"Titan Company Limited Q3 FY19 Earnings Conference Call"

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MR. S SUBRAMANIAM – CFO
MR. C. K. VENKATARAMAN – CEO, JEWELLERY
MR. S. RAVI KANT – CEO, WATCHES AND ACCESSORIES & EVP – CORPORATE COMMUNICATION
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MR. R RAJNARAYAN - CHRO

Moderator: Ladies and gentlemen, good day and welcome to Titan Company Limited Q3 FY19 earnings conference call. I now hand the conference over to Mr. Bhaskar Bhat – MD of Titan Company Limited. Thank you and over to you Mr. Bhat.

Bhaskar Bhat: Thank you, and welcome to this call. The first thing I want to announce, you must have already read the BSE upload that we have done which is the board this morning unanimously decided to select Mr. C. K. Venkataraman to succeed the current Managing Director which is myself from the 1st of October 2019. With the board and the top management sitting here which is Subbu, Ajoy, Ravi, Ronnie and myself and Raj who will join us congratulate Venkat and welcome him to take on the reins of this company from 1st of October.

The quarter has been a good quarter by all means which you have seen the numbers. The growth both at retail and primary has been from satisfactory to very good across businesses. While the numbers are all there up in front of you, the like-to-like growth for Tanishq, etc., the overall I want to talk about is jewelry which you saw a dip in Q1 and then a certain performance in Q2 has made up a large part of the lost sales during Q3 with an extremely good performance very very well planned execution. Watches, there was a performance which lead to an extraordinary high EBIT margin in Q1, Q2, in fact the first 6 months where a lot of the advertising spend was waiting for Q3, continues to grow at retail at a very good pace and the good news in watches is the news coming out of brand Titan which is our most profitable brand but even more than that is the scale that we are achieving. So, you do see a dip in the margin for the quarter, but as we have always mentioned, the watch business as much as jewelry business needs to be looked over a 12-month period, and the margin improvement in that business is continuing, thanks to the work that the division has done on cost as well as realigning itself to the new reality of certain channels growing faster than certain others investing in the new and also squeezing more cost out of manufacturing or leveraging manufacturing for as contract manufacturing for the Swift. And of course the strategy in eyewear which is correcting prices and operating at lower price points without losing out on gross contribution has worked extremely well. So, the downward trend in growth rate at store level has reversed very-very significantly in that business, and we are seeing both same-store growth as well as total growth at very-very healthy levels plus it has followed of course investments in brand building and let us say traffic building to the store. Apart from that, distribution and additional satellite lens manufacturing facilities have helped both improve customer service and profitability. The new businesses are also doing well for us. Skinn crossed the 100-crore UCP mark recently, Taneira has got 4 stores, and even our businesses such as subsidiary such as Caratlane and TEAL are doing well, but those won't come into the consideration as we talk today. So, I really will go into the Q&A straightaway.

The one big provision that we have made during the quarter is our view of the IL&FS 145 crores that we had announced as doubtful in terms of recovery. Last quarter, we had provided 29 and we are providing another 70 crores this quarter, and that we believe is the right thing to do. So, a total of 99 crores has been provided out of the total exposure of 145 crores. We are open for questions, happy to answer you for the next 45 minutes.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Hello Sir, congratulations on a great performance in the quarter. I just wanted to understand given the strong growth in the jewelry business in 3rd quarter and do you see any upside risk to what you indicated in the pre-quarter release on the expected growth of jewelry business for the year? You had said that 22% is what we expect in the jewelry business for the year.

C. K. Venkataraman: We would still like to hold on that Avi because the January growth is a little lower than what we expected but we expect March to be much better than what we have planned and our current sense is that Q4 should be between 20% and 22% and therefore since 9 months is also about 22%, I would still hold your view at around what we spoke last time

Avi Mehta: On the watch margins, you had highlighted that you would target a 15-16% for the year. Now, given where 9 months is, is that also something that you would retain?

Ravi Kant: Yes, you are absolutely right. If you recall, in the last quarter's investor call we had stated that 18 is not sustainable and it is because of postponement of many campaigns because of postponement of launch of many new collections and we had said that the quarter-3 margin would take a dip. So, if you look at YTD, we are at 15.5% EBIT margin, and we hope to maintain or be somewhere around that by the end of the year.

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

Abneesh Roy: Sir, congrats. My question is if I see your jewelry margins, in the last 6 quarters you have it 13% plus three times. Now, this is a function of discount, ad spend, and possibly the marriage days. I am not highlighting studded because studded is quite weak this time, only 25%. So, what is the science behind the discount and the ad spend? Normally when the season is good, ad spend goes up. So, could you take us through discount and ad spend, what is the logic and science? How do we as analysts build this on a quarterly basis?

C. K. Venkataraman : Actually we had spent a high level in Q2, Abneesh, or in a way, it was also a little ahead of the season to build the interest in the brand, and because of that, we came low in Q3. That is the background to the ad spend being at that level. The other thing is the world is actually significantly changing. The role of advertising generically is starting to alter, we are recognizing that. We are a 100% retail brand, so everything about us is on the stores through relationships, and therefore depending on the kind of categories we are pushing, we can switch on & off basis through a certain judgment we make on them. So, it will be very difficult to give a sort of continuing view on it. It is dynamic on the basis of what we perceive in the next 3 months kind of thing and the same on the discounts also.

Abneesh Roy: But Sir, ad spend 1 quarter prior to season seems quite early. So, it is more of competitive spends which matters, right?

C. K. Venkataraman : No, we are getting into an operating issue here, Abneesh, honestly. I am saying that spending in September for a season which begins in October is not illogical, right? We are not talking about 5 months before the season we started spending, but it is an operating matter. This may not be such an issue for a discussion here, right? on when to spend. You could perhaps leave that to us.

Abneesh Roy: Sir, one followup on jewelry business. This 200 crores which you have mentioned, plain jewelry, will it be lower margin and will this be recurring and are you identifying which customer is this?

C. K. Venkataraman : This is not recurring. It is low margin. We know the customer.

Abneesh Roy: The second question is now e-commerce rules are changing, this is on the watch business primarily. I understand that e-commerce has been a big driver from a growth perspective for you. Now because discounts, etc., cashbacks will be more difficult, overall for watch business, is this a negative?

Ravi Kant: We will have to see how it shapes up. It may actually work in our favor. These big players, it's about also I think for them to restructure themselves and see how to ensure that they don't buy from companies where they hold a stake. So, it may be a disruption of sorts for a couple of months, but we expect them to kind of work their way around. It is likely to continue as a good growth channel and the contributions are now touching double digit from this channel. So, it's an important channel. I am sure they are here to stay.

Abneesh Roy: Earlier, Bhaskar Sir had highlighted that snacking behavior has increased because of e-commerce and watch is a discretionary item. So, I was asking more from that perspective. If snacking reduces, won't it impact your business?

Bhaskar Bhat: Snacking, we had referred to about 2 years back if I remember that. That is changing quite rapidly. The way we are looking at this whole in a mixed play, I mean I can call it omni, but I think all possibilities are open on how the online-offline relationship is going to pan out. So, like all good Indian brands, we are not taking any bet. I think it is better to keep all your options open whether it is World of Titan, Helios, large-format stores, online as well as corporate business, all of them are playing out in different ways. And our positions in all of those are strong. Some are growing much faster than the other. Only time will tell, so we don't want to take a bet and say we will open 100 Helios stores or close down 'X' number of World of Titan stores. So, online yes, it is growing very rapidly but it's a very very different kind of customer. So, it is price-seeking customer, browsing customer, perhaps less loyal customer, but there is a certain role that and I think significant part of it Fastrack and Sonata as well whereas Titan customers are more on the brick and mortar purchasers. So, I don't think we want to take a call on one way or the other. We want to keep all our options open.

Abneesh Roy: Sir, one last followup on Skinn, 100 crore, congrats on that. Now you have pointed out international brands there is a discounting. So, is there any pricing pressure on Skinn and how do you see growth coming. Hundred crore is a very good size, but now size also becomes an issue. So, how do you see the forward growth?

Ajoy Chawla: I am Ajoy Chawla. I look after the new businesses and strategy support for Titan. The question you asked was, is there a pricing pressure on Skinn because of discounting on international brands. Well, no. There is no pricing pressure on Skinn. These international brands have been on discount in every end of season sale and we also participate in these end of season sales accordingly. In fact, Skinn is very sweetly priced vis a vis international brands, and we have gained tremendous market share as well as built up a leadership position though collectively we are still only about 7-8% of the overall market. There are 60-70 brands in this category, and to build a leadership position, there is enough headroom for market share gain.

Abneesh Roy: In your channels, what will be the market share wherever you are present?

Ajoy Chawla: Our presence is spread between departmental stores like Shoppers, Lifestyle, Central, other beauty and chain stores like Health & Glow and even gifting stores like Archies, etc., then independent retailers in the beauty and cosmetic space as well as in the World of Titan. The World of Titan is the only store which is the EBO or our controlled store which account for about 30%. The rest of the 70% is in typically multi-brand environment, and now we are also on e-commerce in a reasonably large way.

Moderator: The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Firstly, on the jewelry margin; and if I look at the 9 months' jewelry margin, you have expanded the margin by around 70 basis points and particularly in this quarter, you have mentioned gross margin also one of the reasons for highest margin. I just wanted to understand the thought process and how much a gross margin expansion on a sustainable basis can this business go to?

C. K. Venkataraman : Actually, in Quarter-2, we had spoken about gold inventory led dilution of gross margin which was expected to reverse in Quarter-3. That was one reason for the gross margin expansion in Quarter-3, but our own view has been – and I have said it at both annual conferences last 2 years – that our emphasis is going to be on delivering the sales growth and market share expansion, but certainly ensure that we maintain the EBIT margins, but what actually ends up happening is if you are able to get the leverage on sales, we do get an expansion on EBIT like you spoke of, and therefore for this year I expect EBIT expansion to remain at this level for the year and we will speak about the next year when we speak about it.

Amit Sinha: So, basically operating leverages is the primary reason. Secondly, in the jewelry segment again, the store additions, are you maintaining the full year guidance of 40 stores in Tanishq?

C. K. Venkataraman : Yes, 100%.

Amit Sinha: And just a followup there; the current size of the stores which you are adding, and you have highlighted in the past that a big focus is adding in the new cities and new towns, maybe smaller towns, how long do these stores take to come to the mature sales level?

C. K. Venkataraman : Actually, within 2 years, we are seeing virtually all stores hitting levels of viability and return on capital for the franchisee to be quite satisfactory.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: First question is on the exchange scheme. In the previous quarter, some of our checks suggested that that was a big contributor to growth especially when combined with the wedding jewelry. Is that being a factor, and have you withdrawn the exchange scheme in January? And has that led to a slower growth because you also have the activation in January? So, I was just wondering why growth has been a little bit slower in January.

C. K. Venkataraman : It has also been slower because we had the exchange scheme from the middle of November till late December and that ended up pulling a fair number of high-value customers of diamond jewelry into December because of which our activation performance in January is a little muted. So, when you add December and January together, it's a healthy growth. That's the background to why January and particularly studded in January is a little slower than original budget.

Aditya Soman: Fair. And in terms of this exchange schemes, is there a plan to just have it on through the year or would this be a sort of time to time promotion? And why not just have it through the year?

C. K. Venkataraman : There is a psychological aspect to that. One is the cost aspect, the second is the psychological aspect. Keeping it on when we want it at short notice seems to give a greater impetus to customer interest and sales growth. While what you are asking is certainly in consideration, we are not there yet.

Moderator: The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Firstly, on jewelry, can you just highlight what will be the proportion of gold on lease, quantum of Golden Harvest, and any hedging gains in the quarter?

S Subramaniam : Gold on lease will be very high this quarter. That is the reason you have seen the capital employed low because practically all the gold we are buying is that other than the exchange part. All gold we are buying is on lease. So, to that extent, gold on lease is high. In Harvest, we are at a fairly high level in terms of the overall limits and for the year as well. So, I don't believe there should be an issue with that. And the third is hedging gains. Hedging gains are not really abnormal this quarter. The big thing was the reversal of that inventory loss that we had last quarter. That is one thing which boosted us. Otherwise, the hedging part has been in line with what it was in the previous quarter.

Vivek Maheshwari: Which is at 18-crore number?

S Subramaniam : Eighteen crore is the inventory gain. The FIFO what we call, loss that we had last quarter, it reversed this quarter. So, we got a gain of 18 crores.

Vivek Maheshwari: You are saying there is no hedging gain, right?

S Subramaniam : Hedging gain is there, but hedging gain is in line with every other quarter in the past. It has not been abnormal.

Vivek Maheshwari: Secondly, I did not understand the comment on watches margin. YTD if I look at it 15%, is that how we should be thinking about on a full year basis?

S Subramaniam: That's right, 14% to 15%.

Vivek Maheshwari: Lastly, if I may, Subbu, depreciation on quarter-on-quarter basis, why is that lower and why is other incomes so high? Anything to call out?

S Subramaniam: Other income is largely high because of much higher cash balances. We bought a lot of gold on lease and so the cash balance has been quite high.

Vivek Maheshwari: Okay. And depreciation sequentially?

S Subramaniam: Depreciation, there is no specific reason.

Moderator: The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: My first question is on the Console business. There is a marked reduction in the Console list standalones. All those entities had come in the Console business. You have given the breakup out there. Is this to be assumed now that they are on a sustainable path towards better profitability, especially Caratlane?

Bhaskar Bhat: Yes, certainly. There has been a significant reduction in the losses compared to last year even though we would have been a little happier with something more but certainly it's on the path to break even. Importantly, I think, TEAL if you notice, Nillai, has done very well. TEAL has been doing exceptionally well this year and we expect that performance to continue for the next few years at least.

Nillai Shah: Okay. And coming to the jewelry business domestic, Venkat had highlighted a few aspects you are going to focus on at the start of the financial year, market share gains in South India, wedding jewelry, high-value diamond, etc., could you give us some sort of an update on what is happening very quickly on each of these heads and where you are ahead of expectations, where you probably have got some more work to do, etc.?

C. K. Venkataraman : Actually, market share gain was not in South India but in some 16 or 17 cities where our market share is lower than the national average. A lot of work has been done on that over the last 2 years and we continue to see gains happening in that. We are reasonably satisfied and perhaps next year we will look at more marked kind of thrust in that. Wedding continuous to lead our growth except Quarter-3 was a little not that good but it is not so much competitive as much as number of dates in FY19 has been an issue but FY20 looks very promising from the number of dates point of view. High-value diamond jewelry has certainly been continued to grow right through the 9 months. So, I would say by and large, we are very satisfied. Golden Harvest of course is the fourth one. So, all the four levers and the gold exchange program being the fifth now, all five continue to pull the brand at the rate at which we need to grow.

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

Harit Kapoor: Just 2 questions from my end. Firstly, looking at the sales growth that you gave, retail sales growth on the eyewear side which is significantly lower than the primary growth that you have reported. So, would this be more leading to pipeline filling or could you explain that difference?

Ronnie Talati: Actually, the eyewear business consists of two streams of revenue. One is our distribution business which includes sunglasses and frames and the other is the retail business which is our Titan EyePlus stores. So, there is a difference, and in this quarter, we had an activation for our distribution business and that's why the primary numbers are much higher than the retail numbers.

Harit Kapoor: So, one can expect that to reverse going forward, right? Q4 there would be a slight reversal on that side?

Ronnie Talati: Slightly, yes, but we are on target to meet our overall goals for the year.

Harit Kapoor: My question was on the gold price increase. Just wanted to get a sense of how the consumer acceptance has been to the higher gold prices towards the last 2-3 months and would the January impact also have been led by a slightly higher gold price with some consumers staying away?

C. K. Venkataraman : Actually the gold jewelry business has done reasonably well in January, and it has done exceedingly well in Quarter-3 in any case. It's like they take it on their chest, wait for a while. If It stays at a similar rate, come in and buy. It's like that. There is nothing particular to note a comment on this. It is just that customers are used to price fluctuations like this and in a short period, you see an impact. They wait, and if it doesn't fall further, they come and buy.

Harit Kapoor: So, nothing really to call out from that standpoint?

C. K. Venkataraman : No, nothing on that.

Moderator: We have the next question from the line of Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.

Krishnan Sambamoorthy: Last year, you had called out that out of the 25% growth in the jewelry segment, about 16% was same-store sales growth. This year it appears to be a higher number at close to 80%. So, is this the new normal and what are the factors which are driving this?

C. K. Venkataraman : When expansion is going on at a rapid rate, you are also increasing the base of the same stores. This year, for example, we will set up 40 stores. So, their impact next year will in a way come in and explain this.

Krishnan Sambamoorthy: It should be closer to about 75-80% same-store sales growth contribution?

C. K. Venkataraman : Yes, around that, but every quarter it may not play out like that because these are all market-specific differences that happen in a particular quarter but by and large, yes.

Krishnan Sambamoorthy: Okay. And at the beginning of the year, you also called out that a significant part – I think you mentioned 15-16% – of your walk-ins are first-time customers in most of your stores. Is that the trend that continuous?

C. K. Venkataraman : In the ballpark, yes.

Moderator: The next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy: Congratulations for the good set of numbers, Sir. I have just 2 questions. What is the percentage contribution from your exchange business and what is the percentage contribution from the wedding collection segment because you had emphasized in last quarter that you had introduced lots of new collections in the wedding segment. So if you can give the conclusion number for this quarter as compared to the last year same quarter number, percentage contribution only, Sir.

C. K. Venkataraman : I don't remember or fend to give you that second part. The exchange contribution between Tanishq exchange and other jewelry exchange together is about 40%.

Pratim Roy: And the other part for wedding collection segment, Sir, any ballpark number?

C. K. Venkataraman : It is around 30 to 33 but this Q3 FY19 versus Q3 FY18, I am not recollecting to tell you which is what you wanted to know.

Pratim Roy: Okay Sir. And more thing is this recent price hike in the gold and all, how you feel that it will impact your business? Earlier you answered the question that the customers are very used to this fluctuation, but is this in any way indicating our grammage fall? because everyone will have certain budget for their purchase. So, is it impacting the grammage?

C. K. Venkataraman : It may, but since we are not really in the business of selling tons, we are in the business of selling rupees, so it works out for us. One lakh may get that customer 30 grams as opposed to 34 grams, but we get the 1 lakh.

Pratim Roy: Okay. In value term, it will be intact but in the grammage term it will go down.

C. K. Venkataraman : But we are not chasing grams, we are chasing customers in a way. So, it will be the number of customers rather than the number of grams.

Moderator: We have the next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just a small question; if you could kind of share the tax rate guidance for the year, please?

S Subramaniam: We would be in the ballpark of around 29% and that's largely because of the provision in…, for the ILFS, we have not taken a tax break. We are still checking out on the legal aspects of that but as of now I would go with a 29%.

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

Rakesh Jhunjhunwala: Congrats on a great performance and congratulations to Venkat on being appointed the MD. Venkat, what I want to ask you is that what is the effect of the increase in gold prices? Does that lead to more sales and then lead to better profitability?

C. K. Venkataraman: The making charges are on the price. So, to that extent, if the rate increases with the grams falling, you do realize per gram more money. On the demand side like somebody was saying that people may end up settling a little bit down in terms of the number of grams they buy because the budgets are more or less fixed, but we have seen an overall increase of close to 20% in grams for the year for the 9 months because we are also seeing a lot of migration from other brands and market share gains happening, so to that extent while the industry may behave in a particular way, for us it's not reflecting in the same manner.

Bhaskar Bhat: Also, the increased intensity of wedding purchase which is also playing good and therefore its share in the pie also increasing has helped in a manner.

C. K. Venkataraman: And the exchange program which sort of capitalizes on that.

Rakesh Jhunjhunwala: But one is a fluctuation of gold prices within a range, but I am personally anticipating gold may make a very big move the way it is moving and the way other currencies are moving. I remember last time between 2009 and 2013-14, there was a big move in gold, we had a big growth in sales. So, something like that could happen I feel.

C. K. Venkataraman : That's correct, Rakesh. The divisions move into exchange making exchange really attractive. So, the problem of price is really if you don't have sufficient cash, then you have to buy less gold, but if the exchange program is attractive, then you are losing only the making charges of the previous purchases bought only bangles or plain gold necklaces and so on. It will still play out, it will help. It goes to 40% sometimes in the exchange scheme. So, during that time when we saw the growth, we didn't have such an attractive exchange policy.

Rakesh Jhunjhunwala: Right. My second question was why write-off 29 and why not write-off the whole thing in one time and finish about it. Why 70 and why not 100 and why not 60?

Bhaskar Bhat: You have information which is better than us.

Rakesh Jhunjhunwala: No. There is no question, see you are making up. Nobody knows what is going to happen. So, if you are making a provision, make the entire thing. Why dead by one one drop, dead by one shot.

Bhaskar Bhat: Yes, that's a view, but Rakesh, we have to make a considered provision. So we have considered...,

Rakesh Jhunjhunwala: The provision does not requires you…, suppose you provide, it does not inhibit your recovery in any way.

S Subramaniam: No, it does not, not one rupee. Rakesh, it doesn't, but I think the issue here is that we cannot provide knowingly more than what we believe is right. Now, the question here is that is not adequate information but based on whatever intelligence we have and obviously in discussion with the auditors and what other companies are doing, we made an estimate here and if again you are right, if we believe we will get more information in March and more provision is required or warranted, we will do it, but as of now, I think this is our considered view as of now. That's it.

Moderator: The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: I just have 1 question. Can you share your thoughts on laboratory made diamonds and how you see it impacting the studded jewelry business in the medium term and would you also look to sell laboratory made diamonds and are the customers getting concerned about or are they asking about these?

C. K. Venkataraman: There is no conversation happening, Kunal, today in the stores or anywhere else about lab made diamonds in any perceptible manner. So, it is not a real issue today, but for the last one year or more, we had already put in processes to make sure no lab diamond comes into our consumption and we are investing in more and more technologies to make sure that we provide a reassurance to customers on that front even if they are not thinking about it. That's point number 1. Point number 2, the penetration of natural diamonds in India is very very low. Globally natural diamonds have always shown a tendency to rise in desire as the affluence of each society happens, and Indian society is becoming more and more affluent and seeking natural diamonds. Therefore, it will be some time before we think of introducing synthetics as a separate line.

Kunal Vora: Sure. But do you think De Beers getting into synthetics will accelerate the trend towards lab mades and are the prices coming down? I mean, if I have not mistaken, they are above 50% and if they become much cheaper, do you see this as becoming a concern in medium term?

C. K. Venkataraman: From whatever the consumers' own views on it…, I met a very senior person of De Beers last week on this. The reason why they have done is the American market is very very different, very high, penetration of naturals, lot of young women already own and they are looking for something different and all that, whereas the situation in India is we are an affluence growing society. We are a consuming society in its early stages of affluence. So, it will be a long while before that happens in India, maybe a couple of decades.

Bhaskar Bhat: And my personal view on this, I could be wrong, but if you look at other categories – I am not talking about product categories – the desire for authenticity and the desire for value are two different things. If you take a completely extreme, it may not align with this at all, but if you look at paintings, there are prints and just because printing came, it doesn't mean the value of a painting goes away. People are still paying large sums of money for a painting. This authenticity and the naturalness of a diamond, I suspect that there is a large customer base which will want to invest and there is a value sitting there. The value seeking customer will go for it. There will be a new segment that will come. There will be some intersection of the two segments, but in India as Venkat said there is still a long way to go.

Kunal Vora: That's very helpful. Thank you, Sir.

Moderator: The next question is from the line of Dhawal Mehta from ASK Investments Managers. Please go ahead.

Dhawal Mehta: Congrats on a very good set of numbers. Congrats Venkat for your new role. Sir, my question is on succession planning. If we see in the next 2 to 2-1/2 years, we have most of our top management retiring. Obviously, we have found a CEO now. What about the succession planning of other top management team?

Bhaskar Bhat: I would like Raj, my colleague from HR, to join in but just to start with this, the board has been engaged on this subject for the last 3 years, and with the board, the management has developed a very strong leadership development process which has identified leaders at the next level who will succeed those who retire in the next 1-1/2 years. So, there is a very strong plan in place and maybe you can share, Raj.

Rajnarayan: We had this process on for the last 3 years and we have had leadership programs at different levels starting from young leaders to emerging leaders to senior management development to top management development. And people go through a whole process of assessment, discussion, individual development plans, their job rotations, immersions, and various things, and as part of the process, people identified to take on different roles, and we have a very strong pool of successors whom we can choose from. We have worked through the entire domino and looked at the impact at different levels. We had a very strong philosophy of growing our own timber and this whole process kind of works to that, but wherever we feel that there is a gap, we have not hesitated to look outside as well, it's a combination.

Bhaskar Bhat: Also one move that we made in 2012 and told 6-7 years back, when we created the regional business heads who are now like profit centre head, it was one more move to create business-savvy people in the company who manage 2500-3000 crore regions and head them for all the businesses. So, out of that process itself, we now have 7-8 people who have come out plus this process. So, we have a strong second line of about 15 odd people, I think 17 people. So, rest assured it is a very robust process with the board involved and it will be wisely done.

Dhawal Mehta: Nice to hear that, Sir. One clarification, even Venkat is also due for retirement like late in 2020.

Bhaskar Bhat: That part, the retirement age for an executive director is 65 years.

Dhawal Mehta: Sure Sir. My second question is we have called out at January has been relatively a muted month for us. So, are we calling out on what exactly growth rate for that particular month was?

C. K. Venkataraman: In the late teens which is not muted, it is 17-18% for January is not muted, it is less than the 29% retail growth that we had in Q3. That is the perspective.

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

Harit Kapoor: I just had 2 follow-ups. First question was really on the competitive environment in jewelry. If you could give your comments about how the expansions are going through competition? Are you seeing a slow down there, especially because of the lending environment getting tighter and is that a competitive advantage for you going forward at least in the near term?

C. K. Venkataraman: About a week back, there was, I think it was a business standard story with interviews from some prominent people from the jewelry industry and they had spoken about a substantial decline over last year same period in each one of their regions and it confirmed what we understand from the ground every quarter and particularly for Quarter-3 about our competitor's performance all across the country. The expansion of other jewellers has not been that visible whereas we are stepping on the gas and we are confident of crossing 40 stores in FY19 and we are keeping that momentum going for the next few years. Certainly, the pressure that has come on the industry post GST, we can sense it and renewed interest of potential franchisees in Tanishq is sort of in small towns is reconfirming the competitive advantage that we are continuing to gain.

Harit Kapoor: Second question was on the tax rate. You have mentioned this year, but if you adjust for the IL&FS impact, it is about 27 odd percent. Would that be a representative number to look at for next year as well or some of the fiscal incentives or something would…,?

S Subramaniam: No, next year we still have the fiscal incentive, but the year after it goes. So, next year, yes, you are right. It should be in that ballpark.

Harit Kapoor: Okay, got it. And in FY21, it will move up.

S Subramaniam: That's right, yes.

Moderator: The next question is from the line of Manish Poddar from Reliance AIF. Please go ahead.

Manish Poddar: Just wanted to get your thoughts on these making charges. I believe it has been about 18 or 24 months which you have laid out a plan and you have done really well exceeding expectations. What's your thought with the making charges? Do you want to take it down or up given you have penetration, or you are among the sole players who are expanding? Just wanted to get your thoughts on that.

C. K. Venkataraman: What we do, Manish, is that every 6 months we fan out to some 30 to 35 towns and we have jewellers with whom we benchmark our prices. So, it's a continuous exercise. We wish to remain in a situation where consumers perceive our overall value to be attractive enough and therefore it's a dynamic continuous systematic process. So, there is no point that tomorrow we will do something ourselves. Six months later we will go and we will do something based on our assessment at that time.

Manish Poddar: And would your making charges be differential or it's just the range which differs let's say by city or by tier of the city?

C. K. Venkataraman: It is primarily different on the basis of the complexity of the product.

Moderator: The next question is from the line of Riddesh Gupta from Ambit Capital. Please go ahead.

Riddesh Gupta: Congrats on a good set of numbers. Just one question on Taneira. Could you just elaborate what has been the experience so far and I think you had launched some bridal wear, etc., as well. Is it going on the lines of Mohey, etc., you are trying to do the Indian traditional ethnic wear also in that format?

Ajoy Chawla: On Taneira, I understood 2 questions. One is, how has the response been overall and secondly on the bridal side what are our thoughts. On the first piece, the response continues to be very good. We had piloted Taneira in Bengaluru 2 stores and had done several exhibitions and pop-ups across different cities which give us the confidence to launch it as a business. We now have 2 more stores in Delhi and the response in the last few months from Delhi has been as encouraging and as positive as we saw it in Bengaluru. So, it's a kind of staying the course as we see it. With regard to bridal, for a business like ours in which we are really anchored in the saree category but we are in a way addressing the Indian women's special occasion dress wear needs. Bridal is an important destination anchor category for this entire need state. We are still early days in bridal. We have got a certain offering of bridal products in sarees and we are right now in the process of incubating the lehenga choli kind of dress format this year. Once we put out a significant product mix in the market, we will know better whether we are suited to do this or we should kind of pivot or do something else, but it's an important element in cracking the bridal recipe, especially for markets like North and West. In the South, the markets continue to be heavily saree dominated. So, whether we will go like Mohey or others, I can't say right now. They are positioned differently. We are certainly pitched a little higher than those brands.

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

Abneesh Roy: Sir, a few followup questions on Montblanc and Favre-Leuba. Yes, you are launching new products, opening new stores, but from a viability perspective, is this on track? Why I am asking this is obviously these were sold because these were not doing well earlier. So, where is it on viability and profitability matrix?

S Subramaniam: Montblanc is a JV.

Abneesh Roy: The JV was not doing well earlier.

Bhaskar Bhat: No, I will tell you. The JV not doing well was also in a way because there was a transition and we didn't have enough number of stores. In fact, in the quarter now, the numbers are looking the growth and the same-store growth, etc…,

Bhaskar Bhat: Abneesh, earlier before we came into picture, the person doing it was a distributor and since they were not able to invest adequately in the business, this JV came about. So, we have just started it and today we are about 12 stores or so. And this hopefully should ramp up over a period of time.

Bhaskar Bhat: If you were to take that last -35 that is where your the question is because Caratlane is visible to you. There is -35. A large part of it is Favre-Leuba which has a long way to go yet and its destiny really in India is still not played out, it is in very few stores. You will see Favre-Leuba's considerably improved performance in the next 1 year. It has incurred significant losses and we had even impaired last year 75 crores, but there is value sitting in that brand still but if you remember it was almost a defunct brand which we bought several years back at a very low price. The idea is to leverage it fundamentally in Indian and Asian markets and not have some global vision for it where hundreds of crores we will lose. So, that is the story of Favre-Leuba.

Abneesh Roy: When are you targeting profitability in these 2 businesses? Any 3-year time frame or 5 year or even longer?

Bhaskar Bhat: As far as the Montblanc JV is concerned within 3 years we will see profitability. In fact, the current quarter itself has seen profitability. We are not expanding the network quite in an aggressive way, but Favre-Leuba, it has still some time. It may take 3 to 5 years.

Abneesh Roy: Last question. Caratlane 43% growth, you have added also 14 stores. Online business which is the initial business, how much has been the growth there?

C. K. Venkataraman: In Q3, it is about 13% Abneesh.

Moderator: The next question is from the line of Latika Chopda from JP Morgan. Please go ahead.

Latika Chopda: Just one question on your low-ticket format Mia. What is the contribution of this brand today and what kind of store additions you see for this? How is the performance for this one?

C. K. Venkataraman: The contribution is quite small Latika, but our dream for Mia is pretty large and in the last one year, we have really got a big traction going on the expansion of the Mia stores because Mia's destiny is actually in the Mia store and less in the Tanishq store where also it does reasonably well. And I think we have added some 10 to 12 stores this year and we expect to increase this momentum in FY20.

Moderator: Ladies and gentlemen, that was the last question I now the conference over to the management for their closing comments. Thank you and over to you.

Bhaskar Bhat: Thank you all for participating. Yes, it has been a good quarter and we hope to continue this performance through to the next quarter and the next year as well. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Titan Company Limited, that concludes this conference. Thank you all for joining as, and you may now disconnect your lines.