"Titan Company Limited Q1 FY16 Result Discussion Conference Call"

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Moderator Ladies and Gentlemen Good Day and Welcome to the Titan Company Limited Q1 Results discussions hosted by Tata Securities. As a remainder, all participant lines will be listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Subham Sinha. Thank you and over to you, sir.

Subham Sinha: Hello everyone, Subham Sinha here from Tata Securities Limited. I welcome everyone to this Q1 FY16 conference call of Titan. We have here with us Mr. Bhaskar Bhat who is the MD of the company, Mr. S. Subramaniam – CFO, Mr. C.K. Venkatraman – CEO Jewelry Division.

Management: CKV is not here, he is ably replaced by Sandeep Kulhalli.

Subham Sinha: Okay. Mr. S. Ravi Kant – CEO Watches and Accessories Division and Mr. Ronnie Talati who is CEO of Eyewear Division. I now invite Mr. Bhaskar Bhat to take over. Over to you, sir.

Bharkar Bhat: Subbu will start with the Censor Board Certificate first.

S. Subramaniam: I thought first we will talk about the revised Investor Relations policy that we are planning to implement starting from now. You are all aware that there have been quite a few changes in regulation from SEBI which have required us internally also to change our code of conduct and our policy towards Investor Relations and disclosure of public information to the public at large. So in that context some of the guidelines that we got or rather the advice that we got was to record conversations with investors, analysts and so on and so forth. Now you realize that this is going to become very difficult and therefore what we have therefore planned is that we will have as many conferences or group meetings as possible rather than an individual meeting.

So to start with we will have the quarterly investor call which will now be for 90 minutes as against 60, because we have got some feedback from a lot of investing community that the time allotted was not enough, so we will give you more time in this quarterly call. We also plan to have an annual investor conference call where the business heads from the company will make presentations to the investing community at large which will also be webcast so that we are sharing with you the outlook, the operations and our plans for each of our businesses over a period of around 2, 2.5 hours, that is the plan as of now, the first one we are planning to have on the 12th of August.

We will of course continue to attend investor conferences, we plan to do at least 10 to 12 a year both inside and outside the country and this will be attended by senior management. We also would be looking at dissemination of information, of course the transcripts of calls are already happening, as we speak the presentation that we make are posted on our website, but in addition to that we are planning to publish information on company's activities periodically as and when relevant on our website so that we are sharing information about the company uniformly to everybody at the same time. The other thing is that we will continue with our practice of not giving guidance, so no numbers and friends will be shared but we will talk about moves and plans and the overall strategy.

In the light of all the above we are going to restrict our one-on-one meetings or calls quite significantly, it is not that we are going to make it zero but it will be very significant to be reduced. We are also opening up a special email id investorrelations@titan.co.in where anybody could send their queries or comments and so on so forth and we will try and get back to you very-very quickly.

With this I give it to Bhaskar to talk about the Q1 performance.

Bhaskar Bhat: I think it is all there, we put it up on the website. So it has been a disappointing quarter no doubt and particularly June pulled us and I guess a lot of companies in the market place but I do not want to talk about the market place but ourselves. The quarter you know is full of wedding dates, specially this is a rural weeding session and it has not gone well for jewelry as well as watches, jewelry of course there are reasons like GHS and all but it has gone beyond that, sentiment certainly was not for conspicuous consumption and it was let's say highlighted by the other extreme where the FastTrack watch scheme was not able to pull in enough by itself and in fact was either flat or a small decline over the last year scheme. The good news of course, both in watches and in jewelry was we were able to improve our gross margin and one was the absence of the GHS there is a small contribution on account of that.

Store expansion, we have not pulled back on store expansion, our targets for the year continue. PBT decline was on account of two big reasons, apart from decline in sale which in jewelry was basic contributor, although watches grew 8%, but higher advertising spend and we conduct these business associate meets and this year we did it for all the three businesses and spent the substantial amount of money taking our very valuable partners for overseas conferences and it all happened in one quarter and it has got a onetime impact on the bottom-line. The CEO of watches retired on the 30th of June and Ravi Kant, my colleague who was heading eyewear is now CEO of watch and accessories division Ronnie Talati has taken over as CEO of the Eyewear business. More recently Forbs Asia again we figure in the top Fab50.

Gold prices 6% below last year and well, customs duty apart this is now comparable with last year, I think assuming to the sales in last year, globally also this the global decline. Indian customers continue to be smart so they were waiting for further decline and it happened in July and we have seen a quick surge of consumer demand because of the sharp drop, perhaps sharp drop and with the expectation that it may have bottomed out. The impact of Golden Harvest you probably all are aware of and in fact it is going to affect us even more as we come close to the end of this month August which is when we close GHS last year, but adding to that was a certain expectation of the response to the studied activation which did not happen, response was lukewarm and reasons attributable are many, one of them is that it is closely following a scheme in the last quarter of last year. As well as one underlying theme which I at least heard when I travelled across a few markets is that there is an inauspicious period which was very strong during this year, this is once in four years phenomenon which is in various parts of the country given various names, one of them is Karma but June seems to have really been an inauspicious time and therefore the traditional customer for certainly for gold and wedding is not there. The good news of course is that shall I say recalibration of making charges in jewelry has had a positive impact of getting new customers up to by 22% and just to correct everybody's perception this has not affected the brand at all, in fact the brand Tanishq has become stronger if anything in the last quarter or so and we are not below the market or anything, we are if anything equal to or a little higher than the market, but we have come within the consideration set, the reasonable nest of the making charge was the issue in many customers' minds and now we have become reasonable. Within the company, we are purchasing gold on spot and not using so much gold on lease but it is a daily decision we take depending on the economics because it is economical now to buy on spot.

Store expansion continued in jewelry with 20,000 square feet added three stores and we launched the Timeless Collection in Gold Plus relaunched wedding collection.

Watches, it was issue of walk-in, activation in FastTrack I spoke about, net store expansion muted as new store additions offset largely by closure of earlier non-profitable stores. Of course we continue to launch new collections and it has done well and it holds potential for the long-term, Celestial and the Octane; Shagun in Sonata is a unique watch done quite well, the ring cum watch. Eyewear of course has had a good 20% growth, continues to expand, store expansion was aggressive at 18 stores and a whole lot of new collection. Titan engineering, exceptional growth, the highest growth in the company in terms of divisional growth, margins however are under pressure and they are getting corrected, there essentially were some erroneous pricing etc which customers have come back and some of them are accepting a price increase and this business is getting subsidiarized, we have created the subsidiary, not formulized it yet, Titan Engineering and Automation Limited to be complete by the end of this calendar year.

I think the rest is in front of you, growth etc, and we will I think go on to the questions because you all must have all seen all these slides.

Moderator: Thank you very much. We will now begin with the question-and-answer session. First question is from the line of Puneet Garg from HSBC. Please go ahead.

Puneet Garg: Hi, this is Puneet, I am from Goldman Sachs. So I have got couple of questions, first is that like if I have to look at Q4 and Q1, in Q4 your same store growth decline by 25% and in this quarter your same store growth declined by around 12% and despite that the revenue growth on the jewelry side is same in both the quarters. So what could the reasons for that be?

Bhaskar Bhat: You are talking of same store growth decline compared to fourth quarter of last year?

Puneet Garg: Yes, so in Q4 the same store growth declined by around 25%.

Bhaskar Bhat: SSG decline in comparison to fourth quarter of 2013-14 you are talking about?

Puneet Garg: 2014-15.

Bhaskar Bhat: Yes, yes but in comparison to 2013-14 or…?

Puneet Garg: No, no last quarter.

Bhaskar Bhat: Fourth quarter of 2014-15 compared to 2013-14 last quarter or the previous quarter?

Management: You are talking of sequential quarters or…

Bhaskar Bhat: Sequential or you are taking annual?

Puneet Garg: Sir let me clarify, so like in Q4 we had a same store growth decline of close to 25% on a YoY basis like-to-like and your revenue decline in Q4 was minus 16%. If I look at 1Q, in 1Q your same store growth decline is more like 12% for Tanishq while your revenue decline is around minus 12%.

Bhaskar Bhat: This is not sequential.

S. Subramaniam: No this is not sequential, this is annual.

Puneet Garg: This is annual yes, this clearly is annual. So like while you same store growth decline has reduced from 25% to 12%, the change in revenue is not that large, why will that be?

S. Subramaniam: You know how we account right, what we are talking about here are retail sales, so they may not be exactly what is primary sales as well, so the difference eventually would be the billing for L3s, the franchises that would contribute as difference, nothing else.

Bhaskar Bhat: They are at 30% roughly, right?

S. Subramaniam: 31% to 32%.

Bhaskar Bhat: Yes, there has been some correction in the first quarter, so let's say this is the consumer behavior that is more a business, so there is a quarter's difference in that sometimes, it depends when they buy their stock basically, it is all about when they buy it early or they buy it late.

Sandeep Kulhalli: Plus one more impact also has been from like-to-like customers, see in the last quarter the impact of GHS of last year was far more significant and this year first quarter we have spent, if you see the advertising spend of first quarter, we have spent largely and we have seen a clear 7% increase in new customer acquisition, so we have lost customers less in first quarter than the amount of customers we lost in last quarter of last year. Therefore if you look at it performance seemed a little better than quarter from last year.

Puneet Garg: So therefore it is possibly not going to be reflected because L3 stores possibly bought less in this quarter?

Sandeep Kulhalli: As well as this issue what I mentioned to you about, we managed to recover a lot of customers back, new customers for two reasons, one is the price drop and the entire campaign on promises which talked about value which bought in lot of new customers in quarter one. So we managed to recover not more ground in the first quarter of this year then we lost in the quarter from last year.

Puneet Garg: Okay. So any insight you can throw on the fact that why did L3 behavior change in this quarter vis-à-vis previous quarter in terms of buying jewelry?

Bhaskar Bhat: See these guys, I cannot ascribe specific reasons, they do not hedge their gold so they probably saw a lower gold price going forward and therefore they have been smarter, actually gold price has dropped so to that extent they have booked a lower loss on their books by postponing their purchase, this is I think primary of the reasons.

Sandeep Kulhalli: Plus the sale, like I told you the GHS impact that we saw after post September, the impact of six months to March were felt largely by the L3s but they were holding inventory and they did not see sales for October, November, December, January, February, March to the extent that they wanted to so they did down stock in the last quarter of last year instead of activation. Plus the gold rate point which Bhaskar mentioned, the combination of these two made them buy a little less jewelry in the last quarter of last year.

Puneet Garg: Okay. And also you mentioned in the comments that there has been sharp pick-up in demand in July but there seems to be mix feedback, because like you are saying that the customer is smarter and there is a perception that gold price may fall even more, so what is determining consumer demand at this point of time in terms of behavior in July?

Bhaskar Bhat: Frankly, very difficult, it is yo-yoing a lot, we see some peaks and some troughs. Currently what the division is simply doing is pursuing, I mean making sure that we deliver on the promise, deliver on new product introduction and continue to do what we can do, to make any kind of bet on what the sale is likely to be is very difficult currently. We did very well for some few days and now the feeling is that the gold price will drop further and therefore consumers have pulled back. Now I do not know, today is Guru Purnima, I do not know things have become rather too unpredictable. That is the frank answer, I don't know, Sandeep anything else?

Sandeep Kulhalli: No, there have been very positive signs, look at the 18th July and below and from post 18th you will see the jump in quantum of kg, it is 100% jump in quantum of kg sales pre18, post 18. But then suddenly in last three days it has certainly come down to back to 40kg, 50 kg level, they have gone to 100 kg level post 18, but last three days come down to 50kg a day. So these are very uncertain trends if you call them.

Moderator: Thank you. Our next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Thank you so much for your interaction policy, but I want to know one thing that your FII holding is below 20%, I think no one in the company is aware of it, no one has written to the Reserve Bank that the Reserve Bank ought to allow FII buying even without enhancing the earlier, we have applied for them to enhance the stake. So I would like to know whether you have interacted with the RBI, in the end it's part of the corporate governance that the largest part of the industry…

Bhaskar Bhat: No Rakesh, corporate governance, up to 24% is not about governance, it is about.

Rakesh Jhunjhunwala: It is okay, you may disagree, agree to disagree Bhaskar but the question is, it is a question that you have to allow the largest part of the investor community in the world to buy your shares. Now nobody in the company I think is aware that the holding is (**Inaudible) 20:23**

Bhaskar Bhat: But Rakesh we have no reluctance, I mean maybe Subu can answer this a little more technically.

Rakesh Jhunjhunwala: No, Bhaskar I would like to know the action the company has taken up with RBI because there is no reason why we should not be allowed.

Bhaskar Bhat: Correct, there is no reason why we should not be allowed.

Rakesh Jhunjhunwala: Have you written, but if the government is not doing it, it is a part of the company to take action.

Bhaskar Bhat: No, but we cannot encourage some FII to come and buy, they are being, see the limit even at 22%, 24% to 22% that 2% gap okay I can understand, but when it drops below 20%...

Rakesh Jhunjhunwala: Bhaskar, as per RBI policy see we are ahead of 24%, when it hit's 22% RBI says you can buy only with their permission.

Bhaskar Bhat: Correct.

Rakesh Jhunjhunwala: 24% they are saying you can buy only you cannot buy, because our holding has gone below 22%, it's significantly below, if the RBI is not taking action the company won't take any action?

S. Subramaniam: Yes, you know that we have been following up with them and unfortunately it is not moving.

Rakesh Jhunjhunwala: You can do that, how do we know have you written to RBI about this?

Bhaskar Bhat: Yes, we have.

Rakesh Jhunjhunwala: And there is no reply from RBI?

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: There is no RBI has taken action on that?

Bhaskar Bhat: No, we have to now move informally Rakesh, that is all I can say.

Rakesh Jhunjhunwala: No, I think we take this matter very lightly that is my personal opinion, I can be wrong. I mean it is a serious matter because as a shareholder a foreigner is paying Rs.10 extra to buy shares which only the foreigner can sell, so you have no interest in the minority shareholders and the valuation they get from the company? You can see on the screen, it is an essential matter, it may not be in the interest of Tata Group and so **(Inaudible) 22:12**, but it is in interest of your minority shareholders.

Bhaskar Bhat: No, no I understand your point Rakesh, but beyond a point what would you do with RBI.

Rakesh Jhunjhunwala: I only want to know that if you have followed it up and if the RBI is keeping quiet about it, not doing anything about it? I don't know, I think we are taking it lightly.

Bhaskar Bhat: Fair enough, I don't argue that point, you have a view that we are taking it lightly but we do not believe so but we can redouble our effort, that's all we can say Rakesh.

Rakesh Jhunjhunwala: That's what I want.

Bhaskar Bhat: Alright, sure.

Rakesh Jhunjhunwala: And second thing is why should they not allow us greater than 24%, there is a law in this country that 16 months they are sitting on our application, why should we not make a big noise about it as a company. The RBI is suppose to follow government policy, we have asked them for permission one year ago why aren't they acting, either they reject it or they accept it, we have a very active Governor we should make him aware of this.

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: My second point sir is that in your eyewear business in your fourth quarter of last year your sales were lower and your margins were higher, why is that in the current year sale is higher and margin is lower?

Ronnie Talati: So Rakesh Ronnie here, I will answer your question. We ran an activation this year and we acquired more customers this year therefore our sales our higher, but the margins were slightly lower because of the activation, it was up to 40% off, it was a liquidation activation that we ran. It was quite a successful activation, we acquired a whole lot of new customers with this activation. So overall we are running ahead of target.

Rakesh Jhunjhunwala: And is the sale holding on even without the activation?

Bhaskar Bhat: Rakesh I think this is a one night stand issue, I think it is the higher advertising and business associate meet costs also sitting there, I do not see a big concern here.

Rakesh Jhunjhunwala: No, nothing big. But is this growth in sales because you did the activation the growth in sales was very good, right?

Ronnie Talati: Yes, correct.

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: Holding on even after the activation is closed?

Bhaskar Bhat: Yes, it is.

Management: The other thing is, running a special sunglass campaign after many years.

Bhaskar Bhat: Correct, so there was a lot of customer acquisition, advertising and business associate meet let's say all in the space of promotion which gave us extraordinary sale number.

Rakesh Jhunjhunwala: Bhaskar I do not say that is wrong, my only question is…

Bhaskar Bhat: Not a decline, I mean it has obviously declined from, the rate of growth compared to the scheme period has declined but it has not crashed, that's your point I think, the rate of growth which is called whatever, the regular rate of growth is back.

Rakesh Jhunjhunwala: Right. And this Golden Harvest scheme you have restarted it, right?

Bhaskar Bhat: Yes, we have.

Rakesh Jhunjhunwala: What is the response and in which quarter will really the Golden Harvest sales because there is a maturity period, we can predict the maturity.

Bhaskar Bhat: It will come only after Diwali. In fact we started in November last year, so you will start getting the shift from last…

Sandeep Kulhalli: We will get 50 crores in quarter three and four and 450 crores in quarter four.

Rakesh Jhunjhunwala: How much in quarter four?

Sandeep Kulhalli: 450 crores. This is the total sale including the up-selling that we have streaming at 50% and the maturity value of 100% people who have enrolled till March which is…

Rakesh Jhunjhunwala: Yes, so there will in the third quarter 50 crores and fourth quarter will be 450 crores?

Sandeep Kulhalli: Yes, because we had a slow start to enrollment in the initial period, but we have wrapped it up post that because there has been impact in some form in this year's sales.

Rakesh Jhunjhunwala: Is this 1 lakh thing been enforced?

Bhaskar Bhat: No Rakesh, thankfully not.

Rakesh Jhunjhunwala: Alright, there have been second thought. And when will those scheme about Golden Harvest view is limited no no we cannot take more than 600 crores I think?

Bhaskar Bhat: Yes, that has gone up to 700 crores odd now, 778 crores or something now because of the increase in the capital net worth. And the good news is, next year when the new NDS comes in we do not need to provide for dividend as well, so that would take up again by about 50 crores on top of the increase especially…. So I think we should be fine and then of course we are also working with the banks, two banks we are working with so we can always top it up if required.

Rakesh Jhunjhunwala: And sir there was a report in the press that you have done some modeling, how is that cash thing going with the banks?

Bhaskar Bhat: Yes, see how it works at the bank is that the customer is a bank's customer, till such time the installments are over after which they can come over and get the same discount…

S. Subramaniam: It is like enrolling in a recurring deposit scheme with ICICI or HDFC.

Rakesh Jhunjhunwala: So when we do it with the banks then this limits will not apply?

S. Subramaniam: Yes, it is his problem and KYC is also his issue.

Rakesh Jhunjhunwala: But have we hit this payment of 700 crores whatever we have?

Bhaskar Bhat: Not yet. No Rakesh there is one consumer issue in this which we are trying to crack, see the abrupt closure we have come back in an aggressive manner but there is a certain reluctance even on the consumers part saying you guys might again, we are not sure so there is a reluctance so sales force, I mean the girls in this retail store are aggressively pushing but immediate come back has not happened on two accounts because others are still offering and they had not stopped offering, so a lot of consumers had gone that way, plus there is this feeling that you guys might again stop, so it is a combination.

Rakesh Jhunjhunwala: It will make a major difference because the fourth quarter of last year had no Golden Harvest schemes and in the fourth quarter of this year we will have 450 crores of Golden Harvest scheme, that means that will be a very big delta?

Sandeep Kulhalli: Yes, it should be, yes.

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

Sanjay Singh: Hello sir, just a clarification. You mentioned that you will get the first Golden Harvest sales in Q4 of this year, right?

Bhaskar Bhat: Yes. Q3, I said after October, I said Diwali.

Sanjay Singh: Yes, but main will come in Q4, Q3 would be very less, right?

Bhaskar Bhat: Yes, yes.

Sanjay Singh: And that is as of now 450 crores as per the collections till now, right?

Sandeep Kulhalli: Still that period of 10 months.

Sanjay Singh: Till the period of 10 months, so till sometime around February, March of this year?

Sandeep Kulhalli: Yes.

Sanjay Singh: And you can go up to 750 crores in GHS, right?

Bhaskar Bhat: As of now we can go up to that, but we cannot touch the limit because it is monthly installment, so you cannot overnight go and touch that limit, so we have to wait till the customers come to that limit, so yes.

Sanjay Singh: So as of now what is the GHS amount taken from customers?

Bhaskar Bhat: We are not sharing that number now, but what Sandeep indicated would be the sale that you would start getting, we don't publish our balance sheet now that is the only reason I am not giving that number now.

Sanjay Singh: Yes, okay. And you mentioned something on the dividend part which I missed, what was that?

Bhaskar Bhat: No there is the new accounting standard NDS which will come in from next year, today if you see what we do is we have to provide for dividend which is proposed and we net it off from the net worth, so that brings own; say we normally declare 200 crores of dividend, so to that extent our net worth is depleted, right, now next year I do not need to do that, from next year onwards when the NDS is on, so to that extent the net worth will be higher.

Sanjay Singh: So then it will go to 900 crores, 950 crores?

Bhaskar Bhat: Yes, that is right.

Sanjay Singh: But do you see the customer going up to that level number or the customer is not increasing to that level number?

Sandeep Kulhalli : No, we are very confident, there was a slow start for many reason and Bhaskar mentioned few of them, also then our own habits of the store that got diluted, the sales were not down, generally little bit of, but last two three months and we have been refocusing on the efforts, there is a clear sign that that process is improving tremendously. So we have done larger numbers in the past, we have done 500,000 accounts in last year 2014-15 so we will do about 120,000 accounts compared to that figure at the current rate of Rs.7000, Rs.8000 per account. So it is a question of getting used to it and believe us it will not be too far away when we get back to our monthly quota that we have set for each store and for every outlet we have got target set basis at 750 crores between three brands, so it is about 700 crores of Tanishq.

Sanjay Singh: So you mentioned there are 1.2 lakh customers currently with GHS?

Sandeep Kulhalli: I just gave you ballpark, no that is the breakup of 600-700 crores if I take breakup of current Rs.5500, Rs.6000 per account that we are enrolling now, average, we are talking about something like 120 or 130 accounts to achieve 700 crores of total enrollments.

Sanjay Singh: Okay. And just in the presentation, I do not know whether it is the error or something else, in Tanishq square feet last time was 7.25 lakh square feet, you mentioned that you have added 20,000 square feet but the number says 8.25 lakhs, so it should be 7.45, is it a mistake or is it something else to read there?

Sandeep Kulhalli: That would have included maybe Gold Plus.

Sanjay Singh: Okay. And the customer growth was what this quarter?

Sandeep: It actually declined overall but there is a 7% growth in new customers and 15% drop in old customer, so 5% decline in total customers.

Sanjay Singh: 5% decline in total customer.

Sandeep: There was the 33% share of GHS in the last year same quarter.

Sanjay Singh: Sorry, can you repeat that?

Sandeep: There was 33% in last year first quarter, there was 33% customer contribution of GHS which was zero, in spite of that we managed only a 5% decline in customers in Q1 this year.

Sanjay Singh: Okay. And despite your price cuts why would there be a gross margin increase just because of studded or is it something else there?

Subramaniam: Yes, largely studded, studded ratio was significantly higher, 29% as against 23% last year, so that is one aspect. Second, because of the absence of GHS the payouts are lower, so it is a combination of various things.

Sanjay Singh: Yes, okay. And in jewelry again you had preponed the activation program, so does that impact your Q2 sales in any way?

Bhaskar Bhat: It will.

Sandeep: It will impact, there is that problem of Q2 which we need to manage because of that preponement.

Sanjay Singh: Okay. And in terms of, Mr. Bhat had mentioned in one of the interview recently that competition is something which is at least bothering him in some way or the other which was earlier never the case, so can we just have a brief as to what you are seeing in terms of competitive activity and how is it a pain point if all?

Bhaskar Bhat: No, pain point and all I don't know those are a little, see competitive intensity is what I spoke about, if you take watches it is a highly competitive business already, every brand is here, every reasonable brand in the mid-market and the up-market is here. Jewelry in the recent past, let's say in the last there or four years, activity on the branded side and I would say branding is not about a single name but lot of jewelers who are following the Tanishq business model several of them have come, the space of course is very large and therefore we welcome competition and the sector changing more and more towards branded jewelry is welcomed from Titan's point of view but the intensity has increased. Now the problem is when there is this government regulation and everybody does not follow then the with the same competitive intensity you end up losing because the level playing ground becomes completely non-level, I mean if you take the ability of certain people to give away despite our drop in making charges, if you are able to give a lower gold rate because of access to gold which does not suffer duty or if you are able to get that customer who is supposed to produce the PAN card and you can do it without all that, then there is a same competitive intensity translates into certain loss of business. So these are concerns which you cannot do anything about, you can keep improving customer loyalty, product differentiation, store experience etc. Watches, again you know that in Helios for example we have every brand and there for example the category attractiveness seems to be still high because it is growing same store growth is quite good, it can be better. So the category is attractive but because there are 30 brands in that store, obviously it is not everyone buys a Titan and there the market share is very low. Eyewear of course, it is early days but it was always reasonably competitive, so I was only stating some facts and my take on the competitive intensity. Concern, we are still consumer focused and less competition focused.

Sandeep Kulhalli: See other point is, there was a point investor raised about our price drop in terms of our plain making charges, it also has triggered a drop in competition also, but the fact remains that they cannot sustain it, the question is we are not very sure of the sustainability because the news is that big accounts like, many jewelers are not expanding, they have stopped their expansion plans because the cost of new projects at the current margin and their earning are not sustainable, so there is a pressure on them to come back and as we speak there is a meeting with the south jewelers in 1st of August where they want to take up the gold rate which they have never done in the last years, they have not taken the gold rate up in the market place but the big jewelers are meeting on 1st to agree on taking the mark-up to 94%, 2.5% mark-up on the gold rate, which are signs that they are under tremendous pressure to sustain their operations and unfortunately they are not published companies so therefore the kind of noises they are making is that they are not sustainable for a long period of time. So it will benefit us in the medium to long-term in a sense that these guys have to bring up their cost either gold rate or making charges which will make is even more competitive and we need not go down any further on making charges drop.

Sanjay Singh: In this regard have you seen any competitors because of the gold price fall and since many of them do not hedge have gone bust?

Bhaskar Bhat: Yes, not bust, that's why the problem is, we do not know when they will go bust but the point is there is clearly enough evidence on the ground to say that the hedging clients are typically are about 60% still unhedged, it was published I mean some news article I read that saying that most jewelers including TPZ have improved their gold on lease but most of them have still taken position on gold including the big names, so they are still buying gold and therefore the current performance of gold would also impact them adversely.

Bhaskar Bhat: But one indication of a possible going, I would not say going but distress sale, we saw in between gold prices below our purchase price, so obviously somebody was offloading for cash, for whatever, for conversion. So those are early signs perhaps, we have heard of one or two closures but I would not say bust, I mean it is not about going bust, it is probably an inefficient store operation or whatever.

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

Amit Sachdeva: Sir first question is on the gold plus side, I see a 24% decline in like-to-like and sir if I remember correctly, two quarters before you had sort of rejigged the pricing strategy of the Gold Plus and the growth had come around to 30% odd and you had perhaps become slightly more optimistic about the model, looks like we have gone back to where the trends were earlier. Is this something not working there or it is just plainly deferment of purchases people are making with cola prices falling, any color on that would be helpful.

Bhaskar Bhat: We can only give color, but okay let me start and Sandeep will add. I do believe there is some nuance of rural in this, I am not definitive about this but despite gold price being low and there being a reasonable wedding season it did not have the uptick, so there is that certainly sitting there, beyond that Golden Harvest etc of course if, I mean golden futures and all were there but that was a small contributor actually. So the brand is still not very strong but it's presence if pretty strong.

Sandeep Kulhalli: Yes, there are two large issues we have seen, last year when we said we have revived the brand in some form by infusing fresh impetus to the brand and marketing and pricing and which showed traction for that last year clearly and like was a first serious attempt to build the brand Gold Plus in those markets. But having said that unfortunately the competitive intensity of these competitors largely in south India are bang into the Gold Plus market and this revised price after we dropped it further has compound the problem a bit more, the brand is not as strong as it should be along with the competitive pressure of making charges drop that they have taken 3%, 4% has to a certain extent stalled our growth which we had done last year. And Bhaskar's point that there is some impact of agriculture reign effect, some issues there also, these three combinations have put a little stress on it but we are looking at this quarter actively because we are relaunching the brand campaign and without any price correction but inventory correction and we are hoping that we stem the rod to a certain extent in this quarter, we will see thereafter.

Amit Sachdeva: Okay. Sir very quickly on gold loan lease, you say that you are buying most of the gold on spot but if you look at the annual report which was recently released that other trade payables have actually gone back to about 2000 crores which used to be there when the gold on lease was there and I believe that most of the liabilities sit there for gold on lease, how do we reconcile the two, looks like…

Subramaniam: There is no issue on reconciling Amit, it is basically that what we are saying is that we are in this quarter I am talking of the April-June quarter started moving more towards spot and I think we have discussed this earlier that the cost of funding eventually we will go with whichever is cheaper, so there was a significant opportunity on buying in cost because we were hedging internationally, so our cost was lower than the gold on lease stage. Having said that, there seems to be a shift in the recent past, I am not going to give you numbers now but a shift in the recent past where we are saying the gold on lease rates themselves dropping, so therefore we would do a more of a balance going forward and it is going to be something which is very dynamically looked at every week or every fortnight and we would look at buying gold at lowest cost possible, so things are changing as we speak also.

Amit Sachdeva: Okay. Sir on the A&P side, I see the incremental delta was about 30 crores this quarter and this was done for most, can I assume that bulk of that was driven by the trust and promises campaign that you did in the jewelry?

Bhaskar Bhat: Yes, it was basically that yes.

Amit Sachdeva: And if you see that, but I do not see the impact, so basically did the campaign not work because there is obviously looks like the sales have not come back or when the pricing was also lower where the making charges was corrected, there is a great campaign going on, gold price is also falling, does it mean that the demand environment is **really really** bad or the consumer is not at all looking at these things in a positive manner?

Bhaskar Bhat: No, I do not think the second is true, I think the first could be true and we are not hiding under that excuse consume sentiment, but the second is definitely not true that the brand as, that they are now afraid that why are they offering lower making charges, that every measure we have made of the brand has shown that it has become stronger, it has not got affected by this but the first bit I think is a little complex, yes consume sentiment is sitting but low gold price, the Indian consumer has been smart, I mean that is a very important reason.

Sandeep: Basically see, the Indian consumers, see jewelry customers across our brand from Zoya to Gold Plus they have no hesitation asking discount, how a rich a person may be she has no qualms about asking for discount, discounting per say as a category is not a no-no for the brand that point of view. But I will tell you where the problem is, if you look at a actual gap this quarter, we believe that promotion campaigns and the gold 8% making charge campaign that we did has actually benefitted greatly, it practically recovered the entire GHS loss in the first quarter if you look at the actual numbers, nearly, I am not saying completely, nearly. The decline has been for two other reasons, one is that ticket size of our GHS customer typically is about 30%, 40% higher than a typical new customer, we have lost that customer in that period because the ticket size have come down. Second is that gold rate has been 6% lower than last year first quarter. If I correct these two figures back in terms of kg being at the same gold rate and if I correct the ticket size, we would have been 50 crores short of last year's number in terms of sales but we have not crossed the target, target was a little more aggressive, we were a little more aggressive but we could not get the numbers based on the campaign we expect a lot more responses but I guess the customer sentiments were there for sure, the headwind was there in this first quarter and I guess timing of activation divert some sale, gold rate, all that put together has dampened that effect.

Management: And WGC reported that there is a 20% decline so our sense is that we have certainly not lost market share, see you as a customer suppose you see the add that gold rate has dropped, I am just giving you a very simplistic view, it is not a scheme it does not say we are dropping gold rate, closing date 30th April. Now you are confident that whenever I go to buy I can get 8%, so why buy now, it is the gold rate, being at this low rate if it further goes down I will wait for that. So it is a very good news for the customer but there is no rush, gold rate has fallen so buy it right away, means if one wants to buy he can buy whenever he wants, they are not increase the making charge.

Amit Sachdeva: Sir in that sense if the gold price now if stabilizes over two three months where the expectation was that gold may come down further and it might just, so possibly then you could see some pent up demand also coming in.

S. Subramaniam: There were signs of it in this month but we just hope it continues.

Bhaskar Bhat: You are right, yes we would agree with you.

Amit Sachdeva: Sir last one, on Golden Harvest scheme you said that 450 crores, is it like the total size of the transaction you have sold, is it like the total worth of deposit you have already got which is there in your books.

Sandeep: It is deposit plus the up-selling that typically happens, we have made some measures, these are the sales.

Amit Sachdeva: These are the sales, okay. So for which against everybody is depositing something every month, but this is a potential sales of 450 crores, right?

Bhaskar Bhat: Yes, it is 12 months back what they had put in, maybe 30% lower they have put in, so up-selling included it becomes more.

Amit Sachdeva: So looks like their deposit would be something like 100 crores, 150 crores in that scheme right now, just a rough guess?

Bhaskar Bhat: No, rough sell is three time, it is normally 50%, 60% more, so you can calculate that.

Amit Sachdeva: Because I see the 295 crores in advances, liabilities that is sitting in the balance sheet as of March and Golden Harvest will be part of it. So sir how much will that be roughly?

Subramaniam: As I said I am not giving you the number now because I am not giving you the balance sheet at this point.

Moderator: Thank you. Our next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is on the margins in jewelry 8.7%, I know that you have had higher ANP etc, but do you think that I mean this was like close to lowest margin in several quarters and second lowest I think that you have reported in last four five years, so where do you think margins will bottom out in jewelry?

S. Subramaniam: Vivek I think on margins we have actually done exceptionally well on the gross margin side this quarter, while we do not give you the numbers it is actually very-very well. So gross margin has not been the issue, the issue has been basically larger cost, higher cost and particularly the higher spend on advertising which is a concrete decision, we wanted to spend that money so that the whole campaign is visible and known to all our customer, so I think that is what is hitting the bottom-line much more than anything else. And of course if top-line does not grow which has not happened now for the last few quarters you are going to have the impact of operating leverage. So I think it is a combination of those two, we just need to wait to get back our top-line growth and I am sure we will get back to our 9%, 10% EBIT margins as well.

Vivek Maheshwari: Okay. But I mean if you have to take a guess are we close to bottoming out on jewelry margins now?

Subramaniam: I do not know, I cannot say that because we will have to wait for this quarter as well, this quarter will be bad, in terms of growth clearly we are going to have a problem because last year we had gold, I mean GHS rush. So we will have that issue, so I comment on that but hopefully going forward when GHS kicks in we should start getting better.

Vivek Maheshwari: Okay. And this one lakh PAN related issue, while I understand that it has been postponed as you mentioned but what is the new regulation on this?

Bhaskar Bhat: There is no other regulation, what remains is the 5 lakh regulation.

Vivek Maheshwari: So it has been postponed indefinitely then?

Bhaskar Bhat: We have no idea, I cannot even comment on this because you would never know, it could also come tomorrow, so we do not know.

Vivek Maheshwari: Okay. Third thing about you keep mentioning this point about custom duty issue, now correct me if I am wrong but my understanding is that jewelry making charges are linked to gold prices which is in INR and if custom duty say for example theoretically moves down from 10 to 0 that will have an impact on India's gold prices, why would that not be negative for you considering that there are no gold premium that we have in the market, should it not actually work against you then?

Management: No, I think the point that Bhaskar was making is not about…

Bhaskar Bhat: It was about the gold being at lower price.

Vivek Maheshwari: No, but in the past also you have mentioned that custom duty is, I mean you have been disappointed with the fact that government is not reducing custom duty, my question is why should you, in fact custom duty reduction should it not be negative for your business?

Bhaskar Bhat: No, if at all it is negative it is because of the inventory loss that one might have.

Vivek Maheshwari: No, which will be a onetime thing, my point is….

Bhaskar Bhat: It is onetime thing but the overall idea is that gold prices are more upwards…

Bhaskar Bhat: No, no my friend the practice today is, even for a consumer the price in Dubai is far lower and today it is very easy to get even for a consumer and I don't know if you have read about the seizures that have happened by customs at Vizag airport and Cochin airport and so on. So forget this above the board so called passenger bringing, there is a fair amount of increase in smuggling. So that was the point I was referring to, that gold comes into the market and goes into the channel and therefore they are competing with us at a much lower gold price. So even if they have not reduced making charge or they pass it on as making charge, whichever way they can play it around any which way. It is a very big difference, 10% is Rs.250 so where is making charge and reducing it from 17% to whatever 16% or 15% or 3%.

Vivek Maheshwari: No, my point is if say gold prices are 25000 in India and you make 10% making charges, for example you make 2500, if gold prices because of custom duty moves down say from 25000 to 22500 which means your making charges will also correspondingly go don that much, so you are saying it will get compensated by higher volumes, is that how we should look?

Bhaskar Bhat: Correct, that is our view. But the point is the percentage margin remains the same.

Vivek Maheshwari: Of course, absolutely sure. And one small bit, I visited a Tanishq store and the price drop that you are saying it is a very limited entry level jewelry, it is not very widespread except for whatever promotion that you are running for studded jewelry, so this 8% is limited to just a few SKUs or whatever, in few jewelries, is that a correct observation?

Sandeep: 8% is but we have done across the board.

Sandeep Kulhalli: The 3% drop is across price points, but like you said correctly 8% collection is limited in quantity which is typically the practice in most places, we are better off than most competitors, we issue a 3% offer at Malabar we will have 10 products there, we have much larger than that quantity. But you are right, it is limited in terms of number of SKUs at 8%.

Vivek Maheshwari: And what was the reason of going all out and saying okay we are reducing everywhere, could you not have done it for a few, it is more like an offer that if you buy this much you will get 3% off, 4% off, what was the need to rebrand it and bring it down on whatever, because that is where you thought the market moving to because which is where the problem is that consumers as you are saying are postponing their purchases, because there is no hurry. Could you not have done it a limited period offer or something?

Sandeep Kulhalli: No the problem is twofold, one is your gold rate we all have been discussing is largely the sentiment of customers to the category that would like to buy jewelry at this rate and therefore that is one part, but Tanishq brand has always suffered from that premiumness perception as an expensive brand. So the short-term benefits do not rub off in a positive and a long-term basis, so we felt that value proposition which what we have been using are the price points in last year, if you look the campaigns are largely starting at Rs.5000, starting at 5 grams that was another way of showing that we have range at lower price points. But it was not showing the kind of traction which we wanted a change in perception of the brand being affordable and therefore a long-term sustainable strategy what we were looking at and it is a very conscious call to look at sustainable price the premium should be competitive with the market place and we know for a fact that market has to bring the making charges up, sometimes they want to sustain. So all these six players were making new investments today in retail cannot sustain with those margins. So when they come up we would be far more interactive, therefore that was a little made long-term strategy in terms of sustaining these.

Bhaskar Bhat: And added to what Sandeep said which is fundamentally strategic, the direction is not in the direction of not moving towards premium level, you will see in the next quarter, this quarter a slew of new products plus our moving up the price points, introducing several products at high value diamonds and all that. So the idea is still to pursue through product mix, product mix and differentiation whereas the undifferentiated product you cannot charge a very, that was what

Sandeep was saying in the beginning, there is a certain reasonableness of premium which the brand can get for a run of the mill product.

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

AbneeshAbneesh Roy: Sir my first question is on the ad spends, up 30% and 4.8% of revenue. I understand this was like a launch quarter spend in a way, when does it start normalizing for the full year where do you see as a percentage of a sales?

Bhaskar Bhat: Write-off right away, in the quarter two you will see a change in tax in terms of trying to target the right audiences with the right mix of media and we will see a change in this quarter itself.

Abneesh Roy: So it should normalize to the full year number which was there last year?

Bhaskar Bhat: Yes, it will normalize, this extra ordinary spend of the first quarter will not happen.

Abneesh Roy: Sir you are pulling off the adds so quickly, so why so quickly and second is how is the split of ad between jewelry and watches?

Sandeep Kulhalli: Jewelry I will comment, with the promise campaign is being relaunched, it is not that we have stopped that campaign, it will only take two, three elements of that promise campaign which hope promises we are looking at two, three which are value drivers for the brand to keep that perception of value alive. But other than that campaign which a large campaign rest all our very strategic campaigns on the diamond collection, on the Iva's and the Mia's, they are all very strategic and therefore the money are being spent on the right audience which are not affected largely by the sentiments which are currently prevailing across the country. So there are catchment of customers who are open to investment even today, working women and there are those solitaire buyers' executives, so there are more targeted communication, we will see a far more strategic communication and smarter use of that money instead of going public.

Bhaskar Bhat: On the longevity of campaign I will request both Ronnie and Ravi to add, but just to give you an idea, there is a certain science to exposure, now you are actually saying that you are not seeing enough of Titan and Tanishq and FastTrack advertising, it has sustained over a period, if that is your question. Today TV is not really the only medium there is a lot happening outdoor and there is a lot happening in the digital space and that's where our consumers are hovering, they are wandering into the digital space and there is a lot happening. So we are not pulling off for budget sake or anything, there are certain signs to it.

Abneesh Roy: Sir other spends up 20%, what is happening, you mentioned the business associate meet is it large enough to…

Bhaskar Bhat: Yes it is quite large.

S. Subramaniam: It is quite large, this time we had it for all the three divisions and on the same time.

Bhaskar Bhat: It is roughly 2000 people travelling overseas over a one month or one and half month.

S. Subramaniam: It is a very sizable amount Abneesh.

Abneesh Roy: No, I am not asking for their specific number on this but where do you see this normalizing, other spends?

Bhaskar Bhat: No, it is once a year.

S. Subramaniam: Actually once in two years we do this.

Abneesh Roy: And sir lastly one follow-up on the making charges, in Q3 and Q4 GHS comes back, so cutting making charge then if I take the studded share at last year number then does cut in making charge start impacting gross margin, I am sure it will start impacting but how much can be the impact?

Bhaskar Bhat: It will be lower than what it was earlier because now the new GHS scheme is less attractive. So the discount or the payout which we call it will be lower, so it would not be as bad. And secondly, the other thing is that the contribution of GHS to the overall sale will not be the 30% that it was earlier, so it is going to be significantly lower, at least to start with. So I do not see a big impact of that in the third quarter and fourth quarter this year.

Abneesh Roy: No, one follow-up on margins of watches, ad spends you said will normalize and now you have the own watch factory in Tamil Nadu so why watch margins are still not reviving in spite of a decent overall sales growth, what is the issue there, do you need a pricing hike and do you expect to take that in the current slowdown?

Bhaskar Bhat: Actually in watches margins are very much in line with what we had planned and even in terms of comparison with last year, so I do not see an issue where is the issue.

S. Ravi Kant: I think he is talking about the overall EBITDA margin.

S. Subramaniam: No, it is because of the sales growth.

Bhaskar Bhat: It is sales growth, see watches is a high overhead business and you need scale so the growth has to be in excess of 10% or 12%, 8% growth generally impacts 9% growth. Above 10% you begin to see margin kick-in in a significant manner so that is the problem, it is not so much, yes you are right about the Coimbatore plant etc but it is ramping up, it has ramped up quite a bit and those benefits will start kicking in at the higher end watches, it is not like the 14 million watches are still…

S. Ravi Kant: It is more for complex cases.

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

Avi Mehta: Sir just wanted to understand on the jewelry business, would it fair if we say that the hedging gains that we had in the fourth quarter I mean we would have something similar in the first quarter?

Subramaniam: No, it was very-very small, we had a small portion which sort of spilled into this quarter, it was not much because I think the bigger thing was the studded ratio was different and even our own estimates, and I think the mix helped us somewhere in terms of even plain gold jewelry, our margins were better than what we had planned, some mix advantage that we got there.

Avi Mehta: Okay. So what you are saying is that hedging impact was actually much lower?

Subramaniam: That is last quarter, last year 50 crores is something…

Avi Mehta: Yes last year, if I take the year also it would be much lower than that?

Subramaniam: Yes, yes very much lower.

Avi Mehta: So sir then this impact, I mean you said that you are increasingly there is a spot purchase that is happening, that impact should start coming in the second quarter?

Subramaniam: That will come in after five months or six months, yes.

Avi Mehta: Okay. So that will be more in the third quarter?

Subramaniam: That's right, yes.

Avi Mehta: Okay sir, sorry but in terms of the cut and making charges, if I were to remove the impact of the GHS kind of going away from fourth quarter to first quarter, would the impact be A, because of lower hedging gain and because of the cut and making charges, is there anything else that would have resulted in the change?

Subramaniam: No, the studded ratio would be high actually in the fourth quarter because normally we have an activation in that quarter so you should get it and it will more than offset the reduction because of GHS discounts at that time. As I mentioned in the earlier conversation, I think our percentage of GHS contribution to overall sales will be far lower, at least in the initial quarters so I do not see a big impact of that.

Avi Mehta: So third quarter will be a more comparable number is what you are saying?

Subramaniam: Yes, that's right.

Avi Mehta: Okay. And then the impact are only these two, from the third quarter levels?

Subramaniam: Yes.

Avi Mehta: Okay. Sir and the watch business, I am sorry just continuing from where it was left, the revenue growth was 10%, was there a mix also that kind of hurt because I would have still thought that the expansion should have been for fourth quarter level should have been a little better given that last quarter was 2% kind of growth and you had a 9.6% and the 10% growth is still at 9.9% despite the cost initiatives that have been taken. So is there a mix kind of, is it hurting us?

S. Subramaniam: It is a combination of two, three things you are right, there is a mix issue which has lead to let's say a material cost percentage being higher than what was there last quarter, but the earlier point that we were discussing for all businesses it is about the business associates meet that we had has also hit us in this quarter, so these two have really contributed the best but this was only a once a year kind of thing?

Avi Mehta: So sir it is the timing thing the associate meet, right?

S. Subramaniam: Yes, we normally do it once in two years, in some businesses we do it once a year and…

Bhaskar Bhat: But it always happens in the first quarter whenever it happens.

Avi Mehta: Okay. So it is just that once in two years and once an year got conducted. And sir lastly just a clarification, you said something about second quarter being impacted because, I missed that point, what was that preponment of…?

Sandeep Kulhalli: Yes, last year we had there was a peaking of sale in 60% growth in the month of August, we had to close the GHS scheme last year so we have advanced all the schemes of all the previous years or the previous year.

Avi Mehta: Okay, okay I thought it was from first quarter level that you were mentioning that there was some preponment and stuff.

Sandeep Kulhalli: No, second quarter.

Avi Mehta: Okay. So you think from second quarter YoY not QoQ comparison?

Sandeep Kulhalli: YoY yes.

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

Abhishek Rangnathan: Sir I wanted to know, you mentioned about the gold hedging benefit, you said it will come in after six months, so if you have started it in the first quarter it should start flowing in somewhere around end of the second quarter?

Subramaniam: Not end of second quarter, largely third quarter.

Abhishek Rangnathan: And second thing on the Golden Harvest, we had about 70 crores collected till the end of March '15 and if you are talking of doing about 450 crores by say third quarter which means we are looking at that's after up-trading which means we are looking at something like about 300 crores odd collected, so will that 70 crores to 300 crores collection has been quite rapid, is it?

Bhaskar Bhat: No, see you are acquiring customers every month as well and plus all the customers you acquired then will also be putting in the installments for the next six months, so those installments will become what it is, that is the idea.

Abhishek Rangnathan: Right, understood, to accommodate to that number?

Bhaskar Bhat: Yes, it will be accumulated, yes. New customer value would have gone up six times.

Abhishek Rangnathan: Right. And sir on the PAN you mentioned that there is nothing mentioned as such but there has been a paper which has floated by the government on electronic payment suggesting that they are making mandatory to make all transactions may say about 1 lakhs make that electronic payment, basically it seems like to be a substitute for the entire PAN card issue. How do you see that if it at all fructifies, how do you see that impacting the business for good or for bad?

Bhaskar Bhat: Abhishek I think it is very early to discuss or rather think about that because if the whole world is going electronic then I think it is going to impact everybody and is it even going to be feasible I do not know, so we will have to wait and see, we cannot really comment on that now.

Abhishek Rangnathan: Right sir. And similarly custom duty also there was a question earlier on that, you did answer it but on the Gold Deposit Scheme which the Government is suggesting as of now, they were to implement it somewhere in the second half we do see an imminent custom duty cut. And do you think that that would ease off, that you would be able to get, do you foresee that it will impact or you may have to move to a gold on lease from here and the imported gold on lease maybe shut off because of this?

Bhaskar Bhat: I do not understand the connection because the custom duty drop and the golden monetization scheme, I do not see the cut.

Abhishek Rangnathan: They would have to do it to make it successful, in the sense that without a reduction in custom duty it really would not make sense for them to do…

Bhaskar Bhat: No, but then there are other issues as well, there are so many issues there about the whole source of gold issue, how are you going to, the fear that you might be visited by an I-T officer is always going to be there for any investor in that scheme, so those need to be addressed I think therefore there are bigger issues there and how many people are willing to have their gold jewelry merited, so those are a lot of larger questions.

Sandeep Kulhalli: This is still mutually exclusive because there are jewelers who find this monetization scheme going against their actual business behavior because then they have to show it on official, whereas smuggled gold is still a route basic and to divert there I mean show off-the-books transaction. So given a choice he would still like to go for the smuggled gold, if there the import duty is still high and he still gets smuggle option. Than other part is customer side which I will give away gold and that's a different story all together whether they will do it no, but from a jewelers perspective he may like to have the options of choosing where he buys the gold.

Bhaskar Bhat: The Gold Deposit Scheme as conceived by the Government includes the banking community, the biggest problem here is if the gold has to be declared there has to be a KYC, that is equivalent to a PAN card. So there are starting problems with this scheme.

Abhishek Rangnathan: Understood. And sir lastly on competitive intensity which you had mentioned that that competitors have been forced to make price cuts, over the last 18 months with the entire regulatory aspect of custom duty, gold on lease and then finally the Gold Deposit Scheme where you said customers did migrate, some of the customers migrated to other jewelers, do you see that there is a return of the customer back to this brand or they are continuing where they were especially with the new enrollment which you have seen on the Golden Harvest?

Bhaskar Bhat: New customer data is indicator of that because we were not getting new customer growth since if you look at last year last quarter, we were still depending on a lot of repeat buyers to buy a brand but if you look at this clearly a surge in about healthy single-digit, 7% - 8% growth of new customers in the first quarter. It is clearly indicating that there is an upswing and plus the brand metrics, the part which you have seen brand metrics or the brand has become extremely strong, much stronger than the last six months then it was in the previous year. So combination of both the factors has become most preferred brand, scores have gone up and the new walk-ins have increased for the brand in the last three months. Clearly boards well for us in terms of customers coming and buying more our kind of jewelry from our kind of brands.

Sandeep Kulhalli: Also, the coming back, we are seeing the early days, I do not know whether it can be a trend but the indirect impact, there is a lot of work that government is doing on governance, I am talking about financial government that means what you just said using the electronic system, credit cards so cash transactions are being discouraged across the board, it is becoming difficult for people to use cash for transaction. So I think the overall impact of that there is an impact on Tanishq, people finally are being forced to come with clean money to buy and that can be a very big positive for Tanishq.

Abhishek Rangnathan: But say in short-term the competitors might benefit because they bought it earlier but a longer-term is suggesting that this would benefit.

Bhaskar Bhat: Correct.

Abhishek Rangnathan: And last thing I think you were mentioning I think it got lost somewhere in the conversation was that the banks and GHS, if you could just explain about that.

Bhaskar Bhat: Banks, they have the limit on GHS and there is a 25% net worth limit, right so we have been talking to banks and we have already piloting that in quite a few cities now where the customer is not going to deposit the money with us, they will do it with the bank, it is an RD, recurring deposit sort of scheme and we have tied up with the bank so that the customer gets the same discount effectively that we offer all other customers, that's what it is.

Abhishek Rangnathan: And the customer has to choice to continue with the RD or opt for this?

Bhaskar Bhat: That's right, they can actually also opt to take the money out, that is the bank has to offer that you cannot force them but we expect that since they came technically for this they would not opt out.

Abhishek Rangnathan: Okay. Anyway, assumption of up-trading on the Golden Harvest is 50% to 60%, you have seen that over a period when gold prices have been going up, do you think that this up-trading quantum of 50% to 60% would remain even prices are actually coming off?

Bhaskar Bhat: You know the up-trading was not happening because of gold price was lowering, it was just that the women saw that she has already got Rs.120,000 with her and she finds the most attractive piece to buy, it becomes a huge deal, see on that day you feel Rs.30,000 I can get a 150,000 piece, I think that is the fundamental consumer sentiment, I have to spend only 30,000.

Abhishek Rangnathan: No, also could be that the customer does not get the piece that he or she wanted because the prices have been significantly high.

Bhaskar Bhat: Yes, could be, could be a combination of it but not because of gold price, and nobody trades down it is always up.

Abhishek Rangnathan: No, no I am just talking only 50% to 60% assumption, they were 20% or 30%, the up-trading could down, the quantum of trading would come down.

Sandeep Kulhalli: As a matter of fact you look at the old scheme, the higher ticket size of enrollment the up-selling has to be even higher, the up-selling stops because of lower ticket size, a guy has a Rs.2000 count, when he opens it 24000, he will up-sell only because he has come from that background of a low economic so he will up-sell only 20%, 30%. But as the amount of corpus becomes larger that person can obviously afford larger purchase item and thereby they find the 1.5 lakhs is a large buffer on which they have just put in another Rs.50,000 or Rs.100,000 they get the dream piece that they had planned for many years.

Abhishek Rangnathan: So you are saying the average deposit this time around is higher than what I was in the earlier scheme?

Sandeep Kulhalli: Yes.

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

Arnab Mitra: Yes sir, a couple of questions on the studded jewelry, one is why did you actually run it this quarter given that you would anyways run at last quarter and you were having this alternate quarter thing going for you? And what do you read into the weak demand, you mentioned that gold demand has seen a pickup in July, are studded trends still pretty muted and how are you looking at that?

Bhaskar Bhat: Yes the reason for prepone was largely the expectation of the PAN card 1 lakh roll, we just took a chance that 1 lakh was likely to come in July was a general information that jewelry associations and the media was talking about, so we said can we milk the opportunity and do it earlier, that was the larger reason why we and we knew that quarter two is going to get a hit because any which way because we had the closure of GHS last year and that sale we could never up it in any case, that number was too large, you cannot come anywhere close to it. So we said let’s try and prepone any purchases so that people go into a shell because typically what happens is when you have a new rule than people roll back and find ways and means of avoiding that and therefore there is a delay in purchase, but therefore we said let’s try and milk the opportunity. So we took a chance and it partly did work very well like we mentioned earlier about the reasons for not doing too well because of proximity to the Feb-March scheme that we had last year, sentiments, third was timing, the auspicious period as well as holiday season in many parts of the country. So July when we did the activation extension of July we saw a much better traction, our average daily sales did jump substantially in July because of both the reasons not being there on auspicious period partly and partly people back from holidays. So that was our only learning we had in that process and right now obviously in the gold momentum diamond will take a back seat to an extent because can be deferred, people who buy diamonds also may have bought gold this time because they find the prices attractive, so it takes a back seat in such moments.

Arnab Mitra: Sure. And secondly just asking Subu on the hedging thing, I just wanted to understand hedging should be like a rolling thing right, so if you had 50 crores quarter which was probably from a five, six month period before that you should have had hedging also five, six months before this quarter. So why was the hedging so low in this quarter, it should be rolling from five, six month previous period.

Bhaskar Bhat: That does not work that way, because we went out to gold on lease in a big way.

S. Subramaniam: See we have been yo-yoing between gold on lease and spot, so that is the reason.

Arnab Mitra: But I thought at no point had gold on lease become very large more than 30%, 40% in the last year or so.

S. Subramaniam: No, no two quarters we did a lot of gold on lease.

Arnab Mitra: Okay. But was it like more than 50% any quarter because I thought you said still 30%, 40% I think in one of the call.

Subramaniam: No, no the gold on lease for two quarters is much more but as I had said off late last two months we have done a lot of spot.

Arnab Mitra: Okay, fine. So lastly just on the fact that growth has so much lowered, obviously your franchisees would be under pressure on the ROI front so do you think ROIs are still comfortable or are you having to help them out in the ROI given that the growth is negative right now?

Sandeep Kulhalli: No, you are right in a sense, obviously it is not a comfortable time for anybody, not even us not even the franchisees but so far here is no, see their earnings have come down, they have still positive but the good news is the majority are still making money, obviously the quantum they made earlier has reduced in this environment. So that's the only action, L3 yes they have been impacted largely the gold rate impact but they have got in terms of eyes and ears open so they know that they have to go take that risk, if they do not hedge the gold then they have to bear the consequences of up swing or down swing in gold rate, so they have made a lot of money in the past so they still believe that there is an opportunity to come out of this when gold rate improves. But those who have hedged are much better off in terms of L3s, franchisee guys but many may have lost money but they have cumulative made enough money to sustain themselves.

Arnab Mitra: You do not see a situation where you would need to increase their margins or things like that?

Sandeep Kulhalli: No, no.

Bhaskar Bhat: They are very formidable, I think what Sandeep says that when earnings come down you however wealthy you are when it comes down you begin to…

Sandeep Kulhalli: Yes, you feel the pinch surely.

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

Richard: Hi, this is Richard here, thanks for taking my question. Sir just wanted to test your assumption on this one, earlier the thought was that a lower gold price will actually prompt people to buy higher gramages since customers typically look at a budget in rupee term rather than a quantum term, if you look at what happened in the past couple of quarters, even if we strip out the excess impact of GHS that was there in the base and not there now, are you really seeing that kind of hypothesis work out?

Bhaskar Bhat: Yes, we did, I think Sandeep explained in the beginning, Richard it is not very clear this behavior, this last week when it dropped we saw a big surge, he said 100 kg and all that, it has not held out because there is another news that it will drop further so people are waiting out. So the hypothesis is right, but when it will change is the judgment which consumes or seem to rather know better than most companies.

Richard: So would it not be true to say that this kind of a behavior would apply only in the initial phase of a drop, so let's say if you see one sudden drop then people will land up buying more and after that things get back to normal. Sir the second question attending to this is that, so you have this whole shift in making charges and linking it gold price etc which worked very well in the inflationary stage and now gold as an asset class seems to be deflating and pretty consistently so at least over the last couple of years. How do you look at this whole making charge thing, because in absolute terms if you are not really seeing a consistent increase in quantity of this your profit pool is actually shrinking along with a lower gold price as it moves down.

Bhaskar Bhat: Yes, it is reasonably complicated Richard, right now we are not facing that problem in the sense our making charge and the making charge difference is still, that is what we pay for getting that gold our cost versus we have not hit, although the minors seem to have hit the rock bottom at 1100 or whatever, 1100 their minds are closing down or people are getting out of the business I think, but that does not mean that is not the case as far as making goes. We have not did the rock bottom and not likely to for a while, so we will still hold on to the percentage. If the volume does not grow, that is your question right, our bet is therefore only on diamond jewelry, I think if you say long-term play and all. But in the short-term I think the biggest hope we see is the post Diwali performance H2 where the Golden Harvest Scheme will be back in full swing and non-Golden Harvest Sale growth for us has been in the order of 40%, order of magnitude of 40%.

Richard: But even then, let's say if you get this Golden Harvest back, your making charges will still be lower than what it should have been had the gold price remained the way it was?

Sandeep Kulhalli: Yes, but Richard the point is it is a percentage on revenue, so if my revenue grows my overall GC will grow, that's simple as that so we are pursuing customer growth, the growth is what we have to look at, that's it.

Richard: True, but if you are not able to get people to let's say buy more despite gold prices being lower than what it used to be in the past, then net-net you are really losing out…

Sandeep Kulhalli: Yes, but that depends on two factors, that could be because the sentiments being poor and all competitive intensity, right. Now if any of them happen how can you increase your rate, you won't be able to sell it.

Bhaskar Bhat: Richard, I will tell you the view we have taken Richard is as follows, we are selling 1.2 million pieces, let's say they are 1.2 million customers for the time being, our estimate is that say 50 million customers are buying jewelry every year, there is an estimate I have made so that takes your market share of 2.5% of volume market share, a value market share is higher. So we are willy-nilly have to increase the customer base, so the growth cannot come out of one customer saying I will buy 8 grams this year and next year I will 12 grams gold price has come down, it cannot. So that model is not sustainable, that is if you have a limited number of customers say 1.5 million and them buying repeatedly for a month based on gold price is a model not worth pursuing also, our model has to be more customers which is what Sandeep said, so adding new customers is willy-nilly important for us so which is what he is pursuing. There was one, the competitive reprising has brought in new customers, no doubt, people who have kept away from Tanishq are coming now. In addition, all other things remaining same the lower gold price will bring back your regular customers, whether they will but more or not as I said it is counter intuitive that they would not buy more, they should buy more, they have bought more every time gold price has come down.

Richard: Okay, understood. Just one clarification, you keep saying this Golden Harvest 30% of sales, I mean if I look at the peak period which was let's say March 14 for which I have the numbers, I think customer advances was 1300 crores and the sale that year was 8600 crores, is it not that more like 15% or it is definitely not 2x selling, right?

Bhaskar Bhat: No, no that was steady state Richard, but we close the scheme in April last year, so the advancements was happening, we closed it finally in August, moth of august it must have been I don't know, it must have been very high.

Richard: Okay. And one last question on watches, so you have had 4% volume decline which means that your pricing growth was about 13% there, so significant premiumization you are seeing there or there is some new strategy you are dealing to really get that aspect of realization growth?

S. Ravi Kant: It is actually a combination of two, three things, one is we took a price increase in April, the second is all the new, the second is all the new products which have been introduced are at higher price points because they are delivering much higher value to complex watches. So you are right, so that premiumization journey so to say is we are pursuing in Titan brand, plus a lot of new products were introduced in the Sonata price brand also, in the Sonata brand also above Rs.1500. So all these have contributed to that higher realization, so despite the decline we had a 9% growth in that quarter.

Bhaskar Bhat: So Richard this presents an opportunity and I am not talking about all three divisions, what we are definitely seeing is there is no reluctance on the consumer side especially if you are in the mid-market space and I mean let's say 3000 to 10000 in watches, similar price points in eyewear and in jewelry price points do not matter but people spending on a reasonably good, well designed product with technology inducement in watches and eyewear, there is no reluctance to pay a higher price, that is where a huge opportunity is sitting for all the three businesses which is I won't call it premiumization but if you have a good brand and you call it pricing power than between design and smart marketing you can get a better margin at a higher price. This in watches it is very true because of the Swiss invasion, people now think watches should be Rs.10000, a good watch should be Rs.10000 and if your brand can get that, Titan brand is in the consideration set of people who buy between Rs.5000 and Rs.15000, beyond Rs.15000 they are saying it should be called Swiss, let me give this. So there are those opportunities which is what watch division is pursuing, I think eyewear has seen that opportunity and jewelry will pursue with high value diamonds in a very focused manner.

Richard: Okay. And last one if I may, regarding this GHS tie up with banks where the money is going into the bank, I presume the interest will still belong to you?

Sandeep Kulhalli: No, no it will be bank owned.

Bhaskar Bhat: No, no but then the net discount that we give will be only the net differential, you understand?

Richard: No.

Bhaskar Bhat: Bank pays them, if the customer wants to earn overall then what it is from us.

Richard: Sorry, I did not understand that.

Bhaskar Bhat: Suppose we are offering 12% now as a return for that scheme and that is what the customer would overall earn even through the bank, so the interest will be paid by the bank and we pay the discount which is the difference.

Richard: Okay, no but earlier since the money was sitting with you for 11 months, you were earning interest on that right?

Bhaskar Bhat: Exactly, so we are not going to earn that but our discount also is low. Let's assume the banks gives them 8% so I will only give 4%, so we split that interest between the bank and us. So it has become a convenience scheme.

Moderator: Thank you. Ladies and Gentlemen, we will take our last question from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Sir my two questions, my first question is how is Mia fairing?

Sandeep Kulhalli: Mia is still showing good growths as we speak and we are ramping up our exclusive store format, we have got three or four in the line of sight so those are showing very positive signs of sustainability. So we are also taking online, we are waiting for some final conclusion of deal with the marketplace operator, one line.

Rakesh Jhunjhunwala: No, then what kind of size, is it a three figure brand or a four figure brand or…?

Bhaskar Bhat: Not more than three figure, not four figure. So all 100 crores adding up, that is what we are saying. We are in three figures you are right, but it is not four figure is yet, but the aspiration is a four figure in a couple of years at least.

Rakesh Jhunjhunwala: And it is growing high double-digit?

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: Another thing, what is the big secrecy about this conference expenses, I mean I don't understand, you can tell us.

Bhaskar Bhat: 2000 people went to Bangkok, it is easy to calculate.

Bhaskar Bhat: You can multiply it yourself.

Rakesh Jhunjhunwala: Now there are so many expenses in Bangkok, so how much was actually spent?

Bhaskar Bhat: After going there the expense increases a lot.

Rakesh Jhunjhunwala: Our functions call it 15 crores, 20 crores, so it is a…

Bhaskar Bhat: Yes, yes it is in that ballpark Rakesh.

Rakesh Jhunjhunwala: I think it is not like Hitler's secrete or something?

Bhaskar Bhat: No, no it is not, it is not a trade secret.

Rakesh Jhunjhunwala: And second thing is, I mean you had sales of 400, now you are running the eyewear business I don't know for eight years, last year you had sale of 333 crores and you are saying it should be 400 crores, so at this level when are you going to get those, and typically it is a high margin business we know high gross margins, so at 400 crores sale what kind of margins are you anticipating, when is this business going to earn or when is the investment phase going to end?

Bhaskar Bhat: No, you are right Rakesh, I think Ronnie has a very aggressive growth plan in terms of network expansion, I think that is what you are referring to, growing the business versus growing I mean through the network expansion?

Rakesh Jhunjhunwala: What I am saying is that 400 crores, you did 332 crores last year, you are saying the business is doing very well, you have the FastTrack eyewear business which was a very profitable business earlier which comes under this business now. So the question is that at 400 crores what kind of margins are you looking at so to contribute really?

Bhaskar Bhat: Yes, this quarter you should ignore.

Rakesh Jhunjhunwala: Yes, but at 400 crores what margins we are looking at EBIT margins, 10, 12, 8, 15?

Bhaskar Bhat: No, definitely more than 10%, 15%.

S. Subramaniam: This year will be below 10%, about 6% to 8% but on a steady state once it reaches a certain thing…

Rakesh Jhunjhunwala: But when is your steady state, from 400 you can to go 500, what will be your margins, 30%?

S. Subramaniam: In about one or two years time I think what Bhaskar mentioned 15% is what we should be aiming.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the conference.

Subham Sinha: On behalf of Tata Securities I thank everyone for attending the call. Have a nice weekend.

Bhaskar Bhat: Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Tata Securities that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.