

# Management Discussion and Analysis



US\$ **100** billion

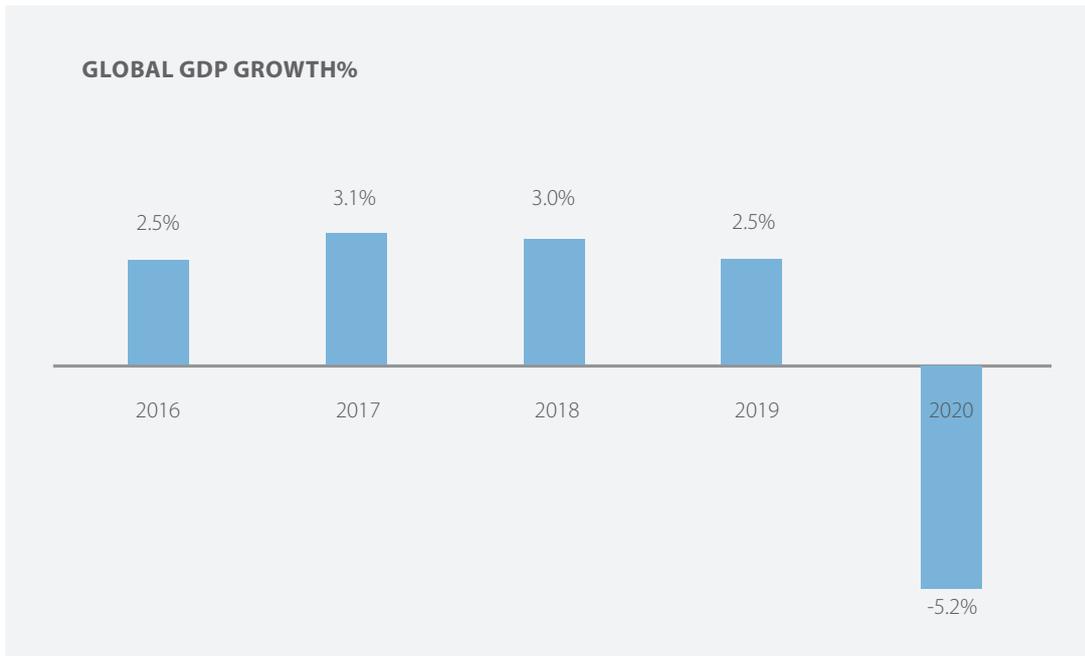
India's Gems And Jewellery Sector Estimated Market Size by 2025

## GLOBAL ECONOMY

Global Economy in 2019 recorded the slowest Gross Domestic Product (GDP) growth since the global financial crisis a decade ago in 2008, attributed to the slowing down of economic activities in a few emerging market economies, geopolitical tension, and international trade disruptions, caused by the US-China trade clash. The global growth moderated to 2.5%<sup>1</sup> in 2019, declining from 3.0%<sup>1</sup> in 2018

and 3.3%<sup>1</sup> in 2017. The decline in the growth was primarily due to slowdown in the advanced economies, such as US, Eurozone and Japan. The US economy growth decelerated from 2.9%<sup>1</sup> in 2018, to 2.3%<sup>1</sup> in 2019. Meanwhile, in the emerging economies, China reported a growth of 6.1% in 2019. Global trade had started suffering a setback due to tensions mounting over the US-China trade relations, coupled with 'BREXIT' related uncertainty. Furthermore, the COVID-19 pandemic outbreak in Q1 2020 pushed the global economy into slowdown. The crisis has forced several nations to opt for isolation, lockdowns and widespread closures

<sup>1</sup> World Bank



hurting the global economic activity. According to Dun and Bradstreet's Country Risk and Global Outlook Report, that covered 132 countries, the wider global context remains sombre and the global economy will not reach pre-pandemic levels of activity again before 2022. The global economy is likely to contract by 5.2% in 2020 with the COVID-19 still spreading and the economic prospects of countries across the world looking muted.

**GLOBAL GEMS AND JEWELLERY INDUSTRY**

Pre-covid, the size of the gems and jewellery industry was estimated to cross US\$ 443 billion globally by 2022<sup>2</sup>. However, with the outbreak of the pandemic it is extremely difficult for the jewellery industry to reach this mark. The buoyant demand for gems and jewellery comes primarily from North America and Asia Pacific, which is currently the fastest-growing market in the world.<sup>3</sup> In Asia-Pacific, the gems and jewellery market is witnessing rapid changes in consumer preferences as western lifestyle is being embraced universally. The gems and jewellery manufacturers are more focused on developing new and innovative designs to meet the changing needs and demands of consumers. Consumers are demanding new jewellery styles and types, and licensed jewellers are well-placed to satisfy their evolving demands as compared to the unorganized local players. The millennial buyers are brand savvy, with a desire to have status and stature, which can be conveyed by prominent brands. The market-share of branded jewellery has the potential to expand sizeably over time.

Gold is a crucial and significant raw material component in the industry. As an asset class, it is also widely popular as a safe-haven investment.

Gold typically performs well during flights from risk assets and has seen upside momentum as a result of concern over global economic growth. Gold prices soared up to an all time high of US\$ 2,070 an ounce as of August, 2020.

**INDIAN GEMS AND JEWELLERY INDUSTRY**

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 7% of the country's GDP and 15% to India's total merchandise exports. The market size of the sector was about ₹ 5,24,175 crore (US\$ 75 billion)<sup>4</sup> as of 2018 and is estimated to reach ₹ 6,98,900 crore (US\$ 100 billion)<sup>4</sup> by 2025. The industry is export-oriented, labour-intensive, and therefore contributes significantly to the country's foreign exchange reserves. In FY2020, the exports of gems and jewellery out of India stood at US\$ 30.9 billion.<sup>5</sup> As with most industries, the COVID-19 pandemic also brought in some headwinds for the Gems and Jewellery trade. In this industry, over 90% of the raw material is imported. Due to the global lockdown, imports came to an abrupt standstill, while gold prices soared up to an all time high. Higher gold prices, coupled with COVID-19, has hit the sector adversely, and pushed it into an extreme slowdown.



<sup>2</sup> Businesswire

<sup>3</sup> <https://www.mordorintelligence.com/industry-reports/gems-and-jewelry-market>

<sup>4</sup> IBEF <sup>5</sup> GJEPC

**IMPACT OF COVID-19**

The COVID-19 pandemic has had a detrimental impact on industries all over the world. There is extreme uncertainty surrounding the forecasting of the global growth.

During the lock down, all major jewellery retailers and departmental stores in the USA were shut from mid-March 2020. The stores have gradually started to reopen since May 2020. As a discretionary item, the demand for jewellery is expected to continue to remain sluggish for some time, post the lifting of the lock down. According to forecasts from De Beers, a slight recovery at the end of 2020 is expected, with the release of pent-up demand. The lockdown across India from 25th March 2020 has ensured that the production at the Renaissance facilities was at a complete standstill. However, the Company has been able to partially resume operations from mid-April 2020.

Furthermore, the Company's major customers in the United States had postponed the orders in their pipeline, as their stores remain closed with no clear sight of when they would be able to resume their operations. Most customers did report a significant increase in online sales during the shutdown period. Furthermore, with most retail Stores re-opening, we are seeing a gradual recovery of demand. The Company believes that the first half of the current financial year would be quite challenging with gradual return to normalcy over Q3 and Q4.

Our 'IRASVA' store remained closed throughout the lock down. The Store has commenced operations from mid-June. However, the demand continues to stay tepid owing to gradual resumption to normalcy, dampened by lower disposable income. The launch of the Company's new stores are expected to be delayed on account of the on-going predicament.

**COMPANY'S RESILIENCE AND RESPONSE TO COVID-19**

The Covid-19 pandemic challenged the business operations of our company. However, the company's constant endeavour to ensure liquidity through maintaining a prudent debt/equity ratio has ensured your company comes through these testing times. Further, the collections were not hampered as Renaissance deals with established retailers and maintains long standing relationships. The company's focus to grow in high margin businesses and move away from low margin businesses has also been extremely useful to deal with the pandemic situation. Flexible cost structure also helped us to prune our costs during these difficult times.

Your company has used this opportunity to grow in the direct to consumer business with the launch of an e-commerce website during the pandemic. We plan to further our direct to consumer play in the current financial year.

**COMPANY OVERVIEW**

Renaissance Global Limited (RGL), led by Mr.Sumit Shah – Vice Chairman is a highly differentiated luxury lifestyle products organisation. The Company is engaged in the designing, manufacturing, and selling of studded and plain gold jewellery. Renaissance has business operations in the US, Middle East, Europe, and the Asia Pacific region.

The Company designs and manufactures superior quality products for its customers, incorporating the latest fashion trends prevailing in the industry. The designs are the intellectual property of the Company.



RENAISSANCE IS IN THE BUSINESS OF DESIGNING, MANUFACTURING, AND DISTRIBUTING LICENSED BRANDED JEWELLERY AND GENERIC JEWELLERY TO RETAILERS GLOBALLY.

#### OUR MANUFACTURING CAPABILITIES

Renaissance is in the business of designing, manufacturing, and distributing licensed branded jewellery and generic jewellery to retailers globally. The Company's 150-member design team with proven expertise in global fashion trends launches over 12,000 designs every year. Renaissance has a strong thrust in its Research and Development to drive product innovation. The Company has a 25-member R&D team that has developed a range of multiple patented products. Around 5,000 sq. feet of dedicated Research and Development facility is continuously evolving products for international design houses. At present, your company owns over 100 patents and copyrights globally. Renaissance has state-of-the-art manufacturing facilities and highly-skilled workforce. Its production facilities encompass 166,000 sq. feet divided into eight units employing over 2,900 skilled workers. Its manufacturing facilities based out of Dubai cater to the Middle East markets manufacturing plain gold bangles and pendant sets. Our manufacturing facilities use state-of-the-art technologies, including casting, CNC machining, and 3D printing.

#### OUR MARQUEE CLIENTS

Our customers include specialty jewellery retailers such as Fred Meyer, Helzberg Diamonds, Joyalukkas, Malabar, Signet Jewelers and department stores chains such as JC Penney, Kohls, Macy's and Walmart. The Company is a trusted supplier to catalogue, e-commerce, and television retailers such as Amazon, Argos, and Jewelry Television.

Renaissance has a diversified customer base and maintains long-standing relationships with its customers, ensuring smooth business communications. The Company's stable customer base and disciplined credit terms provide minimal exposure to credit risk.

#### OUR GLOBAL PRESENCE

Renaissance is based in Mumbai with its subsidiaries in the US, UK, and the Middle East. During the financial year, the Company has incorporated a subsidiary in China and plans to start operations in FY2021. The Company also has dedicated in-house marketing teams in key markets of the US, UK, and the Middle East. The Middle East market is predominantly plain gold jewellery while North America and UK is predominately studded jewellery.

#### RESPONSIBLE JEWELLERY COUNCIL

Renaissance is a certified member of the Responsible Jewellery Council (RJC). Being an RJC member, the Company is committed to and is independently audited against the RJC Code of Practices, an international standard on responsible business practices for the Gems and Jewellery industry. The Code of Practices addresses human rights, labour rights, environmental impact, mining practices, and product disclosure, amongst other essential topics in the jewellery supply chain. The Company also works with multi-stakeholder initiatives on responsible sourcing and supply chain due diligence.



**SWOT ANALYSIS**



**Strengths**

- » Dedicated 150 member design team based in US, UK, Hong Kong, Dubai and Mumbai
- » State-of-the-art manufacturing capabilities
- » Exclusive license for 'Disney' and 'Hallmark Diamonds'
- » Excellent track record of successful acquisitions while maintaining financial prudence



**Weakness**

- » High fixed costs related to RGL's manufacturing infrastructure
- » Revenues are significantly concentrated in the US and the Middle East
- » Labour cost is in Indian Rupees, and continuous cost inflation in India must be offset by efficiencies or currency depreciation



**Opportunities**

- » Enchanted Disney Fine Jewelry provides an excellent opportunity to expand in additional geographical markets including China, India, Middle East and South-East Asia
- » Deal with Lao Feng Xiang (LFX) in China gives RGL excellent opportunity to grow in China
- » With lab-grown diamonds growing in popularity in the US, there is an opportunity to enter a new product category



**Threats**

- » The growing trade war between US and China poses a threat as some of the Company's jewellery manufacturing is outsourced to China
- » If COVID-19 infections keep on increasing in the US and India, it may have a negative impact on the Company's revenues going forward

**BUSINESS STRATEGY**

**EXPANSION OF LICENSED BRANDS**

Historically, the demand for diamond jewellery was supported by extensive marketing by De Beers. Since, De Beers stopped marketing diamond jewellery, its market share has been continuously declining. This has created a massive vacuum in the marketing space, creating opportunities for new jewellery brands. To take advantage of this opportunity, our focus is to grow in the branded jewellery space through licensed brands as well as in-house brands. Branded jewellery has higher margins than generic jewellery, increases competitiveness through design exclusivity, brings in superior product positioning, and establishes deeper customer relationships.

**ENCHANTED DISNEY FINE JEWELRY**

The excellent product development and manufacturing capabilities combined with the global demand for Disney products has resulted in rapid growth in sales for Enchanted Disney Fine Jewelry. Enchanted Disney Fine Jewelry was first launched in the US, Canada, and the UK

To capitalise on the international appeal of the Disney brand, Renaissance has launched the brand in the Middle East, Malaysia, and the Philippines in the current financial year.

In line with our expansion plan, the Company has signed a deal with Lao Feng Xiang (LFX), second-largest jewellery retailer in China for the distribution of 'Enchanted Disney Fine Jewelry' in China. LFX has 3,700 stores worldwide with revenues of US\$ 6.5 billion.

**DISNEY TREASURES**

Disney Treasures includes Disney iconic characters such as Winnie The Pooh, 101 Dalmatians and Lion King. Disney Treasures was launched through a major specialty jeweller in the US and is extremely successful. Disney Treasures has now been rolled out to more than 1,000 stores in North America.

**DISNEY JEWELS**

Disney Jewels Fine Jewelry Collection recreates the magic of Disney at attractive price points. Disney Jewels has been tested in 150 stores with a mass market retailer in the US.

TO REACH OUT TO THE CUSTOMERS ACROSS THE WORLD, THE COMPANY HAS BEEN FOCUSING ON THE E-COMMERCE PLATFORM TO CONNECT AND INTERACT WITH ITS TARGET AUDIENCE.

#### HALLMARK MOMENTS

Founded in 1910 as a greeting card company, Hallmark is now a diversified consumer brand with 13 million daily greeting cards, 92 million homes receiving the Hallmark cable television channel, and 6 billion annual brand interactions. It has a strong emotional connection with consumers, which is highly relevant to jewellery. Your Company's strategy is to capitalise on this emotional connection by marketing its Hallmark branded jewellery as products to celebrate special moments in the life of individuals. In FY2020, the Company tested 'Hallmark Diamonds Moments' with one of the largest retailers in the US. The customer's response was overwhelming, and Hallmark now is sold across more than 2,000 doors in the United States

#### HALLMARK TOKENS

This unique jewelry collection was inspired by the historical practice of giving someone special a "token" that symbolized the deep emotions one has for another. Hallmark Tokens has been tested in 200 stores at a major departmental store in the US

#### IRASVA

IRASVA is an everyday fine jewellery brand for the self-assured modern woman. IRASVA is a combination of "ira" meaning enjoyment and "sva" meaning self in Hindi. IRASVA's gold and diamond jewellery celebrates the modern woman and inspires every woman to create, feel beautiful and express herself in every moment. With IRASVA, Renaissance offers women fine jewellery collections that are stylish, easy to wear and look luxurious. The IRASVA Essentials start at ₹ 15,000 while the Gifting Collection is priced at ₹ 8,000 upward.

Renaissance launched its first IRASVA store in May 2019. This plush flagship store of IRASVA is located in a 2,000 sq. feet area in South Mumbai. Based on the performance of our first store, the Company plans to open two new stores in Mumbai in the current financial year. However, its expansion plans would be extremely cautious, ensuring optimum capital allocation and utilisation.

#### MADE FOR YOU

Renaissance has launched a new brand called 'Made For You' in the lab-grown diamonds category. The brand was launched with a major US retailer during FY20. The millennial customer is increasingly looking for products which are eco-friendly and ethically sourced, which presents a strong case for introduction of Lab-Grown Diamonds. Furthermore, the lab-grown diamonds are highly accepted in the US and present a cost-effective alternate to Mined Diamonds, which creates the right opportunity to expand this product category to a wider customer base going forward.

#### OUR FORAY INTO DIRECT-TO-CONSUMER SPACE

Current trends in the jewellery sector point towards an increasing use of digital space for buying jewellery. Keeping in mind these trends, your company has a vision to expand its digital footprints and enter the e-commerce space. Our direct-to-consumer business through our newly launched 'Enchanted Disney Fine Jewelry' website has shown robust growth during the year. During the current financial year, we have also launched a website catering to Lab Grown Diamonds jewellery called 'Made for You'. We further plan to launch websites for Star Wars, Disney Jewels and Hallmark Diamonds amongst our licensed brands and our own in-house brand Jewelili to further our direct-to-consumer play. The online direct-to-consumer format is a high gross margin business with gross margins in the range of 55 to 60%. In line with our strategy, we plan to grow the share of our direct-to-consumer business. The entry into direct-to-consumer business gives us a direct access to our consumer. This helps us understand our consumers better and develop products catering to the changing tastes of the customers. The direct customer interactions help us build brand loyalty amongst our customers and enable repeat purchases from them.

**FINANCIAL PRUDENCE**

Renaissance has steadily grown its business with a highly disciplined approach based on prudent capital allocation and efficient working capital management. The Company believes in ensuring financial prudence in all its business decisions. Our return on equity is at 13.5% for the year against 12.9% in FY19. The debt to equity ratio has improved to 0.52 in FY20 against 0.76 in FY19 and inventory days declined from 144 to 119 by doing away with low margin products and prudent inventory management.

Revenues from operations for the year FY20 are at ₹ 2,50,185 lakh against ₹2,59,062 lakh in FY19, degrowing at 3%. Revenue growth was muted due to discontinuation of sales to independent retailers and other low margin product categories and impact of Covid-19 lockdown at the end of March 2020. The EBITDA has shown remarkable growth in FY20 and has reached ₹ 17,082 lakh, highest ever

since the Company's founding. Depreciation has increased from ₹ 1,809 lakh in FY19 to ₹ 3,105 lakh in FY20 on account of acquisition of Jay Gems and capitalisation of long term leases as per IND AS. Interest expense has increased from ₹ 2,496 lakh in FY19 to ₹ 2,976 lakh in FY20 due to Jay Gems acquisition. Profit after tax for FY20 is ₹ 9,223 lakh as against ₹ 7,828 lakh in FY19, growing at 17.8%. Over the last five years, the RoE has shown an increasing trend from 10.3% in FY16 to 13.5% in FY20. The Company has consciously grown its return on equity by focusing on higher-margin businesses. Net Debt as of Mar 2020 was ₹ 36,411 lakh. v/s Mar 2019 Net Debt of ₹ 50,338 lakh; reduction of ₹ 13,927 lakh. Further, the company also reduced inventory from ₹ 1,01,611 lakh in FY19 to ₹ 81,828 lakh; reduction of ₹ 19,783 lakh.

Key Financial Parameters (₹ lakh)	FY2020	FY2019
Net Revenue	2,50,185	2,59,062
EBITDA	17,082	12,490
% of Net Revenue	6.8%	4.8%
Depreciation	3,105	1,809
Interest Expenses	2,976	2,496
Other Income	1,615	227
PBT	11,001	8,185
% of Net Revenue	4.4%	3.2%
Tax	1,778	357
Profit After Tax	9,223	7,828
% of Net Revenue	3.7%	3.0%

