

Tribhovandas Bhimji Zaveri (TBZ) : "SUBSCRIBE"

21st April, 2012

TBZ is a well-known and trusted jewellery retailer in India with 14 showrooms in 10 cities across five states, which have a total carpet area of approximately 48,818 sq. ft. The company is engaged in retailing of gold jewellery, diamond-studded jewellery, platinum and jadau jewellery. The design and manufacture of its products is done either in-house or by third parties. All of its showrooms, trade under the name of "Tribhovandas Bhimji Zaveri". Its flagship showroom in Zaveri Bazar, Mumbai was established in 1864. Since 2001, it has opened several showrooms, including opening seven showrooms between August 2007 and October 2008. The company is planning to add 43 new showrooms under the Tribhovandas Bhimji Zaveri brand in the next three years, which is around three times of its current size. TBZ has global presence too. It offers jewellery from various parts of the world such as Italy, Turkey and Thailand. In Fiscal 2011, TBZ's revenue from operations stood at Rs. 11,939.3 mn on a consolidated basis, of which 72.51% was from the sale of gold jewellery, 22.08% was from the sale of diamond - studded jewellery and 5.41% was from the sale of other products.

At the upper band of the issue price, TBZ is valued at 13x - 9MFY12 Annualized EPS/share of Rs. 10.06/- at upper end of the price band. With due consideration to factors like a) existence into business of gold since 1864, well recognized and established brand, b) expertise in the business of jewellery retailing, c) good demand for gold jewellery in India despite a significant rise in gold prices by 28% in 2011 on yoy basis, d) diamond jewellery business forming a part of revenue business which would lead to improved margins, we believe the stock is priced reasonable. However, concerns like possible decline in gold prices, higher working capital requirement, and significant competition from unorganized and organized players may affect the performance of the company. We recommend investors to "SUBSCRIBE" the issue for listing gains as it is a proxy for India's consumer story.

Financial summary (Consolidated)

Y/e 31 Mar (Rs. mn)	9MFY 11	FY11	FY10
Total income	11,177.77	11,943.08	8,852.52
EBITDA	1,035.43	872.46	474.48
EBITDA Margin (%)	9.26	7.30	5.36
PBT	758.13	603.54	247.66
Reported PAT	503.13	400.29	169.23
PAT margin (%)	4.5	3.35	1.91
Equity Capital	500	500	100
Networth	1,604.02	1,095	684.52
Total Debt	2,048.4	2,092.9	1959.6
Debt/Equity (x)	1.27	1.91	2.86
RoNW (%)	31.3	36.5	24.7

Source: RHP, Ajcon Research

Issue date	April 24 – 26, 2012
Issue size	Rs. 2,099.16 mn at upper end of the price band
FV	Rs.10
Price Band	Rs. 120-126 per share
Bid size	45 shares
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Type of issue	Fresh Issue: 16.66 mn
Equity shares post issue	66.67 mn
Post issue market capitalization	Rs. 8400.4 mn at upper price band
Book Running Lead Managers	IDFC Capital, Avendus Capital
IPO Grading	Grade 3/5 by CRISIL indicating above average fundamentals
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	98.9	74.17
Individual shareholders holding nominal share capital in excess of Rs. 1 lakh	1.10	-
Public & Others	-	25.83
Total	100	100

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ABOUT THE COMPANY

The Company is a well-known and trusted jewellery retailer in India with 14 showrooms in 10 cities across five states, which have a total carpet area of approximately 48,818 sq. ft. It primarily sells gold jewellery and diamond-studded jewellery. It also sells other products, including platinum jewellery and jadau jewellery. The design and manufacture of its products is done either in-house or by third parties. All of its showrooms trade under the name of "Tribhovandas Bhimji Zaveri". The Company's flagship showroom in Zaveri Bazar, Mumbai was established in 1864. Since 2001, it has opened several showrooms, including opening seven showrooms between August 2007 and October 2008.

Out of its 14 showrooms, 11 are "large format" high street showrooms (carpet area of 3,000 sq. ft. or more) and three are "small format" high street showrooms (carpet area of 1,000-3,000 sq. ft.). Four of its showrooms are in Mumbai, Maharashtra; one is in Thane, Maharashtra; one is in Pune, Maharashtra; two are in Hyderabad, Andhra Pradesh; one is in Vijayawada, Andhra Pradesh; one is in Ahmedabad, Gujarat; one is in Surat, Gujarat; one is in Rajkot, Gujarat; one is in Indore, Madhya Pradesh; and one is in Kochi, Kerala. Effective June 1, 2011, the company surrendered the lease for one showroom to the lessor and on July 27, 2011 the company opened a new showroom in Rajkot, Gujarat. It closed one small format showroom in Pune on March 31, 2012 and opened a large format showroom in Pune on April 1, 2012. It plans to open an additional 43 showrooms (25 large format high street showrooms and 18 small format high street showrooms) by the end of Fiscal 2015, which would give the Company a total of 57 showrooms (with a total carpet area of approximately 150,000 sq. ft.) in 43 cities across 14 states.

TBZ offers its customers a wide variety of jewellery from across India in order to cater to regional tastes. In addition, it also offers jewellery from various parts of the world such as Italy, Turkey and Thailand. TBZ also customises jewellery for individual needs. The company offers jewellery across different price points so as to maximise its potential customer base. The Company believes that its more than 145-year old track-record signifies consumers' trust in the quality and purity of its products. This is enhanced by the fact that it offers a buy-back guarantee on its jewellery, subject to certain conditions. TBZ began to offer this guarantee in 1931, and it believes that it was the first jewellery retailer in India to do so.

Manufacturing activities, procurement and facilities

TBZ has its own manufacturing facilities for diamond-studded jewellery. In addition, it outsources the production of jewellery as well as purchase jewellery from third parties. It procures jewellery from suppliers in different regions across India, which it believes would help it gain an insight into differing regional preferences. It has a centralised procurement policy and generally purchase in large volumes in order to stock its 14 showrooms. The Company believes that by purchasing in large volumes, it is able to purchase inventory at lower prices than its competitors in the unorganised sector, which enables the Company to sell its products at competitive prices.

The Company manufactures diamond-studded jewellery for sale in its showrooms at a facility in Kandivali, Mumbai, which has a carpet area of 17,739 sq. ft. It has an annual production capacity (based on one eight-hour shift per day) of approximately 100,000 cts. of diamond-studded jewellery, 4,000 kgs of gold refining and manufacturing 4,500 kgs of gold jewellery components. This facility was opened in Fiscal 2011. TBZ also has another manufacturing facility in Kandivali, Mumbai, which has a carpet area of 5,755 sq. ft. Prior to the opening of the new facility, all of its manufacturing was done at this facility. The company shifted the majority of its production activity to the new facility during the third quarter of Fiscal 2011. It produced 35,509 cts. of diamond-studded jewellery in Fiscal 2011 and 37,402 cts. of diamond-studded jewellery in the nine months ended December 31, 2011.

OBJECTS OF THE ISSUE

The Net Proceeds will be utilized in accordance with the table set forth below:

Particulars	Amount (Rs. mn)
To finance the establishment of new showrooms	191.94
To meet incremental working capital requirements	1,604.49
General Corporate Purposes	-

Source: RHP, Ajcon Research

1) Finance the establishment of new showrooms:

The Company classifies showrooms which have a carpet area of 3,000 sq. ft. or more as large format high street showrooms. As a part of its strategy, the Company plans to open nine new "large format" high street showrooms under the Tribhovandas Bhimji Zaveri brand during the Fiscal Year 2013 and towards this object, the Company intends to deploy an amount aggregating to Rs. 191.94 mn. The Company has identified eight cities for the establishment of nine new showrooms in Fiscal 2013, one each in Aurangabad, Gandhidam, Hyderabad, Nagpur, Vadodra, Valsad, Vishakapatnam and two in Kolkata. The premises for the new large format high street showrooms will be taken on lease or on the basis of leave and licence agreements. The estimated cost of establishment of such showrooms is given in the table below:

Particulars	Number of large format high street showroom	Capital Expenditure (a)	Advance deposits (b)	rental	Total (a+b)
Large format high street showroom	9	154.2	37.7		191.9

Source: RHP, Ajcon Research

2) Meet incremental working capital requirements

The Company's business is working capital intensive and the Company avails majority of its working capital in the ordinary course of its business from various banks and from its internal accruals. As on December 31, 2011, the Company's working capital funding from banks is of Rs. 1,908.23 mn.

The total working capital requirement as of March 31, 2013 is estimated to be Rs. 5,875.6 mn. As of the date of this Red Herring Prospectus, the Company was sanctioned working capital facility for an amount of Rs. 1,400 mn and Rs. 480 mn from State Bank of India and HDFC Bank Ltd. respectively aggregating to Rs. 1,880 mn. The working capital funding from banks as of December 31, 2011, including cheques issued but not presented is Rs. 1,908.23 mn.

75% of the total working capital funding from the banks as of March 31, 2013 amounts to Rs. 1,867.55 mn. Based on the above sanctioned credit facility of Rs. 1,880 mn, the Company has firm arrangements for more than 75% of the working capital requirements from banks.

The Company requires additional working capital primarily for financing the inventory in the new showrooms that it is proposing to set up pursuant to this issue.

Basis of estimation of working capital requirement

The details of the Company's working capital requirements as at December 31, 2011 and funding of the same are as set out in the table below:

Sr. No.	Particulars	As at December 31, 2011 (Rs. in mn)
	Current Assets	
1.	Inventories	5,078.28
2.	Trade Receivables	53.64
3.	Cash and cash equivalents	192.01
4.	Short-term loans and advances	61.16
5.	Other current assets	44.53
	Total current assets (A)	5,429.62
	Current Liabilities (other than short term borrowings)	
1.	Trade payables	1,141.02
2.	Other current liabilities	1,033.91
3.	Short-term provisions	193.14
	Total current liabilities other than short – term borrowings (B)	2,368.07
	Total Working Capital Requirements (A-B)	3061.55
	Funding Pattern	
	Working capital funding from banks	1,908.23
	Internal accruals	1,153.32

Source: RHP, Ajcon Research

The details of the Company's expected working capital requirements as at March 31, 2013 and funding of the same are as set out in the table below:

Sr. No.	Particulars	As at December 31, 2011 (Rs. in mn)
	Current Assets	
1.	Inventories	7,000.64
2.	Trade Receivables	63.8
3.	Cash and cash equivalents	127.6
4.	Short-term loans and advances	191.4
	Total current assets (A)	7,383.45
	Current Liabilities (other than short term borrowings) (B)	1,507.83
	Total Working Capital Requirements (A-B)	5,875.62
	Proposed Funding Pattern	
	Working Capital Funding from Banks	2,490.07
	Internal accruals	1,781.06
	Part of the Net Proceeds	1,604.49

Source: RHP, Ajcon Research

REVENUE MIX (RS. IN MN, EXCEPT PERCENTAGE)

Product	9MFY11	YoY growth (%)	FY 2011	% of total revenue	YoY growth (%)	FY 2010	% of total revenue	YoY growth (%)	FY 2009	% of total revenue
Gold Jewellery	8,068.38	72.48	8,657.33	72.51	33.15	6,501.88	73.48	35.56	4,796.17	71.72
Diamond-studded jewellery	2,805.58	25.2	2,636.58	22.08	37.83	1,912.9	21.62	23.21	1,552.59	23.21
Other products	257.87	2.32	645.4	5.41	48.65	434.17	4.91	28.19	338.67	5.07
Total	11,131.84	100	11,939.31	100	34.92	8,848.95	100	32.32	6,687.43	100

Source: RHP, Ajcon Research

VOLUME OF THE GOLD AND DIAMONDS SOLD, THE AVERAGE PRICE PER VOLUME UNIT

Product	9MFY11	FY 2011	YoY growth (%)	FY 2010	YoY growth (%)	FY 2009
Gold (grams)	3,018,549	4,110,358	8.38	3,792,453	9.02	3,478,771
Average price per gram (Rs.)	2,672.93	2,106.22	22.85	1,714.43	24.35	1,378.75
Diamonds (cts.)	43,738	51,995	25.97	41,276	16.55	35,416
Average price per ct. (Rs.)	64,145.18	50,707.87	9.42	46,344.29	5.71	43,841.22

Source: RHP, Ajcon Research

KEY POSITIVES

Long Operating History and a Strong Brand Name

The Company believes the trade name "Tribhovandas Bhimji Zaveri" is trusted by consumers due to its more than 145-year history and the quality and purity of its products.

Design, Innovation and Product Range

It has a dedicated design team, currently comprising 25 designers, 10 of whom are skilled in computer-aided design (CAD). All of its designers are focused on developing new products and designs. The design team works to understand customer requirements through customer interactions, national and international jewellery trade shows and trend forecasting reports so as to introduce new designs in line with customer expectations. It also offers its customers a wide variety of jewellery from different regions in India in order to cater to regional tastes. Each showroom has a portion of its inventory dedicated to local designs and preferences. The Company also offers jewellery from various parts of the world such as Italy, Turkey and Thailand. In order to widen its customer base and loyalty, it endeavors to provide individually customized designs and products when it is possible. It generally introduces eight to 10 new lines of jewellery design every year.

Well-Established Systems and Procedures

The Company has established systems and procedures for staffing, management processes and the implementation of current and long-term objectives. Its operational processes are set forth in an operating manual.

Efficient Inventory Management

The Company's inventory is bar-coded and monitored and controlled through Oracle E-Business Suite software. The Company's inventory for each showroom is planned at the beginning of each year in amounts determined to achieve the desired sales and inventory turnover. As part of its inventory management, it also rotates jewellery between different showrooms in an effort to increase turnover. Some of the products obtained from third parties that the company is unable to sell are either returned to the vendors or exchanged for other products.

Strong Technology Architecture

The Company has implemented Oracle E-Business Suite software across all showrooms and offices in order to maintain greater control over business operations. The software allows for connectivity across all its showrooms and offices and transfers data in real time, allowing its management team to obtain real-time information. Additionally, it has implemented VMware infrastructure, which is a combination of server, storage and virtual network technologies. It also has backup support for all systems, and the data is protected by security measures.

Comprehensive Corporate Planning and Budgeting

The Company has a well defined three-year corporate plan as well as an annual budgeting process. The annual budgeting process is designed to achieve functional and divisional goals and profitability for the year. The Company starts the budget preparation process by reviewing its past sales performance, competitors' activities, customer reactions to prior marketing campaigns and product category performances and estimated demand. The Company then analyzes the data in order to draw conclusions on its performance, and then it works out its sales objectives for the next financial year with a focus on same store sales growth by increasing footfalls, increasing footfall conversion and increasing average ticket size.

Thorough Review Procedures

The Company believes its review process is thorough, with all employees undergoing monthly, quarterly, and semi-annual performance reviews. The Company's business operations are reviewed and audited by both an in-house audit team and a professionally appointed external team specializing in such audits. The organizational structure is also being reviewed by a qualified external consulting firm.

Expansion Experience

The Company has substantial experience in expanding operations and managing the launches of new showrooms. The Company opened seven new showrooms within a 15-month period from August 2007 to October 2008, which gave it invaluable experience in selecting potential markets, real estate locations, training staff and undertaking the marketing and advertising required to establish and support its newly launched showrooms. TBZ launched a new showroom in Rajkot, Gujarat in July 2011 and launched a new large format showroom in Pune, Maharashtra on April 1, 2012. The Company believes that this experience will enable it to achieve its planned expansion of showrooms on time and within budget.

Owned Manufacturing Facilities

The Company manufactures diamond-studded jewellery for sale in showrooms at a facility in Kandivali, Mumbai, which has a carpet area of 17,739 sq. ft. It has an annual production capacity (based on one eight-hour shift per day) of approximately 100,000 cts. of diamond-studded jewellery, 4,000 kgs of gold refining and manufacturing 4,500 kgs of gold jewellery components. This facility was opened in Fiscal 2011. It also has another manufacturing facility in Kandivali, Mumbai, which has a carpet area of 5,755 sq. ft. Prior to the opening of the new facility, all of its manufacturing was done at this facility. The Company shifted the majority of its production activity to the new facility during the third quarter of Fiscal 2011.

PEER COMPARISON

The company is jewellery retailing company, primarily into gold and diamond studded jewellery, with own manufacturing facility for diamond-studded jewellery. It sells only through its showrooms in India. TBZ faces competition from few organized players and large number of small unorganized players who capture 90% of the market. However, currently there is no strictly comparable listed entity in India having similar business operations. The differences are largely of product mix, markets and sourcing. However, the following companies can be compared considering their size and business operations:

Particulars	CMP (Rs.)	EPS (TTM) as on 31 st March, 2011	P/E (x)	RoNW (%)	Book Value per share (Rs.)	Sales (Rs. in mn)
Tribhovandas Bhimji Zaveri Ltd.	120-126	10.06*	12-13	36.78	55.5**	11,943
Peers						
Titan Industries Ltd.	237.45	6.07	39	41.98	231	65,208.95
Gitanjali Gems Ltd.	332.75	30.66	11	10.03	265.88	51,224.7
Thangamayil Jewellery Ltd.	168.1	42.19	4	31.90	71.58	6,582.6

Source: RHP, BSE, Ajcon Research, * 9MFY12 annualised EPS, ** Post Issue Book Value

COMPANY SPECIFIC RISK AND CONCERNS

The use of the words "Tribhovandas Bhimji Zaveri" in the corporate and trading names by certain third parties who have a right to use those words in their names may lead consumers to confuse them with TBZ and if they experience any negative publicity, it could have an adverse effect on its business, results of operations and financial condition. This confusion might also lead to the Company losing business to such competitors and might adversely affect goodwill.

The Company has not identified the exact locations where it proposes to establish new large format high street showrooms and have not entered into any definitive agreements to utilize the Issue proceeds.

Decline in the value of gold and diamonds could significantly impact business and financial performance

The Company records the value of its inventory at the lower of cost, which in the case of gold and diamonds is the annual weighted average cost and net realizable value. As at December 31, 2011, its inventory of gold was Rs. 2,547 mn and its inventory of diamonds was Rs. 1,387.5 mn. In Fiscal 2011, the average turnover of its gold inventory was 96 days and the average turnover of its diamond inventory was 205 days. The Company's policy is to endeavour to buy the same Rupee value of gold at the end of each day that it sells across all its showrooms that day. Although this reduces, its exposure to volatility in the price of gold, it does not eliminate it. A pro-longed decline in the price of gold and diamonds would have an adverse effect on the value of its gold and diamond inventory, which would have an adverse effect on its results of operations and financial condition.

INDUSTRY CONCERNS

Volatility in raw material prices

According to CARE Research, Indian consumers have a tendency to postpone their purchases until the prices seem reasonable and restrain from panic buying. It has been observed that consumers lay emphasis on stability of gold prices rather than absolute prices of gold to make their purchases. Retailers who quote making charges as a percentage of the raw material cost may be negatively impacted by a significant decline in gold or diamond prices.

High inventory requirements, low risk of inventory obsolescence

Jewellery retailers have high capital requirements for inventory, as the business requires a minimum range and amount of jewellery items to be stocked and these are high value items. But risk of inventory obsolescence is much lower as compared to other retail businesses. The metals and the gems can be reused and redesigned and there is no natural wear and tear.

Long gestation period

Retailers across verticals typically face long gestation periods for their projects. This is mainly because retailing (including jewellery retailing) is a low margin business. According to CRISIL Research, in case of jewellery retailing, profits earned by large organized players are exclusively on making charges.

For research related queries contact Mr. Akash Jain, VP - Research at research@ajcon.net

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