Titan Company Ltd

1QFY15 Earnings Conference Call

MANAGEMENT:

Mr. Bhaskar Bhat : Managing Director

Mr. S. Subramaniam : Chief Financial Officer

Mr. C.K. Venkataraman : CEO – Jewellery Division

Mr. H.G. Raghunath : CEO – Watches & Accessories Division

Mr. S. Ravi Kant : CEO – Eyewear Division

ANALYST:

Mr. Sameer Deshmukh

Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q1FY15 conference call hosted by Tata Securities Limited. As a reminder, all participant 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Deshmukh from Tata Securities. Thank you and over to you sir.

Sameer Deshmukh: Thank you Syed. On behalf of Tata Securities, I welcome you all to the conference call of Titan Company post the first quarter numbers. We have with us the senior management team. I would now request Mr. Bhaskar Bhat to make his opening remarks and then we can move on to the Q&A session. Over to you sir.

Bhaskar Bhat: Well, I thank all of you who are participating. We are starting with the assumption that you have in front of you or you have been through our first quarter results as published on our website and has been intimated to the stock exchange.

Just a quick background, the consumer demand was relatively stable compared to the previous quarters as evidenced by the sales growth in watches, studded jewellery as well as eyewear continued sales growth. You are aware that the RBI has resumed gold on lease facility. Jewellery purchase schemes are treated as deposits in the company's act and therefore the discontinuation of the Golden Harvest Scheme is something we have announced in the press and we are actually going through to closure. There is no change in the 80-20 rule as far as gold availability is concerned. There is no change in the customs duty either. We added 22 stores with coverage area of 36,000 square feet during the quarter.

The *Ocean* series of Sonata continues to do well. Tanishq launched Zyra, a collection of stylish and value for money diamond jewellery and Titan Eye+ also continues to grow strongly by a growth of 20%. Precision engineering has shown a slight decline, but that is only because of some rescheduling of invoicing. In terms of retail sales, World of Titan grew 2%. Tanishq as expected and Gold Plus as expected have shown a decline and that is because the first quarter in the last year showed an extraordinary sales growth because of drop in gold prices.

Helios at 20% like-to-like store growth and 23% total indicates that people still want to buy watches and 20% is high by any standards, any retail, any category. Fastrack 9% same store growth, large format stores 5% and Titan Eye+ 13% same store growth.

Company declined in performance as expected because of the jewellery decline, but grew in terms of margin and our PBT is Rs 240 crore against Rs 252 crore last year. In this, we have may be Subbu will add a caveat to this corollary.

S Subramaniam: This Rs 240 crore of PBT is after certain provisions that we made. One was on the golden harvest scheme. I do not know how many of you have seen the advertising which has come out, but we are now offering even a cash back because we are forcing customers to prematurely stop the scheme and therefore on the cash back, we are also offering 50% of the return they would have otherwise got if they had bought jewellery. So in that context, we have made an estimate of what sort of interest burden we may have and we made a provision and that provision is to the tune of Rs 15 crore. So that has been provided for in the June accounts while the actual redemption is happening in July-August, but we make a provision because we knew that this might be hitting us some time later.

On top of that, we also had to change our depreciation consequent to the Companies Act 2013 and the additional depreciation that we had to charge because of the change in the life of assets increased cost to the tune of Rs 7 crore. So overall about Rs 22 crore is in a way one time or extraordinary hit in this quarter. So without that, we could have been way above last year's number.

Bhaskar Bhat: So PAT as I said is at Rs 177 crore this year vs. Rs 182 crore in same quarter last year. So that is pretty much is Q1 and we will be happy to answer questions. With me are my colleagues, Subbu – CFO, Raghunath for the watches and accessories division, Venkat from jewellery and Ravi Kant from eyewear and Rajnarayan from our HR team.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: I had two questions sir. One, I wanted to just, if you could please briefly explain what is the likely impact now from the suspension of the golden harvest scheme, sales growth going forward and interest costs and how are we in terms of next steps, what are the likely next steps, when are they coming through? And in this context, the second question that I wanted to ask is are you retaining the guidance of 20% growth given the latest change in companies act.

Bhaskar Bhat: We have not given any guidance.

Avi Mehta: Okay, sir then if you could just help me with the first question sir.

C.K. Venkataraman: Yes. The steady state contribution of golden harvest and related programs to the business of the jewellery division was about 30% last year. And starting September till the scheme kicks in again, that part of it is therefore the uncertain part. Now the extent of deposits that we had as we started closing down the scheme was pretty close to 45% of our net worth and the current law states that the deposit shall not exceed 25% of our net worth which means that now theoretically the extent of sales that can happen through golden harvest may be about 60% of what was there, which means against the 30% share, 18% share kind of thing in amount term. So that is the nature of the theoretical risk shortfall in sales that it represents. But at the same time, golden harvest was also vehicle which customers use to buy jewellery and jewellery is a source of considered purchase which you do not simply buy because there is a scheme to save up through. So starting 2015 April, we need to bring in a new scheme which we are currently at work on and there are certain procedures that the law is now stipulating that we have to go through before that. We are hoping to target to reintroduce the scheme within the stipulations of current law by October 2014 so that the sales of 2015-16 are protected. How much they will be protected is something that we will have to actually visualize it give threadbare into the nitty-gritty of what kind of customers now we want to target within this overall Rs 3,000 crore of sales that we would have represented in the current year and how much of the gross margin that it represents can be protect as opposed to just going after sales and all that, reasonably complex kind of exercise that give us some more time to revert on that. But to give you a sense of what it represents, it contributed to 30% of our sale. With the new limits done only in this manner, it may be 60% of that sale.

Avi Mehta: So you are saying if like-to-like, we will see probably the difference is an impact which could hurt growth.

C.K. Venkataraman: Yes. If nothing else is done by the company to compensate for that and surely the company is thinking of many ways to compensate.

Avi Mehta: Sir when you say nothing else to compensate, you mean that different type of scheme

C.K. Venkataraman: Also that, but more importantly and equally importantly other ways of growing sales. Meaning the jewellery market is Rs 250,000 crore and a greater share, more aggressive share gain approach or a market development approach whichever it is. For example, we can step on the gas on *Mia*, we can step on the gas on a solitaire which are market development activities or we can step on the gas even more on wedding to the share gain activity. So depending on which buttons we press, the share gain can accelerate compared to the current rate and compensate for this route of sale. We do not have specific things to share right now. But those are the things that our minds are at work on.

Avi Mehta: And sir sorry, if I may, this Rs 15 crore provision that you shared which has been created for the golden harvest scheme. Could you just explain because I understand that Rs 1,300 crore was the roughly as on FY14, could you just share how was this?

S. Subramaniam: Avi, basically it is like this. We have obviously by bucket which is the number of months that everybody, every customer has invested in us. Buckets of how it adds up to the Rs 1,300 crore. So we have gone on an estimate that people who have one or two or three installments are more likely to take cash back only because they cannot buy jewellery with one or two installments and therefore the redemption there will be high in terms of cash whereas people who have put in 7, 8, 9 installments and above are more likely to buy jewellery and/or possibly even coins. So that is an estimation based on that. The good news is that as of now that we seem to be well within our estimate of cash withdrawal, well within that. So people are choosing to buy more jewellery and that is good news. We might hopefully write back some of that.

Avi Mehta: And this is being taken through the interest cost, right sir.

S. Subramaniam: That is right.

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

Amit Sachdeva: Sir my first question on the demand environment. You obviously make a comment in your release that demand seems to be stable and if you could give little bit more color how do you read into it and what sort of measures have you sort of seen in the month of June which was the last month post the gold rush. That sort of gives you an indication that the demand scenario looks better than it was in the previous quarter and can we sort of see that as a trend that is going on to this quarter as well and so if you could give little bit more color whether it applies to gold jewellery or you read it from the studded or is watches or eyewear. What gives you that confidence that sort of stability is coming into the environment?

C.K. Venkataraman: The studded jewellery growth in the first quarter was pretty good. It was about 30% and that is very good indicator of the discretionary spend generally speaking, because studded jewellery is seen as an indulgence as opposed to gold jewellery. We were pretty satisfied with performance of studded jewellery in the first quarter. As far as gold jewellery is concerned, the target that took into account that huge growth we had in the Q1 of FY14 and it was a muted target that we had taken because there was no way we could beat that level of sales that we achieved then, but we ended up short under achieving on against that target and gold jewellery has been a little more complex to read frankly. Our only sense is that our performance has been better than virtually everyone else in the industry and therefore from a competitive market share point of view, we did well. Even though we did not achieve our target. We also do customer surveys every quarter to gauge the mood of the public. In addition couple of weeks back, we also dipped into the vast pool of the Titan's own database. We sent a mailer out to many lakhs of our customers across all our brands and we got a decent response from that base indicating that a good majority of customers across the board feel that the next 6 months are going to be better and they are going to be spending rather than saving compared to the last 6 months. So that is also a customer sentiment indicator which we have started measuring using our own customer database and the performance in July is also sort of reconfirming that view and we are certainly hopeful that what happened the indication that the studded will actually pan out in Q2 as well.

Amit Sachdeva: Sure. Sir if I make a one small point because if you look at the pure gold throughput on an average area sort of adjusted for your throughput efficiency, I see about 26,000 INR this is just my calculation, but might be slightly different from what you may have and it is slightly better than the previous quarter throughput of pure gold jewellery. Even though this quarter could have been slightly worse. So in that sense, throughput bases, it seems to me that gold is also slightly better than the previous quarter, not in an absolute growth term because the base was high, but would you perhaps read the same thing or it is something that I am over analyzing.

C.K. Venkataraman: It is a little complex subject. We know that the grammage declined over last year Q1 per tonnage was about 17% in retail and the sales value decline was about 13 odd percent because there was a gold rate advantage of 4% or 5% and the net worth has actually become bigger in the same period. I am not able to actually connect with your calculations, but nevertheless if I just look at the sales growth, the feeling that one got from the industry was also that the gold jewellery was not really surging and big swing in the price within the high and the low made a Rs. 400/gm kind of difference in the quarter in FY15 and that also certainly made people little wary of investing ideas. So gold is a little more complex to see, but July has been looking good on gold as well.

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

Manoj Menon: Two questions on golden harvest and one more. One more if I understood, if I heard you correctly, you are essentially saying that as per the new law, two conditions are important. One is 12% returns and 25% of net worth. Is that correct?

C.K. Venkataraman: That is right, yes.

Manoj Menon: Okay. Secondly in the market as other jewelers, what is your sense on competition doing or not doing or following you in golden harvest?

C.K. Venkataraman: There is a lot of pressure today on the industry to follow. We also know that the company law board itself has sent notices to some of our friends in the industry whom have had some different views about stopping etc. So there is intense pressure and the visibility that the Tanishq and Gold Plus advertisements give to the subject have certainly raised the consciousness of the issue among customers of other jewelers who have asked the questions. I am sure it is going to have a reasonable aspect across the board.

Manoj Menon: Fair enough and Subbu, one question on the past actually. When Golden Harvest was in full swing, if I understood correctly, you used to keep this money separately and are not used for working capital.

S. Subramaniam: That is right. We used to keep in deposits or ICDs.

Manoj Menon: No, for example just to clarify because that is one question which investors were asking in the last couple of months which I could not reach out particularly last month because of the close period. For example, it was not utilized let us say to fund the diamond purchase.

S. Subramaniam: That is right.

Manoj Menon: And sir Venkat, one question. What was the typical upsizing let us say, Golden Harvest consumer would have had? Let us say he saves 11 months and he is entitled to buy for 12 months. Typically how much he would have…

C.K. Venkataraman: 50% Manoj, he would have got about 18.

Manoj Menon: And what is your thoughts on that. How do you manage that fix? Because that is a realistic risk for you in the interim.

C.K. Venkataraman: Yes, that is right. What all we have to figure out, we got Rs 3,000 crore of sales from Golden Harvest and that Rs 3,000 crore delivered a certain gross contribution to the company. Now the new rule permits us to get only 60% of that Rs 3,000 crore which is Rs 1,800 crore. So even in the new firm, we can only get Rs 1,800 crore. So can we get the right share of that Rs 1,800 crore out of that Rs 3,000 crore instead of going after a general share of Rs 1,800 crore. So can we get a greater share of the profitable category sale of that Rs 3,000 crore and how do we design a new scheme to focus like that. These are the plans which are currently getting crystallized. As we launch the new scheme in the next couple of months, it will take into account this. But despite that, obviously it may not recover the entire gross margin which that Rs 3,000 crore represented and therefore we need to look at other ways of growing sales, other ways of growing increasing product mix to get that back. But we would be certainly focused on getting back what we had. It may take a while and plus there are, any other innovative ways of coming out with other kind of steps. Right now, I would not like to say anything, but I would just leave the thought floating in the community about this that some other way of enabling customers to buy jewellery.

Manoj Menon: Fair enough. Sir just quickly, when I look at the website now, there is a 15% off flat going on jewellery and 20% on watches etc. Just to clarify, is it a little offseason or do you really run this every year. Is it something different this year. I am trying to link this, if we comment on improving consumer sentiment?

C.K. Venkataraman: If I take jewellery for example and even watches, the same period we have Titan sales and the Tanishq sale.

Bhaskar Bhat: If anything only Eyewear didn't run the scheme. Last year they had a scheme. Last year we had.

C.K. Venkataraman: So it is nothing to do with the sentiment, it is to do with the Indian culture which likes to buy on discount.

Manoj Menon: Sir just one small clarification was that if I read it correctly, it is a 15% flat off, that is what I was coming from. It is not up to 15%.

C.K. Venkataraman: If we go back in the same quarter of last year, we do this activation twice a year Manoj. And we started the flat 15% in Q2 of FY14 and this is the fourth round now of this.

Manoj Menon: Understood, absolutely last and then I will come back in the queue. Does the 10% watches growth, are you happy with it. Anything again linking to the consumer sentiment wherein consumer behavior is different in jewellery and in watches. Any comments on that? Are you happy with 10% in the watches?

Bhaskar Bhat: 10% actually is very good.

H.G. Raghunath: It looks like all the corrections and the products, the expansion, renovation; all put together seem to be showing results now and the price increase impact in the last 2 years. We are happy about it.

Bhaskar Bhat: Well Manoj, another indicator is the growth in the Helios stores. A 20% like-to-like in a multibrand store with 45 stores footprint is quite extraordinary. So it is an indicator of the interest in watches continuing to be high and the watch business itself has shown low growth, but it is still a growth.

S. Subramaniam: There is a volume growth of 9%. 9 comes after quite some time, it is a very good thing to see that volume growth of 9% coming up.

Moderator: Thank you very much. The next question is from the line of Hemant Patel from Axis Capital. Please go ahead.

Hemant Patel: Just a quick question again on the Gold Harvest Scheme. Just wanted to understand in the erstwhile quarter as we speak and while we have stopped the scheme, obviously there is sales throughput which is coming through from this scheme. When we say we have stopped it, when are we likely to see the impact if we do not introduce the new scheme?

C.K. Venkataraman: September.

Hemant Patel: So by September quarter you mean or the?

C.K. Venkataraman: No, month of September.

Hemant Patel: From the month of September.

C.K. Venkataraman: But what also is happening is since we were foreclosing, Rs. 1,200 crore deposits in a very short time, the benefits of the foreclosing also coming in the quarter. So the real impact is Q3.

S. Subramaniam: Actually this quarter will be a bumper quarter because of the foreclosing and it is like Q1 of last year for at very different reasons.

C.K. Venkataraman: No customer will walk in from September onwards for redeeming, but that would not affect September, but it will start affecting from October.

Hemant Patel: So sadly comes with the time when we will have a peak festive season, right?

Bhaskar Bhat: We cannot help it and I am sure customers will come for the allure of the brand, the great products we have and these are regulatory measures. We cannot build our plans around the regulatory measure. We have to build our plans despite and we should be wooing our customers. So we will bring it in ourselves. I am sure we will come back.

C.K. Venkataraman: Last year the gold supply was pursued to be a big issue, but somehow new things will happen.

Hemant Patel: One other quick comment from the annual report where you have mentioned about beginning exports in the first quarter of this financial year. Have we started doing that? Could you give some color and what size and scale are we likely to reach in this particular venture?

C.K. Venkataraman: I would not want to talk about the size and scale. We have begun exports to Singapore and to Dubai and a little more than Dubai, I guess in the next few weeks, but Singapore and Dubai I guess predominantly NRI kind of focus. Our focus at the moment is more to establish right kind of presence in the right kind of stores and then after start building it, to get some export income and equally importantly to become an exporter which can hopefully help us to become an importer as well. But the scale of it may be in the next call we will be in a better position in the October call or early November call, I will be in a better position to share.

Hemant Patel: Just on the same question, just one last thing. This is mainly to circumvent or actually to help us with the direct import license or is it going to be an actual business focus in terms of exporting?

C.K. Venkataraman: A trigger was certainly be 80-20 rule, but after the trigger came, we thought about it and said why not and make it into a proper business. So it will be both. How big it becomes, I do not know, but it will certainly be both.

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

Avnish Roy: Sir my first question is on the watch business. It did very well in terms of the volume growth, but the difference between growth and the sales growth is just 1% and we are seeing also 100 bps sequential margin drop. So is that a conscious strategy that price growth this year will be limited, although you may not be facing too much raw material inflation because rupee is stable, but is that the main reason or there is a mix change which is making optically the price lower?

H.G. Raghunath: It is a mix change Avnish, you rightly mentioned. It is a mix change, but otherwise all parameters are positive.

Avnish Roy: Sir second question is overseas hedging, will that continue as a fallback mechanism because you can never really predict when gold on lease….

S. Subramaniam: Avnish, it is not a fallback. It is a price mechanism we are doing today. See, while gold on lease is back, it is not back in full flow. There is a limit to the quantity which we can do gold on lease because only banks are allowed to do that. Other canalizing agencies are otherwise buying it cannot give gold on lease now. Therefore the availability is restricted on gold on lease plus the cost has been high. Therefore for us, the primary thing is at this point in time, we are hedging outside India.

Avnish Roy: Sir my next question is on your studded business. We have been doing lot of innovation at slightly more attractive lower price points. So my question is when do you see these brands becoming substantial and second is you are seeing good growth in studded this quarter. So our long-term target is 40% share of studded, so when do you see that coming now in the light of better sentiments etc.?

C.K. Venkataraman: The performance of collections like Inara and Zyra that we have launched has been exceptional beginning July of 2013 and even in Q1, we launched Zyra and Zyra really did exceedingly well. The market development worked like Mia, Mia grew more than 35% in Q1, but in terms of size it is still small because by nature, it is a development kind of business and to get all the working women to start wearing jewellery to work will take a certain time, but we are very excited and convinced about the direction in which Mia is moving and therefore our overall outlook on studded growth in the next 2, 3, 5 years is very positive. The 40% point is always a little confusing because what are the reasons sometimes gold performs substantially better than your plans and therefore that share drops. But the scale economy kicks in and we do much better than we had originally planned despite the studded share dropping So our focus is less studded share, more studded sale. We want to grow studded every year let us say 25% and even if that 40 does not happen but let us say we are at 30% still at the end of 5 years. But we have grown 25% CAGR each of 5 years that actually means that gold has also grown 25% CAGR which means we will be having a different kind of business 5 years from now. So we would not be at all disappointed with that. In fact, we will be kicked with that.

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

Rakesh Jhunjhunwala: Sir the first question is what is the amount of money that is outstanding on 30th June under the scheme of yours?

S. Subramaniam: About Rs 1,100 crore.

Rakesh Jhunjhunwala: And what is the cash you are having?

S. Subramaniam: Rs 1100 crore includes the grammage scheme. Therefore the amount of outstanding under the GHS was less than Rs 900 crore and the cash we had was Rs 1,000 crore.

Rakesh Jhunjhunwala: What is the total stock of gold you are having in value terms?

S. Subramaniam: Rs 2,500-2,800 crore.

Rakesh Jhunjhunwala: And how much is the lease on 30th June and how much is normally when you paid for?

C.K. Venkataraman: Bulk of it is paid for.

Rakesh Jhunjhunwala: But at what rate are you able to convert that paid into lease?

C.K. Venkataraman: It is as a slow rate Rakesh. The problem is that the overall availability of gold itself is a concern. In fact we buy from Birla Copper. I think 20% of our purchases today are from Birla Copper which is a domestic copper company whose byproduct is gold. So we buy on spot from Birla Copper. Then we buy from banks, we buy from canalizing agencies. So the total availability of imported gold itself is only 80% from our point of view. In that the banks' availability is low and therefore only banks can give gold on lease. Canalizing agencies for some reason have not been permitted. Therefore the best scenario in the next 9 months, we are looking at 30% share of gold on lease unless the canalizing agencies are allowed to do that.

Rakesh Jhunjhunwala: 30% is on imported. You also have local lease gold from State Bank and all?

C.K. Venkataraman: No, I am talking about including that.

Rakesh Jhunjhunwala: So that means only 30%, only 70% you will have to pay for?

C.K. Venkataraman: The way it looks today for the rest of this year, yes.

Rakesh Jhunjhunwala: And how is the response of scheme in the current month? How is it gold jewellery sales in July?

Bhaskar Bhat: Pretty good Rakesh. The response has been good, continues to attract people with these kinds.

C.K. Venkataraman: And the Golden Harvest closure is also positive because a lot of sale happening with, that Rs 1,000 crore is coming back as sales. Good part of it at least, that is adding to the growth as well.

Rakesh Jhunjhunwala: So right now what about the watches and the other businesses, in July they are good?

H.G. Raghunath: Yes, Titan is back to positive and it is a very good month for watches.

Rakesh Jhunjhunwala: Sir you launch the scheme every year in July no? This scheme is nothing new.

H.G. Raghunath: Yes, in this part of the year, activation is not new.

Rakesh Jhunjhunwala: So overall you would say cautiously optimistic?

H.G. Raghunath: Yes, correct.

Rakesh Jhunjhunwala: And what about your brand fragrances and sir when are you going to give us your results and sales of your great PED division and your great eyewear division separately? As investors, you have kept transparency. I think this is not a transparent policy although law may allow it.

Bhaskar Bhat: When they become greater.

Rakesh Jhunjhunwala: Sir greater means what, you will have Rs 300 crore sales in an Eyewear company in the Eyewear. So you do not want to show separate results, now you will be profitable, you will show it also or you do not want to show the losses of the PED division?

Bhaskar Bhat: That was profitable before Eyewear. Now Eyewear is also in black.

Rakesh Jhunjhunwala: PED division, this quarter is not profitable no?

Bhaskar Bhat: No, it has reduced. It has declined in its sales.

S. Subramaniam: But this quarter actually as Bhaskar mentioned some time back, PED revenue has declined because of a billing thing. A big order is getting billed in July instead of getting an order in June. So there is a dip because of that.

Bhaskar Bhat: It is profitable Rakesh.

Rakesh Jhunjhunwala: What is the quantum involved?

Bhaskar Bhat: 25 crore or so, which has not got billed.

Rakesh Jhunjhunwala: Anyways sir I request that you please classify your sunglasses under the Eyewear division and please give the results of that.

S. Subramaniam: It is, in our MIS, it is.

Rakesh Jhunjhunwala: See like good transparent companies align, what your Directors see and what your shareholders see sir. Again I will tell you that this is not a company known for corporate governance. I think you will be better known for corporate governance when you give the figures separately.

Bhaskar Bhat: We will take that feedback this quarter Rakesh. We take that feedback, I agree with you that some time or other we have to show that.

Rakesh Jhunjhunwala: It is better you do it. Loss is loss there is nothing to be worried about it.

Rakesh Jhunjhunwala: Anyway I can only request and congrats on a good performance in difficult circumstances. Also I wanted to know is there a premium on gold prices today as compared to international prices.

Bhaskar Bhat: Reduced. It is very low now. It is less than a percent.

Rakesh Jhunjhunwala: So that helps us no?

C.K. Venkataraman: It is easy for us. When we do not get request everyday from the stores on the prices are too high, etc., but yes, it is an easier kind of situation.

Rakesh Jhunjhunwala: And how many shops are you opening this year?

Bhaskar Bhat: 300 in all.

Rakesh Jhunjhunwala: 300 jewellery shops?

C.K. Venkataraman: No, 300 total.

Rakesh Jhunjhunwala: And sir when are you closing the Zoya and Gold Plus.

Bhaskar Bhat: Gold plus is doing well Rakesh. It is making money.

Rakesh Jhunjhunwala: It is making money but what about return on capital?

Bhaskar Bhat: Give us some time Rakesh.

Rakesh Jhunjhunwala: One last one. What is the percentage of this sub-brand sales, Mia and another brand you launched in Gold no? Inara, Zyra and Mia.

C.K. Venkataraman: If I take just the three names that you mentioned we would probably be between around 15% to 17% of the sales of studded of Tanishq.

Rakesh Jhunjhunwala: Mia included. Mia is also studded?

C.K. Venkataraman: Mia, Zyra, Inara, it will be in the 15%-20% which is a damn good thing from a collection driving image sale point.

Rakesh Jhunjhunwala: But sir what would Mia be specifically?

C.K. Venkataraman: Mia specifically would be about, we may do about Rs 120 crore may be this year.

Rakesh Jhunjhunwala: So studded this year is 3,000 crore.

C.K. Venkataraman: Yes. So it may be a 4% of studded.

Rakesh Jhunjhunwala: But it is growing very well?

C.K. Venkataraman: Yes, it is growing at 35% kind of thing and actually it can grow faster. I think we have not hit the sweet spot yet.

Rakesh Jhunjhunwala: And the margins are good in that?

C.K. Venkataraman: Yes.

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

Vivek Maheshwari: First again on Golden Harvest, the question that Manoj had asked, so is it because of net worth 25% criteria or is it because of 18% return promise or is it because of both?

S. Subramaniam: Both, we have to do it for both.

Vivek Maheshwari: No, if that is the case then Venkat to your comment that you may come back with a different avatar of this scheme. Again you will have to have that constraint of less than 12% return.

C.K. Venkataraman: You will have to wait Vivek on that.

Bhaskar Bhat: It will have to be 12%. It cannot be less than that.

C.K. Venkataraman: No, obviously any scheme that the company is offering, we will have to be not more than 12% and the deposits collected by the company cannot exceed 25%. So my comment earlier you will have to wait.

Bhaskar Bhat: So you will have to do some tricky things like 6% plus 6%, or 10 plus 2% what poor banks do. So they cannot go beyond, twice as much as savings bank rate and so on.

Vivek Maheshwari: And Subbu, a few questions for you. Any mark-to-market loss in this quarter or gain or whatever?

S. Subramaniam: Not material.

Vivek Maheshwari: Depreciation Rs 7 crore will continue. That is a steady state new number right? The higher Rs 7 crore.

S. Subramaniam: It is slightly more in the first quarter. It will start declining a little but will be higher by around 20 crore in the year.

Vivek Maheshwari: And lastly what will be gross debt on books right now?

S. Subramaniam: The debt I am not giving you a number now. We are still obviously cash positive and the good thing is that the redemption of this scheme is almost entirely in Jewelry. Therefore cash payouts are very low. Therefore we would start may be bringing down our cash balance because we do not need to keep them as much. Therefore we will control the debt and we will do it based on need.

Vivek Maheshwari: So you are saying once consumers or customers take up the gold jewellery, you are saying you will get cash so you will not have debt need, is that what you mean?

S. Subramaniam: We may bring down our cash balance is what I am saying. We do not need to keep 1,000 crore of cash. We will reduce our debt gradually. That is our point.

Vivek Maheshwari: Understood and the tax rate for the full year will be what, should we take 26.5% is what you did, the same one?

S. Subramaniam: Around that much, yes.

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

Aditya Soman: My first question is actually with respect to the jewellery EBIT and margin. So how do you account for interest in the margin which you have given in the presentation?

S. Subramaniam: This is EBIT, therefore interest is not included in this.

Aditya Soman: But the finance cost of say Rs 35 crore which incurred in Q1 will mostly be….

S. Subramaniam: That includes the gold on lease interest. It includes the interest on borrowings and the Rs 15 crore provision that we made.

Aditya Soman: But this can mostly be attributed to jewellery business in this quarter as well as in the past.

S. Subramaniam: I would say most of it. The gold on lease part, yes and the Rs 15 crore clearly and the rest of it is more of a corporate borrowing.

Aditya Soman: But like as we move forward, will this number go down

S. Subramaniam: It will go down yes. It will go down because Rs 15 crore would not happen and even gold on lease might start increasing and debt may start coming down. So it is bound to happen.

Aditya Soman: Okay and second is with respect to like you mentioned that by end of this year, 30% will be on account of gold on lease. Will you hedge balance 70% in international markets?

S. Subramaniam: Yes, all of it.

Aditya Soman: And what is the returns you are able to earn while you are hedging. Is it similar to what you are earning on gold on lease?

S. Subramaniam: The premium is in the region of around 8% per annum now.

Aditya Soman: Okay so then it becomes very similar to gold on lease.

S. Subramaniam: Yes, better actually.

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

Arnab Mita: Just couple of questions. One on the international hedging, did you have the benefit for some part of 1Q and how much of it was there in this quarter itself?

S. Subramaniam: Well, I am not quantifying the number, but yes we definitely started in Q1. Sometime in the middle of the quarter is when we started this. Some of the benefit has started coming in. Going forward, you will find more and more of that.

Arnab Mita: And the hedging gains would be part of the EBIT there.

S. Subramaniam: Yes, the hedging gain actually would come in material cost. So yes you are right, it will come in EBIT.

Arnab Mita: Right. Just one more question on Golden Harvest. If you could just tell us in terms of obviously there would have been a varied profile of consumers here. Was the large part of consumers here are value seeking who came into the Tanishq and because of the discount and did you see more of planned purchases happening in terms of wedding and things like that? So if you could just give us a sense of what kind of customer profile was there here and hence what are the chances that they keep consuming even if they do not have part of the scheme?

C.K. Venkataraman: Generic studded share of the brand was also mirrored in the Golden Harvest. Initially, we also thought it is a savings kind of person and therefore more likely to be more gold jewellery buyer and all that. But we found that somebody was putting in Rs. 20,000 a month and buying a diamond necklace for 2.5 lakhs as much as somebody was putting Rs. 20,000 and buying gold jewellery for 2.5 lakhs. So it actually cut across classes, cut across category. So therefore in a way you could say the customer is very similar to a typical Tanishq customer.

Arnab Mita: And just Subbu, one question. In the base quarter last year, there was a relatively large mark-to-market loss and there was also some import duty related inventory gain in the margin. So could you quantify what is that in the base quarter?

S. Subramaniam: The loss was about Rs 36 crore in that quarter which got offset immediately in the second quarter. But the gain on custom duty was also substantial. I do not recollect the exact number now, but it will be Rs 20-25 crore at least.

Arnab Mita: And just one last question, you started seeing advertising on Zoya on television. So with the store footprint still being only three, what is the strategy on this?

C.K. Venkataraman: We wanted to actually lift the level of the manner in which we connected with the customer because finally the challenge of building a brand with two stores was also there. At the same time, we did not want to put up 20 stores so that we feel better about advertising on TV. We said we would rather advertise on TV and deal with the two store inconsistency. The results are pretty gratifying. You know it is starting to look like the change is happening and thereafter may be in another 3-4 months we will get a sense of where we will go with Zoya in terms of expansion.

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

Amnish Aggarwal: I have three questions. So my first question is regarding our watch business where while World of Titan has shown a same store sales of only 2%. Helios has grown at 20%. So in the light of this, where do you see the World of Titan as a brand because Helios has gone much faster and these are supposedly more costlier premium watches.

Bhaskar Bhat: I think the World of Titan has a certain positioning in the market place which primarily stands for Titan, the brand. The problem that has to be fixed is brand Titan and we are already seeing traction. The work that we have done in the watch business is beginning to show. But Helios, I agree with you, it shows the demand side for expensive watches, certainly fashion brands and so on and so forth. It is the way the market is, it is an indication that market is maturing in India. But World of Titan is brand Titan and there is a huge action of renovating the stores or activating the brand Titan etc. which already we are seeing traction for this and that is the way forward. Therefore it is a very large network. It is 406 stores and you will see same store growth improvement. In fact it is doing extremely well in the current scheme.

Amnish Aggarwal: Okay, sir my second question is regarding the Golden Harvest Scheme where the scheme which we were referring if we calculate IRR of that, it was around about 15 odd percent. Whereas the money which we were getting we could invest at say maximum of 9% to 10%. So there was a gap of purely 5% over there. So now in the light of that what was actually compensating us for that? Was it higher volumes or indirectly we were making lower margins on whatever we were selling under the Golden Harvest Scheme and if we combine all these three and if you suppose that a new scheme is not that much of a success, do we will see some flip up happening as far as our margins and profitability is concerned and do we also need to spend more on the advertising in the jewellery business?

C.K. Venkataraman: Actually the IRR of that 16% is to the customer. The benefit 9% on the deposit is to the company. Now let me just run you through. If the customer is putting Rs. 1,000 every month, at the end of 12th month he actually buys for 18. I explained earlier to Manoj, I think. There is a 50% up selling. The customer actually saves up 11, company gives one but the customer is actually ending up buying for 18. So that is how it actually happens. So our cost of sale is 1/18 which is some 5.6%. Now if I remove the financial benefits that we are getting on the cash flows from the customer, actually the cost on sales drops to something just over 3% which is almost like the cost of advertising that the brand spends and therefore if I look at Golden Harvest, it is a customer acquisition scheme with a cost of 3% on sales.

Amnish Aggarwal: But does it have any impact on our gross margins

C.K. Venkataraman: To that extent. If I say rest of advertising is also supporting this Golden Harvest business, then on the Golden Harvest business the gross margin will be 3% less.

Amnish Aggarwal: And sir finally I have got just one housekeeping question. One is in this quarter other operating income has jumped very sharply, any reason for that and secondly in our annual report there is very sharp decline in the sales of the outsourced watches. So is there different reporting we are doing over there?

S. Subramaniam: Other operating income includes sale of diamonds or stones that are not required for our business. We do this routinely and this quarter yes, we did sell a lot more of them.

Amnish Aggarwal: And sir secondly regarding your annual report, traded watches? See we report watch sales under two heads, one is your manufacturing and one is your outsourced. The outsourced number has seen sharp decline this year.

S. Subramaniam: I will take this offline may be.

C.K. Venkataraman: We will try and respond to you offline. We are not able to give you an answer you on that.

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

Harit Kapoor: Just one question. Just wanted to understand last quarter we have spoken on our expansion plans for FY15 close to one lakh square feet in watches and around the same amount in jewellery. So just wanted to understand now that we have started the year, any changes in that number for either division?

C.K. Venkataraman: On jewellery, there is no change. We ended up adding about 35,000 square feet net in Q1 against the 90,000-100,000 sq.ft. target we have. So there is no change in plan. Like every year, there must be some slippage here and there because this whole subject of real estate and setting it up is not that affordable but there is no change in plan. In fact the confidence today I would say is higher would be higher end. Even the franchise prospects wanting to come and align with the company I suppose would be greater.

Harit Kapoor: And in watches sir, what would that number be?

S. Subramaniam: In watches also, we would be adding substantially this year. There is no change in the plan.

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

Sanjay Singh: Sir just wanted to ask the margins for jewellery. Is it a little lower this quarter for certain reasons or this is because of the activations etc., it is a probably new little lower than what we have been seeing till now.

S. Subramaniam: No, margin is not low. I was just quite happy with….

Sanjay Singh: Not on a year-on-year basis because last year was higher gold and hence lower margin.

C.K. Venkataraman: Are you looking at sequential Sanjay?

Sanjay Singh: Even sequential is not like because sequential your studded share was very high but typically you were doing around (+10%) number; 10.1, 10.6, 10.4, and now it is 9.4%. So on a full year basis, even if you look at your margins excluding other income that has been 9.8% last year after…

S. Subramaniam: I think there is one issue here Sanjay. You will have to look at the numbers. See in the past we used to have interest income as part of this.

Sanjay Singh: No, I am not referring to that. If you look at your annual numbers where you give your number without the other income for even historically, last year was 9.84% after a very low 1Q because of the higher gold sales, previous year was 10.1%. This does not include the other income. This is just your gold business divided by sales.

S. Subramaniam: The annual would include two quarters of studded sales. So you cannot compare annual with one quarter. If you see the next quarter, it is very likely that our margin will be substantially higher.

Sanjay Singh: So it is a function of the studded share you are saying?

C.K. Venkataraman: Yes, if you compare Q1–Q1.

Sanjay Singh: Yes, because last year Q1 we are not able to compare that is the reason we were having a problem. The last year Q1 was very high gold sales. Anyway I got the gist. In terms of the CAPEX, I forgot what is the last time number you said, can you just repeat the CAPEX number for this year?

S. Subramaniam: Well, it will be Rs 200 crore again. While we have an internal target would be higher than that, I expect to spend about Rs 200 crore first.

Moderator: The next question is from the line of Abhishek Ranganathan from PhillipCapital. Please go ahead.

Abhishek Ranganathan: Just a question on the Golden Harvest. Now with all the regulatory changes that we have had and with the discontinuation of the scheme, one way of looking at it also that it would also open up a huge opportunity for us considering that scheme is likely to get expanded across competition. If we would consider that, which geographies you think would actually end up gaining a lot more market share. Individually what comes to mind is something like South India where these schemes have been extremely popular.

C.K. Venkataraman: No, but I am not sure how the absence of Golden Harvest Scheme will naturally enable us to get a higher margin share. But the consumption can actually drop for that market. The Golden Harvest or its equivalent with competition is a route to buy the brand. You also want to buy a brand and then you join up a scheme of that brand to buy that brand. It is not as if the schemes are independently fighting for a share of this brand or that brand.

Abhishek Ranganathan: Okay right, but considering that let us say somewhere like South India where you have a lot of players who have these schemes and this schemes actually let us assume for a moment that these schemes go out of the market for everybody, would it actually place you on a better footing in terms of gaining market share because the fact of the matter is that the customer there are more loyal to the local brands. That is what the perception is. It may be slightly easier for you to get these customers on board for you?

C.K. Venkataraman: It certainly presents an opportunity to capitalize on.

S. Subramaniam: I think one advantage we might possibly have is a stronger balance sheet which will be able to take the cash flow impact of this which possibly others competition might have a problem with it.

Moderator: Thank you. So we will take one last question from the line of Mr. Prasad Deshmukh from DSP Merrill Lynch. Please go ahead sir.

Prasad Deshmukh: I have two questions actually, small questions. One is export channel, historically we had explored this channel and then did not ramp up aggressively here. In fact if I remember, there were two stores open and they were shut down later. So now if you are looking at this channel. So if you are looking at it as a business line what has actually changed here versus say 3-4 years back to now?

C.K. Venkataraman: There are multiple aspects to this. That is retailing in the US in markets not targeting the NRI but targeting the American with jewellery which is western, fashionable all that. Here we are talking about setting up shop in shop with hardly any investment from the company. In fact there is no investment from the company side with the existing product lines targeting the Indian who is living in Dubai or living in Singapore. So it is a very different totally very low, zero risk.

Prasad Deshmukh: So one can expect may be the margins may be lower but returns on investment will be higher.

C.K. Venkataraman: It is triggered by the need for the export so that we can import.

Prasad Deshmukh: Correct.

C.K. Venkataraman: And thereafter it also opens up our mind to the possibilities in Dubai once we start doing this. May be we will set up stores in Dubai. Certainly may be not now, but soon etc.

Prasad Deshmukh: And the second question is the watches. We are aggressively expanding now versus say 2-3 years back if one discussed watches, the general discussion would be on that this category, is there in the sense we are not looking to expand aggressively here and would just want to premiumize in the category but may not have opened more stores here. So again what has changed in the last 3-4 years here?

S. Subramaniam: It is not really 3-4 years. Basically I think on watches, the focus is on Fastrack stores which will expand. The World of Titan, the focus is on the top 400 towns. We are in possibly about 200 plus now but want to get into what we call middle India and therefore a lot more stores will come up in those areas. That is the idea, nothing else.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand over the floor to Mr. Sameer Deshmukh for closing comments. Over to you sir.

Sameer Deshmukh: Thank you. On behalf of Tata Securities I thank the management team of Titan and all the participants for this call. Thank you sir. Have a good weekend.

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