"Titan Company Limited Q4 FY15 Earnings Conference Call"

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MODERATORS: **MR. SUBHAM SINHA – TATA SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to the Titan Company Limited Q4 FY15 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. Subham Sinha from Tata Securities. Thank you and over to you sir.

Subham Sinha: Hello everyone Subham Sinha from Tata Securities. I welcome everyone to this conference call and sorry for this inconvenience caused due to a slight delay. I thank the management of Titan for taking out time and discuss their Q4 number for FY15. I now invite Mr. Subramaniam – the CFO of the company to take over.

S Subramaniam: Mr. Bhaskar Bhat will make the introductory.

Subham Sinha: Yes.

Bhaskar Bhat: We are here five of us, I am Bhaskar Bhat, there is Subbu – CFO, the CEO of Jewellery – Venkat, CEO of Watches – Mr. Raghunath, and CEO, Eyewear – Mr. Ravi Kant, five of us are here. It's been a tough quarter the fourth quarter. You have got the results I hope we uploaded it half an hour back I think. Gold amount in January and February were impacted significantly due to expectation of custom duty cut and pick up was in March after clarity on budget that the custom's duty won't drop. Estimate is that Jewellery growth is 2% in volume, and a decline of about 3% in value. Our own decline is largely on account of the Golden Harvest scheme being withdrawn and no Golden Harvest encashment happened during the quarter. Of course we have got the nominated banks importing gold on consignment basis and offering gold metal loans to domestic users like us. We opened 29 stores and the year to day addition is 123 stores for the year.

Essentially a quarter which had activation in the watch business in especially Titan and Fastrack and brand Titan grew in volume quite well and activation did well for us. And you can see the same store growth in Q4 at 5% for World of Titan, the decline primarily on account of the Golden Harvest in Tanishq and Gold Plus. Helios same store 3% plus Fastrack is a decline 4%. Large formats stores 8% and eyewear same store growth is flat for the quarter but 14% overall.

The decline in gold is impacted the turnover for the quarter 11% decline but margins have been very good in this quarter. So I would stop here the annual figures are also available with you it's single digit growth in top line, single digit growth in PBT but double digit growth in PAT because we have had a good reduction in income tax payout because of the production ramp up of Jewellery in our Pantnagar plant, so you can see that growth in PAT is 11.1%, 823 crores from 741 crores and the top line is 11,791, 9% growth. We are ready for questions now.

Because I think you can go through the presentation we can answer the questions now because then we will get more time for more people to ask questions.

Moderator: Thank you very much. We will now begin the question and answers session. First question is from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Sir actually had three questions. One on Jewellery sector, Jewellery growth per se. As we can see from the demand there has been some impact that you highlighted and that is got to do with gold price, what I wanted to understand is given the recent talk about PAN card for 1 lakh transaction would you be able to share the median transactions or any other details which gives a sense on whether that would hurt and second if you could give us a sense on the fact that you have recently done some promotions, however in an environment with the current rate that you have if you could kind of give us a sense on how demand has behaved in the month till date in the first quarter.

C K Venkataraman: For the first month about 50% of our sales actually comes from the 1 to 5 lakh band. But since after speaking to lot of customers and franchises that as long as we keep the excitement of the Tanishq brand going in that category and we are putting in more efforts to do that, that we should be actually able to meet because typically what happens is that the profile of the customers in the 1 to 5 lakh is significantly different from the profile of customers more than 5 lakhs where you get into lot of service sector professionals as opposed to business people who are rather more into salary income, and no real need to hide income and stuff like that. Warming up to the challenge and face it head on and deal with it, very high level of confidence.

Avi Mehta: Sorry, but 1 to 5 lakh is salary income you said, that is what you meant right?

C K Venkataraman: The share of the professionals and the salaried class the customers who are buying 1 to 5 lakhs is much-much higher in the share of business people.

Bhaskar Bhat: Not their income.

C K Venkataraman: The share of business from these segments

Bhaskar Bhat: Salaried class.

Avi Mehta: Okay, the remaining part of the question sir.

C K Venkataraman: What was your second question, on the promotion which promotion.

Avi Mehta: Sir the Tanishq, you have recently kind of gone very visible kind of campaigns going on but in an environment where the gold prices is….

C K Venkataraman: There are many hardcore rational benefits that Tanishq actually offers which often we take for granted the many of the customers don't actually know but when you add up all this the real value of Tanishq is so much more demonstrably superior and therefore in the context of an overall comparative situation we try to necessary to tell all these stories to our customers which is what this campaign has been a part, every response has been very-very good and we had a very good acquisition of new customers because of it.

Avi Mehta: Okay, so there is a pick up that you are, so the March was probably continuing.

Bhaskar Bhat: March is continuing.

Avi Mehta: Okay, sir.

C K Venkataraman: One thing you will have to keep in mind that there is no Golden Harvest in quarter one also.

Avi Mehta: Okay, sir but that will continue till the second half, that should kind of reverse in the second half right sir, that understanding is correct. So in the third, four quarter..

C K Venkataraman: We come back in the third quarter but the extent to which it will come back is rather a smaller than the extent which it used to exists.

Bhaskar Bhat: Yes, because it is at very high level we started recapturing only much later.

Avi Mehta: Fair enough sir.

C K Venkataraman: The net worth cap is around, therefore the extent of Golden Harvest enrollment itself is subdued. So all these things that we are doing is to offset the effect of Golden Harvest in any case.

Avi Mehta: Okay. Sir the second was on the margin front, now if I am not looking on a quarter on quarter perspective from year on year perspective EBIT margin, the Jewellery business are flattish they are probably around the same 10% levels this despite you having hedging gains, etc. I am just trying to kind of understand that given where gold prices and given that gold on lease is back but you don't have any international hedging, could you share us ex of the hedging gains, etc and ex of the Golden Harvest related gains how do you see this margins kind of trending what is the underlying if in the past or FY15 what is the kind of margin that you have kind of obtained because of hedging overall in a FY15 basis. You have given the 4Q number but not.

S Subramaniam: I am not going to give you numbers specifically on what we got on hedging and so on so forth, the point is over the last three years at least, there have been lots of ups and downs, we have had gains on customs duty for the last two year, this year we have got none of that. However, this year we had the premium from the hedging which came in. Last year we had an impact on the premium of gold prices there was a negative impact some of that got reversed this year, so there has been a lot of ups and downs over the last two to three years. In the context of all I think maintain a 10% is I think very-very good so we are very happy with maintaining a 10% if it's even possible because there are these ups and downs if for example duty starts falling, hypothetically at some point in time there will definitely be an impact of that.

C K Venkataraman: And given the low sales growth that we have actually achieved in.

S Subramaniam: The operating leverage you saying.

C K Venkataraman: Yes, the leverage was lower and therefore maintain that 10 was quite a.

Avi Mehta: Sir let me correct myself, that is not the one, what I was trying to highlight is I am not saying that the margins are weak but I was trying to highlight, what I am trying to understand is the 10% margin that we have, there is as you rightly highlighted there is an element of hedging gain, there is an element of gold premiums, etc. I was just trying to get any sense that we could make by.

S Subramaniam: This would be very difficult, let me put it that way, even going forward while gold on lease is back, it's quite likely that we might also do hedging. Because hedging cost is effectively lower than the gold on lease cost as of now. So we would do a balance of both vey rightly. Therefore it's very difficult to predict margins.

C K Venkataraman: Also the other challenge is that because the Golden Harvest is not there in 2015-16 will also be a year of partial Golden Harvest and therefore sales growth challenge is also very big, while we are pulling out of these in terms of new strategies that you are also referring to, if the sales growth is muted then the leverage won't kick in and therefore the margin, even to hold the margin will be actually an achievement.

Bhaskar Bhat: And I think re-pricing will affect.

Avi Mehta: The last part I didn't get, re-pricing what you mean?

Bhaskar Bhat: They have done some re-pricing the entry points, those will also affect the margin on the negative side, it will bring in the sales but it will affect the margins. But holding on to the margin is target as Venkat said by itself a challenge.

Avi Mehta: Okay, sir. That is all from my side I will come in the queue for more questions. Thank you sir.

Moderator: Thank you. Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir if you could explain why 0% like to like growth what happened there, because of pick up in online competition?

Bhaskar Bhat: No, not because of that.

S Ravi Kant: It doesn’t have anything to do with the online foray, some people are making, we had a very good last year quarter four because of two campaigns that we ran in that quarter as opposed to single campaign this year. The other ones that we took a price increase in quarter four so that had some impact, but if you look at the overall for the years the like to like growth is very healthy at over 10%. So this is just a common off.

Abneesh Roy: Sir two follow ups on this you said price growth so the volumes temporarily dip because customer postponed and secondly if you see some retailers like Shoppers Stop are entering this segment in a small way as to start with, are you seeing that as a concern from a longer term perspective?

S Ravi Kant: Not really, they are testing it out in two stores in Bombay, but they are also, we also have an arrangement with them in fact we have a shop in Shoppers Stop Calcutta, so they are just trying to kind of test it out on their own. They are unlikely to pose serious competition but I don’t want to get into specifics name. Customers today are looking at serious optical stores when they are making purchase of this kind. The mode of impulse purchase in Shopper Stop that kind of to be more around…

Bhaskar Bhat: Exactly, I think it’s a good thing that has happening in the industry, the category is more popular, it is getting more distribution and being the leaders in the category the benefits will accrue to us much more than the competition so we can’t treat it as competition it’s a development in the industry and therefore anyway we see that in watches it’s an expansion strategy for the category.

S Ravi Kant: Exactly expanding the market, the more the category is visible because what this will do like Bhaskar said, is that this category is really a plan purchase in the past and so this whole bit of bringing about impulse purchase and getting people to spend a little more on this category it will help in developing and expanding the market.

Abneesh Roy: Sir my next question is on Tanishq and overall Jewellery. Sir is the Indian customer so much aware that he postponed his purchase because of expectation of custom duty cut because this kind of expectation happened in earlier budget also that time we did not see this kind of a decline so isn’t it underlying demand trends have worsened?

C K Venkataraman: This is a view which has come from the industry or so, in our case the biggest reason for the decline is the absence of Golden Harvest. The whole year the short closure of the Golden Harvest led to a short sale of about 700 plus crores which will actually double the growth we have actually achieved had it actually happened. And a good part of this was sitting in the third and fourth quarter and a greater part of it sitting in the fourth quarter. So if the Golden Harvest scheme has not been suspend short closed like we did, our actual growth in Q4 would have been of the order of some 17% as opposed to the negative that we are showing, so that is the biggest explanation for our poor sales performance in Q4. And the other point that you are mentioning may be you are right but this is an industry view which has come in and we were just sharing it.

Abneesh Roy: Sir one follow-up on Jewellery business, I am seeing very aggressive ads of your coming back in Jewellery business after some time that 8% making charge, etc. So is this a answer to the slowdown which you have seen in Q4 or is it because of the competitive ads also proclaiming similar thing and is this percolating to improved growth because you said March has been better but ads have been after that, so after the ads have started how do you expect the expect because it might be a bit early but how positive are you on that 8% making charges ads?

C K Venkataraman: There are two or three reasons as to why we are doing this, one is that for the next one year specifically and even in the slightly medium term the absence of Golden Harvest as a big driver of sales is certainly compelling us to look at more different avenues to grow and getting us refocused on the market share opportunity that is sitting and has been sitting but obviously this trigger is making us go after that opportunity more aggressively. The second is that the 8% part is one part of the entire new initiative but if you look at all the four television commercials on and one of them talks about 8%, the other three talks about other fundamentally superior values that Tanishq offers, many of which are not known to the customers. So we decided that it is time for us to actually take all these points to the public so that a large number of people who actually want Tanishq brand but are not convinced about it from a rational point of view are given enough reasons and that is the background so these two are the reasons doing this and they started in the first week of April and the response has been very-very good and we are quite gung-ho about it going forward.

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

Rakesh Jhunjhunwala: My first question is, you have transferred to the the eye division the Fastrack specs, which was a highly profitable business earlier I am told, then why are you incurring losses in the other business especially you are losing big money, is precision engineering losing money.

Bhaskar Bhat: Not big money it has lost.

Rakesh Jhunjhunwala: Eyewear or the precession engineering or both?

Bhaskar Bhat: Engineering business Rakesh.

Rakesh Jhunjhunwala: You don’t want to quantify it?

Bhaskar Bhat: You will get from next quarter.

Rakesh Jhunjhunwala: And another thing, how is this tax rate come down?

Bhaskar Bhat: I just mentioned that right in the beginning the investment we made in Uttarakhand in the Pantnagar plant Jewellery manufacture has been ramped up, income tax benefit there and that has contributed significantly.

Rakesh Jhunjhunwala: How has the market been in April and may be early May?

C K Venkataraman: Rakesh we started this big visibility for Tanishq and what Abneesh was taking about and that certainly has given us a lot of benefit, a lot of new customer acquisition and is compensating for the absence of Golden Harvest in a significant way even though the share of Golden Harvest was so significant that it is not so easy.

Rakesh Jhunjhunwala: That is history now so let's forget about it.

C K Venkataraman: Sorry?

Rakesh Jhunjhunwala: It's history now.

C K Venkataraman: Yes, correct. But I am just giving you the background because it will continue to be the background for a while.

Rakesh Jhunjhunwala: And what about Gold Plus, Gold Plus had a very good third quarter.

C K Venkataraman: Gold Plus continues to be in that kind of performance in April, May as well.

Rakesh Jhunjhunwala: What are the plans for expansion in Tanishq this year?

C K Venkataraman: We are looking at some 30 odd stores.

Rakesh Jhunjhunwala: In Tanishq?

C K Venkataraman: Yes.

Rakesh Jhunjhunwala: And we are able to get franchises or we are opening it ourselves?

C K Venkataraman: Franchisees, most of it is, the bulk is franchisees. 90% may be franchisees.

Rakesh Jhunjhunwala: And are we talking initiatives in terms of branding?

C K Venkataraman: No, lots of towns are still available for Tanishq to go into.

Rakesh Jhunjhunwala: Right. And what about Mia how is Mia doing?

C K Venkataraman: Mia is doing well, this year we have a big ambition in terms of I think about 15 new stores if I remember right.

Rakesh Jhunjhunwala: Standalone stores are doing well?

C K Venkataraman: Compact 400 square feet and profitable for the franchisee people and even the company so it's a nice model.

Rakesh Jhunjhunwala: Mia has become an individual, independent brand.

Bhaskar Bhat: Almost.

Bhaskar Bhat: On it's way it will take a few years.

C K Venkataraman: Yes.

Rakesh Jhunjhunwala: And from watch division, are we taking further initiatives, what about the, are we going into wearables?

Bhaskar Bhat: Yes, I think Raghu will answer wearables we want.

H G Raghunath: Rakesh we are preparing very well to launch our own technology watches and the development is on, we are very positive about it.

Rakesh Jhunjhunwala: You have some launch date in mind or what?

H G Raghunath: Before the end of this year or third quarter may be.

Rakesh Jhunjhunwala: Launch in third quarter and any other initiatives how the individual brands doing?

H G Raghunath: Titan is doing well, Sonata is profitable, Fastrack continues its journey. We have set up a high end case manufacturing plant in Coimbatore that makes Titan watch manufacturing to a new level, highly competitive it will help import substitution as we go forward.

Rakesh Jhunjhunwala: Are we also exporting something?

Bhaskar Bhat: Yes, watch components we are exporting. Small way last year, but the potential there is very large.

Rakesh Jhunjhunwala: We have some good orders?

Bhaskar Bhat: Right now yes.

Rakesh Jhunjhunwala: We are going to launch it in a separate business or just?

Bhaskar Bhat: No, right now it is, Rakesh you are aware that and this is by and large known that watch manufacturing is a 26 year old business and there is a wage and we have been using outsourcing out of China so the capacity utilization there has been a challenge and this is actually going towards improving our, reducing our cost there is a revenue part so when you utilize this capacity profitably you actually reduce the cost on the other side.

Rakesh Jhunjhunwala: In Hosur?

Bhaskar Bhat: Yes, in Hosur. The other plants are all assembly plants so there we don't have an issue.

Rakesh Jhunjhunwala: So now major initiative is the wearable watch.

Bhaskar Bhat: Technology watch, yes.

Rakesh Jhunjhunwala: Utility watch.

Bhaskar Bhat: That is right and useful and Favre Leuba, we have constituted a team in Switzerland and we will be ready for launch next year.

Rakesh Jhunjhunwala: Fastrack has become an orphan brand I think.

Bhaskar Bhat: Orphan brand?

Rakesh Jhunjhunwala: The kind of growth and advertisement and all it had, the growth has just tapered off, I thought two years ago it was a most promising brand of the company, targeted to India's youth.

Bhaskar Bhat: It still is promising, some growth has tapered off Rakesh you are right, but there is no orphanage that it has gone to, it is being.

H G Raghunath: No, it's on its way to.

Bhaskar Bhat: I understand what you are saying but.

Rakesh Jhunjhunwala: No, it was making very good progress as long it was an independent brand and Mr. Ronnie was leading it.

Bhaskar Bhat: It is still an independent brand. The only thing is it not an independent team in the sales side, it has still got the same brand team is there, anyway that, it will be.

H G Raghunath: The brand scores are good, its health is good all is well with Fastrack, and this year enough initiatives are there to come back to its normal growth.

Rakesh Jhunjhunwala: And what are the initiatives for the internet?

Bhaskar Bhat: A separate team is in place, we have grown quite considerably, and you will see in the next few months we have constituted a separate vertical from June onwards it will be a digital vertical of the company which will run this internet business for us. It's a big initiative, apart from that, there are some things which are coming up in terms of working with the Tata group in a larger e-commerce play, that will take a few months but until then the e-commerce business is growing and our Omi-channel play will come into play when that Tata initiative we partner with.

Rakesh Jhunjhunwala: That means all Tata Company will come together and set up a site to sell product?

Bhaskar Bhat: It's not in that kind of state but it will take, yes all Tata companies and others.

Rakesh Jhunjhunwala: We are not going to do independently any site?

Bhaskar Bhat: Sorry?

Rakesh Jhunjhunwala: Independently our brands will not have a site? Titan products will not independent they are part of the Tata initiative?

H G Raghunath: No, we will have our site, but it is a service that is being considered.

Rakesh Jhunjhunwala: Okay. And what about the specs growth has tapered off in the last quarter in store sales growth?

S Ravi Kant: Yes, that is what I.

Bhaskar Bhat: Can you hear Ravi is talking?

Rakesh Jhunjhunwala: No, I can't hear him very clearly.

S Ravi Kant: Rakesh this what I thought earlier that we had a very high growth quarter last year, the same quarter, quarter four because we ran two campaigns and we also introduced a whole lot of new products so in that when you compare it with the last quarter of last year it looks like that but for the like to like growth is very good and the overall business growth is 24% in fact this has been for the eyewear business one of the best years because expansion has been, you always keep asking us why are we not adding more stores if the model is right, and we have had the best year in terms of addition of stores we have added 70 stores, 73 to be precise. So nothing to worry and on the profitability question that you asked, I think it's there on the slide this year we are very happy to announce that the Eyewear business has broken even, in fact made a good profit it is there in the slide number 23.

Rakesh Jhunjhunwala: Right. Okay, sir thank you.

Moderator: Thank you. We will take the next question it's from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is how much would be gold leasing versus hedging model in this quarter?

S Subramaniam: We almost entirely did gold on lease this quarter because we also got SBI gold deposit scheme so almost entire gold that we bought was on lease.

Vivek Maheshwari: Okay. Then in the presentation you have you have called out 53 crores of hedging benefit which is almost.

S Subramaniam: Hedging benefits all the international hedging that we did earlier, the benefits will come later and that has come in this quarter.

Vivek Maheshwari: Okay.

S Subramaniam: This is if you remember we mentioned it earlier that hedging benefits will always come 4-5 months after the hedging is done. And because inventories have to be only when that consignment gets charged out and the revenues can be recognized on that, so the benefits will always be, I think a lag effect of 4 to 5 months. And that lag effect is what benefited this quarter.

Vivek Maheshwari: Okay, and the equation between gold on lease versus hedging is in favor of gold on lease at the moment right that is why you have moved there?

S Subramaniam: Yes, it is in favor of hedging now if you take the economics as such. The balance sheet might look different because of in one case there is cash payment, the other one it is not. But effective cost of borrowing is lower in international hedging as of now.

Vivek Maheshwari: Then why should you do gold on lease and not hedging?

S Subramaniam: That is what we will do both.

Vivek Maheshwari: And 53 crores in this quarter the profit that you made in Jewellery almost a quarter of that has come from hedging right?

S Subramaniam: That is true.

Vivek Maheshwari: Okay. And there is no way that we can know how this will be over the next few quarter right?

S Subramaniam: No, even I can't predict.

Bhaskar Bhat: No, not possible.

Vivek Maheshwari: I see. Second on the gold harvest re-launch how has been the customer feedback or response to shorter duration or how do you see the trend because you would have started receiving the deposit.

C K Venkataraman: We are reaching our targets on Golden Harvest, no issue.

Vivek Maheshwari: No, issue. And third thing on tax rate I thought the sunset clause had set in three, four years back so why are you seeing this change in tax rates now?

Bhaskar Bhat: Because of a plant in Uttarakhand.

S Subramaniam: There is a Pantnagar plant, the sunset has happened in the Dehradun one, watches. Now this is the new plant which we put up about two, three years back and that is the benefit which we will get, we got for last year fully and this year as well 15-16 also we get 100%.

Vivek Maheshwari: So what should be we take as tax rate for next year?

S Subramaniam: It’s not that simple but never the less the benefit will come as those should be somewhere in this ballpark.

Vivek Maheshwari: So we can basically extrapolate fiscal 15 to fiscal 16 broadly is that what you are saying?

S Subramaniam: Broadly yes.

Vivek Maheshwari: And finally on the studded we saw 18% decline now I know there is an impact of Golden Harvest but how were you seeing the discretionary environment you can answer both or either from studded perspective or from watches perceptive when do you think things picking up on the ground?

C K Venkataraman: The performance of studded in April and April actually, May is too early to comment has in pretty decent and in the absence of the Golden Harvest that indicates an improvement in the discretionary environment one would think.

H G Raghunath: From the watches perspective our Swiss made watches Xylys it has grown by 6.3% and it is continuing to sell well but finally 6.3% seems to be the growth that we are seeing in these kind of watches, they are pretty Rs.15,000 to Rs.25,000 is the UCP so it’s doing well from a 6.3% growth perspective so that is what I could say.

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

Amit Sachdeva: Sir coming to studded just back again so if you could talk about studded obviously seems to be that there is a large Golden Harvest impact of the studded as well because I would assume people will time it during your promotion quarter to sort of have the studded benefit as well, promotional benefit as well and Golden Harvest kind of discount as well. So could you sort of this (-18%) can you split if the Golden Harvest was not there how is the underlining looks like or the demand actually was pretty weak for studded as well and what is the per ticket size of studded Jewellery has it changed over time or how you seeing the business studded in all this sort of context?

C K Venkataraman: I think if I remove the Golden Harvest we are probably at some 15% kind of growth in Q4 on studded.

Amit Sachdeva: Okay. And sir what is the average ticket size of the studded piece that you are selling only on the Tanishq side not including any Mia or which may have studded element as well.

C K Venkataraman: Talking about the full year?

Amit Sachdeva: For this quarter and may be full year as well, just want to see whether directionally consumer is taking to the same or there is a change in purchase or ticket size there.

C K Venkataraman: It depends, it is yo-yoed a little bit but it's in the ballpark of around Rs.62,000-63,000.

Amit Sachdeva: Okay, it has not changed much I think I will assume that it's been pretty much the same figure as or now.

C K Venkataraman: On annual basis it's not too much but the high value segments have been a little slippery in the early parts of the year at least, so that is the thawing that we are hoping to see in more and more people the earlier question on the discretionary demand and Vivek was asking. We are starting to see some thawing there and we are also investing in '15-16 in lot of inventory, marketing in the high value to push that.

Amit Sachdeva: Sure. Sir in gold like you mentioned about some price correction you have done on the lower segment of the Gold Jewellery and could you approximate for us that what proportion of your total sort of sale volume is that piece of Jewellery and at least it is giving you a correct image that Tanishq is not that expensive and it's sort of brings in more footfalls and.

C K Venkataraman: I won't give a percentage there, but shall we say it's a significant initiative and this is expected to impact a large number of customers in changing their view about the value per money of Tanishq and therefore we expect it to have a payoff certainly in the medium-term and we are also hoping in the short-term.

Amit Sachdeva: And sir when I look at some price correction has happened on the lower end and that should perhaps would have a ripple effect on or at least a rub off effect on the all economic segments because say something had a making charge of 22% and when you were to reduce charges on the lower end it might just mean that you are also taking the entire price curve down maybe if not in the same way but directionally. Is that something that should be interpreted in this way as well?

C K Venkataraman: Yes.

Amit Sachdeva: So basically essentially seeing that you are actually discounting and then trying to match a competitive price and trying to be as competitive as some others are not in the same price to price but at least for the values you offer and the price you charge increasing the value proposition in places.

C K Venkataraman: Correct. They don't use the word discounting because discount is done in a short term.

Amit Sachdeva: Sure, it's a price correction.

C K Venkataraman: We have corrected our price to offer more concrete value to the customers.

Amit Sachdeva: Fair and have you seen some amount of elasticity already in the month, have you seen some behavior change already with that strategy?

C K Venkataraman: Very much, we combine this campaign that we briefly spoke about earlier, to communicate the price correction as well as not so much of correction but the fact that Tanishq prices are very attractive as well as many other benefits of Tanishq which were not known to customers, we are seeing a very good traction on this in April.

Bhaskar Bhat: And you will see this, we will have a hockey-stick effect the point is, things like this take a while even though we have advertised it will at the time of many customers including those who are our loyal customers used to find that our price a little uncomfortable but the more importantly new customers when they discover that Tanishq is accessible at least when the hockey-stick effect because to wean a customer away from an existing jeweler takes longer so today we are seeing probably the effects of an existing customer.

C K Venkataraman: And also earnings signs of the new customers. So 20 years of certain perception versus one month of new perception is too early but the signs are all very-very positive.

Amit Sachdeva: Sir do you anticipate others might just replicate your pricing and then they may also behave in the same direction.

Bhaskar Bhat: It is okay, we know it will happen. We are playing on the strength of the brand, the brand strength continues to improve and we are investing in that. There will be, the point is the other we were seen as a little unreasonably higher at a certain price point so now it has become reasonable, it's not that the price war has started or something like that.

C K Venkataraman: Other important angle, if I take one of our largest, one of the largest players in the industry, whose profit margin is 3%, very large, but 3% profit margin and the ability to go down on price is also determined by your wealth of the company. We are also betting on that.

Amit Sachdeva: We totally understand that because there is certain premium obviously consumer is willing to pay for a Tanishq brand.

C K Venkataraman: So one is that premium that the customer is willing to pay, the ability of competition to drop further is not high.

Amit Sachdeva: Correct.

Bhaskar Bhat: It is the reason why Cartier doesn't sell in India.

Amit Sachdeva: Sure, fair enough. Sir my second very quick question is that if you could split out what is the leased portion of the gold in your inventory right now and what is the upfront bought just as a.

S Subramaniam: Most of the gold that we bought is leased now.

Amit Sachdeva: So you say 70 to 80% is leased in the total.

S Subramaniam: It's more than 80-85%.

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

Puneet Jain: So what will be your same so growth overall in FY15 because it has been very volatile across the quarters.

C K Venkataraman: You are talking about Jewellery?

Puneet Jain: For Jewellery yes.

C K Venkataraman: It may be flat.

Puneet Jain: Okay. So do you have any particular target for next year as we move forward?

C K Venkataraman: For same store or total?

Puneet Jain: For total and both same store.

S Subramaniam: We don't give guidance normally you know that Puneet. We don't give guidance.

Bhaskar Bhat: We have very aggressive targets shall I say and aggressive when you are at 8 for the company growth at 8, aggressive will be a few percentage points more than 8.

Puneet Jain: Okay. Also in terms of margins I understand that there are lot of moving parts in terms of change in hedging, in terms of your some amount of activation so do you have any target in terms of proportion of diamond Jewellery as well and how should one think about various pulls on margins from all these factors?

C K Venkataraman: The biggest challenge for the Jewellery division in the last two years has been sales growth and the biggest reason for that sales growth being stagnant is customer's sentiment. More than any other factor it has been the customer sentiment. Now for the biggest objective we have for '15-16 is actually kick start the sales growth. And because we are in intrinsically high profitable and high return business we may be actually investing in the growth for 15-16 so that we build a platform for the next few years at which point in turn the margin growth potential can actually be capitalized, so right now the focus is on sales growth.

Puneet Jain: Okay. And one more question with respect to this is that you are opening more stores in smaller towns and so what is the brand acceptance you are seeing in these smaller towns with respect to Tanishq? And how does the throughput of smaller towns compare with your existing overall throughput in terms of per square feet?

C K Venkataraman: We typically have a target of around 80,000 to 1,00,000 per square foot for the first year and we set up stores in catchments whether it is big city or small towns basis the sales opportunity that catchment represents and helps us to hit this 80,000 to 1,00,000 so that the payback is one or one and half year kind of thing, the breakeven period I mean. And most of the small towns we have entered are doing reasonably well whether it is a Ganga Nagar or a Panipat or a Haldwani or Asansol. If I take the situation into account where the situation is one of guarded optimism across the board but given that it is decent enough, it is not as good as let say two years or three years back where we may have hit a 25 crores in a Panipat in year one, maybe we hit an 18 or 19 crores in year one now. But considering that the medium-term and certainly the long-term outlook for this business and this brand is positive, we don't want to now wait and things to improve. So we are confident of hitting that 18-19 kind of crores in a Panipat kind of town and there are many Panipat kinds of Kashipur for example.

Puneet Jain: And any idea where you are planning to open stores in next year some examples of towns?

C K Venkataraman: These kinds of towns.

Bhaskar Bhat: Middle India and in large towns under presented areas are not many, but it will be middle India towns, one per town.

Puneet Jain: Okay. And for how long can you do that?

Bhaskar Bhat: Several years I think, Tanishq in my opinion we are at 200 stores. Towns is 110 but the potential I think if you take the Nielsen study 400 is the number but let us say it may not be 400 but another 100 towns actually.

C K Venkataraman: Because as the time passes in the towns also become bigger.

Bhaskar Bhat: They all are becoming so urbanized.

Puneet Jain: But just one final question on this, why do you have targeted 30 towns and how do you decide on the target why not have a more aggressive target?

C K Venkataraman: Because even execution is not easy and you go step by step, when Bhaskar says 225 towns it doesn't mean all 225 towns today. It was an answer to your question when do you start.

Bhaskar Bhat: No, it's like this, see there is a store experience you have to deliver. You have to get the right people, train them. Yes the maths is easy to do but execution what Venkat says to set up, to find the right franchisee, to recruit the people to ensure that excellence in that store is achieved, even our existing stores to run them, I am not saying it's a challenge, there is a certain system. So yes may be you could 50 why not is the question? It's a good question worth answering but as of today this is the kind of number, for the whole company we are going at some 185 stores for the year or something like that. So this principle of delivering brand experience at that location at the same high level that you deliver in an Andheri or Dickenson Road is important and that is where the brand is sitting today, not just merely expanding because there is potential.

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

Rajasa K: I just want to understand the new marketing scheme that you are propagating which is on lowering the pricing that you have on various products, so is it right to infer that you have lowered that across your portfolio or is it just the entry level pricing?

C K Venkataraman: Lot of products we have lowered the prices in the Plain Gold Jewellery.

Rajasa K: Okay. And therefore all else being equal should we expect a drop in margins in Jewellery?

C K Venkataraman: We have done it across a good part of the Plain Jewellery category.

Rajasa K: Right. And so would that mean that all else being equal one should expect drop in gross margins in the Jewellery segment category as a whole for next year because of this?

Bhaskar Bhat: Yes. The idea is to make it up the sales should make it up, therefore we will get back the leverage.

Rajasa K: Right. And sir just one clarification when you had the Golden Harvest Scheme you did have some amount of cost associated with that as well in terms of offering higher yield. How do I understand this new pricing that you have now with respect to the Golden Harvest scheme that you had earlier from purely a margin perspective?

C K Venkataraman: The earlier Golden Harvest scheme was more attractive to the customer and therefore more expensive to the company. So we had a 1 on 11 versus the current scheme is not 1 on 11. So there is a difference in the cost to the company, A. B) the share of Golden Harvest to total sale was close to 30% earlier so the total cost on the total sale was weighted by 0.3. Whereas this year the share of Golden Harvest may be one fourth of that or even less for the whole year. should be weighted by a much lower percentage, therefore the total cost Golden Harvest on the total sale will be many bps less. And to some extent compensate for the gross margin dilution that you are describing.

Rajasa K: Understood. Sir so you mentioned, I noticed you have about 3000 crores of other current liabilities is that all the advance from customers? 300 crores I am sorry.

S Subramaniam: 300 is advance part of that is that. It's a much lower number it's nowhere compared to what it used to be last year, last year was about 1300 crores it's year its' ballpark around 70 crores.

Rajasa K: 70 okay. And sir you mentioned that you are looking at adding about 30 Tanishq stores that is 30?

C K Venkataraman: Yes.

Rajasa K: Sir that I almost triple of that what you did in FY15.

C K Venkataraman: We did nearly 85,000 square feet with that smaller number. And we may do, not much more with the larger number, because in a Panipat kind of town we are talking about 2000 square feet stores so 30x2 is 60,000.

S Subramaniam: It is in order to 90,000-100,000.

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

Prasad Deshmukh: Sir two questions. Firstly on this reduction of making charges are you expecting the fall in margin to be recovered completely from sales pick up or are there some offsetting cost initiative that you are taking up?

C K Venkataraman: No, it is all from sales.

Prasad Deshmukh: Okay. Second is again on the same topic what change suddenly in this year that you have gone ahead and reduced the making charges across whereas the perception has been there for ages, that the Titan charges higher than the competition so what has changed in this year.

C K Venkataraman: Actually it's a plan which has been in the pipeline for about six months from we took the decision in the middle of 2014-15 and the execution of this was visualized for April even when we took the decision in '14-15, it is to do with the sales growth challenge that we have had for the last.

Prasad Deshmukh: The challenge is for the whole industry it's not just for Titan right?

C K Venkataraman: We are not worried about industry.

Bhaskar Bhat: We want to grow, we want to get leverage, so we don't worry about the industry. If the consumer perceives us to be expensive we want to be consumer friendly and we want to make money.

C K Venkataraman: And if I go back to let us say two years back and three, four years prior to that there was an overall economic boom in the country, there was a tailwind effect which aided the industry and aided Titan Company but the tailwind sort of died off and the industry is struggling and many other industries are also struggling but there is a unique situation where the Titan Company share of industry is very small, so how does it get more aggressive about growth in a stagnant situation, by increasing share. How does it increase share by capitalizing on the equity that the brand has but the access is less. So you bring the access through greater value for money.

Prasad Deshmukh: But probably it is now based on what you are saying it appears as if consolidation of the industry may slow from here and that is why you have taken this step instead of earlier focus of having more store than focusing on margins, now you are trying to focus on lower making charges and get market share.

Bhaskar Bhat: We are adding 35 stores.

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

Richard: Hi this is Richard here. Thanks for taking my question. Sir I just wanted to carry on the debate earlier regarding the shift to a lower margin strategy, if this down turn is really what has caused this shift, don't you perceive this to be actually temporary because you are actually doing a structural shift away from what you were doing earlier in terms of whatever you used to say regarding the good perception about design, brands, etc., of Tanishq and that is why you thought you actually deserved that premium. But now all of sudden you actually deciding to go away from that strategy more on a structural basis. Whereas the reason seems to be the downturn which I guess is more cyclical.

C K Venkataraman: The thing is that when you meet customers of Jewellery and we have been doing this now for so many years so very unique category where the sense of value is very-very different from any other category. And when the things are a little bit down in the overall sentiment, the sharpness with which the customers perceive value becomes greater. So the same price difference let say two or three years back when the customer situation was much better was also perceived by the customers differently, whereas when I am in a little bit of a spot at home and it's not so easy to live life, then my sense of value actually sharpens and I start questioning things more. So even though the absolute difference between our prices and somebody else's prices may have been no different three years back, the impact of that on customer changes because of the nature of the situation. And because the sales pressure is also there and when these come as triggers to sort of re-evaluate the opportunity that the brand has, if you go and talk to so many customers they want Tanishq but they feel that Tanishq is either not for them or it is not really worth the money and so on and so forth. Our existing customers also say that look if you make it a little easier for me I will actually spend more, I will shift everything to you and so on and so forth. So therefore if you look at the medium-term opportunity that is there for a significant market share gain and then look at that as the larger purpose than this thing of holding on to margin because finally the margin is to deliver a final EBIT margin. The gross margin is not what any company is chasing, gross margin is a positioning. Even now we are premium it's not that we are not premium.

Bhaskar Bhat: Exactly. So Richard let me give you another perspective of this. Look we are selling to 1.3 million customers roughly, I am just giving number. Our estimate is that at least 50 million people are buying Jewellery every year. Now the point is I have assumed that at least 30 million of those 50 million people are aware of Tanishq, are desirous of Tanishq, I am just giving a number. The point is that the access of Tanishq is lower than its awareness both in terms of distribution as well as in terms of the price point. So it is going to open up the flood gates for us because there people, this is the only brand which has such a high awareness so therefore it will give us the number because the 20 years as Venkat said we have been at a certain price point, yes there is a certain strategic shift but it is going to bring us large volumes of numbers of people and once you get into this category with a certain brand, stickiness is very high. So this is a call we have taken.

Richard: But I recall about may be one and a half to two years back in the same forum we were having this discussion when basically you have done indirect price increases where the distributors or the franchisees had to bear the brunt in terms of an indirect price increase. The reason you used that time was that it doesn't matter what the consumer sentiment is but then if a customer wants to buy Tanishq because of the brand strength, etc., they will be willing to pay this premium even if it's slightly higher in a bad time. I am just asking this and pardon me for being blunt, has there been any sort of a study that you have done internally?

Bhaskar Bhat: No, Richard I don't remember us having increase the price at all. We reduced the margin for our franchisees because returns were very-very high and I think we were leaving too much on the table for them and it was unreasonably high and they also accepted that the investment in the stock was ours so it was in that context that we captured margin for ourselves. We didn't increase price for consumer.

Richard: Okay. And let say we get back two year or three years later to a better economic scenario and that you see the kind of growth that you have been used to seeing in the past are you going to retain this sort of strategy or then you think that you will be able to again capture a greater share of margin in which case don't you think the consumers will become a little confused as to what exactly the brand proposition is?

C K Venkataraman: No, but Richard what margin are you talking about? Company is chasing an EBIT margin, route to an EBIT margin is a high premium, high gross margin route. Or a medium gross margin, high sales route, so therefore it is not that we want to flip and flop on this, may be after a fair amount of reflection on this, maybe we were resisting this for a while in our own minds, we have moved to a more value for money premium positioning. It is still premium, we are the most expensive brand in the country, except that we believe that we have reached a level where the customers say this is an acceptable and reasonable premium.

Bhaskar Bhat: Richard I think I understood your question in a different way and you can correct me if I am wrong. I think the kind of advertising we did to communicate the point that we are at another price point or is perhaps sitting in your mind that is the brand value proposition getting diminished, that is not the case, I don't know that is my, because people paying a price let say 8% making charge, the brand is still standing very tall, the advertising that we are doing, the products that we are keeping in the store, and the kind of designs we have that is what is bringing the brand, the price was a bit of a barrier so we have corrected it. However, the communication of the price initially have to be done in this manner is that, is my understanding right of your question.

Richard: Right, that is right.

Bhaskar Bhat: And we are still investing a great deal, you will see a campaign break out tomorrow or day after which you will see in a very different way.

Richard: Sure, okay. I will look forward to that. Meanwhile you can just take one question on the quarter. Can you help us understand as to what are the precise reasons why the growth behavior has been so different between 3Q and 4Q because both the quarters didn't really have Golden Harvest but in 3Q we still saw about a 25% volume growth in Jewellery and this time it has become (-11), I heard you say something regarding that customs duty cut expectation in the beginning is that the only reason for this?

Bhaskar Bhat: Decline, change in the growth rate.

Richard: So you had about 25% volume growth in 3Q which turned in to a (-11%).

S Subramaniam: There is also a base effect don't forget that we had a very bad Quarter 3 last year. So it was always expected that Q3 this year would have been better. So there is a base effect and we had fairly strong Q4 last year, so we also are looking at a base effect. Other than that January and February were very weak months this year. Clearly if you have seen the papers, gold was going at a considerable discount for the first two months and it was going at a discount because of this expected price cut. So clearly the Jewellery industry was in decline in those two months. March did pick up, so this is quite likely that we also stuck in that.

Richard: Sure. Not only the base sir because even if I look at the absolute number, third quarter you did about 2350 crores of Jewellery sales which actually fell to about 1830 crores in the fourth quarter so I understand part of the reason is because of the base but even if I were to look at the absolute amount, there seem to have been quite a bit of a difference in behavior between the two quarters.

C K Venkataraman: We also pushed a lot of entry level low end kind of if you remember there was campaign where the son is buying Tanishq Gold Jewellery with his first salary to his mother. So the whole attempt in Q3 was to push volumes in gold and all that. And also the share of Golden Harvest in Q3 versus the share of Golden Harvest in Q4 those are also angles to keep in mind when you look at the why Q3 was better than Q4 in terms of growth rate.

Richard: Sure. And last one, on Gold Plus I recall you stating last quarter that you are now pretty confident of 20% kind of a growth trajectory. What's happened there exactly?

C K Venkataraman: In Q4?

Richard: Right.

C K Venkataraman: In Q4 we had much better performance in Gold Plus there was a decline but a very-very marginal decline.

Richard: Okay, so is that a 20% growth outlook for Gold Plus on a steady state basis intact or you think there can be some adjustments to that?

C K Venkataraman: I think we are gunning for something like that in any case for '15-16.

Moderator: Our last question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.

Arnav Mitra: My first question is on Golden Harvest you said you are meeting internal targets but if I remember it was about 1400 crores of amount of money in the harvest last time, and you can I think not go beyond 700 or 600 given the regulations. So are you confident that you will at least exhaust whatever you can at least go up to.

Bhaskar Bhat: Yes.

C K Venkataraman: Yes, we are exhausting.

Arnav Mitra: And would this happen by end of second quarter next year by which.

Bhaskar Bhat: This is not tap, I think it will take time we hope we will come to it.

Arnav Mitra: My question was more that, is the consumer response similar given that it's not as profitable or as attractive?

Bhaskar Bhat: So, I think we should not get confused. The women who come are not looking at the discount alone. It is the convenience of buying, it is going to be we are not as powerful but certainly very attractive and that is our bet. People will come.

C K Venkataraman: It took couple of months for everyone to get used to the idea but after they got used to the idea they are now grabbing it.

Arnav Mitra: Right. Lastly just one question on the making charge bit. So in the Plain Gold Jewellery what is actually the average quantum of cut that you would have taken across the Plain Gold Jewellery segment?

C K Venkataraman: I wouldn't like to share that.

Arnav Mitra: But my question was more because it is material enough to move the perception or it's over the entire portfolio?

Bhaskar Bhat: Not just perception it's material enough to move the sales.

Arnav Mitra: Right. And when will you how much time would it take to let say evaluate whether this is working because your comment was that it will take a bit of time but given that the campaigns are on right now shouldn't you see the direct impact straight away in the first or second quarter of next year?

C K Venkataraman: We are seeing it, it's just that the hockey-stick effect is what we are gunning for so the lower curve of the hockey stick is visible but the end game is that handle. So that will take a while but we are patient, we are clear and we are persisting.

Bhaskar Bhat: We are very confident it will happen, the brand is very- very strong and people come to check out not every day they go the jewellery stores so there is a certain inflow of customers, it doesn't happen overnight to get back to that level of.

C K Venkataraman: So the view is that the investment in this for a certainly a medium-term competitive advantage gain so that the sales growth hockey-stick effect will come, so that the margin will come back, improve, etc. we are okay with staying on it for some time. We are not in a hurry.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Subham Sinha from Tata Securities for closing comments. Over to you sir.

Subham Sinha: Thank you everybody and on behalf of Tata Securities I would like to express my gratitude for attending the call. Thank you, you many now discontinue.

Bhaskar Bhat: Thank you.

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