"Titan Company Limited Q1 FY'16-17 Earnings Conference Call"

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MANAGEMENT:

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Titan Company Limited Q1FY'16-17 Earnings Conference Call. We have with us in the call today from the management, Mr. Bhaskar Bhat – Managing Director; Mr. S. Subramaniam – Chief Financial Officer; Mr. C.K. Venkataraman – CEO, Jewellery Division; Mr. S. Ravi Kant – CEO Watches and Accessory Division; and Mr. Ronnie Talati – CEO, Eye Wear Division. 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 now hand the conference over to Mr. Bhaskar Bhat – Managing Director, Titan Company Limited. Thank you and over to you, sir.

Bhaskar Bhat: Thank you for being there on the call. We are here at Hosur in our Watch facility. You have seen the results of the quarter. So it is a good result from a bottom line perspective but it has been a challenge still in the marketplace as in the quarter had reasonably wedding days and, of course, Akshaya Tritiya but the general feedback from the marketplace is that Gold Jewellery sales have been significantly impacted in the quarter and impacted over the past few months even before the quarter.

The hypothesis is, of course, to begin with the price of Gold, the second is the general clampdown or restriction on spending of unaccounted money and lastly consumer sentiment which is not yet strong. Titan has not done as well as it would have liked to but the primary reason in Gold has been because of the Activation in Diamond Jewellery which is actually on in data, not in the quarter and last year it was done in the quarter. So there is a timing difference in a way because of that the sales have got hit

Company also successfully completed the VRS Scheme for employees. I think right now it is 265 employees who have finally opted and many of them have gone in summer on their way out but Rs.97 crores all of that impact have been taken in the quarter and that is the entire impact.

Network expansion have continued; 17,000 sq.ft. has been added.

We have moved over to Ind AS. In fact, our revenue and profit because of the change in standard has been very minimal.

The Jewellery division, as I told you, recorded a single digit growth as the favorable base on GHS was offset by the decline in Jewellery industry revenue. So, the big positive we were expecting and planning for is because of GHS was negative by a general decline. I think this decline is an indication of where the Jewellery market is likely to go in the next few years, I think it is moving more and more towards adornment and less and away from investment orientation. In May and June, the Gold Jewellery Exchange Scheme work very well because of high price of Gold and we have seen that every time price of Gold is high people come back with old Jewellery and do not spend extra cash to buy Jewellery. Mia from Tanishq is available on Myntra now. Tanishq introduced Niloufer Diamond Jewellery which is doing rather well. We did not purchase any gold on spot. Because of the Exchange Scheme, almost 50% of the Gold procured was on account of the Exchange Scheme. The Gold rate was higher by 10% in rupee terms.

The other big event was the completion of the accounting and legal due diligence of Carat Lane. Subsequently, we have paid the amount of Rs.357 crores to acquire about 62% stake in Carat Lane Trading Private Limited.

The other events that occurred during the quarter was the government raising the percentage of networth for the Golden Harvest Scheme from 25% to 35%. So that has opened up a whole lot of potential Golden Harvest sales for us and that would be incremental to the current approximate level of about Rs.1400 crores in this year.

Watches, as you can see, has grown by 11% in revenue and the Retail growth in Helios and large format stores being good also indicate that Watches are attractive for customers so long as the branded design combination is of a certain kind.

Titan Activation and the reintroduction of variants between 1500 and 2500 where we had lost sale has brought 25% volume growth for Titan and 24% value growth. However, the overseas markets and the OEM business did suffer in Watches -- Thanks to conditions in the international market. The services revenues also impacted due to reorganization in that division.

Eye Wear again recorded low sales growth despite Activation due to low same-store growth and the loss of some large institutional CMC orders Fastrack Sun Glasses.

Precision Engineering however have had an excellent quarter; we have grown in both our Automation as well as our Aerospace that is Components business. The Automation business grew 86% and Components business grew 22%.

Retail growth is there in front of you. So I think I have said whatever I have had to say. Overall, good quarter but market sentiments is still weak, you have seen the Nielsen Report, it has dropped the consumer sentiment, index has dropped. It will be a struggle. Unless you introduce new products, new advertising, new collections, customers do not really walk in…of course Titan journey on eCommerce and Digital continues to be aggressive.

I would stop here because the rest is available for you to see on the website. I am happy to feel questions because that probably will answer a lot of things that are in investors mind. Please go ahead.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: My question was more on the Jewellery margins, in particular these rollover gains, could you please explain what are these leading to, is this a sense on the hedge gain likely in the entire year?

C.K. Venkataraman: This is to do with the contracts that we had to close in Q4 of FY'16 and the rollover loss that we incurred in that quarter and they came back to us in Q1 and this is only one-time.

Avi Mehta: So this is not linked to hedging gain which will come through?

S. Subramaniam: That is a routine thing, this one which we talked about last quarter where we had this extraordinary thing so this Rs.24 crores is coming into this quarter, yes.

Avi Mehta: So it is more the Gold price movement?

Bhaskar Bhat: That is right.

Avi Mehta: Second question just trying to understand the margin bit again in little more detailed. You have seen relatively muted sales growth in the Jewellery segment, Studded share also has been impacted because of the timing of Activation and despite that even if I adjust this Rs.24 crores, you have in the margin expansion, then does this suggest that you are looking at this kind of about 9, 10% kind of floor in the margin because of the initiatives that you have taken?

C.K. Venkataraman: Yes, for the year we are looking at that kind of margin percentages.

Avi Mehta: Oh! I thought sir, it will be a little higher, conservative would that not be the case sir, because you are doing 9% after all these things are actually, some of the bad things…?

C.K. Venkataraman: This Rs.24 crores is an extraordinary item in this quarter which is not going to repeat. So we are holding on to the picture we had given in 'Annual Plan Presentation' where the emphasis is certainly more on sales growth while retaining the margin that we deliver.

Avi Mehta: So 10% would be the margin for the year is what you retain?

C.K. Venkataraman: Yes.

Avi Mehta: Is the Watch segment margin that 14% that we saw this quarter, the changes in the portfolio is that what we are seeing now in the margin coming through and this is what we can sustain?

S. Subramaniam: It is a quarter phenomenon. I think there is basically some cost thing that to happen but otherwise we should be better than what it was last year.

Bhaskar Bhat: Correct, we are improving the margin but not to this extent is the answer, Avi.

Avi Mehta: So that trajectory is what I should look at, not the quantum?

Bhaskar Bhat: Yes.

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

Abneesh Roy: Sir, in the Jewellery business, why was Activation this time postponed to July versus June last year. In press release you have said fewer wedding dates, but in PPT you have said reasonable wedding date. So if you could elaborate what is the true picture and how much does wedding date really matter – does not the consumer preplan it much better?

C.K. Venkataraman: On the first point, last year there was this Rs. 1 lakh PAN Card threat, it was there for many-many months and we sort of preempted that threat by advancing our Activation which normally starts in the last week of July and goes in till first week of September. So many years we have been doing it like that. But last year we advanced it to June because of that imminent threat. That threat of course did not materialize and it actually came in January of 2016 Rs.2 lakhs PAN Card. So we went back to our normal Activation period which has just started a week back. That is the reason of actually going back. We reverted to our original schedule of the Activation.

Bhaskar Bhat: On your second point about the press release reading that "there are a few wedding dates" and how does it impact business, Jewellery business to a very large extent driven by wedding dates and even in Watches if you see in the large metros, it directly impacts sales of our higher price Watches and if you look at small towns wedding dates have a direct bearing on our Sonata brand, whether it is a big town or a small town, both Titan as well as Sonata brand gets affected because they are ideal gift during wedding. Now, in terms of comparison, last year, the wedding date started in April and went up to the third week of May whereas this year the wedding dates ended by end April and there were a very few wedding dates in May. In comparison with last year, the dates were lesser. That is what we mentioned in the press release and that is how it has impacted the business.

Abneesh Roy: This GHS moves up from 25% to 35% on net worth. So is the incremental number likely to be around Rs.350 crores for you and from when do you see that benefit coming, will it be after a few quarters only or when do you see…?

C.K. Venkataraman: It will be next year because the enrollments will start now but redemption will happen 11-months or 12-months, three quarters of next year only, not even the first quarter but anyway it is a very-very important medium-term development.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Sir, first question is how is the customer reacting to the sharp increase in Gold price over the last few months -- are you seeing grammage getting impacted, some sense on that? Second would be GST. How do you see that impacting your business? You had a sizeable contribution from exchange. So, like there are some tax implication for barter of gold. So, if you can share your thoughts on that?

C.K. Venkataraman: On the first one, we had a very good growth in the first quarter in grammage but we also have spike in the gold rate, but we have to also remember that the waste was low because last year Q1 was bad compared to the Q1 of the earlier years. So in a way we maybe simply catching up the FY'15 levels but there was a growth. July has been more volatile because the prices also really risen in July. It has been a little unpredictable frankly on the behavior side.

S. Subramaniam: On the GST, I think we need to first wait for the freight which will be used for Jewellery purchases, the estimate was about 2% to 6%, the question is whether it will be at the lower end of the scale or the higher end of scale. So obviously anything at the higher end is going to impact all Jewellery companies. Having said that, I think with the excise duty coming in, almost all jewelers will be forced to have proper books of accounts and therefore I think that is something even if there is going to be a higher GST rate. I know sure it is going to impact us particularly badly. So one is still waiting, we would hope that the rate would be in the 2% to 3% range and if that is the case, I do not see really any impact.

Kunal Vora: On the Gold Exchange, will there be any implications?

S. Subramaniam: No, at this point in time, I do not know. I think we have to wait and see the regulations as they come.

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

Ankit Babel: My first question is in the start of the year you mentioned that you expect to grow at minimum 15% in the Jewellery segment. Now, given the first quarter numbers wherein you have grown at just 3%, do you still believe that you can end the year with 15% growth top line?

C.K. Venkataraman: We have nine more months, so we keep the belief alive.

Ankit Babel: 10% EBITDA margins sustainable?

C.K. Venkataraman: Annual, yes.

Ankit Babel: What kind of growth can we expect in your Watches business?

Ravi Kant: Last year we grew by 1.2% and we are looking at a higher growth than that, but it will be single-digit.

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

Jubil Jain: Sir, I have two questions: My first question is on the operating expenses. If you look at the ad spends and the other operating expenses, they have declined this quarter. So is it structural or is it just a quarterly phenomena… how should we see the ad expenses and other expenses going forward?

S. Subramaniam: One of the main reasons was last year if you remember we had this "Business Associate Meet" which was about Rs.26 crores overall for the company and that is a significant reduction, this year we do not have the equivalent of those. That is what we meant by sales overhead reduction. There were more campaigns in Watch division particularly last year and in Jewellery also, because of the campaign promises. So the campaigns were low. I think as far as sales overheads is concerned, it happens once in two-three years. Advertising is a quarter issue. I do not think it is not a structural issue.

Jubil Jain: Second question is how much was the GHS redemption for this quarter and what are you expecting for FY17?

C.K. Venkataraman: We are staying on our target of around Rs.1400 crores for the year and we are on target on that Rs.1400 crores for the quarter, our run rate is as per Rs.1400 crores, including upselling.

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

Amit Sachdeva: Sir, first question on the new Activation and Niloufer that you mentioned is doing really well. So if I recall correctly in the past you stated that when you have an Activation launch and quite sizeable chunk of the sales happen in the first week itself, so given that week has gone behind, what has been the response so far and how do you see the trend of Jewellery that you see especially on the Studded side of things for this quarter?

C.K. Venkataraman: Very encouraging.

Amit Sachdeva: So you are very happy with that in that sense. So what I was hoping is that… I think somebody asked this question before as well that when you look at 15% kind of target given the number of this quarter, you perhaps gunning for about 20% growth to meet the target for the full year of '15. So are you sort of seeing that coming through with this sort of traction?

C.K. Venkataraman: 15% for the year is nearly eight months away, multiple building blocks to reach that 15% for the full year. Last year Q2 was a very depressed quarter because we did not have the

Activation. Therefore the growth target for this year Q2 accordingly takes higher ambition and the first week of the Activation has begun well in the context of that higher ambition.

Amit Sachdeva: Sir, in the Niloufer, when we look at Studded sales, how big would be the Niloufer kind of brand has become given it has been a while that it is existing and it is a great price point and the design looks really good. So I have personally got lot of very positive feedback on the design range. So is it how big that range would be in terms of price points?

C.K. Venkataraman: Very substantial without revealing figures.

Amit Sachdeva: Is there any inventory gain sitting in the margins of Jewellery this time given the…?

C.K. Venkataraman: No.

Moderator: Thank you. The next question is from the line of Vaibhav Goel from SBI Life Insurance. Please go ahead.

Vaibhav Goel: Sir, just two things: When you are saying that grammage growth is 6% and the pricing growth is 10%. So the reduction of 13% is driven by Diamond sales?

C.K. Venkataraman: Yes, that is right, the first quarter performance is pull down by Diamond sales.

Vaibhav Goel: So even with the lower Diamond things, the higher margin, is it again the result of the exchange increase which we have seen till now, because the exchange has like 8% lower cost probably if I am not wrong?

S. Subramaniam: Not exchange, I think one is that 24% talks about which is the carryforward from the previous quarter…

C.K. Venkataraman: We are also selling higher share of the higher profitable Gold Jewellery product. We are really getting to the root of margin in every sub-product category level and all. So these are also expanding gross contribution margin.

Vaibhav Goel: So we have targeted like 15% growth which we have given. But looking at the total gold import in the country which has been very depressed till now. So the industry as such is shrinking and we are gaining market share. So how do you foresee this industry say as opposed to one year or two years then?

Bhaskar Bhat: Really difficult question to answer. If you look at a very broad level the impact of the government cracking down on unaccounted money has affected the real estate business first I believe and then it has affected simultaneously the Gold and Jewellery industry. The rest of the market is reeling under decline like 30% and 40% and Titan is less affected. Having said that, I believe there is going to be turmoil in this market. Lot of assets will get distressed, not just the stocks getting distressed, but the assets themselves. We are seeing that happening. So, what will happen to the demand is one side but what will happen to the entire retailing landscape, the supply side, we have to wait and watch. What we have done in Titan is decided to just stay the course your eyes on the consumer ball. So make sure that you keep the consumer happy and keep delivering better and better product, greater and greater consumer experience and of course push the pedal on growth, network expansion, etc., because I think it is our business model which will win eventually. So you are right, we may just gain market share because the market is declining, but that is not the objective. I think there is going to be some turmoil. The shape of the demand we can predict as in it is going to go more and more towards Adornment and Diamond Jewellery, but the size of demand is very difficult to…

C.K. Venkataraman: We would focus on doing things much better than others so that even in a declining market we are growing and consequently gaining share.

Moderator: Thank you. The next question is from the line of Ushma Sule from Rare Enterprise. Please go ahead.

Ushma Sule: My first question is around the margin performance in Jewellery. Because even if we remove the one-time gain given the Studded share in this quarter, the margin seems to have done well. So for the full year if we take the impact of your focus on Adornment and Diamond, lower GHS discount, we should see a better improvement in margins for the year?

S. Subramaniam: Right now I would maintain the same point.

Management: There are two things – one is at the EBIT level, 10% which Venkat was talking about. At the gross margin level, there can be an improvement when the Studded ratio is better in this quarter where we have the Activation particularly. This quarter for example I am sure…

Ushma Sule: But why should EBIT not see improvement?

C.K. Venkataraman: It may or may not, we do not know. All I am saying is that our focus is more on growth and less on EBIT expansion.

Ushma Sule: Also, my second question is around the Rs.97 crores VRS impact. What kind of structural improvement in margins should we see in Watches and Jewellery on account of that?

Bhaskar Bhat: If you take the Rs.97 crores, roughly 40% is sitting in Watches… out of 250 employees, 170 are Watches, the rest of them are from other division, Watches is Rs.61 crores in the presentation, the rough payback is about under three years, so you would have to take around Rs.20 crores in Watches and that applies to company as well.

C.K. Venkataraman: In Jewellery it will be a small part.

Ushma Sule: My last question is around Fastrack as a brand. We have been seeing lackluster growth in this brand for a while. So just wanted to understand what is the near-term outlook and what steps are we taking to bring back the past glory to the sense so to speak?

Ravi Kant: Fastrack has been impacted. We keep talking of category competition from mobile phone in the Watch business and it largely applies to Fastrack brand because youths today are spending a lot of money upgrading their mobile phones as opposed to buying a watch. That is one. The other is, yes, we are looking at how do we kind of craft out a new positioning for fast track and come out with advertising which is very differentiated because that is what Fastrack stood for in the past. But I would say the biggest reason is share of wallet and money being consumed by mobile phones and youths today want to replace and upgrade their mobile phones in nine months, one year. That is really the biggest reason. But if you look at the first quarter, our performance in Fastrack whether it is a retail store or the Fastrack brand has been better than what it was last year, Fastrack brand is getting affected by this and the coming nine months we see it will be much better because there are a whole lot of new products lined up including some surprises which are in store which we will share when we get to them.

Bhaskar Bhat: So there is rejuvenation of the brand on the way. It may take a few months but you will see a new avatar both of the business and of the brand.

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

Avi Mehta: Sir, just a clarification on Carat Lane acquisition. Are there any ESOPs outstanding or which are likely to become active at future date or is this 62% stake is going to remain at this level?

S. Subramaniam: 62% is ours, this is after considering ESOPs which are reserved for employees.

Avi Mehta: So this is divided is the net value that you have ascribed for?

S. Subramaniam: Yes.

Moderator: Thank you. The next question is from the line of Vicky Punjabi from JM Financial. Please go ahead.

Richard: This is Richard here. Sir, I recall you were mentioning that in your quarter-end update for Jewellery it was actually a decent quarter. So just wanted a sense of if you can give any sense of what is the growth if you ex out all the phases, where there were issues like for example industry strike at the beginning and Studded Activation advancement towards the end. If we just look at the normal period, any idea as to what was the growth rate like?

C.K. Venkataraman: If I take Gold Jewellery for example for the quarter we grew close to 25% in value and still the Activation period comparison kicked in which is the month of June. In Studded also we have been doing (+15%) if I remember right. That we went into the negative space by the time we ended the quarter. So very clearly the presence of Activation in last year Q1 which we did not have this year. We had planned for a decline. The actual decline ended as being a little higher than the planned.

Richard: So ex the Activation period, it was actually 25% growth in Gold and 15% …?

C.K. Venkataraman: Gold Activation anyway during the Activation campaign, for Gold, the actual growth in retail for Tanishq was 25% and for Diamond it Was in the plus 15% before the Activation comparison of June kicked in.

Richard: Is that the rate you are continuing to see even at this stage?

C.K. Venkataraman: July Gold is bad, but Diamonds are robust, because the price in July of Gold has been exceptionally high.

Richard: Is that because of volatility because I would think that the consumers are seeing an increase in the prices of the underlying asset, they should generally be more buoyant towards a product like Jewellery because the underlying commodity prices is becoming more and more worthwhile?

C.K. Venkataraman: Richard, I am only talking about the facts; facts are that if the prices are high and volatile on the sales account.

Bhaskar Bhat: Richard, the hypothesis which I articulated a little while back, I think the investment and store of value seeking, customer sentiment or customer itself may have declined, a) the proportion. So for those who see increasing value and therefore asset growing in value has declined in terms of number of customers because a lot of the black money was also parked there. So it is a combination of both change in the marketplace as well as regulation. So, therefore, Gold in quantity terms being lower…

C.K. Venkataraman: Other complications in our business, it becomes very difficult, every month we have got some other angle in last year, last year in July we had a good rush because the price fell. So we have a base which is pretty high, stiff to compete. On that low price, the gold price has gone up 22% in July of this year.

Richard: So given the kind of growth rate that you just outlined which is 25% in Gold and 15% in Studded ex the phasing, would you say that the PAN Card issue has been largely dealt with and absorbed now?

C.K. Venkataraman: It is reduced, it has not been completely eliminated. So for example in the more than Rs.5 lakhs price band, where the PAN Card issue is now five years old in any case, we want to bet even more so that because there is no current tension, you have to bet more and compensate for whatever problems we are having in the 2-5 lakh price band and so on but it is reduced, people are getting used to the idea.

Moderator: Thank you. The next question is from the line of Bhavesh Shah from CLSA. Please go ahead.

Bhavesh Shah: Sir, on completion of Carat Lane, can you share your thoughts on the space and how do you expect to generate synergy from this acquisition going forward?

C.K. Venkataraman: Right now it is frankly early days to comment on that, but the logic of the acquisition is there is a huge online market that is developing where young men and women are spending a lot of time in the Digital world and spending a lot of money also buying things which are reasonably affordable. Carat Lane operates in the Jewellery category in the reasonably affordable space and therefore the synergy of Titan company with it is deep understanding of the Jewellery manufacturing, Jewellery marketing, but with the company which is very-very aligned to the customer of tomorrow and the faster turnaround cycles of today and all that. So we hope and we expect to capitalize on this significantly. The actual plans we will take a while. Right now the teams are all sort of immersing in each other and understanding what we can do together better in manufacturing and retailing and branding cooperation and so on and so forth.

Bhavesh Shah: My second question is on your Watches segment. There seem to be a clear change in strategy. You did exit some of the lower price points especially in your Titan top brand and now it seems that you have now reentered the segment. So what is the thought process – is it purely because of extreme pressures on the consumer demand side or there is some change in strategy?

C.K. Venkataraman: It is actually a combination of both. So when we exited the lower price points, it was from the point of view of vacating a certain look under Titan brand. We did want to have very basic and ordinary looking Watches in that points of below Rs.2,000, at the same time we realize that there is a demand for Watches and Titan brands specifically under that price points in smaller towns. We have reentered that price segments with more contemporary looking Watches and we are also looking at selective distribution. So it will be available in smaller towns and some select stores and large towns. So that is a new strategy.

Bhavesh Shah: So you said that you have Rs.97 crores of VRS payment. We should expect some rough payback of somewhere close to three years. So can you just explain what exactly you are referring to?

Bhaskar Bhat: When you make an investment of any amount, you want to know how many years it will take for the payback. Employee cost is equal to Rs.32 crores.

C.K. Venkataraman: So the annual cost reduction in wage bill is a third of the VRS bill.

Bhaskar Bhat: There is a multiple of the reduction in employee cost.

Moderator: Thank you. The next question is from the line of Sivaramakrishnan from CRISIL. Please go ahead.

Sivaramakrishnan: This is regarding your expansion plans. General understanding is that for the larger jewelers if you are present in a particular town, the second store that you open usually has a substantially lower or breakeven period. Is it something that you agree with sir?

Bhaskar Bhat: That does not necessarily have.

Sivaramakrishnan: Sir, in this context, is your expansion plans focused on entering new locations where especially in Tier-2 and Tier-3, where you are currently not present?

C.K. Venkataraman: 80% of the new stores of FY'17 are in new towns.

Sivaramakrishnan: Any indication as to which geography you are trying to aim at for example…?

C.K. Venkataraman: All over India.

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

Manoj Menon: I did hear the comment about the PAN Card, but just want to elaborate a little bit further. If I look at one of your recent launches about this 2.5 lakhs collection of Queen of Hearts, is it fair to assume that the issue is completely behind us because we are launching something actually at the higher value?

C.K. Venkataraman: What happens, Manoj, is that the person with the PAN Card problem, woman wants the Jewellery. So we have seen whenever we launch very exciting collections, in fact, in retail they call it the PAN Card breaking collections because they influence the woman so much, so she goes and tells a guy, "You better bring the pan card." So the more exciting products we launch, the more PAN Card breaking they become actually. So we wipe the PAN Card with a product, an exciting product, woman is really sold on it as the pan card comes out. Of course, this works at relatively lower prices. We cannot do Rs.25, 30 lakhs kind of products and expect the pan card to come, it is a huge exposure for the husband, but the trick is to come out with very exciting products so the woman falls in love with and force her husband to bring the pan card.

Manoj Menon: You had put out a release in January saying that the cash transactions is more than Rs.2 lakhs is about 10% of revenue. Is that the number largely the same now or is it different?

C.K. Venkataraman: Not checked it recently.

S. Subramaniam: It is not very different.

Manoj Menon: So essentially then it means that even the cash transactions consumers are largely willing to take out the pan card effectively speaking?

C.K. Venkataraman: For example, if I am buying Rs.4 lakhs Queen of Hearts Necklace and if I do not have a credit card limit of Rs.4 lakhs, what typically I will do is I will draw money from the ATM and bring it. There are many customers who actually do that. So they are the taxpaying customers, it is white money but it happens to be in cash.

Moderator: Thank you. The next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sir, one of our focus segment is Diamond in which unfortunately we have not done so well this quarter. So are we still maintaining the policy of keeping Diamonds prices at a significant premium to the market or could there be a change in the thought process there going forward the way we had while lowering our gold making charges and we are seeing very positive results of the same?

C.K. Venkataraman: To me, the reason for the decline in the Diamond Jewellery in Q1 is because we had our Diamond Jewellery Discount Scheme in Q1 of FY16 and we did not have in Q1 of FY17 and the Diamond Jewellery Discount Scheme between the two, we have to work them in a year, they contribute significantly to the total sales of the year. So because of this timing difference, Q1 was bad. That is all. Whereas we expect Q2 which is a reverse of what I said about Q1, where we did not have the activation in Q2 of last year but we are going to have it, we are having it in Q2 of this year, you will see a bump up performance in Q2. So we are contributing to be bullish on Diamond Jewellery for the next couple of decades.

Gautami Desai: So the price premium is here to say, that is what…?

C.K. Venkataraman: Yes.

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 this 35% network limit expansion that has happened. When is it applicable from?

C.K. Venkataraman: It is already…

S. Subramaniam: Right now, but it has come down.

Nilay Shah: So there will be an immediate bump up that happens in the …?

C.K. Venkataraman: Immediate bumps up that can happen in the enrolment. The sales effect will come a year later.

Nilay Shah: So you already started opening of the limit is for GHS?

C.K. Venkataraman: Opened up.

Bhaskar Bhat: Customers do not know.

Nilay Shah: Was it a big rush and you have to stop it because of your limit …

Bhaskar Bhat: No, we were never forced to stop it, not yet. So the behavior in the store continues to be aggressive, one, they will become more aggressive, now that there is a limit has gone up. So we were not that constraint. Constraint was more in the mind that we should not be non-compliant.

Nilay Shah: The second question is on the Carat Lane acquisition. I can only imagine there would be some culture differences between the management at Carat Lane and some of your employees with Titan because of the way the business at Titan would be run. How is this being taken care of at the top management level at Titan?

C.K. Venkataraman: We are operating like a conglomerate. So there is a holding company and there is an operating company.

Bhaskar Bhat: They will continue to work out of Chennai, there is no change there and they will continue to be independent, the management is sitting there, managing director is Mithun Sacheti. Of course, there is a board in which Titan participates but barring a few policies which we have left it to the people there on let us say HR if there are some people-friendly policies they want to adopt, Titan will be happy to share those but it will be an independent company.

Nilay Shah: What is the focus area for the next few quarters or years in terms of the synergy benefit is, what areas are you going to actually focus on – is it the Technology, is it the Collections?

C.K. Venkataraman: Actually, we need time on that. Like I answered earlier, I think we are in the phase of understanding each other where synergies actually can be maximized, how we can work together for maximizing the opportunities and all that. It is very early stages to share.

Bhaskar Bhat: At the broad level if you ask us, which we had articulated even before, the first benefit we get is it is a segment which is different. So immediate benefit is we are able to access a segment of an ongoing company which is very good at accessing the result. So there is the brand. But from a technology issue, Jewellery alone is not the focus. In fact, we are already working with Carat Lane, for us Eye Wear division, developing a platform for eCommerce. So there are other benefit is which will flow and we have those things in mind because there is a capability in that company which can apply to other parts of Titan. In addition to that, the Carat Lane business it itself will benefit from manufacturing and design capability in Titan, I mean, the Jewellery business.

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

Hiren Dasani: Can you quantify the full year contribution of Exports and the Services revenue in your Watches business?

Ravi Kant: Contribution is a single digit; it is about 7-8% and last year we grew by about close to 12-13% over the previous year. This year the first quarter has not been as good because of whole environment in Middle East as well as in some of the Far Eastern countries. Because we are restructuring the whole service organization, so there is a dip in that segment which we have reported in our results. The overall contribution in service would also be about 5% in terms of revenue.

Bhaskar Bhat: So say 12% between these two and it should grow, normally it is about 15%.

Hiren Dasani: So if I understand correctly of the Watches business what you are saying is that about 12% is Exports 88% is the Domestic part of Watches and that 88% part is grown at about 11% year-on-year?

Ravi Kant: That is in this quarter.

Hiren Dasani: This is like after a long while that we are seeing good growth in the domestic sales in the Watches segment, right?

Ravi Kant: You are absolutely right, yes. It was just the opposite last year. Our international business like I said grew by about 11-12% whereas Domestic was in terms of volume de-growth and value just a marginal 1% growth this year, this quarter has gone differently. One reason we should keep in mind, this is not going to be sustained for the rest of the year. One of the reasons I think we mentioned in the press release also is that we preponed the activation of Watches in Q1; consumers cheap order in Q2, that has benefited us in Q1. So it is not that we have now achieved 11% growth run rate.

Hiren Dasani: That is the reason why you are still kind of cautious on the advance, okay?

Ravi Kant: Absolutely, yes.

Hiren Dasani: Can you just elaborate what reorganization we are talking here in the Services business?

Ravi Kant: This is aligning and integrating our sales force in the front end as well as our distributors. So we have separate distributors for the Spares as well as Watches that is being aligned, the sales force and the service people who go and book orders and all that in the front line for Spares as well as Watches that has been aligned and integrated. So that has led to some disruption so to say in the first quarter and that is why the revenues have dipped on the service front. So that gets sorted out and it is more or less done.

Hiren Dasani: In Q4 EBIT margin of 1%, were there exceptional items?

Ravi Kant: There were some corrections, one of the biggest reasons was we had VRS and VRS in one of our sister companies which kind of hit us in the March. We also did a lot of correction on a pull back of stock from large…

Ravi Kant: Some provisions got converted into ....

Ravi Kant: There were close to about 50 unviable large department stores that we closed, then we had to take stock back because we were not making money. So all that was part of correction in the interest of health in the long run.

Hiren Dasani: Excluding the one-offs and all double-digit kind of an EBIT margin in Watches, does it look on a yearly basis look more…..?

Ravi Kant: Margin you will get, yes.

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

Abneesh Roy: You gave the breakup of OEM and Exports in Watch business. Similarly, Eye Wear has suffered this time because of Sunglasses or what is the contribution of Sunglasses last year and in this quarter?

Ronnie Talati: Sunglass contribution roughly about 30% of the business.

Abneesh Roy: What was it in this quarter sir?

Ronnie Talati: It remains the same.

Abneesh Roy: So your growth has come down from 9% to just 3% only because of Sunglass, otherwise your Titan Eye has grown at 9%?

Ronnie Talati: Yes.

Abneesh Roy: So what was it last year and what is in this quarter, so obviously Sunglass would have been a higher percentage last year?

Ronnie Talati: Sunglass growth actually came down this year, even we are struggling to meet our targets, largely because of some corporate orders and the CST channel that we got last year and we could not get this year.

Abneesh Roy: So this impact can continue… Sunglasses muted performance?

Ronnie Talati: No, we are hoping that both the corporate channel and the CST channel will improve and we will get orders here, so we are hoping to make up actually this loss that we have had in the first quarter.

Abneesh Roy: VRS, one clarification, you mentioned Rs.32 crores per year as the benefit in terms of reduction in the employee cost, but you are paying out in two tranches. So will it not be Rs.32 crores in the second year, so first year might be just half of this?

Bhaskar Bhat: No, we have to recognize it in this current year. So the cash flow versus P&L are two different things. I am talking about P&L.

Abneesh Roy: So P&L the reduction of this Rs.32 crores will start from next quarter on annual basis?

Bhaskar Bhat: Some people are going out in November, some are in September …

C.K. Venkataraman: This is the full year impact next year.

Abneesh Roy: Sir GHS Rs.350 crores incremental from next year broadly?

C.K. Venkataraman: That is much more than what you are adding. We will talk about it in the next call.

Abneesh Roy: Sir your net worth is around Rs.3,500 crores, so 10% incremental so?

C.K. Venkataraman: With the reserve available is Rs.350 crores. GHS will be a multiplier of that limit. It is a very good development for the Jewellery division.

Abneesh Roy: On the PAN Card we have discussed so many things, recently this news article was that now tax notice will be given for Premium Watches who have bought. So Helios is seeing a marked slowdown in past few quarters. So can Helios slow down further because of this?

Bhaskar Bhat: No, if anything Helios will benefit, Helios average price point is 8,000 or 10,000.

Ravi Kant: All the brands we deal with are largely sub-1 lakh not even 2-lakhs, so…

Bhaskar Bhat: So we are not Luxury, therefore they are affected if anything Helios will benefit.

Moderator: Thank you. We have the next question from the line of Rakesh Jhunjhunwala from Rare Enterprise. Please go ahead.

Rakesh Jhunjhunwala: I do not know how do you extract the margin, but last year Mr. Ravi Kant was very much afraid of even 10% margin, then you come up 11%. Anyway this VRS is over or it is ongoing?

Bhaskar Bhat: Over, we have qualified it by saying that the entire cost has been accounted for.

Rakesh Jhunjhunwala: No, but are you going to allow further employees to take VRS?

Bhaskar Bhat: No.

Rakesh Jhunjhunwala: How many employees does our company has?

Bhaskar Bhat: 8000 by Titan and contract and all separate.

Rakesh Jhunjhunwala: This VRS is mainly from the manufacturing or include ….?

Bhaskar Bhat: Yes, large number in manufacturing, corporate and large number in the Watch part of the business.

Rakesh Jhunjhunwala: You are saying Rs.1400 crores because the Rs.4,000 crores is the networth, 35% is Rs.1400 crores is the total GHS that you are able to take. So you are saying Rs.1400 crores without the upside?

C.K. Venkataraman: Rs.1400 crores including the upside.

S. Subramaniam : No I think Rs.1400 crores is based on the old limit of 25%.

Rakesh Jhunjhunwala: Not 35%?

S. Subramaniam: Yes 35% is limited, go to Rs.1235 crores, therefore on that you can get the …

C.K. Venkataraman: Rakesh, we are operating below the limit at which we can actually play because it is only in the last 7-8-months that the Golden Harvest has been at full speed, we are currently below the net worth cap itself, but climbing close to the cap, but the new chance will now provide us the opportunity to go all the way and increase the sale opportunity in FY-’18 and actually substantial in FY-’19.

Rakesh Jhunjhunwala: Therefore, our sales in GHS is now the limitation is not the government law but our ability to price?

S. Subramaniam: Yes, that is right.

Rakesh Jhunjhunwala: It is very surprising boss you are getting negative growth?

Ronnie Talati: Rakesh, our plan for this year is to grow at 19%, the first quarter was a bit of a disappointment because we were trying to grow over the last activation, we are in activation this year, but the good news is that July has been much better….

Rakesh Jhunjhunwala: It will make up?

Bhaskar Bhat: '19 we do not know, but yes make up.

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

Abhishek Ranganathan: A couple of questions from my side: One is in your presentation slide #38 you mentioned that Gold prices have gone up by 10%, but at another slide you see the prices which you have recorded as average price is up only 1% from 2770 you have 2807. So my larger question is that there is quite a large gap between the 10% and this number. Now what would explain it -- would it be the fact that you are giving two additional carats for the exchange, I was trying to reconcile this part?

C.K. Venkataraman: The fact is that the rate at which the gold has gone up by 10% between the two quarters. This one we will figure out what it is.

Abhishek Ranganathan: The larger question which I have here is that on GHS, while we have been shocking numbers there, the ex-GHS sales what we would say if I were to now see last two quarters the fourth quarter and the first quarter, after stripping it off we are down 18% in the 4th quarter, you are down 14% in the first quarter, now is increasingly the indication of the extent of decline in the industry, and if this is the case then are we to say that GHS will be largely which will hold the revenue and not drive the revenues from here on?

C.K. Venkataraman: I do not know, it depends on how you look at it. If I go back to 2005 to 2012, the GHS used to be 5% share of business, it becomes 30% by the time we close GHS. So if I remove the GHS then the CAGR turn up crash. What does it say? These are weapons with which you grow sales. So if you remove one weapon, the sales appear to grow less but I do not know. One could argue that the ability of customers to put off full money and buy at one time is perhaps reducing, it is the fact because I am hearing from various other jewelry companies it is pretty grim, I do not know what you hear, what I hear is the news is not at all good. So in that situation 25% growth in value for us is pretty guideline even though it is in Golden Harvest.

Abhishek Ranganathan: So basically the other question which I had with regards to the same thing here is that structurally what Bhaskar mentioned was the fact that we are seeing a huge turmoil in the industry, but we are seeing it for the last few quarters at least that as you have also been commenting that the growth has been actually negative and it is not just a small number, it is a large number. So the bigger question is that are we moving to a structurally low grammage growth and high market place where basically we come down to a very low import of gold or consumption of gold, but we will largely move to be very-very niche and just a markup driven market which means that the market size itself in terms of volumes changes dramatically and in value it may or may not depending on how we ….?

Bhaskar Bhat: Scenario what it will end up, we do not know. This hypothesis the eventually event is that. If you continue logically saying it has become less of investment value, etc., but how long it is going to take is also so deeply rooted in the Indian psyche that gold is a store of value.

C.K. Venkataraman: If you go to the underlying factors for the poor performance and if the continuing difficulties of the middle class in terms of their income pressure and all that is one reason. As long as that continues then there is an issue on demand. If the Gold price keep jacking up like this it creates a lot of confusion and even if I have the money I cannot come into the market at that time, that is another angle. It is a black money pressures of the government combined with the general business growth pressures that the HNI trade and business communities are having as long as the middle class is not buying enough motorbikes and enough dal and all that, the traders are not making money and they are not buying jewelry. So these are fundamentally economic factors which frankly very difficult to comment on. All we know is share of market is significantly lower than the share of desire and therefore we will continue to concentrate on segments where our share of market is substantially low like wedding or high value Diamond Jewelry and push for growth even in a declining situation. That is the best we can say and that is the best we can do because the larger question is so complex to answer us.

Abhishek Ranganathan: About 1-year odd is that would it be fair to say that you have seen the value of the product purchased or every article which you sold is had it come off significantly… average bill value?

C.K. Venkataraman: Bill value is actually if I take QoQ it is rising because we are also investing a lot in wedding in high value Diamond Jewelry.

Abhishek Ranganathan: Because it does not kind of add up in that case, in the sense that if the customer is actually not wanting to spend much but we are seeing….

C.K. Venkataraman: But if there are 1 million customers buying average Rs.3 lakhs Jewelry and our share in that is 2% whereas our share in the total Jewelry market is 4%, then the 2 to 4 difference is what we are pushing with initiatives in that category. So Abhishek, you are right because we are growing disproportionately in a category that the ticket sizes are increasingly high and our share is low even though that 1 million may have come to 900,000.

Bhaskar Bhat: So just to clarify this point, outside Jewelry if you take Watches as well as Eye Wear, we are certainly seeing there is no reluctance to pay a higher price provided you give the value, and value is sitting in the form of brand image and design. There is no problem in selling a higher price product and we are seeing this in all categories I think other categories as well, people are willing to pay a price, but the value equation is to do with design, innovation either in the form of technology or in the form of design, I think that is playing out in the Jewelry business, we are seeing it in Watches, we have no problem selling the more expensive Watches last year, it is only because we vacated the lower price point that we lost some significant part of the business.

Moderator: We have the next question from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: Sir, just some thoughts on GST assuming it comes at let us say 4-5%, then we are talking about a 15% price difference, 10% custom duty plus this 15% price difference from smuggled gold, Dubai gold, Thailand gold whatever. So any impact that you see from there?

S. Subramaniam: Sanjay, it is very difficult to answer that question. First of all, if you are adding smuggled gold, then the difference is 12% to 15%. It is not much of a difference, right. So I think we have to wait …

C.K. Venkataraman: It will be only to the extent of whatever smuggled gold as they…

S. Subramaniam: Anyway now.

C.K. Venkataraman: That is more from the customer is now willing to pay the premium which he will lose on exchange.

Sanjay Singh: Yes, that is another 5%<

C.K. Venkataraman: I think these are all things we will get …..

Bhaskar Bhat: I do not know if you are all aware of the recent disclosures we will all have to make on the gold, vehicle and real estate. Those are all sitting in this space. Why only Gold Jewelry? It has been identified as an asset which you have to declare. People will be more and more reluctant to do all this to buy smuggled gold, no bill. So what will you do to declare? Because the fear of the other side will always be there that somebody will come and raid you if you do not declare, all that.

Moderator: Thank you. We have the next question from the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan: I have not actually understood a part of the financial statements that have actually been presented wherein if I were to just see the Y-o-Y growth in EBITDA, it is actually 32%, but if I were to just compare it with the EBIT growth, the EBIT actually has gone down. So can you just explain the discrepancy in that?

S. Subramaniam: Finance cost is slightly lower than last year because of the lower GHS that we did this time, we did more of exchange. So that is one reason. I think that is about it. I do not think there is anything major beyond that.

Anand Krishnan: Sir, I am actually talking about the EBITDA and EBIT. So interest cost assuming it to be same, the depreciation has not changed much as in it was 23 and 26….?

S. Subramaniam: Nothing, it has not changed much, it is Rs.3 crores more actually.

Anand Krishnan: So why is it that there is an EBIT de-growth and then EBITDA growth, that is my question?

C.K. Venkataraman: We will give the reply offline because it will need some digging into the data.

Moderator: Thank you. We have the next question from the line of Ankit Babel from Subhkam. Please go ahead.

Ankit Babel: Yes, just two follow-up questions: One was in the Jewelry segment, this quarter you had a gain of around Rs.24 crores due to rollover of hedging positions from previous year. Now I just wanted to understand is this figure going to be volatile on a quarter-to-quarter basis or would it be more or less consistent?

S. Subramaniam: This we explained earlier was a last quarter issue which has been reversed now and therefore we got the benefit now. We do not expect this to happen every quarter, but it might happen.

C.K. Venkataraman: Because when the inventory and the sales positions are mismatched, this will happen, but the extent and all depends on the…

S. Subramaniam: We cannot predict anything on this.

C.K. Venkataraman: All we know is it will be recovered this way or paid back that way if we gain, if we lose.

Ankit Babel: But would it impact your margins?

C.K. Venkataraman: In that quarter, yes, and it will impact in the other way in the next quarter, yes.

Ankit Babel: So some part of your higher margins in this quarter is on account of this, right?

C.K. Venkataraman: Yes, we said that earlier.

Ankit Babel: Why the margins in the Watches business in this quarter so high at around 14%?

S. Subramaniam: Our costs were lower this quarter and the growth was also there.

Ravi Kant: Compared to 4th quarter last year where we suffered on account of both cost and low growth, in fact they declined, the thing has reversed. Watches has a scale advantage and we had mentioned it last time that we were not able to utilize capacity and therefore there is fixed cost is very high. So once you cross that Watches begins to gross in very well. So there is a cost reduction and there is a growth in sales.

Ankit Babel: So just 11% growth has resulted into 14% margins, right?

Bhaskar Bhat: Yes, he explained that that 14% is not the sustainable margin because it is a one-quarter effect. We are talking of single digit growth top line and a low double-digit margin or a high single-digit margin.

Ankit Babel: No, just for my understanding point of view suppose this year you do a double-digit growth in top line, then can the margins be 14% just from understanding point of view?

C.K. Venkataraman: If we do a high double sales growth, we will do a low double digit margin? Certainly and we should get there soon.

Moderator: Thank you. We have the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Sir, government has issued multiple tranches of sovereign gold bonds and it seems to be gaining traction going with the collections. Would this have any impact on the industry and on the same lines how much is contribution of Gold Coins for your sales and how is that trending?

C.K. Venkataraman: It has actually dropped; it is low single digit, it is not a focus for us at all, and if government manages to convert lot of coins into bonds it would not actually affect us, it will affect the industry to some extent but I do not think the industry is worried also because the margins that the industry makes on Coins is very low.

Kunal Vora: Sovereign gold bond, whatever gold government collects, will it be leased to the industry or anything because like it has already been four tranches…

C.K. Venkataraman: Sovereign gold bond is not about collecting gold, no, selling a bond instead of a coin.

Management: That is gold that they hold, na.

Kunal Vora: So you do not see any issue from this, okay?

Bhaskar Bhat: Not for us.

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

Manoj Menon: Sir just a comment on the operating conditions from a compliance point of view. I was observing that particularly on the south market lot of the old jewelers or rather these branded guys has been there in the market for a long time has actually been advertising saying that we would not sell without a bill. So is there something to read into better compliance happening at industry level currently?

C.K. Venkataraman: I am not so familiar with what you are saying, the campaigns that you are talking about I am sure there is an improvement happening in that area because of a huge like PAN Card, for example, it is not now easy to sell without bill 2 to 5 lakhs products because the number of bills is like now really substantially increased, for excise duty anyway now exposing linking production to sales and all that right through. So the overall pressure on behaving and complying is certainly on the rise and it is going to benefit us without doubt in the next 2 to 3-year time period.

Bhaskar Bhat: The luxury watch retailer they are reeling under this PAN Card because all of them are above Rs.2 lakhs and first of all the price difference itself was very high and they had somehow got people to buy in India. Now all of that has fled to Dubai and Singapore. So they cannot help it, they have to and you know that these are very public now.

Manoj Menon: Venkat, I was actually referring to campaign by Malabar Gold which is quite prominent there in the Kerala market.

C.K. Venkataraman: Oh! I see. Let me take a look at it, but it may be their way of sort of positioning themselves above a large number of local and medium jewelers in Kerala and become the 'Store of Choice'.

Bhaskar Bhat: Or Manoj, it might be a one more thing that people must have got so used to saying, "Okay, give me without bill and reduce the price." Now they are trying to protect themselves by saying, "Look, we have given you an ad now. We have stopped selling without bill. Do not come and argue here about reducing the price."

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

S. Subramaniam: Thank you very much for joining us. Look forward to meeting you next quarter.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Titan Company Limited that concludes this conference. Thank you joining us and you may now disconnect your lines.