

## CMP: INR184

### Festive season gives QoQ boost to performance, valuations attractive

(TBZL IN, Mkt. Cap USD0.2b, CMP INR184, Not rated)

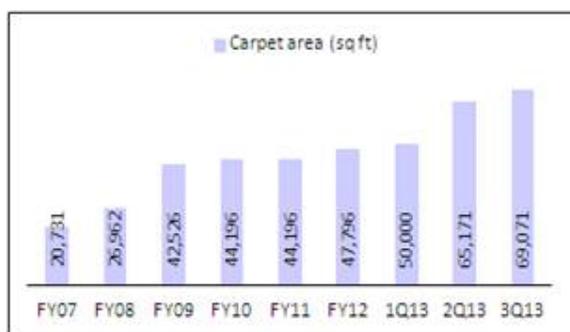
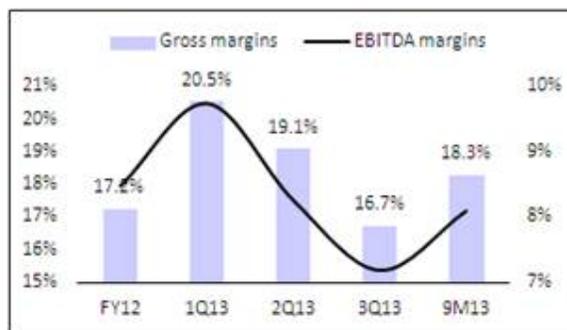
- TBZL 3QFY13 Net Sales grew 65% QoQ to INR5748mn. Gross margins contracted 235bp QoQ, while EBITDA margins contracted 110bps QoQ to 7.2% and PAT grew 30% to INR247mn. All numbers are QoQ as TBZ was not listed in the corresponding base quarter of FY12.
- Same store performance was flattish - Diamond 5-6% de-growth, Gold -8% de-growth
- Mgmt indicated that depressed consumer sentiment, higher salience of Gold jewellery in the Diwali quarter (coins salience doubled to 20% QoQ) impacted the gross margins adversely; however it is confident of higher gross margins for the quarters ahead as it expects higher contribution from diamond jewelry.
- TBZ has opened 2 showrooms during the quarter, 2 more in January and total showrooms now stand at 23 – 9 opened YTD (3 more to go in 4Q13). As per management TBZ is experiencing good demand in 4Q due to wedding season sales.
- Impact of current RBI working group recommendation on linking Gold lease rate to base rate works out to additional 5% (currently paying 5% annualized interest. Given Inventory turns of 4x – effective additional cost will be 1.25% which management believes can be passed on to customers.
- We believe that TBZL has a strong brand that can be leveraged to expand the scale of operations in the fast evolving branded jewelry market in India, of which 90% is unorganized. TBZL has started on strong note as far as execution of expansion plan is concerned and is progressing as per plans.
- TBZ's re-rating post IPO is underscored by the execution excellence. TBZ trades at FY13E and FY14E P/E of 15x and 9.8x, consensus estimates. We do not have a rating on TBZ.

#### Quarterly Summary

(INR mn)	3QFY13	2QFY13	% chg	1QFY13	9MFY13	FY12
Revenue	5,748	3,490	64.7	2,823	12,061	13,804
EBITDA	413	288	43.4	275	976	1,170
OPM (%)	7.2	8.3	(13)	9.7	8.1	8.5
PAT	247	190	30.1	163	600	572
RM	83.3%	80.9%		79.5%	81.7%	82.8%
Gross margins	16.7%	19.1%		20.5%	18.3%	17.2%
Staff	2.3%	3.3%		3.9%	3.0%	3.3%
Other expenses	7.2%	7.5%		6.9%	7.2%	5.5%
EBITDA	7.2%	8.3%		9.7%	8.1%	8.5%
PBT	6.4%	7.4%		8.6%	7.2%	6.3%
PAT	4.3%	5.4%		5.8%	5.0%	4.1%

**3QFY13 performance: Festive season drives QoQ jump**

- Net Sales grew 65% QoQ to INR5748mn aided by festive season demand. TBZ has opened 2 showrooms during the quarter and added 3900 sq ft of space on the base of ~65k sqft.
- It has opened 2 more showrooms in January and total showrooms now stand at 23 – 9 opened YTD (3 more to go in 4Q13).
- Gross margins contract 235bp QoQ – likely mix erosion due to a) depressed consumer sentiment and b) Higher salience of Gold jewellery in the Diwali quarter.
- EBITDA margins contracted 110bps QoQ to 7.2% - the margin contraction was curtailed due to savings in staff cost (down 100bp) and other expenditure (down 30bp)
- Interest costs for the quarter increased by 42% to INR58mn, while other income was higher by 24%.
- Despite ~700 bp QoQ increase in tax rate, PAT grew 30% to INR247mn aided by strong revenue growth.
- Space addition of 3900 sq ft in 3Q13 – 69071sq ft as on 31st Dec’2012.
- **For 9MFY13, sales, EBITDA and PAT stood at INR12.06bn, INR976m and INR600m.**



**Conference call takeaways**

**TBZ’s view on IMPACT OF APPLYING BASE RATE ON GOLD LEASE**

- TBZ mentioned that the notification of the linking of base rate to gold lease rate needs approvals from Board of RBI and Ministry of Finance.
- If the rule is implemented, the cost of gold loan would increase by 5% (from 5% to 10%-base rate)

- Incremental impact for TBZ would be ~1.25% as inventory turns of TBZ is 4 times.
- This additional 1.25% will be charged to the customers through increase in making charge, per management.

#### Mgmt guidance on the business

- Expansion plan as mentioned during the IPO is on track (57 stores by FY15).
- Mgmt expects the demand to remain sluggish, however see an uptick during the next wedding season.
- Target for gold/diamond mix by FY15 is in the ratio 65%:35% (gold: diamond ratio)
- Expect significant gross margin expansion due to higher diamond jewelry sales.
- Q4 ad spends to be significantly lower.

Store Expansion Plan					
	Current	FY13	FY14	FY15	Total
Large -format	11	9	8	8	36
Small-format	3	3	7	8	21
No. of Showrooms	14	12	15	16	57

#### On quarterly performance

- Q3 growth was driven by the new stores, while sales from the existing stores was flat.
- New stores sales mix was better at 72-28 (Gold: Diamond) , while the existing stores mix was at 74-26 (this resulted in the gross margin contraction)
- Ad spends and pre opening expenses significantly higher during the quarter. (Typically the ad spends are ~2.5% of sales, however during the festive season they are at ~3% of sales).
- Gold margins declined on account of higher sales of coins (festive season impact). Salience of coins doubled QoQ to 20% .
- Diamond margins declined on account of higher discounts.
- In order to attract customers, TBZ offered discounts during the quarter (Diamond-2.5%, gold -1.5%)
- Mgmt indicated that as against past few quarters its witnessed less buying from first time (new buyers), while the demand from mature buyers remained intact.
- Same store: Gold volumes declined ~8%, while the diamond saw declines in the range of 5-6%.
- Value growth of gold stood at 6%, while that of diamond stood at 16%.
- As on December 31, 2012 gold loan stood at INR1.53b, while INR1.33 worth of loans for diamond inventory.

#### Valuations and view

- We believe that TBZL has a strong brand that can be leveraged to expand the scale of operations in the fast evolving branded jewelry market in India, of which 90% is unorganized. TBZL has started on strong note as far as execution of expansion plan is concerned and is progressing as per plans.
- TBZ's re-rating post IPO is underscored by the execution excellence, in our view. Stock has correct ~20% post the uncertainty around RBI regulation on Gold leasing rate.
- TBZ trades at FY13E and FY14E P/E of 15x and 9.8x, consensus estimates. We do not have a rating on TBZ.

<b>Financial &amp; Valuation (INR b)</b>				
<b>Y/E March</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Sales	13.8	18.1	27.4	38.8
EBITDA	1.3	1.5	2.3	3.3
Adj. PAT	0.6	0.9	1.3	2.0
Adj. EPS (INR)	11.5	12.9	19.8	29.3
EPS Gr. (%)	-	12.7	53.5	48.0
BV/Sh.(INR)	32.0	65.1	84.9	114.3
RoE (%)	42.8	19.9	23.3	25.7
<b>Valuation</b>				
P/E (x)	-	15.6	10.2	6.9
P/BV (x)	-	3.1	2.4	1.8
EV/EBITDA (x)	-	10.4	6.6	4.8
<b>Bloomberg Consensus</b>				

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