Titan Industries Ltd

4QFY13 EARNINGS CONFERENCE CALL

MANAGEMENT:

MR. BHASKAR BHAT– CEO, TITAN.

MR. S SUBRAMANIAM- CFO.

MR. C K VENKATARAMAN – CEO, JEWELERY, TITAN.

MR. H G RAGHUNATH – CEO, WATCHES, TITAN.

MR. S RAVIKANT-CEO, PRESCRIPTION EYEWEAR

MODERATOR:

Mr. Sameer Deshmukh – Analyst, Tata Securities Limited

Moderator	Ladies and gentlemen, good evening and welcome to the Titan Industries Q4 FY13 earnings conference call hosted by Tata Securities 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 at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sameer Deshmukh from Tata Securities. Thank you and over to you sir.
Sameer Deshmukh	Thank you. On behalf of Tata Securities I welcome you all to the conference call of Titan industries post the 4th quarter numbers. We have with us the senior management team of the company. I now request Mr. Bhaskar Bhatt to make his opening remarks post which we could commence the Q&A session. Over to you sir.
Bhaskar Bhat	Thank you for joining us. Quarter 4 has been much better in terms of growth of the bottom line and therefore the company has been able to cross the Rs 10,000 crores mark in revenues and Rs 1,000 crores in PBT, which I have been talking about over the last 2–3 quarters. The essence is, the top line growth continues to be a challenge in all the businesses whereas bottom line we are able to manage because of the multiple businesses we are in and the multiple price points we operate in. Our expansion continues at the pace as you can see 45 outlets overall and we continue to innovate with new products. Gold price of course you are aware, after remaining high especially in the first quarter of the year in FY13, it had gone through a big drop. And the regulatory over hang on gold continues to create uncertainity in the minds of investors, not so much perhaps in the minds of consumers because we will deal with that a little later. The like to like growth on the right hand side column is symbolic of what is happening in the market place, -2% in the World of Titan and 4% in the large format store, that is an indication of discretionary spending on an item like a watch which is not such a functionally important product anymore. However the good news is that Tanishq continue to grow at 8% LTL of the low comparatives at previous track record. Helios again like to like at 12% at 60% overall. Fastrack 15% LTL, not so much like Fastrack but again indication of the market place. But the best figure here, this is a 40% in LTL sales growth of Titan Eye Plus that is a consistent performance on a month on month, quarter on quarter for the last 4 quarters in fact. Q4 performance as you can see the big news is the margin improvement in the company and that has helped annual performance also at 14% top line and 21% bottom line. For the quarter at 15% top line and 28% bottom line. There is an effect of the customs duty on Jewellery having gone up by 2%. There is a benefit of that. But even then operationally we have improved and the reasons are many. Some of them a product mix related. Some of them are cost

related and overhead management related. Watches volumes growth is negative but you did see that it is not such a negative on the retail side. So there is stock correction in the pipeline that has happened during the quarter. And revenue growth of 1.5% only, essentially because of the impact. So if you take the minus 10% volume and plus 1.5% revenue growth, that's a big impact on account of price increase. Margin affected by excise duty hike and higher material cost, has been the problem in the watch business over the last several quarters. So as a result annual growth is 1% decline but revenue growth is 10%. Jewellery, the metric we track is the customer growth and in the quarter studded segment has done well. Revenue growth is 16% and the PBIT growth is 37%. So margins in the Jewellery business has improved for the year with revenue growth of 15% and PBIT growth of 28%. The others' segment as you can see which includes PED, eye wear and accessories, 40% revenue growth eye wear itself is 43% and for the year it is 18%, both eye wear and precision engineering have done well for us. Higher inventory levels have ended up with capital employed for the company going up to nearly Rs 2,000 crores from roughly Rs 1,500 crores last year. That is also to some extent on account of the mismatch between budgeted sales and the actual sales and that is bound to happen. But it will get corrected over the first half of this year. If you look at the trend, company's sales have grown from Rs 8,800 crores to Rs 10,100 crores. That is a Watches CAGR at 17% and Jewellery 31%, company 28%. On the PBT its same news but the margin improvement story as you can see sitting in this with net profit of Rs 725 crores for the current year. Watches however had a dip in PBIT because of increase in cost and overheads. This is Watches alone but the watch business actually also has accessories and sunglasses under the Fast Track name. So there is a small difference between the way the company manages its watch business and the repored figures for Watches. Jewellery, you can see Rs 900 crores PBIT heading towards 4 figure mark next year. There is a small dip in the return on capital employed but return on net worth is still very good at 42.5%. Cash balance up by Rs 1,100 crores almost over the 5 year period. And the market cap is Rs 23,000 crores. Rest is accolades that the company and people of the company have received. I think overall 4th quarter, we are not disappointed. I think the entire company got together to try and achieve a big number and I think that is essentially the behavior of the company to make things happen and the Rs 10,000 crores and Rs 1,000 crores in silver jubilee year is what we were targeting and that has happened. I think we should be open to questions now. I have with me my colleagues Subbu – CFO, C K Venkataraman – CEO Jewelleries, Raghunath – CEO Watches and Accessories and Ravikant – CEO eyewear. I also have Rajratnam who heads finance. We are open to questions please.

Moderator Thank you very much sir. We will now begin with the question and answer session. We have the first question from the line of Avnish Roy from Edelweiss. Please go ahead.

Abneesh Roy My first question is you have met the guidance which was given earlier for FY13 profits. So as we are already in FY14, what are the initial thoughts on the profit number for this year?

Bhaskar Bhat We are not in the habit of giving a guidance. Although, we have been kind enough to indicate a number. I think an aggressive growth of top line is the continued goal of the company whether it is in Watches or Jewellery or eye wear and margin improvement continues to be an objective. So I wouldn't want to assess or estimate what is likely to be the bottom line growth for the company for the year. We have been growing you can see top line 15% and bottom line 20/% for the year. That kind of order of magnitude is certainly possible.

Abneesh Roy Coming to this specific quarter to the Jewellery segment, we don't have the presentation so, on the studded Jewellery if you could share what were the numbers and going forward because of the gold price correction, we are seeing increased sales of gold happening. So how do you see the studded sales happening in the first half and was December quarter an aberration because studded sales had fallen then.

C K Venkataraman Quarter 4 was better than quarter 3 in terms of studded sales growth. But still not up to where we normally operate. That continues to be a challenge. I think the whole pressure on discretionary category is continuing to tell on studded.

Avnish Roy How much was it sir?

C K Venkataraman Retail sales growth in quarter 4 was 12% for Tanishq.

Abneesh Roy No as a percent?

C K Venkataraman As a percentage of studded share for quarter 4 was 32%.

Avnish Roy And how do you see it going ahead with gold obviously now finding more takers from the consumption side but also you have got strong marriage season in the first 2 quarters. So some thought process on that?

C K Venkataraman Actually the studded share is only 1 dimension of the performance. For example currently the gold business has been doing rather well and even though that directly impacts studded share. As long as we achieve our set targets in terms of absolute sales value, it doesn't matter that the share has fallen. Because the scale advantage kicks in and the margin improvement happens as a result of that. So we are not so much focused on the studded share as much as studded sales, which having said that remains a challenge. And there are many initiatives to take it to the levels which are satisfactory to us in the 25 – 30% kind of growth.

Abneesh Roy Sir, the concern many investors have had with gold prices coming down was on the gold making charges. That has been one of the key drivers on margin expansion in the last 3 – 4 years. So with gold prices now correcting significantly from the peak levels have you changed the formula of how you charge the gold making charges in the past few weeks?

C K Venkataraman No.

Bhaskar Bhat No in fact Abneesh, that is the reason why we changed to percentage margin. So the margin percentage is protected.

C K Venkataraman The overall margin which is a combination of volume and price, I understand the point about what you are saying but it is too soon to think of anything like just 2 weeks old situation and the volume growth has been exceptional in April. So to that extent the question doesn't arise and we have become a little more competitive in fact because the price has fallen and the gap in absolute terms, the rupee gap between us and competition would have dropped. And actually improves the competitive situation and therefore we are staying with our strategy.

Abneesh Roy One question on consumer behavior, does he really check the gold making charges, I am asking on the Tanishq consumer, does he really check the gold making charges what you are charging or say Kalyan Jewelers is charging?

C K Venkataraman Not every Tanishq customer but at least 50% of the Tanishq customer will be checking. Because we are acquiring customer all the time. New customers are coming all the time also right?

Moderator The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta Sir I had 2 questions. One is at the start of your commentary you indicated that there was some kind of benefit of custom duty. If you could please clarify on that I am not able to understand how that flow into us because I thought gold inventory the customers have to be paid back to the person because we are doing domestic if you could clarify that sir?

C K Venkataraman See, we have been importing gold for quite a long time through MMTC and all that. The custom duty we would have paid at a certain rate on the stock that we held when the customs duty was raised by another 2% points in January of 2013. So what happens is

	that the rate at which we sell versus the rate which we buy, that difference flows back through inventory profit.
Avi Mehta	So correct me in my understanding, we switched over to domestic banks by then?
C K Venkataraman	That doesn't matter. Because the domestic banks have imported.
Bhaskar Bhat	They have imported and the customs duty that they pay which we bought has changed in that last quarter in January.
Avi Mehta	So when we close the transaction we just have to pay the gold rate and the custom duty what we have already bought is already paid?
C K Venkataraman	Yes.
Avi Mehta	Sir the second things, there is no inventory gain per say, just wanted to clarify that, there is nothing like that. It's just the customs duty benefit?
C K Venkataraman	Yes.
Avi Mehta	Secondly on the continuation. Did we understand that 20% that we don't have we have taken this spot market, just wanted to understand the rationale over there why we do that?
S. Subramaniam	20% we talked about is what we get from customers on the exchange program. Its not spot market. It is considered as spot only because, you buy from the customer but it is gold exchange.
Avi Mehta	So we buy back and that is the reason?
Bhaskar Bhat	Yes.
Avi Mehta	And lastly sir on the watch market if you could explain how do you see that segment in terms of EBIT margins because we have seen fluctuating at margins 12% we reached 3rd quarter now back to a low level, how do you see that going forward if you could some?
Bhaskar Bhat	It has been bit of a challenge to achieve the margin. It has been impacted by 3 factors, one is the exchange rate, the material cost and the sales growth itself. I think the divisions has been focused on raising prices and passing on the material cost impact to that customer. Only the excise duty, which was the third element which impacted. So all of this was not possible to pass on. Now the benefit as you can see we have shown that the revenue growth is higher than the volume growth in the last quarter and those will

begin to flow in. My colleague Raghunath will add to the margin improvement efforts in the division already.

H.G. Raghunath On the margin improvement, first of all the revenue, the material cost covered by the price impact all the products during this year are the 2 reasons why the margins should improve this year. We are actually hopeful that the markets will be better, sentiments should be better. At the same time all our pricing should fall on to the products unlike last year which was partial. We should expect.

Bhaskar Bhat So the delay lag between the price implementation and the benefit accruing to the company so what Raghunath was saying is all of it will flow in early enough during the current year.

Avi Mehta Just a clarification if I may. The way I understand material cost have been more or less passed on. And that will be margin neutral. What has happened over the quarter basis has been, more the excise duty and sales growth and the sales growth improves that's what you are highlighting. That should kind of help?

Bhaskar Bhat Yes.

Moderator The next question is from the line of Subramanium PS from Sundaram Mutual Fund. Please go ahead.

Subramaniam PS My query was on the ad expenses. It seems that a significant portion of margin improvement has come from cutting down on ad expense both during the quarter and also for the entire year. In the light of lot of the other jewelers advertising significantly what kind of strategy would you be following next year? Do we see some up-tick in ad spends or would you continue to be more margin focused like you have been this year?

C K Venkataraman The cut was not for margin improvement only. If you look at the advertising to sales ratio in the Jewellery business over the last 5 – 7 years, that's been steadily dropping. It's partly because of the scale of the Jewellery business and partly because the retailing side of the Jewellery business is gathering greater and greater prominence. When you set up a bigger and bigger and more prominent network on the street of the country, the need to depend more on advertising actually reduces because the stores themselves start acting like advertising. That's one point. The second is that the public sentiment having been what it was and continues to be in FY 12 – 13 and early FY13 – 14 the role of advertising in pushing people from their homes to walk into shops was sort of re evaluated and we said we need to work much harder in our messaging and influence of the advertising rather than just simply spend money. So the fact of the matter is FY2012

– 13 was perhaps the best year for Tanishq in terms of its advertising effectiveness even though the money spent in as much in FY11-12 and therefore the emphasis is more on the quality of advertising rather than quantity of advertising.

Bhaskar Bhat Also Mr. Subramaniam just to clarify at a larger level what C K Venkataraman said about the retailing intensity of the company, when you get more and more retail intensive, retail is a catchment business and the more you push retail the more you get very targeted in your advertising. So use of mass media reduces and you use local media which is cheaper and better targeted. So therefore you will always see retailers have a much lower A&P to sales than a brand which has to appeal to a large target audience which they can appeal only through mass media like television and newspaper. So this behavior, this transformation in a way of the channel even in Watches and in eye wear and Jewellery is going to contribute more and more to a lower A&P.

C K Venkataraman And the other thing which you said about other jewelers stepping up their expenditure, the Tanishq television film of the Diwali season was voted by many experts in the industry as the best television film across all categories in the season. And like this there have been many films in the last many years. No other jeweler has featured in any category like that ever. So spending money is not the only thing.

Subramaniam PS No dispute in the quality.

C K Venkataraman No I am just giving the perspective.

Subramanium PS So on a structural basis can one expect this ASP to sales continue to trend down. Do you think?

C K Venkataraman Anyway it has been trending down. Here you are talking about an absolute amount reduction that you have seen in FY12 -13 which is a fact which has not happened in the past. But it's also in relation in the context of a depressed customer sentiment. The last 5 years the customer sentiment was very positive. So wanting to capitalize on the boom we spent but in a depressed customer sentiment situation there is no point in spending as it won't give you return back.

Bhaskar Bhat And if you look at the company structurally, unlikely because the other businesses if you take eye wear and Watches, it is a very strong brand led business and eye wear is still 230 - 240 stores. And awareness is still not at the level of a watch or Jewellery business. Plus we are seeding new businesses new brands. So on the one hand retail is helping to reduce but on the other hand there are new brands, there is a *MIA* which has come in Jewellery, we are continuing to launch the brand in Watches and we get into new categories. So overall at the company level the decline won't be as sharp as retailer would expect it to be. We will also use a lot of digital media. That's the other change use of digital media has increased. So yes structurally there would be some change but it won't be some dramatic change of A&P to Sales.

Subramaniam PS And one final question from my side, any targets on square feet addition during FY14?

C K Venkataraman We are talking in the Jewellery business at about 30 odd showrooms and may be in the range of some 100,000 square feet.

Moderator The next question is from the line of Amar Kalkundrikar from HDFC Mutual fund. Pease go ahead.

Amar Kalkundrikar I have two questions on the Jewellery business, first is in the month of April you mentioned that the volumes have expanded significantly post correction in price. Just want to know how different is the mix of these sales compared to your average in terms of plain, studded and coins. That's one and secondly today RBI in its communication has talked about restricting the use of gold to procure on consignment basis by banks for domestic consumption. How will this affect Jewellery industry in general and you in particular?

C K Venkataraman On the first question the studded share in April is quite low. But I also clarified in the earlier question that we don't look at share. We look at sales. Because the gold rate has been so low in April, the gold sales have been exceptional and naturally the studded share is low. So that is answer to your first question.

Amar Kalkundrikar Was more interested on the coins part.

C K Venkataraman Coins are also done well. Jewellery has done very well so coins have also done well. Everyone is wants to buy gold. So they bought coins and Jewellery but not only coins, lot of Jewellery got sold in it.

Amar Kalkundrikar Got it.

C K Venkataraman On the second question, our thrust on gold purchase is on gold on loan and this particular circular seeks to curb people who are buying through consignment route. And from what I understand from the banks, it is typically people who are in the bullion business and speculators on gold and all that. So I don't see it affecting the Jewellery industry and certainly not Titan. It is certainly likely to affect the bullion players is the understanding we have got. But it has clearly been told that it has no bearing on Titan industry.

Amar Kalkundrikar Sure titan part I understood but the report also talks about the fact that 56% of gold imports are done by banks and they use mainly this consignment method. So you still feel that there won't be any impact for industry as a whole of this.

C K Venkataraman We just had 1 – 1.5 hours to figure this out Amar, so that's on the basis of that. If the Jewellery is affected the Titan industry is not affected in a way in this context of the concall everything is good for us.

S Subramaniam Amar one other thing which I gathered from some other banks was that the banks tend to be buying on consignment as of now. That is what has put at stop. Which means you can continue to buy on lease or any other basis. You can't hold stock that's the basic thing. The practice has to change now. So you can't in a way buy from stock of the bank. Bank has to buy only against a specific order. That's what has changed. So you can't speculate. You can't buy the gold and hold it and sell at any rate. That is what is being curbed now.

Moderator The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani Just on the space growth when you said about 100,000 square feet that is significantly lower than what earlier guidance was if I am not wrong.

Bhaskar Bhat We have not given any guidance.

Hiren Dasani Not guidance but lets say last year also you did about 140,000 – 150,000 sq.ft.

C K Venkataraman We have added 145,000 sq.ft in FY13. We would add another 100,000 sq.ft in FY14. We said we will add 200,000 sq.ft last year. Against the 200,000 sq.ft we added 145,000 sq.ft but we also said that some of the 200,000 sq.ft was slipping into FY14 and some of the 100,000 sq.ft is that slip. And this is a rolling kind of plan in a way. The exact site you get the location you get is determined.

Hiren Dasani Is this going to be concentrated in any particular top 10 metros etc?

C K Venkataraman I think adding quite a lot of new towns. We minimize the potential cannibalization in slowing down trend in the overall demand and getting into the markets where we are fresh demand to be capitalized.

Hiren Dasani Just one question on the recent budget amendment, is it true that the cash transaction charges is now applicable across all size of the transaction? Couple of days back when the amendment to the budget happened, instead of Rs.5 lakhs where the cash transaction charge becomes applicable?

S. Subramaniam No there is no cash transaction, amendment says that earlier the bullion and coins below 10 grams were exempt, which is also brought into the this year**.** Bullion or coins any gram weight age is now covered. It has no bearing on it.

Hiren Dasani But Jewellery I purchase less than 5 lakhs cash I still don't need to pay.

Bhaskar Bhat That's right.

Hiren Dasani And still no update on the PMYL or big laundering money related law?

Bhaskar Bhat Nothing. No notification.

Hiren Dasani And lastly on the eye wear side, was there any activation during the quarter?

S Ravikant We had a new campaign in the 4th quarter which is why the results were very good. We had last activation in the 3rd quarter the October - December quarter.

Vivian Dasnani Because surprisingly your same store like to like growth as well as your overall growth is much stronger in Q4.

S Ravikant It is actually series of initiative that were rolled out one was the new campaign that we had which was very successful. We launched a lot of new products in both in frames and lenses. We had spoken last year new collections we had launched called *Trendz* in frames and in January this year we launched *Trendz* 2013, which was even better than the *Trendz* of last year. That received a very good response. We also launched new lenses with specialized coating which they did very well and then there was enhanced focus on sales of international brands. So all these put together have contributed to the growth.

Moderator The next question is from the line of Hemant Patel from Axis. Please go ahead.

Hemant Patel I am just trying to get little bit more clarity in terms of the margin expansion story for this quarter and going ahead particularly for this particular quarter if I look at 180 basis points improvement and for a full year it is like a 110 basis points. For this quarter if I take back to what you said the mix has not really improved. The price increase in gold has really not come in a big way. But there is a bit which is contributed by lower A&P spent and even benefit of customs. Can you help me break this up 180bps how much of this has come in from these components?

S Subramaniam Hemant, we don't normally give a break up between that. But largely I think what we have been trying to say that at the gross margin level we did much better because some of the things C K Venkataraman talked about earlier customs duty and so and so forth, so gross margins clearly had helped us and along with the fact that you are right advertising cost and some of the over heads is much lower than what it was, the previous year. Its the combination of these two, which has given you the 180 basis point increase.

Hemant Patel So if I look into the next year and if I remove gold out of the equation, can I think of sort of margin levers because in my view probably you have little bit more of headwinds because customs duty was one off, what can we actually expect for margins to improve from here. Is it only volume and mix?

Bhaskar Bhat Yes it is volume and mix and if you see the smaller businesses which is eye wear and precision engineering the rate of growth is much steeper and they coming out of their low profitability to higher profitability. Although, it may not be kicking at a company level in a significant way. The margin dilution won't occur to that extent because they are higher margin business.

Hemant Patel And one final question on the same margin issue? Have you worked sensitivity in terms of what if it does happen that the gold prices are lower on a year on year basis on FY14? Will our margins be impacted and by how much?

Bhaskar Bhat I think the view we have taken and we have stood by that consistently that when price drops, volume goes up and it is evident in the April month, now whether it compensate, etc., one matter. Also the percentage margins are protected. Beyond this whether the total quantum increase in the margin compensates for the drop in price is the only debate. Now we have seen quarter-on-quarter over the last several quarters the Jewellery business either remains steady or improved the margin.

C K Venkataraman Other thing is without getting into multiple scenario building kind of sensitivity analysis the one thing that we did do is look at the share of our fixed cost, semi-variable cost, and discretionary cost as part of the total overheads and we found that our control on these three, the really fixed cost was just about a third perhaps of the total cost and therefore the semi-variable who will obviously will vary with sales, something like a freight or a financing cost and the gold rates fall, the inventory values fall. So the financing cost also fall and logistics cost fall and so and so forth and we also realize that the discretionary cost which we have total control can be trimmed if the circumstance so warranted, so that we continue to delivery an acceptable level of EBIT.

Moderator The next question is from the line of Hiral Desai from Alpha Enterprises. Please go ahead.

Hiral Desai I just wanted to check how does the store maturity work in a tough economic environment because typically on Tanishq we scale up from about Rs 75,000 to Rs 150,000 per square feet. So just wanted to understand that because given the space addition that we have done this year and the fact that 145,000 sq.ft that we have added this year, we will have that square feet available for the entire period in FY14 plus the maturity should slightly improved. The revenue guidance seems a bit muted so just wanted to understand that?

Bhaskar Bhat We have not given any guidance.

Hiral Desai I mean the basically just trying to mirror the FY13 numbers, so just trying to understand if the….

Bhaskar Bhat What you are saying is 14% growth of top line in Jewellery business is not adequate or rather the growth in the square feet, it higher than the growth in the top line.

Hiral Desai So the question really was what is the likely scenario in FY14, what I was trying to understand.

Bhaskar Bhat Well Venkat will go into more detail, I think just looking at one year and the next year, is not the right thing to do, we are building a longer term asset in this category. So as Venkat said the 100,000 square feet that is going to be built this year, will depend on the right location, the new potential town, etc., and when we find it, we will go. Now see it may be 120,000 sq ft, it may be at 80,000 sq.ft so that really we not calibrating on a like-to-like basis.

C K Venkataraman So a store which was designed to deliver let say a Rs 50 crores sale in the first year in normal conditions, may deliver Rs 40 crores, which is quite good. A shopper stop kind of store 20,000-25,000 square feet delivers Rs 40 crores after two years. While our 5,000 square feet doing the same thing in depressed condition is quite good.

Bhaskar Bhat And that Rs 40 crores is going to go to Rs 100-150 crores in period of time. So that's a long term play.

C K Venkataraman And because we have a shared risk approach in our business model where lot of franchises come in, so that instead of him selling Rs 50cr or Rs40cr, so in a way the depressed profit is being shared by not only Titan Industries but another person, so to that extent, the scale advantage of that extra Rs 40cr kicks in even though Rs 50cr did not kick in Rs 40cr kicked in.

Hiral Desai And on a slightly longer term basis, not looking really at FY14 over say next three to five years, is that 10-15% kind of square feet addition each year at the end, so I am not really worried about what happens in FY14, but let say in FY17, would be able to add 10-15% sq, ft on a CAGR basis?

C K Venkataraman You are talking about the Jewellery business>

Hiral Desai Yes the Jewellery business.

C K Venkataraman But without keeping I think see one of the thing that we are getting a little caught into is a square feet, but let me answer it more from a number of stores point of view. It is little more concrete than the square feet because one of things that we are also, as we keep expanding, calibrating on the actual square feet required and all that and since many of our new expansion can come more from new small towns. So I would say certainly some 10-15% in terms of number of stores.

Hiral Desai Okay, sir the last one was really on the e-commerce side, just wanted to get your thoughts on that because for a retailer of our size that could be a huge opportunity and I think till very recently the approach on e-commerce seem pretty scattered. So any thought on e-commerce and how you would like to scale that up.

Bhaskar Bhat Well I can't say anything about scaling up, I think this is another investment for the future, so we have now got a unified commerce approach in the company and what you said yes it was scattered and Jewellery had started off earlier, Watches is doing its own bit. Now it's all are coming under one roof and therefore it's a new channel of sale. When will it hit Rs 100 crores or Rs 200 crores, the way the e-commerce is going to grow in this country, but it's a important initiative. To that extend, I mean we have invested in this

Hiral Desai It was slightly longer prospective, wouldn't e-commerce be more profitable for the company on an overall basis versus the current store expansion module?

Bhaskar Bhat No this category is not going to have a huge contribution from e-commerce whether may be watches it to some extend and there also touch and feel is important. Certainly, Jewellery and eye wear etc that you can't do any thing at all except for testing of eye which we anyway have internet online eye testing as an option, but there is an emotional payoff in Jewellery, people want to come 30-45 minutes in the store where they get their friends to see it or mother, daughter, etc., so it's a very different experience, yes e-commerce is important when its probably comes to gift thing, but even gifting is more you don't have the time, you want to quickly click, browse and click and ask them to send to somebody you don't know but you still love when all that rakhi, etc.

Hiral Desai Sir lastly within the Watches business, just wanted to understand what is the overall import component out of the total Watches cost?

Bhaskar Bhat Around 45% of the material cost

Moderator Thank you. The next question is from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

Siddharth Bhattacharya I just wanted to know a bit more about your Jewellery business in terms of how is diamond sourcing done and how is the valuation done. Is there short of a benchmark that is looked at while purchasing and while selling to customers? Also if you could tell me the inventory of diamond on a balance sheet as of now.

C K Venkataraman We buy diamonds mostly from people called site holders, who are selling agents of the large diamond companies like DeBeers, Rio Tinto, etc., so we have running relationship with them over years and we buy diamonds from them on the basis of our requirement.

Siddharth Bhattacharya Okay. And I mean how was diamond pricing done effectively because there would be a cost attached to it?

Siddharth Bhattacharya No I meant to ask is there a benchmark price to which like in the case of gold?

C K Venkataraman Diamond prices are not transparent. We buy it at X and sell it at Y and we decide that X to Yand we make sure that the X is among the lowest in India if not the lowest.

Siddharth Bhattacharya Okay so it is basically based on negotiation and your relationship with the suppliers over a period of time?

C K Venkataraman But we have other parallel means of price discovery, which confirms to us the prices that which you are buying are the best price.

Siddharth Bhattacharya Okay, also if you could help me with the inventory

C K Venkataraman No we wouldn't like to help you. We would not like to share that.

Siddharth Bhattacharya Okay. Also I have small question on the leasing mechanism that you have for gold, what is the amount of bank guarantee that is given and what is the rate that is charged by the bank?

S Subramaniam We don't share all that. We don't get into nitty-gritty particularly on an earning conference call.

Moderator Thank you. The next question is from the line of Ronak Agarwal from Catamaran Capital. Please go ahead.

Ronak Agarwal Hello sir, thank you for this opportunity. Two questions, of the total Jewellery sales in FY13, can we get the breakup between Tanishq and Gold Plus? And second what is the strategy on Gold Plus going forward, especially when you entered into Tier-II and Tier-III where there is regional competition, how is the customer reacting?

C K Venkataraman It is about little less than 10%, the whole share of Gold Plus of the total Jewellery business.

Ronak Agarwal So out of Rs 8,100 crore, 10% is Gold Plus?

C K Venkataraman Point number two is that Gold Plus was created for a small town India way back in 2005 and we have little while back recently concluded that the playing field for Gold Plus will be essentially small town South India. And Tanishq will play in the rest of the country.

Ronak Agarwal Do you plan to add more Gold Plus stores in South India?

C K Venkataraman There are 4-5 planned**.**

Ronak Agarwal And sir one more question in North India when you are expanding and your regional competitors also are expanding their footprint, so what is customer acceptability of Tanishq versus a regional brand, just a qualitative feedback.

Bhaskar Bhat Well I think before C K Venkataraman answers this question, in fact the phenomenal was much more prominent and intense in the South. If anything we have learnt from the South, and also brand awareness and the desire to own branded product is much higher in the North than in the South, so I suspect that our competitive edge in the North would be much better in terms of brand preference than in the South and we have done quit well in the South, so may be C K Venkataraman you can ahead to that.

C K Venkataraman Tanishq is always being more about diamond Jewellery than about gold. And North and West India are more about studded products than about gold. So Tanishq has got a natural advantage in North in towns like Hisar and Kota and Bilaspur and Patna, Allahabad, we are doing exceptionally well.

Ronak Agarwal I mean when you say customer growth of 7% year-on-year, is there a number of transaction, I mean how do you define this?

C K Venkataraman We also have customer tracking mechanisms to see how many unique customer there, but I mean this is anyway if one customer came 10 times in this context he is treated as 10 customers.

Ronak Agarwal This is essentially the number of invoices in a way.

C K Venkataraman Yes.

Moderator Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain Hi good evening everybody, my question is actually with respect to like-to-like growth, so you have a like-to-like growth of around 8% while you have added lot of stores in the last two years which may be having higher like-to-like growth in mature stores could be even close to zero as of now?

C K Venkataraman It is very difficult to comment like this, it is possible that growth for some mature stores are zero or even minus quite possible given the total growth is 8%, but that's may not be anything necessarily to whose the maturity as opposed to the nature of the market, like South India has been generally depressed for many categories given the nature of the customer, more middle class nature, most saving oriented mind set, etc., so a new store in a Chennai may not have done so well, but a old store in Delhi may have done better so its not just maturity, but also the market.

Puneet Jain Okay, also if I look at last two quarters data, your like-to-like growth is similar, but your revenue growth is actually very different 27% in 3Q for Jewellery and around 17%, will it mean that franchisee is what more in 3Q compare to 4Q?

Bhaskar Bhat Possibly.

C K Venkataraman I mean the L3 is possible, I don't have an answer on that, but Yes.

Puneet Jain Will it mean that some of the franchisees were buying because they thought that gold prices may rise or custom duty may increase and typically what is the hedging policy of a franchisee?

C K Venkataraman Yes. Many of them hedged, some of them chose not to hedge, but we go with the flow. Like those who chose not to hedge made a lot of money in the last five years, and lost a little of that as we see, but many of them are hedged, actually it is not a material issue in the net work at all, just a gold price related and as to the earlier question, it is not so much buying in advance in anticipation of the gold rate related as much as they try to match purchase and sales as much as possible to minimize their risk. It is more to do the season shifting that would have happened in Q3-Q2 of FY12 and FY13 that would have shown an increase in Q3 of FY13 because of franchise is buying more than they sold in Q3.

Puneet Jain Sir you don't think that gold price drop can have any negative impact on franchisees who are not hedged?

C K Venkataraman You know they do but, finally you will have to see over five year I made tonnes of money and in April I lost a few kgs worth of money so I will see it as a total rather than current so if I make Rs 1.5-2 crores in the last five years and lost Rs 20 lakhs in April still I made Rs 1.7 crores in the last five year only.

Moderator Thank you sir, the next question is from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh I just wanted to clarify on the regularity issues, now the current today's RBI thing we have seen that you currently take gold on loan basis, now the Rao Committee report as far as I can understand from the report import of gold on loan basis only meant for exports etc and it clearly said that most of the gold is on the consignment basis, so can you just be given that the nature of the subject can you give a little more details on this that how is the gold on loan basis and not on consignment basis?

C K Venkataraman It says that the consignment route is used by most of the people in the industry. And they want to restrict the consignment route to exporters. We are buying through the gold on loan route.

Sanjay Singh Yes but the original February '13 document of Rao Committee, it says gold can be imported in three ways and in the import of gold on loan basis, it says for export of the Jewellery by use in units in SEZ and the maximum tenure is 270 days, so it essentially just from what I can understand it is only for people who export Jewellery.

Bhaskar Bhat No that is not, we are waiting for that detail that our interpretation is…

C K Venkataraman And Sanjay just like 45 minutes back I had a chat with a bank it has gone through this and pending that one month in the end whatever notification is supposed to come, but hopefully it is just a confirmation of what they told us. What they have told us is that Titan Industries is not covered because its meant for the consignment part of it and we are not in the consignment.

Sanjay Singh Okay so basically any guy who buys bullion traded, etc., buys on them they will get effected that's what you are saying?

Bhaskar Bhat Wherever end user of purchaser's name is already known before the transaction.

S Subramaniam Sanjay our understanding is that banks cannot buy it on a consignment and give it to any of us other than to export us right so, banks can buy for us on gold on lease basis, there is no problem there, I don't think it affects us, that's our interpretation based on our discussions.

Bhaskar Bhat And it make sense because it connects with the problem that they want to solve, which is you get it in and then you speculate is make it into coins or bars or whatever depending rather than Jewellery where the value addition is very low and therefore, it is really gold getting into the financial system rather than into Jewellery and the utility item. I think that is the basis of this thinking, so Titan Jewellery shouldn't get affected because we convert all of it into Jewellery.

Sanjay Singh So do you think this will reduce our demand of gold in the country?

C K Venkataraman Not by the Jewellery industry.

Bhaskar Bhat Jewellery will not reduce, imports of gold will reduce. Yes that is point.

C K Venkataraman See they want to curb the import of gold, that is affecting the CAD.

Sanjay Singh Yes so if are importing around 800-900 tonnes of gold?

C K Venkataraman Then it becomes 500 tonnes.

Sanjay Singh Do you think it will become 500 tonnes?

C K Venkataraman No I have no idea. They want to make it 500.

Sanjay Singh Because it is a very important fact, because it will not only affect the Jewellery industry in a positive way, but it will also affect probably the whole country in a very positive way.

Bhaskar Bhat Let us hope it happens.

Sanjay Singh Okay, now second part is on the KYC norm, there were some clarification in, I am not too sure in the parliament or something, on a questionnaire, so what is your latest take on that is it possible, not possible where are we in this particular?

Bhaskar Bhat Hopefully nothing has happened.

C K Venkataraman In fact that clarification looks like good news for us.

C K Venkataraman Yes it looks like that, but the last thing was that the working group has met the gem and Jewellery federation representative group, and they have said that we would like to meet with your group later on to understand the ramification and then accordingly frame the actual rule, they are not called. So this whole thing is going to slightly slow kind of route and we are not stressing too much on it.

Sanjay Singh Okay and in terms of lets assume the limits stays at 5 lakhs, just for a hypothesis sake, how does it affect you with the limits is 5 lakhs?

Bhaskar Bhat It does not effect.

Sanjay Singh And lastly there was some discussion that you are having with the Finance Ministry or RBI basically on the direct import route to allow you to go back to 180 days, what is the progress on that?

C K Venkataraman No progress.

Sanjay Singh Shall we take it that it is not possible again.

C K Venkataraman We don’t know, but we are importing.

Sanjay Singh I mean is it yes or no, or is it still hanging?

Bhaskar Bhat It is not a no.

Moderator Thank you. The next question is from the line of Gautam Duggad from Motilal Oswal. Please go ahead.

Gautam Duggad I have two questions on Jewellery, one on the Jewellery grammage growth for the quarter and the full year and second on the RBI working groups recommendation on the Jewellery lease rate, anything progressed on that or the status quo remains?

C K Venkataraman The working group put back its recommendation to the RBI management, but it is sitting there.

Bhaskar Bhat In fact today's notification is an outcome of that, so there is nothing much other than that what we heard today.

Gautam Duggad So is it safe to assume that this early?

Bhaskar Bhat We cannot comment on safe to assume nothing else will change, we don't know.

Gautam Duggad And the gramage growth for the quarter end of full year in Jewellery if you could?

Bhaskar Bhat For the quarter, grammage growth was around 9% and the full year was a low single digit figure

Moderator Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel Sir my first question is could you share the quantum of the custom duty benefit which you had this quarter?

S Subramaniam No, we can't share that.

Ankit Babel Okay and sir you also mentioned that margin improvement is a continuous endeavor for the company and the main driver would be volume and mix, now we already have a more than 30% share of studded Jewellery and we plan it to take it to 40%, so can we see a margin improvement for the next three to four years from here on?

C K Venkataraman If you see the last three to four years that's what will happen.

Ankit Babel Yes so can it continue?

C K Venkataraman We would certainly try to do that.

Bhaskar Bhat If you see the problem is the unpredictability of the gold price, okay and that has the bearing on the mix like the April phenomenon so the objective of improving the margin continues, therefore efforts to increase the sale of diamond Jewellery is what Venkat explain. In that process, if gold Jewellery also goes up, obviously the mix gets affected. Yes the quantum margin goes up, so the amount of profit with a very good ROCE is than the high margin with the low ROCE let us say quantum of profit is what we distribute as dividend.

Ankit Babel Let me frame it in other way, is it possible to improve your margins in your gold Jewellery, so whatever be the mix forget about that, but if you have a…

Bhaskar Bhat Even there we have been improving.

C K Venkataraman I think the gross margin in the gold Jewellery business there is a very little score to improve. The EBIT margin in the gold Jewellery business we can certainly improve because of the leverage. And if every month is like April 2013 the EBIT margin is fantastic in gold business.

Ankit Babel See as an investor, we would always love to see at least 20-25% growth in bottom line for next three to four years, now whether it is on account of merely growth in the top-line or an account of margin, is that depends upon the market condition, but as an investor, can we be assured of say about 20% growth not this year but considering the kind of expansions which you are doing and you have future plans at least for three to four years down the line?

Bhaskar Bhat Look our endeavor all the time is to certainly grow the bottom and top line by over 20-25% that has been and we have done that over the last several years. There are years are like this year when the top line is much lower than the bottom line growth and margin has improved, so I think the effort of growing the business profitably is only way to describe this effort and making it a very large business. And this is for the company if you take the Jewellery business separately, I just explained that some year you may get extraordinarily top line growth because of the price of the gold, but in every year the margin growth which came along with it because of the quantum. If you take the Rs 725 crores profit that we have shown in this year for example without infusion any capital in the last several years and the dividend payout ratio remains the same, it is very good new for the investors. If Rs 700 crores goes to Rs 800, takes 30% of that, you will get one number which is the better, so to that extent I mean at 30% payout that is what you should be probably be happy with that the quantum of the profit grow and grows well.

Ankit Babel So sir we shouldn't be worried about the high base which has been created in this year on account of high margins in the Jewellery business?

Bhaskar Bhat No we are not worried, if you expect that kind of return, you should be worried.

Ankit Babel And sir last quarter you mentioned that your Watches division, your margins have bottomed out, but this quarter also they have fallen, and you mentioned that you will reach the historical levels of 14% in the new few quarters, so that still maintains?

H G Raghunath It is out effort in the endeavor and as always and the reason for this margin fall also has been explained in the earlier conversation.

Ankit Babel So all the things are actually getting reverse so is it possible in the next few quarters, if three to four quarter also margins reaching back to the 14-15% historical level?

H G Raghunath It is difficult to say in which quarter it will be achieved that it is our journey. We have to be back to good margins. All the efforts in the Watch division will be come back to good margin that we still…..

Moderator Thank you. The last question will be from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala I just want to know about the growth in the Jewellery's square footage?

C K Venkataraman After adding close to 150,000 sq.ft in FY13, and including the spillover of the 200,000 sq.ft target that we had for FY13, we are going to be adding close to 100,000 sq.ft in FY14 and a good part of that is going to come in new towns so that we are not potentially cannibalizing stores in a depressed market condition and existing cities. And the other thing was we would be adding between 10-15% of the number of stores in the near future as opposed to square feet.

Rakesh Jhunjhunwala When is board going to raise your percentage of dividend payment?

Rakesh Jhunjhunwala I don't think there are more than 15-20 companies whose return on capital employed consistently about 25%. Return on capital employed being high means they don't need fresh capital for growth. That's why they have high payout ratio, but your gross block has increased by Rs 100 crores, working capital is being finance by the bank through the lease so then why should Titan not make it payout ratio of 50%

Bhaskar Bhat It's a good question, but I think there are large shareholders sitting who also want dividend there and they are also not greedy.

Rakesh Jhunjhunwala Right anyway even I think if you can do research if you want I will do it for you, in any company which is having your return on capital employed of more than 25%-30% is constantly paying out 40-50%.

Bhaskar Bhat No I understand Rakesh, let us give you one perspective on this, see I am not saying may be 30% should have gone 35% that's a debatable point and your points about high return in net worth, etc., is valid, the only thing is there is a huge dependence on

Jewellery today and Jewellery is being going through turmoil because of regulatory reasons.

Rakesh Jhunjhunwala So I think today evening and today morning, in May 31st, the whole regulatory thing will be clarified because of the Rs 50,000 issue is not notified, the Reserve Bank has whatever part you want to accept the committee report has been accepted. Mr. Chidambaram has said clearly they are not going to raise import duty further, so after this I don't know I myself was very afraid of regulatory matter, but the question don't you think now the regulatory thing is coming to an end. In this country you cannot stop import of gold otherwise there will be smuggling.

Bhaskar Bhat I agree with you, but coming to end the next government may have another view on this subject and the gold is still funding, there is a lot of black money sitting in the gold business plus gold is a global commodity so that uncertainty is always there.

Rakesh Jhunjhunwala Things are clarified and see if India's current account deficit comes down then there is no question or there being any problem, so what I am saying is okay then next year you raise it fair enough. After the clarity comes in then you raise that's a fair point.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to handover the floor back to Mr. Sameer Deshmukh.

Sameer Deshmukh Thank you. On behalf of Tata Securities I thank all the participants and the Management Team of Titan for this call, thank you sir.

Moderator On behalf of Tata Securities that concludes this conference. Thank you for joining us and you many now disconnect your lines.