“Titan Company Limited Q4 FY16-17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q4 FY '16 and '17 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. All the representatives of the media are welcome to join the call for the management commentary and I request you to disconnect before the beginning of the question-and-answer session. Any recording or reproduction of this call is strictly not permitted. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subramaniam from Titan Company Limited. Thank you, and over to you, Mr. Subramaniam.

Subbu Subramaniam: Yeah, Mr. Bhaskar Bhat would do the introduction and I'm sure you will have the presentation, which has been uploaded on to our website and yeah.

Bhaskar Bhat: I'll keep it short. Thank you. We are six of us in this room. All of us are here. Subbu, you just heard; Venkat is here from jewellery; Ravi from watches; and Ronnie from eyewear, and Krati is also here. I think you have seen everything here. We have lived up to our promised growth of '15. I think that's the first thing I'd like to say, primarily driven by the 17% odd growth in jewellery. But the better news you've seen is on the bottom-line. And two, three points that I want to mention is the last two quarters have turned out despite the demonetization, has turned out to be healthy for Titan by way of consumer growth shall we say, I mean, the growth at retail, same-store growth etc., it's different in different businesses. And extraordinary growth in jewellery for example, both apart from that for the year, we've absorbed 100 crores of VRS cost, post which also the profits have grown. So we have had a year in which topline has grown, costs have been compressed and therefore margins have improved. The rest is all there. One item only which appears there, which is we made a special payment of 13 crores as one month additional bonus because of the profit having exceeded the target for the year.

We have still been reasonable in our salary increases. So the year ahead, of course is going to be one of growth, but it is a growth combined with focus on cost. Exploration will continue in the company, so we are very confident, looking forward confidently ahead. There of course is the overhang or the uncertainty of GST, which is coming up shortly, but I think the government will be sensible about it. Today's news at least on gold jewellery -- yeah, look like it is 4%.

I think we can start with the questions, there is this the TEAL, which has been demerged. Do you want to add anything specific?

Management: No, I think the point is that, it's standalone account that you are seeing now is without the precision engineering division. And that was because we got the court order in this last quarter and therefore we had to demerge the account and it was effective 1st, April 2015. So the financials that you're seeing on the standalone basis do not contain the precision engineering division numbers for both this quarter and for the year as a whole.

And obviously, previous year numbers also will be comparable. We feel that they have been removed. The division itself is very well as we have mentioned in our note, 28% growth in revenues and the profit thing was a very good 25 crores. So it was a very good year for the division. But as I said, this is now going as part of TEAL is the Titan Engineering and Automation Limited.

Other than that, on consolidated numbers, we have for the first time consolidated Caratlane, you know that we acquired the company during the year. From 3rd August that we have consolidated Caratlane, so TEAL and Caratlane are the two big things that we have added to the consolidated financial for the current year.

Bhaskar Bhat: Yeah. We are ready for questions.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy: Sir, congrats on very strong sales growth. But on margins, it's slightly below expectation. So, my question is why is there a 43% growth in ad spend in the context of such a strong sales growth. We have seen lot of stable companies cut down on ad spend in this year. So, is it because of new launch? Is it because of sales season? Is it because of other businesses for example, Rivaah or new brands or new businesses. Just take us through that.

Management: We have to see it from the full year point of view and from the future point of view.

Bhaskar Bhat: Last year quarter we would have done and all that. I don't think advertising spend, you should look at quarter-by-quarter, Abneesh. There would have been an effect of last quarter, we would have cut because of the poor performance. And this year we are seeing a good growth..

Management: And the investment in FY '18, quarter one, wedding season, so many things are there. So, you'll have to see the FY '17 performance as a whole and not before them.

Abneesh Roy: Okay. Sir, coming to jewellery business, last few quarters, lot of jewelers including you have found getting new franchises more challenging. And this year only 62..

Management: Not Tanishq.

Abneesh Roy: Right. Only 62,000 square feet was added versus earlier run of more like 1 lakh square feet and when I see the difference in terms of growth this quarter, only 3% growth is coming from new stores, so 52% is the like-to-like growth and overall growth is 55% in Tanishq. Are you now going to scale it up this quarter? So the 65,000 square feet, what's the number you are looking at this year?

Management: We will share that when we meet on the 19th. On that, the last point, but before that, we are actually not finding any problem in getting franchisees. Finally the setting up of stores is an operationally complex issue. And we keep stretching ourselves like next year's target is also quite ambitious. The 52 was particularly is actually a very good metric in a way, because all the franchisees in the business have done exceedingly well for the year. And therefore their own mood, their own outlook for the future was that, it's very positive. Their word of mouth effect on other prospective franchisees is going to be very good. So we are not at all concerned with the 52 and 55. Next year we'll share on, when we meet in person.

Abneesh Roy: And sir last question, why has the gross margin dipped in jewellery? Structurally is it dipping, you have done new launches, what's the gross margin profile there? I understand there was a shift of the sales season, so that impacts. And what's the studded share this quarter? How are you looking at gross margin in the near term?

Management: See, what is the EBIT margin shift in the quarter? So the performance in the gold category in in the quarter, particularly in March was exceptional, Abneesh. And so, therefore, our push is overall on the EBIT and not just on the gross margin.

Abneesh Roy: And what is the studded share?

Bhaskar Bhat: 29%, Abneesh. 34% for the quarter.

Moderator: Thank you. We have the next question from the line of Avi Mehta from India Infoline Finance Limited. Please go ahead.

Avi Mehta: Sir, in this year you are now at 17%, you've ended the year with 17% sales within jewellery segment. Does that along with how the environment has been for the last two quarters and from whatever we hear in April, so, just at a similar or if even better trajectory is kind of continue in the next year, how should I look at this, sir?

Management: No, we are certainly quite gung ho about the future. And the same building blocks, which are helping us to fill confidence about it, which is the wedding high value diamond jewellery, market share expansion in low market share markets, Golden Harvest expansion and getting a higher share of wallet, and the number of network expansion itself, these five drivers are quite strong, they continue to be there and we're going to push for a similar kind of growth in FY '18 as well.

Avi Mehta: Okay. And, sir, secondly just on the last bit that you highlighted that this quarter you have seen very strong gold sales growth amassing it of the plane gold or gold coins, which is why the margin has kind of come under pressure in the quarter. In terms of going-forward basis, you have highlighted that there is a focus on growth as in the start comment indicated focus on growth while ensuring operating profits and costs had remained under control. In that segment would it be gross margin, you will not kind of look at mix in particular, that's how I should look at it. So high sales growth, flattish margins or probably even moderation margins is what would be the kind of expectation that we should kind of assume or you are looking at margins at least maintaining at this end and then kind of, I'm just trying to kind of get the sense of growth in this, or what is the strategy that you're kind of looking at?

Management: Yeah, yeah. I think we are looking at a substantial change in the total sales in a five-year timeframe. And as I look at FY '18 in particular, we want to aggressively pursue growth without compromising every margin. So, EBIT margin expansion is not a focus for FY '18, because of sales growth. But we would like to at least maintain the EBIT margin while we are pushing aggressively for growth.

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

Rakesh Jhunjhunwala: My first question pertains to watch division. Sir, I don't know how the way our profits fluctuate in the division quarter to quarter is beyond anybody's understanding. So first quarter did 9 crores, second quarter did 64 crores. First quarter, in fact you did some 100 crores, so 90 crores was VRS, then you did 64, then you did 53, this quarter you did 12 crores. I think it's a blind man agreement I want to understand why your margins fluctuate like this and as well sales growth, now we have grown 10% in sales.

S. Ravi Kant: Hi, Rakesh, this is Ravi here. I would strongly recommend that we look at profit at the end of the year and not track it, you know, specifically the EBIT margin quarter-by-quarter. I know that in quarter four, the EBIT margin was a low single digit. And this in a sense is linked to the question, which was asked, the first question which was asked about high spend of advertising. What tends to happen is advertising, it's like saying, how come have you spend 20% of your sales of advertising in a quarter. It makes sense to look at advertising to sales ratio at the end of the year. The short answer therefore is that in the last quarter, advertising spend was very high, and that was on account of many new products that we launched. So, something that was supposed to be large in the third quarter got pushed in the fourth quarter. And therefore that is how the margin kind of varies, but it does make sense to look at it at the end of the year, and I'm sure you would be quite pleased to know that at the end of the year, the EBIT margin of the watch division is a double-digit number as opposed to 8% last year.

Rakesh Jhunjhunwala: Sir, I'm not very happy to know it's double-digit, because you have a big brand that you came to be, all big brands in India don't have EBIT margins lower than 18%, 19%, 17%. And foreign companies have 18%, 19% out of the 35% royalty. So I don't think the margins are very good.

Bhaskar Bhat: So after having dipped below 10, yeah, we were at 14% and 18%. We had dropped to eight and therefore we are now climbing back steadily through a combination of…and it doesn't happen like overnight, through a combination of both premiumization and cost and compression you know.

Rakesh Jhunjhunwala: And how is the sales in the first quarter and how is the year begin?

S. Ravi Kant: It was very good. In fact, it's a double-digit growth and it turns out to be pretty good.

Rakesh Jhunjhunwala: And my next question is, you have 29 Gold Plus shops, so how many are going to get converted into Tanishq and in what time periods?

Management: Roughly 25, we have 29. Out of that, 25 I think most likely. And I'm hoping from 1st of August they will all be Tanishq.

Rakesh Jhunjhunwala: So because there you don't have the logistic problem, you're looking for the location and all that.

Bhaskar Bhat: In most, you know, in a few years. But it's not a big issue.

Rakesh Jhunjhunwala: Now, how will the year begin for jewellery?

Bhaskar Bhat: Very well. Exceedingly well. I mean, Akshaya Tritiya, the 40 day period of I think 1st April to 10th May has been exceptionally good. And we are running on track for the growth rate for the year.

Rakesh Jhunjhunwala: And is Ronnie also there in the call?

Ronnie Talati: Yeah, I am here Rakesh.

Rakesh Jhunjhunwala: Yeah, Ronnie, hi. When are we going to see double digit margins in watch -- in the eye division growth, we have invested half of four years and in 5-6 years, business should mature.

Ronnie Talati: So I think, Rakesh, the returns will start coming in from this year. All the stuff that we had to do has been done, all the corrections that have to made have been made. We've closed down some of our loss-making stores, we've converted a lot of company stores to franchisee stores, we've taken back sludge stock. So lot of corrections have been made. And as we achieve scale now, which we have, we should see a good margin flowing into the eyewear vision.

Rakesh Jhunjhunwala: Thank you and I think your company needs to raise the payout ratios because with due respect to, I mean, your Chairman himself says at that was our biggest priority. I think **(Inaudible) 18.12** company 30% payout is a very poor payout. And I don't see any reason, I don't know what the independent directors do. I don't think they are protecting minority shareholders interest, right. And I see no reason why you should not raise the payout ratios. All I know is you are saving tax, I don't know for what, some regional capital expansion or some acquisition or what. Thoroughly disappointing payout ratio, is all I can say.

Management: I will take it back to the Board, Rakesh. Thank you.

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

Manoj Menon: Hi, team. This is Manoj Menon here. The first question is on GST. One, would want to have Venkat's view on the consumer behavior part. If, in a 4% or a 5% GST scenario, the question is quite specific that you know, when we talk in percentages, you know, the impact doesn't really flow through. But when I think as a consumer, when I buy for 2 lakhs today, I see a Rs. 2,000 number on the bill. But when it's going to be a 4% number, it's going to be an Rs. 8,000 what I actually see as the tax. So, any dipstick, any work with you have done, which you could talk about how the consumer would look at his bill and behave, I mean, in terms of absolute numbers because you're talking about big tax numbers the consumer would see, even though the overall bill value probably will remain the same.

C.K. Venkataraman: We have not done any dipstick Manoj, to share. I can only say that consumers were used to pay 10% making charges some 15 years back and they're content only to lose 10% on the exchange. Today they are spending 20% making charges and are willing to lose that when they exchange. So, in the new situation, they will have to pay 24% and be willing to. So it's a matter of getting used to, there may be a little bit of hiccups. So frankly, no dipstick will anyway confirm because there are around millions of people starting to behave in a particular way. All we are saying is, in our judgment, even a 4% for a brand like Tanishq, which is catering to a set of people who are somewhat in the top of the pyramid, we are confident on that. Whereas people who are really selling commodities at the bottom where the gold jewellery is being bought almost as gold, sure, the problem can be more magnified.

Manoj Menon: Very clear. And that's quite comforting, thank you. Subbu, one question on GST here is that, now that the excise duty component is embedded in the making charges, does it mean that once GST comes through, there is actually an opportunity to retain this and have a little bit of support for margin?

Subbu Subramaniam: That's sort of a guiding decision, which all divisions will take. Yeah, it will be part of their decision as a whole.

Manoj Menon: Understood. And a quick comment on the Taneira progress in the last three months.

Bhaskar Bhat: Well, I can't call it a business yet. There are two stores and while the sales figures are satisfying, there is no planned sales figure. We have been using these two stores to understand the category and to understand the consumers. On the second bit, we are very happy that consumers have liked the product and they have been advocating to others to go and visit the store. The store design has been also accepted. On how much this category can deliver eventually, it's still a big question mark, because we have only two stores and in the city of Bangalore. So, therefore, on the consumer side, very good response to the product and to the store design. The business size, it's too early to say anything. The stores are doing about 70 lakhs a month, between 50 lakhs and 70 lakhs a month, but they are 5,000 square foot stores.

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

Amit Sachdeva: So first of all, congratulations on great set of numbers. So coming back to jewellery, so Venkat, could you give us a little bit of more color on what has been the winning formula in terms of, this is obviously a great achievement and the numbers look very good. But other than drivers, what has been according to you, what value proposition shifts is happening that, this is on a very different trajectory now and you obviously look very confident for the next year as well.

C.K. Venkataraman: Yeah, first perspective is that, the quarter four growth has to be seen in the context of the difference between the quarters, FY '17 and FY '16 because the activation, which we normally do in quarter four was started in December of FY '16, and therefore the 54% should not be taken as base value. Even after a 55% we are at 17% for the year. But 17% is damn good, so I'm not taking away from that, but 55 is not 55, it's probably more like 35 or something like that when you discount the non like-to-like aspects of the period. But in terms of the driving forces, we have certainly seen a substantial change in the share of new products. We've been launching collections every quarter now for the last at least eight quarters and we have been getting better and better at it over time in terms of understanding the opportunities in the market, really pulling out all stocks in terms of inspiration, innovation in the design and in the making, pricing them right, involving all the manufacturing units and vendor partners in first and right kind of creation, prototyping and bulk and producing all the right stuff in time for the launch, creating very visible and effective marketing campaigns to take it to the customers. So the new products have been a huge driver of customer interest, traffic and sales growth. And we see that as a continuing aspect of our strategy. But for some hiccups that we have faced post demonetization, the growth in the wedding category, in the high value diamond jewellery category had very good before demon happened, then started skidding a little thereafter, but have since started catching up once again, including the month of April. So we see therefore the big market share gain opportunities, which are sitting in those two categories on which we have built our 2.5x ambition for the next five years, starting to play out every month. The other important thing that's happening and again thanks to demonetization and I'm sure, thanks to GST, in the future is the perception of many members of the public about the risk of shopping with not so organized jewelers. And worrying about even if I'm not actually a black money type of customer, would I be in the radar of the departments if I were to shop with this jeweler or that jeweler and wouldn't I be safer shopping with an organized brand, and which organized brand better than Tanishq. So we've seen a clear acquisition of new customer acquisition rate climbing. And all market is reporting that including B, cities like a Bhilai or a Raipur and Chhattisgarh saying that they have not seen these kind of kirana vyapari now coming and paying with cheque. So there is a shift that is happening partly fear perhaps, partly maybe desire to reform or change in habit also, because not everybody who pays by cash are necessarily paying in, you know, black money people. But there is a wind in our favor, which is also helping. And we are expecting that wind to become a little stronger when GST kicks in. But Golden Harvest, there is a momentum in Golden Harvest picking up more and more and more. The rate of acquisitions, enrollments increasing month after month. And therefore the rate of redemption kicking in 10 months later.

Amit Sachdeva: Got it. So just if I come back a little bit on wedding segment, Venkat. In wedding segment, obviously, we have seen last quarter, I think, October onwards quantity discounts playing out and also they were continued in this quarter to when Akshaya Tritiya, I assume this discount was even expanded a little further. So have you seen ticket sizes go up as a result, which used to be like Rs. 60,000, Rs. 70,000. Have you seen gold ticket sizes expanding and you are moving in a different zone of ticket sizes and that's what returning the throughput as well. How it is panning out?

C.K. Venkataraman: We are seeing a clear increase in the grammage ticket size. We actually focus on that as much as the rupee ticket size. But the rupee ticket size may go up because of price of gold. Grammage ticket sizes are very clearly moving up and the studded ticket sizes are also moving up and the studded ticket sizes are very clearly to do with our ability to sell more higher-priced products, because the impact of the gold rate on a studded product is much smaller. We are clearly seeing grammage, average gram per bill jumping.

Amit Sachdeva: Okay. And Venkat what would be the wedding segment now for you, if you have, obviously the wedding season is almost over. So based on last two years average, if you may compare with, and how the wedding looks like that will be very useful as well.

C.K. Venkataraman: Top of mind, you're talking about April or quarter 4?

Amit Sachdeva: No, I'm saying Q4 is obviously the wedding season was continuing, right. This is a typical wedding season and then if you go..

C.K. Venkataraman: Q4 is also frankly a little complicated because we did have some demonetization related post effect even continuing into January. But the share of wedding to our sale was in the ballpark of 20%. But I think, I would say, Q1 of FY '17 and we are pushing that all the way up to about 40, by FY '21 and we are in the direction of that. So, if I were to just build on the point that I made about visible grammage ticket size growth that we're seeing even in April, I suspect it would be in the 22%, 23% kind of percentage as we speak.

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

Vivek: Hi, this is Vivek, my first question is, Subbu, can you give some numbers about, if there are any gold hedging gains in the quarter and how much will be gold on leasing as a proportion of total gold?

Subbu Subramaniam: I think the gold hedging gains this quarter was almost practically nil. We will actually get some of them in this, this current year, first quarter. Okay? Yeah, we will actually get it now rather than the previous quarter. So we didn't get much of that. And on gold on lease, we have been doing gold on lease predominantly in the last quarter, for whatever gold we are purchasing. Okay, but as we mentioned earlier, the overall procurement 40%, 45% now is actually coming in from exchange gold. So to that extent, it is akin to buying gold on spot. So that is the big shift which is happening here, but otherwise we are by and large buying gold only.

Vivek: And this 40% to 45% exchanges you will immediately hedge..

Subbu Subramaniam: Yeah, if anything we do exactly the same thing which we used to do when we buy gold on spot. So it's also done internationally and we get the benefit of the hedging gain, that's there. But the only issue there can be the margins can fluctuate on a quarter-on-quarter basis, fortunately we didn't have that dip this quarter. So, but nevertheless it's natural.

Vivek: And in the last, let's say, five, six months this 40%, 45% exchange has been holding up, right. Can you elaborate on how exactly you are able to get this kind of exchange. What makes this program so attractive for consumer or customer?

C.K. Venkataraman: The exchange value that Tanishq finally offers its customers is exceptional. And all our stores have been working very effectively and very hard to communicate the truth to customers because the truth is hidden in the smoke of many processes and policies that many of the jewelers operate with, which are not easy to figure out. But once you put all of them down on paper and compare it with Tanishq, then you realize that the best exchange value actually comes from Tanishq. And we've also modified our exchange policy in some categories about a, I think, a year back, which sort of improved this even further. So it is actually the hard work done by all the staff in communicating the true exchange value that is helping us.

Vivek: Okay. And one clarification on this. Is there any inherent procurement advantage over here or is it more like a customer acquisition strategy?

C.K. Venkataraman: Today with our current policy it's more a customer acquisition strategy. Some years back, there was an inherent procurement advantage.

Vivek: Okay, understood. And second question on watches. I know this question was already asked on margins, but when I look at this quarter, you had a very strong growth in revenues in watches. So when I go back in the history, I see margins dip in typically when you have an issue like last quarter, as in fourth quarter F '16, you had a decline in margins, but in that year there was a volume or in that quarter there was a revenue decline. In this, there is no revenue decline. What specifically was an issue because of its margin for solo.

C.K. Venkataraman: It is really the same point that I stated earlier that advertising spend was quite high, which was linked to many new products and collections getting launched. So despite like we said, the growth in topline being 10%, the margins were, but I would, the cost of reputation, say look at the margin at the end of the year, which would make greater sense.

Vivek: Okay. Understood. And if I may, one more on just housekeeping our CAPEX number for F '18 and tax rate for F '18 please.

Bhaskar Bhat: Tax rate should be in the same ballpark now because I think now we will be in the 28%, 29% tax rate. I can't see any improvement there. CAPEX should be generally in the 200 crore ballpark.

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

Rakesh Jhunjhunwala: Lenskart is one of big advantage because it's offline. So, are we ready with our site and has good online presence versus offline.

Management: Yeah, Rakesh, we launched online omni-channel site about 15 days ago. So, I would request you to actually get online and have a look at the site.

Rakesh Jhunjhunwala: And what is the reaction initial?

Management: Very good reaction. We've in fact our, the hits on our site are quite significant now, and they are growing by the day.

Rakesh Jhunjhunwala: In Sunday Lenskart has find a lot of off shops they are open in Bombay or including at Breach Candy.

Management: Lenskart has now over 250 stores on the ground as compared to our 500 stores and they tend to open their store right next to our stores and poach our staff and so on, yes, Lenskart is, they have both have an online and offline presence.

Rakesh Jhunjhunwala: And are we getting some business growth of online presence now?

Management: Yeah, yeah. We do quite well on that. We have just started Rakesh, we are 15 days ago. So, we started selling mainly sunglasses and frames. We are yet to get some traction on full spectacles, that is people buying lenses and so on, and the entire omni experience where people go to the store or they have the spectacles delivered to their house. That whole thing is yet to fall into place. But we've just started 15 days ago and we are quite confident to grow very quickly in this space.

Rakesh Jhunjhunwala: And I have a question, good, there have been lot of changes coming about I hope it will be a good year of the eyewear division. So, my question to Venkat is, doesn't volume has a big effect on our margins because you also have a fixed cost in the jewellery business and also, because I think 25%, 30% sales is done through our own shops you know where the costs are actually fixed in retailing, 90% of costs are fixed. So does that volume affect our net margins?

C.K. Venkataraman: No. It does but if I take the gross margin growth you want quarter four in particular.

Rakesh Jhunjhunwala: In general.

C.K. Venkataraman: In general it does, but when you sometimes drive growth with a higher discount, as we did do. So, even though the diamond share in quarter four was the same as the Q4 FY '16. Gross margin growth was actually lower than the sales growth.

Rakesh Jhunjhunwala: But to some extent, isn't this compensated by the additional margin on..

C.K. Venkataraman: There are also some, we've invested substantially in advertising for weddings for Q1 of FY '18. So if you look at the advertising cost growth in Q4, that's also very high because FY '18 we are gunning for big growth. And therefore, if you look at FY '17 versus FY '16 as a full year, and you look at the margin expansion.

Rakesh Jhunjhunwala: So these are margin expansions?

C.K. Venkataraman: Yeah, there is a one point, nearly a 130 bps margin expansion.

Rakesh Jhunjhunwala: No, the net margin expansion, I have caught at 54%, 55 basis points. 9.1 to 9.64. Anyway, and you know how, you're initially were very, very aggressive, sir, how is your wedding, there are lot of weddings in this quarter?

C.K. Venkataraman: It's 9.2 to 10.4, Rakesh.

Rakesh Jhunjhunwala: It is my mistake.

C.K. Venkataraman: It's 120 bps. I don't know whether….

Rakesh Jhunjhunwala: There is an expansion, that's important. I mean, substantial. So, another question I have is, are there lot of weddings in this quarter?

C.K. Venkataraman: Yes, this is a strong wedding quarter post April 15th and we are seeing those wedding happen. And it will help both watches and jewellery as well.

Rakesh Jhunjhunwala: And are you capturing market share even in the wedding business?

C.K. Venkataraman: Yeah. Actually we are seeing many people, you remember, you also spoke to me, I think last Diwali about some of the people in your own circle starting to look more seriously at Tanishq.

Rakesh Jhunjhunwala: Yeah, yeah, very much so.

C.K. Venkataraman: Correct. So we're now seeing a lot of people earlier we used to have new customers buying at ticket sizes, which were some maybe 20%, 30% lower than current customers. But today we are seeing the ticket sizes of new customers neck to neck with ticket size of current customers. So we are getting people first time buying a 5 lakh, first time buying a 10 lakh with Tanishq.

Rakesh Jhunjhunwala: Yeah, I find a lot of ladies in my circle who have follow a close mind to Tanishq, but once they go there and then they become substantial customer, that's the habit. Sir, collections are very successful I must say, any way thank you.

Moderator: Thank you. The next question is from the line of Ambnish Agarwal from Prabhudas Lilladher. Please go ahead.

Ambnish Agarwal: Yeah, hi sir, I have a couple of questions. My first question is regarding the subsidiaries, we have made a 25 crores profit in our precision engineering business, can you share with us the numbers of Caratlane or how much profit or loss, which has happened there?

C.K. Venkataraman: It is not a 25 crore profit, it's a 25 crore swing. Profit is lower, the subsidiary results will be published when we give the Annual Report. At this point, I would not want to –

Bhaskar Bhat: They are not profits in any case.

C.K. Venkataraman: Caratlane is not profitable, TEAL I suppose is profitable, Precision Engineering is profitable. The Favre Leuba and Caratlane obviously are not profitable at this stage. TEAL is a profitable venture. Small profit.

Ambnish Agarwal: Okay. So my second question is that, can you share with us that how many of the Tanishq stores, they are on a franchisee basis out of the total? And how many of the stores closures have been happening? Are there any store closures or most of the stores reopened, we have not been closing any of the stores….

Subbu Subramaniam: About 150 to 160 roughly is the number of franchise stores of Tanishq. And we will be adding about 25 of Gold Plus converted to Tanishq soon. So that's broadly the picture and about 50 odd company stores therefore. We are not into closing, closing is very, very rare.

Ambnish Agarwal: Okay. So in the current year we have not closed any of the stores?

Subbu Subramaniam: Some one or two Gold Plus we have closed, but that is one or two, I think the store closed one in Nashik or something like that. I mean, it's too small, that's the point I am making. There may be one or two, but it's just an academic point.

Ambnish Agarwal: Okay. Sir, you a few minutes back said that, today's rate of say 4% of GST which is expected is quite comforting. Now say the GST rate is 4%, do you think that denying your tax rates they will put pressure on the unorganized sector and the shift towards the organized will accelerate?

C.K. Venkataraman: Yes.

Ambnish Agarwal: So can you elaborate a little bit more on this?

C.K. Venkataraman: No, the impact of demonetization helped us over the last four months, post November. Actually five months now. So we see the benefit very clearly there. And therefore this shift is towards organized trade. And GST is something, which we believe is going to be very difficult for the unorganized sector to not pay their taxes, they have to comply. And therefore we believe –

Bhaskar Bhat: So the government's drive on enforcing collection, we feel is going to be much more, and that is a big difference that we see.

Moderator: Thank you. Next we have a follow-up question from the line of Avi Mehta from India Infoline Finance Limited. Please go ahead.

Avi Mehta: Hello. Yeah, sir just an academic kind of, just understanding the fourth quarter kind of sales growth if that kind of continue, that's the absolute sales number, that's a very healthy kind of trajectory even for the first half. Is there any seasonality that we are likely to see because my understanding is, we are seeing very good and this is higher amount of wedding deals coming even in the first quarter as well. So would it be fair to do this comparison or is there a flaw that I have done?

C.K. Venkataraman: There are two things which we have to significantly correct for the quarter four sales for jewellery. One is the fact that, we had an activation, it's a point that I mentioned earlier. The second is, last year March was a very depressed month because of the strike in the industry.

Avi Mehta: Sir, but I am taking absolute number, I am not talking growth, I am talking about absolute sale. I understand the activation point –

C.K. Venkataraman: So absolute sales you have to subtract, the absolute sales of last year, the activation being -- you're talking about the absolute sale of Q4.

Avi Mehta: Yes sir. And I'll remove the activation, I mean, obviously there is an assumption here. But that would give me a sense on the likely trajectory that I can build in from a quarterly perspective, what could be the flaw in such exercise is what I am just trying to understand?

C.K. Venkataraman: You have to actually build it and then see if there is a flaw. I mean, conceptually there is no flaw. But, you know.

Avi Mehta: So because the growth rate kind of comes at 25%, 30% which is much stronger –

C.K. Venkataraman: Whenever if that happens.

Moderator: Thank you. Next we have a follow-up question from the line of Rakesh Jhunjhunwala from Rare Enterprises.

Rakesh Jhunjhunwala: Sir, today the government has already said that the GST rates are going to be aligned with what the rates are prevalent today. Then today the prevalent rates are between 2% and 2.5%, 1% excise, and 1% to 1.5% sales tax.

C.K. Venkataraman: Correct.

Rakesh Jhunjhunwala: So why do you think 4% is a good rate? You should say, why should the rate is more than 2.5%. It's a government policy they have announced. Again and again Mr. Jaitley is saying that they will align the rate as far as possible to the exiting rate, then why we as an industry to say 4% is fine?

Subbu Subramaniam: I think they have some standard rates, obviously –

C.K. Venkataraman: The industry has been representing. We are just a lone voice here, the industry has been representing very hard to keep it like that.

Rakesh Jhunjhunwala: No, sir, on a public call, you say 4% is available it will be loan to the government, is the largest jewellery in that condition, 4% is fine.

C.K. Venkataraman: If I take somebody like Arvind Subramanian, who is also part of the government. I mean, if you go by word, he is saying, it should some 18% and 25%.

Rakesh Jhunjhunwala: Sir, he is not the person who decides the final, Ministers are going to decide. And what Mr. Jaitley said is more important because they don't want any inflation because of that, and a lot of confusion in real estate prices after that. He is again and again reiterating that rising on the rates of past, we will have rates that are going to be aligned with the present rate. I think we should say anything more than -- I say, whatever is put, our stand should be anything more than 2.5% is not acceptable. I mean yourself you are saying that you want the rise in present rate. And gentlemen what is the VAT…

Subbu Subramaniam: I think, Rakesh, we may not say that 4% is a good rate or a bad rate, but to say anything above 2.5% is not good, is also, is being, I mean, I think there is a certain logic to having 4, 12, 18, 28. And therefore I think if it is 4, we should be happy, maybe your point about, publically stating that 4% is a good rate, I can understand.

C.K. Venkataraman: We didn't say it was a good rate.

Subbu Subramaniam: We didn't say, a good rate, it is a reasonableness to it.

C.K. Venkataraman: Yeah, it was a response to how will it affect Tanishq.

Subbu Subramaniam: Yeah. No, also the fact that, there is, it is low, is good, and that it is going to be implemented is going to benefit Tanishq quite significantly. Finally as a citizen of India, in $40 billion, 4 is a good number.

Rakesh Jhunjhunwala: Fine. I'm also a citizen of India, don't worry. Second thing is that, what is your effective rate on watches today?

C.K. Venkataraman: We, so you know, on the same point Rakesh, what the government has said is that, whatever is the prevalent rate today and they have defined those slabs, so wherever, whichever is closest to that..

Rakesh Jhunjhunwala: So, what is the rate of watches, today?

C.K. Venkataraman: I think current this thing works out about 22, 23 if excise is paid. Yeah, we make a lot of watches in the excise free zone.

Rakesh Jhunjhunwala: No, that is not relevant to us know. So, the excise is beneficially available to us until the government has assured it, they can't withdraw it.

Bhaskar Bhat: Yeah, yeah. That is a different point, but the GST rate there's an abatement of 30% on the UCP and that, therefore it should come down. And our expectations are, is that, it should be 18. But..

[00:48:14]Management: But with the abatement also, it works out to pretty close to 22%.

Rakesh Jhunjhunwala: No, another thing also which I don't understand is, under GST you will get lot of reductions that you don't get under excise and VAT because lot of services, which are excise –

C.K. Venkataraman: Yes, you are right.

Rakesh Jhunjhunwala: Is the effect of that because that is the real effective rate that will come.

C.K. Venkataraman: That's right.

Rakesh Jhunjhunwala: Because we'll have to pay the VAT only on the value added know?

C.K. Venkataraman: Yes.

Rakesh Jhunjhunwala: I don't know, I think you must have worked it out or need to work it out. Because the rate, effective rate was not only a rate they tell us. It is the rate after the deductions allowed or to be added, which were not allowed under the earlier law.

Subbu Subramaniam: Yeah, we are fully into it actually on this.

Rakesh Jhunjhunwala: I hope you add those because we have a 19.

C.K. Venkataraman: Have a 19?

Rakesh Jhunjhunwala: Yeah, for a company like Titan, such a good ERP, it is not very complicated here. Anyway that's what we hope.

C.K. Venkataraman: Sure.

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

Kunal Vora: Like you would have added about like around eight stores for Tanishq this quarter and would most of these be franchisee stores? And what would be the impact of these stores on your sales for the quarter?

C.K. Venkataraman: Very small and I think all are franchise stores.

Kunal Vora: All are franchise stores? Okay, okay. And can you share your thoughts on how the online jewellery segment is shaping up and how you are approaching the same? What is the contribution from online including Caratlane? And how are the e-commerce guys Amazon, Flipkart etc. doing on jewellery sales?

C.K. Venkataraman: The contribution of online to the Titan company standalone is very, very small, in fact insignificant. And we expect that to continue even as we expect the role of digital influence could dramatically increase. We're investing substantially in increasing the digital influence over the next 12 months to 18 months. Caratlane of course is a large contributor, but like, Subbu said, the figures will be shared as an appropriate date in the future. I don't think Amazon and Myntra and Flipkart are doing anywhere well on fine jewellery because fine jewellery is yet to pick up traction other than in verticals like Caratlane.

Kunal Vora: Sure. And do we see online becoming meaningful in next two, three years? Can it go to double-digit, where do you see it?

C.K. Venkataraman: For Titan Company, no.

Subbu Subramaniam: Double digit, what?

Kunal Vora: Of sales, of sales, retail looks three years to five years? No?

C.K. Venkataraman: No.

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

Abhishek Ranganathan: My question pertains to customer growth. I think, it's been quite some time you haven't shared that data, but any update on what the customer growth looks like now. Now that we have a fairly normalized set of operations with Golden Harvest back, we have a comparable base. Where are we on terms of the new customer growth?

C.K. Venkataraman: Customer growth has been decent, Abhishek, starting Q3 itself. And it's going to be one big driver of our growth for FY '18 as well, and we've seen pretty decent growth in April, April over April. And also a pretty decent growth in the share of new customers as well. So those fundamental metrics are very gratifying.

Abhishek Ranganathan: And would it be a part of the future disclosures in terms of -- because this was bad till I think 1Q or 2Q FY '16. And obviously, after the Golden Harvest, I guess, the –

C.K. Venkataraman: We will think about this and come back.

Abhishek Ranganathan: Yeah. The second portion which was pertaining to, is the inventory and you mentioned about growth maintaining EBIT margins. I just wanted to get a sense of the capital employed in this context, considering that we are making investment in high inventory and possibly low turn business of wedding and high diamond wedding jewellery. How does this piece move in the overall objective of our growth ambitions?

C.K. Venkataraman: Our target is to certainly try and maintain the Rashi for FY '18. Maintain EBIT and maintain Rashi which means that the overall net capital turn, we would like to deliver in this at the same rate as FY '17. So if we deliver the net capital turn at the same rate by a mix of things, more Golden Harvest collections, more gold on lease, more vendor credits and all that. And therefore, even though the asset turn may drop, the net capital turn will maintain and deliver the Rashi.

Abhishek Ranganathan: Understood. And lastly the Golden Harvest, where are we in terms of our contribution for this year and what are the collections which are outstanding at the end of the year?

C.K. Venkataraman: 700 odd crores is the cash with us. And I think it was 14% of revenue last year. And we achieved our target for the year in terms of the share of business.

Abhishek Ranganathan: If I can squeeze one last question, is on gross margins. Will we see structurally lower margins going ahead given a higher wedding jewellery share just for gross margin perspective in this business. And it will be lower in the seasons where we will have a higher wedding jewellery, is that the right way to look at this?

C.K. Venkataraman: Wedding jewellery by itself will be relatively lower gross margin than comparable gold jewellery. But we are also pushing the high value diamond jewellery business for our growth, which is higher margin than, in a wedding jewellery. So, there are two things, one is the gross margin itself, other is the leverage that will come through the sales growth that we are targeting. So through a combination of, one is an offsetting aspect of a greater growth in higher value diamond jewellery, hopefully compensating for a greater growth in a low margin wedding jewellery and the other is the leverage on the EBIT margin side coming from a sales growth. So we want to deliver at least the same EBIT in FY '18 as FY '17.

Abhishek Ranganathan: And lastly, you mentioned one part that you have launched a collection every quarter and also mentioned the fact that getting it right the first time. In your experience, what has been the hit rate over the last eight quarters of these collections? How would you rank them or maybe assess them?

Bhaskar Bhat: Improving hit rate.

C.K. Venkataraman: Very good, Abhishek. Actually, very, very satisfied with it.

Abhishek Ranganathan: So would you say that all eight collections would have been on par in the same sense, even in terms of performance or would you say that, four out of eight or six out of eight.

C.K. Venkataraman: No, no, it's actually eight out of eight.

Moderator: Thank you. The next question is from the line of Akshay Mehta who is an Individual Investor. Please go ahead.

Akshay Mehta: Sir just wanted to know, are there any plans for expansion in the Skinn portfolio? Especially when there are certain companies like **(Inaudible) 56:38** company who are making inroads in men's grooming section.

Bhaskar Bhat: No, actually we are entering into some, body mist kind of spaces, but currently the business is small, we are still establishing the brand in the fragrances space, and in body mist, that's all. No, there are no plans to go beyond -- be it at least for the current year. Men's grooming, no.

Akshay Mehta: Sir, is there any plans to get into smart wearables or are we just going to restrict us to smart watches?

Bhaskar Bhat: No, wearables is a space we are exploring. But maybe Ravi, you can answer.

S. Ravi Kant: Yeah, there are actually, you know, 80% of the wearables worldwide are wrist wearables, and the latest launch that we have, you know, we just got in the market is the launch of Fastrack Reflex, which is more of a fitness band than watch really. For the coming years there are many other wearables we are working on, which will probably go even beyond the wrist. But that is a while away.

Moderator: Thank you very much. That was the last question. As there are no further questions from the participants, I now hand the conference over to Mr. Subramaniam for closing comments.

Subbu Subramaniam: Yeah, thank you very much for the participation.

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.