Titan Company Ltd

3QFY15 Earnings Conference Call

MANAGEMENT:

Mr. Bhaskar Bhat	: Managing Director
Mr. S. Subramaniam	: Chief Financial Officer
Mr. C.K. Venkataraman	: CEO – Jewellery Division
Mr. H.G. Raghunath	: CEO – Watches & Accessories Division
Mr. S. Ravi Kant	: CEO – Eyewear Division

Mr. Nikhil Gholani	: Head – Institutional Equities, Tata Securities Limited

Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q3 FY'15 earnings conference call, hosted by Tata Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Gholani from Tata Securities. Thank you and over to you Sir!

Nikhil Gholani: Thank you. A very good evening to all of you! On behalf of Tata Securities I would like to welcome all the participants to Q3 FY'15 Earnings call of Titan Company Limited. Today we have with us the whole Seniors Management Team namely Mr. Bhaskar Bhat – the Managing Director, Mr. S. Subramaniam – the CFO, Mr. C.K.Venkataraman, he is the CEO of Jewelry Division, Mr. Raghunath, the CEO of Watches and Accessories Division and Mr. Ravi Kant, the CEO of Eyewear division. We will start with the brief opening remarks from Mr. Bhaskar Bhat followed by the highlights of the results from Mr. S. Subramaniam post which we will open the floor for Q&A. Over to you Sir!

S. Subramaniam: Good evening to all of you. My apologies for starting this a little late. We had a very packed day today and Bhaskar will join us in a few minutes. He is stuck in another meeting. So this is Subramaniam here. I just start off with the performance and as is normally done, I take you through the highlights of the performance of Q3.

We go to the background where we talked about improved customer sentiment; however, that is not actually translating to much higher spends. There has been the change in earlier announcement as far as the 80-20 rule is concerned for gold import but there is still no clarity on credit and as of now, the customs authorities are not allowing shipments to come in on credit basis for domestic consumption. This is the reality as we speak today.

The gold prices have declined over the quarter. It is about 6% lower on an average for the quarter. We have continued with our retail network expansion, about 36 stores have been added and year-to-date we have added more than a 100,000 square feet, about 94 stores in all the three formats.

In terms of new product launches we had the Skeletal Edge O2, which is the slimmest and the lightest Titanium Watch in the world. Sonata came out with the SF smart sport collection, Tanishq launched its Farah Khan collection, the Eyeplus division came out with Enigma collection for women and the Adreno collection for sporty frames for men. There were the Fastrack Slims collections for ultra slim light weight sunglasses and then of course there was Raga which came out with Garden of Eden collections, which is very popular. On the e-commerce side, we started offering international shipping for some of our Jewelry products.

I am taking you to the next slide on retail growth. It has been a poor quarter as far as some of our divisions are concerned. For example 'World of Titan' was at 0%, like-to-like was -3%; Tanishq was -4%, like-to-like -8%; but GoldPlus did very well 30% growth, so South effectively did very well.

Helios with -3% on its sales overall growth, Fastrack they are 3% , LF is 2% but Titan Eye + is 22% growth with a like-to-like at around 9%.

Overall for the company performance we grew 9.4% to Rs 2,898 Crores revenue and ended up with the profit of a PBT of 243 Crores which was a growth of 6.5%; however, the PAT growth was much higher 15.2% because we reworked our income tax rate based on the benefit that we are getting from Jewelry from the Pantnagar plant and it is expected that the benefit that is going to be significantly higher than we initially thought at the beginning of the year and therefore we re-calibrated the tax rate and as you might see it is about 21.5% for the quarter and that is why the PAT has grown up by 15.2% to 191 Crores.

Some of the points to note are that the sales growth of 9.4% was despite the Golden Harvest Scheme not contributing to any revenue during the quarter. As you all know, we stopped scheme in the last quarter and while we restarted the scheme you are not going to get revenues for at least couple of quarters from the Golden Harvest Scheme, something which was contributing around 30% of our revenue. PBT margin declined marginally to 8.4% because of slightly lower margins in the Jewelry business and that because we haven’t got the full benefit for the hedging which will come in entirely in Q4.

I talked about the lower tax rate and on YTD performance. We have grown 16% to Rs 9,317 Crores. We basically offset the lower growth number in Q1 with assured redemption of GHS in Q2, so managed to grow 16%, the PBT growth was about 9% at Rs 804 Crores and PAT has gone up by 13.7% to Rs 608 Crores. The Watch division had a tough quarter. It declined in revenue by 1.9% and profits were even lower by about 9.2%. The festival season was dull and I think while we go through it, Raghu will explain to you how the season went. The revenue drop was contained due to higher prices, so volume growth was an issue with a decline of 4%, but higher prices ensured that the growth was negative by 1.9%.

PBIT margin declined to 9.7% purely due to operating leverage. But on a year-to-date performance the growth has still been 9.4% at Rs 1,410 Crores then PBIT growth has been 22%, so that has been quite impressive and overall margins have also been quite impressive at 11.2% though in the current quarter, it has fallen as I said largely because of the operating leverage.

Jewelry grew 11% despite not having the Golden Harvest Scheme. The sales growth excluding coins, of course this quarter we had coins and we did not have the same in the last year, so without coins it was 3% growth. Customer growth was impressive at 8%, grammage grew 25%, studded share was close to the last year levels at 26% and the growth in that category alone was 4% and as I mentioned, only part of the hedging benefits came in this year effectively it was in December and the next three months I think we should get the balance of the hedging gains.

On YTD basis the growth was 17.4% at Rs 7,602 Crores and PBIT was Rs 712 Crores which is a growth of 14%, so the customer growth was impressive at 19%, share of studded for the year-to-date is 29% as against 26% last year. So we have had a higher studded margin and in this quarter with the activation going on one expects the overall studded share to be higher than this.

GC margin last year was higher largely because of the custom gain that we got last year which we have not got this year. Grammage growth was still impressive at 13% for the year-to-date. On the other segments, Eyewear continues to do very well 22% growth, Precision Engineering grew by 23%, so overall growth in the other segment was 14.8%. The profit of course was a breakeven because it is a combination of Eyewear, Precision Engineering and other corporate costs, it was a breakeven at zero better than what it was last year of course and overall for the year the growth has been 12.9% with the sales of close to Rs 400 Crores with Eyewear growing at 26% and Precision Engineering of course is slow. This is because some of the orders for the machine building have got pushed up to the next quarter essentially delay from customers in taking delivery of equipment which are ready.

Capital employed was about Rs 3,361 Crores, you can see it is comparing with last year now because a lot of things have been corrected in the sense the golden lease is back to some extent but the Golden Harvest Scheme is pretty much gone, so there has been some balancing act from that. And the numbers as per management are there in the presentation for you to see. These are not very significantly different from the numbers which are in the published report.

So with that I think, I would close the opening part. We leave the floor open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir my first question is if I see Watch and Eyewear segment in both the segments YTD growth is better than the Q3 and in your opening remarks you said consumer sentiments have improved but those need to translate into better spends. Sir my question is if you could explain pricing and impact of the online sales have they also been a very big issue in Q3 and would not they continue at least for the next few quarters as a big problem?

S. Subramaniam: Let me just clarify one thing before Raghu takes on that question directly which is on the improved customer sentiment, what we meant was not specific to Q3, we talked about the sentiment post the new government in position so that is what we talked about but we are also saying that we have not seen a significant shift in spends despite this customer sentiment. So I just want to preface that.

H.G.Raghunath: On the e-commerce bit, while the country knows what happened on those two days when the online sites registered record sale of millions of Rupees, what actually did not work in our favour in the watch business is the poor sentiment during Dussehra, Diwali in consumer purchases. Normally most consumer products look forward to Dussehra Diwali, there was a decline compared to last Dussehra, Diwali and actually that resulted majorly in our Q3 dipped performance, otherwise no other reason explained. Of course the Flipkart sale etc., would have drawn out many walk-ins to our consumers but the biggest thing was the consumer not willing to spiritedly purchase during Dussehra and Diwali.

Ravi Kant: Abneesh your observation is right. I think Q3 was a bit of a slowdown compared to the first two quarters which is why you are seeing a 22% growth in Q3 and cumulative end of the year, so it is a combination of a bit of a slowdown as well as the last quarter, on the same quarter last year was very good for Eyewear so therefore 22% itself is good enough, but yes Q3 was not as good as the second quarter.

Abneesh Roy: Sir just on the follow up on the Eyewear business, you are saying a Flipkart also had an issue but not the main issue, Sir the Dussehra Diwali which you are saying those are being told by the other consumer goods companies also that this time it was a bit of dampener so what are you getting, why it is a dampener in spite of most of the headline numbers in terms of inflation, growth etc., improving, was it also because of the preponement this time versus last year was that also an issue or largely it is unexplained why in spite of better sentiment better overall headline numbers, it is not translating to sales?

S. Subramaniam: Abneesh, is it specific for Eyewear or Watches on this, is it for watches?

Abneesh Roy: For watches and further follow up, so you are saying online retail was because it was a minor issue going ahead it will not be impacting that much are you saying like that also?

H.G.Raghunath: I am not saying on line is a minor issue, what I had talked, the online sales we also sell on Flipkart and Myntra. For our watches we did not see a major, major increase in the sale during the festival season. This is also supported by the poor sentiment of the consumer purchase behavior during Dussehra Diwali. Of course such a big sale on online would have drawn away many walk-in to our showrooms but I am saying that the major point is consumer purchase behavior dipped compared to last year and therefore vis-à-vis last year you saw a decline. Having said that, online as we go forward we don't ignore it at all, we need to develop a strategy to balance our business between brick and mortar on online, we are very clear and we are trying out strategy to balance our business in both the sense.

Abneesh Roy: Sir last time you had shared the online sales for your own business. Can you share it for this quarter also?

S. Subramaniam: We have not shared it.

H.G.Raghunath: It is a very small percentage of our total sales, but growing.

S. Subramaniam: It is in the low single digit. That is what it is.

Abneesh Roy: Sir my last question is on the Jewelry business. It was a reasonably good quarter against lack of Golden Harvest Scheme etc., Sir my question is you said Pantnagar is proving to be a better than expectation so if you could explain why it is better, have we shifted from production there and are we re-evaluating GoldPlus?

S. Subramaniam: On the Pantnagar part, let me just explain on the tax part. What happens is that products which are manufactured there and sold are entitled to the tax benefits, so we have shifted quite a lot of production into Pantnagar and what I meant by our own estimate earlier the year we expected to do a certain quantity, we ended up doing more, so particularly if it is more of a studded jewelry the margin will be higher, so that was part on the Pantnagar plant.

Abneesh Roy: Are we revaluating our expansion into GoldPlus last two quarters it has done well on a low base but why do we stand on GoldPlus in terms of expansion?

C.K. Venkataraman: See we want to establish the profit model of GoldPlus systematically which is I would say we have some clarity on when we are likely to hit it, but we would look at the expansion only when we are close to hit it. Right now the emphasis is on building the brand and you know building the customer franchise and it is happening quite well. In fact in Q3, GoldPlus has done exceedingly well and all the proof of that brand strength is visible, I mean the plan is currently not on.

Abneesh Roy: Sir one last follow up, tax rate are you quantifying how we should build in the model 22% was this quarter?

S. Subramaniam: I would not give you guidance but broadly you can understand that when we corrected it, it means that for the rest of the year we are sort of averaging out between this quarter and the next quarter.

Abneesh Roy: FY 2015 okay, broadly?

S. Subramaniam: FY 2016 I am not giving you a number, it depends again on what our production is going to be from Pantnagar.

Abneesh Roy: Thanks and all the best.

Moderator: Thank you. Our next question is from the line of Avi Mehta. Please go ahead.

Avi Mehta: Congratulations for the result. Just wanted to understand what is the secondary level sales growth in the jewelry business?

C.K. Venkataraman: For the Tanishq brand we had a marginal decline in Q3 and for GoldPlus we had a pretty handsome growth in excess of 25%.

Avi Mehta: Sir would you be able to give an overall number Sir?

C.K. Venkataraman: Weighted would probably be flat.

Avi Mehta: Secondary sales growth was flat?

C.K. Venkataraman: Flat for the division.

Avi Mehta: Sir the hedging gains in the quarter, how much was that in that over what period was that visible?

C.K. Venkataraman: Which hedging you are referring to, the forward hedging internationally?

Avi Mehta: Yes Sir.

C.K. Venkataraman: We are yet to see.

Avi Mehta: Sir just one last question on the Watch segment. You said that there has been a sudden drop in, are you seeing its more in e-commerce competition because you already have brands on these chunk so is it more to do with other brands being offered at a higher discount and we have not been able to match that, was that an issue or if you could explain that Sir?

H.G. Raghunath: In our understanding from our study, the watch category did not really rise up to double digit growth during this season therefore it is not Titan alone which suffered decline, Number 1. Number 2, in the e-commerce, we continue to sell our brand through Flipkart and Myntra but those watches sell regularly but that is a very, very small portion of our total business but growing, but it was mainly the consumer purchase behavior which had a poorer sentiment, it was not a normal Dussehra-Diwali purchases.

Avi Mehta: So but your Q2 was such a good growth from there that level Q1 and Q2 quarter growth rates only in last four quarters we have seen double digit almost?

H.G.Raghunath: Q1 and Q2 we had the activation, we had the wedding season, we had launch of many products, even in Q3 we had some brilliant products launch, therefore the decline was minimized because of this good products, but as we go to the Q4 we are seeing positive things again.

Avi Mehta: So would we be able to call out anything on the demand for the Q4, how you in are initial signs and both in Jewelry and Watch? That is all from my side.

H.G.Raghunath: We will put our effort to ensure growth but I am not able to really quantify anything.

Avi Mehta: Sir need not quantify but are you seeing any pickup, are you seeing any signs from the level that you have seen in Q2 in the Watch or in the Jewelry segment, any kind of qualitative commentary?

H.G. Raghunath: As you know this is the last quarter we will go all out.

Avi Mehta: Thanks. That is all from my side.

Moderator: Our next question is from the line of Amit Sachdeva. Please go ahead.

Amit Sachdeva: Good evening Sir. Thank you for the opportunity. Sir my first question in Jewelry growth which is obviously looks like led by GoldPlus this quarter. Can you suggest that how this quarter looks like in terms of demand and you know and if you could strip out the growth rate excluding Golden Harvest like-to-like what it could be and do you see at least the demand environment being at least bottoming out this quarter and you hope to see a better number or better sort of environment going forward in the next quarter how the studded promotion looks like to you visible, last year the promotion Q2 and last year. There is some reflection on the demand environment would be very useful and then I will come back to a bit of margin.

C.K. Venkataraman: If I go to the Q3 growth of Tanishq, it was -4% and taking a ballpark of 30% or a contribution of Golden Harvest scheme sale, last year's 100 became 96 and that 100 would have been 70 last year without the Golden Harvest and 70 became 96, so if you look at the underlying demand improvement and that is an indication of that. Only thing is it doesn't help us, for a while because Golden Harvest is now also a part of sales and therefore in Q4, I will have the impact of that, in Q1 I will continue to have the impact of that, that is all, so whatever it is worth somehow mood change point of view that's an indicator.

Amit Sachdeva: Sir part of it was obviously driven by Gold Plus which is usually has been?

C.K. Venkataraman: I am talking about Tanishq.

Amit Sachdeva: Only Tanishq.

C.K. Venkataraman: Tanishq was -4, so 100 was 96 and 70 stripped of golden harvest, so 70 became 96, that's the Tanishq part of it. We also did a lot of work to gain new customers by making the whole Diwali campaign was about how the young man could buy his mother a Tanishq product with his salary and that was the campaign and so it brought us even in this minus 4 we had a good customer growth, we had a plus six customer growth. So that is because of that push ticket size has fell and therefore despite that the sales value was still a dip.

Amit Sachdeva: Sir is there some early indication of how the new studded promotion is growing this quarter like at we have a market now?

C.K. Venkataraman: Little inconsistent so we are letting some more days pass before we conclude anything. We have seen for 14 days now, see-sawing, so it is little unpredictable at the moment.

Amit Sachdeva: So do you see this kind of growth rate continuing in GoldPlus or was it more like a one off and then there is a reason I am asking is how the mix is going to evolve for the sale?

C.K. Venkataraman: See we grew 30% in Q3, grew exceptionally in Q2, we are certainly expecting a very good growth rate to continue in GoldPlus perhaps not 30% but we are certainly betting on 20% plus for the next quarter.

Amit Sachdeva: Sir in terms of very quickly on margins, margins obviously 9.6% looks weaker perhaps because GoldPlus as well and certainly the hedging gains are coming to the Q4 so we should then hope that the Q4 would have bit of more margin tailwind than Q3 actually had, because Golden Harvest also had an implicit discount which actually is not reflecting in some way maybe it was offset by the mix?

C.K. Venkataraman: On the gross margin side yes, but on the EBIT apparently sales also will have to pan out for the EBIT margin to get the benefit of the gross margin expansion, on the gross margin next year.

Amit Sachdeva: So perhaps Q4 should see the benefit of everything than coming more pronounced in this quarter?

C.K. Venkataraman: No like I said on the gross margin side yes.

Amit Sachdeva: Thank you very much.

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

Prasad Deshmukh: Sir first question is on the deposits that you would have procured in the new installments scheme so would you be able to quantify the number?

C.K. Venkataraman: No it just that it will take some time for us to hit certain momentum because we lost it for many months, we went off the scheme in April and came back in November, so we taking some time to hit the momentum. At the moment, we are not in a position to share.

Prasad Deshmukh: Second question is on the number of Tanishq stores, on one slide says 172 stores including 3 Zoya stores and last quarter I think the number was 170 stores including 3 Zoya stores so has there been any closure of any Tanishq stores, Sir?

C.K. Venkataraman: We have relocated a few stores in the year, no Tanishq store has been closed.

S. Subramaniam: It could only be relocation. It is not that they have closed.

C.K. Venkataraman: While I am not able to immediately reconcile the point that you are making in terms of numbers, but we have not closed any.

Prasad Deshmukh: I will take this offline, but this is regarding the slide 13. One last question; would you have a number of the market share that Swiss Watches have in the Indian context?

H.G.Raghunath: No, it is not. The metric is not market share, Prasad. It is in the high-end space, which is growing, some of the brands of Swatch group enjoy a good dominance. For example, the high end market is estimated to be growing at 25% per year. In this, probably 60% would be contributed by the Swatch group of brands is one estimate that is available. In fact most popular brands are those, otherwise Tag Heuer.

Prasad Deshmukh: So with appreciation of Swiss Franc does this mean that the domestic players have a benefit in this segment?

H.G.Raghunath: I am not able to speak on behalf of the industry, but the import will become expensive.

Prasad Deshmukh: Okay, just one last how did you define high end, what is the price?

H.G.Raghunath: High end, I am talking about high end is starting from Rs.25,000 to Rs.1,00,000 is one part of the high end and Rs.1,25,000 to Rs.4,00,000 is another part, both are growing.

Prasad Deshmukh: Thanks a lot.

Moderator: Next question is from the line of Bhavesh Shah. Please go ahead.

Vivek: Good evening. This is Vivek. First can you give some quick fine prints of the new Golden Harvest Scheme please?

C.K. Venkataraman: What do you mean specifically?

Vivek: See what is the period, what is the implied, so earlier we had 11+1 installment, now how is the new scheme going to be like and at what level it will be capped based on the Company's Act?

C.K. Venkataraman: Shall I mail to this to you Vivek, because, cap is 25% we have 6 months and 10 months scheme with imputed return is 12%.

Vivek: This is six months and 10 months scheme?

S. Subramaniam: Yes, it is 12% per annum irrespective of the duration.

Vivek: I will separately ask for this one, and another very basic question your Tanishq sales that you have given is -4 and GoldPlus is +30 but overall sales are up by 11% so what am I missing is it ex of sales?

C.K. Venkataraman: No, L3s are buy and sell, so -4 is total retail sales of all those three channels, which means customer purchase over customer purchase of the period whereas what we report is our net sales value is our sale out so the L3s will buy from us, so their sales have declined but their purchases have increased and this will be related to the shift in the seasons, September 30, last year how much they bought versus in the first week of October, plus there would also be some new stores added in Q3 for this year versus last year and all, so that's the difference between our sales to our people who buy from us and our sales directly to customers.

S. Subramaniam: Secondly the rates which are there in the retail what we call UCP that is the consumer price whereas we see net sales value, net of payouts etc., so they would also get difference in that also, the growth…

C.K. Venkataraman: The primary reason is the first part, which is the buy and sell part.

Vivek: Okay got it, and one small bit your press release says lack of clarity on credits still continues so which essentially means gold on lease, right?

S. Subramaniam: That is right, yes.

Vivek: What would you prefer sir, going ahead this gold on lease comes back in a full manner than between gold on lease versus hedging which one is more beneficial to Titan?

S. Subramaniam: Gold on lease, any day.

Vivek: Gold on lease, so those hedging gain instead of that you would have a lower asset…

S. Subramaniam: No lower interest cost as well, because gold on lease rates are much lower, they are the same, natural hedge, good balance sheet, P&L, no fluctuations in margins all that.

Vivek: So when do you expect that will come about…?

S. Subramaniam: We do not know.

Vivek: Thanks a lot.

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

Nilai Shah: Sir the first question is on the gold premiums during the quarter they obviously had come off, is there any impact on the P&L account on that?

S. Subramaniam: No, this quarter we did not have much of a hit on that at all, in fact hardly any.

Nilai Shah: The gold price declined for the quarter as, I see these spot prices on MCX was over 12% but you have called on about 6%?

S. Subramaniam: This is the average as we speak for us.

Nilai Shah: Is there any difference between the rates which you are procuring versus the spot prices, is there any reason for that rate being different?

S. Subramaniam: No it also makes a difference on the mix and so and so forth, so I can maybe take this off-line.

Nilai Shah: Coming to the E-commerce strategy, it is discussed for watches but on the Jewelry part what is the e-commerce strategy, I see you have launched the website etc., but is this just another channel for you to sell or are we serious about building a long term e-commerce play for jewelry also?

C.K. Venkataraman: Actually it will in our view pan out in multiple ways, if I were to call it digital rather than e-commerce, we certainly have multiple ways of engaging the customers through digital, not all of which may translate into sale through e-commerce. For example development of the wedding business is already happening through the digital world, the customers can come and actually make an appointment at a particular store after looking at all designs that we have to offer and then they go forward and make a actual visit to the store and the sales takes off from there, that is not e-commerce but it is very much in the digital space. So we invest in overall what is being referred to as omni channel strategy is the way the company is looking at across formats, businesses. In jewelry, for a category like working women wear like Mia, digital and e-commerce will play a much bigger role than for traditional categories like wedding or a high value.

Nilai Shah: So and across all channels the managers handling the e-commerce bit will be same as the category heads?

C.K. Venkataraman: No we have an integrated approach to e-commerce, we have a central e-commerce team which liaises with the business division and then works with a unified approach.

Nilai Shah: Sir the question is to you, in terms of next quarter when the hedging gains do come through, can you guide us to what impact on margins potentially could be in an environment based on what the hedging spread at this point of time?

S. Subramaniam: Well, I would not be able to give you a number because it is also when you talk about gross margins it also depends on what our sales are going to be and what is our studded share going to be as far as the jewelry division is concerned, so I think it is a combination of the two but what I can may be tell you is about 75% or so of the hedging gains of that we were supposed to have are effectively only 25% was accounted for in Q3, the balance will come out in this quarter.

Nilai Shah: Thank you very much.

Moderator: Next question is from Akshit Gandhi from Aviva Life Insurance. Please go ahead.

Akshit Gandhi: Two three housekeeping questions. You have indicated that the grammage growth excluding coins around 11%, does that include the grammage sales of the Golden Harvest Schemes also in the denominator?

S. Subramaniam: That is actual sale what I meant was, we have not knocked off the Golden Harvest.

Akshit Gandhi: Second also if I could know what are your debt levels currently and the cash levels?

S. Subramaniam: You know, we do not give the balance sheet but we are net cash positive.

Akshit Gandhi: So going forward if I understand correctly, if the gold on lease does not come then the debt will keep increasing on the balance sheet right?

S. Subramaniam: Let me give you an another thing here, that while gold on lease is not back for domestic sales as yet, we have been able to procure gold on credit from SBI etc., on the gold deposit scheme that is still going on. While I said we are not getting fresh domestic supplies from this, but we are still getting some credit from other sources. That's not entirely cash.

Akshit Gandhi: How much would be that out of our overall gold volume sales?

S. Subramaniam: Well, as of now that procurement has been quite high on the credit side.

Akshit Gandhi: Thank you so much.

Moderator: Our next question is from Abneesh Agarwal from Prabhudas Lilladher. Please go ahead.

Abneesh Agarwal: Sir it is regarding the statement that while 80-20 rule was relaxed, lack of clarity on credit still continues so what do we exactly mean by it and what proportion of our gold procurement is currently funding from gold on lease and what are our targets on that?

S. Subramaniam: Basically what we meant is that there is no clarity for the customs authorities to say that gold on lease is back, therefore all procurements, all domestic shipments I mean imports which are coming in for domestic consumption is only being released against cash, that is the status as of now. There have been discussions which are going on with the Reserve Bank to get clarity that when the curbs are removed, it includes the curb on gold on lease. The clarity has not come from RBI and therefore any fresh purchases for domestic consumption will only be on cash basis.

Abneesh Agarwal: So it means that as of now we are using gold on lease as such?

S. Subramaniam: No, I am not saying that. I just mentioned to the previous question that we are also able to get fortunately some gold from State Bank of India, the deposit scheme, GDS that we are getting gold and that is helping us get some credit.

Abneesh Agarwal: Okay but what could be the proportion of total procurements under gold on lease as of now?

S. Subramaniam: Well, we don't want to talk about that now.

Abneesh Agarwal: Sir secondly if we look at our Jewelry business, in particular where margins have not moved up despite handsome volume increases, is it predominantly because your GoldPlus have grown at a much higher rate and what is actually driving the GoldPlus growth?

C.K. Venkataraman: Q3 certainly the sales growth is only 11%.

Abneesh Agarwal: Yes but it is driven majorly by gold plus because it is of 30%.

C.K. Venkataraman: No, that's it. No I am what is saying, I am just going back to the first part of your observation that despite a handsome increase in sales, the margin has increased not handsomely, it is only 11% and aggravated further by about the second part of the observation which is 30% growth in a low margin brand. These are the two reasons why there is actually…

S. Subramaniam: Plus there is a coin sale this year it was not there last year.

C.K. Venkataraman: So there is EBIT dilution because of, because the gross margin growth is not good enough to cover the cost growth.

Abneesh Agarwal: Sir ad spent in absolute numbers is also gone down by 18% Y-o-Y so any particular reason why we have cut this ad spend because in the first two quarter it was not to that extent it was still up by 3%?

C.K. Venkataraman: Actually there is two factors, one is the judgment that we make on the customers sentiment and therefore the ROI that we expect in the near term and the second is our conviction about the quality of our advertising effectiveness where we just that this kind of an ad maybe we can spend a little less.

Abneesh Agarwal: Thanks.

Moderator: A next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Good evening everyone. Thanks for taking my question. Sir with respect to what you were saying earlier regarding this 11% reported growth in jewelry and you had a -4% in the retail channel for Tanishq and 30% for GoldPlus, I mean how should one look at this evening out, I notice you said something regarding festivals and you know higher L3 sales, what would be the reason for higher L3 sales this time and you know is this going to reverse in the next quarter?

C.K. Venkataraman: You can even out it by actually looking at nine months. What happens is that L3s buy from us and they do not buy from us every day as they sell so there is a certain bunching up of sales that happen and this gets aggravated when the season shifts even marginally. So the primary sale as we call it, which is our sales to customer through L1 and L2 and our sales to L3, that together is our sales. That is what we report and that shifts quarter to quarter depending on their bunching as well as the season shift. So the minute you look at cumulative, especially now, in nine months have passed it gets evened out. On top of that, new L3s that we open every year, there is a certain stock, the stock in trade that we invoice to them which is in addition to the sales that they make to customers. So these are the two aspects. But in a nine month and 12 months cumulative when you look at it actually gets evened out.

Richard Liu: My question was has it already evened out in the nine months or is it that you done some advance shipment in the December quarter?

C.K. Venkataraman: No, it would have evened out in the nine months.

Richard Liu: Thanks. That was useful. One more regarding Watches how would you look at Helios at this point of time, you know growth has been a bit volatile I would think off late and I notice some store closure in this format also if we look at same period last year, if you can give some color on what are thoughts on this at this time?

H.G.Raghunath: Helios in this year particularly the performance has been impressive both growth and the like-to-like sales growth. It is positive. The growth has been in double digit till the Q1 and Q2 but in Q3 like any other stores like any other product category, we saw a dip. The way we look at Helios is as we go into the future, Helios offers world-class shopping experience to consumers who would like to buy international brands at the portfolio that we have and the mystery score audit for Helios suggests that their shopping experience, the transparencies and the Watch display and buying has been an experience of great pleasure. So the future of Helios holds promise, that is the way we look at it, and it is of a very great strategic importance for the Watch division as we go forward into this growing space of the high end price cluster of watch.

Richard Liu: Thanks. Wish you all the best.

Moderator: Next question is from the line of Abhishek Ranganathan from Phillip Capital. Please go ahead.

Abhishek Ranganathan: Good evening. A couple of questions, one you mentioned about GoldPlus growing at 30% and the fact that South India also so wanted to get a sense whether the Tanishq store in South India also did far better than the rest of the country?

C.K. Venkataraman: No, they did not.

Abhishek Ranganathan: So they should perform at peculiar to GoldPlus only?

C.K. Venkataraman: Not peculiar, as the GoldPlus has got a lot more of headroom to grow than Tanishq. Tanishq is a well established brand even in South India and the general impact of Golden Harvest of Q2 affected Tanishq in Q3 in South India as well. Whereas GoldPlus over the last two may be three quarters they have put in a lot of new initiatives to grow. Those are pushing the performance of GoldPlus where it nothing like that behind Tanishq, Tanishq is a stable established brand.

Abhishek Ranganathan: So if you could say that how far are we from optimum performance on GoldPlus and where would you would ideally likely to be and how much time it would take?

C.K. Venkataraman: At least a year.

Abhishek Ranganathan: Another question I have on Jewelry side I think Mr. Subbu particularly said, he mentioned about if the tax rebate on the Pantnagar plant is it more towards the studded jewelry and which means that along with the studded jewelry mix the tax rate would also be changing?

S. Subramaniam: Yes it depends on how much we manufacture at Pantnagar, and therefore if we do more studded jewelry there and we do sell a more studded jewelry overall, our percentage goes up we will benefit more.

Abhishek Ranganathan: For how long do we have this rebate?

S. Subramaniam: Two years for 100%.

Abhishek Ranganathan: Also on the, I think last quarter you mentioned that you had deferred some ad spend on watches for Q3 had it already come in this year?

S. Subramaniam: It has come in.

Abhishek Ranganathan: On the hedging and debt which you particularly mentioned here is that given if we were to use only gold on in the international gold hedging, our debt would over a period of time increase. I mean assuming that there is no more gold on lease and consequently we will get higher interest cost but it will obviously get set off by the hedging gain benefit, so is that what is about reflected in our current quarters interest cost?

S. Subramaniam: Current quarter reflects both, we had some cash purchases, do not forget that. We had some debt as well as of September end our debt balance is quite high but over the quarter it has fallen sharply. Two things, one was the credit that we started getting some of the gold purchases on Gold Deposit Scheme and secondly of course, not much payouts, so the cash that we generated during this quarter allowed us to bring this down. So in terms of overall benefit, cost benefit is not unduly concerned whether gold on lease is there or not, but it makes life much more simpler if gold on lease is there, so that the hedging is natural, the process is simpler and the fluctuations in margin reporting on a quarter on quarter basis is avoided.

Abhishek Ranganathan: Thank you very much.

Moderator: Our next question is from the line of Rajasa K from Jeffreys. Please go ahead.

Rajasa K: Good evening Sir. One question on margins, is there anything which we should consider in terms of excise duty benefits from Pantnagar production in the EBIT margin?

S. Subramaniam: For which business you are asking, for Watches yes, Watches it is already factored in, it is already part of the numbers that we have given.

Rajasa K: How was in the jewelry segment?

C.K. Venkataraman: There is no excise.

Rajasa K: Sir on the Golden Harvest Scheme how would you say if the overall compliance in the industry with regard to the deposit schemes? Would you say that nearly all players are similarly compliant as you are?

C.K. Venkataraman: First of all not all players are companies, many of them are partnerships. In fact I have heard of instances where suddenly a partnership of a group is starting to take deposits and sort of routing it to the other entity on the same group and all that, so I would say the mixed compliance and even those companies I mean I would say for example, some people have created new product lines of very low making charges which are exclusively meant for Golden Harvest customers where the imputed rate of return is actually more than 12%, 15% or 16%, so it is sort of getting around kind of things. It is a mixed kind of thing. Nothing like what Titan Company is doing.

Rajasa K: That is all from my side. Thanks.

Moderator: Our next question is from Sangeeta Tripathi from Sharekhan Limited. Please go ahead.

Sangeeta Tripathi: Good evening Sir. Most of my questions have been answered. Only one question building on the Helios question which was asked earlier, you have mentioned that Helios continues to be an important part of the entire Watches business sir so I would just like to understand that in this year we have closed six stores and if I look at the performance also for the Helios even in 3rd quarter there has been a like to like sales though not in a double digit a 3% kind of a mix so I would just like to understand what are the expansion plans as far as Helios is concerned?

H.G.Raghunath: Good. In this year we have taken a decision to correct the business model. The business model is positive and profitable therefore on the overheads, the company stores, rent to revenue ratio etc., this year will be year of correction and as we go forward as the stores business is promising we look at expansion of Helios and scaling up the business. As I mentioned to you, it is an important strategic tool in our retail play as we go forward in the growing high end watch retail space in the future.

Sangeeta Tripathi: Also related to this with the introduction on GST coming into play this particular format of multi-brand watches which we have there we will definitely see some benefits, some light on that?

S. Subramaniam: It is too early to comment. These are still very early days. There is lot of question still to be asked and answered so we will wait till we get more clarity on GST.

H.G.Raghunath: If the paper on GST is out with the details we will be out with our details.

Sangeeta Tripathi: I just wanted to understand that will benefit if Helios per se right?

S. Subramaniam: It will benefit yes, broadly.

Sangeeta Tripathi: Thank you Sir.

Moderator: The next question is from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Thanks my questions have been answered. Thanks.

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

Harit Kapoor: Sir, just have two questions. Firstly on watches, just wanted to understand you said there was a negative operating leverage and obviously because of the decline in volume has impacted margins but anything else to call out in the EBIT margin decline in terms of call?

S. Subramaniam: Not really, basically it has been quite okay it is only the operating leverage.

H.G.Raghunath: The health is good, but it was a volume decline.

Harit Kapoor: So fair to assume that any pickup in watch revenues will also result in improved margins?

S. Subramaniam: That is right.

Harit Kapoor: Finally you know I just wanted to check your press release says that you are gearing up a launch of new products and advertising campaign including activation for fourth quarter, just to share something you know on what are the plans for fourth quarter to really push the sales growth up?

H.G.Raghunath: It is the usual thing in the fourth quarter, activations are already on. It is to pep-up the consumer interest and hold on to the revenue growth.

S. Subramaniam: It is in watches, it is in studded jewelry, and Eyewear does not do an activation, they do new products.

Harit Kapoor: I mean I just wanted to know over and above what you normally do in Q4 is there any additional that you are looking at?

H.G.Raghunath: It is very similar. It is a good time for you to go and buy.

Harit Kapoor: Thanks a lot.

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

Rakesh Jhunjhunwala: My question is, why do on interest cost fluctuate so much?

S. Subramaniam: Interest cost depends on one is the borrowing level, second is how much of gold on lease we do. So it is a combination of the two and if you notice what has been happening in the last year plus, there are periods when we get a lot of gold on credit like the GDS scheme and that happens on quarters and then there are quarters where we do not get it at all and therefore there has been fluctuation. We were hoping that with the 80-20 we would be fully back on gold on lease, unfortunately that has still not happened.

Rakesh Jhunjhunwala: Second thing I wanted to ask is that you know the tax rate which we have now this tax rate is going to for the benefit of low rate going to continue for how long?

S. Subramaniam: Another two years, when Pantnagar gets it 100%.

Rakesh Jhunjhunwala: Right but then it goes down 100 to 50?

S. Subramaniam: Yes 30.

Rakesh Jhunjhunwala: I have one question for the jewelry division. Why this GoldPlus you know which was our tail-ender suddenly it has become a front end batsman? So is it going remain a tail-ender, now it is suddenly 30% sale and all, I mean I would like to understand how it is happened, why it is happened and how sustainable is it?

C.K. Venkataraman: See we put many things together over the last one year, correcting the assortment, correcting prices, we created a brand campaign, rooted in consumer insight, actually going back to reorganize the GoldPlus organization itself for about a year back, we changed the terms of the trade for franchisees. All cylinders are now firing simultaneously and that is the result that you are seeing.

Rakesh Jhunjhunwala: That should give us great hope for the jewelry business as a whole because now first you made the change in the GoldPlus then we faced problems Tanishq we are feeling in Tanishq now, so that really we see bullish for the whole division.

C.K. Venkataraman: Sorry would you repeat that I did not catch all of it.

Rakesh Jhunjhunwala: The GoldPlus have came to a point where I think we will part of closing it down and when it clear it spent lot of attention to it and you have done very well and when we started facing the challenges in Tanishq sale from last year we really tried to change lot of things in Tanishq also?

C.K. Venkataraman: The opportunity in Tanishq is a very well established brand with a lot of share in many places. GoldPlus has got a big headroom for growth and that showing up relatively more easily.

Rakesh Jhunjhunwala: Have we sacrificed our margins to have this growth?

C.K. Venkataraman: Yes.

Rakesh Jhunjhunwala: So that means the margins where we do not as we reduce prices to have the growth?

C.K. Venkataraman: It is a multiple of reduced prices and increased ad spends and all that, but we have a certain roadmap on the expansion on margin marginally but substantial expansion on sales, so that the pay off will come in terms of the EBIT.

Rakesh Jhunjhunwala: Another question I had for the watch division. See you are not saying whether today whether Swatch has reduced priced in India or not, has increased price or not but you are running a company, you got to have some intelligence. Are the Swiss do they generally decrease prices when they are facing, do they absorb the cost when they face increased cost, or do they increase prices? Once they are going to face 20% increase it is not a joke, so I cannot say that I cannot speak for the market. What is the judgement? We have to make some judgement because we are living in a competitive environment that will the Swiss increase their prices or do you think they will absorb them?

H.G.Raghunath: It has to be waited but they are under tremendous pressure to increase as communicated by Mr. Hayek; however, what they will do we will have to wait and watch because the import cost is going up. It is inescapable.

Rakesh Jhunjhunwala: So but then if they increase the prices it is very advantageous for us, because for us the costs do not go up at all.

H.G.Raghunath: Yes, the gap between our price and their price will further expand.

Rakesh Jhunjhunwala: Right and then we can raise prices also and we can raise more market share, anyway the Swiss currency is something very favourable to us.

H.G.Raghunath: That is right.

Rakesh Jhunjhunwala: Thank you.

H.G.Raghunath: Thank you. Good night. Take care.

Moderator: Our next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: My first question is with respect to what is the proportion of L3 revenues in this quarter and could increase in L3 revenues could also be that a reason for some dip in margins?

C.K. Venkataraman: I explained that the primary sales of L3 and the secondary sales of L3 do not match every quarter. So there is no systemic shift in the share of L3s to the business, so there need not be any worry about the margin dilution or result of that and even if there is a margin dilution, there is an accompanying increase in asset turn, so the return on capital on an L3 situation is also very good, so even if when we give up margins we gain asset turn, so it's a balancing factor for the business in the end.

Puneet Jain: What will be the proportion of L3 in this quarter in terms of sales?

C.K. Venkataraman: In this quarter I would not know, but for the company it is about 20%, because GoldPlus is entirely L2.

Puneet Jain: My second question is actually with respect to your other income and interest cost, so Sir if the company currently is not cash positive?

S. Subramaniam: I said net cash positive, it does not mean that I have not debt.

Puneet Jain: But the interest in this quarter…

S. Subramaniam: Because income will fall sharply because our cash balance have fallen. If you remember because of the golden harvest, we are not keeping as much cash is required we have brought it down so income will come down sharply, whereas interest we may still have what we have bought on cash sometime back.

Puneet Jain: I understand that like you said that you are right now you a net cash company but if we look for Q3 the interest outgo is significantly higher than other income, so that is just double of other income so they should reach some linkage because you are currently?

S. Subramaniam: Yes because if you remember when we started off this quarter, I was net debt positive substantially. That is the reason.

Puneet Jain: So could that be in a next quarter again your other income would be higher than interest expense?

S. Subramaniam: Other income may not still be higher because I may not have a very high cash balance.

Puneet Jain: Just one minor question, there have been some talk about Mia being opened as a separate entity so are there any targets for that?

C.K. Venkataraman: We certainly have targets for many sub categories and Mia is one of them.

S. Subramaniam: It is not an entity, we are opening some stores, separate stores, it is not an entity.

Puneet Jain: So any guidance you can give on how many stores you intend to open?

C.K. Venkataraman: Very good opportunity for Mia itself.

Puneet Jain: Thanks a lot.

Moderator: Ladies and gentlemen, due to time constraints that was the last question, I now hand the conference over to Mr. Nikhil Gholani from Tata Securities thank you and over to you Sir.

Nikhil Gholani: Thank you. Thank you the management thank you so much for your time. Thanks Subbu. Thanks Venkat, Raghu and Mr. Ravi Kant for the detailed discussion. I am sure everybody had all the answers. Thank you all and have a very good evening.

Moderator: On behalf of Tata Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.