Renaissance Global Limited

Q1 FY24 Earnings Conference Call
August 11, 2023

Moderator: Ladies and gentlemen, good day and welcome to Renaissance Global Limited's Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you.

Anoop Poojari: Good afternoon, everyone and thank you for joining us on Renaissance Global's Q1 FY24 Earnings Conference Call.

We have with us today Mr. Sumit Shah – Chairman and 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'll have the forum open for an interactive question and 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 Sumit to make his opening remarks.

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 ended 30th June 2023.

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 open the forum to the question-and-answer session.

Over the last few quarters, our financial performance has been impacted by challenging market conditions, mainly characterized by subdued demand. Despite these challenges, our quarterly consolidated EBITDA margin grew quarter-on-quarter and year-on-year thanks to strong contribution from our direct-to-consumer branded segment. During the quarter, our total income stood at Rs. 476 crore, a decrease of 17% while our EBITDA margin came in at 7.7% compared to 7.6% in Q4, FY23 and 7.3% in Q1 FY23. We believe our performance has been resilient with positive contribution from our core branded jewelry business.

While the economic landscape has posed challenges, our direct-to-consumer branded segment has not only held our financial performance steady, but we believe will also pave the way for future growth. The segment has delivered an impressive 69% compounded annual growth over the past 3 years and we project its annual revenue to reach Rs. 310 crore in FY24. With such promising results, we are excited about its potential and remain positive on increasing its share of revenue to 50% in the next 2 to 3 years.

In a key development, we are pleased to announce the appointment of Mr. Bijou Kurien as Independent Director, adding valuable expertise to our board. Mr. Kurien brings with him an impressive professional background including 35 years of experience in the Indian retail industry and various leadership roles across several prominent organizations. As Chairman of the Retailers Association of India and a member of the esteemed World Retail Congress Advisory Board, he's been instrumental in shaping the future of the retail industry. His exceptional branding skills and broad experience promise to be an invaluable asset to our corporate strategy and direct-to-consumer business vertical, aligning perfectly with Renaissance Global's goal of focusing on strengthening governance practices and driving growth and success.

To conclude, despite temporary setbacks in the global landscape, we see bright prospects in the medium to long term horizon. With positive economic data coming from the US and with some signs of respite on the inflation front without significantly killing demand. We believe that the demand sentiment should improve and show positive signs towards holiday season for FY24. We are confident in our ability to capitalize on growth prospects in the global branded jewelry sector with a strong focus on expanding our direct-to-consumer business, a strategy we firmly believe will create substantial values for all stakeholders in the foreseeable future.

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

Hitesh Shah: Thank you Sumit. Good afternoon, everyone. We registered a stable performance primarily on the back of steady contribution from direct-to-consumer business in Q1FY24.

Our total income stood at Rs. 476 crore compared to Rs. 575 crore in Q1 FY23, declining by 17%. Our branded jewelry sales stood at Rs. 132 crore of which our B2B segment came in at Rs. 77 crore and our direct-to-consumer business posted revenues of Rs. 55 crore compared to Q1 FY23 revenues of Rs. 41 crore growing 36% year-over-year. Our annual revenue run rate for the direct-to-consumer business based on Q1 FY24 sales is estimated at Rs. 310 crore compared to actual FY22 revenues of Rs. 239 crore.

During the quarter, revenue share of studded jewelry stood at 85%. Of the total studded jewelry revenues branded jewelry contributed 33% in Q1 FY24. Of the branded sales B2B segment contributed 58% while direct to consumer contributed 42%. I would like to highlight that the revenues from plain gold segment came in at Rs. 70 crore in Q1 FY24 versus Rs. 58 crore in Q1 FY23, adding positively to our overall performance during the period.

On the profitability front, EBITDA stood at Rs. 36.7 crore in Q1 FY24. Despite the continued challenging macro environment, we managed to deliver an EBITDA margin of 7.7% in the current quarter versus 7.3% in Q1 FY23 and 7.6% in Q4 FY23. During the quarter, profit after tax before discontinued operations stood at Rs. 14.2 crore versus Rs. 24.2 crore in the corresponding period last year. This was primarily on account of higher interest costs and higher tax expenses as compared to Q1 of last year, which we expect to normalize over the course of the year.

Lastly, in terms of our balance sheet, our net debt to equity ratio stands healthy at 0.22 as of June 2023. Our total net debt stands at Rs 233 crore, and our cash and bank balances and current investments stand at a healthy Rs. 235 crore.

To conclude, we have reported a steady and resilient all-round performance during the quarter ended June 2023. As we look ahead, our growth initiatives will help support accelerated growth in the medium to long term.

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

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Ashish Shah from Business Match.

Ashish Shah: How's the outlook looking for the four segments for the rest of the year? If you can talk a little bit about each of them.

Sumit Shah: I think that what we are seeing is inflation moderating in the US and we did have a high base effect in quarter four and quarter one. We do see the year-over-year numbers improving and we are seeing some stabilization in demand on the B2B segment. The branded segment, both the B2B as well as the D2C segment are also seeing a sort of normalization in terms of sales at D2C, as you've noted, it has been relatively strong and we continue to see momentum there. The Gold Division, I think, again, because it's a Middle East focused business, it had a good quarter and I think we continue to see strong demand there. So, I think that during the course of this year we are seeing some stabilization of demand and I think the year-over-year numbers will start to look better because of the base effect.

Ashish Shah: Is it too early to call or do you think that the B2B business has bottomed out in terms of growth?

Sumit Shah: I think it's a little bit early to say, but definitely the worst is behind us in terms of the year-over-year declines due to the high base effect. I think that we're seeing encouraging signs in terms of customer orders for the holiday season. So, I think that the bottoming out seems like it's happening now, and we should start to see growth, if not in the next quarter, the quarter after that.

Ashish Shah: And just a little color of this target that we have in terms of 50% share from the branded business, how is that shaping up as you look like, let's say two, three years out?

Sumit Shah: I think currently about a third of our studded business is coming from the branded segment and I think that we're definitely on course to get to 50% in the next two to three years. As you know, the direct-to-consumer business is growing well, and we are very encouraged with the performance of Irasva as well. And we've got plans to open two new stores in the coming quarters for Irasva as well. So, with the performance of the e-commerce business in the US, as well as Irasva going forward, I think we've continuously increased the share of the branded space from the single digits to 33% today, and I think looking at getting to 50% within the next two to three years.

Ashish Shah: And the other thing on margins, we've seen some improvement this quarter. Again, on margins, do you think they've bottomed out? We are headed higher maybe let's say two years out as well.

Sumit Shah: The margins have really been challenged on the customer brands front because of deleverage. We've seen customers sort of cut back on inventory, whereas our sales to the retailers have declined significantly, the retail sales haven't declined to that extent. So as sales momentum at our end picks up, we should see some normalization in margins because a lot of the drop in margins is on the customer brand segment, which is kind of suffering from the deleverage effect. I think that on the branded side, the margins are at 13%, 14%. We expect them to improve, but I think the main challenge has been on the customer brand segment, which should improve as sales recover.

Ashish Shah: And you see the D2C margins at least taking off this year as well.

Sumit Shah: I think they've improved this year and I think they'll continue to improve over the coming quarters.

Ashish Shah: Just last couple of questions, kind of related, the interest cost obviously has gone up this quarter, even last quarter. So, any thoughts on capital allocation for the year ahead?

Sumit Shah: I think you'll see us repay down debt meaningfully. I think we've continued to kind of pay down debt. We've reduced debt year over year by about Rs. 80 or 90 crore, and we'll continue to pay down debt as the year goes along with interest costs where they are. I think that it makes sense to pay down debt and reduce debt meaningfully. I think in the past twelve months we've had some capital expenditure in terms of setting up our office in the US which was Rs. 40 to 50 crore investment, and we had some notes payable from our acquisition which we've paid out as well. So, we've used the free cash flow from operations which are approximately Rs. 120 crore in the last twelve months and Rs. 160 crore for the year ended 31st March, i.e, FY23 for a combination of capital expenditure and paying down debt. And I think that as we generate cash flows going forward, we plan to reduce debt meaningfully going forward as well.

Moderator: The next question is from the line of Drasti Shah from Blue Lotus Capital Advisors.

Drasti Shah: I just wanted to understand the performance of Irasva, especially when we opened two new outlets in Hyderabad and Ahmedabad also. So how has the performance of Irasva outlets been in India?

Sumit Shah: In the last twelve months we've opened two stores, one in Ahmedabad and one in Hyderabad. Ahmedabad has been open for about a year now and it's achieved very healthy levels of unit economics and store level profitability. And Hyderabad store is only three months old and is also sort of profitable at store level. We plan to open two more stores in the next six months, and I would say that broadly, on average, each store is at a run rate of about Rs. 10 crore a store on an annual basis. And based on the margins in diamond jewelry we're optimistic about the performance of the stores because at this level the return ratios are quite healthy. So, we plan to now increase the rate of store opening for Irasva and are quite hopeful that over the next three to four years, Irasva will become a meaningful part of the overall business.

Drasti Shah: Even in the Mumbai outlet? Are all the outlets doing on an average Rs. 10 crore annually?

Sumit Shah: The Mumbai outlet is a little bit lower than that. The newly opened stores, Ahmedabad and Hyderabad are at that run rate and we plan to open two more stores in Mumbai in the next six months or so. So, we'll have more updates for you over the coming quarters as to how they're performing. But the Hyderabad and Ahmedabad stores are at the level that I indicated.

Drasti Shah: And what kind of product categories do we have in Irasva and all the outlets? Have we customized as per the location or considering India as a region or is it standard as per your other brands?

Sumit Shah: It's absolutely, completely different product, completely tailor made for the Indian market. Because what we sell in Western markets is not at all compatible to what would be sold here. So, it's been customized for the location. We have a CEO who runs a business who's had long standing experience in the Indian retail jewelry industry. And obviously, with Mr. Bijou Kurien being on the board, it lends a lot of expertise to us in terms of product and product market fit. So, it's obviously tailor made to the Indian market with average price point of about Rs. 2 lakh, which is much higher than what we sell in international markets. And we've had a couple of years now since stores have reopened to refine our product. And we are very encouraged by the customer acceptance of the product and the product that we change, primarily diamond jewelry. I mean, we don't sell gold jewelry, which is why the revenue per store is lower than retailers who'd be selling gold jewelry as well.

Drasti Shah: Have you broken-even at all the stores, or are we still yet to break-even?

Sumit Shah: All the stores are profitable at store level. All of them are profitable.

Drasti Shah: Even the Mumbai stores?

Sumit Shah: That's right.

Moderator: The next question is from the line of Aakash Javeri from PIA.

Aakash Javeri: My question is regarding the lab grown diamond segment. How do you see the demand and outlook for lab grown diamonds going forward in the next, say, two to three years?

Sumit Shah: I think that the consumer internationally has really accepted lab grown diamonds as sort of an accepted product for, especially in engagement rings and solitaire jewelry, as the price difference between natural diamonds and lab grown diamonds in larger stones is pretty significant. I've read reports where anywhere from 20% to 30% of engagement rings sold now are with lab grown diamonds. So, there's been a significant increase in the acceptance of lab grown diamonds and I think that lab grown diamonds over time will continue to increase in penetration, and the percentage share of lab grown diamonds should continue to go up over the next few years.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I would now hand the conference back to the management for their closing remarks. Thank you and over to you.

Sumit Shah: Thank you everyone, for joining us on the quarterly conference call. We look forward to seeing you for the Q2 results. Thank you.
