"Titan Company Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q4 FY2020 earnings conference call. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now like to hand the conference over to Mr. C K Venkataraman, Managing Director of Titan Company Limited. Thank you and over to you, Sir!

C K Venkataraman: Thank you very much. Good morning to all of you from a beautiful good morning here in Bangalore City, Integrity Corporate Office of Titan Company. With me are six of my colleagues; Suparna Mitra, CEO of Watches and Wearables Division; Subbu, CFO; Raj Narayan, CHRO; Nandu VP Finance; Ajoy Chawla, CEO of Jewelry Division; and Saumen Bhaumik, CEO of the Eyewear Division. It is good to talk to you after a very encouraging Q4 of FY2020 and on the slide is the performance of the retail channels of Titan Company in Q4 and Q3. If you recollect, in the November call, we had an H2 estimate of retail growth and I am glad to confirm that we were running to that target till the middle of March of 2020 till COVID came and you may recollect that by and large, the growth target for H2 was around 13% ballpark over H2 of FY2019 and the middle column shows you the format-wise growth performance for the 75 days starting January 1, 2020 and we were more or less running to that target, but to the second quarter of March, which came and complicated things.

But despite that, the company sales performance and the profit performance were quite satisfying. Because of a big cost focus across divisions and functions, we were able to deliver a result which was very gladdening. I am not sharing the results slides on results because you already are aware of that, I am sure you have done a fair amount of work on it already, we can see that and just to sort of the topline view on it, our standalone PBT growth was 13% for Q4 and the consolidated PAT was 21% for Q4. So we are very, very encouraged by that, and we will speak more about it in the question and answer session.

I would like to move straightaway to the FY2021 status because it is important that we spend time on it. We started working from Bangalore in the first week of May. We have already spent more than a month in the corporate office, all safety procedures being followed thoroughly. All our offices across the country have opened up. Plants have started working to some capacity utilization or the other, particularly those businesses which are made-to-order parts from a customer point of view. Close to 1,400 stores out of 1,800 are already open. The biggest thing that we focused on starting a month back more than starting nearly six weeks back was the safety protocol in each one of our stores and those are working with clinical precision as I speak. It has become one of the highest points, I am sure not just in the industries where we operate but across all retail companies because some other colleagues in the group are seeking to understand how we do this and we have learned from what we have done. A lot of customer testimonials have come up in relation to the heightened safety protocol that we have deployed, people are very, very happy, and I am sure it will help us in moving much faster to normalcy.

This slide talks about the sales recovery rate and these are stores which have been open for 4 weeks or longer. So the second column is the number of stores for each format approximately what were open as of 2 days back.

The middle column is share of format sales. As you can see, stores contributing to more than majority of our sales are already open, in fact, 75% plus in all our formats, that is a very encouraging sign and in the next couple of weeks, we should be getting close 100% of all our stores and what is also encouraging, which is the last column is all those stores which have been open for 4 weeks or more, now this is the share of their sales on the basis of the average daily sales of the comparable period. So 45% in the case of World of Titan, 46% in the case of Fasttrack, more than 100% in the case of Helios, 80% in the case of Tanishq, 122% in the case of CaratLane and 44% and 28% in Eyeplus and Taneira. Obviously, the complications related to various markets, the time of day where we have to shut the stores because of curfew requirements, the social distancing norms that we have inside the stores for customers to stand or sit away from each other are still impeding this recovery but despite of that, the average daily sales recovery rate is very, very encouraging and the whole company is positively focusing on coming back to normalcy very fast.

So it is an encouraging sales recovery. The challenges for FY2021, given the nature of the kind of products that we make, they are all discretionary in nature, some of them are high ticket in nature and therefore, people in their current mood and to some extent, in their current financial circumstances or perception of circumstances are likely to reprioritize their purchases in the next few months, which is one challenge. Traveling out and shopping in stores also likely to come under some pressure because of the safety perception, safety feeling of the customers, and therefore, that is another impediment to the recovery rate. Most of our products are in the touch and feel category and while I am sure we will see some kind of acceleration in various parts of omnichannel business from an endless aisle to Try@Home to video shopping and all that, and we will end up leapfrogging 1 or 2 years in this journey. But in the next few months, it is not as if these ways of shopping will start becoming a big part of our business and therefore, it will continue to present a challenge to our recover rate. But at the same time, on the demand side, we see considerable opportunities. Jewelry continues to be a store of value, especially in these times of worrying perceptions of other asset classes. We feel that there will be certain market share gain within overall investment asset class industry, reverse flow from even equities that could happen with gold and jewelry. Large scare weddings are being discouraged by the government. People would be having second thoughts themselves. Therefore, the total budget, which would have been earmarked for large scale weddings, a greater share of that can certainly flow and Jewelry could benefit from that. Substantial reduction in holiday travel, particularly international can again, send a wave our share gain towards high ticket products like jewelry and some of the high ticket products within Watches and Eyewear as well. Specifically in Watches, potential to reignite the brand's power as a gift wearable is expanding to deliver more health benefits. In the last 2, 3 months, a lot all of us are thinking so much about health and fitness and products which deliver that, particularly our Wearable lines will naturally benefit and the Wearable teams and the division are working day and night to expand the features and the solutions that our products can offer to consider new use cases that are developing because of the situation and thereby make our Wearable products more relevant in the current situation.

Eyewear is certainly a product of necessity and I am sure it will recover faster than others, even though the current signs are not indicating it. Opportunities on the demand side will also have the trust of Titan Company, the trust of Tata Group coming to our help even more than it will help other companies. On the delivery side, there are many omnichannel things that we have actually started working in H2 of FY2020, even as we were looking at a normal FY2021 many months back, like video demonstration, augmented reality, virtual reality to make customers connect with products easier and those who are in the cusp of online to actually nudge them into buying online and those who are not in that situation, use Try@Home. CaratLane has been doing Try@Home for a long time and now all businesses, divisions of the company are starting to do that, endless aisle, of course so the acceleration in various parts of this omnichannel had already begun and now we are stepping up the efforts on it to capitalize both on the challenge and the opportunity. Big potential to use customer testimonials on safety to lower barriers of visiting stores, like I said, will become a gold standard on safety, retail safety, and we are using it and the biggest advantage, I would say, that Titan Company has more than any other company that I can at least think of is the encircle database. The relationship that close to nearly 10,000 sales staff of Titan Company personally have with close to 20 million people who they know by name, who know them by face, and whom they know by even other incidents that have happened in their life, and therefore, they are just a phone call away. So visits by those people and the sales from those people is just a phone call, a ping, an SMS away and I am sure that Titan Company sales team are totally energized to make this happen.

On the operations side, we had begun a war on waste program on opex and in fact, starting even before the income line, to customer discounts, to some extent payouts to partners and some aspects of material and of course on the overhead side and the inventory and the receivable side. So this program which we have begun in November, December of 2019 has gained substantial traction in the last 3 or 4 months, even before the lockdown and of course into the lockdown and we are not letting this crisis go waste as a famous Englishman said 100 years or so back and using this crisis to come out on top of this. So the entire Titan Company organization, all of us in the management team, all of us on the ground everywhere in the country and all of us in between and all the offices, all partners, vendors, franchisees, distributors, CMFAs were all committed to get the company to normalcy by Q4 of FY2021. We have all the brands, we have all the assets, the capabilities, and of course, the unique combination of fashion, imagination, commitment and result that the Titan Company ecosystem possesses to actually sort of take all of us kicking and screaming towards this target by Q4 and we just did an employee cascade back on this subject and I could see from all the feedback that came from employees at large across the country that everyone is actually wanting and waiting to take the company to this level by July Q4 FY2021. I will pause here for the presentations from my CEO colleagues to happen and then of course we will wait for the questions. So thank you very much for the confidence that you have shown us. We have been seeing the comments coming in over the night, early morning and until we started this conversation. As always all you have stood by us encouraged us and pushed I think in the right way for us to continue to performing your expectations. Thank you.

Ajoy Chawla: Good morning. This is Ajoy Chawla, CEO of the Jewelry Division. Welcome to the investor conference. Glad to be speaking here. In fact even before COVID, when we were doing our business planning in the last year for FY2021, we hit upon the theme of Fitter, Faster, Stronger together for the business and probably it was fitting because this theme has become even more relevant as we move into a post COVID era. So the industry trends that we saw in FY2020 with macro headwinds and especially we saw lot of gold price hikes which in turn hit demand and of course its capital employed and the overall industry had actually declined as per our understanding leading to a very high degree of competitive intensity. COVID-19 has actually added a couple of more besides enhancing the gold price continues to go up, partner anxiety and a certain level of echo system liquidity stress is what we have started to see. While there are challenges, we see lot of opportunities. The challenge has continued. Demand pressure will be a challenge. Pressure on margins as well as capital employed, but there are opportunities in this new world, we have been able to think of reimaging digital anomaly and for a strong player like us, it is a real opportunity to widened the mote. Some of the emerging things therefore that we have taken on very strongly is one a very, very agile response to these new customers reality and two an intense focus on efficiencies. Some of the ways in which we are thinking of widening the mote, really the first and foremost as Venkat said is about building customer confidence. We pledge to make Tanishq stores, the safer stores in town and customer testimonials have been fantastic on that. We also know that in this world with digital becoming so important for us, omni and remote selling have become the new engines of growth and in fact we have added that formally as an engine of growth to the existing six engines of growth that Venkat has spoken about in the past. Just to share with you endless aisle is now live and being rolled out across all the stores and video selling by the end of this week would have commenced not just from a central website but also on line as well as with the 50 stores would have rolled out on video selling. So some of these are getting piloted and rolled out very, very quickly. Another important learning from last year was that we need to focus a lot more on grammage growth and on buyer growth and therefore grow the core and more so in today's situation with high gold prices we have seen that looking at affordable price banks and growing volumes becomes another important engine. As India opens up differentially, different geographic opportunities are opening up for us and therefore being very, very alive to specific opportunities and gaining share in the many different India that we see is another opportunity that we see. The partner ecosystem is strong but it is our job to manage their anxiety and to build confidence.

A quick look at where we stand today, out of the 460 odd stores across the various formats, 75% are up and hopefully 90% by the end of this month as the malls etc., start opening, 280 plus stores out of the 329 Tanishq stores are opened as on date. We have started operations in Hosur, Patnagar and Sikkim, and our regional sourcing offices also had picked up, vendors are seeing about 10 to 30% of their work force come back. Early indicators to pick up from where Venkat left, very encouraging sales recovery rate of course, customer confidence on the Tanishq gold standards, safety protocol has been fantastic. Golden harvest that for us is a very early indicator of how customers are expecting to spend their money, we have seen continued enrolments, continued payment of their monthly installments and very low request for refunds, which means to us is the real indicator of how people are looking at jewelry purchase. We had a fantastic digital Akshaya Tritiya this year of course our stores were closed, so it is nowhere in comparison with the top line of what we do during our offline stores being open but in the entire Akshaya Tritiya period, we did sale or an advance booking with 100% advance to the order of magnitude of what we did in the entire year on digital. So that indicates the kind of interest that was in the category between CaratLane and Tanishq, we are seeing 2.5 million visitors a month and we continue to see that. 35% new customers or new buyers in the month of May that we saw which is indicating to us a significant gain in the share already. So overall indicators are very, very good.

The growth engines you are all familiar, Venkat in the past has spoke extensively on the fixed growth engines, we have added two more on growing the core which I spoke about and leaping ahead with omni and remote. The green indicates the engine firing well or engines average and red is below par. Most of the engines are growing well. Retail expansion is something that of course has taken a pause right now. We were to open in the last investor call about 50 stores by the end of FY2020, we could open 41, the last 15 days disrupted our operations and therefore some of those eight and nine stores will open in the next few months, which will take us to 50 hopefully by the end of the quarter, but overall, we will kind of pause and see which geographies are doing well before we start rolling out and mostly we will see a recalibration of effort for the current year. However, the middle India opportunities are very, very strong. Wedding is something which I wanted to share there has been deferred demand from Q1 in to possibly Q3 and Q4, I have purposely put that as orange and green because actually it is a little uncertain. There may be some loss in demand but because of the share of wallet gains that Venkat spoke about as well as the fact that we are intensifying our efforts on wedding because we see that as a huge headroom. We feel we can swing that orange to green, but a lot depends on how we see this going forward. High value studded last year slowing down and we expect it to continue to slow down, this is the only product above the 2 lakhs and above 5 lakhs price band and we think that will take a little slower to recover. Golden harvest, golden exchange, low share markets and all the others I think should go very, very well.

How we are planning to play this year is pretty much we have to be agile to the reality. May, we were not anticipating the phase of growth and we are quietly happily surprised when saw in the month of May close to 73% recovery rate, not growth, recovery rate of the stores which had opened and in the current month, I updated as on yesterday, this figure has only gone up further, we are seeing a week to week improvement. So hopefully this is not a case of pent-up demand. Festival season will be very, very important and we think that there is a great opportunity for gifting, a feel good post hardship which we always see whenever the economy goes into stress in the past, and of course gold being both auspicious and an asset value. Wedding we spoke about, we think we will get the benefit of deferred demand and we ourselves are intensifying our efforts on wedding, gaining share in the H2 when wedding season should pick up big time. We have also worked extensively on building a very strong product strategy in affordable price points both in plain gold and studded which you shall start seeing over the next few months. So overall as Venkat said full recovery targeted by Q4.

I wanted to touch upon a little bit on the war on waste efforts. There is a certain downward pressure on gross margins, we do not know how studded ratios are going to behave. Initial indicator seem to indicate a week to week improvement but having said that it is still low, but quarter one has typically been a lower studded ratio quarter. Gold margins do come under pressure when gold prices go up significantly, largely on account of competitive intensity both in terms of the making charge etc. We hope to offset that by a lot of work that has been done on both the variable and the fixed cost base in fact on the variable side we are looking at smarter sourcing as well as managing the discount payouts etc., more smartly. We are also targeting 15% reduction on fixed cost base. So hopefully operating margins and gross margins we should be able to sustain at least that is the plan as we go forward. Capital efficiency very important for us especially in the situation where gold prices are rising and there is also greater amount of exchange that we can expect. A combination of that results in more spot buying etc., and gold on lease tends to reduce as a percentage. We have worked out on some new arrangements in the way in which we can maximize gold on lease and even in fact look at resale of gold as and when exchange etc., comes. We have adopted actually ever since the last six to seven months and we have intensified our efforts even there.

There are certain risks to these plans, certainly demand being the biggest risk and one of the bigger influences to that being the large gold price pipe. We have to play this quarter to quarter as I said and the very nimble in our response both in terms of the way we activate customer as well as in the product strategy. The rest of the risks are something which we have seen in the past. Supply side disruption, a quick word on that, I was chatting with some of our vendors and sourcing offices. Yes the next one to two months would see a karigars having gone back to Bengal whether they will come etc., but most of them are expecting them to be back in a month or two. In any case, we have adequate stocks and capital so that should not really matter for us for the next one or two months.

Overall, I would like to end by saying we are the best poise player to leap ahead. Venkat talked about the trusted player, the Tata name is even stronger, the emotional connect is unbelievably very high. Customer confidence has been the safest stores in town, the 18 million encircled bases, a large Golden Harvest base, which is continuing to be very loyal and it is a popular program for us, a very strong franchisee network, people who think on their feet and come up with their own ideas, and of course, not to forget our very professional, engage talent raring to go. So with a strong balance sheet and with an industry possibly facing great liquidity pressures, I think we are the best poise to leap ahead. Thank you, and I will pass on to my colleague, Suparna, who will take you through.

Suparna Mitra: Good morning to all. I am Suparna Mitra, and I am the CEO of the Watches and Wearables Division. To start with, just a quick word on year 2019-2020, which was a very good year for us despite a lot of challenges. We ended the year with a 7% growth in top line and a 9% growth in PBT and this on the back of three things, number one, the desirable brands that we have, the brand portfolio is very strong and superior design very differentiated collection has led to a lot of sales traction, Titan brand, in particular, did very well last year. Fastrack continues to be the most followed brand on Instagram. The second leg has actually been strong play in smart wearables. So last year we completed the acqui-hire of a company called Hub Technologies based out of Hyderabad and now we have the people and the platform to spearhead and fast forward the wearables journey. We are ranked #2 by volume in India by IDC in the smart wearables journey and the two notable launches last year were Fastrack Reflex Beat with Heart Rate Monitor and Sonata Stride, which is a hybrid watch. The other big lever or pillar of our growth was factored via multiple channels. So the channel portfolio comes in very handy. Last year, we had very good growth in the WT Helios and the large format stores and the marketplaces like Amazon, Flipkart, Myntra, which was the highest growing channel for us. So this year post COVID, we have actually looked at different consumer segments that we cater to in the Watches and Wearables division, we have brands starting with Sonata and SS which cater to the lower and middle class segment right up to Titan, Xylys and even Nebula, which is the gold watch brand. When we look at different segments, we find that, yes, there would be demand contraction in the lower middle class, especially those who do a lot of gifting for wedding, possibly the self-employed entrepreneurs and startups. But if I start from the top, the upper middle class business people, the industrialists, the salaried people, were both their reality and the sentiment would be high to medium as well as a large portion of the middle class, salaried class would be reasonably comfortable with a category like ours. So where are we seeing the green shoots of desire? We are actually seeing it across these different things. One is that our category is highly gifted and there have been a lot of missed milestones of the days, achievements, other milestones, and gifting is something that people are thinking of lot more because they spend time locked down with their families. We also find that there are a whole host of festivals lined up starting with Raksha Bandhan, Father's Day, Onam and of course, the traditional festival season and after the difficult period, people will see positivity and celebration. Some amount of revenge shopping we are seeing, anecdotal instances of people buying expensive watches from foreign brands or Nebula and that is something that is quite interesting. The other very big point that is working in our favor is the whole Indian brands and people are choosing Indian brands with pride. Also the whole Tata connection really helps. We are seeing a big lift in the premium segment. Actually, the recovery has been fastest there, possibly because in the last three or four weeks where our stores have been open, public transport has not been opened and people who have come to stores have come by their own transport and we suppose that psychologically people who are more active and feel that they need to go out and buy. So the premium segment is doing well. Finally, one word for all our brands that have invested great amount of effort over the last many decades, they all have great emotional value, each one of our brands has that power. In terms of retail activities, these are the things that we have been doing in the last two or three months. Health and hygiene, both Venkat and Ajoy have talked about it. This is a kind of standard operating procedure that is giving a lot of comfort and confidence to our customers. We have also done a lot in terms of communicating and telling people, assuring them and also lot of work in terms of staying connected with our customers, with our employees, with our field force through the regular webinar trainings and cascades. These are pictures of the kind of safe to shop, and other communication that is inviting customers back into the stores. So here are the early results of how it is as we are getting back to business. In retail, about 70-75% of stores are open and 48% is the current sales recovery from pre-COVID. Trade and this is an interesting thing for us because we have different channels. The trade out we have about 50% of the stores, which are open, which are currently at about 30% of the pre-COVID sale. Large format stores will take more time in coming back. They are largely situated in malls and malls are only now opening up. The current percentage of open stores is only 11%. The current sales vis-à-vis pre-COVID is 14%. Marketplace e-commerce has picked up. It is currently at around 77% of pre-COVID sale. Our brand e-commerce sites are also doing very well, and I will come back to this in a little while. We are at about 86% of pre-COVID sale. Two things and interesting things that I would like to highlight. One is that our average UCP is about 20% higher and also that we are seeing better traction in smaller towns as opposed to bigger towns. The brand portfolio, as I said, we are looking at leveraging our different brands, Titan, the mother brand is known for relationships and we are doing a lot of work on gifting campaign to get customers back, differentiated high-value products and even products like Edge, Raga, etc., are the ones that are actually getting customers back. Sonata is actually playing on the wicket of trust and value and the whole India Ka Favorite, Tata product kind of platform. Fastrack is actually working on humour and quirk that typically the Gen Z customers are employing to navigate this whole lockdown and COVID situation and here we are finding Reflex fitness bands as well as masks which are being introduced right now are things that have really slated for lot of pickups. In Fastrack, it is actually a fashion-forward kind of movement.

A little bit on the omnichannel. We are currently live in 165 of our stores out of the 750 plus stores that we have. There are a lot of different types of omnichannel, there is buy online, pick up in store, there is reserve online where you do not buy, you do not pay online, but you pick up in the store and then pay it. Video shopping is picking up a lot, ship-from-store as well as shipped-by-store is doing well. Endless aisle is also doing well. They are also doing appointment booking online for our stores and that is also available and picking up quite fast, it gives customers a lot of comfort to say that when I book an appointment at 1 p.m., then I am one of the few customers there and social distancing and safety will be taken care of. So these are the six pillars that we are using in the Watches and Wearables Division. Number one is to stimulate demand for the category in the consumer's mind in the post lockdown period and we are using all of the weapons that we have actually carefully nurtured over last many decades, the trust, Titan trust, Tata trust, emotion, and the whole India angle. We are making digital in all areas. We are trying to arrive at a hybrid model, whether it is in sales, like I talked about omni or in marketing. There is also a lot of work going on to motivating, inspiring and driving employees for a quick recovery with a reset mindset. I think this is something that is being used saying that this is the chance to actually reset based on many things that over time, where we may have gone in a particular path. We are playing our brand and channel portfolio to our advantage and different brands and different channels will pick up differently, and this is something that is going to be a huge leverage. As both Venkat and Ajoy pointed out, the War on Waste Program relentlessly and aggressively relooking at all costs is top of mind for all of us. Finally, keeping the partner ecosystem both in the front end as well as in the supply side as well as in the demand side, vendors, the contractors, the franchisees, distributors as well etc., everyone we are trying to keep them afloat and motivated so that we have a quick recovery. So that is all from my side, and I am handing over to my colleague.

Saumen Bhaumik: Good morning. This is Saumen, CEO of Eyecare Division. I will briefly touch on FY2020 a bit on the market, lockdown and recovery, outlook of FY2021 and the thrust areas of the year. We ended the year 2019-2020 with a turnover of about Rs.944 Crores, which translates at 6% growth. Titan Eye Plus channel grew by 11%, like-to-like at 6%.

But if you were to look at the first 11 months of sales before COVID disruption happened, the division growth would have been 13% overall and retail channel at 20%, significantly different than what happens at YTD levels.

We added 60 stores, network count stands at 584. Consumer Net Promoter Score is at an all-time high of 72, and franchisee NPS growth jumped from 8 to 33, clearly an indicator of greater confidence in this business. Three significant product launch has happened during the course of the year. First is our Titan signature collection. This is our first attempt to play in the price segment above Rs.5,000, which normally is dominated by fashion brand. It did very well actually and in a short span of time, it started contributing nearly 1.5% to 2% of the total sale of frames. Our totally in-house design lens best-in-class in terms of transmitter, that is clarity, more importantly, in terms of scratch resistance. We launched it in October as a pilot, in a month's time, seeing the response, we nationally rolled out and actually in two months time, we sold more than 30,000 pieces. In fact, the significant share of Titan lenses have moved to clear ClearSight lens. Also we got customer from Essilor and Carl Zeiss for this. We filed for patent for this lens. During Valentine, Fastrack audio sunglasses were launched, and that too was running very successful. This is in a way our foray into Smart eyewear. Our biggest marketing campaign of the year was brand ambassador Ayushmann Khurrana. The TVC was liked by most viewers and our brand metrics are at an all-time high.

Okay. Yes. Next slide. India had got 550 million people who need vision correction, of which adoption is at 172 million. Therefore, COVID or no-COVID opportunity remains. Market size, which was estimated at Rs.11,000 Crores, which probably is slightly a little bit at this point of time. If you are having this conversation sometimes in, let us say, end of February or early March, I would have told you for a targeted double-digit growth in FY2021, we would have to deal with several challenges like, stiff competition, mindless discounting, putting pressure on margin or high payout in the channel and so on and so forth. But COVID in a way changed everything, in fact, for everyone. In a way gave us a reset button and perhaps, a chance to come out of the trap of extra pollution, so to say. As we are getting used to the new vocabulary like social distancing, lockdown, we did a few things. You heard from Suparna and Ajoy about our preparedness of safety protocol. Apart from that 3,000 strong frontline staff tweaked out to more than half a million of our customers just to check their well-being and specifically, if they had any trouble with their spectacle or eyewear that they bought. While it certainly warmed up many, many hearts and we got widespread appreciation, our story even became viral. We also discovered that more than 6% people actually have got a very definite need to come to the store. So while we stay connected with our customers, it also told us what to expect in a way post-lockdown. Like all the other divisions, we also did a lot of work in consolidating our sales process. Therefore, assisted E-com is the new process that we came up with. This lockdown also gave us time to look at all the good practices, which are otherwise scattered and not seen by many to soak in, internalize, in short, we have prepared ourselves as best as we could during the lockdown for the days ahead.

Our first store opened at Haridwar on May 6, 2020 and by the end of the month, total store count came to about 400-plus. Venkat spoke about recovery at 44%, that is at entire services division. In the eyewear business, it is slightly different than we look at the daily metrics. People come in, place an order, delivery after 15 days. So we call it booking plus, direct sales. If I look at that as a measure, our ADS recovery has been around 60% for the stores that opened with respect to the last normal month of February.

June is looking a lot better, but one would not like to make a premature judgment, whether it reflects pent-up demand or an indication of steady pull. We discovered a few things during the course of last four, five weeks that hygiene, health and safety are top in consumer's mind. We know many instances, why people appreciated our protocol. We also know a customer actually many, but one such instance is that, customer traveled 45 kilometers to come to a store of Eye Plus, after doing a Google research, talking to the store and so on and so forth. So safety is certainly on top. We saw a significant growth in online sales, but that is not the convention online sales. Ever since we started assisting, helping navigate the website to generate remote ordering, which is when we saw the significant rise in sales.

Distribution business for eyewear came to a grinding halt, I think we are in for a long haul. Malls and department stores are just about opening up. We will wait and watch as to how it pans out. Therefore our estimate is that by Q3 onwards, we will come close to last year's figure and by Q4, certainly we will be reaching same figure of last year or more. So while we are hoping for faster recovery, our area of focus is quite clearly cut out. This is going to be a year of CRM-driven marketing, like Venkat mentioned, we have got more than 10 million Titan customers, who are yet to be Titan Eye Plus customers, although, Titan Eye Plus itself has more than 2.5 million customers. So that is one area, most of our time and energy will be spent to persuade them to come onboard. We have recognized that, we are probably losing customers in the economy segment. Therefore, quality spectacle at 999. This campaign is going to hit the market by end of June, starting from east region and progressively, the rest of the country. I already spoke about our smart eyewear play, that is going to be far larger, most likely in the second half of the year and ClearSight lens is also going to be another contributor to sales. As far as channels are concerned, Titan Eye Plus retail chain would be the priority channel along with our online play. The channels which are either less profitable or unprofitable we either scale down or exit, if necessary. There are many things which are currently under various stages of deployment, when it comes to cost be it conversion of company stores or exiting from unprofitable properties, efficient merchandising, centralized lens fixing, shutting down underutilized lens labs, chose custom localization, be it in-house manufacturing or India-sourcing, all these are significantly going to alter our cost structure and therefore, financially. Probably the impact will be seen from second half of this year, and most of it would be FY2022 onwards. That is more or less what I had to share with you. Thank you.

C K Venkataraman: All the presentations are over now. We are open for questions from all of you. Thank you for the patience.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Participants on the webcast can use the chat box option appearing at the bottom of the screen to submit their questions to the management. We have our first question from the line of Abneesh Roy from Edelweiss Financial Services.

Abneesh Roy: Sir, congrats on very good profits in such a tough quarter. Titan is very high on transparency and disclosure levels, and you came out with the COVID update also. So now when I see another Bangalore-based company, Britannia, they gave April and May numbers for the full company. So could you give us some clarity on how April, may has been there for the entire company? You gave EBITDA on the stores, which have opened, etc. But as a company, I think it will be a more relevant number and you have done superb cost control in Q4. So is that something which will continue even in Q1? Is it logical to take that?

S Subramaniam: Thank you Abneesh, thanks for the compliment. Let me just start with the April-May outlook. As you realize, April was a month where all our stores were shut and for most of May also, they continue to be shut. Therefore, April, we practically had no revenue. And in May we started the stores, and what you are seeing now is some of that. But obviously, the revenues for May would be substantially lower than anything you can think of. So we would be the ballpark of 10% to 15% of our brands. So that is what we are looking at for May. We expect June to also be ballpark 30%, 40% of our revenues at best of our plans for the year, because the stores are just about opening now and large metros, there have been significant delays. Mall stores have taken a long time to open and even when they open, we believe it will take some time. The encouraging part is what was shared earlier that the average daily sales in the stores that are open are coming back to very reasonable levels at 60%, 70%, and some are coming even 80% of some of the stores that have been opened. So that's the outlook now. It is too early to talk about what we expect in Q1. I think we will try and give you feedback as and when we get them, but the next one, most probably will only be after the quarter is over, which is the June end quarter. As far as costs is concerned, I think Venkat talked about it right at the beginning that we started this program not just because of COVID, but we started this as part of our previous planning exercise itself. And therefore, a lot of work had been done from December onwards on this front. So the way we have split the cost reduction program as such are essentially identifying those which are going to be sustainable, which are cost benefits, which will come throughout, not just in FY2021, but in the future as well. So a lot of areas have been identified, and those cost savings have started already. The second part of the cost saving will be what we call discretionary. Discretionary is where we take a call on areas like, for example, advertising, where we said, it does not make sense doing it at a time when sale cannot even happen. Stores are not even open. So those are the discretionary calls that we have taken, and we will continue to take these calls based on the situation as they develop. The third part is what we call natural savings. Savings, which happens just because of the period of disruption that we have gone through. Those savings are coming in as we speak in the first quarter itself. So the cost reduction measures, as I mentioned, these three categories, all three of them will play throughout the financial year, okay? The idea here or the goal would be to increase the sustainable savings to the extent that we can, but the other two would depend on the circumstances.

Abneesh Roy: Right, Sir. That was quite helpful. My second question is on either, it was a good presentation. My question is to Venkat. 12 years, this business is still loss making. In Jan and Feb, also pre-Covid, the sales was flat, while you're other two businesses Venkat Sir saw 15%, 16% growth and full year also growth in spite of so much expansion is lower than Tanishq at least for the eyewear. So it takes management bandwidth, it is a small portion of the sales, loss making about 12 years. In the past, Titan has not shied away from taking subdivisions. So you exited, for example helmets, you exited some of the foreign markets like U.S., so why be in eyewear which is such a small portion. 12 years is a very long time for any business for profits. So why do you want to stay in this business?

C. K. Venkataraman: I have spoken in last year's investor conference about the multiple stakeholders that Titan company looks at from this point of view and I had said that the number of customers that Titan Company satisfies in the eyewear business is probably more than 50% of the number of customers it satisfies in the jewelry business and therefore, it is very, very critical for us to do that. Whereas, as an investor, you look at the sales and profits from the division rather than the customer satisfaction aspect. You are right from that point of view, yes. It has taken us longer than it should have? Yes. But Saumen and I and other senior managers in the division and the company are resolved and committed to transforming the profit performance of the Eyewear business in the next 18 months, and we will show you a different result in FY2022 without fail. We seriously believe that we are offering an exceptional customer value proposition for the customers in this category, and we want to continue doing that. There is a lot of excitement in the ecosystem with respect to that, including from customers and we will make the financial performance of both of us have come into this responsibility in the last many months. Give us some time, and we will settle this question once and for all next year.

Abneesh Roy: Sir, very helpful. Last question, Sir. You have this long-term target of Rs.50,000 Crore by FY2023 and Rs.40,000 Crores for jewelry business and also Rs.500 Crores for your Skin business. I understand, things have completely changed versus when the guidance was given. But any new timelines you can give us or it is extremely tough to give any timelines for these three?

C. K. Venkataraman: I do not know tough or not, it is very academic at the moment because we are focused on actually accelerating our journey back to recovery and normalcy. I think, anything that takes us away from that ball is actually not a game to play. So it is academic and will come back. See, the overall long-term opportunity for Titan Company is no less relative to any other company now than when we unveiled it maybe one-and-a-half to two years back. So that is what I would say, rather than saying anything more specific on that point.

Abneesh Roy: Sure Sir. Thanks a lot and all the best.

C. K. Venkataraman: Thank you.

Moderator: Thank you Sir. We have next question from the line of Mihir Jhaveri from Avendus Capital. Please go ahead.

Mihir Jhaveri: I just had one question on the watch segment, Sir. What is the outlook, on the margin side? I think the margins have just gone up significantly and how do you see that, is it sustainable? That is my first question.

Suparna Mitra: So as Venkat and Subbu mentioned the relook at cost and margins had started for us last year itself, and we had an internal program where we were looking at every single cost from first principles and out of that, and lot of work had already happened pre-COVID, which led to some of the margin increase that you are seeing. Now currently, like we are trying to get our recovery and our sales turnovers back, but the cost focus and the focus on maintaining margins will remain. So to that extent, margins will play out but the idea is to continuously improve margins.

Mihir Jhaveri: So this is likely to sustain. This is what we should read, right?

Suparna Mitra: Yes. The idea is that we continue to work on sustaining it.

Mihir Jhaveri: Okay. Second question on jewelry. I think part of the question was answered. On jewelry margins, in Q1, if we see by the numbers, which you have suggested is almost 75%, 80% decline in terms of volumes. So how should we did in terms of margins? Do we envisage despite the cost cutting that there will be a sharp fall from what it has been in the current level, where we will be able to maintain because of January, February sales, which was fairly robust? But how should we see margin trajectory going forward in the jewelry business?

S Subramaniam: If you are looking at FY2021, I think the numbers are going to be very different because of the lower level of sales that we are expecting clearly a reduction in sales for the financial year as a whole because Q1 is pretty much a washout and hopefully, things will start getting better from Q2. Therefore, the element of fixed cost, operating leverage being negative, will continue, even though we do as much as we can on the cost side. So I do believe that would be the case. The second thing, we also need to look out, I think, which is highlighted by Ajoy, the mix itself, the studded ratio in the case, like this, it is quite likely that the ratio may be affected to some extent. So those are things that which we still have to wait and see, but it would be appropriate to say here that, we do expect diminishing margins, and that, I think Suparna talked about the sustainability of the margin from a long-term perspective. This year, I would assume that every one of our divisions will have an issue with the overall PBT margins.

Mihir Jhaveri: Got it Sir. Thank you.

Moderator: Thank you. We have next question from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Sir, 80% of ADS for Tanishq coming back is very encouraging. Actually very assuring also for larger consumption basket. But sorry to drag the point here. You spoke about pent-up element here, so if that is the case, are you seeing deceleration trend on week-on-week basis?

Ajoy Chawla: So, in fact, that was also our inquiry. We checked into it. And looking at it, stores opened for four weeks, three weeks, two weeks. So we are seeing a week-to-week improvement. Just to share with you, stores which have opened for four weeks, when I looked at the data for May, we are improving from 63% to 75%, by the time you come to week four. For three weeks we saw 70% going to 90% plus and so on. And we will keep watching this carefully, yes. One is worried that, is this pent-up, is this for real? So we are watching. So far the information, early indicators seem to be, it is gaining.

Tejash Shah: And sir, has the wedding segment got disproportionate share in this?

Ajoy Chawla: It is too early because we had a very limited total amount of sale while Venkat's presentation and my presentation there was a very high recovery rate. It is on a very low base of sale probably, because, same stores which have been opened for many weeks, is very few. So, too early to comment on wedding. Having said that, anecdotally, lot of weddings have got deferred to Q3 and Q4 and we are also seeing some weddings not of anecdotal inquiries for wedding on our online chat as well as in our stores. So people also opting to buy gold coins for now, to be redeemed later, in Q3, in which we are running a particular kind of scheme to kind of encash that. So yes, there is interest in wedding. Lot of anecdotal interest in wedding.

Tejash Shah: Sir, almost all categories, and this is at broader level, almost all the categories that we are in, require trial before purchase. Now in the COVID environment, how do we lend that comfort to try the products without worrying about infection and some of the measures that we have heard from other retail guys, does it mean that your inventory efficiency will be compromised for year?

Ajoy Chawla: You are referring to jewelry or for all the different categories?

Tejash Shah: Almost all the categories I believe that will be the case this year.

Ajoy Chawla: Okay. I will share on behalf of all of us. We are doing a fair amount of sanitizing for every product. UV boxes are there, UVC radiation boxes as well as in case of jewelry, we are doing both the UV experimentation right now, as well as ultrasonic cleaning. That is not an issue. The greater emphasis on trial is also being addressed to remote selling. So especially who do not want to come to the stores, so they are short listing products by looking online. There is a person on the other side of the video actually trying on products for them, and therefore, they shortlist. And of course, where we are also doing appointment based selling. So many of these are there to deal with the safety-related concerns that customers are having. In the case of eyewear, for example, like Venkat said, it is a bit of a need-based category and we saw right from the day 1, people who had to come, they did come and once they have the comfort of the safety protocol inside, rest of the behavior was pretty normal. Not to mention that there is also effort happening to help place remote order. These two seem to be working out as our people are reaching out to customers. So yes, there is a bit of hesitation. But I think, wherever there is a specific need, people do come out, like people are going out to the grocery shop.

Tejash Shah: Sir, lastly, as Venkat said, do not let the crisis go waste. Would you use this year or this period to shut below par store and consolidate footprints in favor of more efficient stores?

C. K. Venkataraman: Certainly in businesses where we have more of those, we will give more attention to that, yes.

Tejash Shah: Great, that is all from my side Sir. Thanks and all the best.

Moderator: Thank you Sir. We have next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Thanks for taking my question. My first question was on this the new pillar of grow the core, where you are talking about low price brands. Could you please elaborate on this because you do have an entire range of low to high making charges? So how would this be different? And is it possible for a player like Titan, to profitably compete in kind of value segment in the jewelry market?

Ajoy Chawla: Yes. Let me clarify, when I said, low, actually I meant low price band and price points. And when I say low, let us say, on plain gold, you are talking about sub 1 lakh, sub 50,000 price point and in studded we are looking at sub 2 lakhs. This incidentally contributes a largest base for buyers for us and if we have to grow, we must grow the largest base for buyers, especially since we have to also grow by gaining market share. So therefore, it is not about the making charge, low making charge product. This is the price point and the making charges can be pretty much, they are in fact, the median making charges for these price bands are similar to the ones we see which are influencing our gross margin. So this does not mean, reducing making charges. It is just coming out with products in the right price point. Especially, since gold prices have jumped quite a bit over the last 13, 14 months.

Arnab Mitra: Sure thanks for that clarification. The second question was on the demand recovery that you have seen. If you could help disaggregate this a little bit in the sense that, is a large part of this recovery in existing stores coming from GHS which was pending and could not be redeemed in the last two, three months? Or is there a decent recovery even in the non-GHS part? And also if there is any major difference between small towns and big towns in this initial four, five weeks that you have seen?

Ajoy Chawla: So both small towns and big towns have seen good response. Of course, the biggest towns like Mumbai have just started and Delhi also has been having some odd, even dates, etc. Chennai had some restrictions on air conditioning not being permitted, and therefore, we had to go very, very gradually in this summer. So actually, yes. But Bangalore, for example, has been fantastic, very good response. Bhubaneswar has been seeing a very good response. Hyderabad is also quite decent. Yes, so we are not seeing any dispersion there. What are the previous part of your questions, sorry?

Arnab Mitra: Is GHS a significant part of the initial recovery of what was spending from the last two, three months of redemption? Are you seeing decent recovery even in the non-GHS part of the business?

Ajoy Chawla: So we are seeing both, yes, certainly, there were some pent-up demand on account of GHS and some customer orders, which were pending. But as I mentioned, we are seeing a 35% completely new buyer contribution which in turn indicates a lot of opportunity even in the non-GHS. So overall, it is both. It is both GHS and non-GHS.

Arnab Mitra: Okay thanks and all the best.

Moderator: Thank you Sir. We have next question from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Just couple of questions. One, so there is a sense on jewelry. Is that particularly in communities where the amount of money to be spent on a wedding is finite or it is fixed. Given the fact that there are restrictions on other forms of spending, that redirection could benefit jewelry. How would you think about this?

Ajoy Chawla: No. It is exactly what you said, in fact, Venkat pointed it out.

C. K. Venkataraman: It is the power of positive thinking Manoj. The more people take, the more we will be glad.

Ajoy Chawla: There are wallet gains, totally.

Manoj Menon: No. Sure, the context of asking, sorry, I missed the earlier comment, actually, I joined a little late. I am sorry if I am repeating what you just mentioned earlier. Is it just a thought now? Or is it like, some market research or anything which have actually seen to kind of I know that it is a difficult time we are going to do a research? Anything to extrapolate this.

C. K. Venkataraman: So it is a starting idea, certainly it is a hypothesis, Manoj. But I also feel that we can in fact the marketing teams are already thinking about it to actually launch the idea in people's minds to carry the opportunity to its logic conclusion.

Manoj Menon: Understood. Second, sorry, again, if I missed the earlier comment. A question on, how the consumer behavior after 12 months of gold inflation now, is there a higher acceptance for a higher price of gold in terms of the volumes coming back? I know these are again not kind of easier times to kind of come to any conclusion. May be what is your thoughts on that? And linked question is, of your jewelry demand, what proportion you would put to completely discretionary, let us say, gifting or, let us say, something like a wedding anniversary or stuff like that. So these are two questions. One, the consumer behavior towards gold on accepting higher prices and then hence, we can see that improvement in volumes. Second is the percentage of pure discretionary, within jewelry for you.

Ajoy Chawla: Okay. So, Manoj, we have seen people currently having very high preference for gold. Part of it is due to the asset value of gold and maybe diminishing returns in other asset classes that people are seeing. So both on account of plain gold jewelry as well as on gold coins in bullion, we are seeing a lot of interest and it is, in fact, increasing as we see. So actually, they have got pretty comfortable with the price and many of them are anticipating significant price increases. They are asking us for hedging kind of schemes that we can offer them. So that is one response to what you asked. The other bit about discretionary, actually, birthdays, anniversaries and personal milestones play a very big role in jewelry purchase and we are seeing, in fact, even during the month of May as well as during April online, we saw a lot of inquiry for missed milestones for which people want to come back and buy. In fact, we are chasing in the month of June, a very aggressive number of people who have encircle customers, having anniversaries and birthdays. So that is a very big piece in our system.

Manoj Menon: Okay. Understood. Just one point to clarify, what you alluded to is the good old Swarna Nidhi scheme, right? So you are saying that inquiries for that is increasing now.

Ajoy Chawla: What they are asking is, because there are some players offering gold rate protection in the market, they are seeking gold rate protection, which means, they are actually anticipating gold prices to go up. Our GHS scheme does not offer gold rate protection.

Manoj Menon: Exactly. Because if I recall correctly, last year, it was really not a focus, the Swarna Nidhi scheme or equivalent, is there a change in thought here?

Ajoy Chawla: No. We do not have Swarna Nidhi scheme right now in mind. But we are exploring ways and means to see how we can offer some protection to customers. We have not yet cracked the solution.

Manoj Menon: Understood. Thank you so much Ajoy and all the best.

Moderator: Thank you Sir. We have next question from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Congratulations for a good set of numbers. So Ajoy, my first question is on the jewelry segment and after hearing your presentation and the way it is expected to sort of pan out, so if I were to look at the years in two halves, the first half being, the 1Q, which is obviously is disrupted and 2Q may be a recovery but when you look at the recovery space. So template for Q1 is cost conservation and everything else, while recovery phase, what is the template for growth? Would it be maximizing throughput and also creating consumer pull, taking wedding market share, and in that context, should we think about revenue and margin sort of trade off, would it be fair to assume that as you approach the recovery phase, the template would be more like flat margins and maximize revenue, or maybe still take a throughput led margin increases? I'm just purely talking about the recovery phase, not looking at the full year, that margin may be lower because 1Q would disproportionately weigh on the year. But I want to understand, how you're thinking on the recovery phase rather than the disrupted phase?

Ajoy Chawla: Sure. Thanks Amit, as we open up, in fact, our mood is towards going very strongly after growth. Our mood is to look at a very strong recovery initially by customer safety, etc., which is now built up pretty well in customer confidence. It is a big opportunity. It is actually a strategic differentiator for us. But as we look at recovery phase, we are thinking about aggressively stimulating demand and gaining market share. That is the approach we have taken. Margins will follow, is what I believe. Once we build scale and we build momentum, everybody in the ecosystem is very excited about it. Front line, vendors, everybody. So we are chasing growth and market share.

Amit Sachdeva: Sure. That is very good to hear. Just connected to that would be, obviously, there is a market share gain opportunity, as you rightly mentioned. But what is the activity from another people side? Like do you see the tactical advantage has been created in this process that other jewelers would not get funding, liquidity or inventory buildup, or are you seeing increasingly difficult environment for competition, and they will not be able to sort of come back to recovery so soon that, there is a window of actually a tactical advantage here?

Ajoy Chawla: So actually, Amit, right now, what we are anticipating and we are also seeing with some of the players is that, there is going to be a certain aggressive promotion led activity because they do not hedge gold. They have bought gold at much lower prices earlier. Even in the last two or three months, gold prices have gone up. So I think we can anticipate once they restart significant activity, in terms of promotions and offers. Already, at least with some of the players we are seeing making charge off 25%, 30%, etc., etc. But so far, the traction that we see amongst them is limited for most players, barring one or two, which have seen similar levels of traction that we are seeing. But I think liquidity is going to be a big problem for many of the players, and therefore, they will want to encash their inventory and generate cash quickly. How quickly they will be able to replenish that same inventory, is a little bit of a question that I feel.

Amit Sachdeva: Okay. That is very helpful. Just a small for Subbu, if I may. Basically, this period obviously has brought a standstill to revenue and costs, etc., and inventory, obviously, has not moved. So in that case, what happens to the leasing costs and also the hedging costs that we have been incurring in spot purchases of the previous year, and does this mean there will be some one-off costs are likely to hit Q1 as well? And if yes, what could be the extent of that one off element could be? And would you categorize that as a one off cost?

S. Subramaniam: Amit, very, very good question. See there are two things here. One is that, the good thing about us in most of our occasions is jewelry business is gold is gold. So we do not have a problem in any deterioration value etc., if anything gold rates have gone up. That is one aspect. Therefore, we do not expect a problem from inventory or costs from that perspective. We are fully hedged. So we do not have a problem with that. But one big hit that we will most probably take in Q1 will be an accounting hit, which is based on our hedge accounting policy, cash flow hedges basically require that we match our cash flows with the sales for a month, right? So our hedges and cash flows have to match. Now obviously, sales in April was zero and in May will be very, very low. June, again, will be lower than what we had hedged 5, 6 months back when we did the hedges for these. Now this would mean that from an accounting part, we would have what is known as an ineffective hedge. An ineffective hedge, as you may realize in the past, we were working profitable a bit, we reached P&L. It will not go to the tax. It is a P&L. Of course, this gets reversed. It gets reversed as and when the sales takes place. But it is going to be a significant hit in the first quarter because of the disruption itself, and so we will quantify that at this point in time, it is too early to say what that figure would be. But you are right, the inventory values being what they are and the sales which have not occurred, and let us not forget, April also is the month where Akshaya Tritiya was to happen and we obviously got no sales from that. Therefore, the hit is going to be fairly high, but that is more of an accounting issue rather than a real loss so at this point, yes, it will be high, but I cannot quantify it right now.

Amit Sachdeva: That is very helpful. Thank you so much and all the best for the second half and recovery.

Moderator: Thank you. We have next question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: No, I did not have any actually question to ask, but I just wanted to register my compliments to the entire team, Venkat and the entire team that he leads, challenges come, but how businesses and managements respond to the challenges is the most critical part of distinguishing the future and I am delighted hearing various steps and the way company has dealt with the challenges. So I just wanted to put a word of appreciation.

C. K. Venkataraman: So pleased and kind of you, Bharat. Thank you.

Moderator: Thank you. We have next question from the line of Vivek Maheshwari from Jefferies India. Please go ahead.

Vivek Maheshwari: Two questions. First, can you just define what do you exactly mean by new customers? Is new customer means someone who is not there in your database or someone, let us say, who is coming to your store after a couple of years and I mean, any sense on where this 35% number might be coming from?

Ajoy Chawla: So, yes, I will disaggregate it for you. New buyers as we look at it are those people who have not purchased in Tanishq before. So I talked about 35%. Around 8% from that 35%, so the balance 27% are new to Titan Company Limited and about 8% are not new to Titan, but new to Tanishq. They may not been buying watches or eyewear or skin or some other products. So 35% is broken up as 27% totally new to Titan Company and 8% new to Tanishq.

Vivek Maheshwari: Okay and that to you signals pure market share gain?

Ajoy Chawla: Yes. Because see normally speaking, also, you get about 37%, 38% last 2 years, if I look at the data. Now if my total demand is sitting at 70%, 75% of that order, I would imagine 90% of it should have come from existing customers. But the reality is we are seeing only 65% from existing, which means new customers are coming in. And if it was 100 level bases, I think our customer base would have been higher. Anecdotally, also, when we checked out a lot of customers have gone to the market, felt very uncomfortable in some of the other stores and come to us or they have not found the merchandise they looked at, we do not know. But there is anecdotal evidence as well to that.

Vivek Maheshwari: I see. Okay. Second, could you elaborate on one of the presentation slides, the title being intense focus on efficiency? You have spoken about 4 drivers for capital efficiency; new stock norms, lead time reduction, one-time gold resale and maximize GOL. So fourth one I understand. Can you just briefly elaborate about the other 3 points?

Ajoy Chawla: So stock norms is straightforward across the value chain between finish goods, work in progress and raw material. We have looked at efficiency. As you grow, there is always scope for some ways to accumulate and some old ways of working so unfinished goods, of course, we have also looked at the demand scenario over the next 3 to 6 months. So based on the demand scenario, the stock norms and the category-wise stock norms need to be reviewed, be it by price band, be it by plain, studded, wedding, so on and so forth so that entire work has been going on. We will, of course, keep changing the stock norm every few months because it is a dynamic situation. From a lead time reduction, that is the most efficient way actually to reduce raw material and WIP stock. So we have been chasing a 1-week reduction in lead time as part of our business plan and the best time to do it is now when anyway capacities or utilization is low as well as people are waiting to kind of fulfill orders. So that is the second piece. That should help us essentially in raw material and WIP, and also in terms of some recall inventory, we recall inventory or we get exchange gold and we bring it back, so lead time forward and backward. While onetime gold resale was more to kind of take an immediate correction, we had build up stock, both of raw material, WIP and finished goods in the month of March towards Akshaya Tritiya big sale that happens in April. Now obviously, with that demand having gone out, the stock cover is in excess of what we need and because it is fungible, we are actually in the process of reducing the total gold tonnage in our system. So we have done 1 sale of 1 tranche that we could, and we are planning to do that a little bit more so we will bring down our capital employed and inventory significantly over the next few months.

S. Subramaniam: I had to, I think, add here that these sales will obviously not have margins because we are basically gold rate. So we will try and report them separately. While there would actually be revenues from a company perspective, there will be revenues with not much margin. But this, as Ajoy said, is essentially to bring the working capital under control.

Vivek Maheshwari: Okay. Thank you for your clarification. Subbu, one quick thing, any one-off in this quarter in the jewelry margins, either hedging gain or something like that?

S. Subramaniam: No. Actually, this quarter was without any of those hedging gains and so on. Let me explain a little why the margins seem to be much better. One is the studded ratio still was much better. We also lost 15 days of sale, which was largely a plain gold sale that we lost. So the denominator was also lower. The third thing is that we brought down customer discounts. We have been doing this consciously from Q3 onwards and Q4 also it continued and therefore, the margins were better. Fourth, I think gold rates themselves being high, the average making charge per gram was higher. So it is a combination of all of these 4 things and therefore, despite taking a hit on ineffective hedge because in March also, if you remember, the last 15 days we had no sale. So we had a significant ineffective hedge also. So we took that hit, but despite that, the margin looks better. So this is not really one time as much as it is a lot of things have been done for Q4.

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

Prasad G. Deshmukh: Are your franchisees witnessing any pressure in terms of accessing working capital loans now, especially given the way the banking system is? And if so are you supporting them in any fashion?

C. K. Venkataraman Prasad, we rolled out a program to support all the franchisees and many dedicated vendors as well with a soft loan to tide over for the next few months and we created a framework for intervention, and it is working very well and has been greatly appreciated.

Prasad Deshmukh: So will that how could you quantify as to how much will that have an impact in terms of your working capital?

C. K. Venkataraman: Not material from our working capital.

Prasad Deshmukh: Okay. And second question is you mentioned by Q4, in jewelry, you are expecting normalcy to be back. Just wanted to get some more color. Is this in terms of sales? Or you will be back to the number of store openings that you were doing earlier?

Ajoy Chawla: So when we are referring to normalcy, first of all, it is a target. How the next few months progress itself, there is a lot of uncertainty. We will play it quarter-by-quarter. So it is a target we have taken. By Q4, when I say normalcy, I am referring to rate of sale and absolutely sale, not just in terms of the store opening.

Prasad G. Deshmukh: Got it. So basically pre-COVID versus what you will reach then.

Ajoy Chawla: Yes for that period. The run rate for Q4, we want to reach pre-COVID, if not better.

Moderator: Thank you. We have next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: On my question again is on margins. Working margins were very impressive. How should we think about gross margins going forward? Like my understanding was that high gold price would adversely impact the gross margin, where you mentioned it actually helped margins. So also that should be factoring some margin pressure because of higher competition from unorganized lower studded ratio and slightly higher gold coin price. Can you talk on margin?

Ajoy Chawla: So Q4, as Subbu explained, had 2, 3 interesting events with the studded ratio being very high, etc. Yes, you are right. When the gold prices are very high, there is more competitive intensity and therefore there is greater pressure on us for our gold margins. So there is going to be as I mentioned in my presentation, two downward pressures on our margins. One is on studded ratio itself and the second one is on this competitive intensity led impact of gold margin that we look forward. However, we are trying to sustain the gross margins by doing a lot of activity around both war on waste as well as in terms of the effort we started putting in last year in the second half in managing and optimizing customer discounts, etc. So between these 2, we are trying to see that we manage margins. But yes, in the next few months, how studded ratios behave, will have a direct implication and certainly, I do not think we can manage the same studded ratios that we saw in Q2 last year. If we do, it is great. Our target is in that direction, but I would expect some hit on studded ratio.

Kunal Vora: Just continuing on the studded part. So what are the trends you are observing in diamond industry? Are the prices on diamonds holding up? How are the prices of diamond trending? And is that becoming a threat for your diamond business? Or maybe it is not really meaningful?

Ajoy Chawla: So currently, what I have understood from all the literature, diamond prices and the diamond industry is under a lot of stress. Exports are under stress. There is a lot of unsold inventory, and I was reading articles as well on that front. We are expecting a certain reduction in the natural diamond prices, is the understanding we have. But a greater part of that is likely to be on bigger diamonds, like solitaires, etc. For the smaller diamonds, which require a lot of handmade work due to social distancing norms and people having gone back to their hometowns, etc., we think the pricing on small diamonds may not soften too much. Lab-grown, not yet seeing as a big impact. How it plays out in this post-COVID world internationally will also impact India. So we were still inquiring about what lab-grown. It is still very, very small. It is almost negligible in India, but we will keep a watch on international trends there.

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

Avi Mehta: I just wanted to clarify this recovery a bit. Is this adjusted for the number of days the shops are open?

S. Subramaniam: Yes. The recovery rate is linked to same stores being opened, you are referring to...

Avi Mehta: Number of days open, Sir. Adjusted for the number of days because I understand in some markets it will remain alternate days open. There are regulations, so it is adjusted the best, is it?

C. K. Venkataraman: The average daily sales for those 4 weeks or more that those stores have been open.

Avi Mehta: Okay. Where I was coming from, Venkat? Is that does this imply that your sales for these open stores are at 80% levels of last quarter on an absolute basis? Or does it imply that they are lower because number of days for which the store is open also has to be taken into consideration? That is what I wanted to kind of clarify.

C. K. Venkataraman: Possible. Because see finally, we are talking about some 25 days and maybe 130 stores. Some stores, which may have been closed on 2 days out of the 25, some 3 days out of the 25, but presumably not 10 or 15 days out of the 25 so to that extent, the extent of sales may be like what you are pointing, but we are talking about the rate of sales, and we are also seeing that day-by-day the relaxations are happening where stores had to be shut by 5:30. For example, in Bangalore, we moved to shutting later and so on and so forth. So in the next maybe 2, 3 weeks, overall normalcy will anyway be restored and therefore, these will start spanning out every day and strategically what you are saying is right, but in the main point, what you are saying is also right.

Avi Mehta: So then what I was trying to reach out to is that given that you are almost at 70%, 80% of recovery levels on average daily sales, then why are we expecting a recovery to normalcy, flattish, third quarter? Would you not say that third quarter will actually see growth rates? And if that is where I was trying to kind of if they are at 80% right now logically it should reach normalcy in the next few months. What I am missing?

C. K. Venkataraman: But 100% stores are not yet 80% and not yet 8 weeks. Finally, there are like 80% of the stores are open. Out of 80% of the stores, some 40% of the stores are 4 weeks. In the 40% of the stores, it is 80%. So there are so many bridges that we have still cross, right? So a month from now, our view on this may be more refined considering, a much wider network operating at 80% for much longer time.

Avi Mehta: Okay. Second clarification was on the watch bit. In the slide, you have mentioned percentage versus COVID and recovery versus COVID. Is this recovery versus COVID, again, for the percentage of stores open has to be kind of factored in or it is already factored in?

Suparna Mitra: The answer is the same to your earlier question.

Moderator: Thank you. We have next question from the line of Harit Kapoor from Investec India. Please go ahead.

Harit Kapoor: I just have one question on the jewelry bit. Just wanted to get your sense what has been you said that you envisage a higher competitive intensity. But in the current context, your competition, smaller stores, have you seen them also open at the same pace that you have been able to open it? And the second question to that is, do you see a permanent disruption of smaller competition in the current context? So do you see them still surviving in some form or the other? That is it from me.

Ajoy Chawla: So my initial understanding is that for the smaller local players, it has been a lower walking traffic that we are seeing. We do anticipate some of them are likely to go into stress because of liquidity. So yes, I think the smaller players are likely to weaken, but I do not think they will disappear. I mean, it is a very large ecosystem and many of them have got customers whom they have been serving for years and decades. So what we were talking about Try at Home, etc, all these services they have been offering and they continue to offer. So those who have liquidity and are not under severe liquidity stress, I do not think they will have a problem. It is those who have expanded a lot or who have diversified their money into real estate and other such things is where the liquidity stress is likely to be.

Moderator: Thank you. We have next question from the line of Vivek Duggal from Ambit Securities. Please go ahead.

Vivek Duggal: Congratulations for this steady performance. Actually, I have a few questions. The first one is, the PBT as a margin in the past few years has been maintaining in the range of 9% to 12%. The reason why you guys have been able to maintain the current PBT margin this quarter has been controlling the cost because you would not be very much in the same line for the future, as you guys have to spend more on advertising to bring in the customers and even the wedding piece, which stands a bit subdued in the quarter 3. So what you guys are seeing in the upcoming year the gross margins or the PBT margins will it be staying in the same range or do you see a drop in between margins?

C. K. Venkataraman: The PBT margins will drop in FY2021 because the scale of the business is going to be much lower. Even if the recovery that we are targeting, that is in Q4, but Q1 will be, like just Subbu said, may be 20%, 25% of normal, and we will recover from that to what we are targeting in Q4. So the PBT margin, so let me wait now. But did not understand your complete question. Is it about gross margin or PBT margin?

Vivek Duggal: No, Sir. Actually, it is about the PBT. As it has been mentioned in the page number 52 of your investor presentation that the EBITDA margin has been growing steadily at the range of 10% to 12%. So are we talking about the entire year. What we see might be end of FY2021. Will it be in the same range or you are expecting a drop in that?

S. Subramaniam: Yes. The drop only. Yes. That is what he said. I think Venkat said that only.

C. K. Venkataraman: It will be a drop in FY2021 because sales.

Vivek Duggal: Sir, if you could just specify a range?

S. Subramaniam: No. We cannot give you range. No.

C. K. Venkataraman: It is not clear. It is not clear at the moment at all.

Vivek Duggal: Okay. Sir, second question being on the balance sheet side. Seeing that the cash balances have dropped significantly from FY2019, could you please give specific reason why this thing has happened?

S. Subramaniam: Okay. I think the basic reason is that if you look at the inventory levels that we have had, the inventory levels were generally in line with what we had planned, and while March end, 15 days sales did happen. To that extent, it is a little higher. The main reason here is that the sourcing of the gold for us has changed dramatically from the previous years and let me explain this. Most of the gold that we used to buy in the past would have been on gold on lease. But over the last 1.5 years or plus, the exchange gold component has risen steadily. Today, to the extent that more than 50% of the gold that we were getting gold price on exchange, which means that we do not get the credit we do not get the 6-month credit that we enjoy on the Gold on Lease program. So to that extent, our capital employed, even though we tried to contain our inventory levels, they were slightly higher than what we would have normally wanted since some of the sales did not happen. But the more important part is the funding of that goal happened to be more from cash. That was a primary reason why the capital employed, the net capital employed has been higher. Okay. So we are trying to address that this year with various measures, and we will maybe talk about that more in detail as we execute some of them.

Moderator: Thank you. We have next question from the line of Jay Gandhi from HDFC Securities. Please go ahead.

Jay Gandhi: Just a couple of things. First, if you could just help me with the GHS and wedding contribution for the year and the sourcing mix, with the gold exchange and GOL sourcing mix?

Ajoy Chawla: Sorry. Can you repeat what is the question? I did not follow.

Jay Gandhi: Yes. Could you help me with the Golden Harvest and wedding contribution for the year? And the sourcing mix between gold exchange and GOL for the year?

Ajoy Chawla: Okay. I will give you the first pieces. The Golden Harvest contribution in last fiscal was 21%, sales through Golden Harvest and gold exchange sales through GEP, gold exchange program, old gold, not the TEP, not Tanishq. The GEP is 33%. So it went up from 28% to as in FY2018 to 32% to 33%. That is the contribution how it is moved for GEP for gold exchange and for GHS, it has been also moving steadily from 17% to 20% to 21%. Subbu, do we have the share of jewel we wanted to know, what is the share of jewel purchase for last year?

S. Subramaniam: No. The year-end is about 39% of the total inventory, those which were bought under gold on lease was about 39% for the year as of the end of the year.

Ajoy Chawla: So yes, you heard that from Subbu. I do not right now have the share of GOL as a proportion of total purchases for the year. We will try and answer that.

S. Subramaniam: It has been a ballpark of 40% to 45%, not more than that. See about 45% of our gold comes on exchange, about 10% to 15% is what we call outright purchase. That is jewelry that we buy, which is made by other vendors, for which the gold also we buy from them as well. So the balance, on an average, last year, about 40% of the gold that we got was on Gold on Lease.

Ajoy Chawla: Yes. And to clarify on that exchange what I told you, the GEP 33%. We also have Tanishq Exchange for this. So we have Tanishq Gold and GEP. When you add both together, it is around 40% to 43% exchange gold. Is that clear?

Jay Gandhi: Yes. Yes. Also, one more thing I think if you could help me with the wedding contribution?

Ajoy Chawla: Yes, wedding contribution has also been going up. FY2020 was 23%. The previous 2 years it was 21%.

Jay Gandhi: Right and if you could just help me understand if I had to see this 300 bps increase in gross margins for the quarter, how much of this can be attributed to just jewelry?

S. Subramaniam: Well, we are talking at the company level, right?

Jay Gandhi: Yes.

S. Subramaniam: At the company level, most of it is because of jewelry and for the reasons I already explained some time back.

Jay Gandhi: Sure. Sure. Fair enough. The other thing was trying to corroborate what you have mentioned presentation and on the call is you mentioned that you are going to maximize GOL to ride capital efficiency. But we also see and I am presuming that GOL cannot be utilized materially if this demand cannot be predicted in a meaningful way for the year given the circumstances we are in and hence gold exchange goes up. So I am just trying to understand how do we maximize GOL in FY2021?

S. Subramaniam: So the way we are looking at it. So first of all, when we are buying gold, we are buying every day based on what we see is the sale on the previous day, and we net off the exchange gold. Having said that, in this year, we based on the learning from last year, we are also looking at seeing whatever exchange gold comes is there a way in which we could some part of it supplied to our outright vendors and some part of it also sell back into the market and thereby increase the GOL part of it. So a little bit of process reengineering that we might do. So while exchange may go up, our ability to sell some of that gold back into the market will enable us to increase the GOL share.

C. K. Venkataraman: So it is based under the circumstances for managing the cash flow better.

S. Subramaniam: Yes. I just want to answer a few of the questions which have been coming on the webinar. Most of the questions which have come have been actually answered because they have been fairly common questions, which were expected. A few questions, which maybe I will just address. One of them was on the working capital seen at this point in time. I think we mentioned the fact that we are borrowing. But the good news is that in the last few weeks, we did get TEPs at very, very attractive rates, at just about a little over 4%. So we do not see a problem with our funding here. We talked about some of the sales of gold, which is that gold resale we talked about sometime back that is going to happen. So while we help some of our vendor partners and the franchises largely on funding, we do not believe we should have a problem with this. But the good news also is that we have also got some deferments on the Gold on Lease, thanks to the RBIs deferment of loans and repayments, etc., So that is also happening. Therefore, we do expect our situation to get much better. At this point in time itself, our borrowing is not substantially high, way below our limits and so on. We expect this to get better and by September, October, I think we are targeting to be net cash positive again. So that was the question on working capital.

Another question, which was raised was on fixed cost of stores that were shut. Yes, we will be incurring costs on stores that are shut, at least on salary parts. On rentals, the negotiations have been going on with various landlords. Just to give you a heads up, most of the stores that we have taken up are actually high-street stores. Our mall stores are much lower in percentage terms. So it is a painful exercise of actually renegotiating with every landlord, but a lot of that exercise has completed. We have got significant waivers on rentals during the disruption period. Some of the waivers will continue after this on a revenue share basis. The discussion with malls are going on, none of them have really been concluded. So to that extent, whatever waivers we get will reduce the fixed cost base as far as the stores are concerned. On employee costs, of course, the salaries will be paid. We are not going to be cutting them. The variable component for them is there, but it will not be very substantial because a large chunk will remain fixed as such. To the extent of variables, there will be some saving, but that is not something we really desire as well. So I think that was the question, which was on fixed costs. When will studded ratio stabilize, yes, Ajoy, you can...

Ajoy Chawla: So studded ratios, we do not know. We are seeing an improvement week to week. It is only 4 weeks of operation and only few stores which are there for 4 weeks. But even in that, we are seeing a week-to-week improvement, hard to give you a prediction at this stage. Our efforts will be to try and increase the quantum of studded jewelry. I am also using this opportunity to answer another question from Aditya Soman of Goldman Sachs, is the contribution of high-value diamond jewelry or high-value studded jewelry, which will be slower than expectations. The contribution of that last year was 10%. The previous year, it was 11%. So it is not a very high contribution. The margins in that part, which is high-value studded, greater than Rs.2 lakhs, is actually on a percentage basis slightly lower because on many of them there are some year-around discounts that we offer to customers.

S. Subramaniam: Yes. In fact, most of the questions have been on gross margin for Q4, and I think we have already answered that in great detail. Any views on signs of decline in wedding spend in FY2021?

Ajoy Chawla: Decline.

S. Subramaniam: Decline in wedding spend in FY2020, but any views on what sort of decline wedding spends are going?

Ajoy Chawla: So I think the fact that quarter 1 weddings have got deferred is what would impact. But how much of that actually comes back in Q3 and Q4, the interest in wedding purchases is certainly high because we saw that, anecdotally I mentioned and even during Akshaya Tritiya live chat, we had 15,000 live chats on that day, a lot of inquiries for wedding purchases. So my sense is a lot of that wedding demand is only deferred. Maybe Q3, Q4 and if availability of whatever, kalyana mandapas and halls are not there, it may get pushed a little bit further into Q1. But yes, it should come back over the next few quarters.

S. Subramaniam: Yes. There was one other question, which was on the income tax rate for the quarter. The effective tax rate seemed to be higher than what we normally would have accrued positive 25%. The reason for that is essentially because we had a significant ineffective tax hit during the quarter, which does not get tax deductible from a tax perspective. So that, as I mentioned sometime earlier, about Rs.60 Crores was just the ineffective tax hit that we took in Q4 so that is one reason why the effective tax rate was higher.

Ajoy Chawla: Also, there was one question. Somebody asked about the high fixed costs in jewelry. First of all, in jewelry, the fixed cost base is not very high. If you are referring to our company stores, the L1 stores are few, more are franchise stores and if you look at our fixed cost operations, it is much lower. So our total fixed cost base is less than 10% or maybe, I do not know, less than 10% of our overall sales in jewelry. It is 8% or 9%.

S. Subramaniam: Yes. There was one more question. What is the cost increase you are envisaging due to COVID-related precautionary measures I do not think that part increases materially or is part of doing business, so there is nothing specific to talk about?

C. K. Venkataraman: It is not material.

S. Subramaniam: It is not material, that is for sure. We could probably take one more question now, and we will close with that.

Moderator: Thank you. We have the next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just two quick questions. One, on slide 19, which I am seeing, we have 1,800 POS in 31 countries for watches. What kind of volume we are getting from these stores? And any commentary on these stores in Q1?

Suparna Mitra: Can you just repeat the question?

Shirish Pardeshi: We have export of watches in 1,800 POS in 31 countries. So how much volume we generate from these 1,800 POS for FY2020 and if you can comment on Q1 status on these stores.

S. Ravi Kant: Actually, the share of international sales for the watch division was high single digits in FY2020 and it has fallen from maybe just about double or teens, early teens in FY2018 to high single in FY2019 and as far as from a company point of view, they are in the 1%

ballpark share to the company's total at best. At the moment, I do not have a consolidated picture of those 31 countries and 1,800 stores, so maybe offline we will deal it.

Shirish Pardeshi: Okay and my last question is on Q4. What is the percentage of studded in FY2020?

S. Subramaniam: I think we had given it 37% for the studded shares.

Ajoy Chawla: Yes. It is 36.9%, which is versus 35.6% for the full year and for the quarter, it is 40-point yes that is right, 36.9% versus 35-point from the previous year.

Moderator: Thank you. We have the last question from the line of Chinmay Gandre from Bharti AXA Life. Please go ahead.

Chinmay Gandre: Sir, my question is, especially in Q3, festivals, which will be there and also weddings will also come up, right? So why are we targeting Q4 for normalcy of sales most likely it should be in Q3, especially with these 2 major events in the quarter?

C. K. Venkataraman: It is possible Chinmay, and we will talk about it as time passes.

Chinmay Gandre: Okay. But any specific consideration we have taken why we have not put it out normalcy in Q3 factoring these 2 events?

C. K. Venkataraman: No, because the general mood all around in every circle, if for example, every company we speak to, they keep talking about we have decided to work from home till December, till January, till July, August, like that so if you are continuing to work from home the need for clothes of that kind is less. So the general scene is like this. We want to just let normalcy return. Maybe in another 2, 3 weeks all of us will be sort of back, thinking normally, the newspapers will be full of normal headlines, and I am sure we will go towards what you are describing. But at the moment, considering everything, this is the outlook.

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

C. K. Venkataraman: Yes, thank you very much for all that encouragement, clarifying questions and best wishes, and I am sure we will move towards what we are targeting. Everyone is geared about it. Thank you.

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