



Renaissance Global Limited

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Q2 and H1 FY25 Earnings Conference Call Transcript November 19, 2024

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY25 Earnings Conference Call of Renaissance Global Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing *, then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Snehkumar Purohit from Renaissance Global Limited. Thank you, and over to you.

Snehkumar Purohit: Good afternoon, everyone, and thank you for joining us on Renaissance Global Q2 and H1 FY '25 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 the disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now like to invite Mr. Sumit Shah to make his opening remarks.

Sumit Shah: Thank you, Sneh. 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 2nd Quarter ended 30th September 2024.

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".

Building on the momentum from Q1, we achieved stable growth across key segments with quarterly revenue from continuing operations rising 3% year-over-year. Our consolidated EBITDA margin from continuing operations reached 10.3%, enhanced by operational efficiencies and a strategic focus on high-margin segments. Our



continued focus on high-quality businesses has meaningfully contributed to the positive impact on gross margins, which are up 434 bps through our margin improvement initiatives.

In Owned Brands, our revenue grew by 7% year-over-year in Q2, while the EBITDA margin in this segment reached 10.3%, reflecting a substantial year-over-year improvement of 575 basis points. As we approach the holiday season, we expect strong consumer demand in this segment, setting us up for a promising end to the year.

We recently launched a new direct-to-consumer fashion jewelry brand, Renaei, to be primarily sold on Amazon in the U.S. The brand is uniquely designed to meet an ever-growing affordable fashion jewelry demand among millennial and Gen Z consumers.

Our focus on branded jewelry continues to drive growth. Recently, we tested the Enchanted Star collection with a major retail partner in the U.S. This collection is an exciting extension of our Enchanted Disney Fine Jewelry brand brings lab-grown diamonds into our offerings, featuring engagement rings and fashion jewelry pieces. Early response has been very encouraging, and we believe that this collection holds strong potential to contribute meaningfully to our Licensed Brand segment in the growing quarters.

In the Customer Brands division, revenue in Q2 stood at 293 crore with an EBITDA margin of 9.4%, making an impressive 295 basis point improvement. We have taken a detailed strategic review of this business and have identified significant process re-engineering and capacity rationalization measures to boost efficiencies.

We have launched an extensive cost optimization initiative towards the end of Q2, which will extend into Q3 and is expected to deliver annual savings of 40 to 50 crore. In line with the same, we incurred a one-time restructuring expense of around 3.5 crore in this quarter.

Additionally, we expect to see significant reductions in interest rates as we leverage the proceeds from the sale of our gold business and anticipate a more favorable interest rate environment with recent rate cuts announced by the fed.

This combination of actions will position us to achieve substantial savings while reinforcing our commitment to profitability and long-term growth. While we remain mindful of near-term challenges, our outlook on the long-term potential of our branded business remains exceptionally strong.

Our partnerships with iconic global brands, coupled with the expansion of our own distinctive brands with strong focus on lab-grown diamonds underscores our commitment to connecting with the next generation of jewelry enthusiast. Our strong partnership with renowned brands, expertise in product Innovation, design talent and robust distribution network will continue to drive our growth going forward.

Hitesh Shah:

Thank you, Sumit. Good day, everyone. We have reported a stable performance during the quarter driven by better performance in our Owned Brands' Direct to Consumer segment.

In Q2 of FY '25, our adjusted total income increased by 3% at Rs. 392 crore, as compared to Rs. 380 crore in Q2 of FY '24.



On the profitability front, adjusted EBITDA expanded by 42% at Rs. 40 crore in Q2 of FY '25 versus Rs. 28 crore in the same period last year with adjusted EBITDA margins of 10.3% versus 7.5% last year.

During the period, our margins improved, and we expect revenue to trend upwards in the coming quarters. Adjusted profit after tax for Q2 of FY '25 stood at Rs. 15.7 crore, up by 50% from Rs. 10.5 crore in Q2 of FY '24. For H1 of FY '25, the adjusted profit after tax stood at Rs. 31.4 crore, as compared to Rs. 24.7 crore in the same period last year.

Our branded segment reached revenues of Rs. 92 crore during the first half of the financial year versus 78 crore in the first half of FY '24, which is upped by 19%, demonstrating a resilient business strategy and strong market expansion.

Our Direct-to-Consumer India brand Irasva, with a total of four stores across Mumbai, Ahmedabad and Hyderabad, recorded revenues of Rs. 10 crore in the first half of FY '25.

In Q2 of FY '25, our Licensed Brand business maintained stable revenues at Rs. 57 crore on account of healthy flow of orders from our retail partners as well as the Direct-to-Consumer segment. It had an EBITDA margin of 16.5%, while our customer brand reported an EBITDA of 9.4% reaching Rs. 27 crore in Q2 of FY25, an improvement of 295 basis points.

Given the increasing contribution of our brands to our overall revenue, we anticipate a promising rise in our consolidated EBITDA margins, with the branded business continuing to be a significant profitability driver.

Lastly, in terms of our balance sheet, our net debt-to-equity ratio stands at a healthy 0.27 as on 30th September '24 versus 0.31 in June '24 and 0.29 in September of '23. Our total net debt stands at Rs. 328 crore against Rs. 370 crore in Q1 of FY '25. And our cash and bank balances and current investments stand at Rs. 244 crore, which is up by Rs. 58 crore from 30th June '24.

In conclusion, we are pleased to have maintained steady performance in the phase of challenging conditions. Our solid balance sheet gives us confidence in our ability to navigate these challenges and look forward to stronger results in the upcoming fiscal year.

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. We will take our first question from the line of Kashvi Chandgothia from JRK Stock Broking. Please go ahead.

Kashvi Chandgothia: First of all, thank you for the opportunity, and I congratulate everyone on this great set of numbers. So, going forward, can you give a more detailed guidance on how we are expecting the quarter 2 and the FY '26?

Sumit Shah: Sorry, if I understood your question correctly, you wanted more detailed guidance on quarter 3 and FY '26?

Kashvi Chandgothia: Yes, sir, half year, second half and FY '26.



Sumit Shah: So, I think we are seeing sort of a return to growth in all of our segments in quarter 2. We anticipate this trend to continue or accelerate going forward. I think that for financial year '26, I think as the penetration of lab-grown diamonds increases, we see revenue growth accelerating, and this coupled with the cost cutting measures that we have taken in our Customer Brand segment, we expect strong revenue growth in FY '26 and even stronger growth in bottom line because of our cost cutting measures. So, I can give you a broad outlook in terms of direction. Detailed numbers we are not sharing as yet.

Kashvi Chandgothia: And sir, these cost cutting measures will not affect the brand quality and the attraction that we see in the Gen Z and the Millennials, especially for the lab grown as well?

Sumit Shah: Yes, so, you know, a lot of the cost cutting measures have actually been capacity rationalizations because as a business moves to more lab grown, we see less labor intensive product being manufactured, which means that we will be able to produce more value of orders with less manufacturing capacity.

So, a lot of it is related to reduction in manufacturing capacity and some process engineering. We have not done anything to impact our sales or the desirability of our brands. We are very cognizant of the fact that we need to maintain revenue growth while looking at more efficient ways of doing business. So, yes, to answer your question, we are very confident that we will be able to maintain a revenue growth trajectory while reducing expenses.

Moderator: Thank you. Next question is from the line of Naitik from NV Alpha Fund. Please go ahead.

Naitik: My question is, after the selling of our plain gold business, you are expecting some inventory easing from the inventory that was stuck with that business. But however, we do not see that in the September balance sheet. So, could you please help me understand why we do not see that or when will we see that?

Sumit Shah: So, I think there has been inventory reduction, which is kind of reflected in the increase in the cash balances. However, the absolute inventory number, obviously, this is the start of the season and September usually represents a peak in terms of our inventory numbers, because we are usually building inventory for the October, November, December holiday season.

So, we would expect to see a reduction in inventory subsequently, both in December as well as in March. I think that the inventory increase has been offset by an inventory reduction in the plain gold business, which is reflected in the increase in cash. If you see quarter-over-quarter, cash balances have increased by 60 crore.

Naitik: But if I compare your cash versus your March balance sheet, it's broadly remained the same while your debt has gone up roughly by 60 crore. I am talking about gross debt. So, what is the reason for the same? I am not seeing quarter-over-quarter, but when you compare it with the March quarter...

Sumit Shah: So, as of 31st March, our cash balance was 188 crore. It's 244 crore as of 30th September. So, it's up by 60 crore from 31st March.

Moderator: Thank you. We will take our next question from the line of Rajesh Golcha, an Individual Investor. Please go ahead.

Rajesh Golcha: Sir, I have two questions. First, what are the debt level on which we are paying interest? And second, when can I expect any timeline our Company to go debt free?



Sumit Shah: Yes, so our intention is that we have currently obviously done a preferential fund raise of around 168 crore. So, this coupled with cash flow emerging from our business during Q3 and Q4 because as you know, seasonally our largest quarters are Q3 and a lot of the receivables go down afterwards. So, we expect a meaningful reduction in debt at the end of FY '25. Our anticipation is that one year from then, which is at the end of FY '26, we expect to be zero net debt.

Moderator: Thank you. Next question is from the line of Shrikant Parakh from Prudent Investments. Please go ahead.

Shrikant Parakh: Sir, my question is that the amount which we have got from the preferential allotment, so what exactly is the strategy to utilize those fund? What is the ratio for mainly the division between the reducing the debt and for more acquisition as you have mentioned in the investor presentation?

Sumit Shah: So, we obviously have, we are on the lookout for an acquisition, and we have not identified any acquisition immediately. So, once a fund raise is done, debt reduction will happen immediately. And I think subject to us being able to find an appropriate acquisition opportunity which is accretive and fits into the various criteria, the Board will evaluate acquisition opportunities. So, there is no immediate acquisition target which has been immediately identified, and we will be obviously thoughtful and methodical with the acquisition framework.

There is, however, some amount of upgradation of infrastructure that will take place which we have allocated I think around 30 crore for. Other than that, the remainder of the money will go towards debt reduction, and then when an acquisition opportunity comes about and the Board feels comfortable, at that point the acquisition will be undertaken.

Shrikant Parakh: And sir, by just a head up, I think you might have said in the previous participant question, any timeline where we are expecting the reduction in the debt level sort of a debt free Company?

Sumit Shah: So, as I mentioned earlier, we expect it to be significantly lower by about 150 to 180 crore by the end of this year. So, the net debt which is currently at 328 should be closer to 100 crore of net debt and subsequently by FY '26, the plan would be to be zero net debt.

Moderator: Thank you. Next question is from the line of Hardik Gandhi from HPMG Shares and Securities Private Limited. Please go ahead.

Hardik Gandhi: So, I am fairly new to your Company. So, pardon me for answers and questions which might be repetitive in nature. But what are the key drivers as a Company in the AD? What are the key drivers which you are seeing right now which will help the growth in the coming quarter and year as well? What are things going your way?

Sumit Shah: So, I think that we have segregated the business into three segments, and the three segments of the Company are our brands which are our direct-to-consumer brands. There is the licensed brands and the customer brands.

In the our brand segment, we are fairly new. It's a 200 crore kind of business, and it was zero up until a couple of years ago. I think that there is a tailwind of lab-grown diamonds in our brand segment, which is gaining acceptance in the U.S., which is causing the business to grow. And there is also international expansion within our brands that we have planned. Currently, a large part of our brands is in the US. We



plan to launch in February in the UK, and there will be some geographic expansion, which will lead to growth.

In the licensed brand segment, the penetration of lab-grown diamonds is currently fairly low. In one of our largest brands, we just tested lab-grown diamonds, and we have seen great initial success with the brand. So, I think the growth in the license brands as well as the customer brand segment will come from the transition to lab-grown diamonds. And in terms of the bottom line, as I mentioned in my opening remarks, we have undertaken this cost reduction and capacity rationalization of expenses, and you will see the expense run rate go down by around 40 to 50 crore annually starting next quarter.

So, I think the drivers of growth really are in our brands to summarize geographic expansion and deeper penetration in our existing markets and penetration of lab-grown diamonds, which is currently fairly low in the licensed brands and the customer brand segment.

Hardik Gandhi:

That's really helpful. But going forward, I know a lot of people are entering into lab-grown diamond business. So, I just wanted to know what are the key barriers to entry? And is there something which is niche to us or is it just that anyone with good capital can start making diamonds, and they just need to tap the market? How difficult it is for someone to get into? Because I think Titan, not Titan, but Tata is getting into this by one of their subsidiaries.

Sumit Shah:

So, our approach to lab-grown diamonds is one, we are not growing lab-grown diamonds. We are in the business of designing and branding jewelry and selling jewelry in global markets. So, all of our sales, a large majority of our sales are in the Western markets. Our brand in the U.S. is relatively attractive one, and we are going to focus on building our brand. We have got a robust direct-to-consumer platform that has grown about 5x in the last couple of years since we made the acquisition.

And then in the licensed brand segment, we have an exclusive licensing arrangement with Disney which gives us a moat and helps us sort of protect the business because Disney is a very well-recognized brand in the markets in which we operate. So, our brand which has been growing well as well as having exclusive access to the Disney brand name gives us a little bit of a moat in the branded jewelry segment.

Within India, we are going to focus on the premium segment in lab-grown because we feel that at the entry-level price point, it's going to lead to commoditization. So, the brand that we operate in the U.S. is sort of in the premium space which we plan to expand geographically from the U.S. to the UK and in India.

Hardik Gandhi:

Just to understand when you mean it's in a premium segment, what is the factor that determines it's in the premium segment? Sorry, I am not aware of the thing.

Sumit Shah:

So, I think just like any luxury brand, it's about the marketing, right? I think that whether you take the luxury space in handbags or in jewelry, it's about what the positioning of the brand is and what the marketing is. So, I think that if you go to our brand's website, you will understand how the positioning is premium and how we are focusing on an average order value of around Rs. 2.5 lakh, which is where we have been successful. So, we are going after the slightly premium customer with premium positioning.

Hardik Gandhi:

And the last question, if I can squeeze in, that even according to what I have read and everything, going forward, a lot of people are still getting into lab-grown diamonds. And from what I have heard, after a point it will just be a pricing, price war which will go. So, do you think that is possible in the future where just like people mass produce lab-grown diamonds and then the customization and then it just gets into a price war?



Sumit Shah: Yes, so I think in any commodity, right, I mean, whether it is apparel or handbags or any consumer product, I think that finally the determinant of success in a consumer brand is your brand and your branding, right? It's not just about the commodity and a price war, right? It depends on where you choose to compete, and what your brand represents, and what are your brand values. So, our positioning in the U.S. and here has been to build a brand in the premium space and not to get into sort of commoditization and price competition.

So, clearly, if more and more people enter, I mean, there will be commoditization at some end, but there is various segments in any consumer market. There is the bottom end, which is commoditized, and then there is a premium end and the luxury end, which tends to get, have its pricing power because of its positioning.

Moderator: Thank you. We will take our next question from the line of Nupur Gandhi from Sequent Investments. Please go ahead.

Nupur Gandhi: I wanted to ask you that in your B2B segment in your licensed brand and your customer brand, how much growth are we expecting or seeing in the next quarter, next half year and the next year, financial year?

Sumit Shah: So, I think at this point, I think we are seeing revenue growth accelerating. I think that I do not have a specific number for you, but we have been through a two-year period where inflation in the U.S. was extremely high, and consumer demand was very subdued. I think we are seeing a lot of those pressures abating and going away.

So, our cadence has been to try and grow in double digits in our licensed brand segment and which we expect sort of in the coming quarters. Again, without coming up with a specific number and a guidance, I think a lot of the pressures related to inflation are now behind us. I think we should see growth in acceleration in revenue growth going forward.

Nupur Gandhi: And also, sir, one more question. You said that in your licensed brand, your growth will come from transition to lab grown. So, right now, we have a percentage of 94% natural and 6% lab grown. So, going forward, what percentage are we looking at? How do we plan to increase the lab grown?

Sumit Shah: So, the 94% that you refer to is in our B2B business, which includes the licensed brands and customer brands. Currently the penetration is only 6%, which we expect to grow meaningfully in the coming quarters and the years to come.

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

Sumit Shah: Thank you everyone for joining us on our Q2 and H1 results. We hope to see you guys on the next conference call. Thank you very much.

Hitesh Shah: Thank you.

Moderator: Thank you. On behalf of Renaissance Global limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.