



“Titan Company Limited Q2 FY’19 Earnings Conference  
Call”

**November 09, 2018**



**MANAGEMENT: MR. BHASKAR BHAT –MANAGING DIRECTOR, TITAN  
COMPANY LIMITED  
MR. SUBBU SUBRAMANIAM – CHIEF FINANCIAL  
OFFICER, TITAN COMPANY LIMITED  
MR. C.K. VENKATARAMAN -- CHIEF EXECUTIVE  
OFFICER, JEWELLERY, TITAN  
MR. S RAVI KANT – CHIEF EXECUTIVE OFFICER,  
WATCHES AND ACCESSORIES, TITAN  
MR. RONNIE TALATI – CHIEF EXECUTIVE OFFICER,  
EYEWEAR, TITAN EYEPLUS  
MR. AJOY CHAWLA – CHIEF, STRATEGY & BUSINESS  
INCUBATION OFFICER, HEAD, TANEIRA & SKIN, TITAN  
COMPANY LIMITED**

**Moderator:** Good day, ladies and gentlemen, and a very warm welcome to the Titan Company Limited Q2 FY'19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note any recording or reproduction of this call is strictly prohibited. I am now glad to hand the conference over to Mr. Bhaskar Bhat –Managing Director of Titan Company Limited. Thank you and over to you sir.

**Bhaskar Bhat:** Good evening to everyone. First of all, belated Happy Diwali to all of you. Thank you for being on the call. Before I start the formal proceedings of the Q2, I would like to share something with you the company a couple of months back launched a very unique initiative, in fact, it was launched jointly by a business associate of ours from Visakhapatnam, Mr. Rana Uppalapati who's family has been associated with us for over 25-years. A very unique young man who has offered to skate across the golden quadrilateral, starting two months back for a call, he is skating 6,000 Kms everyday, 75-100 Kms and promoting the cause of the exploited girl child in India, and he has now covered about 3,600 Kms having crossed Karnataka, Maharashtra, Gujarat, Madhya Pradesh having gone to Delhi and now he is in West Bengal and he will then come down to Visakhapatnam and so on and end up again in Bangalore. But on the way he is promoting the cause along with Titan for the girl child, it is called ECHO, and I would like to earnestly request all of you to engage with this program in whichever manner you think you ought to. There is a small audio.

Thank you for your patience. That was recorded sometime back, that 2500 Kms has now gone to 3700 Kms.

So let me get on with the performance. We have had very good quarter with the exceptional retail sales growth during the quarter. We have actually achieved target in every business. We continue to grow. Revenues have grown 26% but EBIT only by 4%, we will talk about that in a couple of minutes. Watch business is continuing its excellent run at 18.7% PBT margin, it is the highest recorded up to now.

Jewellery division had come out very strong in growth terms on top line at 29% but growth in profits has been muted and I will talk about it in a minute.

Eyewear business: The change in strategy is working. We have redefined our price value equation and that is bringing in volumes faster than value but it is good for the business and is eyeing 10 million per year customer base.

As a part of our treasury operations, we had invested Rs.145 crores in IL&FS Group in May and June, the inter corporate deposits and based on the current assessment of IL&FS's ability to pay we have had to provide 20% of that which is Rs.29 crores as the measure of abundant caution.

Specifically, about the Jewellery business, gross margin was lower than the previous year as Plain Jewellery segment grew much faster than the Studded Jewellery segment. Also, the

division had taken over two large and profitable franchise stores in Hyderabad through a win-win basically it is better for us to take over a franchise of this size and investment where we can bring in more and more investment when needed, sometimes franchisees get limited in their approach both financially as well as on manpower. In this case, we have recognized Rs.15 crores as the franchisee compensation and it includes the assets that we buy from them and so on.

The second is advertising spend has been much higher and that of course has gone into brand building and has paid off but it is significantly higher during the quarter. There is also an effect of inventory valuation because of the timing deferrals in the manner in which we value inventory which we will explain in greater detail and almost all of it or all of it has already been secured in October.

So those are really the high points. The addition of stores we have covered 40. I will stop here. It has been a good quarter according to us, as I said. We should get to the Q&A straightaway. Happy to answer your questions. With me are CFO – Subbu, Venkat -- CEO, Jewellery, Ravi – CEO, Watches and Accessories; Ronnie – CEO, Eyewear and Ajoy who is Chief of Strategy as well as business incubation and who heads Taneira, and Skin as well and a few other colleagues of mine from finance.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** My first question is on the two acquisitions of the assets of the franchisee. Any more plans sir in the medium-term?

**C.K. Venkataraman:** These kinds of events come once in a while. Nothing is planned in immediate future.

**Abneesh Roy:** You said these are very large stores. You must be having large stores in the franchisee in other locations. So why can it not happen there?

**C.K. Venkataraman:** No, there are special circumstances which warranted this to happen. Otherwise, when there is a win-win situation with the franchisees running it, we let it run. In this case, win-win was our taking over and therefore we took over.

**Abneesh Roy:** These two franchisees leave the business or they will be still involved?

**C.K. Venkataraman:** No, they left the business.

**Bhaskar Bhat:** Single franchisee owning two stores.

**Abneesh Roy:** Sir, you said more investments. So once the store is set up, then what are the investments? I could not understand that part.

**Bhaskar Bhat:** No, it is like this, what I meant was the price we are paying is for whatever he has invested but when you grow, when you have to renovate a store for example, you need to bring in fresh capital and renovation today is happening after seven years. So those are also quite significant. When you are running two stores, it is not small. There are other reasons but once in a while we do give credits to some of these. This is a L2, right and we do find that sometimes inability to pay. All these are defaults....of course, , he spent 20-years with us I think.

**Abneesh Roy:** Sir, my second question is on IL&FS. So you said abundant caution. Now you have provided only 20%. Do you really feel that you will get back the balance 80% based on current understanding or Q3 could see a much bigger write-off, the way current things are because I think this will take lot of time and abundant caution I could not understand that part.

**Subramaniam S:** Abneesh, the 20% was made obviously as you know for September-end. We are still awaiting information. As on 31<sup>st</sup> October, whatever report they have given to NCLT is still pretty vague in the sense that they have basically said what they are planning to do which is either sell it off, divide the assets, sell and so on and so forth. There is also a talk of equity infusion into the company and so on. So at this point in time I do not think any of us are clear as to what is happening. They have also sought for more time. So you are right, we may possibly have more information over the next three to six months. So, we need to possibly wait. I cannot say anything more than this as to how much we will actually recover and when we recover.

**Abneesh Roy:** Could you comment on the gross margin of Eyewear? I remember in the analyst meet you had said the launch of the affordable eyewear will not lead to significant impact on margins. I understand lot of the higher cost is because of ad spend but we do not have any clarity what is the gross margins now versus earlier.

**Ronnie:** Abneesh, the margins have improved from last year by about 1 or 2 basis points and that is basically because we did not lower our prices actually, we just introduced a whole lot of new products at lower price points where we managed buying. We started the manufacturing also. So all these things are kicking in now and our margins are better. Especially in sunglasses where we had taken a price increase because of increased duty, so even that is beginning to kick in. So the margins have been better as compared to last year. In terms of cost being higher, yes, advertising cost has been slightly higher and therefore the lower margin overall.

**Moderator:** Thank you. We will take the next question from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta:** Sir, I just wanted to understand the Jewellery sales growth a bit. You have seen second quarter healthy 29% growth, 18% adjusted for the GST impact. Do you still retain your guidance for about 29%, 30% growth in the second half?

**C K Venkatraman:** The Dussehra, Diwali season performance has been very-very encouraging, we are in the (+25%) growth rate in this 30-day period and we are quite positive that the sentiment is good particularly in our kind of segment and all our actions are driving that sentiment positively and migration

that has been happening and continuing to happen, will keep that kind of momentum for certainly the balance of the third quarter and we will reassess at the end December on the fourth quarter.

**Avi Mehta:** So you are saying that at least for the third quarter you will retain that guidance, that is how I should read it? Second bit was on the margins front on the Jewellery side. Now, while I understand you did highlight some one-offs over here, the franchisee bit, I am not very clear what exactly happened there, but there is that one-off plus there is the one-off which is the inventory write-off. But all said and done, even if I make these adjustments we are still at about 11.5% and I recollect the start of the year you had said that you would probably see flatish YoY. Do you still believe in that guidance or maintain that guidance or do you see there is a downside risk given the sales growth guidance also has undergone some change?

**C.K. Venkataraman:** Just to refresh on that conference point, I was asked if there was any potential for margin expansion because of the higher sales growth, I had said no, we are going to be investing and we want to maintain margin and if expansion happens, well and good but our focus is on sales growth by investing and maintaining margin. Now on H1, we have actually delivered on target EBIT as well as marginally improved the EBIT margin by 20 bps despite being lower than plan on sales growth and despite Rs.18 crores which the FIFO loss coming back to us in Q3. So therefore, the view on the margin maintenance for the year continues to hold.

**Avi Mehta:** Sir, just a clarification. You said you have improved by 20 bps. This is how are you making ...?

**C K Venkatraman:** This is in comparison to our internal.

**Moderator:** Thank you. We will take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra:** On the Watch business you had this 18-19% margin in the first half this year which is exceptionally strong. You have normally been in the high single digit to mid-teen. So should one see this as a new normal now that you have done it for two consecutive quarters or how should we look at the full year trend here and any headwinds you see in the second half on the margin front in Watches?

**Ravi Kant:** This is not the new normal but I would say that it is pretty close to the new normal. By the time we end the year it may be close to about 15-16%. The reason for the margin being very high in this quarter is that two of our major collections that we were launching, which were supposed to be backed by advertising spends and very-very impactful, campaigns have got push from this quarter to the coming quarter. So the ad spend in this Q3 will be very high. A lot of these things are based on what happens in each quarter, sometimes activation happens and therefore the payout difference is there. We have said in the past that it is best to look at margins by the time we close the year. So in short, it would be about 15-16% I think by the end of the year.

- Arnab Mitra:** Secondly, just on this franchisee compensation, is it purely one-off in nature or are there some operating cost here which anyways would have been there had you run these stores on your own in the quarter?
- C.K. Venkataraman:** Actually, this is one single franchisee who is running two large stores in Hyderabad contributing to nearly Rs.250 crores of sales. Because of these circumstances in this situation, we decided that it would be in the interest of the company to take these over and maximize the sales and margin opportunity over the next five, ten years. So this Rs.15 crores is paid for that opportunity, it is one-time.
- Moderator:** Thank you. We will take the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** First, on the 25% guidance for rest of the year, so if this quarter is 29% and third quarter has started on a positive note, Venkat, is there any specific reason that you are not sticking with 25% for the fourth quarter also, is there any uncertainty compared to let us say after the first quarter ended or before the first quarter which is making you worried?
- C.K. Venkataraman:** Actually, the growth in Q2 was 38%, in the 40-days nearly after that it is about 29% and therefore we are quite confident about Q3. These are dynamic things and as we come closer to the end of Q3, we will be in a better position to reconfirm. I am not worried at the moment, but suddenly some things can change, so that is unpredictable; gold rate can go up and suddenly put a dampener in the demand and all that, that is the only aspect of it. We would reconfirm closer to end of Q3 rather than say outright now.
- Subbu Subramaniam:** Also, Q3 has a large number of wedding dates. Therefore, plain gold Jewellery is also likely to be higher, sale will be higher but Q4 is not likely to be.
- Vivek Maheshwari:** A couple of small questions; one is this unallocable amount of Rs.40 crores in the segmental. Does that reflect that IL&FS one-off?
- Subbu Subramaniam:** Yes, that includes.
- Vivek Maheshwari:** So Subbu, in the main P&L, where is it getting reported?
- Subbu Subramaniam:** It is in the other expenses.
- Vivek Maheshwari:** So that is what is also impacting EBITDA?
- Subbu Subramaniam:** That is right.
- Moderator:** Thank you. We will take the next question from the line of Nilay Shah from Morgan Stanley. Please go ahead.

- Nilay Shah:** Venkat, this number that you have alluded to for 3Q very specifically, does that include the L3 sales which were not captured in 2Q basically the gap between the 29% and 38% for the Jewellery business?
- C.K. Venkataraman:** The 29% I spoke for 3Q is the retail sales growth. I am just clarifying to your question, 29% is 3Q 40-day growth, there was a difference in the growth rate of primary in 2Q and the retail in 2Q because of the base effect of 2Q FY18. In some sense we will see a reversal of that in 3Q because the franchisees will buy more than we sell.
- Nilay Shah:** This 29% does not include the 9% gap which is there?
- C.K. Venkataraman:** This does not include that gap.
- Nilay Shah:** So the reported numbers will be higher? Just one question on that 29% versus 38%. It comes up to about Rs.260-270 crores, that is a very-very high number. I am assuming this is only Dussehra sales which were deferred, right?
- C.K. Venkataraman:** Those are all different base, the base for primary is different, the base for retail is different.
- C.K. Venkataraman:** You can tell me what exactly you are trying to conclude?
- Nilay Shah:** No, just that a gap of Rs.250 plus crores which is the gap I agree with slightly different basis...
- C.K. Venkataraman:** Remaining may come back in Q3 on top of retail, that is why I meant.
- Nilay Shah:** The second question is just book-keeping one. Subbu, on the tax treatment on these exceptionals which were reported for this quarter, how should we consider that?
- Subbu Subramaniam:** Since it is a provision at this point in time, we are assuming no tax deduction. So therefore the effective tax rate is slightly higher.
- Nilay Shah:** On the Rs.18 crores and Rs.15 crores?
- Subbu Subramaniam:** Rs.18 crores comes back, that is just a timing issue, the Rs. 15 crores is we will get it because it is a business expense, no problem.
- Bhaskar Bhat:** That inventory has been sold and the money has been realized.
- Nilay Shah:** I am talking about the tax treatment?
- Subbu Subramaniam:** Tax treatment therefore there is no difference for the 18 crores and 15 crores, there is no problem, it is like a normal business.
- Moderator:** Thank you We will take the next question from the line of Amit Sachdeva from HSBC. Please go ahead.

**Amit Sachdeva:** Venkat, if you could just comment on studded sales this quarter? Basically I see it has come down to 35 but I also recollect that in Q4 you had actually increased the discount, eligible percentage to lower from Rs.150,000 and this quarter I notice that it has been expanded to Rs.3 lakhs and above. So I think the intent was to push the higher value studded Jewellery on higher discounting and actually discount was lower for lower value, but at least kept the same at the lower end. How that dynamic has played out in this quarter? Going forward, which strategies are more comfortable with – selling the lower SKU more or the higher SKU more, how the discounting and what lessons have we learned from this?

**C.K. Venkataraman:** It is a continuous improvement kind of thing, Amit. What also happened in Q2 was as the gold rate surge, the clear preference from consumer side even during an activation for gold Jewellery. That is something is very difficult to contend with when the demand is pulling people towards gold. My own sense is that we may need to do like a little bit of a tweak at best on the tactics that we followed on the discount designed for Q2 because the feeling that we would have lost some sale in the low end because of the compression on the discount but we also saved money on the cost and therefore the overall return on ROI was deemed to be worth having done that. So my sense is we will more or less copy that into Q4.

**Amit Sachdeva:** I also see the Q4 again margin base is high. So given that A&P spend was higher this time, how we should think about Q4 as a studded margin quarter because I see that margin is again very-very high on the base in Q4. As we think about the full year and the margins, how we should think through that EBIT margin for Jewellery in the Q4 side because again the dynamic if you are going to replicate this template and perhaps A&P spend I do not know how much was that higher A&P spend has contributed if you can give some guidance on that as well, so how we should think about Q4 as a margin because Q4 again is a very large base?

**C.K. Venkataraman:** Honestly, I would not be able to comment on that except that we are staying on course for our budget. How to actually execute whatever we need to execute to actually achieve the budgets, we will assemble in November to conclude and decide. Right now you can take it that the plan that we had we are staying with and not sort of bringing it down for whatever reasons. I understand the point that you are raising about the task that is in front of us but I do not have an approach to share with you at the moment. I am just confirming that we have taken the plan.

**Moderator:** Thank you. We will take the next question from the line of Vicky Punjabi from JM Financial. Please go ahead.

**Richard:** This is Richard here. I just wanted to discuss two points: One is the thing that you mentioned on Slide #38, I am looking at third last bullet, that for H1 the division was on plan for EBIT. So if I look at the EBIT growth of Jewellery, it is 11% growth if I take both Q1 and Q2 together. Is that what do you actually planned for as far as Jewellery profitability is concerned for H1?

**Management:** For H1 the division was on plan for EBIT.

**Richard:** Is 11% growth all that you had planned for EBIT of the Jewellery business for H1?



- Management:** Yes.
- Richard:** Would H2 also be reflective of that H1?
- Management:** No.
- Richard:** I am just going back to the several media interviews and other interviews, etc., where there have been a lot of up and down in terms of the growth expectation of the Jewellery business from 20% to 25% and then again back to 25% and you delivered something much more than 25% in Q2. What were the circumstances and the variables that you were looking at when you actually sort of slow in guiding for growth and then again upped it and then you delivered, what were the volatile factors that happened in between all these while when your growth expectation...?
- Subramaniam S:** Richard, I think when we go on media, etc., it depends on the current circumstances as we see it, okay. Certain things do surprise us and that is possibly what has happened here.
- C.K. Venkataraman:** In fact, if I just add, in the middle of early August and middle of August, there were certain view of Q2 and what happened in September surprised us, that is the point Subbu is making, we were not so confident of the 38% middle of early August. I do not know about any media interview, but certainly...
- Richard:** Sir, can you explain to me the reason for this valuation loss? I am just losing the other concept of...?
- Subramaniam S:** Richard, this is the FIFO. If you remember we used to talk about it quite frequently. Whenever we buy gold on spot, while we are hedging it, we still have to value it on FIFO basis and if gold price for example fall towards the end of the quarter, that impacts the valuation of inventory. Now typically what happens is that it impacts valuation and therefore the margins for the quarter are lower but as you have hedged, you get back that money on the sale of that lot and therefore it sort of reverses itself in about a quarter's time, and that is exactly what happened this time also. So they tend to go up and down. It depends on the gold prices going up, in fact, going down rather than going up.
- C K Venkatraman:** From a matching principle point of view, that Rs.18 crores actually belongs to the quarter but will be recovered in the Q3.
- Moderator:** Thank you. We will take the next question from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** There are just two questions: Firstly, on the store addition side, for the first half in the Jewellery business has been a bit slow at about 14-stores net. Are we still in line with our 40-stores plus kind of a number and say the second half will be much faster in terms of store additions?
- C.K. Venkataraman:** Very much, in fact, the Q3 actual performance already and the visibility is very high, so we are very confident of 40 plus.

- Harit Kapoor:** The second thing was on the watches side. In your presentation, you mentioned filling key product gaps in the watches business has also been one of the key reasons. If you could just talk about which are the segments which have done very well in the first half for us on the watches side, if you can just help on that?
- Ravi Kant:** Lot of new collections that we launched in the first half have done very well including our flagship Edge Ceramic which has done very well, then we launched many new collections, many new models under sub-brand Octane which has done very well. We have a collection called “Neo” which is called daily work wear which is very competitively priced has done very well. So different collections have done differently based on the channel through which those are sold because the consumer profile is very different from our trade channel to the World of Titan channel, eCommerce as a channel has done very well for us, but new products have done very-very well for us in the first half.
- Harit Kapoor:** This has largely been led by new products in terms of the growth?
- Ravi Kant:** Yes, absolutely, across all our brands and amongst all our brands the good news is that Titan which is our main brand between Titan Fastrack and Sonata Titan is the highest growing brand in H1.
- Harit Kapoor:** Which would also help the margins?
- Ravi Kant:** Absolutely.
- Moderator:** Thank you. We will take the next question from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** How is the festival sales? You said for Jewellery is up 29% like-to-like. What about Watches?
- Ravi Kant:** Watches, Rakesh, the festival which is Dussehra to Diwali is pretty close to 8%. So it is lower than the running rate so to say for first half and even for the entire Q2. The main reason for that is in this month leading up to Diwali, last year for three or four days we had a flash 30% off. So if you take that away then it is good 12% growth over last year.
- Rakesh Jhunjhunwala:** As I understand your margin, you said you have 18% margin in the first half. For the full year you think it should be in 15%. So in the second half you think it will be 12%.
- Ravi Kant:** That is what it amounts to.
- Rakesh Jhunjhunwala:** Bhaskar, what is your opinion on the Watch margin?
- Ravi Kant:** This is something which we explain every time. Just wait for the two quarters to go by, you will see it for yourself. Just to give you a data point, Rakesh, I do not know whether you were listening to what I was saying earlier, I would not give you the actual number, the advertising spend of last quarter the amount that we spent in the month of October, when you look at Q3,

you will see when I spoke about two big collections which have got delayed plus we have a lot of smart products lined up, so October is we are seeing a lot of spends in advertising why is why the margin would get affected.

**Rakesh Jhunjunwala:** But what is your total ad spend in past quarter?

**Ravi Kant:** We do not share that, Rakesh.

**Rakesh Jhunjunwala:** In this Eyewear business, when do we expect to make some money?

**Ronnie:** We should start making money next year. We already make money, but this year we have taken a call to invest higher amounts in advertising to really break this price value equation and bring in more customers on a journey to target 10 million pieces of our customers by 2023.

**Rakesh Jhunjunwala:** But how many customers do we have today?

**Ronnie:** Last year we had 2.4 million customers, this year we are targeting to take it up to 3.7 million customers and by 2023 to 10 million customers per annum.

**Rakesh Jhunjunwala:** That means the average bill would have come down no, because the customer is going up by 50%?

**Ronnie:** It is coming down but it has not come down significantly and therefore our gross margins are in fact a little bit higher than they were last year.

**Rakesh Jhunjunwala:** Your customers are going from 2.4 to 3.7, which is going up by more than 50%, if you sales growth is 20%, obviously there is an opportunity for operating leverage?

**Ronnie:** Yes, there will be.

**Bhaskar Bhat:** Per customer, yes.

**Rakesh Jhunjunwala:** So the bill per customer will go down?

**Ronnie:** Yes.

**Rakesh Jhunjunwala:** Gross margins are linked to the contour of selling price or they are the same across category?

**Ronnie:** This is linked to the selling price.

**Rakesh Jhunjunwala:** So that is on Rs.5,000 pay we get 40% for example, around Rs.2,000 we get, about 20% in that?

**Ronnie:** Not necessarily. That is what we are trying.

- Bhaskar Bhat:** Also, Rakesh, the effect of in-house manufacturing of frames also kicks in to the gross margin and an increase number of lens lab that we are putting up also makes in-house manufacturing, that is very profitable, so it is a combination, so you do both, he is holding on to the gross margin percentage. So the prices have not been dropped, Rakesh, the price points which have been covered.
- Rakesh Jhunjhunwala:** So that means before you come with the smart sales strategy, per customer will go from 3.7 to 5 million, so the sales growth should mirror the increase in the number of customers, last year we do not downgrade?
- Bhaskar Bhat:** No further run down trading, yes.
- Rakesh Jhunjhunwala:** So therefore the sales growth should mirror the number of customers growth?
- Ronnie:** Both of them will catch up.
- Bhaskar Bhat:** It is not predictable, Rakesh, yes, it is expected to but the whole opportunity in the Eyewear space is we have discovered in the lower price points, the volumes are in the lower price points. So the attractiveness of the product in the lower price point today is very-very good. So the growth at the lower price point is certainly very big opportunity but margin dilution does happen. How we can keep this balance between advertising, in-house manufacturing of both lenses and frames is not so easily predictable but the idea is to keep the gross contribution.
- Management:** Bhaskar, there will be big trading in big benefit because you have very high fixed cost, so there should be the operating leverage?
- Bhaskar Bhat:** Yes, that is the point, correct.
- Rakesh Jhunjhunwala:** That means next year profitability can be good if we get the volumes?
- Management:** Yes, absolutely.
- Bhaskar Bhat:** That is the idea of going to 10 million, Rakesh.
- Rakesh Jhunjhunwala:** Do you think ultimately Eyewear can match Watch margins or better than that or once you get volumes?
- Bhaskar Bhat:** We always stated that these are similar businesses except that this is only retail and that one is all across all channels, yes, it is expected to be similar. When we started the business itself we have targeted 12-15% kind of margin which is where watches were at that time.
- Rakesh Jhunjhunwala:** How is Sunglasses doing?
- Ronnie:** Yes, Sunglasses growing well .

- Rakesh Jhunjhunwala:** I have one question for Venkat. What kind of number of stores will be opened in the third quarter?
- C.K. Venkataraman:** I think about 15 or so.
- Rakesh Jhunjhunwala:** So would go to 300?
- C.K. Venkataraman:** Yes, this year it will be 40 plus.
- Rakesh Jhunjhunwala:** How well are the new stores doing?
- C.K. Venkataraman:** All new stores are hitting their targets in the first year by and large.
- Rakesh Jhunjhunwala:** They are all franchise stores?
- C.K. Venkataraman:** 95%.
- Rakesh Jhunjhunwala:** This Rs.15 crores you are paying is for taking over, it is over and above the book value of the assets that we have bought?
- C.K. Venkataraman:** Correct, in a way goodwill and all that.
- Rakesh Jhunjhunwala:** They are L2 stores?
- C.K. Venkataraman:** They are L2 stores, currently delivering about Rs.250 crores of sales.
- Rakesh Jhunjhunwala:** Which stores are these?
- C.K. Venkataraman:** Punjagutta and Kukatpally?
- Moderator:** Thank you. We will take the next question from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** My first question is on the Jewellery business again. Now, what we understand is that you have extended your activation period during the quarter and despite higher activation period the studded contribution was lower during the quarter. So just wanted few explanations there?
- C.K. Venkataraman:** The sales growth for the quarter in retail was 38%. The studded growth was 32%. So after 32% growth which is a very good growth to beat that 38% plus gold was obviously difficult for the shares, that is the situation, but that is not retail, the problem is on the primary base angle comes in and all that but the share part is equally valid for the primary asset. We are quite satisfied with the studded growth even the studded share fall.
- Amit Sinha:** But if these kinds of growth comes on a regular basis, do you think structurally the studded part will come down and down over the period?

- C.K. Venkataraman:** I will give you 2007-12 perspective here. We were supposed to dramatically increase the studded share and through that increase EBIT margin by some 400 bps. We ended up actually not increase the studded share at all but still expand the EBIT by 400 bps, that is because of scale changed. So therefore if gold does exceedingly well, and studded does its target, but falls in share, we will still get all the scale economies which come in that time. So EBIT will still be delivered even though the studded share falls. So the studded share is not an end in itself, the studded sales growth is an end in itself.
- Amit Sinha:** Secondly, what we have also noticed during the quarter that there have been change in the overall activation strategy itself. Would you like to comment on that because for a large part of second quarter and even in the third quarter we have seen extended activation period, so just wanted some commentary there?
- C.K. Venkataraman:** In Q2 we needed to sort of extend the activation to take a better shot at the sales target that we have which is why we extended it because the pull of the lever of the gold segment was very-very high and we needed proper consumers more attractive studded product and that is why we extended it for I think 10 or 12-days. So it is a tactical thing that would be determined at each point in time depending on the situation.
- Moderator:** Thank you. We will take the next question from the line of Vishal Gutka from PhillipCapital. Please go ahead.
- Vishal Gutka:** I have only two questions: First question is on what is the amount lying under Golden Harvest Scheme? Second question is what contribution of sales are coming from Gold Exchange program during the quarter?
- Management:** Gold Exchange program runs about the same, about 40% as we have said. On Golden Harvest we are close to about 1,200 crores.
- Moderator:** The next question is from the line of Abneesh Agarwal from Prabhudas Lilladher. Please go ahead.
- Abneesh Agarwal:** Sir, you have disclosed an exposure of Rs.145 crores to IL&FS. Sir, my question is that do we have exposure of any sort in any other NBFCs or housing finance company?
- Subbu Subramaniam:** No, we have still some ICDs, but that all of them are considered to be extremely safe. Some of them that we did have post the IL&FS thing we withdrew. So we believe that everything that we have today we have no other further exposure other than the IL&FS part.
- Moderator:** Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- Abhishek Ranganathan:** My first question is on wedding. Could you just help us understand what was the ballpark share of wedding in the first half? Secondly, again allied to wedding again, any impact of the liquidity

crisis which we saw in the end of second quarter on purchase of high ticket such as wedding or high value studded?

- C.K. Venkataraman:** On the first one, I will revert to you later. On the second one, not really.
- Abhishek Ranganathan:** The other I have is on competition and price value proposition in Jewellery, something which the point was made on Eyewear, what is your internal assessment of the price value proposition which you have across your categories in wedding and how does it rank up versus competition?
- C.K. Venkataraman:** Our sense, Abhishek, is that the sales performance for rest of the industry has been quite muted and I am sure they are under significant pressure on profits as a result and we are being seen the price premiums that Tanishq has, coming down and down, in many markets, making charges are now pretty close to the people who we consider as competitors and therefore price value equation has actually improved in our favor, that is our sense including wedding because in wedding we also have what is called is bundling offer, therefore different slabs of grammage, we give reducing or increasing discount on making charges. If you take it with that price position is pretty good I would say.
- Abhishek Ranganathan:** Subbu, can you just call out on what was the reason for increase in other current assets and loan advances on the balance sheet?
- Subbu Subramaniam:** One is of course the GST receivable last year, we would not have had much of that because we have two things; one is the input tax credit and the second is our excise free zone... the tax free zone in North, so we have claims on the government on that as well. So that is a big chunk which is the increase in the loans and advances. Other current assets would be ICDs also there, they come under loans and advances.
- Moderator:** Thank you. The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** What was the sale of Golden Harvest – Rs.1200 crores in the quarter?
- Management:** No, I think what I gave was the balance as of September of the Golden Harvest which was Rs.1,200 crores.
- Rakesh Jhunjhunwala:** In how much time?
- Management:** It is a 12-month thing.
- Rakesh Jhunjhunwala:** What is the cash and cash equivalents you have now?
- Subbu Subramaniam:** At the close of the year total it was Rs.1,100 crores, it is obviously substantially more now because of the season, the inventories have gone and we got cash.

- Rakesh Jhunjhunwala:** But how do you show on the balance sheet, you show it under cash and bank balances or other bank balances?
- Subbu Subramaniam:** What happens is that we have under three categories: The bank balances and FDs will come in, then you have the ICDs under loans and advances, and then you have mutual funds and investments, so they will be in different categories. So when we say cash and cash equivalents we are clubbing all this from investment perspective.
- Rakesh Jhunjhunwala:** At the moment you have...?
- Subbu Subramaniam:** It is substantially above Rs.1100 crores. Thanks to the season.
- Rakesh Jhunjhunwala:** What is the increase in other expenses from Rs.271 crores to Rs.436 crores in consolidated accounts?
- Subbu Subramaniam:** Other expenses includes all these things; one is the IL&FS provision, it includes this Rs.15 crores and then the other thing is that this year we had to change the accounting as far as the L2 commission is concerned.
- Rakesh Jhunjhunwala:** But even you have changed last year, it was 271 crores inclusive of L2 commission, in this 436 crores, if we take out 44, which is still 392, so the increase is around 120 crores?
- Subbu Subramaniam:** Management commission this year changed. There is an increase in L2 commission which is Rs.17 crores.
- Rakesh Jhunjhunwala:** No, in this 436 if I take out 29, which is IL&FS and Rs.15 crores which is payment, so that Rs.44 crores, still it is 392 crores, gone up from 271 to 392?
- Subbu Subramaniam:** I will get back to you on this.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** One more question in the base quarter, there was just Rs.250 crores impact. If we adjust that the growth comes to more or like 18% in this quarter whereas retail sale I do not have that Rs.250 crores adjustment is required over there also, but if we do not then the growth is 38%, so what is the delta this 20% point delta why is it and what is it on account of then?
- C.K. Venkataraman:** That Rs.250 crores will apply to retail also, Vivek, because customers brought in the last week of June of 2017 because of GST, because of which...
- Vivek Maheshwari:** This is end customer?
- C.K. Venkataraman:** End customer behaves like that, that is why everything is like that. So the difference like the retail sale in Q2 FY18 was 2,700 crores and the primary sale was 3,100 crores there was Rs.400



crores difference, that is because the Diwali season was earlier last year. Now the Rs.2,700 crores, we have grown 38% to Rs.3,700 crores, but then the primary base for that is Rs.400 more, and this year they do not need to buy in September, they need to buy in October because the season is in Q3, so both the denominator is higher and the numerator is lower, it is like that, therefore the difference between the growth in primary and growth in secondary.

**Vivek Maheshwari:** On the industry, Venkat what is your sense in the first quarter, you indicated around 10% to 25% decline in the industry, the declining trend continues in your assessment... I know these are hard to get numbers, but what is your sense about it?

**C.K. Venkataraman:** Our sense is about between 5% and 15% growth in Q2.

**Vivek Maheshwari:** For the industry as a whole?

**C.K. Venkataraman:** For many of the jewelers that we get information on the ground.

**Vivek Maheshwari:** So broadly first half would be almost like flattish.

**C.K. Venkataraman:** Between our growth and their growth, yes.

**Vivek Maheshwari:** And first half basically is more like flattish?

**C.K. Venkataraman:** No, may be mid-single whereas we are 18% in retail.

**Moderator:** We will take the last question from the line of Pulkit Singhal from Motilal Oswal Securities limited. Please go ahead.

**Pulkit Singhal:** This is Pulkit from the asset management team. Just on the Gold Exchange Program, the 40% figure seems fairly high. Just wanted to understand what are the drivers for this and has this particularly increased post demonetization?

**Bhaskar Bhat:** Gold exchange for the last one-and-half years plus, actually it started with July 2016 when the first exchange program was run as a promotion, it was an offer which was sweetened significantly and then demonetization we ran it again in November, few success and after that I think we are using it also like a customer acquisition program and therefore what used to be in the ballpark of 20% two to two-and-a-half years back has now grown to about 40%. When I say gold exchange, it also includes the exchange from Tanishq, our own customers, so it is a combination of both of some 30 plus 10.

**C.K. Venkataraman:** 30 of other jewelers and 10 of Tanishq.

**Pulkit Singhal:** Post-demonetization, I mean the sources of the cash income and reduced amount of cash in the hands of consumer would kind of...?

- C.K. Venkataraman:** Finally, there is some 25,000 tons of stock with consumers and they may be exchanging some 300 tons of that every year, they are just starting into participate more and more in that 300 tons.
- Pulkit Singhal** In terms of the price premium for Tanishq that you command, I just wanted to understand how much is it versus your competitors now and is this a conscious decision by the management to bring it down so as to get more volumes?
- C.K. Venkataraman:** We have brought it down recently. They have had to up their prices and through that reduced the price premium that we have.
- Moderator:** Thank you. Next is a follow up question from the line of Rakesh Jhunjunwala from Rare Enterprises, please go ahead.
- Rakesh Jhunjunwala:** Venkat, I did not understand, you said 2700 and 3100. 2700 crores was a reported sale last year in this quarter?
- C.K. Venkataraman:** 2700 was the retail sales in Q2 FY18, 3100 was the primary sales in Q2 FY18, so the base of primary sale was much higher in Q2 than the retail sale last year and because the season is also shifting the 38% growth in retail in Q2 FY19 did not translate to similar kind of growth rate in primary in Q2 FY19. But because the Diwali was on the 18th of October in 2017, the channel would buy ahead of the season and bought in the second fortnight of September, so they bought Rs.400 crores more than what they sold in September in Q2, but they bought it in September and therefore our company sales was at that base. Now this year the retail growth was 38% over that Rs.2700 crores, but it did not consequently reflect in a primary growth of that order because they would end up buying in October.
- Rakesh Jhunjunwala:** Same quarter last year reported sale Rs.2900 crores?
- C.K. Venkataraman:** That is NSV, coincidentally that is the income you are talking about. I am talking about the MRP figure. You are talking about company income which is coinciding in this example.
- Rakesh Jhunjunwala:** Still I will take it offline.
- C.K. Venkataraman:** I will explain to you. I understood what you are pointing to and I will tell you offline.
- Moderator:** That was the last question in queue. I now hand the conference over to the management for their closing comments.
- Bhaskar Bhat:** Thank you all. As I said this has been a good quarter. We have had a few provisions and we are looking forward to a very good Q3. For us retail sales is the king of everything and we expect good retail sales. We have had good Dhanteras and Diwali and we should end the quarter and the year very well. Thank you very much for your patience.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Titan Company Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.