"Titan Company Limited Q2 FY16 Earnings Conference Call"

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Moderator Ladies and Gentlemen Good Day and Welcome to the Titan Company Limited Q2 FY16-17 Earnings Conference Call. We have here with us today, Mr. Bhaskar Bhat – Managing Director, Mr. S. Subramaniam – Chief Financial Officer, Mr. C.K. Venkataraman – CEO (Jewellery Division), Mr. S. Ravikant – CEO (Watches and Accessories Division), Mr. Ronnie Talati – CEO (Eyewear Division).

As a remainder, all participant lines will be listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. S. Subramaniam. Thank you and over to you, sir.

S. Subramaniam: Good evening, to all of you. And welcome to the Titan Investor Conference Call for our Q2 Results. Bhaskar should be joining us any minute now, but before that maybe I will just take you through the background. I hope you have seen the presentation that we have put up on our website. And I will start from the Q2 background.

We did have a flat top-line in Q2 but our profits go very well at 35%, and that is largely due to a very good growth in gross margin that we saw both in our Jewellery and Watch business. So that was very satisfying that we got those numbers, and of course it also helped that control on overheads was very good at that level. But the main thing was that our gross margin grew well despite what we can call static top-line growth.

We continue to notice during the quarter that customer walk-ins were driven only by attractiveness of new products and collections and of course deals and discounts. That seems to have changed. What seems to have changed probably, what we have seen in the festive season now in the last one month, maybe we will come to that later. But Q2 we did not see any major walk-in coming in on its own. And as I mentioned earlier, the company continues its crux on overhead control resulting in improvement in profit margins. You realized that we did our VRS in quarter one and so the impact of that already has started showing in quarter two. And besides that, we have done few more things across the board and that is yielding results as we speak.

Gold demand has been weak, and that is largely because of the gold prices. We also realize that because gold demand was weak there was significant discount in the spot market and therefore the company chose to purchase a lot of its gold during this quarter on spot basis. To that extent the balance sheet looks a little stretched in terms of the borrowings and so on so forth, but that is a temporary phenomenon, at this point in time we actually are cash positive after the Dhanteras, Diwali is over. So, we did therefore get short-term debt in the form of commercial papers during this period but we got them at very attractive rate. So the economics on buying gold on spot remained intact, in fact it was even better because of the discount that we were getting by buying gold on spot. So we continued to buy a lot of that gold during this previous quarter on spot.

We added about 24 stores over this period and it is about 32,000 square feet. You might have also seen a release that we gave out in the stock exchange about entering or trying to enter into the special occasion, ethnic wear. It is a pilot at this point in time, more for the purpose of market research but we only thought it is prudent for us to talk about it since we were inviting a lot of customers, we paid up on the stock exchange as well.

Getting to the Jewellery Division. The studded activation was a phenomenal success, it recorded a 51% growth in sales over the previous year's activation. And here we talk about activation-to-activation, not about the quarter. Of course, from a quarter perspective the growth is significantly higher, that is because last year if you remember we had the activation for the Jewellery division in quarter one, we started in quarter one. But it was a very, very successful quarter and we also saw a significant increase in average ticket price. However, the top-line remained flat and that was because of, as I said, the pressure that we found on gold Jewellery sales, plain gold Jewellery sales which was largely lead by the fact that gold prices were very high and we did not see too much traction during that quarter.

Coming to retail growth, you may see in the slide flowing that the retail growth of Tanishq stores has been 9% at a company level and 4% on like-to-like basis. I have seen we do get a lot of questions from analysts as to why there is a significant growth on the retail part whereas it is not getting reflected in the financials. I thought it is the appropriate time to talk about that. One, first of all that these numbers that we report in retail growth are secondary sales, they are not primary sales so there will always be a gap between primary sales and secondary sales. But the bigger impact this quarter have been two reasons, one is that of course we had activation during the quarter and when we have an activation which is not having a corresponding activation the previous quarter the net sales revenue therefore gets prepared by the discount that we give during the activation. So that did contribute a lot in this period. But on top of that, the other issue that we actually faced was basically because gold prices were very high during this period, in fact they went up substantially over the last quarter. And as you realize, you know that we hedge our gold. What we therefore end up getting from the customer is what we report as UCP sales and therefore retail growth. Whereas because we hedge we have to end up giving the difference between the hedged amount and price that we charge the customer back to the bank. And therefore the NHV will always be lower when gold prices go up substantially. And that is what is getting reflected in a flattish revenue growth this quarter as against the retail growth that we talked about of 9%. If there are any questions further on this, maybe I will clarify it during the Q&A part.

Investment demand was low, that is one reason why plain gold Jewellery was hit. Gross margins as I said was very good during this quarter, we had a 42% studded ratio and that added to the margins substantially. Another fact is also that, you know plain gold Jewellery, our margins were significantly higher thanks to the higher gold prices, because as you realize we charge making charges as the percentage of gold prices, therefore even if on hedging we do not get the benefit of higher gold rate we will get the benefit from our gross margin perspective. So that also aided us, therefore we had a very, very good gross margin growth during this quarter. Tanishq of course launched the Queen of Heart collection, did very, very well and six new stores were added during the year, adding up to 22000 square feet.

Watches, domestic business did very well across all channels. The challenge continues to be **0:08:15.4** the Middle East continuing to be affected very badly, Saudi Arabia is one which is a very big market for us ,unfortunately badly affected, and therefore we are seeing declines in the exports. And that is one issue that we faced. Therefore, the overall growth if you are looking at the negative part, its largely contributed by exports and of course decline in the service revenue because of the reorganization that we did. We are seeing that pickup from this quarter from October onwards, but still quarter two we have had an impact of that. These together constitute about 10% to 12% of the revenues, I think that is an impact that we are seeing in the numbers. Juxt Pro, our second smartwatch did very well, we launched it during the quarter and it faired quite well.

Eyewear, we did see a slowdown in the industry growth and the biggest drop we have seen is in sunglass business. On our prescription glass business basically we have done quite well, our growth is far better than what we have reflected in the numbers. But there is drop in sunglass business is where the concern seems to be. We added 11 Titan Eye+ stores but we also closed down 9 stores in the first half.

Precision Engineering Division did very well, the top-line grew well while MBA commissioning building grew by 8%, PECSA grew 36%.

Next slide is about other comprehensive income. This is just to clarify, this is the accounting part, you might have seen the numbers which we have given in our published financials and you would see that there are some substantial numbers there on the other comprehensive income. Let me just explain to you what is this. In the past if you realized, we had under Indian GAAP all mark-to-market losses or gains on open contract used to be designated as a hedge and they used to be disclosed under the hedging reserved, they used to go to the balance sheet state, they had no impact on the P&L. But under the new IndAS, we need to take that difference through hedging gains or loss, through OCI as we call it, the other comprehensive income. This would possibly get reversed in the quarter later, it has no real impact on the actual profitability or the operations of the business but this is arising out of the change in the GAAP. And closed contracts continue to get accounted for as they used to be in the past, which is date when it was effective, they get adjusted in the sales numbers and if it is ineffective they come under the hedging gains or losses in the P&L. And this quarter if you notice, there is a substantial increase in the other expenses in the P&L, from Rs. 224 crores to

Rs. 292 crores for the company as a whole. Rs. 55 crores of this gap is because of a shift in the ineffective part of the hedging gain, and this is largely because gold prices went up very, very substantially, so that had to be recorded here. This would have otherwise, if it had been effective, had been adjusted against sales.

I am going to the slide on Q2 Retail Growth. You have seen the growth percentage is there, World of Titan 4%, Tanishq 9%, Goldplus is -10%, Helios is 1%, Fastrack -1%, LFS did very well at 11% and Titan Eye+ at 10%.

Company performance, the numbers are all there. What I would want to highlight here is the PBT growth before VRS is 37% for the quarter and 35% for the year as a whole. Top-line growth, as I said, was flat but for the year as a whole it is 2%. And of course, the numbers below PAT and PBT numbers, the Rs. 421 crores etc, is after is Rs. 100 crores VRS impact that we had to take.

Going to the next slide on Watches, the impact of VRS is substantial here, particularly on a YTD basis, the Rs. 73 crores actually should be Rs. 138 crores before VRS. But for the quarter there is a decline because the activation timing was different between the previous quarter and this year. And therefore the numbers also, growth also has been negative. But gross margins, as I mentioned earlier, grew on account of better product mix for Titan and Fastrack.

Jewellery, again, growth was flat about 0.2%. Here, the impact of VRS is not substantial because most of the VRS happened in the Watch division and in the corporate function. But Rs. 218 crores is the PBT before VRS and the growth for the division was 82%. And as I mentioned earlier, the gross margin growth is phenomenal because of the higher studded ratio, and of course the increase in the gold Jewellery margin as well that I mentioned earlier. Grammage decline because of the high gold prices but made up as far as margins is concerned because of reasons explained earlier. And for a year as a whole, the growth on PBT is about 44% before VRS.

Eyewear grew 6.6% on top-line and declined on PBT because of, as I mentioned, the issues that we had on the sunglasses business was much, margins there are quite high that has affected the Eyewear business. And for the year as a whole, it seems to be about flattish as far as PBT is concerned. And of course, VRS also is there, the amount is Rs. 9 crores before VRS, so there is a marginal growth.

The other segment is essentially the Precision Engineering Division primarily, and then it also has the Accessories and the Fragrances business. Precision Engineering did very well, it grew 23% in the quarter and 35% for the year as a whole, and that's reflected in the top-line number that you see there. As far as PBIT is concerned, it is -6% for the quarter and minus Rs. 8 crores for the half year, this of course includes corporate…...

So that's basically it. I think now we are open to questions. On capital employed, the only point I want to make is that the increase for the current year is largely also because of the investment Carat Lane, the Rs. 357 crores that we invested there. And of course, the inventory build up because of the season, this year the season was earlier, last year Diwali was on 9th of November, this year it came up much earlier in October itself. So the buildup of inventory was higher and that is one other reason why the capital employed was high.

So, I think with this we open the floor to question-and-answers. We are all here to answer. Thank you.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just trying to understand two things over here, you highlighted the hedging related impact, could you share what is the sales ex of this hedging impact? And second, could you describe how does a hedge become effective and non-effective when it is already closed? If you can explain that. And the second question was on the studded sales, you have seen almost a 40% growth in the first half, let's remove the activation timing impact, that is a very good growth rate, congrats on that. Do you think this kind of momentum can sustain or is there any one-off over here?

S. Subramaniam: I will answer the hedging part Avi, and Venkat will talk about the studded part. On the hedging part the impact this year, for example just between for quarter two is almost Rs. 86 crores on this hedging effectiveness, this is because of the gold price increase. Last year my sales was higher by Rs. 23 crores for the same period because I collected less from the customer and ended up getting it from the bank. This year it is a reverse, I had to pay the bank Rs. 53 crores because I collected more. So the swing in the hedging effectiveness is almost 4.2% on the last six days. So it has been very substantial change at that because gold prices have moved up this year whereas it was the other way around last year. So, I think that has been one impact. Coming to effectiveness and ineffectiveness, it depends on, it is a cash flow thing, I think I will take this off line Avi, it is an elaborate exercise and I think it may not be relevant for everybody. Except to say that, effectively it gets impacted at the sales level, if it is ineffective it comes as a hedging gain or loss. The impact on PBT is actually nothing, there no impact of that on PBT, it is just where it is accounted, that is all.

Avi Mehta: I will take it off line.

S. Subramaniam: Yes, because it is too elaborate for me to explain.

Avi Mehta: Yes. Sir sorry, Rs. 86 crores is the net…?

S. Subramaniam: It’s the total swing.

Avi Mehta: So essentially that is the growth rate if I add Rs. 86 crores?

S. Subramaniam: Yes, that is 4%.

Avi Mehta: And the studded bit, sir?

C.K. Venkataraman: We are looking at our 25% growth rate as a stable growth rate for studded.

Avi Mehta: Sir what exactly, I mean, why the moderation, if I may ask? Because you did noting, I am just taking first half, so activation, timing all that is taken care, so are you just staying conservative or is there something else that I am missing?

C.K. Venkataraman: No, so where did you get the 42% growth in H1?

Avi Mehta: Sir almost 40%, I am just taking the share, you take 42%...

C.K. Venkataraman: You may be doing a lot of rounding off in that, it is not 49%. That's why my figures are correct figures and that is why they are 25%.

Avi Mehta: And sir, in terms of new collections, you have been doing a lot of that. How do you incorporate any lessons from possible failures, is there a margin impact, how do you reduce that impact, just trying to understand, if you can explain that part as well sir? Because this is like, correct me, you kind of understand trends, fashion in a way, so there is a possibility of it not appreciating with customers, how do you work around that?

C.K. Venkataraman: There is a very robust process of figuring out what is required for the market and designing it, then putting out set of prototypes involved in large number of stores to bring them out to Bangalore to see the prototypes and they bet on it and the production happens only after they sign off on the basis of 80% kind of hit rate by people who are seasoned sales people. So the bulk production happens only after they sign off. And we have seen now for the fifth or the sixth consecutive time in six quarters, each one has exceeded the expectations because the process we have put in place is quite robust. And despite this failure it could still happen in the future, but there is no margin issue because the products are all designed to margin targets. There would only be a sales issue if we overestimate the sales. And therefore we may have a write-off, we may have to melt it because it does not sell or something like that. But because the valuation is also, the labor charge is relatively low, so whole salvage meaning what we call the slow moving cost is a very small part of our overall cost and we keep it as occupational hazard.

Avi Mehta: So you are saying you can melt it so that does not matter, and per say that has not kind of **0:21:18.3** till date?

C.K. Venkataraman: Correct.

Moderator: Thank you very much. We have the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: A couple of questions on GST. Can you share your expectations on how it will impact you assuming that GST rate comes at like say 5% compared to what you are paying right now, 2%. Would that impact the competitiveness against unorganized jewellers who would be willing to evade taxes? That is question number one. And second on gold recycling, with barter transactions likely to be considered as sale and potentially high GST rate, would recycling of gold become expensive, is that understanding right? And do you see any impact on the gold recycling which you are doing?

S. Subramaniam: Kunal, one this is I do not want to speculate on what the GST rate is going to be, and therefore I do not want to give a response on that. Once the rate is finalized then we will maybe get back to you on that, at this point in time I do not think we should be commenting on this.

C.K. Venkataraman: Also, I would suggest that because we are gathered here for the quarter two performance and therefore we would like to focus here because it is quite long time.

Kunal Vora: But gold recycling, if you can combine with that like say barter transaction…

C.K. Venkataraman: Gold recycling and GST, we are still going into the future on this. And I am not against it, it is just that because others are in the queue about the past so maybe as soon as they are finished then we can speak about it.

Kunal Vora: Then on the quarter, receivables have increased from around Rs. 195 crores to Rs. 285 crores in the last six months, what is driving this and is there some seasonal impact or impact of increase of gold price?

S. Subramaniam: There are two things, one is of course that a lot of building was done in the Jewellery division to the L3 because of the season, as I said, being advanced. Some of them have been given credit to that extent, there is an increase. And of course the other reason is that in the Watch business there was an increase with the exports, some credit given, at least the Jewellery part has definitely been come down post that. So it is more of a seasonal thing than anything else.

Kunal Vora: And just last question on gold volumes, can you give us some insights about like what kind of decline have you seen in gold volumes, let's say on a same store basis? Because there are various factors, there have been store additions, high contribution from studded, increase in gold price. So despite that revenue even adjusted revenue growth is only about 4%. So, what has been the volume growth?

Management: There has been a significant decline in the customer growth, actually we focus more on customer growth than kg growth, because we are selling to customers who may chose to buy a slightly less heavier product because of the prices have gone down and all that. So we have seen a significant decline in the customer growth in Q2. And a good part of it was to do with the rise in the price of gold and the yo-yoing of it and we suspect that people deferred their purchases and waited till October and it certainly also showed in the performance in the Diwali season. So there was a significant decline in the number of customers which despite the price of gold rising still kept the overall value growth of the division flat.

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

Arnab Mitra: You have alluded to the fact that the consumer sentiment has been volatile when you have promotion activations, there is a good footfall sales and then drops down. So what you have seen in the Diwali season, does it give you any confidence that that is changing or you still think it is a very, very volatile trend and you could see growth come off like it has done in the past and there have been good and bad months?

C.K. Venkataraman: The Diwali season has been very good for Tanishq. We did many, many things really well and got the benefit of that. And perhaps two other reasons, one, we knew for a certain that the mood of the customers was very, very positive, going into the season we judged it middle of August and therefore we pulled out all stops in terms of our initiatives. The second is, perhaps there was a deferment of purchase of plain gold jewellery from Q2 into Q3, going back to my answer on the earlier question, that because of sudden significant rise and also the yo-yoing of price in Q2 we saw a big drop in the growth of number of customers in Q2 and some of them may well have come into October to purchase because the season was right for buying in any jewellery. So, YTD November 15, our estimate for the next ten days, we believed we have recovered a good part of the shortfall of H1 on gold jewellery at least and contemplate on momentum for the next five months.

Arnab Mitra: And given that first half has been a 2% overall top-line growth, I know that the third quarter base is high, fourth quarter is low but overall it is taking 15% kind of expectation for the full year and also if there is any change in margin expectation from what you had in the beginning of the year?

C.K. Venkataraman: On the 15% for full year, it is still difficult to comment because when the gold price suddenly surges we find it difficult to predict what will happen. But certainly the last 45 days of quarter three have given us a lot of confidence. We are doing things better and better as a company and the sentiments also have been improving. Whether we will be able to hold the 15% growth for the full year, I am yet not sure but we are very clear that we are becoming better in the market place, in the industry, we are certainly gaining share. While, whether we achieve 15% growth or not I do not know, but we would certainly have done better than most others in the industry by the end of the year.

Arnab Mitra: And just one last one, any update on Carat Lane in terms of first half sales or this quarterly sales or any kind of thing on how that business has done ever since you have taken it over?

S. Subramaniam: It is very early days, Arnab. I think we will talk about Carat Lane at a later stage, it is not fair to talk about that because we are not disclosing the numbers anywhere else now, and for other sensitivities. We do not want to talk about it now, we will talk about it maybe at a more appropriate time towards the end of the year. It is just couple of months that we have actually taken it over, so 20 days.

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

Prasad Deshmukh: Just wanted to have an update on the deposits under Golden Harvest.

C.K. Venkataraman: What exactly would you like to know?

Prasad Deshmukh: So, in the second half how much should we expect in terms of sales from this? And currently what is the quantum of the deposits?

C.K. Venkataraman: Our target for this year is about 15% of the total sales should come from Golden Harvest and we are running to target.

S. Subramaniam: The amount that we have as of now is about Rs. 620 crores. You must realize that a lot redemption did happen during the Diwali period.

Prasad Deshmukh: So Rs. 620 crores is post Diwali?

S. Subramaniam: Yes, post Diwali.

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

Nilai Shah: Subu, on the other expenditure you mentioned that Rs. 55 crores is the swing on account of the defective part of the hedging, all of that is accrued this quarter?

S. Subramaniam: Yes, this quarter, yes. In fact, this quarter we did lot of swing because gold prices have gone up substantially, that is the issue. And as I mentioned earlier that it has actually no impact on the bottom-line, it is only that lines are different, the numbers are different but it has no impact on the bottom-line.

Nilai Shah: But should we be adjusting for this because to get the underlying margins for the business…

S. Subramaniam: Yes, you might want to do that. I mean, if you were to take everything as effective and not significant, its an accounting statement.

Nilai Shah: But that we may not really continue in the future?

S. Subramaniam: Yes, it would not possibly, you are right.

Nilai Shah: So then to adjust for this the margins are coming to like 13.7% for the Jewellery business.

S. Subramaniam: No, it cannot be that much.

Nilai Shah: Rs.55 crores is the swing that you said right, and I am assuming all of it is in this quarter because last year same quarter you had said there was no hedging gain or loss.

S. Subramaniam: Yes, it is nowhere near that, our margin for this quarter is actually exceptional. So you will get this adjustment is nowhere near.

Nilai Shah: Actually if you add back the Rs. 55 crores…

C.K. Venkataraman: No, you may want to resolve it offline because it is certainly not what you are saying.

Nilai Shah: And the second question is on margin guidance for the full year, I know last quarter you had mentioned 10% because the idea is to try and catalyze growth over margins, but give the margin story has been so strong in the first half would you be looking at higher margin guidance for the full year possibly?

C.K. Venkataraman: No, we would like to actually stay on that because while the margin story has been good, the sales story still not been good. So we are investing a lot in multiple things and I am sure the focus continues to be sales growth and competitive advantage gain. And this margin sort of comes along and expands as part of that, well and good, but the focus is changed.

Nilai Shah: And finally on your comment in the release about near 40% growth on the festive period like-to-like, would that basically mean that October has been up like 100% YoY?

C.K. Venkataraman: Something like that, maybe not three digits but very high two digits, yes. But that is not the right way because Diwali was in November last year so you should see 40% rather than October.

Moderator: Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: Just quickly a couple of questions. One, what kind of explains the very differentiated sales performance in the third quarter and the second quarter, practically jewellery has been flat and your commentary of almost 40% growth during Dussera and Diwali period, how would we read it, is there a change in the consumption trend or is it a shift of consumption which has happened? Because you have a very strong base in the third quarter and coming off that of 40% like-to-like is a very, very healthy number.

C.K. Venkataraman: Well, one is that Abhishek we read, as I was speaking about reading of improving customer sentiment in the middle of August, we perceived that, a lot of people were sort of ready to be nudged into buying jewellery and there is a lot of articulated desire for buying jewellery and buying big, big pieces of jewellery that we sensed through our research in the middle of August. And our entire television campaign, I do not know if you have seen the television film of Tanishq, was built around the premise of celebrating Tanishq by gifting each other jewellery pieces. And we created a two minutes television commercial which is the longest, almost the double in the history of Tanishq. And we put a lot of money behind it, to the extent that a lot of media spoke about how that television commercial defined the manner in which consumer should celebrate Diwali, and it was not about jewellery category but it is general. And we put a lot of money behind it. If you go and look at the commercial it embraces lots of communities, lots of classes, typical middle class situation was shown, so in a way expanded the reach of Tanishq considerably. And from whatever we are hearing from across the country, we seem to have acquired lots and lots of new customers. And so equally the Shubham collection, which is the high end collection was a super hit and it got us a lot of HNI customers. So, certainly the initiatives that we undertook in October in the gold jewellery segment which is the segment for the season in any case, far superior to the initiatives that we had in Q2. Of course with the change in the consumer sentiment that we perceived and the gold rate was also somewhat to the advantage, so these three factors are what we understand is the difference between Q2 and 40 days of Q3.

Abhishek Ranganathan: And just a follow-up on that, what would have been the growth last Dussera to Diwali, basically this 29% what you have given, what would have been that number last year?

C.K. Venkataraman: I do not off hand remember Abhishek. It was a decent growth, if I a remember right, but I am just guessing at the moment.

Abhishek Ranganathan: Because we had some almost 35% growth in Tanishq for the full quarter, so that is a very healthy again you are sitting on. So I am just trying to get a sense of…

C.K. Venkataraman: You are talking about last year Q3?

Abhishek Ranganathan: Yes, last year Q3, yes.

C.K. Venkataraman: One other complication in all this is we advanced the activation to Q3 last year because of the transfer of the PAN card decision. So that also increased the sale base of Q3 of FY16 whereas this year it would not be like that.

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

Aditya Soman: Just a question on, I think you alluded to the making charges margin being higher because the gold prices being higher when the making charge is being linked to the gold prices. Have you passed on any of this benefit for the Diwali season in October and was that one of the initiatives?

C.K. Venkataraman: Passed on benefits meaning? We had schemes on gold jewellery and diamond jewellery during the Diwali season which also was very helpful certainly. But what do you mean passed?

Aditya Soman: No, one-on-one passing on.

C.K. Venkataraman: The passing on, we had a more attractive gold jewellery in 40 days of Q3 compared to Q2.

Aditya Soman: By passed on I just meant lower making charges, so that margins you could keep constant.

C.K. Venkataraman: No, the gold jewellery of Tanishq was more attractive to the customers during the 40 days of Q3 as opposed to Q2. And because season is there and we capitalize on the season.

Aditya Soman: And you also mentioned right now that in Q3 last year you had an activation which you would not have, what do you think the impact of that could be for Q3 versus so when we forecast for Q3?

C.K. Venkataraman: There will be an impact but then that is the scheduling of sales and profits for the year in any case, but Q4 will benefit because it was different on like-to-like situation.

S. Subramaniam: Last year Q4 was very bad.

C.K. Venkataraman: So the part of the activation was in Q3 last year and only part was in Q4, whereas this year will be fully in Q4. And March was industry strike and all that last year.

Aditya Soman: And you mentioned that you had very successful collections in this over the past few years, do you think any of these collections can become brands or something like Mia which is not just a collection but something that you have over a longer period of time. So do you think you would move from collections to brands or do you think you will just focus more on launching stuff?

C.K. Venkataraman: See, whenever we target the same women we target that same women with collection. When we target a different women we create a sub-brand. So Mia is for a different women, younger women, modern, all that and therefore its sub-brand. Whereas the Tanishq Women, many types of Tanishq Women are there so there are collections so they will not become brand.

Aditya Soman: Okay, just my question was many types of Tanishq Women that you mentioned, so would you have them at some stage separate brands or does it make sense to have separate brands or do you think…

C.K. Venkataraman: It would depend on whether it makes sense, at this moment it does not make sense.

S. Subramaniam: Ultimately brand what does it mean? See, we have got a name, QOH, Queen of Heart is a name, people come and ask for that because there is a certain look and there is a certain kind of demand. And if you continue to do QOH for a long period of time, somebody may make it into a brand. So, therefore there is connection is a strategy, I think the growth strategy.

C.K. Venkataraman: Because every quarter if QOH, Zuhur, Nilofer keep coming it creates interest whereas if the same name keeps coming it does not create interest, there is a psychological aspect to collections as well.

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

Rakesh Jhunjhunwala: See, my first question is, what kind of selections you have, are you releasing many new collections in the next five months?

C.K. Venkataraman: Yes, we are launching more and more collections, Rakesh.

Rakesh Jhunjhunwala: More and more is a very generic word, means every two months, three months we are going to come out with new collections or…?

C.K. Venkataraman: Yes, we have been coming out like that Rakesh. Every quarter we have a big collection, so it will keep coming out.

Rakesh Jhunjhunwala: Point number two is that, what is the repeat sales, like you have Queen of Heart, then you have another collection, you had I think three, four collections in last one year. So what is the life of this collection and last time we had simple jewellery, so does that simple jewellery sell even today?

C.K. Venkataraman: The particular thing I do not know, but life can be as long as even three years.

Rakesh Jhunjhunwala: It is for the good period of time?

C.K. Venkataraman: If we really succeed, and we are succeeding with certainly whatever we have done from Q2 of FY16 from Zuhur to Divyam to Niloufer to Queen of Heart and like Shubham, the life will be at least two to three years.

Rakesh Jhunjhunwala: And then you will have number of weddings or will it just like, festival season is important, I think for all retail industries in India the wedding season is very important. So I am told that there is far more wedding in the next five months than they were last year, because there were no weddings during May-June, so do you think that is going to have much positive effect on sales because of that?

C.K. Venkataraman: Hopefully, we are also certainly investing a lot in the marketing of Tanishq as a wedding brand in the next two or three months, entire region specific. So we expect a lot of benefit from the combination of the date as well as our efforts.

S. Subramaniam: Also Rakesh, even without wedding focus in addition the Divyam and the Shubham collection for example, they have really queued as Tanishq as being capable of reinventing, not reinventing, certainly raising the scale on the plain gold jewellery. So, in fact it is wedding jewellery, it is traditional jewellery interpreted by Tanishq. And lot of money has gone into that as well.

Rakesh Jhunjhunwala: And what kind of network addition you are looking for Tanishq in the next five months?

C.K. Venkataraman: See, we had a 20-odd target for number of stores, we are a little behind on this because every year we are finding that operationally it is becoming difficult to execute that. So maybe 16 - 17 I think by the end of the year, so therefore 10 more should happen. I know that over the next week only some 2 - 3 are opening for example, one Midnapur, one in Gandhidham going on Saturday. So like that sort some 10 should happen in the next five months.

Rakesh Jhunjhunwala: So do you think that needs to be advances, I mean you are a large company you have to live up to the challenge of expansion of network?

C.K. Venkataraman: Yes, you are right, we are just reviewing the process.

Rakesh Jhunjhunwala: And second thing, in the Watch division you have said that you ran about 14% growth in World of Titan but you sell through trade and other methods of sales, so have all the channels fared well or only World of Titan has fared well?

S. Ravikant: 14% growth is for the Dussera to Diwali season, this season. They have done well, the LFS channel has done well, the Helios has done fairly well. Including the multi-brand, in fact all channels have done fairly well in this, October was a landmark month so to say for the World of Titan stores, we reached a milestone turnover.

Rakesh Jhunjhunwala: We are interested in overall sales growth, you have told of World of Titans. What I am asking is, has there been commensurate sales growth even in the other channels? World of Titan is one channel sir.

S. Ravikant: Yes, that is what I said, I spoke about the other channels also, the LFS channel, the Helios channel. Even in the multi-brand outlets the multi-brand dealers, we have experienced decent growth.

S. Subramaniam: See Rakesh, what happens is in normal when there is no season the World of Titan lags behind let us say the Helios and LFS channel in growth terms. But in this Dussera to Diwali period World of Titan itself has made a 14% growth and Helios has made 11%. So World of Titan becomes, because there is a lot of pre-decided Titan buyers who come to the World of Titan. The figures from the trade in terms of the retail sales have not come in so quickly yet, but it has been a reasonably good growth, it is not as high as 14% but it is in the 10% range.

S. Ravikant: See, the other reason for significant growth in our exclusive brand outlets as well as LFC is that during this period the month of October we ran a gold coin scheme for watches above Rs.5,000. And so the sales and the proportion of sales of watches above Rs. 5,000 is much higher in our outlet as opposed to multi-brand outlets, which is why the growth is much better here.

Rakesh Jhunjhunwala: Sir, you are smart enough to predict in August that you will have a very good Diwali season and you prepared for it, so how do you look at the next five months? I mean, you had great prophetic judgment in August and you prepared for it in Diwali, Diwali as you have stated has been very successful with 40% growth, I know we cannot quarter-to-quarter because last December was aberration when the PAN announcement and the advancement for discounts for activation, so how do you look at the next five months?

S. Ravikant: We are looking at quarter-by-quarter, Rakesh. The view we are taking is that the market is very large, it is very difficult for us to predict the environment , but if we are agile and keep eye on the ball all the time and put the brand asset and the organizational assets, we will certainly continue to grow. So that is the way we are looking at it and therefore there is a very high level of coordination across functions to make sure that we hit what we wanted.

Rakesh Jhunjhunwala: So, you will get a good explosion of sales in the next five months to grow 25% - 30%, you are prepared for it both in terms of inventory, stocking?

S. Ravikant: Those are certainly there, no issue at all. And in terms of the operating, the manner in which we work we are working much closer with eye on the ball, all the time to ensure that we keep growing. So there is a certain agility that we are executing.

S. Subramaniam: Also, Rakesh one thing which we have observed during this period which has not been so common in the last several quarters is it is secular, the growth is not like regionally significantly divergent. There is still, I mean north for example has done extremely well but it is not that that is a huge lag like last year it was there.

Rakesh Jhunjhunwala: You mean this is uniform throughout the country?

S. Subramaniam: South is a problem in fact, south region has a big problem.

Rakesh Jhunjhunwala: So could you be getting the consumer sentiment is positively turning, it should be a flash in the pan or it could be a turn, we could conclude that consumer sentiment may be turning.

S. Subramaniam: We are certainly, I mean concluding and all I do not know, our view is that the combination of consumer sentiment change is just 30 day period plus the new collections that we have launched along with schemes have worked. What Venkat is saying is Agility is the most important strength to happen.

Rakesh Jhunjhunwala: I am understanding the consumer sentiment before the event and working towards capitalizing on that as opposed to explaining the consumer sentiment after the event. So therefore it is still early to judge whether you have consumer sentiment is really changed and whether this robust sales will continue or whether it is an aberration, only time will tell.

S. Subramaniam: I think quarter three will be quite, and not just one month, I think till December we should be able to get a much better picture.

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

Vivek Maheshwari: Again, a question on this Rs. 55 crores in other expenses, I did not understand, is it impacting the bottom-line or it is not?

S. Subramaniam: It does not Vivek, I mentioned normally what happens is if it is effective it is adjacent in the margin itself, so it does not actually impact the P&L.

Vivek Maheshwari: Okay, maybe I will take this offline.

S. Subramaniam: Exactly, I can maybe explain this offline, that is the point I am making here. It normally does not impact the P&L as such.

Vivek Maheshwari: And secondly, in your presentation you mentioned sharp increase in gold price discouraged investment in gold due to which gold quantity sold fell sharply. This is a comment for you or for industry?

C.K. Venkataraman: Industry obviously.

Vivek Maheshwari: No, because when I looked at the RBI is issuing I think the sixth tranche of gold bonds they issue, I think they have collected thus far Rs. 3,000 crores, sixth tranche we will get to know. But there if you look at the schemes to my understanding have been successful.

C.K. Venkataraman: But what is the quantum of that Vivek?

Vivek Maheshwari: It is a very small one, I understand…

C.K. Venkataraman: So it is a Rs. 250,000 crores industry in one year and Rs. 100,000 crores maybe in six months. So, what is the perspective there for 3,000 and 100,000?

Vivek Maheshwari: I see. And secondly on the staff cost, what will be the sustainable level that we should be modeling in for next two quarters then?

C.K. Venkataraman: You can take the numbers of the quarter, I think that would be the post VRS numbers by and large. Of course then there will be increases going forward for incremental thing next year, but as of now you can take this quarter numbers annualized for the current year.

Vivek Maheshwari: And this Rs. 97 crores pretty much takes care of the exceptional, there is not going to be…

C.K. Venkataraman: Yes, actually it is Rs. 100 crores because of Rs. 3 crores something this quarter, but that is basically it.

Moderator: Thank you. Our next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My first question is just a clarification on your answer on the margin side, for Jewellery for the first half you have delivered about 10.5% EBIT margins, so should for the full year one should be looking at similar margins or is there a headroom on a cost front? And also from a product mix perspective, I think the Diwali quarter would probably see less of studded, if I am not mistaken, so what is your view on that?

C.K. Venkataraman: Diwali quarter we will certainly see less of studded. But the scale of the quarter is also higher, scale leverage that will also come in. Quarter four we will top, not top, the scale will drop somewhat maybe 80% or 75% but the margin leverage will dramatically increase, much like Q2. And therefore, like I answered a little earlier, our focus is to grow in sales, increase our market share, improve our competitive advantage and maintain the EBIT margin rather than focus on the EBIT margin, EBIT margin will come once we reach that platform which will give us the EBIT margin expansion there, in FY18 perhaps.

Latika Chopra: So when you say the EBIT margins, you maintain it more with reference to the first half margins because last year of course margins were much more subdued for the jewellery division.

C.K. Venkataraman: Yes, that is also because of the studded share was also subdued last year, whereas now we have grown about 25% in H1 on studded, even though sales growth has been more or less flat, we have had a margin expansion, kept cost under control and delivered the EBIT.

Latika Chopra: And also, if I see the gold price trend, beginning October we saw it moderating and then it has obviously picked up in last three, four days. So did that lowering of gold price also added to higher offtake of jewellery during the season?

C.K. Venkataraman: Yes.

Latika Chopra: And has that trend been significantly impacted, I do not know how to read into it but again gold price is moving up back over last three, four days. So what I am trying to understand is how do you gauge the consumer appetite for jewellery now versus say two, three years back? And I am talking purely from an x investment perspective. So, if you are looking at a timeframe of two to three years on a same store basis or at a company level, how would one should look at the potential for the jewellery segment to grow?

C.K. Venkataraman: It is a very complex question you are asking, particularly about the consumer's view on gold and the predisposition to invest at various levels of price. I would just say that it is a very difficult one to get a grip on. What we are focusing on is, if I take the wedding jewellery market it is probably Rs. 100,000 plus crores, we are probably only Rs. 2,000 crores or Rs. 3,000 crores out of this Rs. 100,000 crores. So whatever happens to the gold rate than Rs. 100,000 may not change much. So we have to step on the gas and increase our share of that 100,000 significantly and grow even if there is volatility in the market and industry level which is what we have been doing and we have been succeeding certainly for last many quarters on the higher ticket sizes which represent the wedding segment and next year you are looking at even bigger thrust in the same area.

Latika Chopra: But you are quite sure that the overall industry size will not necessarily get impacted?

C.K. Venkataraman: It may get impacted but I am saying that we are selling Rs. 3,000 crores in Rs. 100,000 crores, 100,000 drops to 90,000 instead of growing to 120,000 we still got Rs 87,000 crores to get some growth from. That is the approach we are taking.

S. Subramaniam: But yes, we are quite sure that the industry will get affected as in not because the gold price, I think the regulation that has come in and the government's overall thrust on discouraging gold as an investment, including some investors who have advised youngsters not to buy gold, it may affect, we always said that it will get affected. But however, our jewellery business is not dependent on that and we are seeing that more and more adornment and brand and network expansion and access to products in driving demand rather than sheer investments. I think that the clamp down on unaccounted money etc, it certainly has an impact on the overall size. How much? We cannot just say. But it will, how much, we cannot say.

Latika Chopra: And just lastly, a small one on watches, what are your expectations on the overall growth outlook on the top-line side for the full year or maybe next one to two years, how should one look at that?

S. Ravikant: As far as this year is concerned, we are looking at low single-digit, 5% to 6%. As of now, for the year we are at 5% de-growth on the top-line and the reasons for that we have stated, and we spoke of it briefly, domestic market has done well but our international markets have de-grown the service organization which we have restructured which is our spare parts business, there there is de-growth. So all that is contributing to 10% to 12% of our sales and they are the ones that have pulled it down. And therefore the asking rate, I mean, without getting into the details of the percentage, just to give you an idea, the growth asking rate for the balance five months is close to double of what we have achieved to reach the targeted numbers. And that is what we are hopeful of getting.

Moderator: Thank you. Our next question is from the line of Anand Krishnan from Kotak Infina. Please go ahead.

Anand Krishnan: Just wanted to understand a bit more on the studded jewellery market, with respect to studded jewellery market what would be the size of the organized market and the unorganized market? And what has been the market share that Titan has actually achieved to gain say since last three, four years?

C.K. Venkataraman: Frankly, not an easy question to answer, there is no data. But our market share in studded of the total industry may be about 7% or 8%.

Anand Krishnan: That will be of the organized industry you are talking?

C.K. Venkataraman: No, the total industry. The organized industry maybe in early double-digit, it is very difficult, there is no information available like that to comment.

Anand Krishnan: And going forward will the ratio be ballpark around 35% to 40% or are there plans to increase this ratio towards 50%?

C.K. Venkataraman: Actually we are not so much focusing on the studded share, we are focusing on studded sales growth. How it outstrips studded because of whatever other reasons, we are okay, we are not complaining because it gives us the leverage of scale.

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

Participants: Hi, this is Richard here. Can I request for insight into the decision to buy gold on spot because of the discount being available etc. How much gain accrued due to that? And also it seems that the company is now starting to try and capture gains from gold prices movement depending on situations that may present themselves. This is quite different from earlier years when the stance was that I am interested in making profits only from what I can get as making charges from consumers and the company will be neutral on the gold price front at all times. Now, given the change in stance on this front, is there any kind of risk that could come by anytime in the future due to maybe let's say getting a gold price call wrong or the gold prices moving in direction that is different from desire etc?

S. Subramaniam: There is no risk involved. Richard, there is absolutely no change in our policy of hedging gold, there is zero impact on that. Now, we are committed to that and we will follow that. What we have done here is that we have bought gold at a rate lower than the London market rate, that is what we have done, and that is because that was available at a discount in the market.

C.K. Venkataraman: And when we hedge, we hedge it at the London rate. So we capture the difference.

S. Subramaniam: Yes, that is the benefit that we get. So it is not that we are playing around with gold rates or speculating, it is not that at all. It is just opportunistic way of looking at it. It is very obvious when you buy it. So essentially it is a quantum of profit which goes up and affecting the ROCE, but certainly improving the ROE.

Participants: And sir can you also explain that bit again on what you were talking about in your introductory remark regarding the difference between retail growth and reported growth? One, you said was primary versus secondary; second was due to discount on activation, etc. What was the third factor?

S. Subramaniam: Third is hedging part, that is basically if the gold prices go up substantially the retail sales are what we track is CP that is the consumer price that is based on the gold price as of that date. Whereas my hedge rate may be lower, particularly in a scenario where gold rates have gone up substantially during that quarter, and that happened this quarter. So that cap also reduces the net sales.

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

Harit Kapoor: My first question was on the watches piece, if you could just help with what would have been the domestic growth for watches? You saw negative 5% overall but what would have been the ballpark domestic growth for watches in Q2?

S. Ravikant: It is low single-digit for Q2.

Harit Kapoor: Sir second thing was on the PAN Card issue, so just wanted to understand your thoughts on how the consumer is now kind of adjusting to this rule which is almost a year old now?

C.K. Venkataraman: We have decided that we are not going to be talking about the PAN Card to anybody within the company or outside, because we believe that by creating exciting products we can get the women to tell their husbands to pull out their PAN Cards. And therefore even in the company we are not encouraging any discussions on the PAN Card, we are simply saying create really exciting products, launch them very well, the PAN Cards will come out.

Harit Kapoor: And third thing was on gold prices, so in the past you have said that typically even gold prices do go up, the drop in consumer demand is not as much as when gold prices go down they increase not that much, so typically when gold prices go up you are a net beneficiary. So over a period, obviously Q2 has been an aberration but over the period of the year do you still see that thesis playing out?

C.K. Venkataraman: Actually, if I take our estimate for the next 10 days which will take us to the like-to-like period for YTD, we still have an issue in terms of customer growth on the gold jewellery business because a good part of the gold jewellery business is also middle-class lead, and maybe there are still issues sitting there. But we have seen pretty good ticket size growth in gold. So volume is still an issue, but the price of gold is helping to grow sales value. And we have to therefore work hard and harder in terms of acquiring more and more customers and that is our focus now in planning for FY18.

Harit Kapoor: So you are seeing demand from volume perspective because the customers' ticket size is more or less the same?

C.K. Venkataraman: No, ticket size have gone up because the price of gold is also higher. I am saying the volumes, meaning number of buyers is still a challenge.

Moderator: Thank you. Our next question is from the line of Manish Poddar from Religare Capital. Please go ahead.

Manish Poddar: I just wanted to understand that in the earlier part of the year we had witnessed strike in the jewellery industry and I believe the unorganized players would now be looking to do higher discounting during the festival season to liquidate the inventory. So could you comment how is the competitive intensity from the regional players?

C.K. Venkataraman: It was pretty stiff, everyone was offering something or the other in the last 40 days. But we also had our cards on the table and we played them pretty smartly and we have a good combination of collection, marketing campaigns, huge sales was focused and discounts on the right days. That combination worked very well for us. The industry overall also our sense is that the industry did well, except that we feel that we did much better than the others.

Manish Poddar: So, primarily this shift in market share is primarily because of market share change between unorganized players or is there anything you are witnessing, maybe change in customer wallet? I believe it is difficult to comment but is there anything you are sensing like that?

C.K. Venkataraman: Certainly the mood that we sensed in middle of August was pointing to a share of **1:06:46.1** also and towards jewellery. There was a general desire to buy jewellery across all brands I guess which we sensed in August and accordingly invested a lot behind many things. Because we invested substantially more we also got a greater share of that spending than others brands.

Manish Poddar: And this pace expansion target, what would be this target let's say for FY18?

C.K. Venkataraman: In Studded?

Manish Poddar: The space expansion target for Tanishq?

C.K. Venkataraman: FY18 it is too early to comment.

Manish Poddar: Sir but would it be in the similar range of FY17 because I believe you would…

C.K. Venkataraman: We want to be aggressive on that, 20-25 stores certainly.

Manish Poddar: So about 100,000-odd again?

C.K. Venkataraman: No, I am not talking about square feet at the moment, I am talking about 25 stores. We will talk about square feet later in the year.

Moderator: Thank you. Our next question is from the line of Jubil Jain from PhillipCapital. Please go ahead.

Jubil Jain: Can you comment on the growth rates you are observing in southern part of the country and other regions? I mean, is there any huge difference or is it almost the same, because the southern part of the country, in case we look at Q3, not Q2 but Q3 there was some impact of flash etc, are you seeing any differential growth rates?

C.K. Venkataraman: More and more recently in the last two, three months things are becoming closer and closer. The first four months odd was a little more differentiated, particularly Andhra and Telangana were not doing too well. But I think things have got settled there by now. We also intervened with things in such markets. Certainly in the last eight, 10 weeks we are starting to see greater conversion.

Jubil Jain: And sir, can you tell me out of the 600 bps of gross margin expansion, how much would have come due to increase in studded share and how much would have come due to the cost savings which you did because of buying gold on spot?

C.K. Venkataraman: Substantial part of it was the studded share.

Jubil Jain: So then lastly a book keeping question, if we look at the presentations for Q1 and Q2, so in the Q1 presentation the gold rates for Q1 FY16 to Q4 FY16 are quite different, rather Q1 FY16 to Q1 FY17 are very different from the rates you mentioned in the PPT for this quarter. So, any reason for that, I mean how do you…?

S. Subramaniam: I think there was a correction this time, I think there was some error there, confusion between 22 carat and 24 carat equivalent, so that is the correction we make.

Jubil Jain: So, how are these gold rates calculated, is this weighted average of the rate at which you sell or is this a weighted average of the gold rates in everyday?

S. Subramaniam: Buying.

Jubil Jain: Buying rates, okay.

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

Sanjay Singh: First question on Helios, what is the status on Helios? Because we have heard positive comments, but number of stores have remained now flat for last 3.5 years. So, any point on that?

S. Ravikant: Yes, on Helios we have now 43 stores, there are three, four in pipeline. The reason we have not opened too many in the last five, six months is that we wanted to get back to days of growth which we are seeing now. We also wanted to kind of review our whole brand portfolio and we are getting into some exclusive arrangements with some brands, you must have recently in the news about our exclusive tie-up with Raymond Weil and a couple of other brands that we are talking to. So in the next few months you would see about four more stores of Helios coming up, largely in the big metros.

Sanjay Singh: Coming back to jewellery, Subu can you please explain, earlier I thought the whole thing, the hedging part was interplay between the cost of RM cost and other expenses, but on the sales part, sales as a function is booked on what the customer is paying you, so where is the hedging part coming into it I am not so sure. Can you please explain that how the hedging is impacting sales?

S. Subramaniam: Let me explain Sanjay, when the gold prices go up substantially, and this is the only difference between what is the retail growth that we are showing and what is the MSP. This does not impact your financial numbers on a quarter-on-quarter basis much, it impacts more the cap between 9% growth that we have shown and financial numbers which we are seeing a flat number.

C.K. Venkataraman: And Sanjay just to illustrate, let's say the rate of gold in Q2 of last year on average was Rs. 2,500 and the rate of gold this year was Rs. 2,600. And let's say the number of customers remained the same. Now the sales growth in our past system when we invoice it, will grow to the extent of Rs. 2,600 divided by Rs. 2,500. That let's say is 4%. However, the gold that we sold at Rs. 2,600 let's say in this quarter, we may have bought it at Rs. 2,400 in April of 2016 which is four months before the sale, and hedged it when we bought it. And when we square up this, the Rs. 200 we have to pay to the ban, because we hedged.

Sanjay Singh: That would not impact your sales, yes that will impact your hedging loss and that will impact your input cost.

S. Subramaniam: So, that is what we adjust, affectively it gets adjusted with the sales.

C.K. Venkataraman: There is a Rs. 200 difference.

S. Subramaniam: Or this ineffective goes into that other line which I talked about which is the other expenses.

Sanjay Singh: So you are saying the hedging loss gets impacted on the sales now?

S. Subramaniam: Yes.

C.K. Venkataraman: So the example I was giving, in reality from a consumer price point of view we grew 4%, whereas because we bought it at Rs. 2,400 and sold it at Rs. 2,600, 2,600 will get adjusted to 2,400 and we would actually shows a decline, I mean this is just an example just to illustrate the point.

S. Subramaniam: So the margin goes up and it will show a higher percentage margin.

C.K. Venkataraman: Because we charge 20% on 2600 but show it as 2400 at the denominator.

Sanjay Singh: But is there any accounting interpretation change etc?

S. Subramaniam: No, there is no change here. The only change which has happened is the definition of effective, ineffective has changed between IndAS and the old Indian GAAP. In the previous Indian GAAP the hedging effectiveness was anything between 80% effective and 125%, which means you do not need to predict accuracy. Anything between 80% and 125% was deemed to be effective and therefore got adjusted in sales. Under the new IndAS, if it is not 100%, anything over that goes as ineffectiveness. So there is to some extent a change because of that, but more than that this time I think because the prices went up substantially the impact is significant, that is the main thing.

Sanjay Singh: And the retail gap between you, the retail sales number and the reported numbers could also be because some of the franchisees which own the inventory…

S. Subramaniam: Yes.

C.K. Venkataraman: Also, Tanishq plus gold, there are so many things sitting in that reconciliation, the 9% we are talking about Tanishq which is 90% of this division, but still only 90%.

Sanjay Singh: And secondly while we are a little gung-ho on the this I think the whole part there is a question arising in our minds and seeing other numbers and what is happening, somebody alluded to a question that what is happening to the industry. I think while we are talking on the part of the new launches or the new sub-brands or whatever you can call it, but I think sometime back we had commented that the customer is now tiered of schemes and discounts and all and the schemes and discounts are not as much attractive as it was probably maybe three, four years back when there was a line or queue before any end of sale season in Tanishq. Is there any fear or is there any point that doing every two, three months a new collection can make the customer jittered? I mean, the restaurant industry used to do it through festivals and I think now it has become pretty much a cliché. So what do you see on this front? I mean, essentially is the new age consume not ready to spend on jewellery, I think that is the more fundamental question?

C.K. Venkataraman: The new age customer is a very different person the way you are describing the new age customer. If the new age customer is late 20s women, sure, but then the Rs. 250,000 crores industry is supported by the 35 plus women who is still, every chance you give her with a new piece which is exciting she actually is willing to come and buy. Discounts and schemes is another thing, but collections is an unending potential opportunity.

S. Subramaniam: I think the way to see the new age customer is as follows. See, the new age is not simply digital and more rational and not wanting to splurge, customer is still a customer. So the whole industry if you see in the last 10 years has transformed and jewellery has been showcased as something you should adorn yourself with rather than invest in. So, new age those who have gone through that are now finding the basic desire for adornment is still very strong, and the new age customer has got more money as well. So, see whether this overall impact of government regulation will affect the industry is one part, but the consumer is still attracted to attractive products. So every time we introduce a collection there is a interest in the category that is created. And in fact the whole industry has hence made this category very different in the last 10 years if you see, the kind of ad spends that the industry has gone through much have been 10 fold, no 20 folds it must be in showcasing product. So that is the change. See, simply think of them as some youngsters who are wearing western clothes and do not wear jewellery, that is not the way we look at it.

Sanjay Singh: And lastly on the number of stores, we are looking at number of stores or square feet for this year is how much?

C.K. Venkataraman: In Tanishq maybe 17 or 18 stores. Square feet, some 50,000 - 60,000.

Sanjay Singh: So largely medium format, small format stores?

C.K. Venkataraman: Yes, and also new towns, small towns, like Midnapur, Gandhidham, Hosur, like that.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management for any closing comments.

S. Subramaniam: Thank you all of you for being on the call. And we look forward to a wonderful quarter ahead. And Happy New Year to all of you.

Moderator: Thank you very much. On behalf of the Titan Company Limited, that concludes this conference. Thank you for joining us, Ladies and Gentlemen. You may now disconnect your lines.