



RENAISSANCE GLOBAL LIMITED

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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/2021/127 dated August 9, 2021; please find enclosed herewith the transcripts of earnings Conference call on Q1 FY 2022 results of the Company, held on Friday, August 13, 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

Q1 FY22 Earnings Conference Call Transcript

August 13, 2021

- Moderator** Ladies and gentlemen, good day and welcome to Renaissance Global Limited's Earnings Conference Call. 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. 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, Mr. Poojari.
- Anoop Poojari** Good evening everyone and thank you for joining us on Renaissance Global Limited's Q1 FY22 Earnings Conference Call. We have with us today Mr. Sumit Shah – Vice Chairman 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 maybe 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 Shah to make his opening remarks.
- Sumit Shah:** Good evening everyone. On behalf of Renaissance Global, I extend a warm welcome to everyone to this earnings conference call. I trust you and your families are safe and healthy.
- I will begin the call by providing you a quick overview of the Company's operational and business highlights for the quarter, following which Hitesh will take you through the financial performance.
- We are pleased to share that we have started the new fiscal year on a positive note, with yet another quarter of consistent and solid performance. Improved recovery and further opening up of our key markets in the US and Canada, translated into healthy demand and consumption during the quarter. We are seeing wider vaccination coverage, improving macros and sentiments normalizing across these key geographies, which we believe will further strengthen demand momentum, going forward.
- 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 jewellery industry towards brands, we see a decade's long opportunity for growth in this division. We are also investing in our own brands, "Jewelili" and "Made for You" to create value. We see these brands as a means of differentiation in a very large



global opportunity. We believe that the branded division will help improve operating margins meaningfully for years to come. We plan to invest in this division generating meaningful cash flows and growth for our shareholders.

During the quarter, branded jewellery accounted for 24% of our total studded jewellery sales. Our strategy is to continue to grow the share of this business. The Company is focused on branded jewellery through 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 and we would announce them at an appropriate time.

We have now commenced operations in China by shipping our first order to LFX in Q1 FY22. 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 Q1 FY22 direct-to-consumer revenues were Rs. 25 crore with an EBITDA margin of 18.1%. Based on our estimate of the quarter's contribution to annual sales, we are at annual run rate of Rs. 125 crore. We expect the direct-to-consumer business margins to improve going forward to the 20% to 22% range. This Rs. 125 crore direct-to-consumer business has been built from zero in a matter of 18 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. Consumer response has been very encouraging for the newly launched website of Hallmark diamonds.

Overall, we have delivered an encouraging set of results in the quarter. I have never been more optimistic about the opportunity we see in front of us. The branded jewellery segment and the direct-to-consumer division have opened many growth opportunities for us across markets, and we look forward to delivering healthy performance with improved profitability 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.

During Q1 FY22, the Company reported a total income of Rs. 419 crore against Rs. 189 crore during the corresponding quarter of the last financial year. This is a growth of 121% year-over-year. The performance was driven by increased offtake in our own branded jewellery segment, robust contribution from the direct-to-consumer business as well as a lower base in the corresponding quarter of last year. With effect from 1st April 2021, the Company has renegotiated terms with most customers across its plain gold division due to which, the Company is now recognizing only making charges as revenues for this business. This will meaningfully reduce the reported revenues of the gold division without impacting EBITDA of this division. On a like-to-like basis, our revenue growth would have stood at 138% against the reported growth of 121%.

Our EBITDA stood at Rs. 41 crore, while our profit after tax stood at Rs. 24 crore. We expect the profit after tax for FY22 to grow between 18% to 22% over our FY20 profit after tax, which would be approximately 130% to 140% growth as compared to FY21 PAT.

The Company has managed to lower its net debt-to-equity levels to 0.25 in June 2021 from 0.45 as of June 2020. Cash and bank balances and current investments as on 30th June 2021 are at Rs. 256 crore. The Company's trailing 12 months



Return on Equity stands at 10.9% while our trailing 12 months core Return on Equity stands at 13%. Our long-term goal is to be at zero net debt over the next three years.

In terms of geographic distribution of sales in Q1 FY22, USA contributed around 66% to overall revenues with 17% coming from Middle East.

In terms of product category, studded jewellery contributed to 93% of the revenue with the balance contribution coming from the plain gold jewellery segment.

Thank you very much for your kind attention. I would now request the moderator to open the floor for the question & answer session.

Moderator: Thank you very much. The first question is from the line of Parag Jhawar from Knightstone Capital Management Inc.

Parag Jhawar: Sumit, could you talk about the working capital of the segments separately? How much is the inventory and receivables for your plain gold business, the branded business and customer brand business?

Sumit Shah: Sure. So, I think the working capital cycle varies a little bit by division. We haven't run the numbers in detail in terms of the inventory and receivables by division. But to give you a broad context, the plain gold jewellery division would have essentially a 15 to 20 day working capital cycle. So, essentially, the working capital for that business is relatively small. I think the working capital cycle for the studded jewellery part again, is divided into two parts. The direct-to-consumer business has obviously zero receivables and lower working capital inventory cycle, because gross margins are large, and even if we carry 3 to 4 months of inventory, it works out to between 15 to 20% of sales as working capital on the direct-to-consumer side. On the wholesale side, I would say in general, the working capital cycle is better on the licensed brands and the branded jewellery as compared to the customer brands where there are lower rates of consignment and/or testing that is done by the retailers. So, if I were to sort of break-up the studded jewellery segment, obviously the direct-to-consumer bit would have the best working capital cycle, followed by the licensed brands that are distributed through retailers and the highest working capital being for the customer brand segment.

Parag Jhawar: For customer brand segment, approximately how much would be the receivables and how much inventory do you generally keep?

Sumit Shah: So, I would say that our receivables average is between 30 to 90 days, with the average being closer to 60. For the plain gold, it would be sort of very short and direct-to-consumer would be zero.

Moderator: The next question is from the line of Kalpesh Parekh from JSN Financial Services Limited.

Kalpesh Parekh: I just have few questions, particularly you are focusing a lot on branded jewellery segment. So, since we are thinking in this direction, how can we step up a bit more towards the contribution of branded jewellery? And few years down the line, how much you are expecting branded jewellery as a percentage contribution?

Sumit Shah: So, on the branded jewellery side, since we have healthier margins between 13% and 20%, the absolute endeavour of the Company and the focus of the Company is to grow the branded jewellery segment. This includes a deeper penetration of current brands. If I were to tier the various brands that we have, Enchanted Disney

Fine Jewellery, which is the oldest brand of the Company is the more mature brand with a wider distribution to over 2, 500 stores. The newer brands of the Company, Disney Treasures and Hallmark, have lower distribution through various retail stores. So, our efforts really are on the wholesale side to increase penetration in the US as well as internationally for the newer brands that we currently have. And the direct-to-consumer side also, we have a dedicated digital team, which has done a fantastic job of growing our direct-to-consumer revenue year-over-year, and we see that trend continue going forward. In addition to the existing brands, we been having very meaningful conversations with newer potential brands that we plan to announce in the months to come, which would also provide additional impetus to our growth for the branded jewellery segment. So, the Company is fully aligned to growing the branded segment to a larger percentage of the total, and I would say that a medium to long-term goal would be to have the branded jewellery to be at least 50% of the studded jewellery share and grow from there.

Kalpesh Parekh: In that scenario, what is the margin that we should visualize? We have already seen very good improvement in this quarter. So, what type of margins as an investor we should expect, that we will achieve in the next couple of years?

Sumit Shah: So, I would say that broadly as the mix changes, the margins will go up. Currently we are sort of in that 10% range or so. So, as we see the share of the branded jewellery segment go up, which is basically in that 13% to 20% range, we should be able to get between 10% and 15%, depending on the penetration of the branded jewellery segment.

Kalpesh Parekh: My second question was on this entry into mainland China. Why China and what type of opportunities we are visualizing in China? It will be the branded segment, right?

Sumit Shah: Yes. So, currently our entry into China is through our brand Enchanted Disney Fine Jewellery, and there is obviously a great affinity for some iconic US brands in China. We worked with Disney to identify markets where the brand would be relevant and based on the success that Disney saw with the opening of their Disney World in Shanghai, we identified that as a key market. It is one of the largest jewellery markets in the world. So, structurally we think it is a very big opportunity. However, in China, we plan to stay focused on the branded jewellery segment and not sort of customer brands or generic product at all.

Kalpesh Parekh: Incrementally do you think we will have a partnership or a tie up with this Chinese giant Lao Feng Xiang (LFX) or how it will be? We will use them as our channel partner or how we will try to leverage on this Chinese brand?

Sumit Shah: So, LFX is basically the second largest retailer of jewellery in China. We have got an exclusivity arrangement with them for a three-year period, whereby all brick-and-mortar distribution will be done through their stores. In addition to distributing product through the retail stores, we are in the process of setting up our direct-to-consumer business in China as well. So, it will be sort of a dual approach whereby the distribution through retail stores will be done by LFX, and we will also be selling direct-to-consumer initially by listing our products through TMall, which is a division of Alibaba.

Moderator: The next question is from the line of Amit Doshi from Care Portfolio Manager Private Limited.

Amit Doshi: These tie-ups with Disney, Star Wars, they are currently part of branded jewellery segments or customer brands?

Sumit Shah: That is part of the branded jewellery.

Amit Doshi: So, can you just tell what kind of proportion would be between this and our own brands?

Sumit Shah: Yes. So, I think it would be about 80-20; 80% of it would be licensed brands and 20% would be our own brands.

Amit Doshi: How does this arrangement work with these licensed brands, as in terms of designs, in terms of royalty, etc.? How does it work if you can broadly share something?

Sumit Shah: Sure. So, essentially the licensing arrangement is obviously to utilize the intellectual property of these companies. The designing, marketing and distribution of the product is done entirely by our team. The role that Disney or Hallmark would play in this process is, they would ensure that, the product that we are creating or the marketing that we are creating does not infringe on their intellectual property in any way. So, they sort of act as the gatekeepers of their brand to ensure that the product that is being created and the marketing is in line with their IP. Other than that, all the product design, all the marketing and everything is done by our team.

Amit Doshi: So when you say it is an exclusive license means? So, for example, for particular character taken, no other manufacturer would be able to kind of design on those fronts?

Sumit Shah: Yes. So, currently, it is geographical. Our arrangement for fine jewellery with Disney in certain geographies is exclusive but the brand Enchanted Disney Fine Jewellery worldwide is only us. So, there are certain geographies in the world where Disney may have given IP to certain other manufacturers as well. But we are building on the brand of Enchanted Disney Fine Jewellery, and in the US in the fine jewellery space, it is an exclusive arrangement.

Amit Doshi: In terms of royalty because everything is done by you, the designing, marketing, distribution so, how does that arrangement work?

Sumit Shah: So, royalty is obviously, something that we have not disclosed publicly. But our royalty is our relatively competitive, compared to what you would see with any licensing arrangement globally. And I think the margins that we are sort of reporting for this segment is obviously after payment of any royalty for the license, to the owners of the brand.

Amit Doshi: So, if you were to sell of course, the Disney branded or this Hallmark branded jewellery of course it would be far easier for you. So, in terms of margin between these two segments, like your own brand versus this Disney brands, etc. so what could be a broad difference in terms of that margin profile?

Sumit Shah: So, I think they would be similar. Our own brands as well as the licensed brands, the margins would be relatively similar in the branded jewellery segment.

Amit Doshi: And going forward you see this proportion remaining 80:20, or what kind of proportion do you see?

Sumit Shah: So, I would say that broadly in the short term, I think that the licensed brands will be the larger share of the branded jewellery segment because, I think that there is a significant opportunity to acquire new licenses as we have established ourselves as the go-to Company in the US market in order to build a brand. For perspective,



Enchanted Disney Fine Jewellery at retail is greater than a \$200 million brand obviously because we sell through retail partners, we recognize only one third of that revenue, because that is the wholesale price of the product. So, having built a brand which is over \$200 million in a space of 4 or 5 years, there are significant advantages to us in terms of new licenses and new IP that we can sign. So, we would definitely see the license part growing fast, and I would expect the proportion of 80-20 to remain going forward as well.

Amit Doshi: And also, I think if the margin profile is similar, then after developing your own brand, I am sure it will take probably 4 years to kind of make a mark in the segment.

Sumit Shah: Yes. It is much more difficult to grow your own brand; that you are absolutely right about. And with these brands, since the intellectual property already exists and they are loved consumer brands, it is relatively easy to scale those businesses compared to our own brand.

Amit Doshi: Any specific additional marketing spends compared to last year or it is going to be like-to-like?

Sumit Shah: Currently what we are doing is, we are investing significant resources as a percentage of our direct-to-consumer sales on marketing as a broad rule of thumb, probably close to 30% of the expected sale of the direct-to-consumer segment. So, I would expect our marketing spends in this year to be between Rs. 30 crore and Rs. 40 crore.

Moderator: The next question is from the line of from Chirag Vakharia from Budhrani Finance Limited.

Chirag Vakharia: What I wanted to understand is, in China, what is the size that you are looking at in terms of business?

Sumit Shah: So, Chirag, I think it is very difficult to pinpoint the exact size because, since you are aware, we only shipped our first order in this quarter. The feedback that we have got from the customer is that consumers have really loved the product and there are plans of expanding. There are currently talks ongoing of expanding the current 100 door test to about 400 to 500 by Chinese New Year. So, I think we are in the early innings of our growth and expansion into China. For perspective, China is obviously, as large a market as the US for jewellery and the size of the market is not the problem. It is though, a competitive market. So, it is something that we will have to update you in the coming quarters in the year, because it is a little early.

Chirag Vakharia: This online initiative that you are looking at in China, is it with the help of LFX or you by yourself would be looking at the Chinese market?

Sumit Shah: No, we would be doing it ourselves. But we are planning to list it on TMall. It is not going to be an independent standalone website.

Chirag Vakharia: On the P&L side wanted to just understand, employee costs and other expenditures have gone up. What we understand is, you are trying to control the employee expenditures. So, what should be the normal run rate, both for the employee cost and the other expenditure going forward?

Sumit Shah: So, I think to a certain extent, the employee costs are not strictly comparable year-over-year, as last year was a COVID quarter. However, some of the direct-to-consumer initiatives, will require investment in talent, digital marketing and

branding. So, I think employee costs from what I see now are in the 6% or so range. So, we would expect that number to be at around that level going forward.

Chirag Vakharia: And the other expenditure, is there a one-off? I mean, that has also shot up, both sequentially.

Sumit Shah: The other expenditure does have a lot of variable expenditure. So, when sales are higher, the other expenditure like shipping and manufacturing boxes, so there is a variable element to other expenditure as well. It is not more of a static number. So, I would model part of it as a variable expenditure linked to sales.

Moderator: The next question is a follow-up from the line of Parag Jhawar from Knightstone Capital Management Inc.

Parag Jhawar: Could you give an update on Irasva? I think last quarter because of lockdown it must have been impacted, but for the longer term, in the number terms, what is the store roll out? And related to Irasva again, where is the revenue reported from Irasva, in which line item? Is it branded D2C or somewhere else?

Sumit Shah: So, currently the revenues of Irasva are extremely small because all three of our retail stores are in Mumbai, and as you know in the last quarter, our stores were not operational. The revenues are reported in the branded direct-to-consumer segment. However, the revenues currently, were not material in this quarter because of the lockdown. Our goal here is really to get back to store level profitability which our store was operating at prior to the pandemic. We haven't seen a recovery at unit level economics at Irasva after the pandemic. So, we are in sort of wait and watch mode. However, we are very optimistic that we can solve for the Indian market and be able to grow the brand. So, I would say that the longer-term objective would be to grow the business and make it meaningful. But realistically, I think it is a 3-to-5-year process before Irasva contributes meaningfully to the revenues and the profitability of the Company.

Parag Jhawar: One clarification on the license front. So, what is the duration of the license that you have got and what is the renewal process? Is it automatic? You will get it renewed in your favour, or it can be given to someone else as well?

Sumit Shah: So, obviously the owner of the brand has the discretion to, at the expiry of the contract decide to do whatever they please. However, having said that Disney has had really long-term relationships and partnerships with Hasbro and Mattel over 40 and 50 years. What I will say about our licensing contract is they are relatively long-term, and currently at this point we don't see any material risk of not being able to renew the licenses.

Parag Jhawar: And when you say long term, it would be more than 10 years?

Sumit Shah: It is less than 10 years. It is between 5 and 10 years.

Moderator: The next question is from the line of Nikhil Jain from Galaxy International Limited.

Nikhil Jain: So, my question was related to Irasva. So, basically, we are going ahead and starting this initiative or have started with initiative with a couple of stores. But how do we actually want to grow in this business? Because it is a capital-intensive business. It takes a lot of effort, and then it is a little different from our business where we are primarily promoting our brands through the website and channel. So, here we are having a physical presence. So, I just wanted to understand your thoughts on this.

- Sumit Shah:** So, our brand Irasva is a very specific brand, meant more for daily wear and a little bit for occasion wear. So, I think that it is targeting a certain opportunity and a certain type of customer. This is not a business which is wide, trying to be everything for everyone. And broadly, if I were to tell you the capital expenditure for store would be in the region of about Rs. 2 crore a store. And I think even if were to do 20 stores over the next 3 to 4 years, we are talking about a CAPEX of Rs. 40 crore or so cumulatively over that time period. Currently, our Company, will probably generate between Rs. 110 crore to Rs. 150 crore a year in terms of free cash flows. So, I don't think it is very meaningful as we grow that business in terms of a significant capital expenditure. I mean, we are talking about a sub Rs. 10 crore a year and, working capital is also something we are looking to manage by working with 2x turn on the inventory. So, we don't expect that to be a significant drag. However, we will be extremely disciplined about only opening stores when it makes sense from a unit economics, meaning store level profitability, return on equity and return on capital employed at store level. So, I think we are going to be prudent in our growth plans here. However, we don't expect this to be a significant bag on our free cash flows generated by the business.
- Nikhil Jain:** My basic idea was that if this is not going to be very significant over the next 3 to 5 years, do we really want to go ahead and put our energy into them? So, that was the only question. Maybe there is merit in this which I am not able to understand. But that was the intent. So, that was question number one. And second question, I just wanted to understand, the licenses that we have for the brand, can we have these on a global basis? So, tomorrow if we want, we can go to Europe or Australia or some other developed countries. Would that be possible?
- Sumit Shah:** Yes, that is right. So, currently our arrangement within Enchanted is already international. So, we have the license for US, Canada, UK, Middle East, as well as China and, Star Wars is currently in the US, and we are just launching Star Wars in Japan as well. So, the ability does exist for us to take on additional markets in a methodical manner. And going back to your question, to relevance of Irasva. We believe that going forward, even at the level of, I just give you a small example of 20 stores, I think each store has the ability to generate about Rs. 20 crore in revenue. And if we do get to that size where we are going from 20 to 100 stores, I think it is possible for this to be meaningful, going forward. It is obviously small today but, we believe that there is an opportunity in India to create a differentiator and a differentiated business model. And we do plan to stay committed to Irasva.
- Nikhil Jain:** The geographical breakup of our consumer brands would be, let's say is mostly from the US, right? That is what my understanding is. Is there anything that we have started or planning to start in Europe?
- Sumit Shah:** So, Europe is a slightly more difficult market compared to the US for studded jewellery. And we do currently sell in the UK and in Europe, but it is a much smaller part of our business. Europe is effectively between 10% and 15% of our overall revenue.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to the management for closing comments.
- Sumit Shah:** Thank you everyone for joining us today on our Q1 FY22 Earnings Call. As I mentioned earlier, we are very excited about the growth opportunity in front of us and we look forward to seeing all of you on our next conference call. Thank you.

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