

July 12, 2011
Mumbai

CRISIL Research assigns IPO grade 3/5 to Tribhovandas Bhimji Zaveri Limited

CRISIL has assigned a CRISIL IPO grade of "3/5" (pronounced "three on five") to the proposed initial public offer (IPO) of Tribhovandas Bhimji Zaveri Limited (TBZ). This grade indicates that the fundamentals of the IPO are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects TBZ's century-old presence in the retail jewellery business, which has helped create a strong brand recall. It factors in the resilience of demand for Indian gold jewellery in the face of rising gold prices and increasing acceptance of diamond jewellery in India. Compared to other players, TBZ's revenue mix is skewed towards higher-margin diamond jewellery. The grade has also taken into account the expected increase in organised retail penetration in jewellery vis-à-vis the single-store format, which will benefit established players like TBZ. The company has steadily expanded from one store to 14 stores in the past decade.

The grade is restrained by intense competition in the jewellery retailing market, which is poised to see planned expansions by regional/traditional players. TBZ plans to expand from 14 to 23 stores in the next one year at a pace faster than before, which could throw up significant challenges even though its execution strategies (with respect to store location, size, format, human resource requirement and schedule) are in place. The grade is also constrained by the pressure on profitability the company could face due to higher marketing expenses incurred while opening new stores. Also, with the brand "Tribhovandas Bhimji Zaveri" being used by other family members, there is risk of brand dilution if any of them underperforms on quality.

TBZ's revenue increased at a three-year CAGR of 43% to Rs 8.8 bn in FY10, largely driven by branch additions and steady increase in gold prices. A higher proportion of diamond-studded jewellery has supported the EBITDA margin (around 5.8% during FY07-FY10) in a competitive market. EBITDA increased at a CAGR of 31% during FY07-10. PAT increased at a three-year CAGR of 31% to Rs 169 mn in FY10.

About the company and the issue

Tribhovandas Bhimji Zaveri Limited, established in 1864, is one of the oldest companies engaged in retail jewellery business. The company currently runs its business under the "TBZ – the original since 1864" brand name. It has 14 retail stores (44,000 sq. ft.) in nine cities across five states. The company derives around 70% of revenue from the sale of gold jewellery and around 23% from the sale of diamond-studded jewellery. It has a diamond-studded jewellery manufacturing unit in Kandivli (Mumbai).

TBZ is planning to open nine new large format, high street showrooms with an average carpet area of 3,500 sq. ft. The company will use the IPO proceeds to establish these new showrooms and to finance the incremental working capital requirement.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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Last updated: 31 March, 2011

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