"Titan Company Limited Q4 FY'16 Results Conference Call"

May 6, 2016

Management: **Mr. Bhaskar Bhat – Managing Director**
Mr. S. Subramaniam – CFO
Mr. C. K. Venkataraman – CEO – Jewellery Division
Mr. S. Ravi Kant – CEO- Watches Division
Mr. Ronnie Talati- CEO – Eye Wear Division

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Titan Company Limited Q4 FY'16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Subramaniam from Titan Company Limited. Thank you and over to you, sir.

S. Subramaniam: Hi! Good Evening to all of you. Welcome to the Earnings Call. We will start off as usual with Bhaskar Bhat – our M.D., taking you through brief presentation and after which we will be open to Questions. Go ahead, Bhaskar.

Bhaskar Bhat: Good Evening. As usual, I think you would have seen the accounts for the year but we want to start with a significant event we have uploaded which is the board has decided to acquire a majority stake in "Carat Lane Trading" which is the brand "Carat Lane" which is an Online Jewellery business which has been around for 7-years. We believe it is a perfect complement to the brick-and-mortar business plus online that we have, but this aligns with our future and future of Indian marketing to some extent. This company has strengths across the value chain in design manufacturing, marketing, technology and its technology which is managed in-house. The most important part about this company is its ability to lure a Jewellery customer in the online space and most importantly it is not a marketplace, it is a vertical, it is the place in the Jewellery category and the entrepreneur himself comes from the Jewellery background and he is a jeweler himself. Of course, the add on to that is the technology that he brings to the table, it has got an exceptionally talented team of young technologists as well as it has its own manufacturing facility. But, the big opportunity for Titan that we see for the Jewellery business is the omni channel play that we have been talking about and for Carat Lane, the ability to quickly roll out their brick-and-mortar stores and for Titan to take advantage of the superior online presence that they have and the experience that they have. Of course, there is a whole new customer profile that comes into our portfolio. It is an exciting brand and business model and as I said capability in the e-Commerce space.

The Q4 performance has been disappointing primarily because of several reasons – one of them being the strike in the Jewellery business which led to a loss of sale, and the others which are the revised PAN card limits, etc., have been affecting the business as well.

We also announced VRS Scheme for employees, but that was not in Q4 but in April. The financial impact of this will be known only after we close the scheme but this is essentially for improving productivity. Of course, our network expansion continues.

In the Jewelry business, as I said, strike affected us and the business however has improved its gross margin – thanks to two things – despite the drop in Making Charges in the earlier part of the year, the GHS discounts we saved on in the first 8-months of the year, but overall the margin has improved quite significantly but the drop in profit is essentially on account of the drop in sale.

Brand health metrics or the brand have of course improved. Also, our buying has been smarter; the proportion of Gold purchase on spot Vs lease approximately 45%, 55%, of course we are always open whichever is the more profitable one we do. Gold rate has declined 3% in dollar terms but increased 4% in rupee terms due to the appreciation of the dollar in the quarter and traction on GHS enrolments is very healthy.

In Watches, this division had a significant sales decline on account of advancement of the Titan End of Season Sale to 15th in December…previous quarter that is. But I am happy to tell you that the premiumization journeys continuing to yield good results with growth rates in the above 10,000 at 28% in Q4. We have taken steps to consolidate our large format store business and of course the biggest news was the launch of JUXT in Q4, its sell out rate is very good and the reviews from technology buzz has been quite good. We are quite surprised and of course very-very bullish.

The Eyewear division has seen signs of recovery and has clocked sales growth of 9% in that quarter and store expansion has continued.

Precision Engineering continue to face headwinds especially in the Automation business due to now international competition having coming in and underbidding us in several companies and of course some postponement of uptake by customers.

Same-store growth you can see has been negative for various reasons in each of the businesses, the reason is different, but we are looking forward to Q1 in a very positive way especially the Jewellery business with everything behind us now.

You can see here indication of the Category Watches is Helios which has seen a same-store growth of 15% which means the category Watches are still very healthy, growing. It is only the shift in price points and brands that we need to handle.

S. Subramaniam: The quarter had 1.5% decline on top line, on the PBT line of course the decline was much higher of 21% and in terms of the top line the decline was largely in the Watch division, for the quarter we marginally grew by a per cent but Watch division had declined and that is largely because we had advanced the activation to the previous quarter. On PAT basis, the decline as you see is not significant and that is because the tax rates were significantly lower than what we had planned and that is because the revenues coming on the tax free zones. We have actually gone into the MAT territory this year which is why the PAT is better than what it would otherwise have been. So on YTD basis, it is a 5% decline, 18% decline on PBT and 14% on PAT.

Watches: Disappointing quarter for two reasons – one is that the activation was advanced to the previous quarter, the second was the change in the promotion as such also, we in the previous year flat activation, which means Watches would go at 15-20% flat for all Watches, this year we made it more of an end of season sale, graded activation which means that we are only trying to put out Watches if they are slow moving into the activation and therefore that would have an impact. But what it has done is that the inventory levels are much better now, because we have been able to take out the older stocks. So this is part of our in a way cleaning process there. Profits also, the reason why the event drop is substantial is because we had a lot of one-time things that we accounted for in this quarter, for example, we had VRS in a subsidiary TTPL which manufactures ECB for the division and then we also had other provisions relating to the LFS channel, the large format channels, somewhere where we wanted to rationalize in terms of profitability, those which are not doing well, we closed down a lot of the stores which are not okay and therefore this is part of what we discussed even in the March conference where we said we are going to relook at cost base and for the next couple of years we are going to try and revamp the business and make it grow faster than possibly the way we have been doing so far. So, I think this is in line with that. Therefore, the big hit has been on the PBT and therefore for the year as well we have managed to grow 2% on top line and one of the factors here is that since we vacated the Rs.1500-2500 price point on Titan and Sonata was not able to do that, I think the growth has been muted. So we have lost a lot of sale in that price point, but we gained substantially as explained earlier on the Q4. PBIT of course ended up with 18% decline at Rs.169 crores. Jewellery grew 1%. We expect it to be far better but that is because as we mentioned earlier March was a very poor month… maybe Venkat will talk about that later in greater detail of what happened actually, but it was a pretty poor month.

On the margin front, we still manage to do quite well; gross margins were very good and even at the PBIT level we did something like 11-11.5% margins. So that is outstanding on that. Despite 20 grows FIFO the accounting inventory loss that we have to take this quarter, which will come in immediately in the month of April itself. So that was the quarter results.

For the year as a whole we had (-8%), we could not make up in Q4 as we had expected, so we ended up with 16% decline in PBIT.

Eyewear did well, good quarter; 9% growth; PBIT also grew quite well, margins are quite healthy. So hopefully we are seeing clearly recovery in the business. On YTD basis the growth has been 12%. PBIT of course a little lower, that is largely because of higher advertising promotion spend in the first quarter, otherwise I think the business is back on track.

On the other segments, the growth is minimal and that is Precision Engineering division did not do much; they just grew (+0.25%), so there has been softening there. PBIT for the quarter the loss was lower and so was for the year as a whole at (-35).

I think we can now open the floor for Questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on the Watch business. Sales declined by 13%. Why did we shift from the graded activation? Flat activation did not seem to work. A follow up on this is JUXT was launched, that does not seem to have much of an impact on the headline numbers, but upwards of 10,000 has 28% growth. So was most of that because of JUXT?

S. Subramaniam: No, that was not necessarily only because of JUXT. The first question was "why did we do a graded activation as against flat activation." Flat activation means that all products are discounted at the same rate and therefore even fast sellers, the new introductions, etc., are discounted initially. That would not be the ideal way to do it. As we also had more than desired inventory levels, we wanted to get down the stocks of slow moving watches substantially and I think that was the main reason why we did it. We realize that as an activation it is not going to be giving us the same revenues that would otherwise have accrued, but it was more about cleaning up the inventory and bringing down that level. So it was a conscious call even though we do come out with the lower revenue. As far as the JUXT is concerned, you are right, yes, it has done a lot of good to the brand as we can see now, but it is not going to be a large number. Ravi, you can answer the question was on why we did graded activation as against flat, so I just explain to that, you can add to that. Similarly, JUXT is still going to be small.

S. Ravi Kant: The reason for shifting to graded activation is that first, we want to bringing down our payouts and not unnecessarily discounting products which we will sell at the normal price and given that we are in some sense in the Fashion space there are Watches which over a period of time becomes low moving and we want to use the opportunity of activation for clearing out slow moving stocks which is why we moved away from flat activation. So it does have bearing on volumes and the quantity we sell, but it will certainly help us in improving our margin. So that was on the logic for shifting to graded activation. JUXT the response is I think better than what we had expected and if we go by numbers that we hear about other brands who have launched smart watches, I think we have done better than that. The objective of launching JUXT is also not to garner large volumes but also to create excitement around brand and that I think purpose has been achieved by JUXT because there is a lot of buzz among consumers, the store staff are saying that the consumers are now coming and saying, "Okay, Titan has come out with something new." Worldwide you can see there is a lot of coverage which people are exposed to about many brands including Swiss brands launching their version of the smart watch apart from many new entrants who are not from the watch business getting into this category, all the mobile phone players. It is certainly serving its purpose and we are now working on our next version of JUXT and very soon you will hear something about that.

Abneesh Roy: Two follow-ups on this; so graded activation will not happen again because you said some slow moving items were there, so, you offered more discount on those, is that understanding correct?

S. Ravi Kant: No, what I was saying is that we are in fact likely to use graded activations only in the future because over a period of time the rate and pace at which we have to keep introducing new models that will always be the earlier models and earlier versions which become slow moving over a period of time because we have such a large network of 8,000 dealers and 600-odd showrooms. So the need for graded activation will also be there and that is what we want to do. It was not a one-time fair of sorts.

Abneesh Roy: This VRS Rs.21 crores, any tax deductibility and your closure of some of the large format stores, obviously that did impact margins, so if you could quantify and that impact sales also?

S. Subramaniam: I do not think there is an issue on tax here in all the cases, they are deductible and this VRS is actually another company the reimbursement that we are making, so we do not see any issue with that. Regarding margins, this is more of a one-time hit this quarter because of these issues – VRS and the LHS stock provisions, etc., that we made. So hopefully, we should start getting back to our margins from Q1 onwards.

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

Avi Mehta: One, on the Jewellery business, if you could please help quantify, is there any inventory gain given that Gold prices have moved up…mark-to-market gain as to say? Second, is the Rs.31 crores be entire hedging gains for the year now and if that is the case I wanted to understand it seems that the number was a little low, so if you could help explain that?

S. Subramaniam: Avi, Rs.31 crores is the hedging gain that we have, remember last year we had something like Rs.54 crores for the same quarter, I think this is in comparison to that. What we did not expect is this Rs.20 crores hit that we had and that has largely come out of the fact that our sales were significantly lower. So the inventory which should have got consumed before 6-months had to get rolled over. Because of the rollover we actually ended up with an inventory loss and that is this Rs.20 crores. This Rs.20 crores comes back immediately on sales. So while Gold is hedged, we have to value on three-four basis and the rate was lower than the hedge rate which is why this Rs.20 crores hit has happened now.

Avi Mehta: So you are saying that gold price decline happened over a period of time because of which the inventory got revalued at a lower value than what was the hedge value and that is what is the hit?

S. Subramaniam: Yes.

Avi Mehta: This has not yet been sold, so the sale has happened in the first…?

S. Subramaniam: Yes, it is happening and you will get back this Rs.20 crores in April.

Avi Mehta: Rs.31 crores Versus Rs.53 crores, why is that happening because I thought the hedging is actually…?

S. Subramaniam: This is the gold where we buy on premium. If we remember, when we buy gold on premium on spot and we hedge in the international market, that is totally different, that is the gains on that.

Avi Mehta: No, I was comparing Rs.31 crores with the Rs.54 crores last year when the amount hedge should have increased is what my understanding is.

S. Subramaniam: No, because last year we had bought a lot on spot at that point in time and there were also some inventory gains in the Rs.54 crores which was like this Rs.20 crores shift from one quarter to another.

Avi Mehta: One follow up is on the Watch. If you could quantify the LHS impact, because you have given the impact of Rs.21 crores because of the VRS, the LHS…?

S. Subramaniam: No, Rs.21 crores was all of them put together, not just the VRS.

Avi Mehta: So this margin was 6.7%, so you should see this kind of moving back to the 12-13% levels?

S. Subramaniam: Yes, we should start seeing those margins, that is right.

Avi Mehta: If I look at the PBIT margins in the Jewellery segment, the reduction in financial cost still the hit on EBIT is actually much higher on a year-on-year basis. I am just not clear on why the inventory level losses or the hedging gains is not coming through and in that context the next year Jewellery margins should we still assume 9-10% are you still confident on that or is it 10-11% now, I am just trying to kind of clarify that part?

C. K. Venkataraman: In the conference that we had end of March, we said that we are going to focus on sales growth while maintaining the margin level of the Jewellery business and that view still stands.

Avi Mehta: When you say maintain it, adjusted margins, right, because there are some one-offs?

C. K. Venkataraman: For example, the rollover thing that Subbu spoke about was not sort of anticipated when we made at that time. Those are correcting factors will anyway continuing to keep happening in the Jewellery business.

Avi Mehta: But otherwise this year number we should kind of be able to at least sustain that?

C. K. Venkataraman: Yes, exit quarter you can take.

Moderator: Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: One, if you could quantify the positive impact of GHS and the estimated negative because of PAN, basically GHS redemptions which would have helped you positively the revenue and the estimation in terms of what you can share how PAN has impacted? Second one, if you could just talk a little bit about the underlying demand conditions in Jewellery at this point in time, particularly in the context of a comment made by you in March about new collections, etc., being a focus in 1H this year which is the April to September?

C. K. Venkataraman: On the first one, we got the sale of about Rs.350 crores from Golden Harvest in Q4. We do not know that much of a firm grip on the negative on the PAN card because it is quite complex to actually figure out but for all of you to get a sense of the actual growth, we advanced the activation from when we normally start January to the last week of December because of the PAN becoming effective from 1st of January and so you look at the H2 sales growth rather than the Q4 only for that purpose. If I correct the sales loss that we ended up having in March because of the strike, the corrected sales growth for H2 works out to something like close to 17% which is pretty decent whereas the Q4 itself will not show that, it is just showing 1%. Maybe we would have done 20% growth if the PAN had not come in, that would be my sense. So that is my answer to your first question. As far as April is concerned, we are running very much to the plan that we shared in March. All those factors which we shared were central to our growth strategy for '16-17 are actually running to that our expectation, so far so good.

Manoj Menon: The question was that anything which you could talk about the underlying demand conditions or is it just way to volatile because we have just only been 50 indices after the strike was over, so how do I…?

C. K. Venkataraman: No, the strike has virtually disappeared in the month of April. While it was technically there, in reality it was a shadow of what it was in March. So the strike itself has not had an impact in April. Like we said we hit the ground running with our collections launch of Niloufer which the Diamond Jewellery collection in the first week of April which has done exceptionally well and it is driving our overall sales and studded sales growth in the quarter. Therefore, the kind of targets that we have for the quarter, we are on track on that as we speak.

Moderator: Thank you. The next question is from the line of Nilay Shah from Morgan Stanley. Please go ahead.

Nilay Shah: My first question is on Carat Lane Acquisition. You spoke about one benefit for Carat Lane being quickly rolling out their brick and mortar stores. Does that mean that Carat

Lane brands will be available in Tanishq stores? Could you discuss a little bit on how the technology is going to help you and whether the existing promoters of Carat Lane will have independent charge of tech and how is that going to PAN out?

Bhaskar Bhat: The company we are retaining as it is and of course with the engagement from us both from the board side and from our employee side, but the essential part of let us say the relationship will be to let it run as it is right now with charting out their own destiny which they were anyway doing which is rolling out brick and mortar store. The only big advantage that company will have which is now our company in a way is in rapidly rolling out those stores, that is the advantage to Carat Lane. The point I was talking about from our side was the exceptional online technology that they have established and the relationship that they have established, this is the new. Now, the Carat Lane stores would carry some of our brand but not Tanishq, it would be Mia and so on. Venkat would add to that.

C. K. Venkataraman: Some of those strategic aspects are at the moment we would not like to actually share. Today is just the first step that a big decision the company has taken and I think we will come to you by with how we are likely to operationalize this partnership.

Nilay Shah: Venkat, the guidance which you had given at the "Analyst Meet" for Jewellery business growth for fiscal '17, you had said without taking into impact, if at all any gold price increase, but does it also factor in the very weak 4Q that was expected given the strike?

C. K. Venkataraman:: No, because we cannot recover what was lost in the strike period in any case. The planning for FY'17 which was done in let us say sometime in January of FY'16 would have not considered a strike if it had not happened in any case.

Nilay Shah: So the growth for fiscal '17 should now be higher than…?

C. K. Venkataraman: It would be technically higher to the extent you subtract Rs.200 crores from the denominator, yes.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Sir, one question very quickly on Jewellery. Bhaskar made a comment that 1Q start has been very good and you at least are very hopeful. So can you really talk about what sort of trend that you see in 1Q and how should see the year, are you really seeing some demand turning out or is just a base effect?

C. K. Venkataraman:: Multiple factors. We had spoken about the strength of the brand steadily rising, we spoke about the customer sentiment improving especially in those relatively affluent segments that Tanishq brand targets, we spoke about the advanced execution of go-to-market strategies like collection launches in H1 itself, in fact in the first week of April as opposed to little later last year and of course the Golden Harvest thinking in a much bigger way. All those factors are playing out as we spoke and our guidance remains in terms of between 15% and 20% I think the sales growth that we are gunning for the year, April is running to that track.

Amit Sachdeva: Secondly, very quickly on Watches, when you say that this was predominantly impacted by end of season sales being brought forward December. But if you look at the last quarter number was not very encouraging even if it led to substantial decline in number, but it did not reflect in the 4Q being so great as well. So is it like demand is really weak at the mid and low end and maybe some impact from vacating the price points? How do we see the year…would you have some number for the year that you are targeting for Watches and what sort of margins you expect and how the business will PAN out given that you are confident of the premium in Watches, etc.,?

C. K. Venkataraman: You have partly answered the question by saying is the demand weak, in the sense that we track growth of the market through in-depth market research that we do. So the market itself has been growing at low single digits from what the research has thrown up. Now, the activation actually got split between Q3 and Q4. So some benefit of that went in the previous quarter and some in the last quarter. When we had the last conference, we had said that we do not expect major growth in the coming couple of years from the Watch business because there are lots of steps we need to take in terms of correcting the business model as well as investing in driving growth. Now, that will come at a cost and that will take some time. But I guess it will somewhere be in the low single digits or mid-single digits is what we are looking at for the coming year in terms of the revenues.

Amit Sachdeva: Can you tell me what is actually the customer base of Carat Lane and who are the repeat purchasers and would they be making those databases available to you for one purpose, so I am not sure what is the synergy are we targeting here with Carat Lane?

C. K. Venkataraman: Some of the details that you are asking, but the synergies that we are targeting is Carat Lane is an online e-Commerce company which is specialized in targeting those young people who are getting more and more used to buying many things online, including Jewellery and there are a lot of share of wallet shifts are happening because of that kind of behavior and Carat Lane has been growing by participating in the share of wallet for both personal and gifting purchases of low ticket fine jewellery. Titan company's Jewellery business operates in the higher ticket Fine Jewellery space and will continue to operate like this. Now, therefore, the synergy between Titan company's Jewellery division and the Carat Lane is one of complementary in nature and Titan company is sort of kick starting its inventory into what will become a reasonable size of the overall Jewellery business in the next 5-10-years by acquiring a majority stake in this company. A lot of the other details that you are asking, including the manner in which we actually partner, we will reveal at an appropriate time.

Bhaskar Bhat: Also, the point about the database, we will have over 51% and therefore it will become a subsidiary, so accepts, etc., it is a given.

Amit Sachdeva: Bhaskar, but my question is that if there is a database or at least the minority holder who owns part of that as well the intellectual property …?

Bhaskar Bhat: No-no, it belongs to the company.

Amit Sachdeva: But in terms of whether it will be available to Tanishq or Titan as an enterprise, it will be subsidiary…?

Bhaskar Bhat: Otherwise, what is the point in owning? If only part of the assets are owned, no-no, it is very clear. In any case, separately the entrepreneur himself is very happy to share the data with us

Amit Sachdeva: No, I was just trying to make a sense of it that one way is that participate in the online channel, that is a channel of future, there is some technology you get, but how really Titan and Tanishq benefit from this in explicitly?

C. K. Venkataraman: This is a portfolio aspect of it. So Tanishq personally may not benefit, but Tanishq is a brand went for a particular audience. We are talking about a Titan company acquiring a majority stake in an online company. So you have to see how Titan company benefits as opposed to Tanishq and therefore all that we will require more detail discussion on this in any case once…

Bhaskar Bhat: Just thing about it this simple way; Tanishq or Mia or Gold Plus or Zoya present in the online space is minimal. Now, with the acquisition of Carat Lane, you are getting a hold that leader in online in Jewellery is now in the Titan portfolio. What more do you want? If you look at it that way, irrespective of what it does for …

C. K. Venkataraman: So the Titan company till yesterday owned the most prestigious brick and mortar Jewellery brand in the country and once the work is complete we will own the largest online Jewellery brand in the country. So that is the sum in substance. Even we are developing our strategy and we are not ready to share with what we are clear about it as of yet.

Moderator: Thank you. The next question is from the line of Rohit Joshi from Dion Global Solutions. Please go ahead.

Rohit Joshi: My question is what was the retail addition in Tanishq particularly and what is the overall target for FY'17 in terms of Jewellery segment in the retail space you would be planning to add?

C. K. Venkataraman: We are targeting 25 stores in FY'17. The area itself maybe around the same ballpark of 100,000 for example, we just opened a very large format store in Vashi on Tuesday which I think is about 9000 -10000 sq.ft. But on average maybe 3500-4000 for the year 25 new stores only Tanishq, no Zoya, no Gold Plus. Just to dwell on it further we opened just to sort of dwell on it. We opened 5 new stores this Tuesday four days back in Mumbai.

Moderator: Thank you. The next question is from the line of Rishi Banerjee from UBS. Please go ahead.

Rishi Banerjee: My first question is regarding Titan Eye+. You were looking at going to home strategy, right. Could you please discuss how it is proceeding – is it meeting up to your expectations or what?

Ronnie Talati: We have done a pilot in Bengaluru for eye testing and home delivery. It has done very well so far. We will be during the course of this year rolling it out across the rest of India.

Rishi Banerjee: About the Precision Engineering business, is it's relevance decreasing for the overall Titan company with your now foraying into online, so becoming much more of a consumer focus company, so what is it …?

Bhaskar Bhat: No, it was a capability we had and we developed the business out of it because we have some non-performing assets, that is all in the past. We have created this new entity – Titan Engineering & Automation Limited. The purpose of creating this separate company is to park this business there and to let it grow independently and eventually in whatever manner it chooses its own destiny because there is a capability sitting there. So, that is a step we have taken. I think we are still awaiting some formalities to be completed. By June that company should be operational with its own assets which will be separated from Titan. It will be of course 100% subsidiary to begin with.

Moderator: Thank you. The next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Rishabh Chudgar: I know you do not give us a color on the gross margins in your Jewellery business. But as you mentioned in your opening remarks that there has been an improvement in your gross margins in the Jewellery business. So what has been the reason behind this improvement? Going forward do you think this is sustainable? Also, if you give a color in terms of Gold gross margins and Diamond like your Studded gross margins?

C. K. Venkataraman: No on the last part of your question to share the separate margins. On the overall point, what we have also been able to do is despite the reduction of making charges that we did on the 1st of April '15, we have been able to push up the sales of the higher making charge products simultaneously. We have the advantage of the cost of Golden Harvest plummeting sharply because of its share as well as the cost itself; that is 11 plus 1 cost was higher than what we are currently offering. So these helped us to maintain Gold Jewellery category margins at good enough levels. We have done very smart things on the Diamond side and some price procurement cost changes in the Diamond market also helped us in pushing up the Diamond Jewellery margins. So both these category margins were very handsome and together we were able to deliver like what we said and we expect to sustain those.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Just a couple of questions: Firstly, on Carat Lane will you be able to share some numbers around revenue bottom line of this company? Secondly, in terms of the current promoter or the management, you are buying a majority stake. So are they also selling part of their stake or is it mostly financial investors that are selling to you? Is there a lock in for the existing promoters to be in the business?

S. Subramaniam: Arnab, we are not going to share numbers at this stage, we are in the process of doing our due diligence, definitive documents are yet to be closed, so we will do that and as we mentioned we expect to close it by mid-June, so no numbers now, but we will obviously talk about numbers once the documentation is totally complete. On the second part, yes, we are predominantly taking the stake out of the financial investors.

The promoter stands invested significantly. There is hardly any dilution from the promoter side and therefore I think there is enough and more skin in the game as far as the promoter is concerned.

Arnab Mitra: This year the full year tax rate is I think around 19%. So what should be building for '17-18 assuming you kind of do your growth numbers?

S. Subramaniam: '17-18 the rate will be much higher because we will lose the 100% benefit in Pantnagar, so the rate should be significantly higher, we will maybe talk about it when we do the first quarter.

Arnab Mitra: But any sense on what kind of range are we talking about in terms of increase?

S. Subramaniam: It will be substantially higher; 27-28% at least.

Bhaskar Bhat: No benefits, so you have to just take it back-to-back to what where we were.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Two questions: Firstly, in terms of your Gold procurement, have you done any internal study to identify as to the more cost that you pay versus small jewelers who may not be compliant with the whole taxation chain?

C. K. Venkataraman: We have not done any calculation like that, but it is quite apparent that customs duty the smuggling that the customs duty encourages, the difference is sitting with the small jeweler who maybe buying from a source of that nature and it shows up often when the gold rate difference between some markets and Tanishq own rate is in the 5-6% range.

Prasad Deshmukh: This VRS that you just spoke about, can you give some more details as to which particular segment the employees will be rationalized and what kind of impact should we build in on the employee cost next year?

Bhaskar Bhat: That is very difficult to assess. This is almost like a golden handshake to employees. What we had mentioned earlier, essentially productivity in the company has improved – thanks to automation, etc., and therefore we need less headcount, now, many of these people have been around for 15-20-25-years and therefore the respectable departure is what we have now…How many apply? We are not forcing nor we are making a big song and dance about it, but since it was required to inform the stock exchange we have done it. Yes, there will be some saving, but it is a very generous offer that we have made. Right now we cannot share with you what exactly is the offer. When we close the scheme, we will inform you.

Prashant Deshmukh: This is across all three verticals or any specific…?

Bhaskar Bhat: It is a company VRS.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

A Ranganathan: One on the VRS, Rs.21 crores which you have mentioned. This would be in the consolidated numbers; I do not think it is reflected in the standalone numbers?

S. Subramaniam: No-no, it is not consolidated, it is the standalone because the agreement between the subsidiary and the Watch division is that the Watch division absorbs all costs of TTPL and therefore would impact the standalone numbers of the Watch division as well.

A Ranganathan: Second on Carat Lane, I know you are not talking numbers, but just want to get a sense is that, would your balance sheet be strong enough to support this or you need to take some debt for this?

S. Subramaniam: We do generate surplus cash, I mean, we may go into overdraft here and there, that is because of procurement cycle, other than that, I do not think we have an issue. So effectively we will not be borrowing for this year.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: On Carat Lane, in terms of losses is it large enough or is it minor amount here and there?

S. Subramaniam: I cannot give you numbers now, but we just want to say that this is a vertical, this is not the horizontal equivalents of the Flipkart to the world. So verticals by nature have far more consolidated business plans which talks about profitability, it is not about giving discounts here. So the business model will not be any different from it is if we were to run the business ourselves.

Bhaskar Bhat: Just to give a sense of it; typically, the verticals which are well run like this one we believe is the losses would in a steady state year before you hit a big number in terms of profits would be almost equal to that aspect, so which means the fundamental business model is very healthy.

Sanjay Singh: The gross margins should be positive, not negative, whereas the horizontals seem to be operating…

Bhaskar Bhat: Basically that they are in business or the charity.

Sanjay Singh: Carat Lane will also open separate stores?

Bhaskar Bhat: That is part of the strategy today.

C. K. Venkataraman: They already have stored and they will open more.

Moderator: Thank you. The next question is from the line of Anand Shah from Kotak Securities. Please go ahead.

Anand Shah: Any guidance on GHS for next year?

C. K. Venkataraman: We had said Rs.1400 crores in FY'17.

Anand Shah: But based on a net worth your limit would have increased right now, right?

C. K. Venkataraman: No, but this is from last year's enrolments no. Networth now going up is in FY'18.

Moderator: Thank you. The next question is from the line of Jubil Jain from PhillipCapital. Please go ahead.

Jubil Jain: I have two questions: First one, excluding the VRS Scheme, can you give us sense on how the employee expenses will move for FY'17-18?

Bhaskar Bhat: Our employee costs have always been between 7% and 8% of turnover which will remain at that level but it varies between division to division. As I said, the VRS is really longer-term investment that we are making. So employee cost remaining around 6.5% it will be. That journey keeping it between 6% and 6.5% is what we are trying to achieve. So if it is headcount reduction, meager salary increases, these are the steps that we would be taking.

Jubil Jain: I heard you have mentioned something about subtracting Rs.200 crores from the denominator to project next year sales. Was the impact Rs.200 crores because of the strike?

S. Subramaniam: Yes.

Jubil Jain: What will be the tax rate for FY'17-18?

S. Subramaniam: I think the rate is going to be much higher because we are off the 100% tax benefit in Pantnagar, I would expect it to be in the 27-28% range at least.

Moderator: Thank you. The next question is from the line of (Mihir Shah from Deutsche Bank). Please go ahead.

Manoj Menon: This is Manoj Menon here. So just a follow up on the PAN card. If I recall correctly the earlier Rs.5 lakhs implementation has resulted in demand getting impacted for about a couple of quarters or so. So how do I look at this as a template considering that Rs.2 lakhs is a much smaller number? Point #2, from a regulatory point of view, considering that the government has some implemented excise, etc., will it be fair on my part to actually comment that there is a level playing field now getting created?

Bhaskar Bhat: It is getting better, but the government cannot create, it is the behavior of the players. You are right, the effort that getting everybody under the tax net and pushing people to pay excise duty and all is continuing, but it is going to be quite a while before, but the more important part is I think at the consumer level, people are beginning to change, we are seeing people getting used to bringing the PAN card and all that. But it is a much larger problem, I do not know, there is no assessment whether this will ever become…

C. K. Venkataraman: The impact of that on FY'17 is going to be perhaps marginal, but the direction is very-very clearly advantageous to the Titan company. On the PAN card itself, Manoj, actually it becomes very-very difficult to put together proper assessment of the impact because it is complicated, figures themselves do not reveal it. So since we knew about the PAN card problem in any case when we did the planning for FY'17, we built growth above Rs.5 lakhs and below Rs.2 lakhs enough to sort of buffer whatever potential challenges we may face in the Rs.2-5-lakhs and therefore not really worried about it because participation in the more than Rs.5 lakhs could do with a significant improvement and as some of the initiatives we undertook last year showed that. So we are pushing more than Rs.5 lakhs in a big way and less than Rs.2 lakhs like (**Nilo**) for which the collection of Jewellery that we did in the April is less than Rs.2 lakhs and is doing exceedingly well and pushing less than Rs.2 lakhs growth rates to a much higher level. So we are not stretching too much in analyzing the Rs.2 lakhs to Rs.5 lakhs much and just pushing overall sales across all segments.

Manoj Menon: Subbu, assuming that excise 1% is implemented in its pristine fashion, I am assuming that it has actually been implemented and the Jewellery is actually complying with it. In that scenario, if I go and buy Rs.3 lakhs necklace, can two bills be made out of it; one for let us say gold of Rs.2 lakhs and one for the stones of Re.1 lakhs, is it legally possible?

S. Subramaniam: Excise is already implemented, from 1st of March we are paying duty. Regarding bills, I do not know how to answer that question, we are not at all that type.

Moderator: Thank you. The next question is from the line of Amnish Aggrwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: I have just one question on the Watch business. We had one Rs.21 crores of exceptional expense in this business in the current quarter. So if we add back that then our EBIT margins is 5.7% for the quarter and for the full year it is 9.7%. Now, we have clearly stated that this business will undergo significant restructuring and will be in an investment phase for the coming couple of years. So in light of that, where do you see the margins going forward…should 5.7% or 6% should be the margins you would be looking in the near-term or will they go back again to at least closer to 9-10% in the coming couple of quarters as well?

S. Subramaniam: 5.6% is an aberration, I wish it go back to 9-10% sort of EBIT margin, over the year we should get back to that.

Amnish Aggarwal: If you look at say past two-three years, this business used to have 15-16% kind of EBITDA margin, so do you have any medium term target by the time you want to gain reach back to that level?

S. Subramaniam: 15-16% looks little difficult at this stage.

S. Ravikant: 15-16% was not two-three years back, 15-16% was I think in 2011 if I remember and subsequently it has been sub-10% in the last two-three years. Your question about 9.7% going back to that. That is the aim. But it will certainly not happen in the next two quarters because we said in the investor conference we had that we are going to be investing a lot behind our brands and many changes we are likely to do. So the next couple of years you will see depressed margins. But yes, the aim is to get back to that 10% kind of number in the next couple of years.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Subbu, you were saying something about the FY'17 and '18 tax rate. Could you just give the number again?

S. Subramaniam: It will be in the ballpark of 27-28% at least in '17, it is going to be higher because the tax benefit in Pantnagar 100% is off.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Some follow up on the Watch business. So, 13% sales decline but that was because of change in discounting, what was the volume growth or decline?

S. Ravikant: Volume decline is marginally higher because our average consumer price per watch has gone up. That has been the conscious strategy of taking Titan brand up in terms of value and making it more premium. We had also presented sometime back that given that objective we have vacated quite a few price points especially in the Titan brand, Rs. sub-2000, we used to be earlier starting the brand at Rs.1500, now we start only at Rs.2000, now between 1500 and 2000 we have lost a large volume, but that is a conscious call in the interest of the brand. So in short, the volume decline is higher for that.

Abneesh Roy: Is the JUXT delivery now much better? Because when I see lot of the websites especially Flipkart it shows out of stock always. So is there some specific issue with that site or the supply now is getting normalized?

S. Ravikant: Actually, we never made it available on Flipkart and that is an error we have taken it up with them that came through some marketplace contact that they had, so Flipkart is not one of our channels for JUXT, on Flipkart not available time being till we formally go through Flipkart.

Abneesh Roy: On the Eyewear business, the margin this time is a positive surprise. Any one-off there?

S. Subramaniam: No, this was not a one-off, the gross margin are good.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

A Ranganathan: Sir, a follow up question. One is we have been discussing over the last 3-4-quarters that we would have had market share gains and despite having market share gains our revenue is practically flat. Would it be fair to say in that case that this category is actually shrinking or for whatever reason be it regulatory, sentiment or just where the consumption spanning out Jewellery, would it be fair to say that $40 billion market will not remain $40 billion market?

C. K. Venkataraman: I do not know, Abhishek, it is very difficult because there is no sense of that. All we know is that it is of the order of $40 billion and we are only $1.7 billion and therefore the room for growth is exceptional even if $40 billion becomes $35 billion. That is the approach we took 18-months back when we decided to alter our price and go for market share gains. Everything tells us that we have actually been gaining share because we do a lot of on-ground tracking of how competition is doing and our actual strides in it are hidden by the fact that we had a very large Golden Harvest base in FY'15 which we did not have in FY'16 at all and therefore the decline that we ended up having heights that actual gain that we are making. So I think we like to talk about this more in detail maybe after H1 FY'17 when the growth of our branch will be much more visible and clear.

A Ranganathan: You mentioned during the meet that you will be getting a lot more inventory above Rs.2 lakhs in a Diamond segment; however, you made a comment right now that you have built in enough buffer in the below Rs.2 lakhs and above Rs.5 lakhs. How does all of it add up because if you are investing more in the category between Rs.2 lakhs and Rs.5 lakhs, is it that you are going to stock more of high value Diamond inventory across all three portfolios?

C. K. Venkataraman: Let me just clarify that; whenever we meet women customers, they say, that look, if you come out with a product which is really exciting, I will get my husband to get out the PAN card. We have seen it every time we have launched product, whether it is more than Rs.5 lakhs, Rs.2-5 lakhs now, the PAN card comes out when the product is really alluring. Therefore, it is going to be our push, in July you will see a huge launch of between Rs.2 to 5 lakhs collection in Diamond Jewellery which takes this principle really-really forward. Therefore, we are just not pulling back our investments in the Rs.2-5 lakhs. But at the same time, we are wanting to play our cards all over by pushing more than Rs.5 lakhs and less than Rs.2 lakhs pull. Because primarily it is an uncertain thing. So we are not pulling back any punches on the Rs.2-5 lakhs but at the same time buffering by building growth, by putting resources in the more than Rs.5 lakhs and less than Rs.2 lakhs, in case the Rs.2-5 lakhs is not playing to our plan. That is all.

A Ranganathan: In that case in totally, would it be fair to say that your targeted share of Studded for this year would be very higher?

C. K. Venkataraman: If all these cards play out, I guess, yes, but even that is complicated because if you remember we had advanced the activation of Q2 last year to Q1 because of the threat of PAN card at that time was imminent, so all this is confusing, so I would say end H1 we would have certainly know for sure.

A Ranganathan: A corollary to this is that would it be fair to say in that case that your Diamond inventory at least will increase substantially by double-digit in the stores because of this?

C. K. Venkataraman: It should.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Firstly, just one clarification over here in terms of the grammage growth for the Jewellery segment. You have just mentioned over here is 15% QoQ. Is it a QoQ increase or is it YoY increase?

S. Subramaniam: QoQ.

Prashant Kutty: Then what would be the YoY in terms of the grammage growth?

C. K. Venkataraman: I do not off hand remember. Shall we mail you that?

Prashant Kutty: Okay. Secondly, in the light of the fact that you are going to have relatively lukewarm number of weddings in the next four to five months because the wedding dates are virtually absent. How do we look at the Jewellery growth in the next couple of quarters or if you could just give some thought on that?

C. K. Venkataraman: Wedding market is so large and our share in it is low. So in a way even if let us say 70-80% of the normal demand comes, but our thrust on that is very high. So because we are at such a low performance in the wedding segment, we expect our growth to do well enough. On the grammage, it is 4% YoY growth.

Prashant Kutty: You just said that we are looking at 25 store increase in FY'17, right?

C. K. Venkataraman: Yes.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Subramaniam for his closing comments.

S. Subramaniam: Thank all of you for having attended this. Wish you the best. Good Evening.

Moderator: Thank you members of the management team. Ladies and Gentlemen, on behalf of Titan Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.