



RENAISSANCE GLOBAL LIMITED

(FORMERLY RENAISSANCE JEWELLERY LIMITED)

CIN.: L36911MH1989PLC054498

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Sub.: Transcripts of the Earnings Call

Ref.: Regulation 30 of SEBI (LODR), Regulations, 2015.

Dear Sir

With reference to our letter Ref. No.: RGL/S&L/2021/67 dated May 26, 2021; please find enclosed herewith the transcripts of earnings Conference call on Q4 and FY 2021 results of the Company, held on Tuesday, June 01 , 2021.

The aforesaid information is also being uploaded on the website of the Company at www.renaissanceglobal.com

You are requested to take the above on record and disseminate to all concerned.

Thanking you,

Yours faithfully,

For **Renaissance Global Limited**

G. M. Walavalkar
VP – Legal & Company Secretary

Encl.: As Above



Renaissance Global Limited

(Formerly Renaissance Jewellery Limited)

“Renaissance Global Limited Q4 FY21 Earnings Conference Call”

June 01, 2021

**MANAGEMENT: MR. SUMIT SHAH - VICE CHAIRMAN – RENAISSANCE
GLOBAL LIMITED**

**MR. HITESH SHAH - MANAGING DIRECTOR - RENAISSANCE
GLOBAL LIMITED**

**ANALYST: MS. PUSHPA MANI - DICKENSON INTELLINETICS PRIVATE
LIMITED**



Renaissance Global Limited

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Moderator: Welcome to the Q4 FY21 results conference call of Renaissance Global Limited organized by Dickenson World. At this moment, all participants are in the listen-only mode, later we will conduct a question-and-answer session. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note this conference is being recorded. I would now like to hand the floor to Ms. Pushpa Mani. Thank you and over to you, Ma'am.

Pushpa Mani: Thank you, Neerav. Good evening everyone. I welcome you all to the Q4 and FY21 earnings call of Renaissance Global Limited. We have with us Mr. Sumit Shah – Chairman and Mr. Hitesh Shah – Managing Director. The discussion today may include some forward-looking statements and must be reviewed and considered in conjunction with the risk in the industry in general and our business in particular. During the Q&A session, I request all the participants to limit their question to two per participants and join the queue again for a follow-up question. Now, without taking much time, I will hand over the floor to Mr. Sumit Shah for opening remarks, thank you and over to you Sir.

Sumit Shah: Good evening everyone. On behalf of Renaissance Global I extend a warm welcome to everyone to this earnings conference call. I hope that every one of you and your families are staying safe and healthy. There is a sense of optimism with the vaccine rollout in the developed markets that comprise a large majority of our sales. We sincerely hope that the vaccine program accelerates in India as well as we go through this difficult time.

Our strategy is to grow our business through licensed brands and our own brands globally. We plan to scale this division through distribution, through our retail partners and direct-to-consumer. Due to the structural shift within the jewelry industry towards brands, we see a decade long opportunity for growth for this division. We are also investing in our own brands, jewelili and made for you to create value. We see brands as a means of differentiation in a very large global opportunity. We believe that the branded division will help improve operating margins meaningfully over the years to come. We plan to invest in this division generating meaningful cash flow and growth for our shareholders.

In the last quarter, branded jewelry accounted for 23% of our total studded jewelry revenue. Our strategy is to continue to grow the share of this business. The company is focused on branded jewelry through our exclusive licensing arrangements with Disney, Hallmark, and our own brands. There are meaningful and significant discussions that are ongoing for new licenses that would support our growth for years to come. We would announce them at an appropriate time.



We are delighted to announce our partnership with the second largest Chinese jewelry retailer Lao Feng Xiang (LFX) for the Chinese market with the introduction of our highly successful Enchanted Disney Fine Jewelry collection. We have commenced operations in China by shipping our first order to LFX. Renaissance has planned an omni-channel approach for the Chinese market.

We are very excited about the growth of our direct-to-consumer business. E-commerce adoption accelerated during COVID provides long-term momentum for this division. Our direct-to-consumer business through our newly launched websites has shown robust growth during the year.

Our Q4 FY21 direct-to-consumer revenues were Rs. 23 crores with an EBITDA margin of 19%. Based on our estimate of the quarter's contribution to annual sales, we are at an annual run rate of Rs. 115 crores. We expect the direct-to-consumer business margins to improve going forward to the 20%-22% range. This is Rs. 115 crores direct-to-consumer business built from zero, in a matter of 15 months. We started our first direct-to-consumer website in February of 2020. In May 2021 we launched our sixth direct-to-consumer website for Hallmark Diamonds.

To summarize this is a very exciting time at Renaissance Global. I have never been more optimistic about the opportunity we see in front of us. The branded division and the direct-to-consumer division have increased our addressable market and margin profile as a company. We look forward to executing to this plan in the years ahead.

Now I would like to turn the call over to Mr. Hitesh Shah to discuss our financial performance.

Hitesh Shah:

Thank you Sumit. Good evening everyone. The company during Quarter 4 of FY21 reported a total income of Rs. 584 crores against Rs. 453 crores during the corresponding quarter of the last financial year that is a growth of 29% year-over-year.

Our EBITDA grew by 32% to Rs. 34 crores while our profit after tax stands at Rs. 16 crores growing by 66% year-over-year. For the full year FY21, our total income is down 18% at Rs. 2,048 crores versus Rs. 2,510 crores last year. The FY21 EBITDA stands at Rs. 116 crores versus Rs. 171 crores last year, a decline of 32%. Our profit after tax before discontinued operations stands at Rs. 46 crores against a PAT of Rs. 92 crores in the last year, down around 50%. We expect profit after tax for FY22 to grow between 18%-22% over our FY20 profit after tax and more than 100% as compared to a FY21 PAT.

The company has managed lower its net debt to equity levels to 0.29 in March 2021 from 0.52 as on March 2020. Cash and Bank balances and Current Investments as on 31st, March 2021 are at Rs. 245 crores.



The company's FY21 Return on Equity stands at 6% which is due to the impact of COVID-19. It was 13.5% for the year ended 31st March 2020. Our long-term goal is Return on Equity greater than 15% and to be at zero net debt over the next three years.

In terms of geographic distribution of sales in Q4 FY21, USA contributed around 49% to overall revenues with 35% coming in from the Middle East. For the full year FY21 the breakup was US 59% and Middle East 27%. In terms of product category, studded jewelry contributed 66% to the overall revenue during the quarter with the balanced contribution coming in from the plain gold jewelry segment. For the full year studded jewelry contributed 77% to the overall revenues.

Thank you very much for your kind attention. Now the floor is open for Q&A.

Moderator:

First question is from the line of Sudhir from Right Hand Consultancy.

Sudhir:

My question is from where this optimism is coming from, because still world is under COVID impact. Of course, the developed countries have come out of it slowly, but I just want to know the demand outlook for the current quarter as well as current year. Is any effect of COVID is still there? And my second question is how is the response in China for our Disney Fine Jewelry we have launched over there. So, these are the few questions.

Sumit Shah:

I'll start with the first question on source of optimism. So, in general, what we have seen during COVID is that as people have been unable to travel, the spending on goods has probably increased and there has been a disproportionate increase of share for certain product categories. In the US and in Europe there has been an increase in wallet share for our category in our opinion and the current momentum that we see with our retailers as we monitor sales on a weekly basis, as well as our direct-to-consumer websites, we are currently seeing a strong momentum to our sales numbers which gives us optimism for the year ahead. However, the world is still dealing with uncertainty due to COVID and if there is any meaningful or significant lockdowns in the Western markets during the course of this year, our guidance may have to change, but currently based on the vaccine rollout, as well as the momentum that we are seeing with our customers, we feel reasonably confident for our outlook.

In terms of China, it's a little early to tell because we actually shipped only a few weeks ago. I think this product is still getting placed in stores and the retailer is beginning the marketing program. I think we would be able to give you a lot better visibility on the next earnings call, it is little bit early to tell on the China front.

Sudhir:

One more question is that the growth in the D2C segment and our own branded jewelry growth, will that help our margin for the year going up significantly in FY22?



- Sumit Shah:** That's right. I think that the branded division and D2C segment is definitely margin accretive and will help increase margins in the current year.
- Moderator:** The next question is from the line of Mihir Desai from Desai Investments.
- Mihir Desai:** My first question, I just wanted a view like, if we see our H2 revenue-mix then the business from customer brands and plain gold has increased decent or say a robust number, but I just wanted to understand what is your outlook for our branded jewelry and direct-to-customer jewelry, because the EBITDA margin over there is quite lucrative compared to other business.
- Sumit Shah:** We think that the branded jewelry segment as well as a direct-to-consumer business will definitely grow faster than company average. And that's where we see a lot of customer interest in. The focus of the company as well as the entire management team is to grow the share of these two divisions. And we expect in the current year, both the branded as well as the direct-to-consumer business to grow meaningfully faster than the company average.
- Mihir Desai:** So, that will also kick in our EBITDA margin going forward.
- Sumit Shah:** That's right.
- Mihir Desai:** Coming to a question on free cash flow, if you see free cash has been significantly improved from FY17 if we compare till now. It has been a positive cash flow and going forward do we expect this cash flow to sustain? Do we see some investing activities happening over here or how should we look at it?
- Sumit Shah:** I would say that there is not any meaningful capital expenditure planned going forward. So, we would expect to see healthy cash flow generation for the company. And because of that confidence, we have also announced more dividend policy going forward, where we will be paying out between 15% and 25% of the consolidated profits of the company to shareholders. So, I would say that we expect working capital cycle to remain stable or improve gradually as a direct-to-consumer business becomes more important because that is a better working capital cycle. And since our business is working capital intensive, which really is the main driver of cash flow generation, we expect free cash flow generation to be relatively healthy going forward.
- Moderator:** The next question is from the line of Gita Mehta from LFC Securities.
- Gita Mehta:** My question is regarding gold price volatility. I wanted to understand that as gold prices are quite volatile due to which our inventory gains or losses. So how do you mitigate impact of such volatile prices and what is the fluctuation in PAT on the bottom line?



- Hitesh Shah:** We pretty much get purchase orders from customers based on the market rate of gold and we hedge the requirement in the future market as per the orders and reverse the hedge when the deliveries of gold is taken. So pretty much we do not have any significant impact on account of gold price fluctuations or even the inventory held by us is pretty much on a loan basis from the bullion dealers or the banks. Essentially, there would not even be any significant inventory gains or losses.
- Gita Mehta:** My other question is that I can see that employee expenses have fallen down by 23% year-on-year during this quarter and 27% in the full year. What are the reasons for such big reduction?
- Sumit Shah:** During COVID we did rationalize our workforce and look at what is required on an ongoing basis. So, we did take some pay cuts across the employee base and there was some rationalization of workforce. So, I would say a combination of these two factors has resulted in employee cost reduction.
- Moderator:** The next question is from the line of Kirti Ghosh from Sequent Investments.
- Kirti Ghosh:** You have guided for an ROE target of 15%. Could you give some color as to what are you doing to achieve the same and when do you expect to achieve this target? My second question is other financial assets have increased sharply during the year. What are these assets and why such a sharp rise?
- Sumit Shah:** In terms of return on equity our expectation would be that we should be higher than 15% in the course of the next 2 to 3 years. And then your question of investments, I think most of the investments are either cash or short-term investments in liquid funds. I think there has been working capital rationalization due to which we have generated significant amount of free cash flow which has led to an increase in financial assets. All of them are either cash or short-term investments in liquid funds.
- Moderator:** The next question is from the line of Rajesh Kumar from Capital Portfolio Advisors.
- Rajesh Kumar:** My first question is regarding the US. What is your position of US market in terms of the sales and stores opening, are you seeing some traction in sales there? We know that US has been one of the worst affected markets initially during the COVID time. So as vaccination has progressed are you seeing some traction from that?
- Sumit Shah:** Yes, I think US is our largest market in terms of revenue share and I think US has been very aggressive with the vaccine rollout due to which, I would say that all of our customers stores are fully opened and probably transacting at higher than pre-COVID levels. I would say that in US there has been significant return to normalcy, so people are visiting stores or buying online. I think one of the benefits that we have seen during COVID is digital adoption whereby

customers have gotten accustomed to buying online. Even when we distribute through our retail partners, we are seeing a greater percentage of their sales come through online channels as compared to pre-pandemic.

Rajesh Kumar: My next question is during the full year your EBITDA margin has fallen to 5.6% versus 6.8% in the previous year. What could be the possible reasons, explain the same, because as explained earlier, you have reduced the employee cost so still EBITDA margins have fallen. And if you can also help us by giving some color on what could be the possible EBITDA margin going forward in the financial year FY22 and FY23 and what could be the long-term EBITDA margin you have in the mind once things normalize. So, what is the trajectory you are looking at which could be a stable kind of EBITDA margin which you would be aiming for? We will be happy if you can give some guidance on that.

Sumit Shah: For the past year, obviously the impact on the EBITDA margins has largely been on impact of COVID. In the Quarter 1 of the financial year largely our manufacturing units were completely shut down and we had significant losses in Quarter 1. Quarter 2 and Quarter 3 saw some normalcy returning but we were still trending below year-over-year sales number. Largely the reduction in EBITDA margins has been due to operating leverage due to the shutdown in Quarter 1 and lower sales numbers in Quarter 2 and Quarter 3. We, at this point, based on the information that we have available, see a lot of the operating leverage behind us and we would definitely see meaningful improvement in operating margins going forward. At this point disclosing or discussing long term EBITDA margins would be a little bit difficult because it depends on the growth of the higher margin divisions as they play out over the course of the next few years. But our endeavor as a company would be to meaningfully increase EBITDA margins over FY20 numbers going forward.

Rajesh Kumar: I am not looking at an absolute thing. I know the situation is quite volatile. If you can just give some kind of color in sense like if the COVID situation goes away, things are normal, then what could be the normal range, a broad range, not looking at like some specific number to hold the management responsible for that, like what could be a normal operating range for our business which is stable?

Sumit Shah: I think in our presentation we have given EBITDA margins by division, 7% for our customer brands, about 12% and 20% kind of range. I think that's essentially what you are looking at for the diamond jewelry segment, the plain gold jewelry businesses largely pass through which actually drags down our overall EBITDA margins. I would say that our diamond jewelry EBITDA margins are in the 8% to 10% range today. I would say that we would see meaningful improvement in our diamond jewelry EBITDA margins. That's what we would focus on broadly and that's where the higher scope is for improvement in margins.

Moderator: The next question is from the line of Vaibhav Kacholia from VK Capital.



Vaibhav Kacholia: I wanted to know what could be over a long-term period, like 5 years maybe the size of the D2C and the branded jewelry markets specially the D2C market?

Sumit Shah: I would say the addressable market obviously is very large and I think that a lot of the growth will depend on us executing to this large opportunity set. We are fortunate to have arrangements with some of the most loved brands globally, Disney as well as to a lesser extent Hallmark. We are currently in discussions for significant additional meaningful licenses in the future. I think a lot of it will depend on how we execute to the plan. Just to give you a perspective, I think broadly the US diamond jewelry industry is somewhere in the region of 40 billion. I think the largest e-commerce player today would be about 1.3 to 1.5 billion which is Signet. There is quite a few players in the direct-to-consumer space who would be in the \$ 200-\$ 700 million range. I would say that the opportunity is large. Obviously for us it's a one-year-old business and we are focusing on this business to grow it. Would be difficult to look five years out and where it could be, but the opportunity set in the addressable market is relatively large and we are laser focused on growing this part of our business.

Vaibhav Kacholia: So, our target would be to like reach \$ 100 million or something like that and within that I wanted to know, how do we sell this online? Is this only through our own sites? If it is only our own sites, how are they publicized? And secondly, do we also sell through marketplaces like Amazon and FCN all these kinds of sites?

Sumit Shah: About 90% of the sales are through our own websites and about 10% is through marketplaces. And the advertising is generally through paid search on Google as well as Google shopping and on various social media platforms. We also have a PR agency that works on talking about our product placement as well as getting free traffic to our website. So, it's a combination of social media, Google search, shopping, and various other means. Just to give you a perspective, we are currently investing between 20% and 30% of sales on advertising. So, that gives you the scope of what we are spending on advertising as a percentage of the direct-to-consumer sales in order to grow that business.

Vaibhav Kacholia: Marketplaces ratio can it improve, and Signet and all these other companies do they do similar numbers, percentages through marketplaces or is it any different?

Sumit Shah: I would say that the retailers such as Signet, generally tend to sell through their own channels and not so much through the marketplaces. We have not been as focused on growing the marketplaces segment because our own website is more strategic from two aspects. One is more profitable and two is we own the customer, which means that we can sell the customer again, we have data on who the customer is and have the ability to sell them again. Our preference would be to grow share of sales on our website because, longer term customer acquisition cost will decline meaningfully due to this.



- Vaibhav Kacholia:** What is our current customer acquisition cost per customer?
- Sumit Shah:** As I mentioned, it's between 20% and 30% of sales depending on the website.
- Moderator:** The next question is from the line of the Disha Shah from Global Securities Finance.
- Disha Shah:** I just wanted to know that our Q4 sales and profits are down significant sequentially, can you share the reason for the same?
- Sumit Shah:** Disha I think the way to look at it would be annually because Q3 is a very important quarter for us because of seasonality and due to Christmas and Thanksgiving, since we are primarily selling in the US and in Europe, a large majority of the diamond jewelry sales happen for the Thanksgiving to Christmas time period and historically this would be in line with our trend of how our sales tend to be. This would be true of any consumer products that are sold in US and Europe.
- Disha Shah:** My second question is regarding that what impact our business has changed due to the compulsory hallmarking?
- Sumit Shah:** So again, we are not operating meaningfully in India. We have very limited sales exposure in India. In the US or in Europe there has been no significant change in regulation in the past year.
- Moderator:** Next question is from the line of Shweta Shah from Samarthya Capital Pvt. Ltd.
- Shweta Shah:** I have a couple of questions. My first question is on the advertisement costs which has increased sharply during the quarter and year. So, can you explain the reason for the same and also give some guidance on advertisement cost for the year FY22?
- Sumit Shah:** We did not have a direct-to-consumer business in the last financial year. All of our jewelry was sold through our retail distribution partners. As I mentioned earlier on the call, we are currently spending between 20% and 30% of the direct-to-consumer sales on advertising and we plan to continue to do that as we still see an opportunity to make 20% EBITDA margins on direct-to-consumer after making that kind of investment on advertising. So, that would be a good guide in terms of advertising expenses between 20% and 30% of direct-to-consumer sense.
- Shweta Shah:** My second question is with regards to the enchanted fine jewelry collection which is expanding into China. What is the visibility and growth outlook for this segment?
- Sumit Shah:** Since we just shipped under a month ago, I think that currently it's a test program happening in a couple of hundred stores. I think a lot will depend on the success of this test program and



how it does. I think that we will be able to give a lot more visibility of this in the next quarters earnings call, because currently we don't have too much information.

Moderator: The next question is from the line of Nikhil Jain, an Individual Investor.

Nikhil Jain: I just wanted to understand, so all the work that we actually do for manufacturing of our items, is it done in India or part of it is done overseas also?

Sumit Shah: The gold division, all of the manufacturing happens in the Middle East. So, the gold jewelry is actually made in Dubai and sold in the Middle East. For the diamond jewelry division, I would say that about 80% to 90% of the manufacturing happens in India and the rest is outsourced to China and Thailand.

Nikhil Jain: My second question is, what is the geographical spreads of the diamond jewelry? For the gold jewelry you have said that we do in Dubai and sell it in the Middle East, but for the diamond jewelry what is largest...I think the largest proportion is coming from the US, but what may be the state for some other countries or continents, for example, Europe?

Sumit Shah: So, if you remove 30% of the sales, the balance is split between, 90:10 between US and rest of the world. So, there is I think 10% in rest of the world which is all diamond jewelry. So, we only sell gold jewelry in the Middle East and the rest is US and Europe, we don't sell any plain gold jewelry in the US or Europe.

Nikhil Jain: One more question that I have, we have mentioned that we are now having six websites for six different collections that we are having. And I think we are promoting them on the strength of their individual brand names and other things. Have you considered or do you think it will be useful to have an umbrella kind of a brand against which there are preferably six or maybe even more licensees coming in, so there's an umbrella plan on RGL and then there is all of these brands which are available?

Sumit Shah: That's a great insight and that's something that we have been debating and discussing internally as well. So, that's definitely something that would be a worthwhile exercise for us to do. I think that currently we are focused on, we have one more website to launch which is Disney Jewels, which is all of the non-princess iconic character that we plan to launch during the course of this year. I think once we are done with that, there definitely has been discussions about an umbrella website, but we haven't really made any firm decision on that. But I think you bring up a good point and that's a very meaningful discussion for us to have and something to execute in the future.

Moderator: The next question is from the line of Rajesh Kumar from Capital Portfolio Advisers.

- Rajesh Kumar:** During the last year in financial year 2021, what has been the CAPEX and what are your CAPEX plans for FY22 and FY23? And also wanted to know is this a business capital intensive or what is the kind of terms you can get, like business can expand with a small incremental CAPEX? So, if you can throw some color to that that will help a lot.
- Sumit Shah:** Hitesh, you have the capital expenditure numbers or should we get back?
- Hitesh Shah:** No, I don't have it. It is a significantly lower than even the depreciation on fixed assets, it's probably a couple of crores Rupees. But I do not have it on hand.
- Rajesh Kumar:** And your plans in the future, what is a kind of a growth outlook you are looking at and to meet both plans what kind of CAPEX will be required to achieve that?
- Sumit Shah:** So, I think we are moving towards a business where either the licensed brands or the direct-to-consumer business will become more important. And we feel that currently we have enough manufacturing capacity for the next two to three years to meet our needs. We don't envisage any significant fixed asset investments. And there is also the opportunity to outsource some of the production to outside vendors. So, we don't anticipate any significant meaningful investments in fixed assets. The business is really a working capital-intensive business along with a lot of the focus shifting on brand creation and marketing. So, fixed assets going forward will not be very meaningful
- Rajesh Kumar:** My next question is this year unfortunately COVID has impacted a lot of employees in the organization. So, if you can give some information what has been the impact of COVID to your employees and unfortunately has there been any casualty among the Key employees? That will be helpful for us to know.
- Hitesh Shah:** Just as everywhere else, quite a few of our employees too have been affected by COVID and till date we have unfortunately lost two employees due to COVID from an employee base including contractual employees of around 3000 and thankfully everybody else has recovered.
- Rajesh Kumar:** What is the impact of COVID in terms of the business, is the office open or when it is planned to be opened or something like that?
- Hitesh Shah:** Our manufacturing is completely open as it's a permitted industry. But the office area, people are typically working from home. Some of them work from office partially, but it's predominantly work from home for the office area. I think we will bring them back to the workplace as and when things become better and once the vaccinations also kick in. In fact, as a company this week itself we have an employee vaccination program so pretty much we are getting all our employees vaccinated this week.



- Rajesh Kumar:** Just last question. On the debt front, if I could know what is your cashflow generation plans and repayment plan of the debt and if you are aiming to become debt free and by when, that will help a lot, because one of the possible reason why the stocks of the company like yours have been not getting the true valuation, like the concerns or the debt on many of the companies in the similar sector, which may not be true for you but it becomes something of hindrance in the jewelry sector. So, if you can give a guidance or a comfort, what your plans of the debt repayment is, I think that will help a lot.
- Sumit Shah:** We have brought down our net debt number from, FY19 when we had done the acquisition of Jay Gems, I think our net debt number was 500 crores and a debt equity ratio of 0.76. We are now down to 240 crores of net debt with 842 crores of capital. So, our debt equity ratio is 0.29. I think as Hitesh mentioned in his opening remarks, over the next three years we plan to be at a net debt zero. That's really the goal that we are working towards. Hopefully within three years we get there.
- Moderator:** The next question is from the line of Neil Desai from Desai Investments.
- Mihir Desai:** One question on, accounting. If we see on our consolidated balance sheet, the borrowings number, the long-term borrowings have increased. If I see on March 20, it was 1.8 million and now it is 288.6 million. I know this number is not big, but just wanted to know that what is the component which is reflecting here?
- Hitesh Shah:** Like a part of the component is actually, like the COVID loans that I think we have taken both in the US and in India and since they are not in the nature of short-term working capital, but a bit more longer term in nature, that's why it is showing up in long-term loans. This was availed in the Quarter 1 of 2021, so this is way like in June of last year pretty much.
- Sumit Shah:** I think it's a US government's payroll protection program as well as some COVID loans here in India which were given out right at the beginning of the pandemic. We don't have clarity around the US paycheck protection program whether the loans have to be repaid or not. And we don't know the repayment schedule yet, so which is why it shows up as a long term instead of short term.
- Mihir Desai:** Final questions on macro front. As we see the gold prices are strengthening. So, will this affect our business or demand, how do you see this?
- Sumit Shah:** We currently don't see a significant impact on demand. I think what we have seen historically on the gold division, when there is a lot of volatility there is some impact on demand once it stabilizes at a certain level demand comes back. On diamond jewelry, gold price is not a very meaningful factor to the overall costs. And we haven't seen in the data any impact on demand due to gold prices.



- Mihir Desai:** So, nothing to worry about. Currently that there is nothing to be worried about in the demand front. And one number which I forgot was, can you please give the number of online sales which happened in FY21?
- Sumit Shah:** The number of orders or revenue?
- Mihir Desai:** Any ballpark of revenue is also fine.
- Sumit Shah:** On our presentation which we have laid out, we have disclosed the numbers. I think we did about 60 crores of revenue and the average overall value would be around \$ 200. So, I think if you want to calculate the number of units you can. I think we did about 60 crores of revenue in the last year and currently as we disclose it's currently trending at 115 crores run rate.
- Mihir Desai:** My last question would be on a macro front. From your point of view, what excites you in terms of business and in terms of your plans or the business say from next fiscal or coming fiscal and going forward in the future? So, I just wanted to know, what excites you for the business going forward?
- Sumit Shah:** I think we see a huge structural opportunity within the jewelry space to actually make branded jewelry a much larger part of the overall space. I think, we have seen this trend happen over the last 10 years where once De Beers stopped advertising diamond jewelry, I think individual storytelling and brands became more important and we are seeing that trend continue, and we see that's a long-term trend for growth within our industry. And I think COVID has accelerated the shift to online. So, if I were to tell you what does our company's growth plan look like? We have really got two legs of growth. One is more of our own brands and licensed brands. And two is, the direct-to-consumer division becoming a much larger part of our overall business which will help improve the margin profile, working capital cycle and in general the financials of the company.
- Moderator:** The next question is from the line of Chirag from Budhrani Finance Limited.
- Chirag:** Just to get a sense, the topline has gone down for FY21 but yet the working capital has gone up. Can you explain what are the reasons for this?
- Sumit Shah:** What's happened is largely the quantum of the working capital has largely remained the same because working capital did not shrink meaningfully with the sales numbers. So, I would say that the working capital days look higher. However, our receivables are a little bit lower than last year. Our inventory numbers are slightly higher as we have made investments in the direct-to-consumer business. So, the quantum of working capital having remained the same, I think the working capital days looks a little bit higher because of deleverage from the first two quarters.



- Chirag:** What I understand is if you have a higher component of gold business, generally the working capital days are higher. Now that we are going into online sales wouldn't we see a lower number of days going ahead?
- Sumit Shah:** I would expect the working capital as we grow in absolute terms to remain similar, the quantum. Currently we have about 850 crores of inventory. I don't see the inventory number, or the receivable number grow meaningfully as sales grow. So, the number of days of working capital will go down. And you are absolutely right that as the direct-to-consumer business becomes more meaningful over the next couple of years, we should see an improvement in the working capital cycle in terms of number of days employed.
- Chirag:** What is your ballpark range where you want to get it? Around 120 days or have you got any target?
- Sumit Shah:** We don't manage the business in terms of number of days, because I think it depends on the mix of wholesale to retail and I think we manage each business individually based on what's optimum for that business and where the mix lands up. So, we are really looking to optimize total cashflow. And our view is that total cash flow should be equal to higher than profits of the company. In terms of number of days, we don't have a specific target in mind because it all depends on the mix of the four divisions and what each division contributes to the sales, because the gold division has the lowest working capital cycle and probably customer brands and B2C has a second highest. So, it depends on the mix of the various divisions that play out during the course of the year.
- Chirag:** One thing on the discontinued operations, do we see this in FY22 and what is this pertaining to?
- Hitesh Shah:** It pertains to our Bangladesh operations which we have sealed 2-3 years ago. And I think this is pretty much the end of it. We do not think it will be like any significant impact going forward. Only residual value that we carry on the balance sheet is like around Rs. 40-50 lakh of that investment.
- Moderator:** The next question is from the line of Vaibhav Kacholia from VK Capital.
- Vaibhav Kacholia:** I wanted to know what are the key challenges which will define our success in the D2C business. What are the main factors which determine how much we sell and the success of that business?
- Sumit Shah:** I think the main driver of growth really is having a profitable customer acquisition cost which makes sense for the business, right? Because I think that one has to figure out what the available margin is and what you are willing to invest in growing the direct-to-consumer business. So, the opportunity set is extremely large. The brands that we currently have are



very meaningful and well loved. We have obviously displayed the ability to create good product because we sell a significantly higher volume through wholesale channels. So, the key challenge now for us as a company is to figure out how we can minimize customer acquisition cost as a percentage of sales and do it efficiently so that we can continue to acquire customers and users in order to grow the business. So, I would say that challenge number one really is customer acquisition, and number two is ensuring that the brand resonates with the consumer.

Vaibhav Kacholia: At this early stage how is it that we are still making 20% kind of EBITDA margins? Shouldn't there be a startup cost or this custom acquisition, and online branding and all that kind of stuff?

Sumit Shah: The advantage that we have is that the brands are known because we are distributing them through other retailers, because of which we are seeing more profitability on the license brands as compared to our own brands. You are right that there is an investment cost for our own brands, we have two brands Jewelili as well as Made for You, where we are seeing customer acquisition cost being meaningfully higher than the licensed brands.

Vaibhav Kacholia: What kind of domain expertise are we trying to create since you say that like the customer acquisition part is one key part of the success, so what expertise and what right to win do we have in that space and what are we trying to create there?

Sumit Shah: Clearly in order to win in this space, we have really got to have our marketing on the ball and understand the consumer mindset, so we have a reasonably large marketing team in the US who understands what the customer is looking for and supported by a digital team with significant experience. So, really our core competence to build the direct-to-consumer business is going to be around marketing and brand building as well as digital marketing which allows us to grow this share of the business.

Vaibhav Kacholia: Can't the same thing be done in India?

Sumit Shah: There are some parts which are already being done in India and there are some parts being done in the US, depending on what is required.

Vaibhav Kacholia: I was asking can't we sell to customers in India?

Sumit Shah: Currently we don't have a distribution platform in India. We have made an investment in three stores now, in a brand called Irasva. We don't have a distribution platform in India, and I think that Disney is not especially the Princess characters are not as well known in the adult market. We are not selling children's jewelry; we are selling adult Princess jewelry. Through our limited experience we have not had much success in India, that is something we for our



licensed brand divisions may do in the future, but currently we don't anticipate any meaningful revenue coming from India for these licensed brands.

Vaibhav Kacholia: Getting these licenses would be a normal process, right? Any vendor, can get these licenses, it is a normal system for this Disney and all? Is there any competitive advantage there?

Sumit Shah: We have an exclusive license for fine jewelry.

Vaibhav Kacholia: No one else can do Disney character jewelry?

Sumit Shah: On the Princess IP for fine jewelry space, it is us and Pandora who have the license and it is not available to anyone else.

Moderator: The next question is from the line of Ashish Shah from Business Match.

Ashish Shah: Sumit, great going, what you just created in 12 months' time in DTC, to create a 100-crore portfolio with a 20% margin so great going. I just had one question to that Sumit, any thoughts on now that you have got these consumers coming to our website, what are you doing to convert them into repeat customers?

Sumit Shah: We are currently in the process of doing is we have just signed an agreement with Salesforce whereby we are implementing their solution for all of our websites, and I think that using a lot of the tools that they have, AI, Email marketing, as well as targeting customers through various channels. We believe that that will be an important tool for us to be able to mine the customer, know what they want and present the right product to them. We are currently in the process of implementing Salesforce's sales and service solution onto our platform and we expect to go live in the next 90 days. That should be sort of a meaningful step forward for us to be able to mine the customers better and to be able to lower our customer acquisition costs even further.

Ashish Shah: Just wondering Sumit, when you look at the products, the SKUs which are available on our website versus the same which is available to some of the other US retailers, how different are these SKUs and especially the pricing?

Sumit Shah: I would say we try to protect all the retail partners through who we sell by giving exclusivity to most of the retailers, so we definitely do not sell the same product on our website as our retail partners who do. This creates some differentiation. Obviously, there is overlap due to the IP being what it is, but we definitely try to protect our channel partners by giving them differentiated SKUs from what we sell on our website.



- Ashish Shah:** Lastly, now that you are entering China as a market, early thoughts how differently you have to position yourself in terms of the product and pricing? Does the product have the same mix of studded jewelry and gold mix or is it more platinum when you go to China market?
- Sumit Shah:** I would say that the product for China would be obviously styled a little bit differently because it is a lot more simpler, smaller styling in better quality. China is primarily 18 carat with better quality of diamonds than what is generally sold in the US, but we plan to target only the studded jewelry market and not plain gold jewelry in China, as it's a significantly higher margin.
- Ashish Shah:** Just one last thing Sumit, since you are now talking to some other people in terms of your licensed brands, would they also exhibit similar return on capital matrix, in the sense would they also be as profitable as your existing license contracts?
- Sumit Shah:** It is a slightly longer-term timeframe that we are talking about any of the new brand owners that we are talking about for licensing opportunities. But we see that there is a significant and meaningful other licenses that we can get, and we could tie-up with, in order to create opportunities for future growth. It will be a longer-term period to get to the levels of profitability that we have with slightly more established brands, but we see opportunity for a lot more licenses that can drive growth potential.
- Moderator:** The next question is from the line of Shweta Shah from Samarthya Capital Pvt. Ltd.
- Shweta Shah:** My question is with regard to the recent launch of your six direct-to-consumer website for Hallmark Diamonds. I wanted to know what is your strategy on expansion of direct-to-consumer website for the Hallmark Diamonds?
- Sumit Shah:** On the direct-to-consumer websites we have sort of got Star Wars, Enchanted in our own brands and Hallmark. The strategy remains consistent that a very focused and targeted customer acquisition in terms of finding the audience that is most meaningful for the brand, and since there is a market that already exists, we do our distribution through retail partners, we plan to leverage some of the brand recognition that has been built over the years, as we have sold this through our retail partners in order to profitably grow the Hallmark Diamond brand as well.
- Moderator:** As there are no further questions, I will now hand the conference over to the management for closing comments.
- Sumit Shah:** Thank you everyone for joining us on the Q4 2021 earnings conference call. Just to summarize, we are seeing strong momentum across all of our geographies that we operate in, and we are very excited about the year ahead. Look forward to seeing all of you in the next earnings conference call. Thank you.



Moderator:

Thank you very much. On behalf of Dickenson World and Renaissance Global Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines.