"Titan Company Limited Q2 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Titan Company Limited Q2 FY'20 Earnings Conference Call. 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 this conference is being recorded. I now hand the conference over to Mr. C K Venkataraman -- Managing Director from Titan Company Limited. Thank you, and over to you, sir.

C K Venkataraman: Thank you very much. Hello! Welcome to all of you for listening in. I am Venkat here from Bangalore and with me are Ravi, Ronnie, Subbu, and Nandu that all of you know very well, and also joining me is Ajoy Chawla -- the new Chief Executive Officer of the Jewellery Division of Titan Company. With me in the room are Suparna Mitra -- Vice President, Sales and Marketing with Watches and Wearables Division; Saumen Bhaumik -- Vice President, Sales and Marketing of the Eyewear division; Dinesh Shetty -- Company Secretary; and Pulkit and Govind from the Finance Department. I just introduced on behalf of yourselves. Thank you very much once again.

Let me start by refreshing three months back when we had the Q1 call. We were on a declining performance in the jewellery division in the month of July, and we were looking at a better August and September. And as it turned out, we grew about 15% in retail in Tanishq in August and about 11% if I correct for the season in the month of September, and net-net between 6% and 7% in total retail for Q2 which was I would say more or less on plan of that time of the first week of August. I think two, three percentage points below plan perhaps. In total, like I said between 6% and 7% for the jewellery division, which is not in line with the kind of growth that we have seen in the past. The pressure on public sentiment because of the price of gold which kept rising kept consumers away and the whole of industry as well as Tanishq ended up having to rely a lot on consumer promotions to drive traffic to the stores.

The Watch division was also under pressure, particularly the EBO channels, World of Titan, Fastrack did struggle in the quarter. And the department store channels typically where we have a much better choice of brands and even our own Helios did relatively better.

The Eyewear division did exceptionally well in the quarter in terms of retail growth as well as the distribution push. The complication in Q2 was one is our usual difference between the primary sales growth and the retail growth because of the L3 billing that many of you will be familiar with. On top of that because of our hedge positions, we have to write-back about Rs.120 crores of income on account of hedges that mature, and we can speak and clarify to you exactly what this means down the road when the questioning happens. So, because of which the jewellery division's income actually declined over Q2 FY'19.

The season itself was a little mixed. The 33-days leading up to Diwali which is 28th of September of '19 till about 31st of October '19 compared to the same 33-day period was a growth of 10% for the jewellery business, much better for the Watches business relative to Q2 exits and decent for the Eyewear business because it was not the season for that category. So, in a way, the pressure on the jewelry industry appears to be continuing, and our assessment is that we have done rather better compared to most of the players in the industry. The total imports into the country declined by 17% in H1 of FY'20. Compared to that, we were flat on retail and very small minus on our reported company income. So this along with our actual measurement of competitive performance in many of the cities where we operate, confirms to us the continuing market share gain of Tanishq brand is going on without any let up, and we were quite satisfied with the initiatives that we have implemented across all the businesses. And from an overall competitive position, we are confident that we have moved further in our strength within each of the industries where we operate. So, while the financial performance was depressed on account of overall pressures of public sentiment and gold rate, we are confident that our position in the categories have become stronger, and therefore from medium and long-term point of view, we are very well placed to achieve the goals that we have declared to all of us. So, that is broadly the performance on quarter. The slide presentation which has been uploaded has got the various details relating to the individual businesses as well as the income and the profit picture.

The other important achievement is the network expansion in Tanishq. We are likely to exceed the number of stores that we opened in the whole of 2018-'19 by December of '19 which is in nine months and we are looking like clocking in the 16-store mark by end of March '20.

So, I will pause here and seek questions from all of you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, this is regarding your first comment, Venkat. Just to clarify, you said the 10% growth was in the festive period, is that what I kind of heard correctly?

C K Venkataraman: Yes, in the 33-days running up to ending with Diwali this year, Avi, compared to the same 33-days last year, the growth was 10% for Tanishq.

Avi Mehta: And given this weakness that you are seeing in the industry, would you like to revisit your target of (+20%) growth in the second half?

C K Venkataraman: Yes.

Avi Mehta: So is there any revised target that you would like to share?

C K Venkataraman: We are looking at between 11% and 13% for H2.

Avi Mehta: The second picture was on the margins. You had a 5%-odd adjusted growth. Studded share was higher. There was Rs.15 crore one-off compensation in the base and still margins were flattish. Was this only to discounting, is that how I should understand?

C K Venkataraman: 2% decline in income in Q2.

Avi Mehta: I will probably take that offline later. The operating cash flow for the first half was negative because of the changed procurement mix or is it the timing of the festive period?

C K Venkataraman: There are multiple reasons, one is that the price of gold is highest as we speak around those times. And even though the tonnage that we held was below the budgeted levels, the price was much higher than the budgeted levels, and that was one reason. And the second is that the season this year is about a week to 10-days ahead, and therefore, Dussehra as I said, started in the last three days of September and therefore we had the advance production to be ready for the Diwali season earlier than last year. So budgeting itself took the second point in the term and the price of gold of competitive return, the total inventory level is higher and therefore its impact on the operating cash flow.

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

Arnab Mitra: First question was on the margins. So, if you could highlight if there were any kind of significant one-offs in the quarter regarding hedging gains or losses which impacted the margin. And secondly, this Rs.120 crores which you are saying is the hedge this thing. Effectively, if the hedges have not been there, the revenue would have been higher by that much, but the percentage margins would have largely remained in the same zone. Would that be the right way to look at it?

C K Venkataraman: Arnab, if this hedging loss had not been there, you are right, the revenue would have been higher, but the gross margin overall would not have changed. So the percentage would have marginally changed here.

Arnab Mitra: And any other one-offs you highlighted something around?

S Subramaniam: On the one-offs, there was not much of an impact as far as inventory valuation, etc., was concerned. So on the gross margin side, there is not much of an impact. We did have some fluctuations during the quarter, but that was within the quarter itself, so the net impact was not much overall. But there are certain things that was on the overhead part, particularly on employee cost which was the actual valuation required for leave pay and gratuity. Now we took a big hit on that because of the lower interest rates, and that did impact us quite significantly on the employee benefit cost. So that is in a way something which has not planned or expected.

Arnab Mitra: Would you be able to quantify approximately how much is the impact of the actuarial impact?

S Subramaniam: For the quarter, it was Rs.16 crores.

Arnab Mitra: Last question was on Watches. Are you seeing that Watch business also remaining sluggish during the festive season which extended into October or has there been any kind of recovery there in the festive also there?

Ravi Kant: Actually, the month of October was very good and even the whole buildup from India to Diwali, the growth is very encouraging. So we expect to look at, at least double-digit kind of growth for the second half.

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

Vivek Maheshwari: Firstly, can you explain this Rs.120 crores hedge impact on the top line, and is it going to get let us say unwind as we go ahead, or it is a permanent difference?

S Subramaniam: No, these are permanent differences. Let me explain how it works; Vivek, if we were to buy gold at say Rs.3,500 a gram at any point in time, we hedge it for the next five months or so, that is the average holding period that we have. Now Rs.3,500 would give you maybe Rs.3,550 or so as the gold value that you will get at the end of five months. I am just giving you estimates that this is across our business for example. During that period, two or three months later, gold is up to Rs.3,800, what we receive from the customer is Rs.1,300. But when the hedge is over, you will only get Rs.3,550 effectively. So the Rs.250 of reversal is what this Rs.125 crores when we talk about difference. Now, these are permanent losses, these are not something which gets reversed in the next subsequent quarter. So this is just a hedging part. The fluctuations of this nature happens every month, but never having seen this sort of an impact in any quarter because the sharp increase in gold prices is what led to this. Typically, gold prices go up by a percent of two and therefore nobody will propose this. This was really very-very sharp particularly in the month of September. That month alone, we have something like Rs.112 crores of impact, just in that one month. So, this is a result of that. And as I said this does not reverse. But we have lower impact on gross margin. That is the point. This is both by revenue and my cost of lower sale, so no impact on gross margin. My making charges are based on the selling price of gold at that point in time, and typically therefore you take that has a slightly higher gross margin percentage.

Vivek Maheshwari: If I understand correctly, it is EBIT neutral then?

S Subramaniam: Yes, it is.

Vivek Maheshwari: So, if I adjust this number in revenues, then optically your margins are higher by around 40 basis points. So against 10.9 what you have reported, LFL is 10.5.

S Subramaniam: You are right, Vivek.

Vivek Maheshwari: Second is how big will be share of exchange in this second quarter?

C K Venkataraman: For H1 is 34%. I can tell you later on Q2.

Vivek Maheshwari: Is it not lower than what it used to be or it would be probably much higher in the last year, right, around the same time?

C K Venkataraman: No-No, because there is also the Tanishq exchange. We exchange jewelry as well in the general exchange program as we call it is the non-Tanishq gold. 34% is for H1. 31.5 last year, gross is 40%.

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

Amit Sachdeva: Venkat, my question again on the exchange program which was obviously launched when July was bad and this zero-cost exchange scheme was launched which was I think resulted in a bit of a good response from customers, and probably the run rate of revenue sort of started rising, and now you obviously roll back that scheme very-very quickly when the Q3 started. So, if my understanding is correct that this level of scheme which was launched which was very margin dilutive and part of the effect we have seen in the quarter as well, what sort of trade-offs that you see -- would you rather maximize revenues and let the margin be slightly hit or would you rather have margins stable and whatever revenue as a result of it? Under which framework are we really operating as we launch these schemes to sort of generate demand and effectiveness of the scheme in generating demand and the cost attached to it, how should we think about margin in that context considering the demand remains mix as lackluster as you go into the second half, how we should think the margin thinking around which the 13%-odd you want to achieve as well?

C K Venkataraman: Specifically on the exchange itself, Amit, what we typically do is when we launch it for a four or a six week period, there is a certain target that the team takes in terms of growth, and the ROI of that particular offer is determined on the basis of that targeted growth, there is a breakeven level of growth at which it makes sense, and beyond that it is actually beneficial and all that. But what has been the complication in recent times is when the overall sentiment is poor, then customers are not coming into the market, then your calculation go off and therefore you do not achieve the growth that you started off targeting, and therefore discount as a cost of sales rises. That is the point that you are implying in that. So that will continue to remain a challenge. When we begin, we will have certainly done for a growth which justifies the cost but when it ends, it is not so easy to switch it on and off in between also because there is a momentum to that. So, I do not have an immediate answer to the H2 question that you are asking because currently given the kind of pressures in the market and the sentiment that we have directly spoken to a lot of our high value customers and what I sense that lot of them are deferring purchases and most conserving money. So, in a situation like that, even an attractive offer may not necessarily make them spend that money as they want to conserve. So the sales at whatever cost is certainly not an approach, I mean, just to clarify. It is a very calibrated that the growth should get us some amount of it additionally, that is how we would approach it. At the end of the scheme because of the circumstances it will not happen. But our A-priority would be to actually increase the net margin after the cost of the scheme.

Amit Sachdeva: My second bit is that obviously you have looked at international expansion as one of the viable sort of options as well and this has been in the past. We talked about. But are you looking at a period where Tanishq need to seek other markets as well for expansion and if yes, are you sort of looking at recent future international forays as well, and is there any plans to do so, and how do we should think about this, and what is the go-to-market approach you are taking for this?

C K Venkataraman: We are certainly looking at GCC, Amit. Because GCC is a natural place to go where there are lots of NRIs, the Tanishq brand is very well known, we can hit the ground running. But our sense is that the GCC markets are also under some kind of economic pressure, and therefore we have decided on a very calibrated approach to entry, and therefore I would say from a couple of years point of view and from a shareholder point of view, it is not a material item either which way. If only thereafter both from the return on the capital employed there the market is delivering. We will start making any kind of relevance to the overall P&L and the balance sheet of the company. But we are going to be entering shortly, it is like testing the water kind of approach.

Amit Sachdeva: But given that, Venkat, we are doing CaratLane as omni play where there is online presence and offline presence and it is a pure studded play largely. So would it not be more viable to enter markets such as the US using the same online maybe with other eCommerce players or something, given that now distribution is easier, why would not we exploit that sort of channel now given that it is easier to sell and if you have the brand and you can easily..?

C K Venkataraman: You are very right, Amit. It's just that the concrete plans on that front are not yet in place for me to share, but you are very right that the opportunity for some parts of Tanishq, certain EMEA and of course CaratLane in the US, and we are already a preferred partner with Amazon as a company for the Watch business in the US and therefore people are at work to pick the relevant parts of the Titan company jewelry business into the US as well, but it is in the early exploratory phase, and therefore there is nothing concrete that I could share, but you are very right.

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

Nilay Shah: On the gold hedge unwinding part of your booked hedges, some of it will continue into the second half also?

S Subramaniam: There would be some impact in October, but I think it is completely normal, because this is basically a gold that we bought off the two right, which is getting impacted. Typically, the hedges are for four months. So I think this time falling off from November. Some impact in October, but not so much.

Nilay Shah: 11% to 13% factors, that also in it?

C K Venkataraman: No, it is complicated to factor it like that. Just to go back to the figures that you have given, if it is Rs.3,800 average selling price in Q2 FY'20 and there is Rs.3,500 selling price average Q2 FY'19, that difference is that actual growth of the retail team is recording which is 7%. But then because of the gold that was bought in May of 2019 we hedged them and then matured in September of 2019, we have to reverse that Rs.152 crores and thereby 7% is depressed by 3% or 4% points. So that complication is currently not visible. Materialize only on the day the hedges matures. So it is very predict that and build it. Right now there is a retail growth which is without the hedge impact.

Nilay Shah: The second question is on the margins for jewellery business for the quarter; 10.9% underlying margins of about 10.4%, 10.5%, it has down pretty significantly on YoY basis adjusted for the one-off which you had last year. So the question really is that you had Rs.17 crores of inventory gains which you were likely to book this quarter from the prior quarters. You had the customs duty increase in certain bits on account of that also coming through, and I understand that this is offset by increased promotions. So what were the kind of promotions at that, I mean, was it as significant to have erased both the Rs.17 crores plus the customs duty hike which you had plus the fact that the studded jewelry portion was much higher this quarter?

C K Venkataraman: Actually, even the gold rate differences in the market were quite significant… the rate between Tanishq and some of the other competitors, and therefore, we have to intervene and correct out the prices of gold as well. And we had the exchange scheme which like I said earlier was paying for itself when we began it, under which the growth rates that we have targeted, but as a percentage of sales rose when we ended it because the intent to do as well as plan. And then we also have the bundling offers during the quarter. Sales came at a higher cost and therefore the overall margin was affected by that despite what you said we were carrying over from Q1**.**

Nilay Shah: Could you just help us understand what was the gain on account of the customs duty hike that happened, and some part of it will come from the 3Q also, right on account of that?

C K Venkataraman: Correct, in fact, good part of it would come, but we have also used it sometime to actually just price corrections and all that. So it was not a material item in Q3.

Nilay Shah: So Q3 will be bigger?

C K Venkataraman: It is very difficult to predict because we end up actually using it to get sales and all that. So by the end of the quarter, we will have an understanding before we decide even to share.

Nilay Shah: Last question is Rs.19.5 crores of unallocable expense which is there in the segmental. Subbu, what is that on account of?

S. Subramaniam: There would be corporate expenses by and large, yes. We do not go to the divisions. There are certain parts in the corporate segment which are retained there, on top of which there are some which are not allocated at all to divisions like we have primarily done. That is why you get it.

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

Rakesh Jhunjhunwala: The festive season was up by 11% to 13% and in the same quarter you have to pass on to your consumer to get the sales. So how was the prices during the festival season?

C K Venkataraman: We took some calculated bets on it, and we were having a much better control on that in the 33-days of the season.

Rakesh Jhunjhunwala: Therefore margins, you do not have to make so hard...?

C K Venkataraman: We do not have to offer so much of discount for the 33-days, 10% growth like we did in H2. What we had to do in Q2, we ended up avoiding in the 33-days of the season in October.

Rakesh Jhunjhunwala: Other thing is that your Watch business have done very well in Diwali?

C K Venkataraman: You are right, Rakesh.

Rakesh Jhunjhunwala: Your capital employed has gone up in watch and the jewellery business. Some part of it can be washed out after Diwali.

C K Venkataraman: Yes, it will come down. Like I said, we had an early start to the season this year and therefore 30th September, capital employed got budgeted also like that, and unfortunately because of the gold prices, we had a significant impact on the value of that inventory and it ballooned even further. But even as we speak, it has come down and it will continue to go down and get under control in the next two, three weeks.

Rakesh Jhunjhunwala: Why is the other income lower in this quarter by about Rs.30 crores as compared to the first quarter?

S. Subramaniam: Other income is lower because we did borrowings.

S Subramaniam: Last quarter, also we had income tax refund, and that is basically why. But essentially, the overall cash balance is much lower.

Rakesh Jhunjhunwala: So that could improve in this quarter when the capital employed is reduced?

S Subramaniam: Yes, from October, and we are positive again, and yes, we should start seeing higher CAPEX.

Rakesh Jhunjhunwala: In some of your quarters, this corporate expenses, unallocated is positive?

S. Subramaniam: No, that could be because of income tax refund and so on and so forth which have been unplanned.

Rakesh Jhunjhunwala: When you take the income tax interest, I mean, you take where...?

S. Subramaniam: Yes, because there was a refund, we got some time back and that is....

Rakesh Jhunjhunwala: So Subbu where do you account for your interest income, do you account for in the jewellery business?

S. Subramaniam: Interest income comes in the other income and it is predominantly in the divisions.

Rakesh Jhunjhunwala: So you take the tax of the divisions and allocate the?

S. Subramaniam: Yes, exactly, it is based on the cash generated by each of the division. So, it is almost entirely going to the division, very little goes to corporate.

Rakesh Jhunjhunwala: In the consolidated, you have Rs.31 crores profit in TEAL and Rs.10 crores loss in CaratLane. And this Rs.21 crores loss is in other business if I see your presentation. What is the other business?

S. Subramaniam: That is the Favre Leuba.

Rakesh Jhunjhunwala: Other thing I wanted to ask you, what is the deferred asset you are carrying in the balance sheet now? If you go in the 25.14%, do you still have a deferred tax asset?

S. Subramaniam: The adjustment we made also this month was regarding IndAS 116. We have to capitalize all the leases. So when we did, we had to pass an entry for deferred tax asset at the beginning of the year. Now that was based on the old income tax rate. Post that with the changes which we have now adopted now which is 25% tax rate, we accounted for that in this quarter. So essentially, that deferred tax asset has come down to some extent because of the reduction in the tax rate.

Rakesh Jhunjhunwala: So ultimately, your tax rate now will be 25%?

S. Subramaniam: That is right.

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

Tejas Shah: Sir, first question pertains to the whole demand environment. When we started this year, we were very excited about the wedding calendar being very robust. Now that demand is supposed to be non-discretionary and sticky in nature. So is it not participating or is it yet to come in second half of the year?

C K Venkataraman: As you would know, we have between five and six engines of growth which we had identified over the last 24-to-30-months for our 2.5x tools, and each one fires in a particular way and takes it to a consolidated growth target of the (+20%), that is how we planned. And wedding is in fact critical one out of them. And wedding itself has in fact outstripped the 20% growth substantially. But some of the others have not fired as well as a result of which our H1 growth is what it is. So wedding itself has done well, but some of the others have not done as well. The non-discretionary parts that you are saying is folding. So we may need to raise the ante in that category even more to compensate for some of these not firing full.

Ajoy Chawla: This is Ajoy here. I would like to supplement what Venkat said about the wedding piece. As he rightly said, we have actually seen close to 30% growth in wedding-related category, and in the second half of the year actually has good wedding. So starting 1st November, we have actually launched the wedding campaign itself. It is banking on this that we are hoping that we can try and get to 11%-13% growths that Venkat spoke about. So there are good dates in next few months, and if all goes well, hopefully, we should be able to get to our numbers.

Tejas Shah: What will be weddings total contribution for first half?

Ajoy Chawla: The wedding contribution has been close to 22% very much on target of what we wanted.

Tejas Shah: Just one clarification. So, this hedging policy reversal this time, prior to 2012-13, we did not have this, right, and are we planning to revisit our strategy on this count because this...?

S. Subramaniam: We have been hedging from 2004-05 onwards. So the issue here has been that we have not seen fluctuations of this kind, and that is a short period, and therefore, it would have impacted us had this happened some years back.

C K Venkataraman: So there is no reviewing this policy like the question that you asked. It will continue because we will continue to hedge. As long as we continue to hedge and if gold prices rise like this, we will continue to have this issue.

Tejas Shah: Lastly, the guidance for second half of 11%-13%. Are we building revival of demand sentiment or is it based on sentiments as it stands today? Are you seeing this sentiment impacting our outlook beyond '20 also or does it hurt our visibility of '21 materially?

C K Venkataraman: If you go back to the last three months, in August we grew 15%, in September we grew around 11% without taking the season of three days which came into that monthly account. In the season we have done 10%. So, if I look at these three pockets of time in the last four months, 11%-13% that we are targeting for H2 is not out of line with that because like Ajoy said, the wedding dates are certainly getting better, and we are obviously using many things in our control to work hard.

So therefore the 11-13% is actually based on current and immediate past trends and we are reasonably confident of achieving that. On your next question of "What does it do to the FY'21 and thereafter?" The jewelry market is a very-very large opportunity for the company. The share of Tanishq is in small single digit. So intrinsically, the opportunity for growth is very much there, and we would like to keep our size like we visualized 2.5-years back to that big goal in 2023, and therefore, we would like to run for that (+20%) growth in FY'21 as well. But, for proper form stake I would suggest that this question is properly answered by the company in our next call because all our teams are at work currently building the FY'21 plan and strategy, and they are very much seized with this dream as well that we cannot let these extraneous circumstances contain our thinking and look at the very large opportunity that industry offers, the huge assets and the capability that the company possesses, and therefore we should work on it to actually make it happen, but we will confirm it in the February call.

Moderator: Thank you. We have next question from the line of Alok Shah from Edelweiss. Please go ahead.

Alok Shah: Just wanted to confirm on the store count guidance. That was about 60 stores, is that understanding correct for the full year?

C K Venkataraman: Our current estimate for new Tanishq for FY'20 is about 60-stores.

Alok Shah: So that would mean close to about 20% store addition. If one were to look at half of that or close to about 9-to-10%-odd revenue growth coming from that plus about 20% growth in the gold price, so we are looking at a significant lower grammage sale in the second half, basis that guidance of 11%-13%. Now just to extend Tejas's question, if considering that this sort of gold prices remains at the same level and while your store expansion can give you revenue, but would you then in the circumstances sort of be quite optimistic about the (+20%) growth in the FY'21?

C K Venkataraman: It is a very complex mathematical model that. The 20% is a number of stores first of all. The per square foot of the current network will far exceed the per square foot of that 20%, and therefore, we cannot take the 20% into the time period that they are available and therefore so much growth in sales and that kind of stuff, and then the gold rate impact and all that. So the 60-stores that we are confident of opening this year, will certainly give us a good building block for the FY'21 (+20%) plan, yes, and the gold rate frankly I have no idea about how the gold rate will behave in FY'21. So, at the moment, we have no framework to build for the growth of FY'21 like I said the teams are working on that.

Alok Shah: You would have got some benefits in the margin from the custom duty increase, and as you mentioned previously, large part of it will fall in Q3. But, do you think most of that or all of that would get offset against the scheme or would you see that translating into better margins in Q3?

C K Venkataraman: Very difficult to say at the moment because it did not really translate into margin in Q2. We had to really induce customers to come and buy. We are investing in a lot of offers for the customer. I will be able to speak on this with any clarity only when the quarter ends.

Moderator: Thank you. The next question is from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka: Sir, I had one question on gold exchange. Basically for a jewelry company, there are two levers for margin -- one is the spread on the gold rates; second is basically the making charges that you make. What are we hearing from the ground or the channel check is that more and more people are bringing either bars or coins or they are buying from physical market where the gold rates are lower than the Tanishq gold rate and they are exchanging the same when they have to buy jewelry from Tanishq. Have you see this kind of an increasing share of bars and coin versus what do you call old jewelry?

C K Venkataraman: Not really. You are obviously pretty clued on to what is happening on the ground, I must say. But it has not been a while, there are instances like this and people who are really smart doing it, I am not recollecting it as a trend, it is a genuine conversion of old jewelry into fresh new Tanishq jewelry that is happening by and large I would say.

Vishal Gutka: What have led to relatively better growth in studded, because studded, the share was around 38% this quarter, 35% in the base quarter, why that has happened -- is it because of the promotion campaign that we have carried out or what is the reason behind it?

C K Venkataraman: One other thing that we are observing is we are seeing a relatively higher slowing down in the lower ticket products. And this in a way indicates middle-class coming under pressure because typically the middle-class customers are those who buy products in the lower price points, and in a way the studded jewelry is a little more aligned to upper middle and upper class who are perhaps less affected by this real pressure on cash flows, feeling of not having enough money and therefore they need to tighten belts and stuff like that. So, I guess, that has an impact on the relatively better desire to buy diamond jewelry versus gold jewelry. And the gold price itself is a bigger deterrent on pure gold jewelry buyer with less deterrent on a diamond jewelry buyer.

Vishal Gutka: Sir, what have been the contribution during this quarter from Golden Harvest scheme?

C K Venkataraman: Can I just come back to you on this?

Vishal Gutka: Yes, sure.

Moderator: Thank you. We have next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: My question was on the difference of the gold rate which you spoke about. And just wanted to understand that this difference came in primarily because of the fact that others were little proactive in passing on the custom duty hike benefits compared to you guys, and was it very-very specific to festive season, and are you seeing similar kind of difference even now?

C K Venkataraman: Actually, the kind of difference that I have seen in the last four, five years now it is not necessarily influenced by an act like the customs duty change that happened recently. Even in the past I have seen Rs.150, Rs.175, Rs.200 differences and there was no act like customs duty increase that happened. I think a lot to do with maybe the supply of smuggled gold at a certain point in the year and that excessive difference in the supply rates between the white and black channels and all that. And I suppose it got aggravated a little in Q2 of this year because of the customs duty and accumulated stock of various individual jewelers and all that, and therefore, we have to intervene and do what we have to do. But, it is looking like it is a bit in the past now, at least for the last few weeks I have not heard… Ajoy, you can correct me, and certainly, we have not heard this in the Diwali season, it has been a reasonably stable period on that front.

Amit Sinha: So basically the lower gold rate which was offered by the competition, was it also impacted by the desperation in the market and now it is kind of coming off, right, I mean...?

C K Venkataraman: It could be many reasons because the industry like I was saying that we have done much better than the regional players, the national players to the extent that we can measure. And obviously everyone is under pressure to that extent, and we have seen instances, particularly in some of the B and C-category cities across the country where some of the local jewelers sell gold at some Rs.50, Rs.60 below cost, and we wonder how it is possible. I am talking about at various times during the year. And when you are not doing well, the pressure to grow sale is that much higher, and I am sure that was also a contributory factor apart from the opportunities that they had on account of customs duty.

Amit Sinha: Just a follow-up on that. Basically from the numbers which we talked about after first quarter, there have been some kind of underperformance from Tanishq. Was it also because of this gold rate difference during the quarter which…?

C K Venkataraman: Not on the sales side because the gold rate is a daily managed item, and therefore every day we are in touch with the market, and we keep the competitiveness of Tanishq in a way intact on that point. So, we did not lose sale. Whatever target we had for August and September, I think outlined that growth target when we spoke the first week of August, but whatever internal target that we have for August and September, maybe we were some Rs.50, 75 crores short if I remember, right. Sales targets were met, but they came at cost.

Moderator: Thank you. The next question is from the line of Nikita Maheshwari from JM Financial. Please go ahead.

Richard: This is Richard here. I have got two questions… sorry to harp on this again, this is regarding guidance change from 20% to 11%-13%. I guess the premise for the 20% growth expectation that was there earlier was basis your own execution and so on and so forth and ability to get sales rather than macro dependence, right, I guess from a macro perspective, you would have expected to have been mad anyway. So, I just want to know what is the difference now in your execution plan between what you expected to happen earlier and what is happening right now that has actually led to this change from 20% to 11%-13% or is it that this 11%-13% is just an average of what you saw in August, September and the three days to Diwali, because if I look at your store growth, even that seems to have been at least much higher than what you were actually envisaged?

C K Venkataraman: So Richard, if I go back to when we had set out this kind of a CAGR for five years, the general sentiment around us was very-very positive, and that certainly helped that the industry was not tanky, it may have been sluggish, it may have been slight low single-digit growth, I am talking about now FY'18, early FY'19 and all that. So, when industry is in a small single-digit growth or flat and there is a certain migration that started happening as a result of a lot of structural changes that happened because of demon, because of the Nirav Modi and all that, the trust factor kicking in, in favor of Tanishq, we were able to deliver a (+20) growth rate with a certain set of initiatives, with a certain level of excellence in our execution. But in the first half of this year as opposed to what we judged on the basis of a lot of research that we did in the January-February of 2019. The sentiment was indicated to be pretty positive from the customers that we researched on. But what is appearing now six, seven months later is that the sentiment is actually worse than what we at that time measured. And because of that the overall industry like 17% decline in imports, every single jeweler that we are aware of is talking about big decline, vendors are talking about big drops in supplies, and if I take the regional jewelers, for example, we are talking about between (-12%) and (-22%) decline in the festive period as opposed to (+10%) that we have done. So obviously, the strategies as well as the standards of excellence in our execution are happening in a circumstance which is less in our favor than let us say one year back, and therefore, we need to sort of go back to the drawing board in some sense, expand the number of weapons that we need to polish more or create fresh, and that would take a little more time than a few months, and therefore the guidance for H2 is in a way, not taking that big step out into account. And that is why I said that it is our intent to keep gunning for that (+20%) for FY'21 and later that I will confirm in February, but for the moment, since it can only be a tweaking of the arsenal that we already have, we are going by the more recent growth performance of the last three, four months.

Richard: Subbu, two house-keeping questions if I may -- one is I noticed a profit of minority interest of Rs.8 crores versus a loss that used to be there earlier. If you can help explain this? And second is do you have any IndAS adjusted comparable numbers for other expenses, depreciation, interest and EBITDA to share?

S. Subramaniam: I think maybe IndAS we can give it separately. The net impact overall for us on IndAS is Rs.4 crores. So, it is not material, but clearly yes, the EBITDA numbers would look better because rate is lower substantially, whereas if you see the increases in depreciation and finance cost over the last year, you will see quite tangible and it will almost offset the reduction in the rental cost which will be part of the other expenses.

Richard: The minority interest part?

S. Subramaniam: On the minority interest, we booked the entire loss, we did consolidation with a simple loss of correcting and therefore you reverse some portion of the loss which is pertaining to the minority shareholders.

Richard: No, the minority interest charge led to a lower net profit. So, I guess it is the businesses with minority which is CaratLane. I think did they have a profit during the quarter?

S. Subramaniam: We did not have a profit in the quarter, we had a loss.

Richard: Minority interest is a reduction from your total?

S. Subramaniam: Let me get back to you on this, Richard.

Richard: Sure.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Funds. Please go ahead.

Chanchal Khandelwal: Coming back to the guidance and the store opening, you have done 21-store opening in the first half, and you are guiding for 60-stores. And also if I look at number of cities, most of the stores have been opened in the newer cities. I am just trying to understand the top-eight metros or the bigger chunk of the jewelry demand would be in the bigger cities. Is it that we are only focusing on the franchise-run business model that we are going to tier-2, tier-3 cities or am I missing something here?

C K Venkataraman: Actually, the distribution expansion takes into account the current level of distribution in every city that we are in, the opportunity for expansion in the cities that we are already in and the opportunity for expansion in those cities that we are not in. So, we are now nearly 25-year-old brand, and we have reached reasonably high levels of presence, and in some cases even saturation in some of the big cities, and therefore our distribution expansion in the FY'23 timeframe is substantially middle India-focused. That is why you are seeing that. The franchise or company is not leaving this trust. What is leaving this trust is actually the distribution opportunity. And depending on the town, depending on the catchment, we decide whether it should be a company store, management agent store or a franchisee store.

Chanchal Khandelwal: The question on the company store, franchise store is okay, but coming back to this point, throughput in top-8 or top-10 cities will be much-much higher, and throughput the sales per store, would it not be much-much higher in a top-10 city? All the 20 stores have been opened in the newer cities. So I am just trying to understand why...?

C K Venkataraman: Not all of them, but many of them, yes, but that is because for example I would just illustrate, Delhi-NCR we have got something like 24 stores. So while each one of them is substantially bigger in terms of throughput than, let us say Jorhat or Karnal, but in Karnal if there is no store, the revenue is that incremental, whereas in Delhi, I would end up cannibalizing, and there is no room in Delhi anymore like that. So, that was the general point I was making. The room for expansion now for Tanishq is substantially more in towns where we are not present rather than in towns where we are present.

Ajoy Chawla: But just to clarify, this is Ajoy here. We have opened a few stores in the existing metros; Bombay, Bangalore and even a few more are also there in a pipeline, but a bulk of them as Venkat said is...

C K Venkataraman: Out of 60, I presume maybe 40 maybe in new towns at best 20 may be in the towns where we exist.

Chanchal Khandelwal: Just to sum it, in next three, four years, we have ample opportunities to ramp up this 50, 60-stores every year, I mean you must have done that work back, FY'23 when you are making a target, just sticking to that target, so that opportunity still exists, right?

C K Venkataraman: Very-very large, yes-yes.

C K Venkataraman: And in a way, it is independent of the consumer sentiment pressure that we are facing in existing geographies. With this Greenfield, we can hit the ground running, and in fact, all the stores are performing as per plan like the other good new stores.

Moderator: Thank you. The last question is from the line of Manoj Bajpai from Barclays. Please go ahead.

Manoj Bajpai: My question was some of the channel sales push you have been able to get through the HDFC Bank credit cards which had a cash back up to Rs.10,000, and the second one about the new launch about Virasat. So how these things have panned out in this quarter? They had led to some incremental sales in this year. Do you think that this will continue in the next quarter as well this kind of push for additional sales?

Ajoy Chawla: This is Ajoy here. Yes, these are good tactical opportunities that we keep exploring from time-to-time. And HDFC Bank credit card because they have a large base actually works out well. We saw good response to these offers during the quarter that went by and also during the festive season. So we will continue to exploit and explore such opportunities as they come along, they are useful.

C K Venkataraman: I just had two comments before we close -- One is thank you very much for the participation and the continuous encouragement that all of you give Titan company management and everything that we are pursuing to do. And I would like to close this call by calling to attention one of our colleagues, Ronnie Talati is retiring from the company end of this year, 31st of December, 2019, and I would like to place on record the exceptional contribution that he has made to the company; he has been with the company for 33-years and has played the pivotal role in building India's most iconic and sexy youth brand which is Fastrack and for the last four years now been at the helm of running the Eyewear business and establishing benchmark standards in everything that the business is doing. And I take this opportunity to lay down the appreciation from Titan Company to Ronnie for everything that he has done. Wish him all the very best and thank you, Ronnie.

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