"Titan Company Limited Q2 FY16 Results Conference Call"

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MODERATOR: **MR. SUBHAM SINHA -- TATA SECURITIES**

Moderator: Ladies and Gentlemen. Good Day and Welcome to the Titan Company Limited Q2 Results Discussion hosted by TATA Securities. 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 for 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. Subham Sinha from Tata Capital. Thank you, and over to you Mr. Sinha.

Subham Sinha: Good Evening. This is Subham Sinha from TATA Securities Limited. I Welcome Everyone to the Q2 FY16 conference call of Titan Company Limited. We have here with us Mr. Bhaskar Bhat --M.D. of the company; Mr. S. Subramaniam, -- the CFO; Mr. C.K. Venkataraman who is CEO, Jewellery division, Mr. S. Ravi Kant – CEO, Watches and Accessories division, and we have Mr. Ronnie Talati who is CEO, Eyewear Division.

I now invite the management to take over.

S. Subramaniam: Good Evening to all of you. Bhaskar who will join us any time. This is Subbu here. I think I will start off on the 'Presentation' and hope you have got the presentation which was put up on our website about 15-20 minutes back. I am going straight to the Q2 performance slide which is from Slide #24 onwards. The background has been weak, the consumer sentiment has not changed much. The quarter started quiet well, we had a mini Gold rush in the month of July, August, even Watches had its activation and therefore sales did look quite promising in the first half of the quarter. Unfortunately, September was a very poor month. So, the significant slowdown in all our businesses; it could be possibly because the festival season kicking in a little later, but it affected our results to some extent clearly.

We continue with our investment in network expansion, and of course the company's focus on e-commerce and digital have got a significant impetus with a separate function being formed with our Chief Digital Officer.

Going to the Jewellery part… while Venkat will talk about it in detail, I will just take you through the Q2 background. Of course, you all know that we had the huge space problem which was because of the premature redemption of the Golden Harvest Scheme. The contribution of the scheme of this redemption in the last year was 54% of the sales and that I think is a significant number. Therefore, a decline was pretty much on the card. This unfortunately was also compounded by lack of revenue generated by GHS this year. Last year we had the premature redemption, this year we did not have the GHS. Further, there was another issue with the current year which is the Diamond promotion which was advanced to June as against normally we have in the month of July and then August, this year we advanced it to June, and unfortunately, therefore, we will not have comparative standard promotion in the current quarter which obviously impacted both top line and bottom line. Gold prices were on an average about 7% low and as I mentioned earlier there was a mini gold rush in July and in early August is not sustained. We however manage to actually maintain the gross margin rate despite a significantly lower studded share and that was basically because of lower margins from the ratio, studded ratio this time was offset by the larger discounts that we gave last time in the GHS redemptions. We have been purchasing Gold both on spot and Gold on lease and the ratio is roughly around 50:50 as of now at least for the last quarter. And as we have mentioned earlier, we are doing this dynamically keeping on the rate. The good news is that we have been able to get our hold on lease rates also significantly lower than what it was 4-5 months back. So Gold on yield is also getting to be fairly attractive as of now. Store expansion is about 7 stores, about 50,000 sq.ft. has been added so far. Tanishq has launched quite a few collections, Zuhur, Farah Khan, and new Mia collection paltering, etc., which have been received very well.

Going to Watches: While the Watch segment did grow 4% in the quarter like-to-like growth has been a major concern both in WOT and Fastrack. However, ticket sizes have been much better. We have seen a surge in WOT and repeat customers have been better. Helios have been doing quite well. And Sonata has launched the Touch Screen Ocean Series under a new sub brand, called "SS" as of now and of course other Watches that there are out there on Watch under the Sonata brand.

Eyewear has continued to grow decently 15% though the like-to-like growth has slowed down sharply. Store expansion however was much better, 32 stores, and a lot of SKUs have been launched backed by TV serials and so on and so forth. The new brand that have been launched in 18-Carat Gold Finger Ring and along with other variants we talked about.

Precision Engineering: There was a degrowth, that is largely because of the machine building automation division, where last year for the same quarter there was a very large project which was completed and invoiced, and therefore there was a degrowth in the MBA division, whereas PECSA division did record a healthy growth. Demerger of the business is going to take a little more time, the process did facing sometime…the court process, and we expect it to be com pleted by the end of the financial year.

Bhaskar Bhat: I am Bhaskar Bhat. This is a second disappointing quarter in a row and fall up there. The Tanishq decline ofcourse is well known because last year same quarter had the largest increase for the GHS closure. Helios performance good sign about the category itself, watches as the category not declining in interest and **LFS** are similarly at 8% growth whereas WOT and Fastrack, these are branded stores. So, we are getting some insights on what categories growing, the prices people are willing to pay and the shopping habits are changing from Helios to MBOs and of course online.

S. Subramaniam: Bhaskar has a bad throat. So I will do most of the talking for that reason. The growth as you have seen in the company performance for the quarter has been (-25%). As explained earlier, what was the base sentiment of course was one and the lack of the Golden Harvest Scheme in the current year. However, as I mentioned earlier, the gross margin rate has been very good. We have been able to maintain the rate, both on standard gold and on plain gold despite a significantly lower current ratio we have been able to maintain the margin rate. So that was something which was the highlight. And we have also been able to control cost overall in the quarter to a large degree. Therefore, basically the decline in profit is because of the decline in sales. And that is simply flown through to the bottom, it is not because the overheads increase and so on and so forth. And consequentially, I think we have had 6.8% margin. And we obviously believe that going forward the base effect is over. Going forward the Q3 onwards, growth definitely in the top line and therefore PBT growth with margins much-much better than this. Hopefully, what we used to be achieving before these issues came up. On YTD basis, of course, we are 20% and PBT is about 31% down, but for the same reasons that is explained. Most of this gap is coming in this quarter.

On Watches, the growth has been 4%. Export has done very well for us. And that contribute to a larger degree in this growth. Volumes have been flat but overall we have managed to do better and also ASPs also improved as mentioned earlier. PBIT margin has been exceptional for this quarter, for the first time it touched 15% after a very-very long time, but just to caution everybody that this is also because we have cut on ad spends significantly in this particular quarter because of the delayed festive season. Most of that will happen in the next quarter. But having said that, yes, a lot of work on control on costs have been happening, and therefore we expect margins to start improving steadily. Overall for the year 6.6% growth and PBIT is about (+14.5%) for the year. Jewellery 32% decline for the quarter, 56% on the PBIT but as I mentioned it is basically because the effect of the margins that flown straight down to the PBIT. We mentioned about GHS contributing 54% of the revenues in the last year the same quarter. So that was a major issue and of course lower gold prices; gold prices were lower about 7%, so that has led to this 32% decline. Studded ratio is about 24% this quarter because we did not have the studded activation whereas last year it was 35% with the activation and GHS redemption happening simultaneously. Consequently, the grammage decline was about 10% and EBIT obviously came down by about 56%. Year-to-date were about 23% below, last year number is at Rs.4,054 crores and PBIT is close to Rs.300 crores with the 38% decline, and as mentioned I think we should start seeing the growth from Q3 onwards. Eyewear grew 15%, this of course includes both Prescription Eye Wear and Sun Glasses. The concern has been on same-store growth. So there has been a challenge there but overall we manage to grow 15% growth. Profit for the quarter has been better than last year and overall for the year has been low because of the promotion and advertising cost in the first quarter. Others of course includes Precision Engineering Accessories and corporate expenses, the decline of 10% in sales is in machine building essentially, which as I mentioned earlier because of the certain large quarter orders which were built in the last year. The Precision Engineering Components business have been growing quite well. So overall there is a 6% growth between PEC and Accessories and PBIT is Rs. (-16) crores as against Rs. (-13) crores for the year. Capital employed is generally in the same ballpark, nothing much has changed. As we mentioned earlier, we are doing gold on lease, partly now, not fully, so about 50% of the gold which we are purchasing now is gold and the balance on spot. We have some debt but we are marginally cash positive if you take both cash balances and what we have invested in ICDs. And we intend to keep it that way so that the returns to the shareholders are much better.

I think with this we can open the floor for Questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Vivek Maheshwari from CLSA. Please proceed.

Vivek Maheshwari: Sir, I understand about the golden harvest on a YoY basis and its impact on Jewellery, but nonetheless if I look at the static number for this quarter, 6% Jewellery margins, what is the key driver of this, one, is it just because of making charges cut and lower diamond salience and where do you see this trending in the second half?

S. Subramaniam: I think as I mentioned earlier the gross margin percentage has not dropped despite the making charges drop that we did in Plain Gold Jewellery, which means we managed to sell a good mix of products and despite the 24% studded share our gross margin did not drop as a percentage. What has hit there has been top line drop and the impact of that has flown directly to basically leverage. Nothing else.

Vivek Maheshwari: Again, on the gross margins, why would not gross margins fall if the diamond salience was lesser one, and second is if you actually took down the making charges recently it should have corrected, right?

C.K. Venkataraman: Vivek, two-three things. One is that the share of Golden Harvest is zero this year and more than 50% last year. The discount on Golden harvest is zero. That is one thing. The second is that the gross margins of Diamond Jewellery have been better. We have done many things to improve the gross margin on Diamond Jewellery itself. The third is the product mix of Gold and Gold has got multiple product categories within value added Gold Jewellery which delivers higher gross margins, then there is pricing of gold. So there are multiple factors which drive the individual product margins and the result of that is despite significant improvement in our pricing we have been able to hold the gross margin.

Vivek Maheshwari: This gross margins when you say you have been able to hold it up, is it YoY or how would be the margins QoQ at a gross level for Jewellery?

S. Subramaniam: This is QoQ last year to this year, I am talking of that.

Vivek Maheshwari: No, I am saying from June quarter to September quarter, what will be the gross margin trend?

S. Subramaniam: It might not be comparable, because when we have a promotion normally it would have been better last quarter, let me put it that way, because we did have studded activations in the last quarter.

C. K. Venkatraman: If you are talking at a product category line level we are doing better, but there was this threat of the Pan Card less than Rs.5 lakhs coming in to the industry to the category and therefore we took the preemptive step of doing the activation Diamond Discount Scheme in June as opposed to Q2 and that certainly affected the product mix in Q2 and therefore what Subbu is saying is related to that.

Vivek Maheshwari: On the Pan issue where are we right now, any status update on that?

Bhaskar Bhat: There is no change and the government is not thankfully not lowering it but indications are that right from the top desire is to bring it down. So we are trying to fight or rather convince that it is not a good idea, but it is apparently right from the top from the PM in fact.

Vivek Maheshwari: Watches capital employed is up by 20% QoQ and 25% YoY. Any specific reason why there has been a big increase in capital employed?

S. Subramanium: Basically, the inventory which is build-up has been bit higher because of drop in sales, we expect it to sell more and since sale did not happen the way we planned we ended up with higher inventory and we expect to correct over the next 1-2 quarters.

Bhaskar Bhat: The procurement and manufacturing cycle is much longer. So there will be some predictions, cut into the Diamond. So the forecast is based on this number, therefore, the inventory has gone up at the end of Q2.

Vivek Maheshwari: Subbu, tax rate what should be building in this quarter? Tax rate was 20%...?

S. Subramaniam: What we have done now is if you look at the overall YTD tax rate is around 23% and this is what we expect it to be going forward. So the correction was made to bring it in line with that.

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

Rakesh Jhunjhunwala: My question is what will constitute the gross margin in Jewellery? It is an absolute figure and then you compare it or as a percentage of suppose I have Rs.1,000 crores of sale in a quarter, and my gross margin is Rs.300 crores, next quarter if I have Rs.1200 crores and then my margin is Rs.300 crores. You say percentage wise it is maintained. Is that how it is calculated?

C.K. Venkataraman: Rakesh, the gross margin of the business is determined by the product category gross margins that we derive and the product mix of sales that happens in that period let us say. Therefore, the health of the business is determined by the percentage gross margin. Ultimate financial result is determined by the combination of that and the total.

S. Subramaniam: I think the question was what is the percentage. So let me put it this way, if my sale is Rs.100 and my margin is 20, 20% is the gross margin. This 20% is what we are talking about margin rate being maintained.

Rakesh Jhunjhunwala: Last quarter you did some Rs.2200 crores of Jewellery sales. Your PBIT has fallen from 180 to 120. So there is so much impact that your sale was Rs.2,070. So Rs.90 crores fall in sale. How can Rs.60 crores fall in profit?

C.K. Venkataraman: The Diamond Jewellery activation that we do we typically do it in August, September.

Rakesh Jhunjhunwala: The difference in percentage of studded between first and second quarter?

C.K. Venkataraman: Yeah, true, because the differential gross margin between the Select category and the Plain Jewellery category is multiple factors and therefore every 100 bps change in the share can dramatically alter the total gross margin of the brand.

Rakesh Jhunjhunwala: No, but, Venkat, what was the percentage of Studded in first quarter and second quarter?

C.K. Venkataraman: Subbu is getting that, but the point is directly determined by the thing, even though the sale difference is small, 29% versus 24% now, so there is a 5% difference.

Rakesh Jhunjhunwala: It is 100 crores boss, 100 crores need to lead to a difference of 20 crores and the balance is corporate overheads but corporate overheads as a percentage fall in that is 80 crores.

C.K. Venkataraman: What we can do is we can settle this offline but trust our word on this that the difference in the sale which seems to be small whereas the difference in the profit is substantial is certainly answered by the difference in customer.

Rakesh Jhunjhunwala: How is the collection under Golden Harvest – is it getting filled up? When will it start and what kind of sales you can predict in the last quarter?

C.K. Venkataraman: The bulk of the Golden Harvest redemption which we started in FY15 is supposed to redeem in Q4, but we are now pushing the customers for an earlier redemption in Q3 itself.

Rakesh Jhunjhunwala: What would be the total redemption for Q3 and Q4?

C.K. Venkataraman: Together about Rs.400 to 450 crores.

Rakesh Jhunjhunwala: That will be in addition to sales as compared to last year?

C.K. Venkataraman: Yeah.

Rakesh Jhunjhunwala: This is without the top ups or with the top ups?

C.K. Venkataraman: With top ups.

Rakesh Jhunjhunwala: How is our festival season starting?

C.K. Venkataraman: Pretty decent. Today is Karwa Chauth so tomorrow morning we will know better because it is one a like-to-like situation today of the date of Karwa Chauth, but the Dussehra season itself was very good both in Plain as well as Studded. And therefore, this whole Golden Harvest thing is now history. We are looking therefore forward to sort of going back to the days of growth, obviously, not to the days of that kind of growth but certainly growth which was eluding us in the last twelve months.

Rakesh Jhunjhunwala: The worst period for your shareholders over hopefully and we hope to see better dividends next year?

C.K. Venkataraman: That is different in any case, but yes, sales growth is now back.

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

A Ranganathan: We were to book some hedging benefits this quarter. Have we booked and what is the quantum?

S. Subramaniam: Not much this quarter. It was actually last quarter we had some but not this quarter. We will get most of the things in Q3 and Q4.

A Ranganathan: How much you have booked in the first quarter?

S. Subramaniam: Because of the accounting issue, if you remember, we got some Rs.30 crores or something which is one of the reasons when Rakesh was asking this question about margins being higher in the first quarter, this is one of the reasons as well. This quarter was bad, we did not really get anything.

A Ranganathan: We are expecting at least about hedging benefits of about 5 tons to come in through in the third quarter?

S. Subramaniam: Yeah, that is right. It will start at least from November…the premium

A Ranganathan: And that quantum would be higher than the one which we got in the first quarter?

S. Subramaniam: I am not sure of that. I do not know whether that would be higher…

A Ranganathan: First quarter was…

S. Subramaniam: Yeah, first quarter was also accounting, not just hedging benefit.

A Ranganathan: How many customers have enrolled so far for the Golden Harvest? Last time you gave a number 60,000-odd.

C.K. Venkataraman: Actually, we do not have the number of people. We are enrolling about Rs.9-10 crores a month, are running great today.

A Ranganathan: Average ticket size has really changed there?

C.K. Venkataraman: Average is more than 5K.

S. Subramaniam: Will reach our limits by Jan-Feb max.

A Ranganathan: There have been also reports of fall in Diamond prices in the market and so on. What implications does it have for us and the trade as such?

C.K. Venkataraman: I do not know about the trade, but we are not really considering it in any manner.

A Ranganathan: Are we seeing fall in the procurement price and reduction in the Diamond prices by competition and so on?

C.K. Venkataraman: It is generally holding price, this is not like the gold price which is very-very well known to everybody. So it is not a material item.

A Ranganathan: On your new customer growth and the fact that you must have data of the number of customers who were with you on the erstwhile Golden Harvest who are now not in the current golden harvest because there is a limit and the fact that the tickets have gone up. How many of them are actually coming back of the base of 500,000 we had?

C.K. Venkataraman: Actually, there are multiple complications sitting here. Some of them because we do not have a scheme ended up enrolling somewhere else also and they are now waiting to finish that elsewhere to join back. And we have been on a momentum from 2003 on this and then we went out for us to restart the momentum it took a few months. So at the level at which we are we just spent Rs.10 crores a month as opposed to maybe we were doing some Rs.25 crores or more earlier, obviously, we are behind on that. But I think end of this year we will start hitting the rhythm that. But obviously really the lower middle class who are really attracting on 1000-2000 monthly values they will not be able to join now because the scheme is also at a reach.

A Ranganathan: But they would have been enrolled as an inner circle member also of that sort, is there a way we will track that what the returns and how many of them are back in the system purchasing whenever they want to purchase?

C.K. Venkataraman: Right now because we are at such a small share of that we have not looked at that, but going forward we will look at that.

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

Amit Sachdev: I have a question for Venkat actually. On the Jewellery side, given where the Gold price is and it has obviously come off a bit and stayed there, and then we look at your pricing also has evolved to be lower and which is better is more competitive and hopefully it will generate better throughput and momentum. But does it change the way you hypothesize about how the retail area expansion should evolve in this scenario what stay over the next 5-years, would it mean that the franchise model or at least L3-model would have very little incentive to share and hence you need to really tailor your expansion strategy now differently?

C.K. Venkataraman: The expansion strategy itself we have not really had a rethink on even though we are much more particular about the sizes of the stores that we are opening and the locations. Because over the last three-four years there have been a general slowing down of the Jewellery industry itself and therefore the economics of jewellery retail operation were altered. We are more particular about the size of the stores. But the opportunity in terms of the number of towns, number of localities has not really changed. The other complication is the overall HNI segments pressure of cash flow is making it a little slower for us to get prospective franchisees and therefore our rate of expansion is not that fast as it used to be, but our ambition does not really change. As far as the price of Gold is concerned and our own… anyway which is not in our hands, but our making charge reduction has certainly made Tanishq a much more competitive brand. We were betting on the inability of competition being not so able to lower our prices to match and keep the gap the same and from our sense we have been proved right. The confirmation is coming loud and clear from our stores saying that it has become so much easy now to deal with the customers as far as the price of Tanishq is concerned. We have become much more competitive. And therefore, in the medium term we expect the kick in from this to be very-very positive to the brand. Our initiatives in the Wedding space have borne fruit. We have populated in seven or eight key communities across the country product lines will match the requirements of the wedding customer. We were also on top of this making charge reduction where something called a bundling offer which further corrects our prices at 75 gms and 100 gms plus depending on markets to bring the wedding products even closer to competition, and our stocking has been even better. So the growth in those categories are very-very positive and encouraging and therefore that market is also removed from the pressures of inflation, and therefore the size of that which is expected to be nearly half of the total, still for us to take a much bigger share and we are going to see a lot more in the near term growth from that.

Amit Sachdev: But Venkat, I still wonder, in this environment, for example, it is purely a hypothesis but when you look at business model where significant pie is squeezed and the price is weak for Gold price. And then if you take a value capture for each of the partners in sort of the Jewellery where he is a jewellery maker or Titan itself as a brand and things like that and a franchisee and a retailer, the value capture for retailer would be increasingly pressured in my view. So, in that sense, would it not be a good idea to have more L1 and as a flagship store it is not a 5,000 sq.ft. store, but even 2,000-3,000 like a marquee store which is actually a flagship store even in small towns which should be owned by Titan then larger value should be captured and retained by Titan, since inventory is on the lease, you are not really funding that from anything and price risk is now contained. Why not really own more stores rather than seek more franchisees?

C.K. Venkataraman: While there is one point what you are saying but we have taken a balanced view on this, there is the whole of the fixed cost stream that we are creating for the company by investing more in L1, we are creating challenges for managing the employees who are sitting in distant location and their career plan management as a second thing, we are creating gold inventory physical risk in small-small towns including burglary and stuff like that, we do not know the HNI customers of Bilaspur which a franchisee today directly brings and Bilaspur franchisee will not be able to build the high value business in that. So we have taken a balanced view on that and in certain big cities we will have L1, in medium cities we will have a combination of L2s and L3s and small cities because of other risks associated with NBFCs. We do not have enough reasons yet to overturn that balanced view. But when times were very good, we may be losing some of that money that we can capture through L1, but in uncertain times it is better that we rather going to picking up the asset turn dilution as well as the fixed cost charge we have done the best.

Bhaskar Bhat: There are three points. Fundamentally, the profitability of the franchisees in Jewellery business is pretty good. So the profit that you talked about is in comparison to the cost. Therefore, it is a matter of convincing about the future is likely to be better. Second, the risk of employing, the franchisee is able to manage employee cost much better than the company. When you join a large company, the expectation is promotion, growth, and I will become whatever area manager, regional manager, those kinds of things, the company's environment is like that. So to manage people expectations, as Venkat said is the second bit. The third bit is that the businessman builds the capability on the ground which is about not just the customer itself it is the smart business practices which is great use to us, in the past which has helped a lot. If you find the right franchisee, some of the stores are better than other stores. So there is advantage, as Venkat said, it is too early to swing the pendulum the other way.

Amit Sachdev: Venkat, now the comparative making charges and I saw some operating statement for Q2 that you said footfalls and conversions are improving and strategy seems to be working and the share was good. Can you quantify like last year share and this year share what is the growth rate looks like and how do you sort of see it in the light of how the strategy of better pricing has helped you and how you should look at Q3, how aggressive you are and what really we should expect from Q3? When we talk about growth returning, are we talking about say double-digit growth in say 20s or what is that range that you have in mind considering you have seen the share up?

C.K. Venkataraman: Let me just go back a little in terms of the platform improvements we have made even as the sales performance in the first six months has been very disappointing. The first is that we keep measuring the metrics of the brand. We keep meeting more than 1000 people across the country every week in turn and after there are questions on the brand metrics. So when it comes to jewellery which brand comes to mind, which are the brands that you desire to buy, which are the brands that you are considering to buy. These are the very established brand metrics. Every brand metrics scores of Tanishq is the highest in the last 15-months, the share of preference, the share of consideration and so on and so forth. So that is point #1. And it is to do with the making charge reductions that we have made and we have communicated. And multiple other facts about the Tanishq brand that we have communicated through the six months through a lot of marketing investments that we have made YTD September. Second is the message that is coming loud and clear to us from, the 5000 staffs that are selling Tanishq in the 160 stores. In fact, it has never been so easy to sell Tanishq to every customer who is walking in. The non-purchase information that we have in every store, the share of price as a reason for not buying has collapsed, dramatically reduced. So good points confirm the competitive advantage that we have made on Tanishq. The buzz on the collections that we have launched in the last two months have been exceptional from Mia to Zuhur, which is the Diamond Jewellery collection to the most recent Divyam they have been just flying off the shelves to the customers that the stores are facing about. And Dussehra is a fest, seen (+20%) growth in retail sales and we are gunning for something of that order for the quarter.

Bhaskar Bhat: Thank you, everyone. I am sorry, I need to leave. Happy Diwali to all of you and see you next quarter, we will have much better results.

Moderator: Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please proceed.

Puneet Jain: My first question is actually with respect to Golden Harvest. As I understand Golden Harvest will start kicking in, in fourth quarter. Now, what proportion of those customers will be common customers which you are currently targeting for growth say non-gold is going to have growth in second and third quarters? I just want to estimate what could be the cannibalization between normal growth and existing customer growth or do you think these are new customers and these will add to revenues or these will complement the current steps which you are taking?

C.K. Venkataraman: The (+20%) growth rate that I was talking about was without any Golden Harvest, redemption happening today. And the Golden Harvest Enrolment that we made in starting November of 2014 the redemptions are expected in December of 2015 and onwards. So in a way it is separate from that, but I leave it you to add it or not add it. I am not adding it like that.

Perceptually they are separate. In reality, whether 22% growth rate, you can add it, I do not know, the days have to roll for us to be really actually realize it.

Puneet Jain: But if I add that Rs.400-odd crores, the growth becomes more than 40%. Is that growth possible?

C.K. Venkataraman: It will not be more than 40%. I do not know how you are adding. I was sure in that current growth rate for the Dussehra season was in the 20% ballpark.

Puneet Jain; Say in fourth quarter if you add up the Golden Harvest, along with 20% growth the growth rate number becomes very large.

C.K. Venkataraman: If this 20% continues and then Rs.400 crores happens, yes. So therefore, I leave it to you to add it, but I am not adding. That is what I am saying.

Puneet Jain: Margins clearly in the second quarter there is some disappointment. So have we changed the target margins which you want to operate with or there is no change in terms of target margins?

C.K. Venkataraman: As we explained to you earlier, the gross contribution as a percentage we are very-very satisfied with. The sales level in Q2FY16 was substantially lower than the sales level in FY15. Because of that leverage changed negatively despite of being very satisfied gross margin, our EBIT margin drop significantly to that 6 or whatever, that has been dropped to. But in Q3 FY16 sales level will be now back because we are growing. So the positive leverage will start operating. And if our gross margins continue, which there is no reason that they will not, that profile has to change.

Puneet Jain: And the growth which you are communicating of 20%, is it quarter-on-quarter or is it YoY growth?

S. Subramaniam: YoY, not sequential.

Puneet Jain: So the QoQ growth can be even higher?

S. Subramaniam: We cannot be giving you a number. Idea is to give the flavor of what is happening.

Puneet Jain: In terms of new store, you did open reasonable amount of stores in 2Q versus 1Q. So, now what is the full year guidance in terms of store openings for Tanishq?

C. K. Venkatraman: Full year guidance I do not have yet, Puneet. I may need a little more time to make.

Puneet Jain: Will it be similar to first half like earlier you used to give guidance of 100,000 sq.ft. and you have done half of that in the first half?

C.K. Venkataraman: Typically, what happens is between the planning cycle of any FY and I think the reserves we start hitting into Q2 as opposed to from day 1 kind of a thing. So we should have a better result going into the Q3 and Q4 is my sense.

Puneet Jain: This 20% growth you are talking about is system growth or growth from the same-stores, because …?

C.K. Venkataraman: System growth.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: My question is again on the growth expected. Just to simplify it, in the 'Analyst Meet' happened last time, Mr. Bhat had mentioned that in spite of the fact that the first half would be weak, you still expect the full year to witness growth in the Jewellery segment. Is it still intact or not?

S. Subramaniam: I think it is too early to talk about that. There will be growth in H2 is given. How much? I do not think we are going to quantify now. It is a little difficult to do that as well.

Ankit Babel: The margins which have fallen to 6%, it is mainly because of the…?

S. Subramaniam: It is operating leverage, it is nothing else, it is just because of the reduction in the sales, otherwise as we mentioned, the health of the brand is very good. We should get back to a very reasonable rate from next quarter onwards.

Ankit Babel: So that is a double-digit which you have been delivering since the last few quarters?

S. Subramaniam: Not-double digit, we have been delivering between 9-10% margin on EBIT basis.

Ankit Babel: What is the outlook on the Watch business?

S. Ravi Kant: We had a decent first quarter, the Q2 was not as good as Q1, overall, we are at 6% growth in the first half of the year. As Subbu mentioned in the beginning, the performance in the overseas markets have been much better than the domestic markets. On the bottom line, the results are a little more encouraging but yes, growth is difficult. We are facing some issues in terms of drop in walk-ins to our stores. So there is a slight reduction in value in our WOT the World of Titan Channel, but the other channel there is a growth. Helios as a channel which is for Premium Watches have done very well in both the quarters. Similarly, our large format stores like Lifestyle, Shoppers Stop, Central have done pretty well. There is a very good like-to-like growth of 8% in Q2. So it has been in that mix. If you look at town classification we have done much better in smaller towns compared to the top-8 towns. This has certainly been obviously impacted by the whole eCom buzz especially this month because Diwali is a big season for us and finally you land up competing with the other categories also, not just Watches, because consumers are spending a lot of money these days on upgrading phones, changing phones maybe in three months, four months. So that is about what is happening now. In terms of outlook, yes, we have very aggressive plans, many new collections lined up, new campaigns lined up, with Diwali round the corner, we have just launched our Raga Moonnight Collection, we have had a very good response across all our stores across the country and many new products are lined up in fast track, in Sonata brands, we have just spun off SS as a sub-brand from Sonata which is in the adventure sports space and launch the first Light Touch Watch which has done very well and many new products are lined up for launch under the SF brands.

Ankit Babel: So you have a very favorable base effect in the second half. Last year second half was almost a 0% growth. In the first half you have grown at 6% on a relatively higher base. So can we expect a double-digit growth in the next half?

S. Ravi Kant: The growth in the second half we should be happy. I told you most of this growth in the first half has come from exports as opposed to the domestic market. I am not getting into the split between the two. The other is if you go month-by-month and quarter-by-quarter growth has been coming down. So growth from Q1 came down in Q2. Within Q2 September growth has been the least. So signs are not too positive.

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

Arnav Mitra: First question is on the GHS. So, I remember last quarter you had guided for about Rs.50 crores in 3Q and around Rs.400 crores for 4Q in terms of sales. I just heard you say that you are trying to get consumers to redeem in 3Q itself. So is it not that there is a specific period only after which they can redeem and do you expect this Rs.50 crores number to be much higher in 3Q itself?

C.K. Venkataraman: We are trying, we do not know, we are trying to incentivize to come a little earlier. We will know by end of November a little better.

Arnav Mitra: If I heard you just to kind of clarify, so you said that Dussehra versus Dussehra sales have been up by about 20% and you would expect 3Q to also as a total quarter have that kind of a growth?

C.K. Venkataraman: There is running process for that because the fundamental reason why we were declining is gone which was the case of Golden Harvest been last year and not this year and there are so many improvements that we have made as far as the brand is concerned. We are pushing for that kind of growth in Q3.

Arnav Mitra: The other question is on the hedging part. So, is it fair to assume in the first half whatever gains you had which is Rs.30 crores in 1Q and lesser this quarter, is that a fair representation of the normal hedging that you would have had in the business, so is the realistic margin comparison that we are doing with all the hedging gains in?

S. Subramaniam: The first quarter was a little high because there was a carryforward from the previous year. But, second quarter was pretty much flattish. We did not really gain anything much in this quarter. Next quarter onwards we will start getting in some gains. The whole thing depends on how much we are going to buy Gold on spot or Gold on lease. If that ratio keeps changing, this number will keep changing because when you do Gold on spot, you earn the premium and the premium unfortunately gets only accounted at the time of sale of this consignment, which is normally 4-5-months after we purchase. So the benefit is always going to be deferred and therefore it all depends on what the ratio of Gold that we purchase on spot is going to be to the total. That is something which is dynamically being monitored by us based on what the rates are looking like, premium rates, gold on lease rate, as I mentioned one good thing which has happened now is gold on lease rates also have fallen. So we will do a balancing act between the two, but it is very difficult to predict now.

Arnav Mitra: On the GHS incremental Rs.10 crores a month I think Venkat alluded to. So you will hit almost Rs.700 crores in a period of a year after GHS was launched but incrementally are you going to get only Rs.10 crores a month because earlier ones will start redeeming. So I am just trying to understand how the maths works out, because you have done Rs.700 crores of deposits probably in about a year?

S. Subramaniam: Rs.10 crores is the incremental new customers bringing in installment. So that when you compound, yeah, it is all put together. Our limit is about Rs.770 crores now. So anyway we would touch that limit as I said by around Jan-end or February. After which we will have to do the other things that we were talking about, may be the bank part, etc. if we want to increase the customer base on the scheme. So it would pretty much be at that level. Of course as the network grows it grows but that depends on how much you have done.

Arnav Mitra: But, what I am trying to understand is this Rs.10 crores is incremental from the new consumers or incremental installments which are coming in from the existing…?

S. Subramaniam: No, the new installments.

Arnav Mitra: These are absolutely new consumers who are getting enrolled in the scheme.

S. Subramaniam: Yeah.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please proceed.

Sanjay Singh: Mr. Bhat mentioned, but could not hear him properly, what exactly is the update on the PAN Card thing?

S. Subramaniam: PAN card what we are saying is as of now nothing has happened but the indication is that something might happen at some point in time, we do not know when, because he mentioned that the PM Himself was somebody who wanted to curtail black money. How he is going to pan out? We do not know. Or when it will happen? We do not know. But, it is not something which we can ..

Sanjay Singh: You mentioned now you are at Rs.700 crores in terms of customer advances?

S. Subramaniam: No, we are not Rs.700 crores now. I said about Rs.770 crores is our limit. We are not at that level now.

Sanjay Singh: I understand operating leverage clearly but you have done on similar sales levels in the past I was looking at the past quarters and you have done similarly Rs.2,000 crores kind of levels with 25% kind of studded share but then margins have been around still 8.5%, 9% and so on and so forth. So really what changes? The only thing changes is maybe you have opened a few more stores compared to then. But other than that add Rs.2,000 crores kind of levels with 25% studded margin you have made 9% margin in the past. So where am I going wrong?

S. Subramaniam: I do not know because fundamentally this depends on what the studded ratio is, okay. Normally, when we do studded activation the ratio is much higher, it is close to 30%, last year of course was exceptional at 34% or 35% but normally it goes around 30%. So the quarter that we do Rs.2,000 crores with 30% studded share I think it will be much higher. And the other quarters obviously are the ones where sales are higher because of the Diwali season or the Akshaya Tritiya season and so on. So these sort of compensate each other. It is pure math as far as we can see from stand here

Sanjay Singh: I see 1Q FY15 with Rs.2,300 crore sales 25% studded share you were at 9.4% margin. So yeah there is Rs.300 crores extra sale here but…?

C.K. Venkataraman: We would not be able to answer this. Probably you may have a point there. The thing is even on the Gold accounting, one is the operational gross margin which you made through sales. So the first point to note is that despite drop in our price list, our making charges, through a mix of these, we have been able to sort of hold the gross margin on Plain Gold Jewellery, but because of the combinations of jewels and the spot purchases and hedging which comes around with the spot purchases, the gains we get, advance we get, that actually complicates the Gold accounting quarter-to-quarter and we reconcile this.

Sanjay Singh: So on a full year basis do you think you can do 8.5% kind of margin, is it possible?

S. Subramaniam: I do not know, but I am assuming that from next quarter onwards we will be well above that.

C.K. Venkataraman: Yeah, what we are clearer about is going forward rather than the FTY.

Sanjay Singh: Forget what you will be doing but the aspiration is still 9% or more than that?

S. Subramaniam: Yeah, aspiration is more than that.

Sanjay Singh: If you look at the way you are going in terms of Mia etc., I know when you are 6% margin, you do not think about these things, but is it possible that a longer term of 3 to 4-years or 5-years you know with some of these Fashion Jewellery things doing very well, can we even think about it 13% margin in the long run, is it too bold to think?

S. Subramaniam: No, right now we are certainly not thinking like that. I think the first task for the division is to get back to what it was delivering and then we can talk about 12 or 13 after we get back to what we are delivering.

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

Prasad Deshmukh: You mentioned that gross margins have remained stable despite cut in making charges due to a change in mix, then you said that once revenue growth is back the operating leverage will start working in your favor and you expect to go back to that 9% to 10% kind of EBIT level margin. So, is there an underlying assumption you have that mix going ahead will be permanently different versus what it was earlier because you are achieving same margins with a cut in making charges without anything else changing. That could be an assumption and if that is the assumption then what are you doing to actually change that mix permanently from what you would use to earlier?

C.K. Venkataraman: The mix of studded in Q2 was particularly depressed in relation to Q2 of FY15 because the activation was not there, but as far as Q3 and Q4 are concerned that situation must be different and since the product category margins are holding despite the reduction and making charges, we expect to improve on that innovation and go back to EBIT margin that we are used to. And also the other point which is really too complicated to explain on the phone is this whole gold accounting related impact on the gold category gross margin.

Prasad Deshmukh: Still the question I do not think gets answered. Gross margin remains same and mix is changing. That is the only thing that we have spoken about Q2 versus last Q2 and there will be cut in making charges.

C.K. Venkataraman: The product category gross margin on Gold Jewellery we have been able to maintain at a decent level not exactly pre-drop but credit goes to pre-drop.

Prasad Deshmukh: In Q2 is fine, but we also made a statement that going ahead….

C.K. Venkataraman: However, that has been influenced by the accounting of gold in Q2 because of the spot related premiums and all that.

Prasad Deshmukh: So this will continue going ahead as well?

C.K. Venkataraman: No, that keeps fluctuating depending on the quarter. So what Subbu was talking about some of the premium deals coming in Q3 will improve that situation, whereas the studded category gross margins have improved over H1 of last year.

Prasad Deshmukh: I actually did not get that much but I will take this offline.

Bhaskar Bhat: Yeah, thank you for that.

Moderator: Ladies and Gentlemen, we will take our last question now which is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please proceed.

Rakesh Jhunjhunwala: I was just looking at the gold price chart. So June, July, August last year the gold price was between 27,500 and 28,000, but the gold prices were substantially lower last year in October, November, December, in the range of 26,500 to 26,000. So that should have helped your sales in this quarter. Because if you compare quarter-to-quarter last quarter Gold prices were 5% to 7% lower than what they were in the corresponding quarter but this quarter we are 5% higher actually. I do not know whether you have monitored this or not, because quarter-over-quarter if you take Tanishq other variation is the gold prices.

C.K. Venkataraman: We had a 7% decline in the gold price…

Rakesh Jhunjhunwala: I take closing price in November 30, 2015 last year was 26,000 and in August the price was 27,000 and in October it is 26,785, as of November it is 26,000. So last quarter you had 7% decline in price and you had 2% to 3% increase in price. I do not know whether you have followed this or not. I do not know SEBI has given you a circular where you can make adjustments into your quarterly results in order to smoothen quarterly evaluations. That is going to confuse the investors.

S. Subramaniam: Accounting wise how do I do that? The only way I can do that if I put that out in a…

Rakesh Jhunjhunwala: You are not preparing any quarterly accounts under the Companies Act. You are preparing quarterly accounts because you needed by SEBI to do it. I will show you the SEBI circular or you can get it yourself, that you can vary the quarterly variation in order to give a fair picture of the results.

S. Subramaniam: Yeah, but the point is we have to follow accounting standards, right. This is the problem we are facing. And therefore what we are trying to do is also informing the investors that these are the variations.

Rakesh Jhunjhunwala: So you make it part of the result?

S. Subramaniam: No, the same thing happens for example if you remember last time the capital employed as well and the interest income and so on because of again the same accounting standard. What we did was that we said we will now tell you what we are looking at internally and therefore we were publishing different numbers. Though the result which were published were something, we shared what was internally being looked upon from a division wise performance perspective. So anything significant we will tell you that.

Rakesh Jhunjhunwala: Right. We will discuss this. Another question to Venkat. There is a very big variation in our results on volume. There is a very big fluctuation in profitability when you are in Retail. If you are in retail your costs are 90% fixed and except stocks my costs are 90% fixed. So whatever L1 shops we have, there is a big variation in profitability. What percentage of sales comes from L1?

C.K. Venkataraman: About 35%

Rakesh Jhunjhunwala: Means even if the volume goes up to Rs.100 crores, our profitability in those shops was of Rs.8 crores. I think that is a very big contributor to the fluctuation in profitability because one-third of our shops are our own and there is a variation, the additional fall or decline will give us 7% to 8% increase or decrease in profitability because of that L1. Sales fall of Rs.500 crores, it should give a loss of Rs.35 crores. Surely, if it rises by Rs.500 crores, you should take up by Rs. 35 crores which on the wholesale we get 1-1.5% I think we should calculate this properly. If you calculate you will be able to then explain better.

C.K. Venkataraman: Actually the marginal rise in profitability will be the entire gross margin from that not the EBIT margin.

Rakesh Jhunjhunwala: But you are taking from your shops you are taking gross, you are not taking retail margin separately you are taking gross margin only. Suppose I am in L3 shop, to a L3 you sell something at 90, we sell at 100 to the customer, but in a retail shop with our own we sell at 100 to them and we take the entire thing as gross margin and then whatever the expenses then we deal with separately. So therefore you have no separate accounting for retail?

C.K. Venkataraman: No, no, every month we look at the company store profitability from a L2 margin basis as if a single master franchisee is running those 45 stores of ours, what we would have paid them if he was typical master franchisee and look at the cost of it, subtract and see if you are running the entire network efficiently or not?

Rakesh Jhunjhunwala: No, Venkat, my simple point is that in retailing, the marginal profitability or loss is 7% to 8%. Suppose, your average retailing margin that is pass on to an L3 is 9%. In L1 we have our own L3. Those were exactly the L3? L3 in our own shop it is our inventory and our management.

So actually what retail margin you put on your L1 shops? To calculate the profitability of that network what margin are you taking?

C.K. Venkataraman: In L1 I am taking the L2 margin.

S. Subramaniam: but in the books will be full margin.

C.K. Venkataraman: Suppose it is being run efficiently from April to March and then look at stores which are making a loss on the basis of L2 margin and…

Rakesh Jhunjhunwala: Coming back what I am pointing out is that a decrease of Rs.100 or increase of Rs.100 through our own L1 shop sales, it is a profitability of Rs.5.

C.K. Venkataraman: It affects to the extent of the gross margin.

Rakesh Jhunjhunwala: So that is a very big fluctuation, no? And that is the reason see we were in very high sales to get after all… That volatility has to be a part reason for the volatility in your profits. That is my point.

C.K. Venkataraman: Yes.

Moderator Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Subham Sinha for closing remarks. Over to you sir.

Subham Sinha: Hello! Everyone. On behalf of Tata Securities this concludes the con-call. I thank everyone for attending. Have a nice weekend.

Moderator: Thank you very much members of the management and Mr. Sinha. Ladies and Gentlemen, on behalf of Tata Capital that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.