Titan Company Ltd

2QFY15 Earnings Conference Call

MANAGEMENT:

Mr. Bhaskar Bhat : Managing Director

Mr. S. Subramaniam : Chief Financial Officer

Mr. C.K. Venkataraman : CEO – Jewellery Division

Mr. H.G. Raghunath : CEO – Watches & Accessories Division

Mr. S. Ravi Kant : CEO – Eyewear Division

Mr. Nikhil Gholani : Head – Institutional Equities,
Tata Securities Limited

Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q2FY15 earnings conference call hosted by Tata Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Gholani from Tata Securities. Thank you and over to you Mr. Gholani.

Nikhil Gholani: Thank you Zaid. A very good evening to all of you. On behalf of Tata Securities, we would like to welcome all the participants to Q2FY15 earnings call of Titan Company Limited. Today we have with us Mr. Bhaskar Bhat – Managing Director, Mr. S. Subramaniam – the CFO and Mr. C. Venkataraman – the CEO of Jewellery division on the call. We will start with a brief opening remarks from Mr. Bhaskar Bhat, post which we will open the floor for Q&A. Over to you sir.

Bhaskar Bhat: Good evening everyone. Sorry for the late hours in the day and thank you for being there a large number of you. You have seen the announcement, the results for the quarter 2.

Well, just want to say how different it was from quarter 1. Of course the financial performance is very good. However, we just wanted to state that the improvement in consumer sentiment, I have been talking about it, it has been very marginal, but gradually positive. Not so visible in terms of consumer behavior as in spending. The quarter was marked by the premature closure of the Golden Harvest Scheme and the Swarna Nidhi scheme which had huge impact in the month of August. We still have a few left unclosed, but more than 95% I think is over. Unfortunately or whatever practically government has decided not to do anything about the policy on gold import, the 80-20 rule continues and whatever relaxation was given was really an odd relaxation and those who are not serious manufacturers of gold, but bullion traders and people as disparate as Kundan Rice Mills and all are now importing gold because it was based on imports of last year and so on.

Price of gold was lower by 4%. During the quarter, it declined by 4% and 12% below September of last year and in fact even today as we talk, I think global price of gold has again dropped to 1,205 per troy ounce. Retail expansion continued at a reasonable pace. We have added 58 stores totally in the 6 months and 36 stores during the quarter. We have had some really good product launches, the Garden of Eden in the Watch division's Raga and new version of Inara and so on. Of course the big thing was the commissioning of our stainless steel case plant in Coimbatore which is going to produce global quality cases in India. A positive choice we made against in sourcing from China and we have taken the decision to spin the Precision Engineering division as a wholly owned subsidiary.

The Retail growth is there for you to see which is a good quarter for watches, World of Titan same store growth of 10%, total of 15% and Tanishq marked by that extraordinary month of August where we had to close the Golden Harvest Scheme. Helios, which is kind of the bellwether for where the watch preferences are moving, has also grown and continues to grow. Disappointment in Fastrack in large format stores. Eyewear division continues, I think must be 10 quarters in running that it is growing and it shows clearly the potential for the eyewear business is sitting in that growth number. And also the fact that our business model and the consumer model are successful in jewellery, it is to do with the hunger for gold in India and in watches being a totally discretionary spend category, it gets the large preference in terms of money allocation from the purse.

We have had a 55% top line growth and a 29% bottom-line growth. The PBT margin though declined for many reasons. One of them is an accounting reason in the quarter. We have had decline from 12.1% to 9.3% in the quarter because of lower studded ratio and the gold premium charge-off which is the FIFO effect having had to pay for the premium on gold. The margins declined from 11.2 to 9% despite lower finance cost, PBT margins. EBIT was 12.1% to 9.3%. In the year 6 months, it is more reasonable that the difference between top line and bottom-line drops to total 19% growth of top line and 13% growth in PAT and 10% growth in PBT.

In watches, we have continued to see growth 20%, but huge margin growth as you can see a 54% increase in PBIT, of course led by some cutting in advertising, but the positive impact on the price increase over last year is now flowing in and a big increase in the PBT margin. The cost cutting that was done on cost rationalization through integration etc. seems to be kicking in now and at the YTD levels, there is a big growth in the PBIT by 41%.

Jewellery was 65% and 21% bottom-line growth, and for the year again, the difference between growth of top line and growth of bottom-line reduces from 22% top line to 15% bottom-line. The good news however is that customer growth has been very good. We have been able to add new customers in the jewellery business. Studded proportion is good at 30% for the 6 months and 35% for the quarter actually had a very good growth of studded sales in the quarter 2 at 48%. So all this augurs well for the jewellery division and therefore the company.

The other segment 21%, Eyewear grew 33% and Precision Engineering 30%. The others which are others like accessories and bags, belts and wallets and corporate cost and also the perfumes business. PED had a postponement of billing, that is why that (-5%) for the 6 months. Capital employed is a good performance in a way we have been able to improve stock turn. Increase in capital employed was mainly due to reduction in gold loan lease and of course the GHS liability. I think we will be open for questions.

Just one more thing, the Dussehra to Diwali performance which we usually track has been quite tepid and lukewarm. The Watch division has not seen very much growth. We do not see a significant improvement, I do not want to talk about sentiments, but I want to talk about actual spending. There has been no significant change in the spending habits of consumers if we were to look at the watch sales. There has been some impact of online, but that is not the reason for a single digit growth in the Dussehra-Diwali period in watches. A similar single digit in jewellery, but that is more to do with the non-availability of GHS and so on. Eyewear continues to grow despite Dussehra-Diwali which does not get affected. So we are looking out into the second half of the year in a cautious manner. We are of course continuing our retail expansion, but we are not so confident of doing very high growth in the second half because of what has happened in Diwali. That is it.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir I wanted to first understand the jewellery margin bit. You indicated that the premium reduction has had an impact on margin this quarter. What I wanted to understand is if the premiums were to sustain at current levels, would there be any impact in the third quarter or fourth quarter in the sense I am trying to just see how long this impact is going to continue so that we can…

Management: Just to explain this, the premium that was prevalent in the market in Q1 was pretty high. It was of the order of 7-8% and the premium that was prevalent in Q2 is much lower. What we did was as we were paying the premium in procuring material in Q1, we were actually recovering the premium because we were not sure about the future. Therefore the margin on the gold jewellery business in the first quarter was much higher than budgeted and we also knew that through the FIFO system of accounting, the gold that we procured at with higher premium could be sold in quarter 2 with or without the higher premium and therefore the higher gross margin that was realized in Q1 was waiting to be offset in a consequent lower gross margin in Q2. So that is the background to that particular premium point. We are now sharing that, but we note that gross margins for the gold jewellery business was higher than budgeted in Q1 and lower than budgeted in Q2, but on budget for H1. Going back to your related point, the premium today is low and if it continues like that, there is no issue, but if the premium goes up, the premium became low also because of a much higher supply of gold into the country. There was a relaxation on the imports in the May circular of RBI when the star trading houses were permitted to import, that increased the supply and brought down the premium. If there is any change to that policy once again, supply may get restricted, premiums may go up and we will act accordingly at that time.

Avi Mehta: So on the watch business, you said there was some impact that was coming in from the reduction in ad spends, but could you kind of suggest what would be the impact because of this and hence what would be the level because given the price hikes now that has not been happened.

Management: The margin improvement, the PBT improvement I said is quite significant. Some of it was contributed by cost cutting and one of them is advertising. A figure of about 10 crores is the only number.

Avi Mehta: So ex the 10 crores, that number should be a sustainable margin level.

Management: Yes. What you are saying is right.

Avi Mehta: So I was just trying to understand the future level, okay sir. And lastly on the Golden Harvest bit sir, any details that you can share and whether is the concern on Diwali, is it because that you have seen such a sharp pickup in Golden Harvest and there is a preponement in the way. Is that what is your belief or anything that you can share on that sir?

Management: As far as the Golden Harvest Scheme is concerned, we are going to be relaunching it very shortly. But for the next 6 months at least, the absence of Golden Harvest will be an important angle to our top line because even October had no redemption of Golden Harvest barring some small marginal levels. 90 plus percent of the Golden Harvest deposits were short closed in quarter 2 and now if we are going to leave without any redemption because we have no customers. The new enrollments are starting very soon in November. The effect of that will come only in FY16.

Avi Mehta: On that point sir, would you believe that there is some preponement that has happened and hence some people might come back because you would not obviously cover the entire Golden Harvest as you had explained in the last quarter’s conference call and you are probably looking at some kind of promotion schemes etc. to offset the remaining balance and hence do you think there could be some play over there which would kind of offset this impact that there are no redemptions or you do not want to call that out, if you could feature any thoughts on that sir?

Management: We do not have any thoughts. We were also waiting for this Diwali season to close, it is just now closed, for us to get a sense of the improving sentiment. Now while there is an improving sentiment, it is not enough to offset the absence of Golden Harvest. So we are just re-determining the likely scenario for Q3. For Q4, we have a little more time to do some compensating action if any, but for Q3 when we just have two months left, therefore we would probably have to live with the fact that the Golden Harvest is not there and accordingly reckon our likely sales forecast.

Management: Q4 is a little farther away, but whatever it is, the impact of the absence of Golden Harvest will certainly be felt on the top line for the H2.

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

Avnish Roy: Sir my first question is on watch business. Numbers have been good on sales front this quarter. You said Diwali has been a bit weaker versus Q2. So sir Q2 growth was largely because of very favorable base and you said the impact of the online. So what exactly is the strategy on online, if you could elaborate for all the…

Management: Let me explain to you. Q2 also had a very successful activation by the Watch division which where we did payout, but the health of the business has improved as you can see because of the margin despite spending money on the schemes etc. Now the online effect is right now like an irritation because the online companies find the watches one of the easiest and the fastest selling both by way of gifts and so on. It is one of those things where you just pick and drag and you do not have to go to the store to touch and feel. Our own experience which is very small we do about 3-4 crores as of now on our own. But it is a market place where we are seeing significant growth also the likes of Flipkart and Jabong as well as market places like Amazon and Snapdeal. So our action plan is very clear. We are including this as one more channel of sales of particularly watches and all the other brands because there are two things. One is brand experience on the net and the other is the buying experience on the net. So while we will have to deal with the turmoil in the market place as in dealers sometimes participating, other times getting threatened because of the discounts that online is offering versus using our store chain as fulfillment methodology for online purchases. These are the things that we are considering by way of strategy and we are gradually moving towards that. So in one word, it is ultimately for the consumer. It has to be an omni-channel experience, 360 degrees wherever he or she goes he/she should be able to experience the brand and therefore buy the brand or simply seek out information.

Avnish Roy: Sir two follow-ups to this first question. One is if you see the other listed jeweller, here it has tied up with all the top online retailers. So are you being slow there? Second is cut in ad spend before in this season when Diwali is 10 days earlier because paint companies spent heavily, DTH companies spent heavily because of Diwali being earlier this time by 10 days. Why did we cut the ad spend, was it to improve the margins?

Management: In October we spent the money. Quarter was last quarter? The money was spent in October. I said we cut back in the last quarter.

Avnish Roy: Yes sir, Q2 why did we cut off because this time?

Management: No, that was a scheduling of the advertising, that is all.

Management: Which actually was spent in October for the season.

Avnish Roy: Okay, that is a bit surprising because Diwali was earlier this time. So what has happened most of these kinds of companies were spent in Q2 also versus last time complete spent happening in Q3. So I was surprised with that.

Management: But these are things which if you take a judgment call, the budgeted is spent on activation would have been something or launch of a product would have got delayed. So there are so many reasons. In that sense, we are not cutting back on advertising because sales are lower something like. We just have rescheduled it because launches are coming later.

Avnish Roy: And sir could you comment on that question sir. One jeweller available on all the top e-retailers?

Management: That is the choice that jeweller is making. You have to understand how the category is responding to this particular channel, what actually business is being transacted, what is the ticket size of the business that is getting transacted, where we operate and all that. So we are certainly creating an overall strategy for e-commerce and that will be visible in the months to come. Right now, we do not count ourselves as being slow compared to those jewelers at least on this front.

Avnish Roy: Right sir. Sir my second and last question is Helios and Fastrack, slightly the growth was slower. So if you could comment why Helios has slowed down?

Management: I think the Helios according to us, first of all we closed a few stores, leave that aside, same store growth you have to take at 9% and all that. In-fact Helios continues to grow steadily. The activation etc. which affected World of Titan was where the growth actually has come from. So Helios represents to us the market for watches and their growth of 9%, in fact the first quarter was high and the growth rate has come down, that is fine. But it will catch up. The point is it is growing at 10%-15% and therefore the indication is that a) the business model from a consumer perspective is right and the demand for watches does not get affected because of some mobile device on your wrist and so on and so forth. The people's interest in watches continues. Now therefore the only issue in Helios sale is how to get the business model from an economic perspective right. Fastrack on the other hand is I think certainly sitting in the consumer sentiment space which is spending and particularly quarter 2 is not a big youth quarter and therefore it will come back, but the Diwali period sale also, it is not really a Diwali brand – Fastrack.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: Sir just wanted to know in this quarter, how much would be the Golden Harvest sales?

Management: This quarter as in quarter 3?

Management: Quarter 2.

Sanjay Singh: Q2, yes.

Management: 54% is of the total sales value..

Sanjay Singh: Around 1,500 crores.

Management: Yes.

Sanjay Singh: So if I do the maths, you had a very low base last quarter which is same quarter last year which is Q2FY14 because of bumper sales in Q1FY14. So then even if on a low base, the actual core growth if I subtract the Golden Harvest sales from there also is almost flat or maybe 1, 2, 3% growth.

Management: No, it is 20 odd percent.

Management: 28% more.

Sanjay Singh: No, I am saying if you subtract Golden Harvest.

Management: You cannot subtract the Golden Harvest completely. You have to subtract the incremental Golden Harvest. Every month we get Golden Harvest redemption, right Sanjay. Now the people who would have had an 8-month, 9-month, 10-month EMI completed by end of Q1 would have redeemed in July, August and September, the sale would have come. The sale that would not have come is those would have done 6 months or 7 months and below. So those came and added to that they made that 1,500-1,500, but without that it may be 500 or 600.

Sanjay Singh: Yes, correct. So if you say that the 1,000 crores…

Management: This point to convince you that it is 20% will take a long time. So we can do that off-line. Take our word that if I remove the incremental growth which came because of the Golden Harvest it was about in excess of 20%. So you take our word for that for the moment and therefore what was your point?

Sanjay Singh: No, I just..

Management: Your point was it was not enough. So I can clarify this to you off-line perhaps tomorrow on why it was much more than 20%.

Sanjay Singh: No, I take your word on that and secondly on the margin front, while we understood the point of the three points for the margin being lower, how do we take it. It is because it is little volatile. So typically we have been taken 10% as the normative margin, but the first half is now 9.2%. So how do we look at margins going forward?

Management: Let me come in here. See, as far as margin is concerned, if you look at the components which have affected our margins in jewellery, two of them might not probably occur again**.** For example the higher discount because of the GHS redemption, is a very substantial amount. It is more than 50% of these 59 crores that we have mentioned. The second one is the premium on gold purchase on H1 basis yes, but some of that 50 also is from the previous quarter because the stocks were older. So yes, in this particular quarter we did give a certain higher discount as far as even our studded jewellery was concerned for the first few months. For example, we did not take up the diamond prices and so on and so forth, so there is that element lying here which will not occur again. It is over. We have corrected those now. So going forward, you will not see this. So the way we look at it is over the next few quarters and the other thing which is not coming here at all is the entire benefit that we will get from our international hedging, that has not come in this quarter at all because we will only be able to account when the sale happens from that consignment that we bought and if you remember, we started this sometime in June when we started doing the international hedging. So the benefits of this will start coming in from sometime in November. So the margins are therefore expected to improve.

Sanjay Singh: And lastly Venkat on the jewellery sales, we understand that quarter-on-quarter there has been lot of movement, but on a full year basis if you can just give because Golden Harvest will now go away. So sales will be lower or whatever, somewhat lower. So what kind of number you are looking at for the full year for jewellery sales?

Management: See, if I look at the most recent performance which is just Dussehra-Diwali, it is pretty close to being flat, little positive. That is because we had no Golden Harvest redemption. All of that went into Q2. So now that is a very substantive part of quarter 3 in terms of a signal. If I take that, it tells us something about what Q3 is likely to be and maybe what even Q4 could turn out to be.

Sanjay Singh: So your sentiment does not improve significantly, we are expecting a flat H1.

Management: Correct. So at the moment, our important thing is from a competitive point of view, are we holding our preference, or are we losing share? Our sense is in the same Diwali period, we have actually done pretty well from that point of view. And therefore from a near-term point of view, everything is good for us, but from a short-term point of view that the Golden Harvest will subdue the revenues. And what is the actual guidance on us and I mean the guidance here even an internal view on it, we have not yet formed. We are in the process. We waited for Dussehra and Diwali to now get over and then we will conclude our view on that. But more importantly from a going concern point of view, I would look at come May Golden Harvest will be back and therefore from an overall competitive position, the brand is in a very good situation and therefore from May onwards and I am sure by then even the consumer sentiment would have had decent time, the government would have had time to put on ground the real changes which will improve the situation.

Sanjay Singh: And lastly in terms of size and area, you had mentioned around 20-30 stores and one lakh square feet. While in the square feet addition, you are standing fine, but in the number of stores it is quite low. So are standing on that one lakh square feet addition for this year or?

Management: Yes.

Sanjay Singh: So the number of store which opened would be much higher in the second half, is that a correct assumption?

Management: Yes. There are many entries which are planned and finally it is not so easy to stick to plan on network. Multiple dimensions of franchisee, location, all those are, even though operational, we are pretty good now in setting up once we sign up. But signing up is little uncertain, but we will hit the space targets certainly and the number target hopefully by end of FY15.

Moderator: Thank you. The next question is from the line of Punit Jain from Rare Enterprises. Please go ahead.

Punit Jain: My first question is again with respect to your Q3 jewellery sales. Now you are saying that this year Dussehra-Diwali has been flattish on a YoY basis, but as I understand in the base quarter there were no coins and this period typically has got coin sales which can be as much as 15% of sales. So including coin sales, should not that number be more positive?

Management: In the base quarter, we had no coins. In the new quarter, we had Golden Harvest. So if I remove both which are unlike to like in a way, pure jewellery sales on a base quarter without Golden Harvest is 40%. So that indicates a sentiment change as well as the ability, we had a campaign which pushes the accessibility. I do not know if you have seen the latest Tanishq commercial where the son buys from his bonus a jewellery for his mother. That campaign was to push the point that Tanishq has a lot of products which are very affordable and within your reach and we just doing the analysis on that, but certainly our sense is that it drew a lot of new customers speaking the low ticket products on Tanishq. So it was to capitalize on a high brand desire which was not converting into a footfall. So therefore our initiative to drive new walk-ins, we have succeeded, but the absence of Golden Harvest is still restricting us achievement of our growth.

Punit Jain: And what proportion of sales will be coins in this quarter?

Management: Quarter, I do not know, but in the period it was about 8%-9% if I remember right. So our growth was around 3 total and I think the 3 dropped to (-6) or something like that when we removed coin in current period.

Punit Jain: And now since Golden Harvest is not there, are you seeing any change in behavior in terms of consumers while buying jewellery. Is it more or less diamond or in terms of ticket size are you seeing any change?

Management: Too early to say. We know for sure that a lot of customers, in fact most of the Golden Harvest customers are waiting for Golden Harvest to restart. That is a very concrete understanding we have, but the behavior including actually a decent part of the sale, I think about 7%-8% of the sale in this period was from customers of Golden Harvest who have actually redeemed in the last quarter, but bought now without Golden Harvest. So meaning their interest in jewellery continues to be there.

Punit Jain: Just one more accounting question. So if I look at your P&L, in this quarter interest which has been expensed is very different and is not commensurate with the loans outstanding. So the interest which is being expensed in this quarter and if I look at the loans outstanding, so what would be your borrowing rate?

Management: No, you cannot go by the quarter end because what happened is the borrowing went up substantially during the month of September. It sort of peaked at the end of the month and the borrowing was generally much lower during the whole of the quarter essentially because we had to stock up on our gold. After the Golden Harvest redemption happens, our stocks got depleted significantly. So we had to buy gold and that happened towards from the second half of September largely. So you cannot go by the quarter end number only.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from Phillip Capital. Please go ahead.

Abhishek Ranganathan: Couple of questions. First is sir, we had made provisions on account of the Golden Harvest in the previous quarter that is in the Q1.

Management: The interest provision.

Abhishek Ranganathan: The interest provision, correct. So have we reversed any of it?

Management: Yes, we reversed. We reversed about 7 crores.

Abhishek Ranganathan: And in the other expenditure or employee expenses which have gone up quarter-on-quarter, is there anything which is peculiar to this quarter?

Management: I would not say peculiar, but certain actuarial valuation for gratuity, etc., went up a little during the quarter. Well, this might get adjusted possibly by the end of the year, but a very substantial amount.

Abhishek Ranganathan: Anything sitting in the other expenditure?

Management: No, nothing.

Abhishek Ranganathan: So largely related to the promotions.

Management: Yes.

Abhishek Ranganathan: Okay sir and coming back to the number which Venkat was speaking about in terms of the 21% growth adjusted for incremental Golden Harvest. So would that be a reasonable indicator of customer interest during the quarter if at all there has been interest, is it because of fall in gold prices. Actually how would you read that number?

Management: Even got good signs on that yet to say because that 20 was Q2, but October was 3, but that 3 was because some of that which would have come in October actually went into Q2. So if I correct for that, it is looking like (+40).

Abhishek Ranganathan: But this 21, let us keep the October aside. Would you have actually viewed it as something as a significant improvement in customer sentiments or maybe let me rephrase it, whether this 20% odd growth what we are talking about, how much do you say would have been a like-to-like rather than the expansion effect?

Management: Much of it would have been like-to-like, maybe 13-14. Under 15 would have been like-to-like out of the 20 in any case. But in my understanding, the studded growth in Q2 after removing the effect of Golden Harvest was not that satisfactory. Now it was a little lower than the quarter one growth on studded jewellery. So it was a little confusing to us frankly and I do not have the total view on it, but the sentiment survey that we keep doing every quarter have indicated to us that the sentiments have actually become better. And as I go by the adjusted sales growth of October, that indicates growing improvement in the sentiment. However, because of the absence of Golden Harvest, it is not still good enough for us to meet our original target.

Abhishek Ranganathan: Right sir. And sir any commentary on your e-commerce plan, do you plan to because there is a lot of talk of the Tata market place and so on. So is that we are going to see as branch out on the jewellery side and watches side on both aspect?

Management: I think we are working on it at the moment and not yet ready to speak about it.

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

Rakesh Jhunjhunwala: I have one question. I want to know what is the growth in jewellery sales apart from the Golden Harvest? The correct way will be do it to deduct from the second quarter of last year the Golden Harvest sales of that period and then come to the next sales and then you deduct the Golden Harvest sales of this quarter. So you must be having that figure, what is the Golden Harvest sales in the second quarter of 2014 and what is second half quarter of 2013-2014, and what is the Golden Harvest sales in 2014-2015?

Management: That is one way. The other way Rakesh, which is the way I have done is all the Golden Harvest which would not have matured in Q2 of 2014-2015, if I subtracted from the sale of Q2 of 2014-2015 and then that becomes an actual sale that would have happened of that is the 20% parameter.

Management: Less than 20%.

Rakesh Jhunjhunwala: Like-to-like, your growth in jewellery sales is 20%.

Management: That is 20% whereas you are talking about removing Golden Harvest from both years, it will have a different figure. That is another way of looking at it, but it will have a different figure. It would not be the same figure that I am talking.

Rakesh Jhunjhunwala: It is 20% approximate and…

Management: Correct, 20% is the growth which should have been the normal growth.

Rakesh Jhunjhunwala: Second thing I would like to ask you is that what is this new scheme you are coming out and where are you coming out with it? Do you have a definite date launch because you are saying October, now we are coming into November.

Management: Actually, it was not held up for any other. There is a certain statutory roadmap on this in terms of time to be given to various authorities involved in it including registrar of companies and all that. So that is the only thing, otherwise… But you have been clear about the scheme. I think we are launching it on Monday.

Management: In a few days on 31st October we could not meet that.

Management: It is very similar to the earlier one and the interest rate because now it is a deposit in any case. Interest rate is going to be 12%. It is because the net worth limit is also constraining the overall scheme, we have raised the minimum level of the EMI to Rs. 5,000.

Rakesh Jhunjhunwala: So that means what did you say Rs. 1,000.

Management: No, Rs. 5,000.

Rakesh Jhunjhunwala: Right. So that means if I deposit 5,000, you will give me on a simple interest 12% at the end of the year and that will give me in the form of discount of jewellery?

Management: Correct.

Rakesh Jhunjhunwala: Right?

Management: Yes, that is right.

Rakesh Jhunjhunwala: So customer has a very good idea. So customer that would sound a better scheme and a 10% discount and you are doing it yourselves only or you are doing it in association with other people?

Management: No, anyway it is a discount only.

Rakesh Jhunjhunwala: No, but are you garnering some other mediums like NBFCs or banks to do it or only Titan will do it?

Management: No, there are two things. One is the Titan scheme is the scheme. Apart from that, because the net worth cap is constraining the overall opportunity of Golden Harvest, we are in discussions with entities like you mentioned for a scheme which can expand and get us much more. Now that we have not yet pinned down all the nitty-gritty of that. We will announce it as soon as we do that. Right now, this is the Titan scheme I am talking.

Rakesh Jhunjhunwala: You can go up to what percent of net worth?

Management: 25.

Rakesh Jhunjhunwala: You can go up to 750 crores or may be 800 crores.

Management: No, 650.

Management: While as of now 650, may be 700 by the end of the year 700-750 by the end of the year.

Management: So it is a changing figure, but is at ballpark.

Rakesh Jhunjhunwala: Second question I had is see because you are not giving your figures separately for sales of eyewear. They have no idea what Eyewear business earns, losses, what your PE business does and how you classify your others?

Management: Others include Eyewear, Precision Engineering and Accessories. Accessories is a small component, but Precision Engineering and…

Rakesh Jhunjhunwala: You do not want to give the PE and the Accessories and the Eyewear and want to confuse us constantly on whether the Eyewear business is profitable, what the sales growth is? How do we take your word that growth is 23% if the sales are not declared separately. This is the point I hear at every conference call and I am told I do not know what you want to hide.

Management: Nothing is being hidden. It is just that we are telling you that it is profitable.

Rakesh Jhunjhunwala: No, but the question is why do not you give the…Today legally it may be so but I think companies with good corporate governance don't only go by legality.

Management: Valid point Rakesh. We will do it sooner or later.

Moderator: Thank you. Next question is from Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: So I will just ask only one question on Helios. Sir I make one observation. When I look at Helios business model selling multi-brand watches and some of the competitors who sell it, so I tend to observe that these watches perennially throughout the quarter. You can get perhaps 10% kind of discount on full year basis. On the same watches, you sell on some other luxury or semi-luxury retailers. So is this one of the reasons that throughout may be or Helios is below potential?

Management: Your point about discounting is valid. This is now a retailer behavior globally is like this. That is if you take Singapore or Hong Kong and so on, the multi-brand retailer, retailer is known to attract consumer through a price. Now the Helios business model fundamentally addresses the multi-brand desire, the browsing desire of the modern Indian consumer wanting to go beyond a single or clutch of brand like Titan, Fastrack and Sonata to 20-30 brands and his willingness or her willingness to pay higher prices for designer label. Now we cannot own all the brands and therefore we own the retail. This is the fundamental idea of how to make the money in this business model. There are retailers and retailers across the world. The ideal business model is really to have about one-third of the brand, fully under your control in terms of pricing. So you have the licenses for those and they should be very good brands. Therefore when you have the license, you end up making money on the wholesale side if you end up distributing to the others as well as the full margin in your own store and then complete with two-thirds other brand because representation of other brand. This is how retailers work globally. And it is beginning to work with us. Right now, we have a few brands only - Tommy Hilfiger and Police and all that. But now because of our network, more and more brands are coming to us. Let me tell you it is not as profitable as a category business, but it still gives you scale, it gives you control, it gives you presence, it gives you information.

Amit Sachdeva: Sir my question, why I am asking this question is because you have many channels actually at least creating a perception in consumers' mind that additional consumer surplus they can extract out of a deal. Now if perceptibly say Seiko or any other watch, I can just give an example, you could easily buy the same watch for a discount versus Helios would not offer it. Sorry for dragging this point, but I am saying is that your potential throughput could be way higher than it is just because there is a perceptible difference that the discounting is higher elsewhere.

Management: This happened with our World of Titan also when we launched. World of Titan continues not to discount. I think the bigger discounting is on multi-brand sale is really in the e-commerce sites, the market places which is another behavior the consumers are showing where it is Helios plus everything put together. The perception I understand, but..

Amit Sachdeva: That is a point to sort of bring to you notice rather than really arguing unnecessarily about it. My second point was that if I understand correctly, what you said that Diwali to Dussehra has been more flattish, but last year as I correctly recall, you said the Diwali was perhaps one of the worst Diwalis of the decade. So the base of Diwali, etc., was very weak. Now I understand the Golden Harvest is not there, but ex-Golden Harvest, if you assume the Golden Harvest effect was not there and since so much of retail area has been also added in the last year. So would you say that what sort of growth ex-Golden Harvest impact would you have seen considering the base of Diwali was so low?

Management: When we remove the contribution of Golden Harvest to last year sale which was a low year and remove the coins which were not there last year but were this year, the growth was about 40% which is pretty decent. But it does not meet the requirements in a way.

Amit Sachdeva: So is it like Dussehra to Diwali period you are talking about?

Management: About 30 days.

Moderator: Thank you. Next question is from Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Just had one question on watches. Just wanted to check if there has been a price increase in Q2 in watches?

Management: Not in Q2, Q1 we made.

Harit Kapoor: And what would have been the quantum in Q1?

Management: It was not very high.

Harit Kapoor: And in terms of the input cost in terms of components, etc., how are we seeing because last year there was a huge impact because of the input prices. So just wanted to understand from a cost perspective, ex-overheads.

Management: This time we did not have an issue because dollar has been steady. So we did not have a problem and that price is into our pricing now.

Harit Kapoor: So going forward, do you see any price increases required at least over the next…

Management: We do not need to do it.

Management: Selectively we are doing it in Sonata and so on.

Moderator: Thank you. Next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: The international hedging bit you have mentioned, has that benefit, was this captured in this quarter or it will..

Management: No, Vivek I mentioned that. It will only come in next quarter. It will start from next quarter.

Vivek Maheshwari: And is it possible to quantify how much it would be in terms of margin?

Management: I would not be able to give you a number now, but as we mentioned earlier, around 30% of our purchases are under Gold on Lease Scheme. The balance is actually being cash on spot basis. So for that, we are predominantly doing hedging on forward basis in international market. So the benefits of that will start coming in most probably from November.

Vivek Maheshwari: So 6%-7% on 50% because 6%-7% would be..

Management: It will be a sizable number, you are right. But it will start coming in only from November.

Vivek Maheshwari: And why will be it from November?

Management: We started this only around end of June.

Moderator: Thank you. Next question is from Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: One question. Are you seeing any change in the consumer behavior due to this continuously falling gold prices now?

Management: Nothing that is discernible. What we have analyzed and concluded looking at this over a 2-3 year period is, when gold prices fall, the rise in demand is lower than the fall in the price and when gold prices rise, the percentage fall in demand is lower than the percentage rise in the price.

Management: So it will make up in the price.

Prasad Deshmukh: So basically irrespective of the gold price, you will stand by the earlier guidance that you had given the jewellery sales will increase by (+20%) level like-to-like?

Management: Value targets are there, but right now the re-calibration of target is happening more because of the consumer sentiments. What we started out the year with what we have seen in the Diwali is not very encouraging.

Prasad Deshmukh: Just one follow up to that. What has been the growth in your secondary sales?

Management: It is all secondary sales.

Moderator: Thank you. The next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sir actually I do not want the exact numbers, but I just want to have a feel on the gross margins. On the jewellery side, I believe that we have taken some price increases on the per carat rate of diamonds this quarter and also we have had some launches of new collections therein we have launched jewellery with lower clarity diamonds like SI2. So going by that and especially with such a high percentage of studded this quarter, actually our gross margins should have gone up on the jewellery side. So can you just give a feel of it in how it would look like?

Management: Gautami, we do not share gross margin numbers, okay.

Management: Actually there was no event in quarter 2 on pricing that there was there. So SI2, G-H is an old clarity, but we have been running with so many years SI2, G-H.

Gautami Desai: We did not have more collections in this quarter particularly like Inara and..

Management: Inara was launched in July of 2013. We had Inara's Version 2 in July 2014, yes. But finally the gross margin is delivered through a combination of so many things of different kinds of products each with a different gross margin profile and all that and we have to manage the overall gross margin target for diamond jewellery taking the account of those from multiple dimensions. There was nothing material in terms of the initiatives that we took in Q2 which led to a dilution if you are alluding to that.

Gautami Desai: But sir is there an increasing trend or something because overall margins could have an impact of new store sales and there is other things like you said the premium and the other things but..

Management: One of the things that we have mentioned in the presentation is higher discount that we had to incur on the diamond jewellery sales and that was one contributor to the lower growth in gross margin compared to the growth in sales.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was our last question. I now hand the floor over to Mr. Nikhil Gholani for closing comments. Over to you.

Nikhil Gholani: Thank you Zaid. We would like to thank all the participants for the time. Thank you Mr. Bhaskar Bhat, Mr. Subramaniam, and Mr. Venkat for the detailed discussion of the results. Thank you all and have a good evening.

Management: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Tata Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.