"Titan Company Limited Q4 FY22 & Full Year '22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call Titan Company Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. C. K. Venkataraman – Managing Director, Titan Company Limited. Thank you and over to you sir.

C. K. Venkataraman: Thank you very much. Welcome to everyone on the call from my colleagues and me from Titan here at Taj Bengaluru on this Quarter 4 FY22 Earnings Call.

Very-very satisfying quarter in a very challenging situation with COVID wave 3 lockdowns for some weeks and the international conflicts starting late February, going all the way to the end of the year, affecting oil prices, including prices of Gold, and creating a lot of uncertainty in consumer sentiment. Despite all that we ended the FY22 on a very good note and equally and as importantly our preparations for a very ambitious FY23 were also completed in that same quarter and we prepared well enough to take a very good ambition for FY23 as well.

I have nothing really more to say and I would request the questions to come in for us to answer.

Ashok Sonthalia: Before question come in Venkat, I would just like to call out few specific items related to Quarter 4 and FY22 performance. Ashok Sonthalia here and welcome to everyone to the call. It's great to be talking to you guys on this auspicious day of Akshaya Tritiya.

You are all well aware that Titan has a long-standing philosophy of sharing its prosperity and success with all people in an equitable manner. This year '21-22 has been exceptional for all of us in multiple ways and our profit performance has been quite good and therefore ex-gratia amount of Rs. 72 crores at standalone level and the total of Rs. 82 crores at consolidated level have been provided for in their Quarter 4 accounts.

During the quarter, the company came up with a voluntary retirement scheme for employees in the month of March '22 and a charge of Rs 51 crores at standalone level and Rs. 54 crores at consolidated level on this account also has been recorded in Quarter 4 P&L as an exceptional item. Both items put together a total charge of Rs. 123 crores on a standalone has been made in P&L and significant part of this ex-gratia amount is reflected in the employee cost line-item normalizing for the ex-gratia amount and VRS amount like to like EBIT and PBT for the quarter are at 841 crores and 787 crores, respectively. This is PAT margin of 12.1% and PBT margin of 11.3%. For the full year FY22 PBT before ex-gratia and exceptional item stood at Rs. 3,054 crores, EBIT margin and PBT margin is 12.3% and 11.6% respectively.

With this I would like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now again the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on Fastrack, Fastrack is the only format wherein in FY22 there has been no store addition. In fact, there has been a net closure of five stores. When I see the retail growth also in both full-year FY22 and Q4 the like to like and sales growth has been pretty disappointing. I understand Omicron impact in Q4 but FY22, 32% sales dip in Fastrack retail. So, what is the way forward here, what has been the issue in FY22?

Suparna Mitra: This is Suparna from the Watches and Wearables Division, the Fastrack store format is in the process of being reimagined. That is why we didn't add any stores of this year. We have a new store design ready. Once that is fine-tuned, we are going to roll out. In fact, in Q1 itself we have our current store location finalized and awaiting the new store design. I think there are two parts to it. One is the revival of this Fastrack store format and bringing in a lot more experiential growth into the store format. I think the larger point also is that for some people online is the natural default thing. We have seen Fastrack do very well in both, our own brand e-commerce as well as the marketplace e-commerce. Therefore, the need to totally reimagine Fastrack. This is a work in progress and next financial year we have a plan of opening another 10 to 12 stores in various parts of the country.

Abneesh Roy: My second question is on Taneira, so sales growth of 4% in Q4. I understand the Omicron impact but on a base of 14 stores for the full year you have added 6 stores which is a big addition on that kind of a base. So, this 4% growth would you say that you are a bit disappointed with that or is it more of Omicron? How is the model shaping up, are you now much more confident versus when you started the year?

C. K. Venkataraman: Abneesh and everyone else I'm introducing Ambuj Narayan, who has joined us as CEO of Taneira business 2 months back.

Ambuj Narayan: Good evening and welcome to the call. Happy to be here, so yes, a bit disappointed but when I look at the **quarter** and January was rough, but it was largely due to Omicron. Now we have opened 6 stores last year and there is a very good pipeline of stores that's coming up and we are confident about Taneira and doing very well in the coming year.

Abneesh Roy: Titan Eyeplus (-4%) sales value growth, so dip in Q4. So, any competitive intensity increase has happened or it's again linked to the Omicron itself in terms of somebody retail growth?

Saumen Bhaumik: Abneesh, this is the Saumen from the Eyewear Division. Like you said Omicron was certainly a factor for the month of January and in the month of March while Titan Eyeplus channel has done sale of more or less, we also had to deal some store closure. Overall, for that division we also have to do some number of channel correction that's why overall figure is muted. Otherwise, we haven't seen any different kind of a competitive activity. It is just to be the combined effect of Omicron and the year-end correction that we wanted to make sure this system is clean, take off from the day one of the next year.

Moderator: The next question is from the line of Vishal Gutka from PhillipCapital.

Vishal Gutka: I had just couple of questions. First thing on the loan facility basically like Bajaj Finance provides to consumer durable, is there a regulation restricting what you call to provide finance for purchase of jewelery because lately too couple of jewelers who have filed their IPO there, they stated that that there are some parties providing finance for purchase of high value stud Jewellery. Just wanted to know your thoughts on that. I just wanted to know what is the contribution of Golden Harvest scheme as well as gold exchange program for the quarter.

C. K. Venkataraman: On the first point, I think there is an issue there because then RBI did EMI on Jewellery and I had met them few years back and the whole viewpoint was to enhance the acquisition of monetary assets. That was the view that RBI has taken and I guess that will apply equally to loans. We had a very vibrant EMI program that we had begun as a pilot in Bangalore in 2016 and we were planning to take it national when RBI came up with these monetary assets to not finance.

Ajoy Chawla: Ajay here, on the Golden Harvest contribution. The contribution has gone up compared to last year. It’s at 18% contribution to the sale in the quarter versus 15% in the previous year same quarter. However, in FY20 in Quarter 4 it was at around 20%. Due to disruptions in enrollments in the subsequent two years, it is still catching up but enrollment levels are very good. In fact, Q4 we have seen very good pick in enrollment in Quarter 4. Even that has continued in the month of April. Going forward I think post these two years of disruption, maybe this quarter it'll continue to see the effect of last year disruption in Q1 but thereafter I think we should be on a steady wicket. But overall, 18% contribution versus 15% last year.

Vishal Gutka: The contribution of gold exchange program for the quarter?

Ajoy Chawla: That's also been good. It was 28% versus 27% in the previous year in terms of contribution.

Vishal Gutka: The last question from my side on the international expansion front. I think we have opened one more store on the I think in USA apart from couple of stores in UAE. So, what is the outcome going here, what is the guidance in the medium term, how many stores we are looking with regards to international expansion for the Jewellery?

C. K. Venkataraman: Please wait till next Friday.

Moderator: The next question is from the line of Amit Sachdeva from HSBC.

Amit Sachdeva: Just a small question on the demand outlook Venkat and Ajoy, given the gold price surge in March was pretty precarious but I assume February was going okay and January was somewhat impacted but wedding season seems to be very good and there was a hope at least that that demand outlook should be robust if not disruption continuing on gold prices. So, can you give us some thoughts on how April has gone and given the base is also very benign but how one should think about demand picture in the current outlook as some challenges which you mentioned are still persisting?

C. K. Venkataraman: Amit while the conditions in Quarter 4 were finally not conducive to overall demand. We also have to measure our performance from a competitive point of view and not just our growth or decline in sales. Our sense is from a competitive point of view we continue to be strong in every category where we operate in Quarter 4 and therefore blip which is such a large external factor, we don't have to think about it or worry about it but just move on. So, that's sort of putting it behind us kind of thing. April has begun very well. We're very satisfied with the first month of the year. We are quite planning for the target that we have set up for ourselves for the year and on that we are on track.

Amit Sachdeva: That's very good to hear Venkat.

Ajoy Chawla: Just add on to that, gold price volatility has impacted, it’s a big-ticket value purchases especially for wedding. This is particularly true in March, and to some extent in April. Having said that I mean we are very happy with our April top line. We are expecting now that gold prices in the last at least few days, at least last one week seems to have kind of moderated downwards. Perhaps people who also just waiting and holding back to see how things shape up on the gold price front. We are actually quite hopeful. In fact, we are also seeing as you said there a lot of weddings. It's been up Quarter 1 with Akshaya Tritiya and weddings coming after 3 years actually, last two years have been tough. So, we are very positive and hopeful. In fact, we're seeing good traction, very happy with it.

Amit Sachdeva: That's really good to hear. In that context also good to hear that Venkat mentioning that there's an ambitious target for FY23, without alluding to guidance but how we should read that statement?

C. K. Venkataraman: As the word what it means.

Amit Sachdeva: I mean because given the FY22 has been at least a very good year and are we looking at 20% kind of growth or higher because at least there was a larger plan to go in strong double-digit growth, as such roughly for Jewellery but when you say ambitious, how one should think about those numbers?

C. K. Venkataraman: Actually, we are not giving a guidance on that for FY23, Amit, not yet at least. But the opportunity for the company in every category it operates where it is leader today in three businesses but in others picking up, quite a huge headroom. Every business we are looking at a good growth which together translates for a very ambitious growth for the coming year. You can just look back to the past about whenever we've used the word ambitious, what were the kind of figures we have talked about and imagine the best.

Amit Sachdeva: Now didn't want a guidance to be honest. I just wanted to understand whether this confidence is coming from the good demand condition we have seen in April and continuing into whatever this week etc.

C. K. Venkataraman: The ambition itself was set about 10 weeks back middle of February, even in the middle of in fact wave 3 but looking at the opportunity for the country represents for the company.

Amit Sachdeva: Just a small question on VRS and couple of exceptional items that you talked about, well we see also margins in watches etc. very weak so is it something to do which is disproportionately impacting watches VRS and other things or is there something to read in margins? Can you give us a bit of margin anatomy or what has happened this quarter so that we can clearly appreciate what is really gone on there?

Ashok Sonthalia: You are right like watches from the manpower in both these exceptional points are related to manpower and head count. Watches have a high share of manpower and head count in the business. That is why they have kind of have absorbed higher proportion of ex-gratia as well as VRS. That is reflecting in the rightly subdued margin.

Amit Sachdeva: If you were to exclude that what would be the watches margin?

Ashok Sonthalia: Watches EBIT margin for the quarter would be 6.7% and for the year would be 6.9%, but you must also factor in they have not yet kind of fully recovered to pre-pandemic level, they have grown but yes so there is opportunity to further improve.

C. K. Venkataraman: The nature of the category especially if you will compare it with eyecare or Jewellery, it is the most challenging category from a consumption point of view in these times of everything, working from home included and we are hoping that expecting FY23 would be rather different.

Moderator: The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises.

Rakesh Jhunjhunwala: What is the reason for losses in watches & eyewear?

Ashok Sonthalia: If you take out these ex-gratia and VRS, then watches actually in Quarter 4 had 42 crores of EBIT and on a full-year basis 160 crores of EBIT and as far as eyecare is concerned they had for the quarter 3 crores EBIT and 61 crores of EBIT for the full year. In watches also there is one more item is sitting in their P&L in March like we have this – sorry eyecare business associate meet happened in this quarter which also had about 10 crores of impact on their profitability.

Rakesh Jhunjhunwala: 10 crores cost?

Ashok Sonthalia: Yes.

Rakesh Jhunjhunwala: So, business will earn 60 crores a year?

Management: Actually Rakesh, we have had this tradition of business associates meet which happens.

Rakesh Jhunjhunwala: So, we should get an associate to pay for it also.

Saumen Bhaumik: We are just preparing for FY23 Rakesh ji. That is why in March bringing everyone together for the associates meet.

C. K. Venkataraman: It used to happen once in 2 years and the last time we did it was June of 2019. We are doing it after 3 years. It's been a significant part of building a confidence, camaraderie, team, spirit across the company system to deliver results year after year.

Rakesh Jhunjhunwala: Where was it held this year?

Saumen Bhaumik: It was done in Dubai.

Rakesh Jhunjhunwala: Anyway, congrats for the fine results and I think markets are good. I think we will be in for some surprise. Anyway, congrats and thank you for the good dividend. I hope it could be better. But we have a defined policy of 1/3rd or 40%.

Ashok Sonthalia: We have a range 25% to 40%. This payout translates into about 31% and keeping the growth ambition in mind and our requirement I thought this is a good level which we can consistency and the good performance, everything is reflected.

Rakesh Jhunjhunwala: We are not doing the bonus also now for 15 years, the company's trajectory has seen change completely. I can request that you will give bonus.

Ashok Sonthalia: Of course, we can bring that feedback and we can discuss at some point in time in board.

Rakesh Jhunjhunwala: Its high time we do it. Actually, when I see I the Churchgate shop I feel rich. I think we got to work that lady or that man who asked, he got to work on Fastrack. India is such a young country. I think Fastrack is the most desired brand in this country.

Suparna Mitra: Yes, feedback noted.

Rakesh Jhunjhunwala: Suparna we have not been able to exploit because India is such a young country, 75% of the world of below the age of 25.

Suparna Mitra: The potential is huge and we are working on a big revival plan for Fastrack with products, advertising stores.

Rakesh Jhunjhunwala: Unless you increase the range of products. I don't know why we don't have the deodorant. Like a brand name we don't do deodorants. I think we have the biggest market with Titans marketing and Fastrack advertising, I think we should go with deodorants, handbags, ladies handbags.

C. K. Venkataraman: We have a big plan on bags and on 13th we will talk about it. On 13th we have this investor conference in Bombay.

Rakesh Jhunjhunwala: I might not be able to come.

Management: Somebody from Rare will be there.

Rakesh Jhunjhunwala: Are you going to Zoom the conference?

C. K. Venkataraman: No, in person.

Rakesh Jhunjhunwala: I know it is but I will not be able to come in person there.

C. K. Venkataraman: ITC Parel Grand Maratha.

Rakesh Jhunjhunwala: No, I am saying you are going to Zoom it?

C. K. Venkataraman: No, in person.

Rakesh Jhunjhunwala: No, it is in person but are you going to do it online?

Ashok Sonthalia: We are not planning to have a parallel Zoom on that.

Rakesh Jhunjhunwala: Then people from abroad may also not attend. I request we have it.

C. K. Venkataraman: We will explore it.

Rakesh Jhunjhunwala: There is no problem in having it. There is no regulation, there is no problem. I don't know why you want to explore, please have it. Congrats on the performance.

Moderator: The next question is from the line of Manoj Menon from ICICI Securities.

Manoj Menon: Just two quick points on a Jewellery and a bookkeeping question after that. One just if an update on the gold hallmarking implementation, the regulation law etc. has been around for a while. It will be helpful on how are you finding actually on the ground implementation? Second question on Jewellery to Ajoy is, look as a consumer I've been observing or it's my interpretation of what I see is that there's a lot of action which you seem to be taking to actually make the brand younger. Basically, if you agree with the hypothesis or no and if yes it will be super helpful on what exactly you're trying to attempt here?

Ajoy Chawla: The first one on the hallmarking; I think hallmarking as a process has kind of stabilized across the districts that were identified. They have not gone beyond that. Within those districts also we see that there is a greater tendency because of the nature of the way hallmarking laws have been framed. It is at the point of a sale. Wherever Jewellery is getting manufactured those centers are getting loaded other centers are not. In the long run they'll have to modify it so that across the country hallmarking can be spread out. Right now, it looks like there's a traffic jam that lands up at the bigger cities where Jewellery gets made. But in a way they are checking where the authorities keep coming to the stores. They keep visiting. There authorities are trying to ensure it is implemented well. Having said that we have still received anecdotal feedback now in some of our stores. Hallmark Jewellery which continues to be inappropriate when we look at it in our Karatmeter or when we melt. But we can't say whether some of it was recently hallmarked or it might have been an older hallmark Jewellery. I think a big initiative like this for such a large fragmented industry will take a little longer to stabilize. The outcome of this I can share, well I don't know whether it's an outcome of this or it is a general outcome. We are seeing that the migration towards organized retail or towards stronger players continues and therefore every organized player is kind of aggressively pursuing very strong expansion plan. The other piece that I can share from a data point is that we continue to see very good traction amongst new buyers or new customers who are new to Tanishq or new to Titan as well. That indicates that there is a certain migration taking place from family jewelers etc. simply because people want to kind of get towards a more trusted name. On the second piece what is the direction of the brand? I think the brand has always stood for a certain progressiveness and a certain modernity yet rooted in tradition. I can't say whether we are trying to be younger because we are appealing to a fairly large age group from 25 to 55, I would say. However, what we are thinking that the brand doesn’t remain restricted to this outlook. Therefore, a lot of the communication that you've been seen in a way reflects that. On the other hand, you will also see that we are continuing to push very strongly on the brand front. Specifically, Mia and CaratLane continue to target a much younger audience. Both those brands are also doing pretty well. Yes, at an overall level we are aggressively investing in these brands and we are seeing the good results, the customer feedback as well as our brand stores.

Manoj Menon: I actually missed the last one statement, there is some bit of disturbance on the last statement on Tanishq and then I could hear Mia and CaratLane sub-25 and etc. If I may request that one last statement on Tanishq if you could repeat it would be helpful.

Ajoy Chawla: So, as I said Tanishq is continuing to push strongly on the progressiveness index and we have a very wide target audience from 25 years to 55 years. Whereas in the case of Mia and CaratLane we're targeting much younger audiences and there too we're pursuing good brand investments and brand visibility. Overall, as a portfolio we are investing strongly in all the brands including Zoya if I were to add that.

Manoj Menon: Ashok one clarification with you if I may. The 72 crores of ex-gratia if I understood correctly, it's been called out as an exception or a one-off. I'm not going with accounting standard part of it, I'm just going by the highlighting part of it. Now basically there are companies which I cover which historically had an EBA based model etc. that makes you meet a certain target. You get paid a variable accordingly. My basic question is why is it considered as something not normal and why is it an exceptional or one-off without getting the technical of it? Because you've done well, you paid a bonus, it should be a normal line item, right? I'm sorry for my ignorance if I'm missing something here.

Ashok Sonthalia: Let me give you something in this. One is that principle behind determination of amount is consistent over at least last decade or even more so, whenever the Titan has started, that's consistent. But the determination of it only happened after the year end and there is a great achievement. That is why you cannot be making provisions for this etc. we never do. We just decide it at the end of the year when there is actually a good performance and based on that determination the principles which we apply and that is why from an accounting point of view you will see that it is under the employee costs but because you want to see also the quarter comparable to whatever you are looking at that is why we have decided to tell you the amount.

C. K. Venkataraman: This was not part of the normal variable pay of the employee either.

Ashok Sonthalia: It is completely equitable in a democratic manner distributed to everyone.

Moderator: The next question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora: First question, Titan has recently acquired a stake in lab made diamond company while it’s a small investment. Can you share your thoughts on lab made diamonds in the context of Indian market?

C. K. Venkataraman: Thank you for that question. The last many years there has been very little conversation that we have heard or seen in the stores relating to lab grown diamonds because the desire for natural diamonds in the Indian middle class is so high. That for the next many years given the kind of affluence that's waiting to happen we are very confident that the power of the natural diamonds will continue to exist especially given the penetration of the natural diamonds in Indian households. However, in the US particularly, the share of natural diamonds, household penetration of natural diamonds is very high especially because of the work done by De Beers over the last six or seven decades. On the one hand the natural penetration is very high on the other the subject of sustainability is at a greater level of consciousness in the Western countries especially in the US and the Gen Z and to some extent the millennials are looking at options and therefore the traction of lab grown diamond Jewellery in the US particularly is quite strong. We wanted to, given our international ambitions on the one hand, and given the fact that sometime in the future maybe distant but nevertheless in the future the Gen Z of India will also start looking for these kinds of things. We wanted to dip our feet in the pool and be ready when the time comes. So, that's the background.

Kunal Vora: How large would the contribution be in India; will it be in single digits now or is it larger?

C. K. Venkataraman: In India we can't even perceive it.

Ajoy Chawla: It will be less than single, maybe fraction very early days. Even in volumes I would say would be less than single digits.

C. K. Venkataraman: It will be less than 0.1% or so, maybe it'd be 0.01%.

Kunal Vora: Second and last question, you are seeing some moderation and growth across categories this quarter compared to last. While I understand the Omicron do you think the pent-up demand played out earlier this year and because of that we are seeing some moderation? Also, how would you gauge your performance in the April to June quarter considering that the last two years days it's very small. What's a good way to look at your April to June performance?

C. K. Venkataraman: Going back to the first part. I think what affects demand is not just the real things which are around you like Omicron is a real thing. But also, what are the news that you're reading and seeing and listening to all around you in newspaper through WhatsApp shares, through other kinds of social media posts and all that which makes you feel it's not a great time in general. That overall depresses demand and that is at the backdrop of our Quarter 4 performance. We've always maintained that we are not a company which is looking so excessively at every quarter. We are looking at it at a one year and more than one year kind of time horizon because real value creation in any enterprise happens in that kind of timeframe. From that timeframe point of view the manner in which the country is poised on multiple accounts for growth especially in the segments the Titan company plays and our overall competitive advantage which we have built over so many years and we have substantially sharpened in the last 2 years gives us a lot of confidence about FY23, our ambitions for FY23 were set in that context, our performance in April without getting into detail confirms ambition and prepares us really well for the thrust in the next 11 months. I was not completely clear about the second part of your question.

Kunal Vora: Second part of question was how you are looking at this April-May-June because if I look at the last 2 years, April-May-June were disrupted. I mean like they were not really clean number.

C. K. Venkataraman: Our reference is not FY22 Q1 or FY20 Q1. Our reference is the market opportunity there and to some extent FY19-FY20 way and those are the principles that we have used in setting our ambitious target for FY23 and we're running to that aim.

Moderator: The next question is from the line of Ash Shah from AS Capital.

Ash Shah: As the previous participant asked about lab grown diamonds, I wanted to pick your brains on the same subject. You said that in India it's a very low proportion as compared to natural diamonds but if you start advertising, if you start putting more marketing efforts into it, don't you think that will create a lot of awareness. Just the way you mentioned that De Beers did over the past 6-7 decades for natural diamond in Western market. And they also have sister concern by the name of Lightbox which they run in US. So, why can't we have it in India also? Like a sister concern company dealing into lab grown diamonds in India.

C. K. Venkataraman: The reason why De Beers created Lightbox is because the natural diamond penetration in the US is such a high level. The demand for sustainable materials across categories is arising in that country. The Lightbox rationale sitting in that, the natural diamond contribution in annual sales as well as the total penetration in India is so low. This is a very directly middle-class aspirational item as it has been shown even in China over the last couple of decades. The opportunity for natural diamond Jewellery in India is so large that we have no plans at all to get into that in such a big way. But the point that you're saying that couldn't there be a small opportunity that Titan company can capitalize of? Of course, and at the right time I'm sure the Jewellery division would look at that and in a way the investment in great heights is also to build the overall understanding capabilities in these areas so that as and when we believe it is time for us to act, we will be able to act more effectively than otherwise.

Moderator: The next question is from the line of Jay Kumar Doshi from Kotak.

Jay Kumar Doshi: Just a quick book keeping question. What was the ratio of net sales to UCP in FY22? If you can give us some sense?

Ashok Sonthalia: For the company level because for every business it is separate and…

Jay Kumar Doshi: Company levels, standalone Jewellery excluding CaratLane?

Ashok Sonthalia: Come again?

Jay Kumar Doshi: Standalone Jewellery segments?

Ashok Sonthalia: That is 89%-90%, that's the number. So, we didn't see any variation Jay on that. It's almost at the similar level what it was in the previous year.

Jay Kumar Doshi: Over the last 3-4 years, so net sales to UCP has not changed at all?

Ashok Sonthalia: 0.5% here and there, quarter-on-quarter can happen, nothing much.

Moderator: The next question is from the line of Vaibhav Goyal from SBI Life Insurance.

Vaibhav Goyal: Just on the recent news items mentioning some increase in the making charges? Are we having some increase in cost or is it some deliberate effect, something which has done to compensate either on the cost part or some making gold attractive? How does this work?

Ajoy Chawla: I don't know where you picked it up from but we have not taken any increase in making charges in the domestic business at all so I don't know about this.

Moderator: The next question is from the line of Jay Gandhi from HDFC Securities.

Jay Gandhi: I just want to ask you one thing. If I see the inventory, there has been 3,000 crores jump over 6 months, around 5,000 odd over the year. But the gold on lease hasn't really moved as much so I just want to understand if my reading is correct that in FY23 we may be choosing a more expensive route to acquire customers. In other words, the gold on lease or the fresh purchase is may be lower versus gold exchange, given the inflationary pressure.

Ashok Sonthalia: So, next year Jay of course gold on lease can go up and now so there is no deliberate attempt. Every time when there are opportunities between GOL, spot and GEP-TEP focus will continue. I don't think we are going to dilute that, that's a great customer acquisition tool for us and that will continue. But beyond that whether we buy spot or whether we go GOL that's a continuous team on the economics of that and that is how we decide. But our preference for GOL has not at all diminished that much I can tell you.

Ajoy Chawla: We had a lot of repayments in GOL in the current year because the previous year it went up significantly on account of inventory recall, melting etc. to manage the working capital. Therefore, you are probably seeing this fluctuation year-on-year. comparing it to maybe 2 years back etc. it's pretty much comparable.

Jay Gandhi: If I have to just ask you in FY22 overall the GOL exchange and spot buying would be what percentage of the sourcing I am sorry if I missed this question before?

Ajoy Chawla: GOL typically would be around the range of 50% in terms of Kgs and spot buying will be much smaller. The exchange etc. would work out to about 40%. Between exchange and there's outright also we purchase some Jewellery directly from vendors, that also has a gold component. GOL is between that 50% to 60% range typically. That is what you will see also in the year of FY22. I don't know if you're asking for FY22. So, it's broadly in that range.

Jay Gandhi: Forgive me if it's a naive question. But on this hallmarking thing, now if everyone has to hallmark, the key issue in the industry was and this was probably a tailwind for you is the trust deficit. Now with this worked in your favor over the decades but if everyone hallmarks the trust deficit gets solved for then how does this help the organized folks?

C. K. Venkataraman: A very good question Jay. We started; the Tanishq brand started in 1996. It's 26 years now and if you look at the purity of the gold that we buy, the other Jewellery that we buy from customers, the purity has; even I'm sure if you were to look at yesterday's purity, it is still in the 19.5-19.7 per carats as opposed to 22-24 supposed to be. For in 26 years of purity stock of customers has not dramatically, it has improved, but it has not dramatically improved which means when the hallmarking happens, all the Jewellery and that 2 carat is about 8% in terms of value and that represents 8% making charge difference that is something about if it where to remain the same place where one wants to their own margins which means if they hallmark they have to raise their prices and in which case the competitive situation will be dramatically changed in Tanishq.

Jay Gandhi: And that is the only plus that we have basically they need at less competitive is the only argument?

C. K. Venkataraman: Jay I didn't get your response, there is a lot of disturbance.

Jay Gandhi: I was saying that because they become less competitive to the extent of what 7%-8% that seems to be the only argument for this for it to be working for organized. I was actually hoping that you would shut me up by saying you need to buy more Tanishq to understand what the difference is.

C. K. Venkataraman: But isn't an 8% making charge difference a very important argument?

Jay Gandhi: In the sense that anyway if you look at the gold rates in Tanishq stores or any other jeweler. There's a certain premium you charge on gold rates also which obviously is almost absent in some unorganized folks. Now you already enjoy a certain premium there.

C. K. Venkataraman: Possible.

Jay Gandhi: I understand that they may get less competitive at time but that's a one-time thing. I mean people do eventually get over.

C. K. Venkataraman: It will not be a one time thing. For me to continue to offer 22 carat every day, when I was offering 20 carats every day earlier; it's a daily thing that for me to operate my business with a certain gross margin that I should get; for me to be viable. I love to raise my price. That's a point I am making.

Moderator: The next question is from the line of Pratik Rangnekar from Credit Suisse.

Pratik Rangnekar: On the Jewellery business margins you did call out the staff cost-related one-offs. Even if you may be adjusted for that it seems like there's a sequential drop in margins. Can you provide some context to that considering that probably the studded share has also increased versus third quarter and probably there is an inventory gain in diamond that you alluded to last quarter also?

Ajoy Chawla: If you exclude the one-time, the EBIT margin for Jewellery in Quarter 4 stands at around 13.1%. I remember mentioning even in the last earnings call that in Quarter 3 we had an exceptionally high benefit on many counts and therefore those margins of EBIT margins of 13.5%-14% are not something which we could expect because we were planning to continue to invest back in the brand and in certain other areas for the business. We had clearly indicated that on a stable run it is going to between to 12% to 13% maybe tending closer towards 13%. Having said that in Quarter 4, is the one quarter which had certain costs which we have consciously taken in. We also wanted freshness and merchandise so to start the year well. We have invested something a little bit more in IT. We've had a few meets for our frontline staff etc. to kind of thank them for the exceptional work done over the last couple of years, we have met some of our sales team so that they're all primed and energized. First of all, I don't think the EBIT margin is anything to be worried about, it's quite good and healthy. At the same time, yes, there are some costs which are there in Q4 which may or may not repeat extensively in the remaining quarters.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: I am joining the call late so pardon me for the repetitive questions. Have you said anything qualitatively how the US and GCC market forays? I do pick up from the press release saying that you have done some pilot or very soon we are getting it. Maybe in the medium term next 2 to 3 years how we are going to develop or one should look at this business?

C. K. Venkataraman: Actually Shirish, if you can wait just for 1 week. Next Friday is our investor conference and I will be talking about just to some extent of detail at that time.

Shirish Pardeshi: My second question is on the Eyewear. I mean last ten quarters, if I put numbers together our estimates versus the delivery, there is a lot of volatility. I mean last con-call also I asked this question. When do we see a steady state growth and margin delivery for this business? I mean is it that another two quarters we will have to wait or maybe four quarters we will have to wait?

Saumen Bhaumik: Actually, if you exclude the Quarter 1 of FY22 as well as the Quarter 1 of FY21, you would see almost a three plus three six steady quarters. PBT margin ranging between I think 15% to 20%. Quarter 4 this year as I said sale was affected because of Omicron in the month of January and in the month of March we needed to make certain correction to clean up some of our channels especially the distribution channel. Apart from the fact that we had some one-off expenses like it was explained by Ashok, there was a large expenditure of what we do once in 2 years. We did in this case after 3 years called business associate meet. If you actually adjust for all of these things Quarter 4 EBIT would have been in the ballpark of 15 to 18 crores. Just a sort of give you a sense of. So, it was not significantly different than the last three plus three six quarters. We are not seeing that as a really an aberration. It is a bit of a correction that we did. If you look at just what happened in the month of April it just reinforces that we are just on the right track.

Shirish Pardeshi: My next question to Ashok ji. Till FY22 could you quantify what is the saving in terms of the numbers we have got it on war on waste?

Ashok Sonthalia: War on waste program which was run last year where we were doing quantification and we had at that point of time said that there are certain items which got induced because of the environment like travel, power etc. There were certain things which were ingrained into our business processes which are sustained now. So, they have become part of thing. Now we are not calling them out separately and the natural savings have almost disappeared because you see all the activity and velocity of travel in Quarter 4 particularly and we also took that opportunity to travel a lot and meet people. But the other process part of it are sustaining and we are not now anymore calling them out.

Shirish Pardeshi: But one follow-up on here we have done the hedging in. Now I'm sure two quarters has gone in. Related to this hedging, would you think there is some more savings which can extract because of the quantum and the demand situation?

Ashok Sonthalia: Hedging change which we did was basically to remove volatility because were on cash flow and cash flows were becoming unpredictable because of the COVID induced lockdowns etc. and we moved to fair value of inventory hedging because inventory in gold is far more certain and that is what is giving results that now you don't see any kind of volatility we are pointing out in our P&L because of gold hedging. Hedging is just to insulate us from price risk. Idea is not to make money out of that.

Shirish Pardeshi: Pertaining to this VRS and the ex-gratia charge which has come. This is fully charged for FY22 or is there anything which will flow to in FY23?

Ashok Sonthalia: FY22 everything has been taken care of. All the future liability on account of VRS have already been accounted for. There is no further charge coming in either Quarter 1 or FY23.

Moderator: The next question is from the line of Ashish Kanodia from Ambit Capital.

Ashish Kanodia: The first question is in terms of inventory gain on diamonds so last time you called out that there was one-off and there was some flow through in 4Q as well. Can you please quantify what was the impact of that inventory gain on diamond? The second question is on ingot sale so again in 4Q there was some ingot sales of around 375 crores so what led to that?

Ajoy Chawla: The total benefit on account of diamond related price increases and inventory gains in the second half of the year is about 190 crores in the previous fiscal. It's split between Quarter 3 and Quarter

4. It was I think about 60 crores odd or something like that in Quarter 3 and some balance in Quarter 4. In terms of gold sale, we try to see some amount of optimization on gold on lease. It was a question which came earlier on and we also look at our inventory position and cash flows. We do some amount of optimization and based on of course how much exchange gold has come we try to only sell out of the exchange gold so that you can try and make some optimization. That happens from quarter-to-quarter basis an internal conversation on how to optimize.

Ashish Kanodia: I think for a couple of quarters we have been trying to try new initiative in the Southern markets and in some of the Bharat Markets as well. In that context our channel check suggests that you're also trying to implement maybe PAN India's similar gold price, right? From a gross margin perspective or from an EBIT margin perspective on the Jewellery business are we seeing some impact from that perspective as well that when you maybe focus more on Southern Markets but in some of the Bharat Markets there is higher discounting or higher marketing and because of the margins are kind of taking some hit.

Ajoy Chawla: So, let's put it this way. The geographic mix has an impact on the gross margin and you are right that as we increase our contribution from Southern markets, there is some amount of dilution in the gross margin of the business. On Bharat Markets, we don't see that much of an impact on gross margin but the marketing investment is not that material when you look at the overall NSV of the Jewellery business. It may be to the extent 0.1%-0.2% here and there. So, but as we had mentioned even in the previous earnings call and we continue to mention that there is intense competitive intensity in the Jewellery market because all organized players are seeking to expand. There is gold rate related activities. While we haven't taken any call on whether we will have a single gold rate or no but we are being competitive in different markets and we are certainly going for aggressive market share gain. Therefore, the investments that we continue to make either in the form of gold rate or offers or marketing spends or even the kind of product mix that we are willing to supply as we try to maximize the opportunity in every geography, will in a way therefore have a slight dilutive effect on the margin but the overall operating leverage because of the growth in the top line that we get, will more than offset it. To that extent these two will keep kind of balancing each other out and therefore the indication that we had given that we will operate within this 12% to 13% ending close to 13%. So, operating leverage vis-a-vis other initiatives that we are planning to invest to continue growth.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. C. K. Venkataraman for closing comments.

C. K. Venkataraman: Thank you very much everyone on the call. Very exciting quarter and a whole new exciting year ahead of us. As always all of you asking the right questions, probing questions to make us reflect on everything we do and continuously strive for an improving financial performance. Thank you and see you next week, most of you.

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