"Titan Company Limited Q1 FY '21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Titan Company Limited Q1 FY '21 Earnings 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 now hand the conference over to Mr. C.K. Venkataraman, Managing Director, Titan Company Limited. Thank you, and over to you, sir.

C. K. Venkataraman: Thank you. Thank you very much for joining this call in large numbers. With me here are many of my colleagues. Suparna – CEO of Watches and Wearables Division; Ajoy Chawla – CEO of Jewelry Divisions; Subbu – CFO; Raj Narayan – CHRO; Manish Gupta – Chief Operating Officer of Accessories and Fragrances; Dinesh Shetty – Company Secretary, Legal General Counsel, Rajeshwari Srinivasan – Chief Operating Officer, Taneira; Saumen Bhaumik – Chief Executive Officer of the Eyewear Division; Nandu – VP (Finance); Pulkit, Srinivasan and Ramachandran from the finance department. Thank you very much once again.

It was a very, very unusual quarter for the whole world, I guess. And for us, it was no different. The negative leverage obviously kicked in, and therefore, the financial results that you see are a result of that. And they hide many things that happened above them. The first is the exceptional manner in which the company rolled out its operations on the safety subject, whether it is for customers, employees, associates and all that. And we got very good feedback, particularly from customers and also from our employees for the manner in which we had our standard operating procedures and exceedingly high emphasis on before entering the store, what you had to do, social distancing norms, wearing the mask, the manner in which the products were actually disinfected before being given to customers and all that. And this became one big thing that customers share with other customers and it became a viral thing during quarter 1.

The second thing is that the power of the Titan customer experience and the Encircle program, which must be the biggest program of this kind in the country, certainly, the power of that came into full play with more than 15,000 sales people across all that EBOs reaching out to individual customers they knew by name and by the deep relationship that they have across all our stores, and those customers came in to buy Titan company products during quarter 1 after the first week of May when things started opening up. And therefore, I believe that our recovery, which was generally constrained by the category codes were sort of broken to some extent by the advantages that we had in our safety situation as well as in the love and affection our customers have for us through the reaches of our sales staff. So to that extent, we did rather better than what we had originally thought we would.

And in the jewelry category, on top of that, because of the category codes of safe haven and of course, the rising price of gold, signaling the potential investment and people generally feeling a little bit down and out and buying into jewelry, making them feel better about their future, all these conspired to make our recovery much better. And the whole organization was marching to a beat of cost compression, cash management, and therefore, everybody across levels was working very hard to make sure that we came out on top with the least loss and the most cash, and I think we ended up achieving that.

And more than anything else, I think the confidence in the future, the resolve in reaching that level that we are setting for us which is total recovery by quarter 4 of FY '21, I think the whole company, the franchisees, the vendor partners, sales staff, even the karigars have united in that confidence invested in the resolve to be almost the first company in lifestyle discretionary to come out on top latest by quarter of FY '21. So that's where we are. And we are pretty satisfied with the results that we have achieved. The first time, I don't know, maybe 15 years, more than that, that we made a loss, but the world is in a very different place. And in that context, what we've achieved is very gratifying to us and we are also clearing our mind in this confusing times to stay resolute in seeing the light there many months down the road, and not being distracted by the storm that is raging around us, not being sort of compressed by the negative emotions that are all around us, and I think we're doing a decent job of that breaking out of that fog and actually looking at what we need to achieve and not be swamped by the consequences of a possible failure in not achieving whatever we want to achieve. So I think the dice is very clearly loaded in our favor in that sense. And I would think I would be speaking for the entire organization when I say that between the June call and today, we have ourselves going forward in our minds in terms of our confidence in our future, in terms of our commitment to making that, the goal that appears to be daunting and a little out of line with the kind of categories we operate in actually come about.

So it's in a very good place, we are in our mind, and that, I think, is more important than anything else. And of course, all the usual assets and strength of Titan Company from brands to networks, to customer relationships, to supply chain backbones, to ethics will play out in greater level because of the unusual circumstances; customers are looking more and more favorably at companies which are behaving responsibly. And I would like to bet that what Tom Collins spoke about, Good is the enemy of the great. I would sort of reverse it in these times to say, Great is the enemy of the good, in the sense that we are a good company.

And if you recollect Bhaskar's farewell articles, so to speak, in The Times of India, many months back, he spoke about how a good company can be a great company in terms of shareholder value. Whereas the whole good to great was a different take on the whole subject. So therefore, I also believe that the goodness of this company will come to the aid of the company because of customers, because of employees, because of partners coming to the help of this huge institution that we have created and it will propel surely towards the goal of normalcy in quarter 4.

So that's what I had to say. There is a lot of innovation going on across divisions on how do we actually generate desire in people who are continuing to stay at home, where the need to dress up for the office itself is reducing, but there is no socializing in any case, people are doing everything on Zoom calls. In a scenario like this, how do you actually generate demand is a big challenge. A lot of innovation is going on. If you just look around the kind of television commercials we have been creating, it's a testament to how the company is thinking and how the company will win this battle.

The second thing is on the delivery side, we have taken substantial leaps in our digital journey from Endless Aisle to video call to bots to multiple other omni-channel efforts to make sure that when the demand arises, we are in a position to fulfill it to the customers' comfort and convenience. And we're seeing huge leapfrogging happening on the share of those initiatives to total sales of the company.

So through a combination of generating desire and demand on the one hand and delivering in multiple ways, which take into account customer requirements of the current time, we believe that we will win the game that we're starting to play and reach normalcy in quarter 4.

So I will pause here, and leave for all of you to ask questions and go from there.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Siddhant Dand from Goodwill Private Limited. Please go ahead.

Siddhant Dand: My first question was regarding, actually, I have just one main question, regarding other expenses. We've seen a lot of companies cut down costs, and you have mentioned in the annual report also that we're going to cut the cost down dramatically. So why can't we see that in the results, especially the other expenses?

C. K. Venkataraman: Which other particular expenses that you are referring to?

Siddhant Dand: So just if you've seen the consolidated results, the other expenses have not gone down as expected. So last quarter, they were 439 crores and it's 406 crores this quarter.

S. Subramaniam: Yes. Let me explain that. There is this hedging that we do capital hedging as we call it. And during the quarter, obviously, because of the mismatch in our estimates, original estimates and our designation of hedges and the quantity actually being far lower than what was planned before the COVID pandemic hit us, there is what we call ineffective hedges. Ineffective hedges would essentially mean the quantity which is sold less, multiplied by difference in rate, gold rate. You are also aware that gold rates have has gone up very sharply. So they hit the P&L., there is a substantial amount. If the hedges have been effective, then it would have been adjusted against the revenues. Since it's ineffective, it hits an expenditure account. And that is why the other expenses are high. Normally, whether it is effective or ineffective, it does not affect the PBT as much. It depends of course on situation. But in the normal course, the higher cost is also offset by a higher gross margin. Okay, this is what it is. So therefore, the biggest issue here was the ineffective hedge which hit us in the quarter because of the mismatch.

Moderator: Thank you very much. Next question is from Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My question is on recovery in July, if you could tell us segment-wise, how is the recovery versus last year July? I understand last year July was also a bit weak because of the high gold prices. So, if you could tell us in terms of number of stores and give some indication in terms of revenue, how does it compare to last year July?

Ajoy Chawla: Abneesh, this is Ajoy Chawla, CEO of the Jewelry Division. In terms of stores, actually, July operational days were slightly lower than that of June. While this average stores operational were pretty much comparable, around 90%, but the average store days were up closer to 85%. Having said that, June retail recovery was, in value terms, for jewelry at 77% over last year at a total business level. Now this is not like-for-like. This is a total business level. In July, we've had a fairly good number because we preponed the standard activation and the overall activation by a couple of weeks. So we've actually achieved 101% of last year's July in retail terms. This is on jewelry.

Abneesh Roy: And other 2 segments?

Saumen Bhaumik: Yes. Eyewear, I think we had a 12% recovery in the month of May, it went to 23% in June and 39% in July. That's at an overall division primary sales level. If I look at the Titan Eye Plus retail chain alone, number of stores in the month of June, we had on an average days to 412. That dropped to 367 in the month of July. However, for the stores that were opened in the month of July, we saw a recovery of over 85% of last year's same month.

Suparna Mitra: For watches, the like-to-like stores that were opened in July were at 57%. However, the number of stores opened in July were actually, in fact, less than June, as Ajoy also pointed out. So overall we were at around 40% if you take the total combined sales. And for large-format stores, the like-to-like was around 32%. So all retail was around 50% like to like.

Abneesh Roy: Right. My second and last question is on watches. The performance has been volatile and now with work from home continuing for a lot of time more, there's no visibility as such. How do you cater to the demand side? Because at home, obviously, everyone has access to the time to other devices, and there is no requirement for adornment in work from home. So, if you would clarify, are you also doing practice test like the fashion retailers, wherein they're going to housing society, etc. In watch, have you done that?

Suparna Mitra: So, for watches, the one big trigger for consumer demand that we are looking on and betting on a lot is gifting. And in this situation, in a dynamic situation, where everyone is kind of anchored down at home and a lot of milestones have been missed, including the birthdays, anniversaries, graduations. There are so many milestones and so many occasions for people to celebrate that have actually not turned out to the events. And we are doing a very big campaign called to Gift a Titan Smile, where we are exhorting people to gift their loved ones, either who live their own house or in other cities or in other places and to reach out to them. So gifting is a very big part of this. The other trigger, which is mainly for Fastrack has been actually fashion. And youngsters are continuing to consume a lot of fashion content on platforms like Instagram and social media. And our fashion collections, which we have launched in the month of June, is actually doing quite well and the third brand, which is Sonata, is actually taking a position on the India factor. We are doing a big thrust on India ka favorite Sonata. So, there are customers who are wanting to either buy for themselves or for loved ones and at a lower price point, and they are going in for Sonata as their brand of choice. In terms of retailing, yes, there is a lot of effort in calling customers, video calling, appointment, making appointments with customers, bringing them into stores, lead generation on the website, which is now coming into, which is getting directed to stores and store staff are then taking it off. So lot of omni-initiatives, including Endless Aisle as well as ship from store, all of these are actually leading to good demand generation on the watches side

Abneesh Roy: Just one last follow-up. On the hedging, could you quantify the loss, which was there and anything you can do now proactively to get the loss back or the ineffecive hedging can be made better? Anything you can do proactively?

S. Subramaniam: Actually, Abneesh, it's very difficult to predict hedging at this point because when we buy gold on spot, we hedge immediately. We are required to actually designate a certain month is which the sale will take place. And obviously, nobody anticipated a COVID situation, right? So all these gold that was bought in quarter 3 and quarter 4 of last year, was obviously, a lot of it was designated to be sold in quarter 1 of this year. Unfortunately, situation went haywire. And therefore, there is going to be a lot of ineffective hedge, which is going to hit us. And then we ended up also rolling over some of these contracts for subsequent periods, we ended up selling more than what we planned to sell in Q1. So there has been a lot of movement in the actual quantities sold versus the whole original plan and a revised plan as well, okay. So this has affected us quite badly. The saving grace in a way during the quarter was that we also got stock gains, stocks gains because gold prices have gone up so substantially that we did get a reasonable stock gains also, which has in a way reduced the impact of the ineffective hedge. So if you're looking at gross margin, your gross margin may look actually better. But obviously, the previous question, who asked a question on the other overhead, is sitting there, the ineffective edge is sitting out there. So, I think the ineffective hedge loss that we have, there is some part of which we will regain in the future, but we also believe there may be some stock gains, which will also get reversed in the future. So therefore, I'm saying that the numbers may not change going forward. On a quarter-on-quarter basis, there could be some shifts here and there. But overall, whatever results we have come out with is something which may continue for the remaining of the year.

Abneesh Roy: But we are not at quantifying?

S. Subramaniam: No. We're not quantified. As I said, I don't want to do that because it'll possibly hit me whatever losses I may get from a stock gain of this quarter, will hit. See, they will, in a way, nullify each other. I will get the benefit of benefit the ineffective hedge coming forward in the future, but I'll also get a reversal of the stock gains now. So in a way, they should nullify. That's the point.

Moderator: Thank you. Next question is from Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Couple of questions for Ajoy. You had mentioned last time that it could be Q4 business before business volumes could go back to normal. Do you still believe that Q4 could be a normal? And what do you think on the competitive pressures that we are seeing on the making charges particularly given that the informal sector should be sitting on large inventory gains?

Ajoy Chawla: Yes. So I am hoping that we can get to normalcy even faster than Q4, that's my hope really. We are seeing good traction as we speak. Even though July achievement is on the back of, let's say, a preponement of the activation. We are hoping that we'll see it much faster. So yes, I'm still confident that we will be able to see normalcy by quarter 4. Second point that you said is in terms of competitive pressure. Actually, yes, in the month of June and some parts of July, we did see a fair amount of competitive pressure in terms of promotions, offers everywhere and particularly so more in South India. We are also seeing that many unorganized jewelers are going through a difficult time. They are not able to replenish their inventory. Even in terms of gold coins, etc., they seem to have shortfalls because there is liquidity pressure. We are seeing share gains, both on account of safety and trust as well as a better product mix that we are able to offer in our stores. So actually, going forward, even though some amount of competitive pressures will keep coming up, we see our position actually strengthening. And I would like to also, our sense is that we have actually gained share even in the month of June and July from across compared to both other national chains as well as regional players.

Chirag Shah: Certainly. That's very useful. And on the second question, can you just highlight what has been the customer response to, let's say, an online sales that you did during the quarter and other schemes like the Golden Harvest, and the buy gold and convert into jewelry later scheme?

Ajoy Chawla: So we've had very good response to all the digital initiatives. A lot of digital initiatives, both online plus omni or joint closures, as we say, leads passed on by digital on to stores to close. We have identified it as an important engine of growth going forward. I'm happy to share that in quarter 1 itself, these leap-forward digital initiatives have contributed to as much as 6% of the total turnover that we've achieved. So these are really and it's growing fast, video calling, Endless Aisle, appointment booking, so on and so forth. So many of them are really caught up well, and we've rolled it out to 250-odd stores out of the 340-odd stores that are there. So overall, yes, very positive. GHS has been a good contributor to growth. In fact, the contribution of GHS, which is normally hovering around 22%, 23% or 21% to 22%, we are seeing that this 21% of last year quarter 1 is showing up as 35% contribution in quarter 1 this year. And again, in July, it's 32%.

So GHS has actually helped us a lot, and we are also pushing strongly on enrollment, though that recovery is gradually catching up right now. So, both of these have done well.

Chirag Shah: Sure. And my last question is on the franchisee support. Have we extended any additional franchisee support for them to navigate the current crisis? And if yes, what are the margin impact on us?

Ajoy Chawla: For, jewelry, I'll answer. We've actually extended support to set of stores, which actually were new or very small stores. We were doing it month-to-month. And later on, we've offered a softer working capital loan in order to help them manage their liquidity, largely on the Opex in terms of people cost, rentals, etc.. It is not a significant amount, and it is not material enough in our P&L as of now.

Chirag Shah: So essentially, what you're saying it's not across the board support, and is there any working capital support also that we've extended?

S. Subramaniam: Yes. We have given working capital support to a lot of associates. Soft loans, very low rate of interest, repayable. Other than the grant that Ajoy mentioned, this is across all our divisions based on our assessment of need from all of them. The good news is that actually not requiring so much. That's a good news.

C. K. Venkataraman: And both on the P&L side and the asset side, they are not material for you to consider them to project anything about the financial performance of the company.

Moderator: Thank you very much. The next question is from Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: I just wanted to understand, a) if you could share the key consumer trends that you've witnessed in terms of stocks that has been sold in jewelry and the gold and the other channel, if at all, if would you kind of give that?

Ajoy Chawla: Yes, sure. Avi, Ajoy here. We've seen a lot of positive sentiment towards gold, both plain gold jewelry as well as gold bullion that is coins and bars, both on account of investment oriented minds, who are seeing this as an opportunity because of the rising gold rate as well as from a safety consideration, many people are feeling it's comfortable to park in a way money in jewelry. We are also seeing lot of, more recently, I must say, in June we did see some wedding purchases. We are also seeing people preponing their quarter, the purchases for weddings, which are scheduled in quarter 3, quarter 4 to right now because they feel that the gold price may become even further up. So that's the second trend, which is linked to the first.

Avi Mehta: Sorry, this was across gold and diamond or was this largely in gold?

Ajoy Chawla: It's more gold, to be honest. Studded, I think we are seeing, I mean, buyer recovery rates between studded and gold are not dramatically different. But the value normally is seeing higher in gold because gold prices have jumped significantly over last year. The other important trend I would like to share is people are buying for milestones, that is anniversaries and birthdays. And we are seeing a fairly good contribution from that. In fact, the contribution in terms of value terms has gone up actually on account of that piece as well. Overall, in the lower price band, there is some amount of sluggishness on the gold maybe that customer has not yet walked in or still hesitant. But for the mid-price range between the INR 1 lakh to INR 3 lakh, we are seeing a fairly good traction, both for studded as well as for plain gold.

Avi Mehta: And this you think is not because of your activation, right? Activations have been started, right? That's why I just want to kind of infer that this data is not colored by that.

Ajoy Chawla: No.. So this trend is visible across the part of May that we saw, June as well. And then, of course, even during the activation. So this seems to be linked to the fact that the lower end of the consumer in terms of price band is still a little hesitant. The middle end is actually, in terms of price points are coming in more easily.

Avi Mehta: For total jewelry segment, you are 101% of last July. That understanding, I just want to reconfirm.

Ajoy Chawla: Yes. Retail sales of last year July to this year July, we are 101%, which is a 1% growth over last July. As I said, it's partly because of advancing the activation by a couple of weeks. And therefore, it may seem a little bit on the higher side, but that's what the figure is.

Avi Mehta: Okay. And Subbu, just one question on the gross margin side. I mean I was going to ask that if I adjust that 600 crores, you are right, gross margins have expanded. I was not able to connect what exactly happened in the stock gain. Have you restated your entire inventory to a higher level, which is why there is substantial amount of stock gains? If you could kind of help explain that?

S. Subramaniam: The way it was, I think we've talked about this earlier, we value our inventory on FIFO basis, right? And therefore, older stock gets consumed now, right? That's the fundamental basis of FIFO. The gold price is going up and that would dip sharply, you are bound to get stock gains, okay, which obviously inflates your margin. Having said that, this quarter, we also had a significant mismatches in our hedging because of COVID and that resulted in a very significant ineffective hedge also, which hits the P&L, okay. And that is a part of us talking about this part of the other expenses that seems bloated, whereas your margin also seems much better, if it is an ineffective hedge; actually if it has been effective hedge, it would have been adjusted to this number. So, the margins would not have looked artificially high.

Avi Mehta: No. I agree to that. I get that point. I get that point. Subbu, what I was trying to understand is, essentially the gross margin or the EBITDA margin on an exit basis or a like-to-like basis because the ineffective portion would be for a larger proportion rather than the stock gains, which will be only for the sale, even that you've seen the massive decline in sales. That is why I was trying to, would you be able to help me understand that?

S. Subramaniam: No. you are right. The ineffective loss is more than the stock gain for the quarter. But based on our view of how the gold is going, we think it's prudent not to assume that we'll get too much back in the next 6 months or 9 months.

Avi Mehta: Is there a number level that you can give that this is what it should trend close to or a range anywhere of that sort? Just to kind of understand…

S. Subramaniam: I don't want to give a number, Avi, on this now. Yes, I don't want to give a number on this. I would rather move to this, and then say, hopefully, in the future, you should not have an impact. Everything should neutralize each other. That's the way I'll go with.

Moderator: Thank you. Next question is from Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead

Rakesh Jhunjhunwala: Sir, I want to understand that this loss on unrealized hedges, as I understand it, it is a portion of a hedge where we had taken on the sales anticipated has been lower than what we had anticipated. Am I right?

S. Subramaniam: Correct.

Rakesh Jhunjhunwala: Right. So but when I unwind that hedge and I provide for a profit-loss account, I also raise the value of the gold because we hedge it. We don't keep any non-hedged. All our gold is hedged.

S. Subramaniam: You are right. If you have only that issue, as only ineffective hedge, you are right, it will reverse, okay. Whatever loss we have booked now will reverse. But what happened is because of this unusually high gold rate increase, I've also got a stock gain in the quarter, which is very substantial.

Rakesh Jhunjhunwala: But you are valuing stock at cost or market price, whichever is lower, no?

S. Subramaniam: No. I understand that, but the cost is low. See, you're realizing more and...

Rakesh Jhunjhunwala: I have only one request. All the analysts are asking the same question. If you could please send to us a note on what is accounting and what it is? Because as I understand, I haven't hedged gold. Just because this is going to continue for next 2, 3 quarters, at some moment, all that I've lost in ineffective hedges, I will get back even in my profit-loss account, right?

S. Subramaniam: You're right. See, overall, you will not have a gain or a loss because the way we hedge between the hedges and the stock gain loss, you should have 0 impact on P&L over a period. Unfortunately, because accounting is such the ASQ is on CBR and FIFO there, we get gains on stock when gold prices go up. We also end up losing having ineffective hedges because of the situation that we are in. And the mismatches are going to continue in the next quarter also.

Rakesh Jhunjhunwala: So that means just because mismatches are going to continue for next few quarters, I cannot assume the loss is permanent. At some moment the loss has to reverse.

S. Subramaniam: So, the loss on the ineffective will reverse, but the stock gain also will reverse. What gain I get now will also reverse, that's where the issue is.

Rakesh Jhunjhunwala: No. Why that will reverse? Because the stock you will sell at which you are sold, at you have valued it. Why will it reverse?

S. Subramaniam: It reverses because the hedges will be at a lower value. It depends on which hedge has got canceled now.

Rakesh Jhunjhunwala: One thing I assume, I have a request, and I think most analysts will agree with me wherein you can make a note on this and explain to us with examples, we shall be highly obliged, and you can send it to the exchange. We cannot understand. This is too complicated.

S. Subramaniam: Yes. We'll clarify. This is a very complicated subject by itself. We'll clarify it, yes.

Rakesh Jhunjhunwala: So if you could please tell us, explain to us by an actual example how this happens and make it public, put it on your site, it will be very helpful to all of us.

S. Subramaniam: Yes. We'll do that.

Rakesh Jhunjhunwala: Thank you so much. Congrats on a good performance in a difficult situation. My question is, my only assumption is that, ultimately, there is no real loss because of this loss.

S. Subramaniam: That is right. There is no real loss, yes. It is only a...

Rakesh Jhunjhunwala: In profit-loss account, debt and credit will set off each other. There are only period may have differences.

S. Subramaniam: That is right.

Rakesh Jhunjhunwala: So please clarify this by way of an example.

S. Subramaniam: We'll do that. No problem.

Moderator: Thank you. Next question is from Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question was on the mix effect. So, just leaving aside the hedging gain/loss situation, just given the kind of mix trend you've seen in June and July with maybe higher sales of coins, relatively lower studded share, again, you'll have to probably adjust for that preponement of studded. What kind of a headwind are you facing on the margin side? And are there elements of the P&L that you can use to offset the margin impact, or do you think the lower margin trajectory due to the mix is something which we have to deal with, at least for the near term?

S. Subramaniam: I think the margin headwind may remain because the studded ratio is expected to be lower than last year for sure, at least to the trends that we've seen so far and possibly even customer intent, it looks like gold is going to be the preferred jewelry, plain gold jewelry. Therefore, we will see an erosion in gross margin to some extent this year. How much it recovers over the years is something difficult to predict at this point in time. But what we've seen so far is all the activities from June, July, etc., we've seen a fairly reasonable drop in studded share. And we think it may just continue. So it's better to be prudent here on the gross margin side.

Arnab Mitra: Okay. And my second and last question was on this scheme of gold coins where it's kind of a gold protection product for the consumer. So I'm just trying to understand that when the consumer essentially comes back to buy the jewelry later on and returns this gold coins, you would be making a lower margin on that gold because you would be giving him back the making charges that you've already paid. And is this a substantial part of the sale, sizable part of the sale in the month of June? I just wanted to get some sense on that.

Ajoy Chawla: Yes. So, the scheme was that on the making charges that the customer has paid while buying gold coins. To that extent, they'll get a set off on making charges for jewelry, if they were to buy something before 30th November. Now, we actually had even taken a hit on the making charges in coins and kept it attractively low because we were keen to, in a way, acquire customers ahead of time. The total amount is not material. There may be a small payout, but we also think a lot of people will also, there's a chance to upsell. So, they may have 20 grams worth of gold coin, but they may land up buying a 40 gram jewelry or they might buy studded. So there's opportunity for us to upsell. So, we are not treating it as material. And we think it can be set off very easily.

Moderator: Thank you very much. Next question is from Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: A couple of questions from my side. First being hat we have sold the gold inventory or the bullion worth 600 crores, I understand that there were ineffective hedges and the gains have got neutralized. But can you please quantify if we have made any profit on this bullion sales? That is my question number one. And the second is that in the past whenever there has been fluctuation in the gold prices, maybe say more than 10%, 15%, the gold demand has got impacted. So what is the trend expected to be going forward? And how confident are you to sustain the July momentum?

S. Subramaniam: On the gold bullion sale, there's no margin on the sale per se. Having said that, I was talking about stock gains that we got, since inventories are valued at FIFO, there is a stock gain, which comes in, which is not really a gain from the sale of the gold asset, okay? So I want to just clarify that part. Yes, Ajoy?

Ajoy Chawla: See, normally you are right, when the gold prices spike, customers do get scooped with gold price. This time around, however, what we are seeing is that it is continuing. In fact, buyer recovery and value recovery for gold is high and the entire growth in value has come out of ticket size, largely driven by gold. So, it seems to be that for the moment, customers are expecting it to go up even further all the way up to the season. And in fact, more and more people are coming in and seeking to buy plain gold, both jewelry as well as… So even in August first 8 days, we are seeing a good traction towards plain gold. So far, it doesn't seem to have happened. We can't say how it will be in the next few weeks or months. It depends on the gold price spike.

Amnish Aggarwal: Okay. And sir, finally, just a question on watches. Although the sales there also have declined sharply, but the operating leverage doesn't seem to be, you can say, much in our favor because the losses there are very high, at around say 164 crores at the EBIT level. So, any particular reason that the losses are too high, or we are having too many stores which are operated by us or the manpower and overhead data structures. Can you give some explanation on this?

Suparna Mitra: Yes. You are right. See, the operating leverage, so obviously at around 10% of last year's sales, it would be very difficult to cover that kind of high overhead. But going forward, from quarter 2 onwards with a sharper recovery in business, there will be better results and also simultaneously the war on waste initiative we have taken on various cost items will also kick in, and they will kind of emerge better as business picks up.

Amnish Aggarwal: Ma'am, is it possible to share what could be the breakeven level of sales in watches?

S. Subramaniam: It should be in the ballpark of 60% to 70% of the revenues that we normally will have, yes.

Moderator: Thank you very much. Next question is from Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Bulk of my questions have been answered, just a quick one. If you can just explain the studded activation that you mentioned that has had some number gains in July. And also, Subbu mentioned about the gross margins coming off on account of lower studded jewelry share going forward. But just on the gold jewelry making charges, how versus our usual levels on an apple-to-apple basis, how low are those making charges right now?

Ajoy Chawla: Okay. So first, on the activation. See, usually, in July-August period, we run a studded activation. So we're running a similar studded activation of up to 25% off on studded. But this time we have also seeing the high demand for gold, we have also given a certain offer on gold as well, so that customers are not disappointed. And many people missed out on buying in Akshaya Tritiya and Gudi Padwa, etc. So we've leveraged that. And instead of starting last year, we started towards the last week of July. This year, we started from 10th of July or something like, yes. So we've actually got a 15-day ahead of last year. And therefore, there is some benefit there. So in the quarter, it will even out between July-August-September. So what was the second question you asked? I forgot.

Chirag Shah: On the making charges on the gold jewelry, on an apple-to-apple basis, where are the making charges compared to what it used to be pre-COVID levels?

Ajoy Chawla: Yes. There is a small dilution, Chirag, not too much, because partly because gold price itself has gone up. And also, there is some amount of down-trading in terms of the greater demand for chains and other slightly lower making charges kind of products. And also between coins and plain jewelry, there is some amount of interplay as well. So there is some amount of dilution, but not too much as of now.

Chirag Shah: This has got nothing do with the competitive pressure that the informal sector is kind of offering anywhere between 50% to 60% off on the making charge.

Ajoy Chawla: Okay. Partly, because what happens is in many markets, and especially small towns, people are still used to getting a making charge in terms of fixed rupees per gram and they are expecting Rs. 400-Rs. 500 a gram. Now suddenly, when the gold price has gone up and they start seeing 1,000 a gram because of the percentage basis, to that extent, yes. And therefore, we have introduced a few KVIs now in the fixed rupees per gram, but bulk of our plain gold is sitting in the percentage itself. So to some extent, yes, that is true, and there could be a dilution on that account. But it may be, as I said, 0.1%, 0.2% on the A&P, not very material or not very large, that can't be overcome.

Moderator: Thank you. Next question is from Sunita Sachdev from UBS**.** Please go ahead

Sunita Sachdev: I just had 1 question. I just wanted to find out how is the GHS scheme now trending? And how are consumers now looking at options to kind of invest in this installment facility?

Ajoy Chawla: So GHS scheme so there are 2 parts. One is, of course, how the redemption of GHS and sales through that, that has obviously been very high because many accounts were maturing and a lot of people did want to buy, not too me, people sought refunds. It is similar to last year. On enrollments front, in June, it was a little slow. In fact, partly internal, partly external reasons. We are seeing a recovery. We have started seeing about a 56% to 60% recovery in GHS in enrollments in the month of July. And that is upwards of what it was in June. And in fact, as an internal measure, also, we have focused a lot because we know that this funnel is what will help us in quarter 1 next year and next fiscal. So, we have already started ramping up action on that front. In the first 1.5 months in May and June, it was more about getting sale. But generally, it's good.

Sunita Sachdev: Yes. Alright. And just if I could, the war on waste savings initiatives that you guys have started, is there any more color that we can get on it or any number that we can get as to what are you targeting in terms of the war on waste?

S. Subramaniam: I don't want to give you a number, Sunita, but the war on waste program is across the board. It starts from margins. I mean it goes to material cost, it goes to discounts, it goes to every element of cost including employee cost. Employee is not waste, sorry. I didn't want to…but every cost angle is being looked at in war on waste program. In addition to this, we are also looking at, say, cuts in employee cost, which is happening as we speak. Many of them are something that we are all giving up in a way. So that's basically what it is. It's a large program. And it's also on working capital, not just on cost. It's also on capital and cash generation and so on and so forth. So it's all comprehensive plan. So hopefully, and it's delivering as we speak, it's delivering. So it should do better.

Moderator: Thank you. The next question is from Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Various Tata companies have gone into cost control programs like Indian Hotels, especially Tata Motors. Tata Motors given a quantification of a cost reduction program under each head and they're reporting in each quarter what they've achieved and what they need to. I think if we give that, we will be much transparent and responsibility and will indicate our management, which is batting from the front foot not from back foot. So, I see no reason why the quantification of the war on waste should not be done with the investor community, the way the other Tata companies doing this. Or we are feeling shy to commit ourselves, we don't want to commit up. We don't want our performance to be examined, what we promised and what we achieved. That's not how Mr. Chandra is doing it in Tata Motors. They are doing it from the front foot.

C. K. Venkataraman: Rakesh, we have stuck our neck out and said that we're going to recover sales by quarter 4. So we are batting on the front foot, we take your point and...

Rakesh Jhunjhunwala: Sir, you go to the investor call and presentations of Tata Motors. They are batting absolutely, why don't we have the guts to share with the investor community what are war on waste is. Otherwise, it is just a slogan. How do we know what you are going to do and what you are achieving? At the moment, other expense has not come down. You don't want to quantify your hedging loses. So, we have no way of judging how much efficiency you have got in your other expenses. So, we want to sit behind the neck. And if you achieve, it is okay. If you don't achieve, we don't know anything about what you have achieved.

C. K. Venkataraman: Sure. So actually, Rakesh, we would appreciate that the Titan management has been very transparent on many things, maybe everything over time. So, it is not for that reason...

Rakesh Jhunjhunwala: It is in accordance with that transparency that I'm asking this.

C. K. Venkataraman: I understand.

Rakesh Jhunjhunwala: I'm asking that you should make war on waste public, share it, monitor it every quarter with the investors because in accordance with our tradition of transparency.

C. K. Venkataraman: We'll give it a thought and come back.

Moderator: Thank you. Next question is from Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Sir, my question is on the recovery that you talked about in 4Q. Are you targeting a recovery? Is this just sales? Or would you also be targeting a recovery in terms of profits? And just on that, when you talk about recovery, is it sort of getting back to 4Q levels last year, given that, I mean, last year's 4Q was also impacted because of COVID. So, is it sort of a normalized 4Q that you're targeting? Or is it last year's 4Q?

C. K. Venkataraman: We will look at the base of FY '20 Q4, as then COVID has not happened, that is our starting base in a way, and we want to beat that in our 4Q in FY '21. And you can see that the losses, for example, in quarter 1 are clearly linked to the level of it. So the minute the sales happen like what I'm describing, the profits will automatically come of that order.

Moderator: Thank you very much. Next question is from Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Very quickly, again, on this recovery understanding by Q4. See, my sense is that when July is 101%, I know July last was very weak. So, probably that may not be right benchmark. But given that we are able to achieve sort of 101% of last year level, and we are still in this out of that disrupted quarter, isn't that Q4 expectation of going to pre-COVID level of last year Q4 is too low in expectations, given that we're already achieving this? So, are we sort of giving a low yardstick for us to measure and then beat it or how we should read it? My sense is that we should probably be trying to recover as much revenue lost in this quarter because some part of weddings which was postponed will come back in Q3, probably some of the deferred demand will come back in Q3, gold price is also high, which should give us a higher ticket size, if not anything else. So I'm trying to understand is how we should define your recovery by Q4? If you can give us some guidance, how we should think about this in a model, will be very helpful?

C. K. Venkataraman: Amit, we are not only a jewelry company. We are a multi-business, right? And all the arguments, all the points that you just now said about recovery are relating to jewelry, okay?

Amit Sachdeva: Jewelry, yes.

C. K. Venkataraman: Certainly our plan is actually grow on quarter 4 FY '20. But the other businesses are within that situation of the category demand from the customer side. So, from a consolidated picture, it would be like that, it is for jewelry itself, what you are saying is what Ajoy is trying to do.

Ajoy Chawla: So I'll also add on to what Venkat said. So as I said, 101% is on the back of preponing activation as well as the fact, as you rightly pointed out, July was a lower base last year. And therefore, you cannot extrapolate that for the entire quarter. So in fact, we have another method of recovery, which we mentioned earlier on, where we look at like-to-like stores and how do they compare with last year, so in June, we were comparing it to an ADS of quarter 1. In July, we are comparing it to a ADS of July plus August because the seasonality is different. So if I look at that, we have reached around a level of 80%, if I were to do a pure like-to-like kind of number on many of these stores, etc. And we are tracking it week to week, whether this 80% will exit higher in September or no, it's difficult because September this year is also very unlike last year and other years because there's an Adhik Maas, and Diwali is postponed to mid-November this year. So, how this whole thing pans out for the quarter 2, keeping that in mind, we are being a little cautious and not getting carried away by a July number. But 80% is the kind of like-to-like recovery we are seeing right now. And maybe that's what we will exit quarter 2 at. And therefore, hopefully, quarter 3 should be better than that. But because of the dynamic nature in many...

C. K. Venkataraman: This point that Ajoy made about, 2 points which are making that 101 actually lower than it is: one is the lower base; and the second is the unlike-to-like comparison of the scheme that we did this year. And therefore, the corrected for both these, it may be 80 for July as opposed to 101 that we are actually on paper whereas because August may be a little reverse because of the other reasons. But with all that, it is some 115 for Q4 for jewelry.

Moderator: Thank you very much. Next question is from Latika from JPMorgan Chase. Please go ahead.

Latika Chopra: My question was specific to July. Just trying to understand, what is the recovery rate for studded? You preponed the activation, how is the response versus what is your own expectations? And also your related comment that you believe that some of the gold wedding jewelry sales would have also got preponed as people anticipated gold prices would run further higher. If you to just comment on these 2 consumer trends?

Ajoy Chawla: Yes. So Latika, studded recovery in the month of June, in terms of share value terms was around 59%. In the month of July, it is around 67%, yes. So there is an upward trend. However, when I look at it from an overall perspective, which includes plain plus studded, the same figures were 77% in June and 101% in July. So, this tells you a story in terms of both the recoveries have gone up. Now again, the preceding question we answered, whether this 101%, should we read it as 101%, should we read it as 80%, is difficult to judge, and therefore, we are giving you this spectrum. But studded recovery is sluggish compared to plain recovery. However, it is still far better than what we believe the market is seeing. Market is seeing a much slower studded recovery than what we have seen.

Latika Chopra: On the wedding sales, has that changed materially between June and July for you just related to your comment that we expect to probably would have seen some preponements here as well due to high gold prices.

Ajoy Chawla: Yes. So in wedding, see, June actually had some wedding dates as well. So actually and there were some pent-up demand of some May-June stuff happening in June. So actually, we saw wedding was contributing to about 23% of sales in June. In July, which is normally not a wedding period, last year, we had seen 20%. This year, we are seeing 21%. And already, in the month of August first 8 days, we are seeing even better contribution for wedding. So, what we are seeing is in July, August, we are seeing a greater tendency of customers to prepone and anecdotally also that's playing back. Because I think gold prices have been shifting upwards quite significantly in the last 5-6 weeks, that is what is kind of driving customers. So yes, we are seeing an increasing contribution in wedding, even though we lost out in Q1 and we think it could become quite large, if the gold prices continue to shift people want to prepone.

Moderator: Thank you very much. Next question is from Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: So my question, sir, is, what has been the proposition of exchange for the quarter?

Ajoy Chawla: Yes. Is that the only question? Okay.

Harit Kapoor: Yes. I had one short one after that, but if you could please help me with this?

Ajoy Chawla: For the quarter was at 22%. In fact, we've seen it's lower than last year at 30% contribution. And in July, against the 30% of last year, we see 26%. So generally, because a lot thing keeps going up, so they are hesitant to come and we've also not want to be aggressive at least on exchange.

Harit Kapoor: Got it. My second question was on if you look at fourth quarter recovery that you're talking about, it really implies that grammage level recovery will probably be closer to about 75%, 80% odd, at least in the jewelry business, while value recovery will be for full or even better. Just wanted to understand with the prices moving up, do you feel that proportion of grammage which you're not able to fully recover, is that lost sale? Or do you think that, that will come back in F'22 as well? Just trying to understand from a value growth perspective because that could, if grammage coming back eventually could be a big revenue driver into F’22 as well?

Ajoy Chawla: People are downtrading on grammage but managing to still spend more on value. So I'm not sure if that what is lost, will come back next year. The value has come in, whether they will buy more grammage still is very difficult to say.

C. K. Venkataraman: And finally we are in the business of selling products for rupees. One gram can be 50,000, 10 grams can be Rs. 50,000, Rs. 50,000 is what we are talking. That is what the new price per gram, actually we should lose customers if we take volume grammage there.

Moderator: Thank you very much. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Mr. C.K. Venkataraman for closing comments.

C. K. Venkataraman: Thank you very much all of you all over the world for being with us during all times, and I'm sure we will recover fast and surprise all of us.

Moderator: On behalf of Titan Company Limited, that concludes this conference. Thank you for joining us. You may now connect your lines.