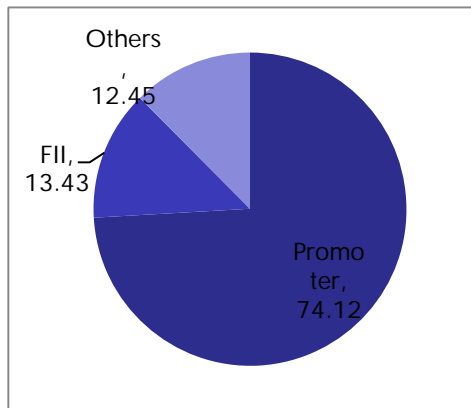
MARKET DATA

Net worth (₹ Cr)	462
P/BV Ratio (FY16E) (x)	0.7
EPS (FY16E) (₹)	(0.3)
Market Price (16/02/2016)	55
P/E Ratio (FY16E)	NA
52 Week High (18/02/2015) (₹)	188
52 Week Low (12/02/2016) (₹)	50
Market Capitalisation (₹ Cr)	333

AVERAGE MONTHLY VOLUME ('000)

BSE	30.6
NSE	118.3

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Stock	-46	-60	-69
Sensex	-8	-16	-19

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Both Topline and Gross margin significantly lower than expectation

Despite the festive season, in Q3FY16 revenue decreased 19.1 % y-o-y to ₹495.6 crs. Blended gross margins declined y-o-y by 110bps to 13.2%. Gross margin for gold jewellery in Q3 FY16 was flat at 9.5% (9.6% in Q2 FY15; de-growth of 10bps y-o-y) while Gross margin for diamond jewellery for Q3 FY16 declined to 27.3% (31.2% in Q3 FY15; de-growth of 390bps y-o-y). Decline in gross margins was due to discounts offered to push sales and increasing competitive intensity. Revenue mix from gold and diamond jewellery for 9M FY16 was 77:21 compared to 75:23 in 9M FY15. EBITDA margin for the quarter grew by 35 bps y-o-y to 4.3% largely because of lower advertising costs. Absolute EBITDA fell to ₹21.2 crs. in Q3 FY16 vs 23.8 crs. in Q3 FY15.

Q3 Results strategic takeaways

EBITDA margins have been propelled higher largely by optimizing advertising costs which are discretionary in nature. There has been a sharp revenue de-growth coupled with margin pressure due to increased competitive intensity in the sector. The company witnessed revenue de-growth despite the festive season and having one time inventory sales to the new franchisee outlet of ₹8.0crs. as per our estimates. The sales slowdown was also because of the discontinuation of the Kalpavruksha Scheme which impacted Q3 sales by ₹90 crs. We expect a revival in sales in FY17 based on higher gold prices and the re-introduction of the KP scheme which is gaining traction in advances. This however coincides with a sharp cut in advertising expenses for TBZ from ₹31.3crs in Q3 FY15 to ₹19.8crs in Q3 FY16. We expect the cut in add-expenses to temper the sales revival. We expect a muted growth outlook despite the strong brand recall that the company enjoys.

Franchise Update

TBZ opened its first Franchise store in November, 2015 in Jharkhand. The store will be operated on an asset light model, enabling TBZ to scale up its domestic operations at improved return ratios. However the franchisee scale-up will be slow as the management has only two franchisee launches in the pipeline. The management is tying up with local non-jeweller entrepreneurs for its franchise outlets. This would help the company maintain quality while compromising on the pace of growth given the learning curve required for non-jeweller partners.

Outlook and Valuation

We expect PAT to be ₹-2.6 crs for FY16 and show only a mild recovery to ₹14.4 crs in FY17 as a result of slow sales off-take and deteriorating margins. The stock trades below book value (largely working capital) due to low visibility on future profitability. We value the company at a book value which is ₹74/ share with a buy rating.

Quarterly Performance:

Particulars ₹ Crs	Q3 FY16	Q3 FY15	% YoY	Q2 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	495.6	612.4	-19.1	437.9	13.2	1,933.7	1817.7	6.3
Gross Margin	13.2	14.3	-110bps	12.0	120bps	13.8	17.0	-320
EBITDA	16.7	22.6	-25.9	-0.9	NM	73.8	134.0	-44.9
EBITDA Margin	3.4	3.7	-31bps	-0.2	358bps	3.8	7.3	-353
PBT	6.8	9.7	-30.6	-12.1	-140.5	24.3	55.0	-55.8
EPS	0.4	1.0	-55.0	-1.8	-123.9	3.6	8.2	-55.8


QUARTERLY PERFORMANCE:

Particulars (₹ Crs.)	Q3 FY16	Q3 FY15	QoQ%	Q2 FY16	YoY%	FY15	FY14	YoY%
Sales	495.6	612.4	-19.1	437.9	13.2	1,933.7	1,817.7	6.4
Other Operating Income	0.1	0.1	0.0	0.1	-24.3	0.5	6.6	-92.9
Net Sales	495.7	612.5	-19.1	438.0	13.2	1,934.2	1,824.3	6.0
Expenditure								
Raw Material	430.8	524.1	-17.8	385.5	11.8	1,650.1	1,500.0	10.0
Employee Cost	15.8	14.6	8.5	17.6	-10.3	62.3	66.0	-5.6
Other Expenses	32.4	51.3	-36.9	35.8	-9.8	148.0	124.3	19.1
Total Expenditure	478.9	589.9	-18.8	438.9	9.1	1,860.4	1,690.3	10.1
EBITDA	16.7	22.6	-25.9	-0.9	NM	73.8	134.0	-44.9
Other Income	5.4	2.1	160.1	0.9	535.6	13.5	5.5	144.9
Depreciation	2.0	3.6	-44.2	1.9	3.3	8.7	10.3	-15.9
EBIT	20.2	21.1	-4.5	-2.0	NM	78.7	129.2	-39.1
Interest Cost	13.4	11.4	17.7	14.7	-8.8	50.2	46.4	8.2
PBT	6.8	9.7	-30.6	-16.7	-140.5	28.4	82.8	-65.7
Tax	3.9	3.3	17.0	-4.6	-184.6	13.4	27.8	-51.6
PAT	2.9	6.4	-55.0	-12.1	-123.9	24.3	55.0	-55.8
Networth	457.2	447.7	2.1	457.2	0.0	465.5	447.7	4.0
FV	10.0	10.0	NM	10.0	NM	10.0	10.0	NM
EPS	0.4	1.0	-55.0	-1.8	-123.9	3.6	8.2	-55.8

P&L on 100

Particulars	Q3 FY16	Q3 FY15	Q2 FY16	FY15	FY14
Sales	99.98	99.98	99.97	99.97	99.64
Other Operating Income	0.02	0.02	0.03	0.03	0.36
Net Sales	100	100	100	100	100
Expenditure					
Raw Material	86.91	85.56	88.00	85.31	82.22
Employee Cost	3.18	2.38	4.01	3.22	3.62
Other Expenses	6.53	8.37	8.18	7.65	6.81
Total Expenditure	96.62	96.31	100.20	96.18	92.65
EBITDA	3.38	3.69	-0.20	3.82	7.35
Other Income	1.09	0.34	0.19	0.70	0.30
Depreciation	0.40	0.58	0.44	0.45	0.56
EBIT	4.07	3.45	-0.45	4.07	7.08
Interest Cost	2.71	1.86	3.36	2.60	2.54
PBT	1.36	1.59	-3.80	1.47	4.54
Tax	0.78	0.54	-1.04	0.69	1.52
PAT	0.58	1.05	-2.76	1.26	3.01



OUTLOOK & VALUATION: -

TBZ performance has remained weak. The company is seeing a slowdown in sales across both matured and new stores. Aggressive rollout of stores through franchisee and own stores in the new geographies would add cost pressures as competitive intensity increases. The slow-down in sales also appears to be company specific as competition has posted healthy sales growth for the quarter. The sharp negative SSSG of ~-23% would cause significant operating de-leverage and push margins lower. The management has responded by cutting back on advertising spends which were lower by ~36% (y-o-y) in Q3 FY16.

We believe this sharp reduction in advertising expenses would have future ramifications on sales growth and brand recall given the highly competitive business environment where PE backed competitors are increasing advertising spends. The impending 7th pay commission hike next year could be expected to boost consumption of discretionary products like jewellery. We expect a sharp jump in FY17 revenues because of the re-introduction of the kalpavruksha scheme which impacted Q3 FY16 revenues by ~`90 crs.

We expect PAT to be ` -2.6 crs. for FY16 and show only a mild recovery to `14 crs. in FY17 as a result of deteriorating margins and operating de-leverage. We value the company at 1.0x FY16 Book Value at `74.5/share. This implies a ~48% upside from the current market price.

REVISED ESTIMATES: -

We revise sales estimates for FY16 lower largely because of subdued sales off-take and negative SSSG in Q3 FY16. Sales growth in FY17 is largely driven by the recent depreciation in the INR vs the USD to 68.5 and sharp rally in gold prices to ~USD 1200/Oz vs ~USD 1100/Oz in Q3 FY16. We also incorporate a jump in volumes driven by the re-launch of the kalpavruksha scheme which should impact revenues by Q2 FY17. We revise margins lower as a result of lower gross margins due to competitive pressure and lower EBITDA margins due to operating de-leverage.

Particulars (Crs.)	FY16			FY17		
	Revised	Old	%Change	Revised	Old	%Change
Sales	1872.3	2,107.8	-10.1%	2465.5	2,054.0	8.5%
EBITDA	51.2	107.7	-52.3 %	86.6	123.8	-49.3%
PAT	-2.6	32.6	NA	14.4	49.3	-90.7%

Peer Comparison:

Titan Jewellery (Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3 FY16
Sales	2,347.4	1,827.9	2,072.0	1,981.7	2819.3
Sales growth (y-o-y)	10.4%	-15.3%	-10.9%	-32.4%	20.1%
Branches*	205	209	212	216	221
Gold Diamond Mix	74:26	63:37	71:29	76:24	NA
EBITDA Margin	NA	NA	NA	NA	NA

*Stores include Gold plus and Tanishq stores

PCJ (Domestic Business) (Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Sales	1,297.9	1,464.7	949.6	1,293.4	1586.0
Sales growth (y-o-y)	25.5%	32.7%	21.4%	30.1%	22.2%
Branches	50	51	54	54	58
Gold Diamond Mix	64:35	69:30	67:32	68:31	70:30
EBITDA Margin	11.6%	12.2%	NA	13.3%	11.9%

TBZ (Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Sales	612.5	463.0	415.9	438.0	495.6
Sales growth (y-o-y)	18.45	3.97	-3.82	2.74	-19.1%
Branches	28	28	28	29	30
Gold Diamond Mix	75:22	76:21	75:21	79:20	77:21
EBITDA Margin	3.7%	5.4%	4.8%	-0.2%	4.3%



INCOME STATEMENT

Particulars (` Crs.)	FY14	FY15	FY16E	FY17E
Net Sales	1824.3	1934.2	1872.3	2465.5
Growth (%)	10.0%	6.0%	-3.2%	31.7%
Total Expenses				
RM Expenses	1500.0	1650.1	1593.5	2110.7
Employee Costs	66.0	62.3	67.4	73.8
Other Expenses	124.3	148.0	160.2	194.3
EBITDA	134.0	73.8	51.2	86.6
Growth (%)	-11.9%	-44.9%	-30.7%	69.2%
EBITDA (%)	7.3%	3.8%	2.7%	3.5%
Depreciation	10.3	-0.7	5.8	6.7
Other Income	5.5	13.5	4.1	-5.7
EBIT	129.2	88.0	49.4	74.2
Interest	46.4	50.2	53.4	52.0
PBT	82.8	37.8	-4.0	22.2
Less: Taxation	27.8	13.4	-1.4	7.8
Effective Tax Rate (%)	34%	36%	35%	35%
PAT	55.0	24.4	-2.6	14.4
Growth (%)	-34.8%	-55.8%	-110.6%	-660.3%

BALANCE SHEET

Particulars (` Crs.)	FY14	FY15	FY16E	FY17E
Equity Capital	66.7	66.7	66.7	66.7
Reserves	380.7	396.7	394.8	405.4
Networth	447.4	463.4	461.5	472.1
Total Borrowing	563.4	583.7	599.4	619.4
Non Current Liabilities	6.2	2.8	2.8	2.8
Current Liabilities	299.0	238.9	187.0	452.8
Total Liabilities	1316.1	1288.8	1250.7	1547.1
Net Block	98.1	112.4	122.2	142.5
Investments	0.1	0.1	0.1	0.1
Current Assets				
Inventories	1110.6	1113.7	1141.3	1427.7
Debtors	2.9	0.8	5.1	6.8
Cash	73.8	34.0	-47.7	-64.6
Other Current Assets	11.4	13.4	15.4	20.2
Total Assets	1316.1	1288.8	1250.7	1547.1



CASHFLOW STATEMENT

Particulars (Crs.)	FY14	FY15	FY16E	FY17E
PBT	82.8	37.8	-4.0	22.2
Depreciation	10.3	-0.7	5.8	6.7
Interest Paid	46.4	50.2	53.4	52.0
Chg in debtors & Other Assets	0.6	-1.9	-6.3	-6.5
Chg in inventory	-85.2	-3.1	-27.6	-286.5
Chg in payables & current liabilities	-42.9	-55.7	-51.9	265.8
Others	-4.6	-3.4	0.0	0.0
Tax Paid	-37.6	-8.4	1.4	-7.8
Cash flow from operating activities	-30.2	14.8	-29.1	45.9
Capital expenditure	-18.8	-12.8	-15.6	-27.0
Others	-35.4	38.8	0.0	0.0
Cash flow from investing activities	-54.2	26.0	-15.6	-27.0
Proceeds from Borrowings	149.7	20.3	15.7	20.0
Interest Paid	-46.4	-50.2	-53.4	-52.0
Dividend & Dividend Tax	-17.5	-17.5	0.7	-3.9
Cash flow from financing activities	85.8	-47.4	-37.0	-35.8
Cash & Cash Equivalents	1.5	-6.7	-81.7	-16.9
Cash at the Beginning	11.1	12.6	34.0	-47.7
Cash at the end	12.6	5.9	-47.7	-64.6

RATIOS

Particulars	FY14	FY15	FY16E	FY17E
Valuation Ratios				
Book Value	67.1	69.5	69.2	70.8
EPS	8.3	3.7	-0.4	2.2
CEPS	9.8	3.5	0.5	3.2
P/E	15.9	40.5	-142.4	25.4
P/BV	2.0	2.1	0.8	0.8
Market Cap / Net Sales	0.5	0.5	0.2	0.1
EV / EBITDA	10.2	20.8	19.8	12.1
EV / Net Sales	0.7	0.8	0.5	0.4
DPS	2.3	1.0	-0.1	0.5
Turnover Ratios				
Net Sales / Total Asset	1.4	1.5	1.5	1.6
Net Sales / Net FA	18.6	17.2	15.3	17.3
Receivable Days	0.6	0.2	1.0	1.0
Payable Days	18.1	22.8	25.0	25.0
Inventory Days	254.2	233.3	248.5	243.2
Current ratio	1.4	1.4	1.4	1.3
Profitability Ratios				
EBITDA %	7.3%	3.8%	2.7%	3.5%
PBIT %	7.1%	4.5%	2.6%	3.0%
PBT %	4.5%	2.0%	-0.2%	0.9%
Tax / PBT	34%	36%	35%	35%
Net Profit %	3.0%	1.3%	-0.1%	0.2%
RoE	12.3%	5.3%	-0.4%	1.0%

Source: Dimensional Securities Pvt. Ltd.



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