Ref. No.: RGL/S&L/2022/170

August 16, 2022

Bombay Stock Exchange Limited Listing Department Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai – 400 001	**National Stock Exchange of India Ltd.** Exchange Plaza, Plot no. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051

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/2022/155 dated August 03, 2022; please find enclosed herewith the transcripts of earnings Conference call on Q1 FY 2023 results of the Company, held on August 10, 2022.

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**

Vishal Ashokrao Dhokar

Digitally signed by Vishal Ashokrao Dhokar
Date: 2022.08.16 11:57:57 +05'30'

CS Vishal Dhokar
Company Secretary & Compliance Officer

Encl: As above

Renaissance Global Limited

Q1 FY23 Earnings Conference Call Transcript

August 10, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Renaissance Global Limited's earnings conference call. 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, Ma'am.

Jenny Rose: Good afternoon everyone and thank you for joining us on Renaissance Global's Q1 FY23 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 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 sir.

Sumit Shah: Thank you Jenny. Good day 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 June 30th, 2022.

I will initiate this 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 take you through our financial performance and then we will open the forum for the question-and-answer session.

We have delivered a healthy top line performance during the quarter despite a challenging macro environment in our key global markets. Our total income growth came in at 37% year-over-year. Our branded jewelry segment continues to report healthy growth. In Q1 FY23, revenue in this segment grew by 36% year-over-year, supported by steady flow of orders from our retail partners and gross in revenues from our direct-to-consumer business. Our direct-to-consumer business grew by 63% year-over-year and is currently running at an annual rate of Rs. 204 crore compared to an actual sale of Rs. 124 crore reported during FY22.

I am pleased to share that the integration of Four Mine acquisition is progressing well. The acquisition is strengthening our foothold in the engagement ring and wedding band business as well as in the fast-growing lab-grown diamond space. Overall, our focus is on increasing customization of our jewelry products across our D2C websites as it allows the customers a choice of selection creates product differentiation, help improve operating margins as well as reduces investment in working capital. We look forward to strengthening this segment going forward.

While the demand environment remains steady during the quarter, we witnessed some non-linearities with regards to increase inflationary pressures in key raw materials. These had a bearing on our margin performance during the quarter. Although we do remain cautious of these challenges in the fiscal, we expect them to be largely transitory in nature. Overall, our EBITDA margins for Q1 FY23 came in at 7.3%.

To summarize, we believe we have delivered a resilient performance despite macro challenges. Looking ahead given the intensifying inflation trend we anticipate global consumption for discretionary products to be muted in the near future. However, on a long-term basis we are optimistic about our growth prospects and the potential in our international markets such as US, Europe, and UK. We are working on several growth opportunities in the international branded jewelry market such as completing the integration of Four Mine Inc. and setting up a path of achieving scale and meaningful profitability and successfully launching the NFL collection across retail stores and online channels during the 2022 holiday season. We believe we are well positioned to tap on these opportunities given our partnerships with well-known brands our significant experience in product conceptualization our design skills and solid distribution network. Overall, we look forward to delivering healthy and sustainable growth going ahead.

On that note I would like to handover the call to Mr. Hitesh Shah to discuss financial performance during the quarter, over to you Hitesh.

Hitesh Shah: Thank you Sumit. Good afternoon everyone. In Q1 FY23, we registered a stable performance primarily on the back of improved off take in our branded jewelry category and contribution from the direct-to-consumer business.

Our total income stood at Rs. 575 crore compared to Rs. 420 crore in Q1 FY22, registering a growth of 37%. Our branded jewelry sales grew by 36% year-over-year of growth in our B2B segment was 25%. Direct to consumer business posted revenues of Rs. 41 crore in Q1 FY23 compared to Rs. 25 crore in Q1 FY22, growing by 63% year-over-year. Based on this quarter's contribution to annual sales, we estimate our annual revenue run rate to be Rs. 204 crore in FY23 as compared to actual FY22 revenues of Rs. 124 crore in the D2C segment.

In terms of geographical distribution of sales, in Q1 FY23 contribution from North America stood at 62%, followed by Middle East at 20% and the balance came in from other geographies. During the quarter revenues share of studded jewelry stood at 90% of which 24% was contributed by the branded jewelry business. Of the total branded jewelry business sales, 67% was sold through B2B channel and 33% was direct to consumer.

On the profitability front EBITDA stood at Rs. 42 crore in Q1 FY23. We continue to witness cost pressures on account of global inflation and raw materials and supply chain constraints. Furthermore, the ongoing geopolitical conflict has intensified supply chain bottlenecks. Despite the macroeconomic challenges we managed to deliver an EBITDA margin of 7.3%. During the quarter, profit after tax improved through Rs. 24.2 crore versus Rs. 23.8 crore in the corresponding period last year registering a marginal growth of 2%.

Lastly in terms of our balance sheet, our net debt to equity ratio stands at healthy 0.34 as of June 2022. Our total net debt stands at Rs. 318 crore and our cash and bank balances and current investments were Rs. 209 crore.

To conclude we have reported a steady and resilient all-round performance during the quarter ended June 30th, 2022. As we look ahead our growth initiatives will help support accelerated growth in the medium to longer 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. Ladies and gentlemen, we will now begin with question-and-answer session.

The first question is from the line of Aakash Javeri from Perpetual Investment Advisors.

Aakash Javeri: My first question was could you please throw some light on the demand situation for 2022 upcoming festive season?

Sumit Shah: Consumers are definitely facing little bit of pressure due to inflation, and I think that we are seeing more pressure on sort of lower income consumers as compared to the middle- and higher-income consumers because gas prices are higher, part of that is off their total income. So, the demand environment is definitely a little bit muted and weak. We are however focused on differentiation through our brands and to try and maintain a steady performance but, there is definitely softness in demand, and we will have to see closer to the key holiday Christmas season how things pan out, but last 3-4 months have definitely been soft.

Aakash Javeri: Okay got it. The next question would be that how lab-grown diamond as a segment growing for us?

Sumit Shah: I think that we are very encouraged by the growth in lab-grown, it is in single digit, single digit percentages as far as our total revenues are concerned but it's growing very rapidly, and our expectation would be that in the next 3 to 4 years lab-grown diamonds will be a significant part of our overall revenue. We believe that the consumer acceptability of lab-grown diamonds has been well established in Western markets and we are seeing millennial customers especially buy engagement rings are not averse to buying lab-grown diamonds. I think that this could be a huge growth opportunity for the company, especially with the acquisition of Four Mine Inc. and our model of personalization that we offer for engagement rings through that platform.

Aakash Javeri: Okay. If you could just throw some light on the current RM situation, we have seen about 5% gross margin pressure as compared to last year, so how is the current RM situation?

Sumit Shah: Largely I think the price increases in diamonds that happened at the back half of the last calendar year and the beginning of the year have largely stabilized now, we have stopped seeing increases in the raw material situation and we are now pretty much fast on most of those cost increases to customers. So, we should see gross margin normalize over the next two quarters going forward. It took some time for us to renegotiate prices with the customers and pass those on.

Aakash Javeri: The next question would be even though we have seen gross margin pressure, we kind of covered in our employee benefit expenses as well as other expenses. So, seeing such a big growth in the top line, our other expenses grow only 12%, so could you throw some light on how you were able to do that and what percentage is linked to our sales and how we have been able to not lose lot of our operating margins?

Sumit Shah: We have tried to be cautious on the expense side as we do see some softness in demand, some of the top line growth that we are seeing now is due to the fact that during COVID retailers stood on inventory and while we are seeing the retail sales we have been cautious on sort of expenses and trying to sort of maintain them at a level where we feel comfortable.

Aakash Javeri: But last year there was a lot of inventory stocking by retailers, so wouldn't we already have a high base and we have grown despite that so how could you explain that?

Sumit Shah: I think what happened is that last year sales were very strong, but retailers I think bought less than they sold. It is still resulted in strong sales for us, I think the inventories are now getting normalized. It is still probably below pre-COVID levels, and I think the retailers are sort of trying to build inventories now back to levels where they feel comfortable. So, I think some of the top line performance that we have seen in this quarter is on account of the retailers buying in inventory and I think inventory levels are higher at the end of this quarter than they were at the beginning of the year, but definitely still below pre-COVID levels.

Aakash Javeri: There is kind of softness in demand and kind of muted and weak then how come retailers are stocking up so much?

Sumit Shah: I think the softness in demand I would say was primarily in April-May-June when we were comparing against last year's US Government's stimulus checks. I think that we saw some stabilization in July in year-over-year numbers and even in August the trends are looking for sort of slightly better than they were in April-May-June. I think the comparisons were very difficult in April-May-June because year-over-year base itself was little bit unfair due to the US Government's stimulus checks sent out last year in those four months.

Aakash Javeri: My last question would be how is the outlook for FY24 look? Because if FY23 as you said the way it is going to be for the rest of the year, but how do you see outlook for FY24?

Sumit Shah: I think longer term, we are extremely optimistic about the prospects with our strategy that we played out, I think that clearly, we have got a few growth drivers in terms of the license brands, some of the new licenses that we have acquired and even growth in existing licenses. Even the acquisition of Four Mine Inc. and the customization that we offer, we are seeing incredible growth in the Four Mine Inc. segment which caters to sort of personalizing engagement ring space. So I would say that as the demand stabilizes in the US, we are very optimistic about our growth prospects, clearly because of the strategy that we have laid out of differentiation and as you would understand the US market itself is very-very large and we have a very small market share. So, I think with the right strategy in place there is a significant room to grow from here on.

Aakash Javeri: Just one last follow-up from my side, you said that last April-May-June because of the stimulus checks we saw very high demand as retailers stocking up a lot, so that would mean that Q1 FY22 for us would be as such very good where we disbursed about Rs. 409 crore of top line. This year we have grown 40% over that and that has come due to what exact reason?

Sumit Shah: Last year the retail sales were very strong. There is little bit of a lag right between them, the sales of the retailers and then buying from us. What I am trying to explain to you is that last year retailers experienced extremely strong sales. They did not buy adequately during the last year to catch up to a lot of their demands because they were cautious. I think that inventory levels that retailers were probably, at the end of last calendar year were maybe 30, 40, 50% below levels, that they should be for an appropriate level of sales. I think that is some amount of catching up that retailers are doing during the current calendar year to get their inventory levels to a more normalized number. I think that a clear reflection of the demand environment is actually seen only in the D2C segment, because that is our selling finally to the consumer, a large part of the other sales are our sales to retailers, which may not in timing sync exactly with retail demand that the retailers are experiencing.

Moderator: The next question is from the line of Siddharth Oberoi from Prudent Equity.

Siddharth Oberoi: My question is on capital allocation. In your annual report, I see you have investments in AIF, and you have gone into stocks for the first time with a position of Rs. 70 crore or something. So, what is the rationale for this?

Sumit Shah: I think that some of the money that is lying in our overseas subsidiaries, we at a board level, decided to have some amount of money allocated in long-term investments where the company can make some money, interest rates overseas are almost at zero and the cash on the books was not delivering any returns. So, there will be some moderate amount of investments that the company plans to make in the future and use some of this money for acquisitions as we have done in the past.

Siddharth Oberoi: No, but right now you have Rs. 700 crore of gross loans and debt:equity on the gross basis is 0.8:1. It is like reaching 1:1 levels.

Sumit Shah: Gross debt is Rs. 550 crore.

Siddharth Oberoi: Alright. So, what is the logic of this? Wouldn't it better that you pay off the loans or reduce the debt?

Sumit Shah: We have done, we have repaid about $4 million of debt in this quarter. I think that we had elevated some of these cash levels during COVID and we plan to reduce that as well, meaningfully going forward.

Siddharth Oberoi: Yes. So, but who is vetting this, have you tied up with some professional? Because what I see is that from the level that you have invested is, the entire portfolio is down by 15% as of now, 15, 16% and this would go 20% to break even.

Sumit Shah: We've set up an investment advisory committee and we have allocated some amount of capital that would be put on some long-term investments and I am happy to discuss them with you offline and show you the plan of how we plan to use this money and allocate some of the capital towards some long-term investments.

Siddhart Oberoi: Alright. Another question is on the Bangladesh investments this actually been written off totally? Have you exited that country?

Sumit Shah: That's right. That is right. We shut down our Bangladesh manufacturing facilities a couple of years ago, and it has been written off completely. It was difficult to manage manufacturing in Bangladesh because we were the only jewelry manufacturing factory there. Some of the regulations were not permitting us to operate in a manner that would be required. We have made a decision to shut it down. I think the manufacturing facilities actually shut down about two or three years ago and we have written off the investment completely.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan BNP Paribas.

Kaustubh Pawaskar: My question is again, on the demand side, as you mentioned that the current environment is not prudent enough from the demand perspective. Can you share some of your past experiences, like in such a recessionary scenario, how much time it takes for demand to stabilize and recovery to happen? I believe that this festive season would be kind of muted for us. Maybe we should look more into FY24 from the order booking or festive season point of view, is it a right understanding?

Sumit Shah: So, I would agree with you the last time there was some demand weakness really on a major scale was in 2008, 2009. During that timeframe, we had introduced a few new brands which really took off and helped us kind of continue to grow despite softness in demand. So, I think that the way to sort of counter some of the softness in demand is to come up with innovative products that allow you to continue to grow we are sort of attempting to do that. However, I think that your assessment would be accurate that the current years festive season which would be primarily for us thanksgiving through Christmas should be a little bit muted compared to a year ago. I think that, as inflation stabilizes, we should see recovery in demand.

Kaustubh Pawaskar: When the recovery would be there or I would believe that D2C part of the business will continue to do well for you, because I guess that would not have any significant impact than what we could see on B2C or B2B part of your business. I guess that was not something in 2008 and 2009 for you. So, D2C part of the business would continue to do well for you. Is it a right understanding?

Sumit Shah: Yes, I mean, I think that our direct-to-consumer business at the run rate of around Rs. 200 crore, which is little bit less than $30 million. It is a very small business. I think that business has significant runway for growth. I think that because of the small base, I do not see that segment being impacted by the softness in demand. I think the softness in demand will be on the more customer brands side, which is a more mature business, the direct to consumer, and hopefully the branded B2B should continue to do well during the current year.

Kaustubh Pawaskar: Last one on the margin front. As you mentioned that current inflationary environment and I assume that because of the muted demand and sales, we believe that margin pressure might continue for a few more quarters. Our earlier aspiration was to achieve around 9 to 10% kind of margins by FY 2024, so still that target remains, or we should expect margin to hover around 7 to 8% in the medium term and once the scale of D2C increases substantially then you expect your margins to be better off close to 9 to 10%.

Sumit Shah: I think we were able to deliver 9% margins last year and I think for sure our aspiration would be to be higher than 9% margins in FY24, I think the current year, while gross margins will probably recover in Q3 and Q4, we may see some, de-leverage of sales growth remains muted, but in FY24, definitely we expect to surpass a 9% EBITDA margins.

Kaustubh Pawaskar: Okay. One last question since now, I have seen that your working capital on books have also gone a bit and considering the current, you'll get nascent performance and operating performance, would you be able to generate cash flows and what will be your target in terms of debt reduction? Because I believe that for next two years at least we would not be able to lose a substantial portion of debt on books, which was the case for last two years where we have seen a debt coming down substantially because of the improvement in the cash flows. For 2023-24, should we expect deb level to be to remain same at the current level.

Sumit Shah: So, I think in the current financial year, we have had some significant investments that we've made. We have just invested in a 50,000 square foot fulfillment center and fulfillment design and office in New York city, we are in the process of moving that it's a 50,000 square foot facility where we've invested around $5 million in capital expenditure to set up this facility. In addition to that, we have also acquired Four Mine Inc. in quarter four of the last financial year. We have the last payment, a significant part of the last payment for the acquisition of Jay Gems. I think we have had, either capital expenditure or payments for purchases that we've done of around a Rs. 100 crore this year, going forward in the next financial year, we do not envisage any additional acquisitions. We will continue to generate cash flow and look at our working capital very thoughtfully. So, any cash flow generated should be used or will bring down the net debt. Our anticipation is that during the current year, debt reduction will be small because of these investments that we have done in the acquisition as well as our fulfillment center, but going forward, we don't anticipate any significant investments in capital expenditure and debt levels should go down with cash flows.

Moderator: The next question is from the line of Ashish Shah from Business Match.

Ashish Shah: Just a few questions just on the growth you mentioned that it looks like the second half will be slightly soft, in your segmental business, actually the gold segment also had a sharp jump this quarter. I was wondering anything to read into it, or it was just part of the course.

Sumit Shah: I think the gold segment last year was impacted by COVID because Middle East was impacted. I do not think that there's anything significant to read into that. I think, the gold business, which is primarily in the Middle East has been very robust demand environment there has not been affected at all because, with oil prices where they are, Middle East is definitely impacted by that. So, we are not seeing any softness in demand where and that business should do well, but as you know it is a relatively small segment, so, it won't affect the profitability of the company significantly.

Ashish Shah: Sure. The other thing on your strategy of growth, you mentioned a very important thing that is customization. So, do you see that customization happening across all your D2C products in this year?

Sumit Shah: On the Four Mine Inc. side, the businesses entirely customization and personalization so the lab grown engagement business is a zero inventory model whereby we are customizing and personalizing engagement rings for customers because of the success of what we're seeing there, we are rolling out customization initiatives across Enchanted Disney Fine Jewelry this year, where we will allow customers to create their engagement rings based on their configuration, and then take it to other websites. It will be primarily restricted to two properties, Four Mine Inc. as well as Enchanted Disney Fine Jewelry.

Ashish Shah: Okay. The other thing looks like this quarter we benefited from some operating leverage, because margins compressed a bit in that sense. Just one thought on that, on the advertising cost, did actually gone up a bit over the last two, three years. Do you have a number in mind that how do you map that versus, sales or where do you see that stabilizing eventually?

Sumit Shah: I think advertising and promotions, our target is between 25 and 30% of direct-to-consumer sales is what we are investing in, in order to grow the business. I think that it will be a direct correlation to the direct-to-consumer sales and that is what we're investing into acquire customers and grow the customer base.

Ashish Shah: Okay. And one last thing, working capital, you see that as we go ahead, you see that working capital ballpark sustaining in and around these levels, which means largely your inventory.

Sumit Shah: We do not see any meaningful increases in inventory going forward because a lot of our growth initiatives are around businesses that don't require the same level of working capital intensity as our traditional business. The number of days of working capital will definitely improve going forward. Some of the newer growth businesses, as I said, are less working capital intensive than the customer brand segment. We do not see any meaningful increases in inventory happening over the next two to three years.

Moderator: The next question is in the line of Rishubh Vasa from Almonds Global Securities.

Rishubh Vasa: I would like to ask two questions, first is regarding the contribution from the US region, how much percent of total sales are we getting from the US region and also percentage of like branded jewelry segment coming from the US? Second question would be for our owned brands, which geographies seeing traction? Please throw some color on the business outlook over here for the owned brands?

Sumit Shah: So, I think around, depending on the year between 65 and 70% of our sales come from the US and on the branded jewelry side, I think about 90% of the sales are in the US and also in our owned brands. So, our international business is largely around customer brands and the plain gold business outside of the US, most of the branded business is in the US.

Rishubh Vasa: Regarding the owned brands basically, can you throw some color on the business outlook, like geography is doing good for us, and what is our outlook going ahead?

Sumit Shah: Our owned brands, as well as licensed brands, the majority of the business is, as I mentioned in the US, I think we've a retail business in India, IRASVA at a very nascent stage. The total sales of IRASVA are in the ballpark of Rs. 15 to 20 crore annually. Besides India, all of our owned brands are in the US and especially the new brand that we've acquired Four Mine Inc. the brand is called with clarity. We see significant growth prospects for that brand going forward.

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

Sumit Shah: Thank you. I hope we have been able to answer all your questions. Should you feel the need for any more clarifications and like to know more about the company, please feel free to contact our investor relations team. Thank you for your support and your time. We hope to see you in the next conference call.

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.