



Tribhovandas Bhimji Zaveri Ltd. Q4 FY16 Quarterly Update

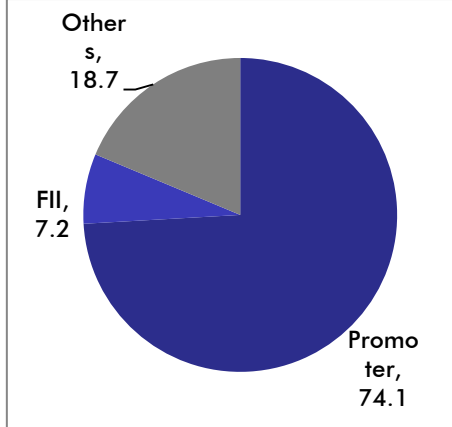
MARKET DATA

Net worth (₹ Cr)	417
P/BV Ratio (FY16E) (x)	1.1
EPS (FY17E) (₹)	7.8
Market Price (16/02/2016)	68
P/E Ratio (FY16E)	8.7x
52 Week High (₹)	166
52 Week Low (₹)	48
Market Capitalisation (₹ Cr)	457

AVERAGE MONTHLY VOLUME ('000)

BSE	804.7
NSE	259.3

SHARE HOLDING PATTERN



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

Vishal Rampuria
(Director, Research)

vishal.rampuria@dimensional.in
+91-22-66545256

■ Huge gross margin beat despite subdued topline

Revenues for Q4 FY16 dropped by 34.1% over Q4FY15 as a result of the nationwide Jewellers strike for the entire month of March. Sales were also impacted by the absence of the Kalpavruksha scheme which contributed ₹62.5 Cr in Q4FY15 sales. Gross margins for Q4FY16 however jumped significantly for the quarter to 17.4% up 420bps over the last quarter. The gross margins were higher across both gold and diamond segments. Diamond Gross margins were at 34.7% up 550bps over Q4FY15 while gold gross margins were 11.7% up 220bps over Q4FY15. The gains in gross margins could be attributed to lower discounting as a result of inventory rationalization and a positive impact of gold prices. Revenue mix from gold and diamond jewellery also improved with diamonds contributing 25.1% of sales up 380bps over Q4FY15. EBITDA margins for the quarter fell 560bps y-o-y to -0.2% largely because of negative operating leverage due to lower sales.

■ Takeaways from concall

The sharp jump in gross margins seems sustainable as per management commentary. If the current gross margins are held over FY17, we expect the company to swing to profitability with mid-single digit EBITDA margins. The company has also guided for the opening of 6-7 franchised stores over the year of which 3 stores should be opened in Q1FY17. These store openings should garner the company ~₹75 Cr of onetime inventory sales for the quarter and help rationalize inventory further. Kalpavruksha scheme would also start contributing to revenues from Q1 FY17. Collections for the Kalpavruksha scheme stood at ₹60 Cr as of Q4FY16 which the management expects to reach ~15% of revenues by Q4 FY17. We expect a strong revival in sales in FY17 based on higher gold prices, the re-introduction of the KP scheme and one time sales to new franchised outlets. This revival in sales with better gross margins and operating leverage should help the company swing to healthy profitability in FY17.

■ Franchise Update

TBZ opened its first Franchise store in Nov'15 in Jharkhand. The store is operated on an asset light model, enabling TBZ to scale up its domestic operations at improved return ratios. The management has signed another 3 franchise outlets which would be commencing operations in Q1FY 17 and plans to open another 3-4 outlets over the year. The franchise scale-up was slow over the past year as the management was building franchising experience. We expect the ramp-up in franchisee operations to be faster going ahead as the company has received over 700 preliminary expressions of interest for the same.

The company charges franchise's ₹50 Lac as an initiation fee and bears 50% of the capital expenditures. The franchise owners however fund the entire inventory which the company helps finance via banker contacts and gold lease know-how.

■ Outlook and Valuation

We expect PAT to jump to ₹52 Crs in FY17 as a result of a massive jump in revenues and gross margins. We assign PE of 15.0x on FY17 EPS of ₹ 7.7 at ₹117/ share with a buy rating which implies a 72% upside from the current market price.

Quarterly Performance:

Particulars ₹Cr	Q4 FY16	Q4 FY15	% YoY	Q3 FY16	%QoQ	FY16	FY15	% YoY
Net Sales	305.1	462.9	-34.1	495.6	-38.4	1654.3	1933.7	-14.5
Gross Margin	17.4	13.8	360bps	13.2	420bps	14.2	13.7	50bps
EBITDA	-0.7	25.0	-102.9	16.7	-104.4	31.6	73.8	-57.2
EBITDA Margin	-0.24	5.40	-564bps	3.4	364bps	1.9	3.8	-190bps
PBT	-16.2	19.4	-183.5	6.8	-340.0	-22.1	28.4	-177.8
EPS	-2.5	2.8	-191.9	0.4	-688.3	-3.5	3.6	-197.0


QUARTERLY PERFORMANCE:

Particulars (₹ Crs.)	Q4 FY16	Q4 FY15	% YoY	Q3 FY16	%QoQ	FY16	FY15	% YoY
Sales	305.1	462.9	-34.1	495.6	-38.4	1654.3	1933.7	-14.5
Other Operating Income	0.1	0.1	-1.8	0.1	-1.8	0.4	0.5	-8.5
Net Sales	305.2	463.0	-34.1	495.7	-38.4	1654.7	1934.2	-14.4
Expenditure								
Raw Material	252.1	398.3	-36.7	430.8	-41.5	1167.0	1268.0	-8.0
Employee Cost	17.3	12.0	44.1	15.8	9.6	66.0	62.3	5.9
Other Expenses	36.5	27.7	31.9	32.4	12.9	138.1	148.0	-6.7
Total Expenditure	305.9	438.0	-30.2	478.9	-36.1	1623.1	1860.4	-12.8
EBITDA	-0.7	25.0	-102.9	16.7	-104.4	31.6	73.8	-57.2
Other Income	1.2	6.2	-79.9	5.4	-77.0	12.1	13.5	-10.1
Depreciation	3.9	-1.9	-305.2	2.0	97.0	10.1	8.7	16.6
EBIT	-3.4	33.1	-110.2	20.2	-116.8	33.6	78.7	-57.2
Interest Cost	12.8	13.7	-6.5	13.4	-4.5	55.7	50.2	11.0
PBT	-16.2	19.4	-183.5	6.8	-340.0	-22.1	28.4	-177.8
Tax	0.8	9.6	-91.7	3.9	-79.3	1.5	13.4	-88.9
PAT	-17.0	18.5	-191.9	2.9	-688.3	-23.6	24.3	-197.0
Networth	442.4	465.5	-5.0	457.2	-3.2	442.4	465.5	-5.0
FV	10.0	10.0	NM	10.0	NM	10.0	10.0	NM
EPS	-2.5	2.8	-191.9	0.4	-688.3	-3.5	3.6	-197.0

P&L on 100

Particulars	Q4 FY16	Q4 FY15	Q3 FY16	FY16	FY15
Sales	99.97	99.98	99.98	99.97	99.98
Other Operating Income	0.03	0.02	0.02	0.03	0.02
Net Sales	100	100	100	100	100
Expenditure					0
Raw Material	82.60	86.03	86.91	70.52	65.56
Employee Cost	5.67	2.59	3.18	3.99	3.22
Other Expenses	11.97	5.98	6.53	8.35	7.65
Total Expenditure	100.24	94.60	96.62	98.09	96.18
EBITDA	-0.24	5.40	3.38	1.91	3.82
Other Income	0.41	1.34	1.09	0.73	0.70
Depreciation	1.28	-0.41	0.40	0.61	0.45
EBIT	-1.11	7.15	4.07	2.03	4.07
Interest Cost	4.20	2.96	2.71	3.37	2.60
PBT	-5.31	4.19	1.36	-1.34	1.47
Tax	0.26	2.07	0.78	0.09	0.70
PAT	-5.57	4.00	0.58	-1.43	1.26

**OUTLOOK & VALUATION: -**

TBZ performance has shown significant traction in Q4 despite the Jewellers strike. Sales were down by ~34% as a result of stores being shut for the entire month of March. The company had also generated sales of ₹62 Cr from the Kalpavruksha scheme in Q4 FY15 which was not present in Q4FY16. The company, however, surprised with better than expected gross margins as a result of lower discounting and an improvement in gold prices. As the company further rationalizes inventory with the commencement of operations by franchisee stores we expect discounting to stay subdued thus helping the company maintain high gross margins. The company would also experience significant sales traction and inventory rationalization from the one time sale of inventory to new franchisee stores (3 to be opened in Q1 FY17).

We expect PAT to jump to ₹52 Crs in FY17 as a result of a massive jump in revenues and gross margins. We would value the company at 15.0x FY17E Earnings at ₹117/ share with a buy rating which implies a 72% upside from the current market price.

REVISED ESTIMATES: -

We revise sales estimates for FY17 higher because of a faster ramp-up of franchise stores, the return of the kalpavruksha scheme and stable gold prices. We revise margins higher as we expect gross margins to stabilize at higher levels due to lower discounting as inventory gets rationalized and better absorption of fixed costs which would result in higher EBITDA Margins.

Particulars (₹ Crs.)	FY17E		
	Revised	Old	%Change
Sales	2843.1	2465.5	15.3%
EBITDA	144.1	86.6	66.4%
PAT	51.9	14.4	360.4%

Peer Comparison:

Titan Jewellery (₹ Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3 FY16	Q4 FY16
Sales	2,347.4	1,827.9	2,072.0	1,981.7	2819.3	1844.4
Sales growth (y-o-y)	10.4%	-15.3%	-10.9%	-32.4%	20.1%	0.9%
Branches*	205	209	212	216	221	227
Gold Diamond Mix	74:26	63:37	71:29	76:24	NA	NA
EBIT Margin	9.6%	12.7%	8.7%	6.0%	10.3%	11.1%

*Stores include Gold plus and Tanishq stores

PCJ (Domestic Business) (₹ Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Sales	1,297.9	1,464.7	949.6	1,293.4	1586.0	NA
Sales growth (y-o-y)	25.5%	32.7%	21.4%	30.1%	22.2%	NA
Branches	50	51	54	54	58	61
Gold Diamond Mix	64:35	69:30	67:32	68:31	70:30	NA
EBITDA Margin	11.6%	12.2%	NA	13.3%	11.9%	NA

TBZ (₹ Crs.)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Sales	612.5	463.0	415.9	438.0	495.6	305.1
Sales growth (y-o-y)	18.45	3.97	-3.82	2.74	-19.1%	-34.1%
Branches	28	28	28	29	30	30
Gold Diamond Mix	75:22	76:21	75:21	79:20	77:21	73:25
EBITDA Margin	3.7%	5.4%	4.8%	-0.2%	4.3%	-0.2%



INCOME STATEMENT

Particulars (₹Cr.)	FY14	FY15	FY16E	FY17E
Net Sales	1824.3	1934.2	1654.8	2843.1
Growth (%)	10.0%	6.0%	-14.4%	71.8%
Total Expenses				
RM Expenses	1499.9	1653.7	1406.3	2420.8
Employee Costs	66.0	62.3	71.7	73.3
Other Expenses	124.3	144.3	139.8	204.9
EBITDA	134.1	73.9	37.0	144.1
Growth (%)	-11.8%	-44.9%	-49.9%	289.6%
EBITDA Margin (%)	7.4%	3.8%	2.2%	5.1%
Depreciation	10.3	8.8	10.4	6.7
Other Income	5.5	13.5	3.6	1.1
EBIT	129.3	78.6	30.2	138.5
Interest	46.4	50.2	55.8	59.5
PBT	83.0	37.7	-25.7	79.0
Less: Taxation	27.8	13.4	1.9	27.1
Effective Tax Rate (%)	34%	36%	-8%	34%
PAT	55.2	24.3	-27.6	51.9
Growth (%)	-34.7%	-56.0%	-213.6%	288.2%

BALANCE SHEET

Particulars (₹Cr.)	FY14	FY15	FY16E	FY17E
Equity Capital	66.7	66.7	66.7	66.7
Reserves	380.7	386.5	351.1	403.0
Networth	447.4	453.2	417.8	469.7
Total Borrowing	563.4	583.7	645.9	745.4
Non Current Liabilities	6.2	2.8	9.5	3.8
Current Liabilities	299.0	258.6	204.9	340.6
Total Liabilities	1316.1	1298.2	1278.1	1559.4
Net Block	98.1	112.4	117.5	138.7
Investments	0.1	0.1	0.1	0.1
Current Assets				
Inventories	1110.6	1113.7	1118.5	1345.4
Debtors	2.9	0.8	4.5	7.8
Cash	73.9	43.5	9.5	29.8
Other Current Assets	11.4	13.4	13.6	23.3
Total Assets	1316.2	1298.3	1278.1	1559.5


CASHFLOW STATEMENT

Particulars (₹Cr.)	FY14	FY15	FY16	FY17E
PBT	83.0	37.7	-25.7	79.0
Depreciation	10.3	8.8	10.4	6.7
Interest Paid	46.4	50.2	55.8	59.5
Chg in debtors & Other Assets	0.6	-1.9	-3.9	-13.0
Chg in inventory	-85.2	-3.1	-4.8	-226.9
Chg in payables & current liabilities	-42.9	-55.7	-47.0	130.0
Others	-4.6	-3.4	0.0	0.0
Tax Paid	-37.6	-8.4	-1.9	-27.1
Cash flow from operating activities	-30.0	24.1	-17.0	8.2
Capital expenditure	-18.8	-12.8	-15.6	-27.9
Others	-35.4	38.8	0.0	0.0
Cash flow from investing activities	-54.2	26.0	-15.6	-27.9
Proceeds from Borrowings	149.7	20.3	62.2	99.5
Interest Paid	-46.4	-50.2	-55.8	-59.5
Dividend & Dividend Tax	-17.5	-17.5	-7.8	0.0
Cash flow from financing activities	85.9	-47.4	-1.4	40.0
Cash & Cash Equivalents	1.6	2.7	-34.0	20.2
Cash at the Beginning	11.1	12.7	43.5	9.5
Cash at the end	12.7	15.4	9.5	29.8

RATIOS

Particulars	FY14	FY15	FY16	FY17E
Valuation Ratios				
Book Value	67.1	67.9	62.6	70.4
EPS	8.3	3.6	-4.1	7.8
CEPS	9.8	5.0	-2.6	8.8
P/E	15.9	40.7	-16.5	8.8
P/BV	2.0	2.2	1.1	1.0
Market Cap / Net Sales	0.5	0.5	0.3	0.2
EV / EBITDA	10.2	20.7	29.5	8.1
EV / Net Sales	0.7	0.8	0.7	0.4
DPS	2.3	2.3	1.0	0.0
Turnover Ratios				
Net Sales / Total Asset	1.4	1.5	1.3	1.8
Net Sales / Net FA	18.6	17.2	14.1	20.5
Receivable Days	0.6	0.2	1.0	1.0
Payable Days	18.1	22.6	25.0	25.0
Inventory Days	254.2	230.4	269.1	206.4
Current ratio	1.4	1.4	1.4	1.4
Profitability Ratios				
EBITDA %	7.4%	3.8%	2.2%	5.1%
PBIT %	7.1%	4.1%	1.8%	4.9%
PBT %	4.5%	1.5%	-1.6%	2.8%
Tax / PBT	34%	47%	-8%	34%
Net Profit %	3.0%	0.8%	-1.7%	1.8%
RoE	12.3%	5.4%	-6.6%	11.1%

Source: Dimensional Securities Pvt. Ltd.



ANALYST CERTIFICATION

We /I (Vishal Rampuria), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Vishal Rampuria), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Vishal Rampuria), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.