"Titan Company Limited
Q4 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q4 FY23 earnings conference call. As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. C. K. Venkataraman – Managing Director, Titan Company Limited. Thank you and over to you, Mr. Venkataraman.

C. K. Venkataraman: Thank you very much and good evening to everyone on the call. It was a very satisfying quarter Q4 FY23. We passed many milestones through the quarter; Rs. 30,000 crore milestone for Jewellery, Rs. 5,000 crores for Watches & Wearables, Rs. 1,000 crores for EyeCare, Rs. 500 crores for International business, Rs. 200 crores for the Perfumes business; all in all, a very very satisfying quarter. All the mature businesses continue to grow at a very satisfactory and ambitious rate. All the emerging businesses growing at a scorching pace including the women's bags and the Taneira business establishing themselves strongly; internationally becoming very prominent in the NRI/PIO space in the GCC and in the United States. All in all, a fantastic quarter and I would like to thank all the employees of Titan Company, TEAL, CaratLane, and all other subsidiaries as well as all our partners in the manufacturing side, their employees, all the partners in the retail and distribution side and their employees, and all other partners who work in some way or the other in support of Titan Company and its subsidiaries for continuing to deliver exceptional standards in customer experience, innovation, operational excellence, and through all that to deliver great sales and profit growth. And of course, my thanks to all of you on the call, as always challenging us, wishing us well, encouraging us, and asking the sharp questions that you ask all the time. My part in this part of the call is concluding and we can move into the Q&A.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Sir, my first question was on the jewellery side. Has the moderation seen in customer demand in March because of the sharp gold price rise? Has that weaned off in April? And could you give us some sense on how the growth trends are behaving?

Ajoy Chawla: You are right. March saw a softening and it continued into the first half of April. I think gold price volatility has usually kept many people on the fence, but as soon as the festive period started and the offer started for Akshaya Tritiya, we saw a lot of people coming to the market and thereafter, it was very good. I think the volatility piece in demand linked to gold price volatility continues. In the festive season and wedding season, and let's say there are opportunities and occasions to buy, it's very good. And then, if there is some nervousness, it tends to fall. But overall, I would say it was a very good Akshaya Tritiya for us and it's in line with what we think, what our plans are for the year.

Avi Mehta: And would you be able to share some plans for the year or what your thoughts are? Any numbers over there?

Ajoy Chawla: No, I don't think we can share numbers, but you guys are well aware of our longer-term plan, and in some ways, our annual plans are pegged to the long-term plan that we had set out during the investor day. And in that context, therefore, we are on line with that.

Avi Mehta: The other bit, sir, there is this change in the franchisee rates which was carried out during the quarter. If you could give us some sense on what exactly it was and give us an idea of what is the impact that we should expect on margins and growth?

Ajoy Chawla: This is a very operational matter. Terms of trade between the principal and the franchisees are typically to ensure healthy returns and good profitability for the franchisee. Just so that all of us are clear, when it comes to the jewellery and Tanishq franchisees, we are best in class returns and in fact people make exceptionally good profits and returns on investment, so much so that most of the franchisees want the second, third, fourth, fifth store and we are unable to fulfill their desire because we have…. Even they are happy to take the next store 100 km away or 200 km away in another city, even international. We have actually had a huge request from all our franchisee community to give higher things. Just to share with you, best-in-class returns across all forms of retail that might be there and I won't be surprised if it's across the world. This old structure was about 15 years old and the nature, scale, product mix of the business has significantly changed in the last 15 years; the slabs have changed, everything has changed. So, we needed to align and, in a way, update it and the other important piece is the product mix which is profitable, which works well for the company, as well as works well for the franchisees needs to be aligned in the same way so that all of us are firing in the same direction. And that is something which we wanted to structurally change. We also wanted to introduce new categories of complexities of products, because we are seeing that opportunity to in a way gain in different complexities of gold. So, many structural changes, all driven towards aligning growth and profitable growth for both the associate and us.

Also, during the last couple of years, the division has invested significantly in both inventory as well as gold rates to deliver terrific growth and this investment has come significantly from the organization as well. So, in a way, this was kind of a restructuring. Absolutely very limited impact in terms of profitability to us. In fact, many franchisees have gained, and some may have lost. But actually, we don't know because the mix they will sell in the current year or in the next year will determine the exact gains or losses. And in our estimate, many of them will actually gain. And there is no significant impact on the company in terms of sheer margins or whatever. Nothing much. It's an operational piece actually.

Avi Mehta: If I may summarize or paraphrase the way it is, that this is to modify the incentives to move product mix upwards and should not result in any impact to the franchisee profitability. Would that be a fair statement to make, sir?

Ajoy Chawla: It is difficult to conclude because we have some 200 odd franchisees in the system. Some may lose depending on what mix they sell, and many others may gain. So, it's very difficult to conclude it in one line. And in any case, we have been a very fair partner. Even if somebody actually loses, we will invest a lot more in ensuring growth. So, that's not something we worry about.

Avi Mehta: And sir, if with your permission, just one last bit on the watch side. We saw very strong growth, but margins were below the range that we were looking at of 13-14%. Would you revisit this target, or could you share with us how you see this internally?

Suparna Mitra: The strong revenue growth was also because of a lot of investments, etc., and there were some actuarial calculations which came and hit our overall profits. But we are quite satisfied with the margin, and it is in line with what I have indicated in previous investor calls also, that margin for the watches business this year for example is likely to be in the 12-13%. It is in that range.

Moderator: The next question is from the line of Nitin Jain from Fairview Investment. Please go ahead.

Nitin Jain: My first question is on the jewellery business. Some of your national competitors like Kalyan and Malabar, have moved to one nation, one gold price policy. Does that lead to any change in the gold rate premium that Tanishq has been charging historically? And what would be the impact on EBIT margins going forward? And my next question is on the dividend payout. While the quantum has increased this year, the payout ratio has actually declined. Comments on that please.

Ajoy Chawla: On the one nation, one gold rate, actually this is now a 16-month-old story. Malabar had started it around Diwali the year before last in FY22 and thereafter many local players, maybe not one but lowest gold rate offering. That is actually for the customer it will be in the lowest gold rate offering if that is more relevant. The one India, one gold rate is more of a broader statement. Kalyan also responded in many markets in that way and has eventually figured out that he wants to stick to one because the Kerala Jewelers Association had some kind of conversation and for some reason, their gold rates were much lower than the rest of the market. We have chosen not to go down that path. We have instead looked at what is a relevant competitor in different markets. Historically, we have seen there is a wide dispersion of gold rates across the country. Local jewellery associations actually declare the gold rate, and everybody plays according to that. And therefore, we have chosen to optimize along those routes. Some of those are getting rationalized over a period of time and we are in a way ensuring that we remain competitive market by market. So, consequently, I have mentioned in previous investor calls we have therefore seen a gradual reduction in the gold rate markup side of the gold jewellery margin, but we have been managing it through product mix, through making charges, and through other initiatives to try and ensure that we still continue to live up to good GCs and therefore good EBIT margins. That process is on. So, I won't be able to comment much on GCs further. We have already taken fair amounts of corrections in the past and yet been able to deliver the EBIT margin that we have been committing to and we still stay by that. Irrespective of the competitive intensity, we are expecting to sustain our EBIT margins. We are not too worried about any further dilution even if there is here and there mix related and product engineering related as many other operating leverage related initiatives are in place to ensure that we continue to deliver healthy margins in this business.

Ashok Sonthalia: Our dividend policy suggests that we will maintain a dividend payout between a band of 25% to 40% and this year dividend declaration while it is substantially increased over the last 2 years, is about 26.6% of the profit margin and Board consider every aspect of our requirement and growth, and what kind of investment plans we have, and what is the cash balance on the balance sheet, etc., and then accordingly decide a number which is within the band. It's a decision keeping all these considerations in mind.

Moderator: The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is for Ajoy. Ajoy, congrats. This quarter, you have done a 19% same-store sales growth in the jewellery division. My question is that a large part of this 19% is coming because there is a big inflation in the gold price. If let's say the gold price going ahead were to stabilize and at some point, of time the Y-o-Y gold price inflation if it comes close to zero, in that kind of a scenario, what would be a sort of normal or a stereotypical target SSSG that you would tend to have in a flat gold price scenario? That's my first question.

Ajoy Chawla: We have had these conversations a couple of times – once in person and a couple of times on the call. We would still like to suggest that for us, volume is not linked to grammage and therefore, gold price inflation is equal to…. The way we look at it is the number of customers and the average ticket size. Just because there is a 19% like-to-like growth and even if there was technically a very high gold price related inflation, it doesn't translate it exactly that way. Just to give you a sense, if I look at 19% same-store growth in value, we have had overall buyer growth of around close to 16%. On same store, that number would be closer to maybe 10-11%. Typically, if gold price was not to inflate, there is nothing to say that we can't continue to gain number of customers because we continue to gain a significant number of new customers. Even in quarter 4, our new-to-repeat is 50-50. We have grown pretty equally in both segments. Gold price inflation may be helping in ticket size but it's not necessarily so. People also enrich in terms of product mix. As long as we are continuing to get more customers and there is customer growth for every store, especially same-store growth and then there is a ticket size increase which may happen due to product mix enrichment; not just only because of grammage but the kind of products they buy, studded ratios, and more complex products, etc. We are not worried about this. Therefore, same-store growth, it is our endeavor we should continue to deliver double-digit same-store growth. That's how every store and business can really prosper, and we are targeting certainly much more than this double digit or whatever. We are targeting good double-digit growth going forward for same stores. So, it is nothing to do with the gold price for us, just to clarify.

Percy Panthaki: My next question is on the retail area addition in jewellery – the square feet. What percentage of addition are you planning annually for FY24 and FY25?

Ajoy Chawla: I don't have a square footage number, but I can just share with you that – if I just look at quarter 4 – we have added 11 new stores, but we have also significantly expanded the existing 10 stores. And when I say significant expansion of these 10 stores, it is either a 25-30% increase in the retail area, or on an absolute level I believe 1,500 to 2,000 square feet. So, effectively, if I look at both these figures together, we seem to have added a lot more square footage than would be evident from the sheer number of stores. We have quite a few stores even in the current year where we are looking at significant retail expansion. I think another 15 to 20 stores will see significant retail expansion. In addition to that, we expect to certainly add 40+ new stores. The opportunity is not the limit. For us, here our ability to execute, find the right places, ensuring they are built to suit, and everything is working well. The opportunity is much larger than that, but typically, we have set out around 40 stores. The opportunity space over the next 2 years, if you ask me could be 100 new stores as well. But a lot depends on how much we are able to execute. Historically, we seem to have been able to execute 30 to 40 in a year, but in addition to that, we will do this retail expansion program as well which we have commenced strongly from the last 12 months. I hope that answers. I don't have a square footage percentage to help you with.

Percy Panthaki: Last question on Eyewear. Margins even if I adjust for that Rs. 8 crores one-time, margins are sort of in the mid-single digits. I thought we had this model now very well established where we would be doing a low-to-mid teens kind of EBITDA margin in Eyewear. What really went wrong this quarter?

Saumen Bhaumik: If you look at the last 6-7 quarters, you would have realized that what we said mid-teens I think we have held onto this more or less. The exception was last year's quarter 4 and, in a way, a similar case is this year quarter 4. Just to spend a minute on quarter 4. We had a very good month of January – in fact the second best in our history – but the second half of quarter 4 slowed down and it in a way sort of affected sales. A few other things also happened simultaneously. We needed to clean up a few things. For example, in the last 2-3 years, many of our franchise stores accumulated stock, especially lenses which were kind of supposed to be used but discolored so we had to take them back. Then, in our distribution system also, we need to make sure that there isn't any unnecessary stockpile up because you are making a change in our product portfolio. So, we needed to give a month's gap really to sort of downstock a bit so that a new portfolio of products can go to the trade channel with a restructured margin so that we actually have a greater level of penetration. All that has cost a sale compression to a level of over 70% of what we had budgeted. That's one side of the story. And the other side is GC actually held. On the cost front, a few annualized figures came in whether it is employee related actuarial that was mentioned once. We also opened I think 18-19 company stores which were not budgeted earlier. So, as a result, both on the rent front in quarter 2 and mostly in quarter 3 and quarter 4, as a result both in rent as well as employee cost, you would have seen the impact of it. Obviously, we will gain from this edition significantly in the coming year both on the margin side and otherwise. Apart from that, we had to shut down about 22 stores in quarter 4 which was not really working out and a few stores that happened at the end of quarter 3. All put together, there are a few one-time exceptional costs that have come. And this apart, also we decided that it is appropriate to sort of share some of our wealth that we have created with our franchisees who lived with us during the most difficult times of last year. That is the Rs. 8 crores that we have spent. All put together, there is a one-time impact in the PBT but if I adjust for all these things and if I look at what we did to make FY24 to have a great clean beginning, I think thankfully we are seeing it in the month of April. We had the best month in our history.

Moderator: The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Jaykumar Doshi: My first question is on margins. Even adjusted for one-offs that you had in the first half of this year; you ended the year with a little over 13% jewellery EBIT margin for standalone business. And whatever I gathered from the earlier response is that the gold rate is not a concern anymore. So, I assume that there is no further margin pressure. Given that backdrop, are you confident of maintaining margins at similar levels in FY24 assuming the growth shapes up on your expected lines?

Ajoy Chawla: First of all, I think these margins vary by quarter based on the mix.

Jaykumar Doshi: I was referring to FY24 versus FY23.

Ajoy Chawla: In the full year FY23, we have got an EBIT margin of 13.7%. There is an impact which is there this year of around 0.6% to 0.7% which is on account of custom duty gain which was not there last year which is there in this year and that won't be there next year. Also, there is a certain element of stock gains on account of diamond inventory which is also sitting in this. So, this 13.7 has the benefit of almost about a percentage between these two elements, both of which we don't anticipate to see in the next year. In a way corrected or normalized or adjusted, whichever way you say, it will come between the 12.5% to 13% which we have been talking about. And we expect to sustain this, given competitive intensity, given the growth opportunities in different categories and markets in which we are growing.

Jaykumar Doshi: Just a follow-up on your earlier comment. The demand trends over the past few days does it give you confidence that the softness that you had called out in the quarter and business update is now behind us and hopefully this trajectory of healthy growth should continue going forward?

Ajoy Chawla: If I think about it, volatility is here to stay. We have seen it now over the last 3 or 4 quarters. When the going is good, it is really good; and then when there is no reason, people kind of hold back; if gold prices spike, there is some degree of nervousness, etc., but we have kind of learned to play that game and we think we are broadly on course for what we see. It's difficult to give you an accurate view because as I said the first half of April was dull, but the second half was fantastic. May and June promises to be good because there are a lot of good wedding dates. So, yes, we are hopeful that we should be able to deliver to the plans we have laid out, volatility notwithstanding.

Moderator: The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Some of the questions which I have, I got some part answers, but allow me to repeat; this is repeat actually. Ajoy, first thing is on the 15 odd percent buyer growth, 10% customer growth at the same-store level, could you help us have some time series understanding of these numbers, let's say over the last decade?

Ajoy Chawla: Time series over the last decade I don't have….

Manoj Menon: What I mean is this 10% would you call it in the top quartile, bottom quartile, or mid quartile in terms of your own historical customer growth numbers?

C. K. Venkataraman: Actually, on the call, Manoj, even I don't have that for the last decade like that. What we can do is come back to you on that.

Ajoy Chawla: And also, Manoj, the other piece is, this is on average figure across so many stores. If you look at it, newer stores will have much better same-store growth until they stabilize. But if you ask me a 10% customer growth for a mature store, I would be very happy. Whether top quartile or not, I don't know; which decile, which quartile, I don't know; but generally, will be happy. But you made us think; we will think about the data and come back.

Manoj Menon: The reason I asked because based on historical understanding, let's say your retention power is very very high of the customer, it essentially means that when you have recruited new consumer of this magnitude, would it be fair to say that the customers…. It actually affects my DCF very positively. We will have a conversation separately. Secondly, on the gold price premium bit, we have also done some primary research on it. Is it fair to say that with all the discussions about let's say you having a nuanced approach, competition playing a price card, etc., is it fair to say that there is already an equilibrium which exists because at the end of the day, your 20% growth is with this let's say "headwind"?

Ajoy Chawla: Yes, you could say that because the competitive intensity on gold rate and pricing have been pretty intense over the last 15 to 18 months. So, to some extent, you can say there is equilibrium. Whether it will intensify further, don't know, can't say. By and large, no.

And just wanted to clarify the previous one. When we talk about customer growth or buyer growth of 10%, it is not all are not new customers. Many of them will be repeat and many will be new. The ratio will vary.

C. K. Venkataraman: We are not acquiring 10% on the total base. On the new base, we may be acquiring 10% more.

Ajoy Chawla : New to repeat growths are the same. In a sense, we are still getting 50% of our contribution on the overall chain from new customers and 50% from repeat. That percentage will vary based on older stores and newer stores and all that is what Venkat clarified.

Manoj Menon: Secondly, on the recycled gold or the gold exchanges have been stable at around 40 odd percent for a while. And I do recall your dialed up or rather you have used this to dial up let's say to counter the customer acquisition with a low making charge product, etc. The context what I am trying to understand is, do you think directionally, this should go to 50 over the next few years or do you think it can…? Which direction I should take it? Stable? Up? Down?

Ajoy Chawla: It has been pretty stable for us. Between 30-33% has been the contribution of gold exchange which is non-Tanishq gold and about 9-10% is the Tanishq exchanged. We are actually seeing a correlation between exchange gold and wedding, and we are trying to use that lever to further increase the excitement around wedding. Therefore, we think it should go up, but whether it is going to go up dramatically, we don't know. But certainly, we think it will be great.

C. K. Venkataraman: The more we are able to increase the share of the gold exchange program, the GEP, actually it will push the growth of the brand because the size of the exchange, the extent of upselling that happens with, when people discover the value of Tanishq exchange itself as well as the products and all that, the upsell potential is also high. There is a good correlation between the increase in the share of exchange and the growth of the brand in total. So, we will continue to push that, but it is a very complex final thing to actually happen, and therefore, the result we know only when we actually see it.

Manoj Menon: The only reason I asked because at this rate of 40% because there is a cost aspect also there because you are buying and selling gold at the same price versus selling on cash which will help you get that extra bit of let's say brand premium. The third and if I may, just one quick one. Ajoy, you mentioned about the…. let's say focusing again or rather even more doubling down on the wedding part of the business, where do you put the inventory and the store at this point in general? Is it optimal or do you think there is a requirement to let's say work with a slightly lesser turn or higher inventory for you to drive this wedding business?

Ajoy Chawla: You are right. The wedding business requires us to have more inventory, especially because it is so regional and optimizing that doesn't become easy and the more, we go deeper, which we are already quite deep in many markets. In general, given what is required, it is turned dilutive. And we believe that we have not yet reached the optimal. Wedding hardly contributes to around

20% of our business. So, there is scope, and we are, in fact, doing it selectively in select communities and select markets. And seeing the result of that and then progressing to the next set of communities and markets. Therefore, we are phasing it and learning along the way. But definitely it requires a little bit more inventory whichever community or market we choose to go deeper in.

Moderator: The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir, a couple of questions. Both pertain to jewellery. First, could you please provide revenue share of wedding jewellery for fiscal '23? And considering the backlog of weddings that occurred during FY23, what is your outlook for the wedding calendar for FY24?

Ajoy Chawla: For the year FY23, weddings have been actually a relative underperformer. It is around 19% of the total jewellery that we have sold compared to 20% last year. Actually 20% has been steady. And this is largely linked to quarter 1 of FY23 not really firing as well for wedding and we had to pivot towards other product mix. In the second half, the wedding response was better.

Tejas Shah: Would we have lost market share in wedding jewellery this year?

Ajoy Chawla: I am not so sure because we have gained overall market share, and therefore, internal contributions may not give you a better picture. In fact, I would believe we may have either sustained or marginally gained because in certain markets, we have seen good growth, and in those markets, we get actually decent wedding share. So, I wouldn't say we have lost share, but I would say the scope to grow much faster is there but opportunity in FY24 certainly we have taken a much more aggressive growth target on wedding. Not just for this year but over the next 3-4 years and therefore we hope to gain further. We have, as I said, investing in select markets and select communities to dial it up even further including exchange, etc., besides inventory. Right now, we would say this year was a percentage lower in contribution. We would like it to be a couple of percentage points higher in the coming year.

Tejas Shah: And sir, how is the wedding calendar looking for FY24?

Ajoy Chawla: So far, so good. Quarter 1 is certainly looking good, and H2 is always reasonably good because it has also a lot of NRI weddings, a lot of metro weddings, etc. So, so far, the calendar is looking good. And quarter 1 is always a little bit of a googly because it's very heavily dependent on the dates specifically because a lot of rural weddings, etc., are there.

Tejas Shah: And the second and last question. Sir, if you can share some insight of the profile of the new customers we are recruiting, as in which region it will be highest or in which category they normally get recruited? Is it wedding, studded, or low-end diamonds?

Ajoy Chawla: Regionally, I don't think I can share because a lot depends on the expansion across different regions. So, newer stores also give us a lot of new customers. But typically, we tend to get new customers in the sub-50,000 price band or sub-1 lakh because gold prices have gone up. Secondly, we get a lot of new customers in gold because we are gaining share from other players and typically, they could be buying gold from there. And the studded ratio is very low for other players. Off late, we are also seeing a lot of new customer growth in the sub-50,000, both for Tanishq, for Mia, and for CaratLane because there's an emergence of a younger audience, who is buying fine jewellery. That is more in the last maybe 1 year it's a little more prominent. But typically, yes, it is price band and more gold if you were to ask me. Weddings – new wedding buyers are rare, though, not entirely absent, but the median is sitting in the daily wear category.

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

Amit Sachdeva: Sir, my question is for Ajoy. I see that bullion sales in this quarter were quite large, nearly 50% of the full year bullion sales, but full year bullion sales is nearly more than twice that of FY22. So, it seems like it's a bit of a…. Is it like an assortment intensity rising or refresh rate is rising? My question is whether there is a part of old inventory being melted or excess gold being sold? And whether that jewellery margin accounts for all that value loss that may have happened if you have melted the jewellery back? And are you doing it increasingly more? Maybe the refresh rate is higher? Can you sort of describe what is the strategic intent here and how we should read it in terms of growth acceleration or inventory being refreshed and things like that? Or is there something I am digging too much into it?

Ajoy Chawla: Amit, a good question. I will clarify. There are two observations which might help you follow it. This is the year when we have started importing CEPA gold. There is an agreement between UAE and India and there is a 1% custom duty benefit for taking in CEPA gold. There is a quota, and you have to apply. In the current year, and most of it in the last 4-5 months, we imported a substantial quantum of CEPA gold, in several tonnes. And that gold is imported on spot basis and then there is some contango, etc. Consequently, to manage the capital employed, we have been now following a strategy of ensuring that we try to maintain GOL as a proportion of the overall inventory at a certain percentage. And because a lot of this kind of came in as a lump towards the last 4-5 months, we had to do a little bit more of bullion sale to manage the capital employed. It's nothing to do with the previous set of doubts or thoughts you had. We also did a little bit of proactive spot buying in quarter 3 when suddenly CAD deficit, etc., was beginning to worry and we thought let's protect ourselves from any gold-related restrictions. That also maybe added a little bit.

On the broader point that you mentioned that with refresh rates changing, etc., we typically tend to look at melting and provision as two-line items and we try to relate that as a percentage to the NSV. It has been fairly stable over the last 4 or 5 years and it's not significantly changing upward or downward. So, the melting as a percentage of the total and therefore potential value loss, etc., is broadly consistent. Nothing much to worry about and I don't think it's something which is going to affect our margins for sure.

Amit Sachdeva: Thanks so much, Ajoy, for clarifying this. Very helpful. I was just wondering whether there is some bigger intent here, which is not visible in general, but it might have implications. But thank you so much for that. My second quick question, if I may ask about, which you have obviously clarified in terms of trade issue between L2, L3s and things, but is this larger intent is to sort of since you have to make the gold price competitive, it is sort of an effort to pass it along to all the channel partners and everybody mitigate costs and sort of navigate it. Or what is the genesis of it? Or it is like value capture is too high since the gold price is high that it needs to be balanced out. In that case, are you investing the gains back into the business for growth? Or what is the real intent here? Just wanted to understand.

Ajoy Chawla: Again, two comments. One is that we invested ahead in terms of both the gold rate and inventory even before we made these changes. So, our investments over the last couple of years have been high and will continue to be high. We are all investing for growth, even not trying to recover. The second piece is, we are actually trying to moderate the product mix in a different way to manage the gross margins. Because, let's say, if you are losing out on gold rate, the best way to gain is by being able to give a richer mix or a more higher complexity mix, etc., and do some product engineering. If we have to do that, then we have to ensure that both of us as well as the partners are aligned in the same direction. There is no point in me supplying it if that doesn't sell. If the incentives are better or the margins are better on higher complexity or medium complexity products, then we are aligned in the same direction. That will give a better margin to us and a better margin to them as well. And therefore, this entire exercise was aligning us and them in the same direction going forward, and we are seeing a lot of work going on in the product mix. And as I said, it was a 15-year-old TOT. At that time, we didn't have many of the products at all that we are today selling. So, actually, there is nothing about trying to share and capture value. It is purely about aligning towards a more profitable future.

Amit Sachdeva: Just very quickly, Ajoy, if I may ask about the international expansion piece and it seems that domestic is 21%, but overall is 23%, which means International is already adding 2 percentage roughly growth rate to the overall mix. It seems to me that International is going pretty well. And can you share the number of stores you plan to open this year and whether L2 or L3 format is gaining momentum there as well or is largely L2 and your own store? Can you give us some color on international piece, the ambition for this year?

Kuruvilla Markose: This is Diny here. You are right that International is going pretty well. Wherever we have been able to open stores, the response has been quite overwhelming and very very positive. We are up to 7 stores now, six in the UAE and one open in the US since December. And in the coming year, we are looking to add quite a few more. We are planning to expand to roughly around 25 stores cumulative by the end of FY24. Large number of them across the GCC region, in UAE as well as other countries around Qatar, Bahrain, Oman are all possibilities. And also, expanding our footprint across the US. That is the plan.

Amit Sachdeva: Is L2 or L3? Which is the format you are essentially using? Or is it your own capital?

Kuruvilla Markose: We have all 3 formats. We started out with L1 in the UAE, essentially for us to sort of get our hands dirty and understand how the business works because we are doing this for the first time in an international geography. But we also have L2 in the US and now we are opening some L3 as partners are gaining greater confidence. Like Venkat said earlier on the call, a lot of our partners or franchisees in India are asking for a chance to be given to them to operate a store in international markets. We are also now finding a lot of local partners, meaning people who were not in any way connected with Tanishq or Titan earlier, who are also coming forward on the strength of what they have seen. We recently announced a tie-up with Sharaf Group who runs the Sharaf DG chain of stores in the UAE. They have come forward as a partner to work with us as franchisees for stores that will be Tanishq branded. They will be like any other partner operating a store for us.

Amit Sachdeva: And I am sure the qualitative strategy will emerge eventually for non-Indian population as well. But is there a plan towards that end as well that when you go to the US market, there is a large, very different kind of mix as well that exists, very high margin? Are you still an Indian diaspora and that's what the reason of being there as well? Is the customer mix and product mix going to be very different or is very different already?

Kuruvilla Markose: At this point, it is almost 98% Indian. We get a lot of South Asians in our stores in GCC, but predominantly Indian. And that's the beachhead that we are attempting to establish. But like you said, obviously, the market in many of these geographies for the non-Indian consumer is much larger, much bigger, and hopefully much more profitable, and therefore we would certainly want to go after that. But at this point in time, the primary focus and objective is to develop a very very strong competitive and high-quality offerings for Indian consumers; give them a really superlative experience. But just to give you an indication in the Titan Eye+ format that we have launched in Dubai, we are getting up to 25-30% non-Indian customers. That's because we are present in a mall location and certainly the products that we have to offer and the strength of value offering from India seems to be working very very well. Early indications are very very positive.

C. K. Venkataraman: Amit, Venkat here. The other opportunity is that all the Indians that we are currently acquiring as customers also have a pretty decent non-Indian jewellery that they buy, not just the Indian jewellery that they buy to wear with Indian clothes, Indian occasions and all that. For example, brands like Signet and Kay's and Jared's and why not even Tiffany and brands like that. We want to become a one-stop shop for all Indians, apart from the point that Diny made about non-Indians but even among Indians. With the product lines that we are currently going with from Tanishq, Mia, and Zoya and all that satisfy substantially the needs of the Indian consumers. But the non-Indian needs of the Indian consumers is also a pretty decent opportunity. And Diny and team are working to understand that better, create product lines to cater to those needs and therefore maximize the share of wallet and the total share of jewellery purchase as well.

And one last point. Many people have spoken, asked questions relating to the terms of trade change. And I would just request all of you to sort of step back on and see the subject as which Ajoy has said, but I am just saying it again to reinforce it. It's an operating aspect of the business. And frankly, the questions are sort of ending up making it look like a strategic or a business model kind of subject which it is not. It is an operating aspect. As long as we continue to deliver best-in-class returns to our partners, which even after this we are delivering, I would wager that in the Indian retail industry, Tanishq would deliver best-in-class even after this. So, therefore, it is just an operating matter and does not merit the kind of level of conversation perhaps it is going into.

Moderator: The next question is from the line of Latika Chopra from J. P. Morgan. Please go ahead.

Latika Chopra: I had a question on Mia. I wanted to understand, what is the revenue size for this brand for FY23? And what is the split coming from the standalone stores? There are about 111 stores now. And how are you think about the store addition plans here?

Ajoy Chawla: Mia has done exceptionally well. It has gone up almost 3x in the year. Just to give you a sense, in consumer price terms, it is about Rs. 730-740 crores this year, growing rapidly. And we expect Mia to hit Rs. 1,300-1,350 crores in the coming year. About 40% of the business is coming from Mia standalone stores. The rest of it is coming from Tanishq stores because it's a sub-brand of Tanishq, and right now very negligible is coming from online. So, the opportunity and headroom online are huge because the ticket sizes are bang on.

In terms of the 110 stores or whatever that you talked about; we expect to double that by the end of this fiscal. We are going aggressively on expansion. The opportunity is huge. And this is still within the top 30-40 towns, not really going too deep: in fact, most of it is in the top 25 towns. We see a large opportunity for Mia and fine jewellery is kind of coming of age. CaratLane has also seen that, Mia has also seen, and this is the emergence of a segment, which is very exciting.

Latika Chopra: I just wanted to also check for CaratLane. Is there a timeline or a thought process or even if there is something that you would want to acquire the rest of the stake in the company? Is this something that could happen in the immediate future, or you are pretty happy with the arrangement or ownership that you have currently?

Ashok Sonthalia: Latika, you are well aware, you have asked I think earlier also, that this matter cannot be commented upon till we become obliged to inform with the stock exchange and which we will do. Right now, we would not like to comment on this kind of question.

Latika Chopra: The last bit I had was on watches business. I think, if I heard it correctly, you mentioned 12-13% target margins for this segment. Could you share what has been this revenue salience of wearables in FY23 revenue mix? And what kind of margins does this operate at? And is this a reason that probably margins for this segment could be in this band?

Suparna Mitra: Latika, in quarter 4, we were about 13%, but for the overall year, we were about 10% of the total turnover. And the margins in this are slightly lower than watches. It is also reflective of the 3 decades of leadership that we have in watches that we are able to command that kind of premium. Having said that, in wearables, we are at a premium to similar comparable products from other brands and doing well. Over a period of time with various other business decisions including Make in India, the margins will only improve. But yes, long-term, wearables present a huge business opportunity where inherently the margins are of a lower profile than watches.

Moderator: The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Ajoy, I just wanted your thoughts. In a phase of rising interest rate environment and higher gold prices, I was wondering how this interplay impacts our business, 1) from a perspective of the spread in borrowing cost between gold leasing and informal sector borrowing cost. Fair to assume that this spread would have widened because the working capital cost increases for the informal sector should outpace the increasing gold leasing rates. 2) And then how does this impact franchise economics. This is of course beyond the franchise sharing agreements that you kind of alluded to.

Ajoy Chawla: You are right that informal or unorganized sector will find it more difficult with rising interest costs; as it is, bank borrowing is not easy for them. The jewellery sector is not very favored by banks. So, higher interest costs and tougher financial conditions will impact. From a customer point of view, in the sense, once gold rates stabilize, customers are actually comfortable coming in. But yes, in terms of maintaining a certain quantum of gold, let's say kgs of gold, it does impact. Having said that, the informal sector also does not in a way… they have gold, which is historically there, not on debt, and they typically view that as wealth. And their quantum of gold holding is also quite significant compared to us. In terms of stock turns, we are much better than most. They don't look at stock turns. I don't know, maybe if it sustains for a long enough time, it does create pressure. And certainly, those who are weak tend to become weaker and many of the independents who are strong become stronger. And we have seen that happen over the last few years. I'm not sure if I answered all parts of your question. Is there something else….

Chirag Shah: On franchisee economics, how does the rising interest rate environment impact them?

Ajoy Chawla: For L3s, it can affect because L3s are on buy and sell and therefore there is an impact on them. But the margins and the turns of L3 are very high and their returns on investments are pretty strong. And many of our L3s are also quite older in the system and they are getting fabulous returns. Their scale economics are very high. For the newer L3s who might have come in the system, yes, there is impact, but there, in fact, our new structure is enabling them even better. So, as I was telling, some franchisees may have lost but many have gained. Many of the smaller, newer, and lower-scale franchisees are actually going to gain in some of our changes that we have made about – structural changes. So, no, it's not a big concern for us if that's what is bothering you.

Chirag Shah: And can you just give us a sense on the trend of Golden Harvest registration? And secondly, on the studded jewellery side, of course, this was an activation quarter. We have also mentioned that the lower-cost inventory of diamonds is kind of behind us. Can you just explain how does the inventory buying cycle really work on the diamond side?

Ajoy Chawla: On Golden Harvest, we have had fabulous enrollments. Quarter 2, quarter 3, Quarter 4 are very very healthy double-digit enrollments. And we have a metric called enrollment to buyer ratio, which is driven across different stores, and we are seeing fabulous percentages at their all-time highs. That is very good from a lead metric for future intent to buy jewellery at least from us. So, we are very happy with Golden Harvest and it's actually firing very well for us.

Regarding diamond studded, yes, the activation quarter was good. Therefore, we had a better mix than last year, but it was still slightly below if I go pre-pandemic year. That year again, last 15 days, there was a lockdown and gold got affected, so I'm not able to comment. But yes, we have come close to what we used to be pre-pandemic in terms of studded ratio. We expect to drive faster growth in studded. I mean, that's always been the intent, but this is an…. we have delinked the two. In the sense, we no longer worry too much about the ratio as much as each segment growing at a certain pace.

I didn't follow the question on the inventory cycle, but typically studded inventory turns are lower than the gold ones, pretty much because that's historically the case.

Chirag Shah: My question was more from the perspective of…. On the slide, you have mentioned that the consumption of older, lower cost diamond inventory got over in Q3, and we are now getting into the newer inventory buying cycle. How does the diamond inventory buying cycle work?

Ajoy Chawla: We had some gains on account of buying…. We had an opening stock of diamonds at a certain price. And then because it had gone up, we had increased the selling prices, which was ahead of the cost hitting us. Now the consumption of all those low-cost diamonds is over and done, and therefore there's a normalization of the studded margins. So, the diamond inventory gains are no longer there. How does it work? We typically work on some consumption cycles, and we have to predict 3 to 4 months ahead of time to buy diamonds. And it's one of the most challenging questions you have asked. Even I am trying to figure out whether we can do it better.

Chirag Shah: What exactly do you mean by digitally influenced sales which is now at about 18%?

Ajoy Chawla: Digitally influenced…. In CaratLane? You are referring to which particular segment?

Chirag Shah: On one of the few slides earlier, I think on slide #9, you have mentioned digitally influenced sales in Q4 was close to about 18%.

Ajoy Chawla: When we look at digitally influenced sales, actually there is online; people who come online and buy online. Then there are people who come online, engage in a conversation with our live agents, etc., and thereafter, we do an omni, i.e., we hand them over to the store guys. And then there is a third element, we also do a lot of endless aisle, video call-based selling, etc. That also, we are in a way…. The customer who may have walked in in some store might see products lying in some other store. All of that, we also look at in terms of digitally influenced. And there are some other indirect attributions that we also look at in terms of people who were reached out on social media and digital, and then how many of them actually came in and bought. That is some data that also comes to us from our partners. And I think a lot of that 18% that you are seeing number there, it is about joint closure of omni and online. And I think that 18% is a weighted average of between CaratLane, Tanishq, Mia, all put together.

Chirag Shah: If I may just squeeze in one more to Saumen, what is the revised store rollout target for the Eyewear business now? And can you dwell a bit more on the distribution model expansion going forward, please?

Saumen Bhaumik: Chirag, we will open another 100 stores in the coming 8 to 10 months, hopefully in the first 6 months. But we are not going beyond the top 20 or 21 cities. That's the change that we have made. Therefore, around the first half of FY24 or around that period in October-November, I think we should be around the number that we spoke about 1-1/2 years back.

On the distribution front, I think we have taken some aggressive goals here. I think we have altered our product portfolio. We have also re-engineered the terms of trade for our dealer fraternity. With this, we believe that we will be able to reach out to a lot more outlets across the length and breadth of the country. And therefore, we should be able to cater to a lot more customers. In the areas, in the district, in the towns where let's say a retail store by itself may not be the most viable proposition.

Chirag Shah: You explained the margin part for this quarter. But if I can just get in a bit more there, you mentioned that the sunglasses growth this quarter it was about 61% versus lenses at about 20%. So, has the product mix also impacted margins? And do you think the competitive intensity last quarter was much higher with your key competitor getting more aggressive?

Saumen Bhaumik: I think competition wouldn't have affected our overall number, both the top-line and the final thing. I think some of the things that I explained on the top-line side, one channel did not really make any contribution towards the last month. And we also had to make certain corrections in order to prepare ourselves for FY24. On the cost front, there are a few one-time things that have hit us. So, I would broadly place the quarter 4 results in that space rather than saying that external factors impacted our numbers.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. C. K. Venkataraman for closing comments. Thank you, and over to you, sir.

C. K. Venkataraman: Thank you very much, everyone, for all the probing questions as always, and look forward to seeing you 3 months from now. Bye-bye.

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