

Tribhovandas Bhimji Zaveri Ltd

CRISIL IPO Grade 3/5 (Average)

February 24, 2012

Grading summary

CRISIL has assigned a CRISIL IPO grade of '3/5' (pronounced 'three on five') to the proposed IPO of Tribhovandas Bhimji Zaveri Ltd (TBZ). This grade indicates that the fundamentals of the IPO are **average** relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The assigned grade reflects TBZ's century-old presence in the retail jewellery business and the resultant strong brand recall. The grade factors in the resilience of demand for gold jewellery in India despite a significant rise in gold prices, 28% y-o-y in 2011, which has added shine to TBZ's top line. Compared to other gold jewellery players, TBZ's revenue mix leans towards higher-margin diamond jewellery, which bodes well for TBZ in the wake of increasing acceptance of diamond jewellery in India. The grade has also taken into account the expected increase in organised retail penetration in jewellery vis-à-vis the single-store format, which will benefit established players like TBZ. The company has steadily expanded from one store to 14 stores in the past decade.

The grade is restrained by competition in the jewellery retailing market, which will likely intensify following planned expansions by regional/traditional players. TBZ too plans to expand to 22 stores by end-FY13 at a faster-than-ever pace, which could throw up execution challenges even though its strategies (regarding store location, size, format, personnel and schedule) are in place. Opening of new stores will also put pressure on profitability due to higher marketing expenses and working capital requirement. Further, with the Tribhovandas Bhimji Zaveri brand being used by other Zaveri family members, the risk of brand dilution cannot be ignored, especially if they underperform on quality.

TBZ's revenues increased at 40% CAGR between FY08-11 to Rs 11.9 bn, largely driven by branch additions and a steady increase in gold prices. A higher proportion of diamond-studded jewellery has supported the ~6-7% EBITDA margin in a competitive market. EBITDA increased at a CAGR of 52% during FY08-11. During the same period, PAT increased at a CAGR of 74% and was Rs 394 mn in FY11.

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About the company

Tribhovandas Bhimji Zaveri Ltd (TBZ), established in 1864, is a jewellery retailer. The company’s brand “TBZ – the original since 1864” is sold through 14 retail stores/showrooms (totaling ~50,000 sq. ft.) in 10 cities across five states as on January 31, 2011.

The company has 14 showrooms under the brand name “Tribhovandas Bhimji Zaveri”, which retail gold jewellery and diamond-studded jewellery. Gold jewellery formed ~74% and diamond jewellery formed ~22% of total revenue in FY11. The company has a manufacturing unit for diamond-studded jewellery in Kandivli, Mumbai.

Issue details

Shares offered to public	16,666,667
As per cent of post issue equity	25%
Object of the issue	<ul style="list-style-type: none"> • Finance the establishment of new retail outlets (working capital requirements) • General corporate purposes
Amount proposed to be raised	Not available at the time of grading
Price band	Not available at the time of grading
Lead managers	IDFC Capital Limited, Avendus Capital Private Ltd

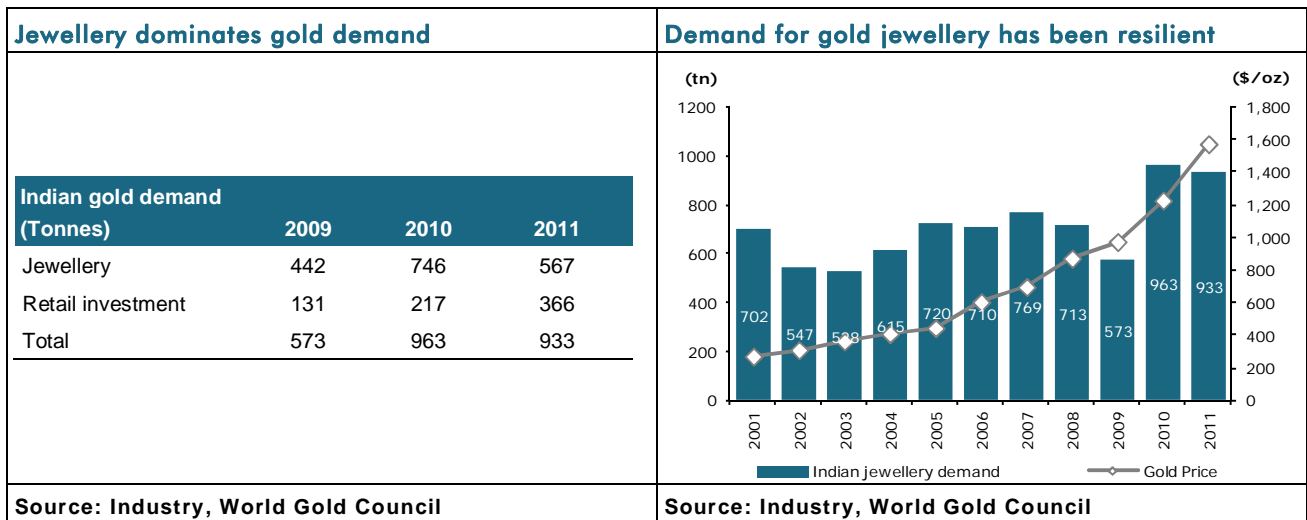
Source: DRHP

Detailed Grading Rationale

A. Business Prospects

- Gold jewellery demand resilient despite price rise**

Demand for gold jewellery constitutes ~75% of India's overall gold demand and has been resilient despite an exponential increase in gold prices. In 2010 and 2011, when gold prices consistently scaled new heights, demand for gold (jewellery+ retail) in India continued to be high at 963 tonnes and 933 tonnes, respectively. India's demand for gold was at an all-time in 2010, while it declined by just 3% in 2011 due to 28% rise in the rupee price of gold.



- Gold is still considered a good investment**

In India, gold is perceived as:

- An easily encashable asset or investment
- A financial security and an indicator of social status
- An asset passed on from one generation to another

These fundamental factors have kept India's gold demand relatively resilient over the past few years, despite a steady rise in prices; gold jewellery continues to occupy a prominent position in the overall jewellery demand in India.

- Branded jewellery – a growth story**

Jewellery sales remain the stronghold of traditional jewellers and single-store outlets. However, the share of organised players (defined as retailers with more than one store in similar formats) is expected to increase from the current 10%. Multi-store players including regional/traditional players such as Tribhovandas Bhimji Zaveri, Joyalukkas, GRT Jewellers, Swarovski, etc. as well as pan India jewellery players such as Tanishq (the jewellery retail arm of Titan Industries Ltd) and the diamond-focused Gitanjali, who sell jewellery under various brand names are set to gain. Extensive promotion by major players, rising awareness about hallmarked jewellery (made mandatory in 2012), contemporary designs and aspirational value of brands are together prompting a shift in preference to organised jewellers from traditional family jewellers.

• *Organised retail penetration to benefit established players*

Traditionally, the jewellery retailing space in India has been dominated by the family jeweler concept largely due to factors like considering certain jewelers as trustworthy and auspicious. As a result, organised retail penetration (ORP) in domestic jewellery retailing is estimated to be a mere 10%. However, this is expected to increase on the back of:

- Increasing customer awareness about hallmarking (quality assurance). The recent approval on mandatory hallmarking will also accelerate the pace
- Assured buy-back scheme by organised players (since jewellery is seen as an investment)
- Aggressive branding by organised players
- Retail distribution allowing customers across locations to enjoy similar experiences leading to greater convenience

Player profile	Unit	TBZ	Joyalukkas	Thangamayil	Gitanjali*	Titan (Tanishq)
Sales (FY11)	Rs mn	11,939	26,908	6,583	30,810	50,120
Sales 3-yr CAGR	%	40%	47%	39%	45%	35%
Current no. of stores (POS)	no	14	22	14	3600	163
Current sq. ft.	sq. ft.	50,000	283,352	55,574	1,300,000	461,000
Diamond studded jewellery sales	%	~25%	~15%	~5%	~55%	>75%
Retail model		Own stores	Own stores	Own stores	Franchisees, SIS, Own stores and Distributors	Franchisees

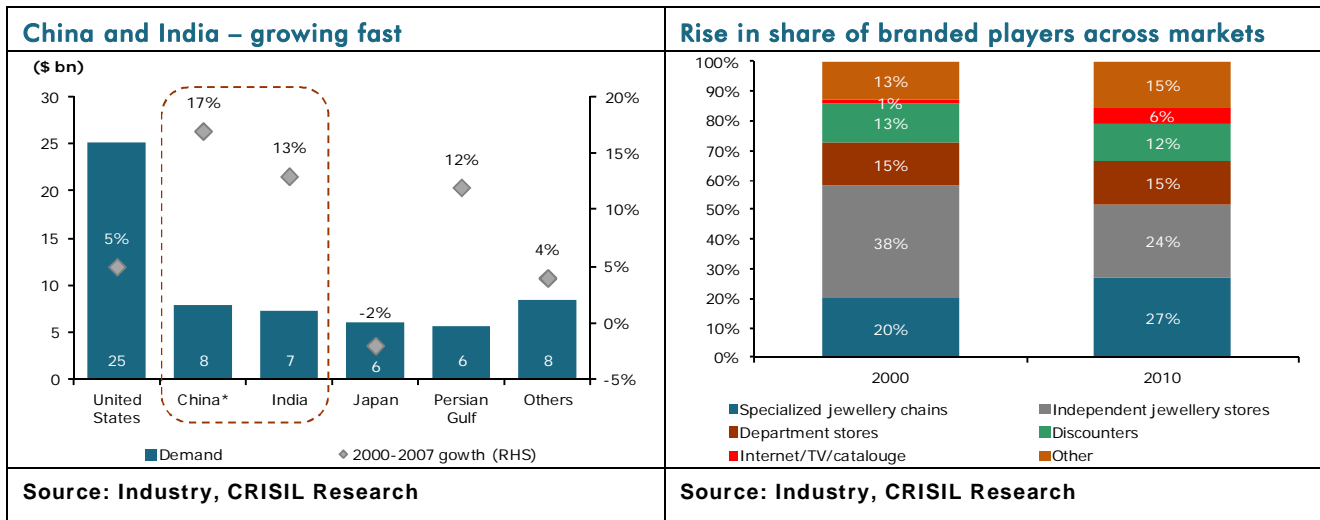
* Numbers for Indian retail Jewellery

Source: CRISIL Research

• *Globally, preference for branded jewellery is evident*

Reputed branded players stand to gain from the shift to branded jewellery. Jewellery retailing has been a fragmented business, with a large number of small retailers. This has been the case across major markets in the world. Global retail chains are growing their footprint, and the share of independent retailers has declined at an average rate of 1.6% each year between 2000 and 2010. This trend is likely to continue, creating good opportunities for the growth of branded jewellery across geographies especially with India and China emerging as key jewellery markets.

Between 2000 and 2007, jewellery demand in India and China has grown the fastest. The share of these two countries in global jewellery demand increased from 28% to 35% in this period. With wealth increasingly flowing into these two countries, jewellery demand in these geographies is expected to grow at a CAGR of 6% from 2011 to 2014.



- Strong vintage = strong brand recall**

TBZ's century-old presence in the retail jewellery business has helped it create a strong brand recall. TBZ was one of the first to offer buy-back guarantee on its jewellery way back in the 1930s. The company's track record reflects consumers' trust in the quality and purity of TBZ products. With the introduction of BIS hallmarking for jewellery in 2000, TBZ seamlessly moved towards retailing of 100% hallmarked products from 2004.

- Steady expansion in the past**

Dormant for a long period, the company has expanded steadily in the past 11 years to 15 stores from a single store till 2000. TBZ has been largely focusing on western and southern India; around 70% of the overall revenue in FY11 was from the western region. The company derived ~53% of its revenues from Mumbai in FY11 with its flagship store at Zaveri Bazar contributing the most. The store expansions in newer territories will further enable the company to achieve geographical diversification.

Branch expansion timeline

State	Between 2000 to 2005	FY06	FY07	FY08	FY09	FY10	FY12
Maharashtra	Ghatkopar		Santacruz	Thane	Pune		
	Borivali						
Andhra Pradesh	Hyderabad				Vijaywada	Basheer Baug	
Gujarat				Surat	Ahmedabad		Rajkot
Others					Indore		
					Kochi		
No of stores added	3	0	1	2	5	1	1

Zaveri Bazar branch was established in 1864

Source – DRHP

- Faster expansion in the future**

The company wants to leverage the TBZ brand and is, thus, focusing on opening new stores across the country. The company's strategy is to open large stores in major cities followed by small to medium stores in nearby towns, which will ensure volume growth. It is planning to add 43 new showrooms under the Tribhovandas Bhimji Zaveri brand in the next three years, which is around three times its current size. By the

end of FY13, the company plans to add eight new stores by utilising the IPO proceedings. The company has identified all the eight locations and is in the process of signing letters of intent. Though the pace of expansion is faster compared to its earlier performance, the company has adequate personnel to manage the expanded operations.

- **Competition to intensify due to expansion by other organised players**

In larger cities, especially in western and southern India, the jewellery retailing market is getting increasingly competitive, evidenced by slow growth and decline in the company's same store sales. This is necessitating more store openings and entry into tier-2 and tier-3 cities.

With many regional and national jewellery retailers as well as jewellery manufacturers and exporters lining up aggressive expansion plans, the competition is expected to intensify. While this pans out, the shift from unbranded jewellery to branded jewellery will likely provide some room for the players to co-exist and compete on customer loyalty and variety, underlined by quality assurance. On the flip side, this will likely lead to higher spending on advertising, lower volumes and realisations and/or suppressed margins on gold jewellery.

- **Profitability lower to peers despite higher proportion of diamond jewellery**

Compared to other large traditional/regional players, TBZ has been increasing its focus on diamond-studded jewellery, which contributed 22-24% to overall sales over the past three years. The company's diamond business has been generating gross margins of 26-28% as compared to 10-12% in gold jewellery. Yet, despite having a higher proportion of diamond jewellery, TBZ's overall profitability is lower than its peers mainly because of higher employee cost and lower margin on gold jewellery as compared to other players.

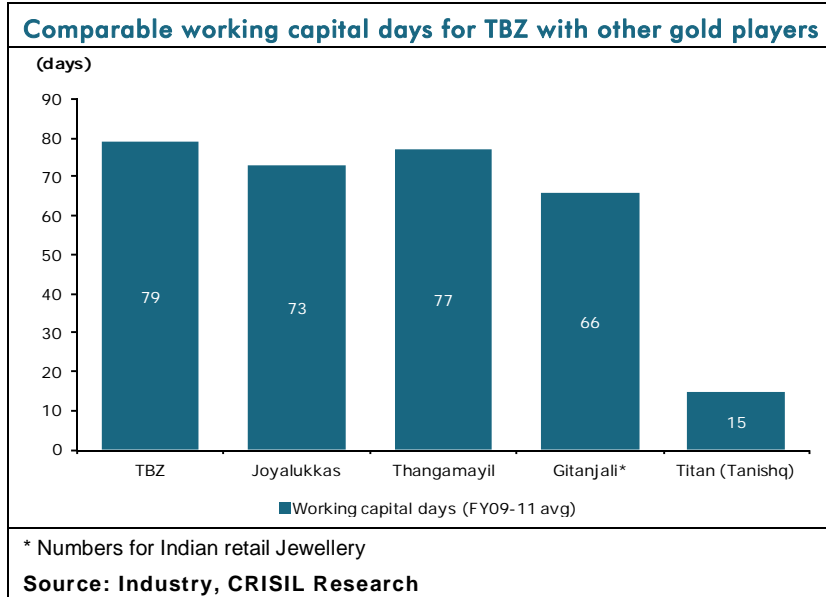
Profitability/Ratios (%)	TBZ	Joyalukkas	Thangamayil	Gitanjali*	Titan (Tanishq)
EBIT margin (3-yr Avg)	5.7	7.2	7.6	9.0	7.1
PAT margin (3-yr Avg)	2.3	3.7	4.0	5.0	5.4
RoE (3-yr Avg)	36.3	41.6	35.6	35.0	40.2
RoCE (3-yr Avg)	21.4	34.0	30.8	32.0	39.2

Note: FY09-11

* Numbers for Indian retail Jewellery

Source – CRISIL Research

Retailing gold and diamond jewellery through self-owned stores is working capital intensive as compared to franchisees and shop-in-shops. TBZ, Joyalukkas and Thangamayil operate through own stores while Gitanjali and Tanishq have a mix of franchisees and shop-in-shops. TBZ's working capital days are in line with its peers, Joyalukkas and Thangamayil, at ~75 days (FY09-FY11 average). TBZ's inventory days are higher at 79 days due to higher proportion of diamond-studded jewellery, which has lower inventory churn as compared to gold jewellery, and also because of its own diamond manufacturing facility. Gitanjali and Tanishq predominantly retail diamond-studded jewellery.

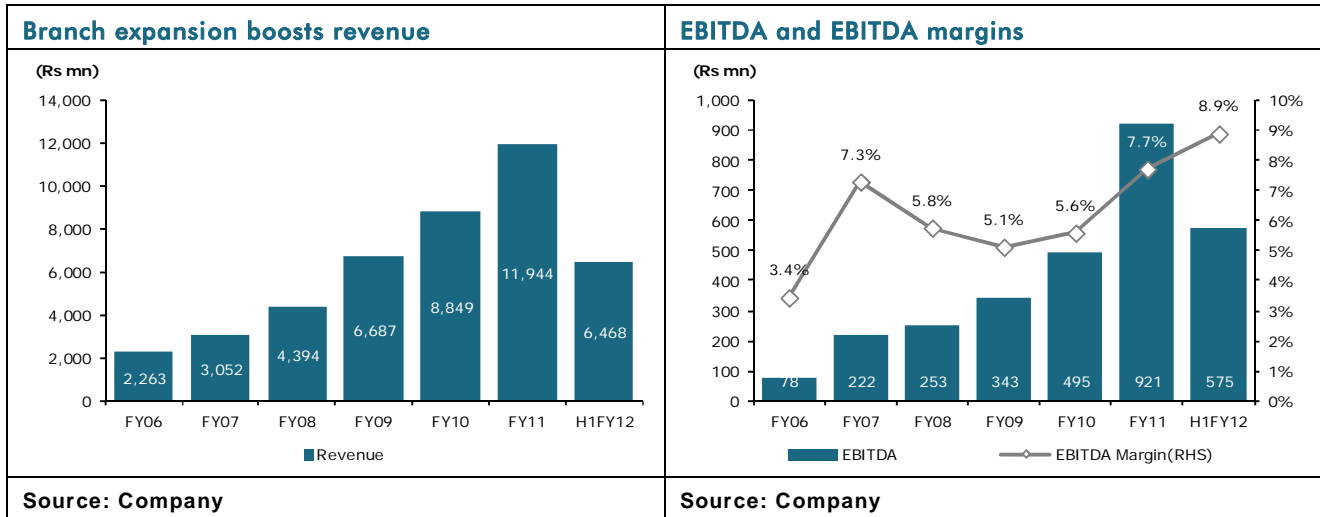


- Risk of brand dilution**

The business was being carried on a partnership basis till 2007; the first partnership deed was signed in 1949. The partnership was reconstituted at several points of time owing to the induction of new partners and retirement of existing partners. Some of the retiring partners have the right to use the brand name Tribhovandas Bhimji Zaveri with modifications - through prefixes and suffixes – as specified in the deed. Currently, there are other players sharing the brand name Tribhovandas Bhimji Zaveri. Hence, the company faces the risk of brand dilution if any player underperforms on quality terms.

B. Financial Performance

TBZ's revenues increased at 40% CAGR between FY08 and FY11 to Rs 11.9 bn, largely driven by branch additions and a steady increase in gold prices. Revenues grew by 24% y-o-y in H1FY12 to Rs 6.4 bn due to rise in gold prices and store addition in Rajkot during July 2011.



A higher proportion of diamond-studded jewellery helped maintain EBITDA margin at around 5.8% between FY08 and FY10. EBITDA increased at 52% CAGR during FY08-11. During the same period, PAT increased at a CAGR of 73%. EBITDA margin improved in H1FY12 to 8.9% as compared to 7.6% in H1FY11 due to inventory gains on account of steady increase in gold prices during the period.

Financial performance snapshot

Particulars	Unit	FY08	FY09	FY10	FY11	H1FY12
Total Income	Rs mn	4394	6687	8849	11939	6468
EBITDA	Rs mn	253	343	495	893	575
EBITDA margins	%	5.8	5.1	5.6	7.5	8.9
Adjusted net profits	Rs mn	75	105	169	394	295
Net margins	%	1.7	1.6	1.9	3.3	4.6
RoCE	%	21.1	17.1	18.5	28.6	NA
RoNW	%	235.2	36.2	28.2	44.6	NA
Basic EPS	Rs	374.4	10.5	16.9	7.9	5.9
No. of equity shares (FV of Rs 10)	Mn	0.2	10.0	10.0	50.0	50.0
Net worth	Rs mn	62	516	685	1079	1355
Net debt – equity	Times	18.7	3.4	2.9	1.9	NA
Working capital	Days	76	80	84	73	81
Current ratio	Times	3.3	4.9	3.9	2.4	NA

*Note: Numbers have been reclassified as per CRISIL standards

Source: DRHP and Company

C. Management Capabilities and Corporate Governance

- *Promoters - Mix of experience and youth*

Promoter Shrikant Zaveri has more than 30 years of experience in the gems and jewellery industry. Shrikant Zaveri's older daughter Binaisha (29) heads strategy and marketing while his younger daughter Raashi (25) oversees the IT system.

- *Adequate second line of management for future expansion*

Along with CEO Mr R. S. Nagarkar and CFO Mr Prem Hinduja, the promoter's family takes all the strategic decisions. Daily operations are managed by a team consisting of the CEO, the CFO, and the heads of marketing, procurement and retail divisions. The company is also on the lookout for a professional COO to handle the enlarged operations.

- *Experienced independent directors*

The independent directors appointed on the board of the company have a good reputation and standing in their respective fields, as well as in finance and administration. Their understanding of the business and involvement in decision making is good.

- *Group companies*

There are seven group/partnership entities carrying out similar operations. They operate without a formal non-compete agreement. However, they have no material transactions with the company.

Annexure I

Business Profile

Business segments

Retailing of gold and diamond-studded jewellery (95% of FY11 revenues): TBZ's business consists of the sale of jewellery made of gold, diamond and other precious stones, platinum and silver. In FY09, FY10 and FY11, the company sold 3,479 kgs, 3,792 kgs and 4,110 kgs of gold, respectively. The five showrooms (Zaveri Bazar, Ghatkopar, Borivali, Santacruz and Thane - aggregate floor area of 19, 442 sq. ft.) in Mumbai have consistently accounted for ~50-55% of the revenues for the past two years.

Annexure II: Profile of the Directors

Name	Designation	Age	Qualification/Experience	Directorships / partnership in other entities
Shrikant Zaveri	Chairman & MD	52	More than 30 years of experience. Founding member and chairman of the Gems and Jewellery Trade Federation	Public – Tribhovandas Bhimji Zaveri (Bombay) Ltd
Binaisha Zaveri	Whole-time Director	29	Bachelor's degree in marketing and finance	Public – Tribhovandas Bhimji Zaveri (Bombay) Ltd
Raashi Zaveri	Whole-time Director	25	Bachelor's degree in finance and entrepreneurship	Public – Tribhovandas Bhimji Zaveri (Bombay) Ltd
Kamlesh Vikamsey	Independent Director	51	Bachelor's degree in Commerce; chartered accountant from the Institute of Chartered Accountants of India	Navneet Publications Ltd Ramky Infrastructure Ltd Aditya Birla Retail Ltd Axis Mutual Fund Trustee Ltd Neptune Developers Ltd Man Infraconstruction Ltd Partnership – Khimji Kunverji & Co.
Ajay Mehta	Independent Director	52	Bachelor's degree in Science and Master's degree in Chemical Engineering	Deepak Nitrite Ltd
Sanjay Asher	Independent Director	48	Bachelor's degree in Commerce, a degree in law; chartered accountant and solicitor	Ashok Leyland Ltd Bajaj Allianz General Insurance Co. Ltd Bajaj Allianz Life Insurance Co. Ltd Balkrishna Industries Ltd Shree Renuka Sugars Ltd Sudarshan Chemicals Industries Ltd Mandhana Industries Ltd

Source: DRHP

Disclaimer

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