Renaissance Global Limited

Q2 & H1 FY24 Earnings Conference Call
November 10, 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 Ms. Jenny Rose from CDR, India. Thank you and over to you.

Jenny Rose: Good evening everyone and thank you for joining us on Renaissance Global's Q2 & H1 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 will 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 Mr. Sumit to make his opening remarks. Over to you Sumit.

Sumit Shah: Good afternoon everyone. Thank you all for joining us on our earnings conference call for Q2 and H1 FY24. I would like to begin the call by providing you with a quick overview of the Company's operational and business highlights for the period under review. After that, Hitesh will take you through the financial performance, following which we will open the forum for a question-and-answer session.

Our financial performance this quarter reflects the persistent challenges posed by the external demand landscape. However, within this tough environment, we have witnessed healthy growth in our direct-to-consumer business, which further cements the segment's role as an essential driver of our company's progress.

Our primary strategic focus remains on our branded business where we have engaged in strategic partnerships with renowned global brands through a licensing model. We have an expansive portfolio of both owned and licensed brands in this vertical, that we are growing through our B2B and direct to consumer channels. The contribution from our branded business has made remarkable strides, surging from a modest 2% in FY18 to an impressive 26% in H1 FY24. Looking ahead, our ambitious long-term objective is to expand our branded jewellery business by more than threefold within the next 3 to 4 years.

Within our branded offerings, we are particularly excited about our direct-to-consumer segment. This vertical delivered a healthy 23% year-over-year growth in

Q2 and an impressive 29% year-over-year growth in H1 FY24. Our estimates indicate that we are on our way to achieving an annual revenue run rate of approximately Rs.312 crore in FY24. As we are on the verge of transforming from a generic business to a house of brands, the margins in the direct to consumer and overall branded business are poised to improve in the coming quarters on the back of internal efficiencies and the improvement in Irasva store level profitability.

Talking about Irasva Fine Jewellery, we are delighted to announce, its increased offline footprint with a new store in Borivali, Mumbai, building on the accomplishments of its Mumbai, Hyderabad and Ahmedabad locations. This luxury and lifestyle store, the second of its kind in Mumbai, is meticulously designed to cater to the discerning tastes of the city's shoppers. It exudes a warm and sophisticated ambiance, providing a distinctive, customer centric shopping experience that encourages interaction and familiarity. With the festive season on the horizon, we anticipate a strong start to the store. Irasva's enduring vision encompasses an expansive nationwide brand presence through a comprehensive omni-channel strategy offering a diverse array of fine jewellery, from everyday pieces to standout accessories for special occasions.

In conclusion, while we recognize the near-term challenges, we remain extremely bullish on the long term potential of our branded business. Our collaborations with iconic global brands, alongside the cultivation of our own distinguished brands focused on lab grown diamonds, highlight our team's ability to connect with the next generation of jewellery enthusiasts and build a sustainable business model. Overall, our strong partnerships with renowned brands, extensive product innovation expertise, exceptional design talent and a robust distribution network will remain the driving force behind our growth journey.

I would now 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.

Renaissance Global delivered a stable performance driven by steady demand in our branded jewellery segment and an encouraging contribution from our direct-to-consumer business during the first half of this year. While our total income during the quarter stood at Rs. 443 crore compared to Rs. 442 crore in Q2 of FY23 and for H1 of FY24 our total income came in at Rs. 919 crore as compared to Rs. 1,016 crore in H1 of FY23.

On the profitability front, EBITDA came in at Rs. 32 crore in Q2 of FY24 and for H1 of FY24 it stood at Rs. 68 crore, translating into EBITDA margins of 7.2% and 7.4%, respectively. The branded jewellery business reported an EBITDA margin of 11.2% and the D2C business registered a 12.1% EBITDA margins in Q2 of FY24. In Q2 of FY24, our profit after tax stood at Rs 10.5 crore versus Rs. 15.5 crore in the corresponding period last year. While for H1 of FY24 the PAT is Rs. 24.7 crore against Rs. 39.8 crore. In H1 of FY23. Our direct-to-consumer business is a high EBITDA margin business, typically in the range of 18% to 20% with a growing share of direct-to-consumer revenues to total revenues and increased store level profitability in Irasva. Renaissance is confident of its EBITDA margins showing an improving trend going forward.

Moving on to our segmental performance, In Q2 and H1 of FY24, the revenue from studded jewellery stood at 86% of total sales. Of the total studded jewellery revenues in Q2 of FY24, branded jewellery business contributed 29% and the contribution for H1 of FY24 of branded jewellery was 31%. In Q2 of FY24, the B2B segment contributed 51% to studded branded jewellery while the direct-to-consumer segment contributed a healthy 49%.

During Q2 of FY24, the D2C business posted revenues of Rs. 53.8 crore compared to Rs. 43.9 crore in Q2 of FY23 which is a growth of 23%. For H1 of FY24, the D2C business revenue was up by 29% to Rs. 109.1 crore. Further, based on our projection of the quarter's contribution to annual sales, the annual revenue rate of the D2C business is at Rs. 311.8 crore in FY24 versus the actual FY23 revenues of Rs. 239 crore.

Lastly, in terms of our balance sheet, our net debt to equity ratio stood at a healthy 0.29 as on September 2023 as against 0.41 in September 2022. Our net debt stands at Rs. 317 crore as on 30th September 2023 as compared to Rs. 381 crore in the same period last year. We have a healthy cash position with our cash and bank balances and current investments standing at Rs. 204 crore. Overall, we are one of the leading industry players with a solid balance sheet profile.

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. Ladies and gentlemen, we will start with the question and answer session.

The first question is from the line of Amit Lala from Alpha Investments.

Amit Lala: As you mentioned in your remarks, the business is in a transformation phase from generic to a kind of branded portfolio and in the short-term what kind of returns can we expect? If you can maybe paint us a picture from a 5 year perspective on how this branded business can look and what kind of return profiles we can expect?

Sumit Shah: As we have been indicating over the past couple of years, we are in this transition phase of transforming our company from a generic supplier to a branded player with a direct to consumer as well as business to business distribution. Currently there are two businesses within our branded space 'With Clarity' as well as 'Irasva.' 'Irasva' is not yet profitable at Company level and 'With Clarity' has lower margins because we only acquired it a year ago. Historically, we had 15% margins for this segment, 15% to 18% margins for the branded segment and our goal would be to grow margins again back to those levels as well as increase our business substantially. I think that we fully expect a large majority of our businesses to be the branded business in a 3-to-4-year time frame. So, I think we are very optimistic that there will be significant margin expansion on the branded side as well as significant revenue growth.

Moderator: The next question is from the line of Jagdish B, an individual investor.

Jagdish B: I had a question regarding us versus competition. How do we differentiate ourselves from the peer group who are also selling to the US retailers and the jewellery stores?

Sumit Shah: I think the fundamental difference is that a lot of our peers are not attempting to build a branded offering and build their own brands. I think that the competition is really focused on selling generic product to large retailers, which building a brand does require some initial investments due to which our margins currently are on the lower side. But we strongly believe that this is the right strategy long term to really build value for our shareholders over time.

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

Drasti Shah: I wanted to know, you have added a new slide which shows the mix of lab grown diamonds and natural diamonds. And the mix has been like 50% for B2C and it has been increasing compared to Q2. So, can you just give some idea about how this mix you are forecasting and the margin's improvement which we can receive from this lab grown increment in your revenue mix?

Sumit Shah: So, I think as you see even in Q2 versus Q1 the contribution from lab grown diamonds has increased meaningfully. We believe that this number will continue to go up. It is very hard to project where this number will stabilize. I think that we clearly remain focused on developing both natural as well as lab grown diamonds depending on the brand and what the customer segment requires. Over time lab grown diamonds will become a much bigger percentage of our overall business as compared to the 13% that we are at today.

Drasti Shah: Can you state any kind of margin difference? There has been a lot of volatility in the lab grown diamond prices also. So, what kind of volatility and price pressure are you facing in this lab grown diamond?

Sumit Shah: A large part of our lab grown diamonds business is on the direct-to-consumer side where we follow a zero-inventory model. We run a marketplace where producers of lab grown diamonds list their inventory and then once the customer places an order, we actually end up buying the stone and supplying it. So, we are not taking any inventory position or very minimal inventory position on the direct-to-consumer side which is a large majority of our lab grown business. On the B2B side it is about 5% or so. I would say that we are trying to sort of be cautious because there has been significant declines in the valuation of the value of lab grown diamonds. We've sort of been immune to it because we have not taken a significant inventory position in lab grown diamonds. In general, the gross margins are higher, but it obviously does come with a downside risk of lower inventory prices as well. So, we have tried to stay cautious on the lab grown diamond space in terms of holding inventory. So, that our balance sheet is not impacted by any depreciation in the prices of lab grown diamond.

Drasti Shah: So, does that mean there is a lot of changes in your cost per ticket size? Since 50% of D2C's comes from the lab grown diamond inventory. So, post the changes in the prices of lab grown diamonds has there been a huge change in your per unit cost to customer?

Sumit Shah: What we have noticed is generally the consumers of engagement rings which is primarily where lab grown diamonds are used, generally comes with a budget in mind. Over the last 18 months or so that we have been operating this D2C platform, we have seen stability in the average order value. The customer usually will upgrade and buy a better diamond instead of spending less money. We have seen that our average order value has stayed constant at about $2500 to $2600. However, the customer is getting more value for money as the prices of lab grown diamonds have gone down and people are upgrading to a 1.5 carat stone or a 2-carat stone instead of a 1 carat stone that they were earlier buying.

Drasti Shah: Lastly, I just wanted to know about the new Irasva store opening. Can you just give me some idea about the new store? What are the plans with respect to Irasva post the new Borivali launch and about the Borivali store? Can just share some idea.

Sumit Shah: We have plans in the next 3 months or so to open one more store in Mumbai at Bandra. Currently, the store is in the fit-out phase. I think post that we are kind of formulating our plans for the next financial year. But we are very encouraged with the store level unit economics of Irasva and we feel that it's the right decision to continue to build on it. I mean we were initially quite cautious, but I think that the unit level economics now are at a point where it makes sense to grow the brand meaningfully. We'll sort of come back with more concrete plans probably on the next earnings call but we definitely encourage now to grow it. Having said that Irasva as it becomes a larger part of our direct-to-consumer business. It is a drag currently on margins because while the store level economics are positive, at the Company level it is still a minor loss. So, as it becomes a bigger number, the margins will look a little bit lower. But I think it is the right decision for the long term to grow it because India is a huge potential market, and we feel like we have created a differentiated offering that the consumer has loved and we are very encouraged with the sales trends at Irasva.

Moderator: The next question is on the line of Pavan Kumar from Ratnatraya Capital.

Pavan Kumar: Can you highlight what are the impacts of US rate hikes on your present demand dynamics?

Sumit Shah: I think more than the rate hikes since it is the US consumer who is buying, they have been impacted more by the higher inflation trends, that usually in a high inflation environment discretionary spends are what are cut. So, if one looks at the sort of spends in various discretionary categories I think that most of them are down. So, while the US consumer is relatively healthy and still spending more money compared to last year, a lot of that money is going towards essentials. So, our view is that demand has definitely been impacted a bit due to inflation. While inflation has moderated, we have seen normalization in sales trends. A lot of the impact has happened over the last 12 months and we are seeing now after three quarters our revenues have kind of become flat year over year. We fully expect these to turn positive in the next two quarters. A lot of the impact that we felt due to inflation is now behind us and we expect to see a positive revenue momentum going forward.

Pavan Kumar: We are saying this peak December quarter might not be that great but maybe in FY25, we can expect some pickup, is it?

Sumit Shah: As we stated at the end of Q1, we should see normalization in Q2 which we have seen in terms of revenue trends. I think that Q3 should be flat to mildly positive and Q4 should definitely be significantly positive. I would say that the revenue trends should become progressively better every quarter going forward.

Pavan Kumar: On the branded vendor side, we got a few new brands like Netflix, etc. last year. Can you share some update on this?

Sumit Shah: So, I think that we are gradually sort of monetizing various brands which are at different stages of development. So, we recently launched Marvel, Star Wars and Disney Jewels under a consolidated brand called Wonder Fine Jewellery at JCPenney. The feedback has been incredibly positive. We also expanded NFL at other retailers, and we are very encouraged with the sales trends with NFL as well. I think that among the stronger brands I would say that the Disney portfolio of brands, the Princess brands, the iconic Disney characters, Star Wars, Marvel all continue to do really well. Hallmark does exceedingly well and so is the NFL showing encouraging signs. I think that Netflix did not quite work out as we had planned and it is kind of not turned into a meaningful business. But the newer brands that have done well have been Marvel, Star Wars and the NFL. These new brands should sort of contribute to the revenue growth going forward.

Pavan Kumar: On the Irasva side, can you just let us know if we have any plans of opening another store on the Irasva side? What is the kind of growth that we can expect on that side?

Sumit Shah: I think that we are currently at four stores. We plan to open a fifth store in Q4 of the current financial year and we're currently finalizing sort of capital allocation and budgeting for the next financial year. We will definitely continue to open Irasva stores going forward since we are very happy with the unit level economics for Irasva. We have not finalized how many more stores we will be opening in the next financial year. But there is one more location which has been signed up in Mumbai which we will open in Q4 of the current financial year.

Moderator: The next question is from the line of Gaurav Jaggi from Flanders Cheese Pvt. Ltd.

Gaurav Jaggi: I am a shareholder in your Company, I just have one basic question. Your stock basically seems to be very undervalued compared to a lot of your peers and of course, today the consolidated numbers took a toll on the stock. Just wanted to know one thing, are there any plans for a buyback?

Sumit Shah: We will have to probably discuss it in the next board meeting but currently we have not discussed a buyback at all. Given the fact that interest rates are significantly higher, and we still have about Rs. 300 crore of net debt. The first goal would be to kind of one, reduce net debt and also put in plans for capital allocation towards growth of Irasva, as well as our direct-to-consumer business in the US. I would say that for the next 12 months or so it is obviously up to the board to decide. But I think that the priorities for capital allocation while you are seeing that we have been generating consistently over Rs. 100 crore of free cash flow over the last 4 years or so. FY20 to FY23, over the last four years we have generated over Rs. 500 crore of free cash flow which we have used to do some acquisitions and pay down debt by a significant quantum. I think that the plan of reducing debt further and also allocating some capital towards growth probably would be higher usage of capital.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sumit Shah: Thank you everyone for participating in our conference call today. Look forward to talking to you next quarter. Thank you.

Hitesh Shah: Thank you.

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 a high level of accuracy.