"Titan Company Limited Q4 FY19 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Titan Company Limited Q4 FY'19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. 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 am now glad to hand the conference over to Mr. Bhaskar Bhat – Managing Director of Titan Company Limited. Thank you and over to you, sir.

Bhaskar Bhat: Thanks all of you and welcome to the conference call. This is Bhaskar Bhat. We have just uploaded the presentation. As you can see, we have closed the year quite significantly well with the Q4 revenues grew 19% and PBT of course before exceptional items by 7%.

There are a couple of things that we want to share with you. PBT was impacted by an additional provision for investments in IL&FS. Temporary inventory valuation affected in Jewelry to the magnitude of Rs.37 crores and ex gratia for employees on account of the exceptional performance of Rs.34 crores. We have provided entirely for the investment of IL&FS which is Rs.145 crores in July and September, providing up to the Q3 of Rs.99 crores and now we have provided Rs.46 crores more. The company also invested Rs.100 crores in Caratlane, therefore, increasing stake from 66.39% to 69.47%.

There is one more. Based on the current performance, Favre-Leuba, the brand which we acquired several years ago, the brand is yet to acquire stature in the markets where it is selling, it has now got a new strategy with a much greater India focus but we still felt it is prudent to impair after last year impairment of Rs.75 crores, further Rs.70 crores in FY'19 and we believe we have something good going for the future in this brand, looking at the India opportunity, significant change in India we see in the future. So the impairment was prudent. Directors of course have announced dividend of Rs.5 per equity share, represents 33% increase on a per share basis over last year. I think the rest is in front of you as far as Q4 is concerned.

One of the highlights of the year just on a subsidiary we will talk about of course the company in the Q&A but subsidiary Titan Engineering and Automation Limited has performed extraordinary well with revenues growing 42% but it has posted an extraordinary profit of Rs.58 crores on a turnover of Rs.348 crores.

I will hand over to you for the Q&A. I have my colleagues, Ronnie, Venkat, Ravi, Subbu, Raj, Ajoy.

Moderator: Sure sir. Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the margins in Watch and Eyewear. Watch margins have been volatile and is down QoQ and YoY both in this quarter. So if you could comment the intensity, is it more because of ad spends bunching up this quarter? And similarly, Eyewear, most of the quarters last year has been challenging. When do you see decent margins in Eyewear?

Bhaskar Bhat: Ravi will talk about Watches and Ronnie thereafter.

S. Ravi Kant: Before I come to the specific reason for Q4, the margin as you mentioned is certainly not showing any volatile pattern, it is as expected and as it was supposed to happen. For the simple reason that QoQ we have been saying that do not look at the specific quarter, look at the full year. So the overall perspective that I wanted to share with you is that the fourth quarter is always the weakest quarter in terms of sales for the Watches business. Coming to the EBIT margin, if you look at the EBIT margin of the last five years, in the fourth quarter, in three years the EBIT margin has been around 7%, in one year it was 2.7% and in one year it was a loss and this year is 5.5%. So it is really as I said when the sales are low, which is the weakest amongst all the four quarters, plus a lot of provisions get made. So coming to specifically this year, in the fourth quarter the product and the channel mix have thrown up this plus the ex gratia payment to employees has also come in this quarter. If you look at the full year, we will talk about it a little later if required, this year has actually been the best year, Abneesh, in terms of the highest ever EBIT margin, the highest ever profit of course, whole lot of milestones in terms of what the brands have achieved plus a significant foray into the wearable segment. So in the fourth quarter, the mix got also affected by a large buyout from the outside in terms of wearable and license brands which also impact our margin. So basically product mix, channel mix and the ex gratia. So do not look at this quarter, look at the full year and it is one of the best years in terms of sales growth being 14-15% for the year but the profit growth is more than 20%.

Abneesh Roy: On this wearable, is that the fitness brand you are referring to? I saw very high advertising on the fitness brand. So is it not that a lower margin business anyway?

S. Ravi Kant: Abneesh, we have formed a separate vertical called band and wearable which stands for personal adornment devices and wearable which include the brands that you are referring to as well as smart watches. So we have launched a whole lot of smart watches and a couple of bands in the last year, but last quarter was the highest and that is how it affected. So yes, being a completely bought out product to some extent, when it is imported, the margin would be lower than what we manufacture in-house.

Ronnie Talati: I will answer your question on Eyewear margins. You said were challenging right through the year, every quarter. You are correct in that. They were really challenging. This was how we had planned it actually. In this year if you remember our business plan, we had said that we will go after acquiring new customers and over a five year period we would have 10 million customers a year. In that journey, we have moved this year from 2.4 million customers to 3.5 million customers, we have grown our customer base by more than 45% and that has mainly come on the back of disproportionate advertising, we have invested in advertising to build awareness of the Titan Eye plus Chain and Titan Eyewear as the brand. So this was a very conscious decision we took and the results have been extremely good; our top line has grown over 23% and overall business has been very good this year. The EBIT margin was a conscious decision to invest in advertising. Like I said, not worry about the margin at this stage, but focus more on customers.

Bhaskar Bhat: Abneesh, if I were to just close these two conversations in one way, acquiring more and more customers, volume has always been a very big focus in the Watch business and Eyewear pursuing 10 million, number of customers that you touch, going after that and therefore in a way investing in that is where this margin dilution you might see and in Watches it is all the more important to go after the technology customers and we are doing a combination of in-house manufacturing but that will kick in only in the future but a lot of it is buying out. But overall the Watch margin has been improving over the years as you can see in the last two, three years.

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

Avi Mehta: Sir, my first question is across the space we are hearing consumer companies pointing to weakness in the rural market. We have seen market share gains for more than a year now. What is it that kind of gives us confidence on achieving the 20% guidance in the Jewelry business or do you see weakness in the underlying industry growth kind of reversing, is that something that you are seeing? The second was guidance, if you can share on the next year's watch margin especially because we did highlight 14%, 15% for the year in the Watch segment, how do we see it going forward, and similar guidance for the Jewelry margins?

Bhaskar Bhat: I will only start with one thing which is the first part which is to do with we are certain playing out in the Jewelry business and Venkat will talk about it a little more, our expansion is happening in those areas and we are seeing significant opportunity in that. They are not really-really rural. The urban is growing in what we call as Middle India. Venkat, you could talk more about the opportunity that we are seeing and the 20% that we have targeted for the year it is a very challenging target but we could see our ability to achieve that, it is the manner in which our business model works in terms of brands and network and so on. Venkat?

C.K. Venkataraman: Avi, the opportunity in the Jewelry market is so large that even if there is some contraction in the overall demand, we still have substantial space to expand within. The consolidation that is happening in the industry because of structural reforms are certainly also enabling and they are sitting on top of the strategies that we initiated three years back and execution which is getting better and better. So that is the reason why we are continuing to grow. On your question, two and three perhaps we will reserve it for day after tomorrow which is FY'20 related questions.

Avi Mehta: Okay. That will be in the analyst day I am assuming. Can you give any guidance on the tax rate?

S. Subramaniam: Next year should be generally in the same ballpark as it is this year; I would say 29% roughly.

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

Aditya Soman: Two questions from my end. Firstly, on Taneira as a brand do you think you have the strategy in place to roll it out in a faster manner and do you think it will be a meaningful contributor to the growth of the company say five years out? Second question is on the Favre-Leuba write-off, we do not see this on the consol number. So the write-off is only in the standalone number. Is that understanding right?

S. Subramaniam: I will just explain the Favre-Leuba before Ajoy takes over on the Taneira question. The impairment is based on the investment that Titan company on a standalone basis has made on Favre-Leuba. So the impairment is therefore only in the standalone accounts whereas when we consolidate, we consolidate the losses of Favre-Leuba also. So the consolidated numbers therefore will reflect that as well. So therefore, the profit difference is visible. We will not do an impairment again on the Favre-Leuba investment because it is already consolidated.

Bhaskar Bhat: Our strategy is getting developed. We are very clear about the way forward based on the two stores earlier and now four stores and I think Ajoy will be able to articulate it much better. Of course, as we move from city-to-city opening store-to-store, we are gathering more and more knowledge, we just opened a store in Hyderabad two days back and we are 70 clusters under one roof whereas when we opened the first we had only 31. So we are learning but the overall strategy of getting the Indian woman and Indian silk**,** etc., that is very clear and we do see a very significant opportunity. The size, etc., Ajoy will share with you. Ajoy, go ahead.

Ajoy Chawla: The strategy both in terms of product strategy, sourcing and supply chain strategy and the retail strategy are clear. The last two years where we have been running four stores, not for the entire year, but for most of the year, has thrown up enough learning for us and enough confidence that we are now on the anvil of scaling up. In the current year we are looking at adding 14 new stores and over the next five years we expect to reach out to the top-20 cities with the significant number of stores. In terms of its total potential size, etc., maybe on Friday there is some opportunity to share how big this business can be. But it is significantly large.

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

Amit Sachdeva: Just very quickly on Jewelry sort of EBIT, I see Bhaskar making comment about Rs.37 crores sort of inventory devaluation which would be reversed in the next quarter. Probably the expected hedging gain will reverse it and how this dynamic will work? And I also see the base there was Rs.18 crores worth of hedging gain last year as well. Could you talk about some dynamics about what is going on here?

S Subramaniam: Amit, you remember, we discussed this in the past that whenever we value gold, we have variations which happened, we have impact on the inventory valuation whenever gold prices go up or come down particularly when they come down. This quarter for example the second half of the quarter gold prices have been falling quite steadily, and that has impacted the value. So, since we value gold on a FIFO basis, the gold which is lying is more valued at the close of the year end rate rather than the earlier rate. That has an impact on the valuation. Now, if you realize we do hedge our gold as well. We hedge it 100%. So it is not that we will actually incur a loss because we are hedged, but what happens is the accounting standard are different, we cannot recognize the hedged amount when we close our books on inventory valuation. So therefore this mismatch has been happening in the past and we have reported whenever this is material. We do not normally report it on QoQ basis if it is not material. And materiality here if you ask me is anything over Rs.10 crores or Rs.15 crores is when we will talk about it. This quarter it was very-very sizeable and this Rs.37 crores should come back as a gain in the next quarter.

C K Venkataraman: Essentially, Amit, the total gross value of the hedge positions and the gross value of the inventory, that difference will flow back when the positions get squared.

Amit Sachdeva: Sure. That is what I just wanted to confirm that last quarter in Q4 I think there was Rs.18 crores gain in the base.

S Subramaniam: Yes, but because we had a loss in the previous quarter.

C.K. Venkataraman: And whenever it is material, we bring it to your attention.

Amit Sachdeva: If I ignore this sort of gain, then probably you are not unhappy with Jewelry margin I would assume then?

Bhaskar Bhat: We are happy actually.

Amit Sachdeva: Jewelry growth of 20% seems to be also slightly above what you said in the release. It seems to suggest that it is slightly higher than that. So was the March very good or the February took off, how did it all work? Basically, if you talk about how the Q1 so far whatever has been happening, given the wedding days are also stronger and do you see the demand uptick, Akshaya Tritiya and things like that, how the demand picture is looking to you for the Q1, early days although?

C.K. Venkataraman: We had a pretty good Akshaya Tritiya yesterday leading April to over the last one week and our YTD growth is about 19%. So we are pretty happy with it. Our feeling is that the presence of elections in the last three, four weeks certainly had some impact on demand and we are seeing some recovery in markets where elections have ended and therefore, we are expecting a similar turnaround happening in the rest of the markets which are still yet to go to elections. And June is a very good month in terms of wedding dates. So Q1 as a whole we expect it to be pretty good.

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

Nilay Shah: Can you just explain about this ex gratia to employees -- was it on account of some VRS, and what is the split between Jewelry and the other divisions?

Bhaskar Bhat: This is a companywide payment we make. The company growth in profit between last year and this year has been substantial and it has been substantial year-on-year. This is one way of aligning the whole company to achieve and set stretch targets and achieve them so that the overall growth drive across the company. So in a way it is celebratory, it is not contractual and it is gratuities payment. So based on the significant increase in profit even after providing for the IL&FS and Favre-Leuba, board felt that there is substantial increase and it would be shared.

It is based on sharing philosophy of the company with its employees. So two months on basic pay across the entire company.

Nilay Shah: Any split between the divisions in line?

Bhaskar Bhat: It is based on number of employees in each division. I cannot straightaway tell you the proportion. Maybe Raj knows the proportion.

Rajnarayan: Jewelry and Watches of course are the largest divisions in terms of number of employees, Eyewear is number three and then you have numbers in corporate office and also in the new businesses like Tanera and Skin, etc.

Rajnarayan: The biggest impact actually would be in the Watch business.

Bhaskar Bhat: Because employment in the factories, etc., is large.

Nilay Shah: Just the tax bit, unable to reconcile how do you get to this tax rate of 28% for the full year. There is obviously an impact on account of these one-offs that have happened. So could you just give me the tax rate for fourth quarter and try and look at backwards then?

S. Subramaniam: Forget the tax rate for the fourth quarter. I will just basically tell you, the big thing that happened in this quarter; one was as far as the IL&FS provision is concerned, we have taken a deferred tax asset based on opinions and case laws which clearly allow us to do that and which had not been taken by us in the previous quarter. This was based on opinion. Therefore, we went ahead and did that. So that is one exception there. The other one was the Favre-Leuba impairment for which we cannot take DTA because it is a capital loss at this point in time. So it in a way compensates each other but it is not very easy doing math on this but by and large as I mentioned about 28, 29% would be the tax rate for next year.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: I know you have spoken about how you have done but if you could just give a sense of the overall market context and the competitive environment right now on Jewelry?

C.K. Venkataraman: Our sense is that Q4 also the industry performance was not particularly good and while we ended up growing in the 20% range. But FY'20 seems to be better beginning for the industry particularly the last one week to 10-days. So, in Q4, we believe we continue to increase our share like in the earlier quarters.

Harit Kapoor: Second question was this is house-keeping on the tax rate part. Are we saying the entire tax impact for the entire IL&FS impairment for the full year has come in Q4?

C.K. Venkataraman: That is right.

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

Avi Mehta: Sir, you just highlighted right now that FY'20 has seen a big beginning. Can you give us a sense on how it has been till date FY'20 performance?

C.K. Venkataraman: In the 37-days of the year so far, we have grown 19% in total retail sales and we expect to continue this certainly in the first quarter, June is expected, it is a very good wedding month, many-many wedding dates compared to last year Q1 and June particularly and we also are hoping post election, as election happen in each market, pick up starts in those markets, it has been a good beginning, just under 20% YTD.

Avi Mehta: Just trying to confirm this, from a reporting perspective, what we see in the sales there is a divergence between the retail sales and the primary sales in terms of channel behavior. Would that be a fair understanding or no?

S Subramaniam: Avi, what Venkat normally talks about retail sale, he does not talk about the primary.

C.K. Venkataraman: Primary follows retail because 70% is through sales, right, the other 30% there may be a weak month here, there kind of thing but it finally catches up.

Avi Mehta: Second was on the wedding dates. If you could give us a sense on how the increase in wedding dates, does that also help in the year or how does that behave?

C.K. Venkataraman: The number of wedding dates over the last so many years we have seen a very high correlation between the performance of the brands and even in the other categories wherever wedding has a role. Correlation between sales and the number of wedding dates. FY20 has got at least 40% more wedding dates than FY19.

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

Prasad Deshmukh: Just two quick questions: What is the targeted new store additions in Jewelry for next year typically you give it at the end of Q4?

C.K. Venkataraman: Actually day after tomorrow we are in Mumbai and we will be sharing this at that time.

Prasad Deshmukh: Secondly, on 100% hallmarking regulation, what is the update on this as yet?

C.K. Venkataraman: Actually, nothing really, Prasad.

Prasad Deshmukh: Because there have been media reports in between that discussions that happened at with ministry bodies and so on?

C.K. Venkataraman: It has not yet become law and our last conversation with the concerned department has not indicated any firm date of becoming law also.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Just one follow-up was the industry across we have heard about liquidity pressures in the channel. So just wanted to get a sense from you about whether you are seeing any kind of a pushback from franchises, etc., in term of any liquidity constraints from their end?

Bhaskar Bhat: There will be no detailed answer from the rest but I can say from our franchisees perspective, we have not seen any push back nor from watches there are distributors, yes, there is some level of stress but not that visible. In Jewelry, I do not think there is any problem with the L3s as well. Venkat, I do not think so.

C.K. Venkataraman: We just had a conference couple of weeks back with 200 of them and nothing like that at all, Harit.

Bhaskar Bhat: But those of them who are doing business with other companies especially auto companies and consumer durables, etc. they do feel there is a demand pressure, significantly the auto company dealers who are also Tanishq or Titan watch franchisees.

C.K. Venkataraman: It is directly linked to the offtake in industry again.

Moderator: Thank you. The next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy: I have just two questions: One is that what is the total wedding collection contribution in terms of revenue? Second question is what is the demand trend visible in the studded Jewelry segment and what is the FY'19 contribution from the studded segment?

C.K. Venkataraman: In the early 20s per cent. Studded is 29 or 30 YTD.

Bhaskar Bhat: And it is growing, Venkat, that is the point.

C.K. Venkataraman: Yes. All the engines of growth that we have, our building blocks are such that many of the levers if not all the levers will individually grow more than the required growth rate for the brand so that they sort of propel the brand in the direction of the 2.5x and that is happening by and large for all the levers.

Pratim Roy: Just one thing I want to clarify, last one or two con-calls that the target was 20% wedding contribution. This is still 20% only right from the wedding section?

Bhaskar Bhat: Yes, it is still 20%.

Pratim Roy: Any further improvement we can expect from this segment?

C.K. Venkataraman: Actually, the growth rate of the wedding segment in FY'19 was slightly higher than the overall growth rate for the brand. So actually, share of wedding to total has improved in FY'19 but not significantly as you point out, and we are looking at continuing to grow this each year. What exactly it is? I will speak about day after tomorrow.

Moderator: Thank you. The next question is from the line of Amit Sinha from Macquarie Group. Please go ahead.

Amit Sinha: My question is again on the wedding Jewelry and the high value studded Jewelry which you have been talking about and just now you gave a number where you have said it has just grown above the overall jewelry growth. The question is the plan which you had for significant growth in these two segments, is it coming off because of now higher base in the overall portfolio or is it because of some other reason, because I remember FY'18 the growth was in excess of 30%?

C.K. Venkataraman: Actually, in 3Q and 4Q of FY'19, wedding Jewelry growth was in excess of 35%. It was first quarter of FY'19 that actually we declined and that pulled the total growth down for the year. So, if I look at the last nine months, it has been exceptionally good and we are hoping that this year because of the point that I made about, 40% more wedding dates, the overall wedding business itself will grow faster and get a higher share of the total.

Bhaskar Bhat: Wedding Jewelry is not some nationally similar. In each location or each community and sub-community, today we are more relevant in those sub-communities than we were in the first quarter of last year. So I think that also will kick in. The relevance of the Jewelry that we make for locals and that is very-very local taste unlike non-wedding purchase or diamond Jewelry purchase, wedding is very different and our ability to design Jewelry and make it available during the season relevant Jewelry has improved quite significantly over the years but between last year and this year as well.

Amit Sinha: The last year you had given a kind of ambition of doubling the market share in the next five years. Where have we reached in the last one year in terms of the market share, if you can share any number of market share which you have at this point of time in the Jewelry segment?

Bhaskar Bhat: I will prefer the answer with one thing before Venkat gives the number. I think market share gain would have been quite significant, exact number I would not know, not only because of our effort but also because of the rest of the market actually facing downtrend for significant parts of last year.

C.K. Venkataraman: Actually, I have nothing more than what Bhaskar said, because it is virtually impossible to measure share like this in industry like us. All we keep doing is every quarter we get an on-ground sense of all key Jewelry players in maybe 30, 40 cities and that keeps telling us over the last certainly 12-months that our growth rate was accompanied by a much lower growth rate with many of them and declines for many others and therefore very clearly we were gaining share and it is our sense therefore that at a 20% CAGR which is our plan and even at a 5% CAGR for the rest of the industry, we would have doubled share, that was the calculation for the doubling of the share in any case and we are certainly well on the way to that target, so maybe 100 bps jump if I were to just hazard a guess but it would be impossible to substantiate.

Amit Sinha: What number will you put for the industry – was it flat in FY'19?

C.K. Venkataraman: Very difficult to say but go by what is happening on the ground at best flat.

Amit Sinha: What would be the overall CAPEX for FY'19?

S. Subramaniam: About Rs.220 crores.

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

Kunal Vora: How much did Golden Harvest contribute in fiscal '19 and what was the contribution from gold exchange?

C.K. Venkataraman: 20% GHS and 40% exchange.

Kunal Vora: Second is what are the trends you are seeing in online Jewelry buying? Caratlane growth of about 40%, it is good but it is not great considering the low base. When do you see Caratlane breaking even?

C.K. Venkataraman: The consumers are still preferring to explore, discover Jewelry online, but buy them after touching and feeling and therefore the setting up of the Caratlane stores for a full omni opportunity is what we are currently executing. But as we are introducing products which are lower priced particularly in less than Rs.7,000, 8,000, the online opportunity is very much there waiting to be capitalized and we have seen substantial early gains in the last three, four months in Caratlane as well as within the TCL brand. So therefore as long as we remain in the precious Jewelry business with prices which are in the 15,000 and all the way up to whatever lakhs, it will be an omni-channel, the role will be digital experience and retail purchase rather than purchasing online at least in the next two to three years. But the online itself is a very large opportunity and we are betting big on it for Caratlane with the right price point representative, catalogs and ready to ship inventory and the right kind of targeting of the customers.

Bhaskar Bhat: Attempt is to breakeven in the year.

Kunal Vora: How is the competitive intensity in online – let us say similar to offline or online Caratlane maybe doing much better and competition is lower?

C.K. Venkataraman: Yes, very clearly Caratlane has head and shoulders above the rest of the competition in online.

Bhaskar Bhat: And also nobody else has really come into this space other than the one we already knew when we bought this company.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Securities Limited. Please go ahead.

Pulkit Singhal: This is from the Motilal Oswal asset management team. So when you say the industry growth is broadly flat for the year, is there a demand side issue or is this a supply side issue?

C.K. Venkataraman: It is a combination. What has happened is that ever since demonetization happened, like a shock to a lot of people who used to park cash in Jewelry, I think somewhere that was a structural impact on the industry and we started hearing reports from many jewelers who are dependent on those kind of ticket sizes for their business and particularly in diamond Jewelry starting to struggle in late '17. The other thing is certainly the banks starting to get to wary about financing the Jewelry industry, then the GST introducing lot of complications at the operations, and people not being able to bill off the books but keep inventory and account and all that. So from multiple sides, both the demand and the supply sides have been affected because of these.

Pulkit Singhal: When you talk about the demon part, I get it, but I thought that aspect would kind of unwind as you go into the following years?

C.K. Venkataraman: I am just saying it is very difficult to keep a very close track on it jeweler-by-jeweler and all that. I am just telling you that on the demand side also and somewhere I guess the overall scene on high ticket consumption if I take the autos for example somewhere Jewelry is a high ticket product, even though it is a store of value, it is a high ticket product, somewhere the overall discretionary spending level itself is a little low and I am sure it has got an impact on Jewelry as well.

Pulkit Singhal: Just to understand the supply side issue better. The customer does not buy Jewelry just because certain kind of Jewelry is not available near his vicinity and therefore he is deferring his purchase.

Bhaskar Bhat: I doubt very much. We have not seen anything.

C.K. Venkataraman: I am talking about the customers sort of becoming wary of parking black money in Jewelry and all that which used to happen.

Pulkit Singhal: So when you get share from your competitors and they have liquidity issue, I am presuming they are not able to keep even what they were earlier able to keep and then therefore you can…?

C.K. Venkataraman: It is possible because like there are many competitors have asked who are overdues to vendors went into 6, 9 months and all that and therefore their ability to replenish their stocks is impeded by that situation, banks not giving them the kind of credit that they used to give earlier and all that. But the customer migration is also happening because customers are now wanting to shop with organized brands and particularly a brand like Tanishq. So in the last 18-months we have seen substantial migration at high ticket sizes for the first time. Earlier customers used to come in and buy new customers would buy Rs.30,000 and then migrate to 1 lakh on the second, third purchase. But you have people now buying coming directly and buying Rs.3 lakh. So, those are customers who do not any more want to deal with jewelers of a certain reputation.

Bhaskar Bhat: So the point I think is as follows: Earlier design and trust were the basis of buying Tanishq. Now design, trust and safety, they feel safer buying at Tanishq. Even if you are buying less than Rs.2

lakhs worth cash, you rather go to Tanishq because the overall environment on cash purchases and all this KYC, etc., has made the customer want to play safe.

C.K. Venkataraman: Also, particularly in the high value diamond Jewelry space, the incidents that happened relating to the Mehul Choksi, they created a lot of panic among people about the authenticity of diamonds and that continues to remain a big advantage for Tanishq.

Pulkit Singhal: To that extent it probably makes a lot of sense to just rapidly increase the stores very fast before things normalize?

C.K. Venkataraman: We will speak day after on that.

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

Vaibhav Goyal: Sir, because 40% of our sales come from exchange, how do we assess the industry growth rate and the way when we say that industry has been stagnant, so how do we come to know the overall pie growth?

C.K. Venkataraman: It is very difficult to come to know honestly, Vaibhav. All I am saying is that we have a process of assessing every quarter, the performance of let us say key jewelers in many of the markets where we operate in and we in a way compare our growth or decline or whatever with theirs and that over the last four quarters gives us a sense. It is very difficult to cumulate all that because it is not like we know the exact sale of each jeweler in crore terms last year, same quarter, this year, therefore all up all that to get a size of the pie. But if you look at, there are so many of them negative, some of them small positive, some of them big positive. The sense is that together all of them is at best flat.

Vaibhav Goyal: For us the pie has grown significantly. So this would have a similar trend on the industry or it would be only probably related to a few large jewelers?

Bhaskar Bhat: It is very difficult to assess. Venkat, the point is will it have industry wide effect in the long run which means overall industry will it contract or remain the same if I understood the question right.

C.K. Venkataraman: It is very difficult because it is a long-term kind of question. I do not have a view on it at the moment. Obviously, it would certainly not be in our interest for the industry to continue declining every year for the next many years.

Bhaskar Bhat: Also, the point we are seeing clearly is and we explained to you the transformation from gold to Tanishq in the small town, it is very clearly moving towards adornment, okay. And therefore, maybe structurally it is changing in terms of product mix but the desire to own and buy Jewelry still remains very high as far as we can see on the ground. Now investment Jewelry going out and getting replaced adornment, how that will play out is very difficult to predict.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir, what will be the wearable sales in the overall watches segment for FY'19 and what was that number for last year?

S. Ravi Kant: Within the Watches business, as you know, we are the #1 and 70 million is the plan this year but we did 60 million last year. The traditional watches are very big. So therefore if you look at the share of wearable as of now it is sub-10% but it is going to grow in the future but I am very pleased to share that we are now the #2 wearable company in India as confirmed by international data of operations. Since we are so big in the traditional watches and cover all price segments, all consumer segments across channels, today it is sub-10% but likely to grow by rapidly.

Bhaskar Bhat: Also, I want to add one thing to Ravi's point. I think we should not jump to the conclusion at all and it would not be in our interest also as the business that the wearable will take over the watch business and therefore people will start wearing wearable instead of wrist watches. Our view has never been that the desire to wear beautiful piece on your wrist amongst certain number of customers exist and can be enhanced and we are seeing that with products like Raaga, Octane and Nebula and so on and so forth. So that effort will continue. So the wearable effort in a way is additional and it is going to bring more people into the Titan company fold into the Watch business like you said personnel devices and wearable. Therefore, that first question on marginal cost, is it coming at lower margins, should not really bother us because the balance is not a proportion question, it is growth in volume terms and of course sensible growth in profit terms.

S. Ravi Kant: Just to add to what you said, Bhaskar, since we are so large already in terms of number of consumers we reach out to, I think the wearable strategy is helping us acquire new customers specifically youth who are stopping to wear watches and looking at only activity brand. So quite a new customers is really the reason for that.

Tejas Shah: Sir, generally you have explained the Jewelry that the early proposition is design and the whole retail experience. I think wearable competition landscape is much more different than our traditional watches one. So what is value proposition that you believe that consumer is aware of things?

S. Ravi Kant: Titan has always approached every category very differently from the rest of the market. To know more about how we are approaching this, can we wait till day after?

Tejas Shah: Sure, sir. Thanks, and all the best.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Bhaskar Bhat: Thank you, all for your very insightful questions. I hope we will meet all of you the day after tomorrow in Mumbai. All the very best.

Moderator: Thank you. Ladies and gentlemen, on behalf of Titan Company Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.