



# RENAISSANCE GLOBAL LIMITED

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**Ref. No.: RGL/S&L/2023/18**

**February 13, 2023**

<b>Bombay Stock Exchange Limited</b> Listing Department Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai – 400 001  <b>Scrip code: 532923</b>	<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, Plot no. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051  <b>Symbol: RGL</b>
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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/2023/11** dated January 31, 2023; please find enclosed herewith the transcripts of earnings Conference call on Q3 & 9M FY 2023 results of the Company, held on February 08, 2023.

The aforesaid information is also uploaded on the website of the Company at <https://renaissanceglobal.com/webcast-and-transcripts/>

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

Thanking you,

Yours faithfully,  
For **Renaissance Global Limited**

**CS Vishal Dhokar**  
**Company Secretary & Compliance Officer**

Encl: As above



# Renaissance Global Limited

## Renaissance Global Limited

### Q3 & 9M FY23 Earnings Conference Call Transcript February 08, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to the Renaissance Global Limited's Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Ms. Jenny Rose from CDR India. Thank you, and over to you, ma'am.

**Jenny Rose:** Good afternoon everyone and thank you for joining us on Renaissance Global's Q3 and 9M FY23 Earnings Conference Call. We have with us today Mr. Sumit Shah – Chairman & Global CEO and Mr. Hitesh Shah – Managing Director of the Company. We would like to begin the call with brief opening remarks from the management, following which we will have the forum open for an interactive question & answer session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now like to invite Mr. Sumit to make his opening remarks. Over to you, Sumit.

**Sumit Shah:** Good afternoon everyone. On behalf of Renaissance Global, I extend a warm welcome and thank you all for joining us on our Earnings Conference Call for the quarter and nine months ended December 31st, 2022.

I will initiate the call by taking you through a brief overview of the Company's operational and business highlights for the period under review. Post that, Hitesh will give you a rundown of our financial performance, following which we will have the forum for a question & answer session.

We have reported a resilient performance during the period under review, despite the ongoing challenging operating environment. Our total income in Q3 stood at Rs. 725 crore and PAT came in at Rs. 28 crore. For the period 9M FY23, total income came in at Rs. 1,742 crore, up by 4% as compared to Rs. 1,672 crore in 9M FY22. And PAT for 9M stood at Rs. 68 crore against Rs. 85 crore for the corresponding period last year.

Despite strong global headwinds, we were able to minimize the downward pressure on our revenues for nine months, largely driven by growth in our branded jewelry division, which is up 20% year over year. Our high-margin direct-to-consumer segment remains a priority for us, and we are pleased to witness growth even in the current demand scenario. The annual run rate for the segment has now improved to Rs. 225 crore in the 9 months, further improving the 2-year revenue CAGR to 86%.

We are thrilled to report that the recently acquired Four Mine Inc. business has achieved break-even towards the end of the quarter and is now poised to start contributing to our profitability going forward. We expect margins from the direct-to-consumer business to return to the historic range achieved prior to the acquisition in the coming quarter.

We remain committed to executing our integration plan efficiently and effectively, and we will continue to keep you updated on our progress.

Additionally, we are pleased to witness continued demand for our branded product from our retail partners. Looking forward, our strategic endeavor is to achieve over 50% sales from the branded segment in the next 3 to 4 years.

Branded jewelry has contributed 26% of total revenue for 9M FY23 as compared to 23% in 9M FY22. Our overall EBITDA margins have been impacted by inflationary pressures which are expected to persist in the short term. Nevertheless, we are determined to grow our direct-to-consumer business at an aggressive pace and envision an improvement in margins in the medium to long term.

Overall, the current external challenges seem to be transitory in nature and certainly not structural. Although retail demand in the U.S. and Europe may stay sluggish for the next quarter, these 2 regions continue to be the largest consumer markets in the world.

To conclude, while the near-term environment remains challenging, we continue to focus on our strategy of growing our branded business. As we approach towards the end of the fiscal year and keeping the macroeconomic realities in mind, our revenue for FY23 is expected to decrease between 2% to 10% to between Rs. 1,970 crore to Rs. 2,150 crore for the year, and profit after tax is anticipated to decline to between Rs. 85 crore to Rs. 100 crore.

We believe that our direct-to-consumer approach will allow us to tap into a growing market of next-generation jewelry customers and create value for all stakeholders in an efficient manner.

I would now like to hand over the call to Mr. Hitesh Shah to discuss our financial performance during the quarter. Over to you, Hitesh.

**Hitesh Shah:**

Good afternoon everyone.

A challenging economic scenario in Western markets created downward pressure in our revenues. However, it was partially offset by solid contribution from our direct-to-consumer business. In Q3 of FY23, our total income stood at Rs. 725 crore compared to Rs. 775 crore in Q3 of FY22, down by 6%. While for 9M FY23, total income grew by 4% to Rs. 1,742 crore as compared to Rs. 1,672 crore in the same period last year.

Our branded sales in Q3 stood at Rs. 234 crore, up by 19% year over year, with contribution of branded jewelry revenue to total revenue being as high as 32%. In 9M FY23, revenue share of studded jewelry stood at 89%. Of the total studded jewelry revenues, branded jewelry contributed 38%.

During Q3 of FY23, direct-to-consumer business posted revenues of Rs. 88 crore as compared to Rs. 49 crore in Q3 of FY22, registering a growth of 80%. For the 9M FY23, our direct-to-consumer business revenue was up by 83% to Rs. 173 crore as compared to Rs. 94 crore in the same period last year.

Revenues from our plain gold segment grew by 21% year over year to Rs. 65 crore in Q3, and for the nine months' period, it grew by 76% year over year to Rs. 190 crore.

On the profitability front, EBITDA stood at Rs. 50 crore in Q3 of FY23, and for the nine months' period, it stood at Rs. 130 crore, translating into margins of 6.9% and 7.5% respectively.

For the nine month period, the branded jewelry business reported an EBITDA of 12.6% margin and the D2C business registered a 12.4% EBITDA margin. D2C business EBITDA margins were compressed due to integration costs from our newly acquired Four Mine Inc. business. The business has now achieved break-even while we build scale and is poised to positively contribute to our profitability moving forward. We anticipate a return to our historic D2C margins in the next few quarters.

In Q3 of FY23, profit after tax after discontinued operations came in at Rs. 28 crore versus Rs. 33 crore in the corresponding period last year. While for the nine months ended 31st December, PAT stood at Rs. 68 crore against Rs. 85 crore in the same period last year.

In terms of our balance sheet, our net debt-to-equity ratio stands at a healthy 0.30 as of December 31st, 2022, versus 0.41 as of September. Our total net debt stands at Rs. 291 crore and our cash and bank balances and current investments stand at a healthy Rs. 226 crore. We have generated a cash flow of Rs. 149 crore for the trailing 12 months ending 31st December 2022 on the back of aggressive working capital reduction.

To conclude, we have reported a stable despite a difficult macroeconomic environment. As one of the leading industry players, we have a strong financial position, and we remain confident of our ability to navigate through this challenging period and deliver strong performance in the future.

On that note, I would now request the moderator to open the forum for any questions or suggestions that you may have.

**Moderator:** We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Amit Doshi from Care PMS.

**Amit Doshi:** Sir, about a year back, I think we had started our activities in China. Can you share any update on that, how things are shaping up now?

**Sumit Shah:** We did a test with one of the larger chains in China for Enchanted Disney Fine Jewelry. After the test period, I think China went through a significant lockdown phase due to which the performance of the brand was not satisfactory. So, we have wound up the test in China and we don't expect China to contribute to revenues going forward.

**Amit Doshi:** This customer brands business that we have, can you explain the reason from a 7% EBITDA margin to 4%? It's like parallel to the gold business that you do. How do you kind of read that?

**Sumit Shah:** The customer brands business has been impacted by negative operating leverage. I think that as sales have gone down, some of the cost structures here have led to deleverage on the operating front. As the market stabilizes and the macro situation improves, we expect to go back to historical 7% to 8% margins on the customer brands front going forward.

**Amit Doshi:** So, it's more about the demand side and not on the cost?

**Sumit Shah:** Yes, because we are down 18% for the quarter, the margins have gone down.

- Amit Doshi:** As and when our D2C or the branded business is increasing, our working capital cycle is kind of extending. Is that correct understanding?
- Sumit Shah:** The working capital cycle has gone down. If we compare to 1 year ago, our working capital number of days has gone from 198 days to 188 days because the direct-to-consumer business requires less inventory, it's more working capital efficient, and has less receivable days as well. We would expect our working capital days to actually improve meaningfully as direct-to-consumer becomes a larger part of the business, especially the Four Mine Inc. business is extremely working capital efficient because it's a made-to-order business where we manufacture the jewelry after the order is received. While we have seen an improvement year-over-year, I think the fair comparison really is December to December because of seasonality. The number of working capital days has improved by 10 days in the last 12 months' period.
- Amit Doshi:** Actually, I was looking at the slide where FY19 is showing around 154 days, and of course, then it jumped to 198 days, which you are referring to in December 2021 and now back to 188 days.
- Sumit Shah:** The historical numbers are not comparable because we changed our accounting policy last year, whereby we are actually reporting revenues of the gold division on a net basis. Because of the non-comparability of that, FY20 and FY21 would not be a fair comparison, which is mentioned in the notes below. On a like-for-like basis, it has gone from 213 days to 188 days effectively if you were to compare on the older accounting methodology.
- Amit Doshi:** And you mentioned about this inflationary trend. What typically do you expect going forward that how that inflationary.... Primarily, you are talking about the diamond cost. What kind of costs are facing an inflationary pressure? And how do you see that going forward? You already gave a guidance about the next quarter in FY23. I am looking slightly more medium term in that sense.
- Sumit Shah:** The commodity prices went up meaningfully in the beginning of calendar year 2022. It took us a couple of quarters to pass on those increases to customers. So, from a gross margin perspective, I would say that we are largely stabilized and passed on cost increases to customers. In general, inflationary pressure has definitely caused a demand slowdown because jewelry is a discretionary purchase because of which we have seen a demand side issue. In terms of our gross margins and our ability to pass on the prices to customers, we have already done that and the gross margins are now at a stable level where we expect them to be.
- Moderator:** The next question is from the line of Pavan Kumar Pennada from Ratna Traya Capital.
- Pavan Kumar P:** Sir, can you comment about the overall EBITDA margins? Actually, we are expecting some increase in direct-to-consumer business margins, but the segment itself has been under pressure. What's your view going forward?
- Sumit Shah:** The direct-to-consumer segment's margins have gone down primarily due to the acquisition of Four Mine Inc. We acquired the business in February of 2022. And the business lost money up until the month of October. So, the margins are kind of depressed because of the acquisition. We have incurred significant integration costs and initial losses. Our expectation would be that in a few quarters, you would see a significant improvement in the margins of the D2C business as the acquisition has now broken even and is profitable on a go-forward basis.
- Pavan Kumar P:** Can you also please make us understand the contribution of Four Mine Inc. to Q3 revenues and PAT?

- Sumit Shah:** We haven't provided those numbers yet in Q3 and for the current year. At the end of the year, we will break down Four Mine Inc. within the D2C segment and will provide more visibility going forward so that investors are able to look at the margin profile separately. Going forward, we will provide visibility into the numbers.
- Pavan Kumar P:** How is this business model different from our other franchise models?
- Sumit Shah:** Four Mine Inc., we own the brand. It's a lab-grown diamond brand where we are focused on selling engagement rings. The remainder of our direct-to-consumer business is all licensed brands. So, one primary difference is own brand versus licensed brands. Second primary differentiator is it's primarily a lab-grown business as compared to a natural diamond business which is the remainder of our direct-to-consumer businesses. And it's a made-to-order business where we carry zero working capital. In fact, it is net working capital positive because the customer pays money first, after which we acquire the goods and deliver the product to the customer in about 11 days after receipt of the order. So, from a working capital perspective, it's highly efficient. And as I mentioned earlier, primarily lab-grown, focused on selling our own brand.
- Moderator:** The next question is from the line of Aakash Javeri from Perpetual Investment Advisors.
- Aakash Javeri:** My first question is that you mentioned the retail demand in the U.S. will remain sluggish for the next quarter. Could you just throw some light on how you expect it in FY24 and the rest of the calendar year?
- Sumit Shah:** What we saw in the past year was that the entry-level product was impacted a lot more than the mid-priced product and the higher-level product because there is a certain type of consumer who was, I think, more impacted by inflation. That's point number one. As year-over-year inflation eases, we are seeing more of a normalization trend in the retail sales data. Qualitatively, when we looked at January sales data of our retail partners, we are seeing the negative numbers go away and more of a normalization of demand. As to when we will start seeing year-over-year growth, I think, is a matter of time, but we are seeing the negative trend abating a little bit now, and we hope to start to see positive numbers in the next quarter or two. That would be sort of the visibility that we would have initially. I think that it would be early to tell how FY24 would do, but we are quite optimistic to be able to return to growth in FY24.
- Aakash Javeri:** What gives us confidence that our D2C brands will do so well? And Four Mine Inc. acquisition that we have done; on a low base, we have been doing well, but what gives us the confidence that in the next 1 year if the rest of the market remains, there is not as much visibility, then what gives us confidence that we will be able to grow that part of the business?
- Sumit Shah:** The Four Mine Inc. business is really focused around lab-grown diamonds and lab-grown diamonds have significantly gained market share in the U.S. We are really the only vertically integrated player competing in this space. There are probably about 4 or 5 brands in the direct-to-consumer lab-grown diamond space that are meaningful in size. Obviously, we have competitors who are a lot larger than us. We think structurally, it's a market that is growing very rapidly and potentially can be quite large because the lab-grown diamond engagement rings are still a very small percentage of the overall market. So, it's a growing market. We are an integrated player with significant cost advantages and delivery timeline advantages. And we have the design capability since we do significant investments since we have a large B2B business. I think a lot of the building blocks are there. I think we have to focus on execution and building the brand the right way. And we are fairly confident that we should be able to continue to grow this business with a long ramp for growth going forward.

- Moderator:** The next question is a follow up from the line of Amit Doshi from Care PMS. Please go ahead.
- Amit Doshi:** For this announcement in budget about lab-grown diamonds, how do you see that impacting Renaissance Global?
- Sumit Shah:** There is no immediate impact. I think there is clearly a focus, as the Government recognizes that this is something which is going to be a huge growth area for the Company. And we are very focused currently on building the front end for this and building consumer demand. I think at some point in the future, we need to see if we want to backward integrate into the growing process. But currently, we have no plans. We really plan to build out the front end and build the demand side of this because really our key differentiator is the ability to design, manufacture, and deliver a great brand experience to the consumer. So, we plan to stay focused on this part of the business.
- Amit Doshi:** So, this is something more for somebody who is into manufacturing lab-grown diamonds?
- Sumit Shah:** Growing the diamonds in a lab, that's right.
- Moderator:** The next question is from the line of Dharmavenkatesan K B, an individual investor.
- Dharmavenkatesan:** Sir, I am new to this Company. I just want to understand how we are promoting our D2C brands. What are the kind of advertising we are doing, in case we are doing? I just wanted a more clarity on what we are exactly doing in the D2C brands?
- Sumit Shah:** We currently are investing a significant sum of money in terms of our overall revenue in growing the brands. Primarily, it is digital marketing. Just to give you a perspective on Rs. 225 crore revenue for the current year, we would be spending between Rs. 60 crore and Rs. 70 crore on advertising in the current financial year. This is basically split up between top of the funnel and bottom of the funnel marketing, primarily between Google and Facebook advertising platforms. It's a mix between performance marketing and brand building, but it's primarily digital marketing spent on these 2 platforms to get customers.
- Dharmavenkatesan:** I was looking through your presentation. The consumer brands segment had actually de-grown by around 20%. Is there demand destruction which is happening because of this inflation thing which is prevalent in the western countries? And how do you see this going forward into the next financial year?
- Sumit Shah:** We saw a significant commodity price inflation in the early half of 2022 due to which definitely their wallets were stretched, and we saw negative year-over-year numbers in terms of retail demand. As I mentioned to the earlier caller that we are seeing positive trends starting January, as inflation has abated. We are hopeful that in the next couple of quarters, these numbers should stabilize and improve.
- Moderator:** The next question is from the line of Sanket Goradia from RS Investments.
- Sanket Goradia:** I have 2 questions. One was on the acquisition side, if we are looking at any potential acquisition now? And the second part of that comes from the cash that we are holding. Are we looking at using that maybe for the acquisition or a buyback or increase in any kind of dividend payout?
- Sumit Shah:** We are not looking at any further acquisitions in the near term. Between growing Four Mine Inc. and our branded business, I think that we have definitely got a long runway for growth. We also have a small retail business in India, Irasva, which is showing some nice green shoots with store-level profitability being achieved. I think that we

have got multiple drivers of growth in the existing businesses that we have between the licensing business, Four Mine Inc., as well as the India retail business which will become meaningful over a period of time, but we are seeing good unit economics coming out of that business. So, I think focusing on gaining efficiencies out of the existing businesses and growing them will be the focus. I think that at the current moment in time, the Board hasn't decided on any buyback or increased dividends, but we have meaningfully reduced the gross debt down year-over-year. We have gone from Rs. 549 crore of gross borrowings to Rs. 469 crore. And in the current interest rate environment, it makes sense to pay down the debt and de-risk the Company from that perspective. Capital allocation decisions will be made by the Board going forward, but we have been using some of the money to pay down the debt as you see from our balance sheet from December.

**Moderator:** Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Sumit Shah:** I hope we have been able to answer all your questions. Should you need any further clarifications or know more about the Company, please feel free to contact our Investor Relations team. We hope to have your valuable support on a continued basis as we move ahead. Thank you.

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*Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.*