Titan Company Ltd

4QFY14 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

ANALYST:

Mr. Sameer Deshmukh

Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q4 FY 2014 earnings conference call, hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Sameer Deshmukh from Tata Securities. Thank you and over to you Sir!

Sameer Deshmukh: Thank you. On behalf of Tata Securities, I welcome you all to the conference call of Titan Company Limited, post the fourth quarter numbers. We have with us the senior management team of the company. I would now request Mr. Bhaskar Bhat to make his opening remarks post which we can commence the Q&A session. Over to you Sir!

Bhaskar Bhat: Thank you Sameer. The quarter continued to be as poor in terms of consumer demand. In fact the third quarter probably saw the worst in the year; however, it affected our two big businesses, watches and jewelry. Why I say is because Eyewear was less affected, probably because of the category, because it is need based, the need being very different.

Some of you may be aware about the RBI's approval for hedging of our gold inventory in the international commodity exchanges, so that brings back efficiency to hedging and hedging the whole lot, the gold price as well as dollar. Issues of course persist on gold supply in the market, the high premium going up to about Rs.200 per gram. It continues and it has unleashed a gold smuggling racket. Gold coins; however, I guess the investment sentiments in gold is weak and therefore gold coins uptick is also very lukewarm after we reintroduced gold coins and our focus on expansion of the retail network across stores, across formats has continued. We have added 44,000 square feet during the quarter and whole year addition is 125 stores or 180,000 sq.ft., including 30 Titan one store, which has been converted to World of Titan.

We have entered into a joint venture agreement with *Montblanc*, which is the writing instruments brand and it is a retail JV. It is expected to commence operations in January 2015. Under the New Company Act the deposit rules under the Company Act is likely to affect our golden harvest scheme and in fact because of the ambiguity, we have discontinued the scheme as of April 20, until we are very clear about operating of the schemes, we will keep it pending. The quarter saw a slight improvement in retail performance with our flagship *World of Titan* growing at 12% and 8% like-to-like. *Tanishq* also growing marginally 6% like-to-like and 13% in total, *Gold Plus* continues to decline. We are revisiting the strategy for *Gold Plus* and this year we should see a significant change in the fortune of *Gold Plus*. *Helios* grew by 27% with like to like growth of 5%, *Fastrack* was flat on like-to-like basis and because of the newer stores it has grown 11%.

Large format stores in which we sell watches, the total has grown by 2% with 1% like-to-like. *Titan Eye+* however, continues to grow very, very well at 35% overall and 21% like to like. The turnover in the quarter grew 7.5% and the PBT 4.5% with PAT growing 11.6%. There was a benefit in terms of tax, but annual number again you can see growth is 8.1% to Rs.10,815 Crore and a low growth in PBT of only 1% and crossed Rs.1000 Crore. PAT again, because the beneficial effects of taxation there is 2.2% growth compared to last year.

An important piece of information on the allocation of cash balances to segment due to the change in regulation in relation to gold purchase, the company has had to resort to borrowing and therefore segment reporting in the published financial as per AS-17 where cash and interest income remain unallocated are included under corporate and not in the jewelry division or in other divisions. But for internal management review purposes, cash balance and consequent interest income has been allocated basically on cash generated by each segment. So the reporting to management will continue with the interest income being shown in the division and so therefore what we are going to present is that all of us in the management see the numbers. This is with the respective to segment reporting.

So, as you can see in the next slide, segment reporting for internal review shows watches for the quarter at Rs.502 Crore and for the year at Rs.1796 Crore, jewelry for the quarter is Rs.2180 Crore, for the year is Rs.8739 Crore, others which includes sunglasses, and Eyewear, and PED is Rs.500 Crore for the year and Rs.146 Crore for the quarter. Now, when it comes to the profit or loss from the segment, what we are saying is that in the jewelry business, the profit of Rs.961 Crore and includes the interest income from the balances in that because of the Golden Harvest Scheme etc., and the advertisement that you may see tomorrow, this is not what will appear.

Q4 performance in watches, good growth 20% in sales and 40% growth in PBIT for the quarter; however, last year we had 40% growth, we had provision last year in terms of employee cost, which amounted to a significant amount and YTD also is Rs.1800 Crore net sales, no growth, flat in terms of watches alone. Jewelry for the quarter Rs.2181 Crore as I said earlier and again flat in terms of PBIT. The growth for the year is 7.5%, but here we must add that excluding coins in the quarter, we grew 10% for the year excluding coins, we have grown 15% which is again creditable considering the market situation. Customer growth for the year is 9% and 3% for the quarter. Grammage growth excluding coins is as high as 7% but including coins is minus 2%. The point is that coins have become less attractive for consumers to buy perhaps because of the sentiment in gold. Coins are bought essentially for investments, unless you use it for future purchase of gold or jewelry for your daughter who is getting married, etc.

But even that, it looks like investments. The good news the share of studded in the fourth quarter was very high, 37% because we have specific schemes and so on and for the year it is 28%. Others as I said, which includes Eyewear and sunglasses and accessories grew 14% to Rs 146 Crore and Rs 500 Crore for the year a growth of 21% generally on the back of very good performance by the Eyewear division. Eyewear division grew 17% in the quarter and 20% for the whole year, revenue growth. PED grew 12% and for the whole year 25%, again PED has a very good order book exceeding Rs 100 Crore. Capital employed has gone up to Rs 3321 Crore.

I think I will stop here. The rest of all are reasonable amount of detail. We have announced a dividend of 210% and it is a payout ratio of nearly 30%, just under 30%. So we are open to questions, because it is more important to hear you and answer your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Sachdeva from HSBC Bank. Please go ahead.

Amit Sachdeva: Thank you for taking my question. Congratulations for good set of numbers. My first question is on jewelry margins. It seems that we have slipped YOY despite the studded portion is 37%. Is there a one-off in jewelry margin there or was it because of the pricing or discount over the standard mix was poorer. Could you give some reflection on how do we take these margin and what is going to look like way forward in terms of mix and pricing action or what you are seeing in competitiveness and things like that? If you could give a bit of color on that, it will be very helpful?

C.K. Venkataraman: There are two parts to it. One is that the product margin on studded jewelry did drop during fourth quarter because we had to give deeper discounts for a growth in sales. So, we achieved a higher share that you are referring to on the top of a high discount payout and therefore it suppressed the product margins. Second thing is that the sales growth was low. Therefore the adjusted gross margins, absolute growth was also low because the sales growth was only 4%. Studded ratio was high, but studded product margins was low, sales growth was low and therefore the total adjusted gross margins growth was also low, which depressed the overall EBIT that you are referring to on a YOY basis. Now if it is there to stay the question that you are asking is a little difficult to answer from a year point of view. What is happening is that more and more customers have been looking for greater value in the last many quarters, also because of the sentiments and all that so we are hoping that as and when those change we should be able to get back to the product margins of slightly higher levels.

Amit Sachdeva: Is this something related to like the demand environment remains weak and customer is seeking more value. Would you not be seeking more revenue growth and maybe this margin should be the way margin is and eventually base would take care of it or would you look at now we need to achieve at that 11% and 11.5%, 12% margin in the studded quarter, and that is the margin we should like to achieve or is there something that we should see a strategic in your thinking how do you want to drive market share gains or throughput expansion across your stores. Is this something shift or is it something that is one-off?

C.K. Venkataraman: Frankly I would not be able to answer either way. It may not be one off, it is not a shift either. For example, if we achieve higher sales with the same dilution in product margin we can still deliver an EBIT margin, which is as good as in the past. So, it will be our objective to grow sales even more than we have been able to do in the last two quarters this year, I mean Q2 and Q4 last year even if we dilute the product margin, we should be able to get to the EBITs. So that is our desire, and only the future will show whether we will be able to achieve it.

Amit Sachdeva: Sir my second question is on watches. It looks like watches did a remarkable turnaround from where we have seen the trajectory last few quarters. What exactly is going on? If you could give more color on which segment is doing well and what drove this volume growth and how we are taking the business forward and more color would be really helpful?

Bhaskar Bhat: Raghu will answer this question in much greater detail as you have asked, but the short point is that for some time, the watch division has been working on a certain, I would not say business for a change, but certainly structural changes by moving from verticalized brand led structure to a more integrated structure and consolidation at the distribution level and so on and so forth. At the same time working on premiumization and becoming more efficient. So the combination to put it all together took sometime and at the same time, we were hit by the downturn. So the brand-by-brand performance Raghu my colleague will take it.

H.G. Raghunath: You know we have a portfolio of brands, *Titan Fastrack, Sonata*, and *Xylys*. In each of these brands there have been certain strategic changes that have been done so much so that the Titan product has started responding on the premiumization. The evidence of which is shown in the growth of more than Rs.5000 UCP watches, which is a double-digit growth. Then you have *Sonata* it has turned profitable and *Sonata* has become more preferred brand and with better UCPs *Sonata* is recording profits. *Fastrack* continues its growth albeit a little lower than previous years, but it continues it growth and preference among youth. The high priced Swiss made watches of *Xylys* they are recording a double-digit growth last year. Lots of customers call these as budget luxury watches. So they buy these watches. They showed a good response, and added to that what Bhaskar mentioned about the restructuring, integration, control on discounts, using the synergy of the portfolio of brands, things like these seem to have been working aided by a good retail demand also in the last quarter, which seem to be continuing. The weddings are more positive.

Amit Sachdeva: Sir, you are saying in this quarter as well the demand has been holding up very well?

Bhaskar Bhat: April has been good, May is promising.

Amit Sachdeva: Thank you for taking my question.

Moderator: Thank you very much. Our next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Thank you. Sir, my first question is on the margins. On P&L, there is a 40-basis points of margin expansion from the segmental number there is a 90-basis points margin compression. So, is there some gain on the gold inventory that we have had. Sir, my first question is on the margins. On the P&L there is a margin expansion, but on the segmental number there is a margin compression on the EBIT numbers. So is there some gold inventory gains that we have booked this quarter?

S. Subramaniam: There was nothing of that sort.

Nillai Shah: Why is there 90-basis points compression on the segmental margins versus a 40-basis points expansion on the P&L margins?

S. Subramaniam: Which segmental information are you looking at? The ones which we sent you?

Nillai Shah: Yes, the ones you have published.

S. Subramaniam: Not the one published in the presentation or you are looking at the one which was…

Nillai Shah: Not in the presentation.

S. Subramaniam: That is exactly the issue. We explained to you that we have changed the segment reporting this time rather we were forced to do it because of accounting standards. We have reverted back to the Accounting Standard 17, which essentially means all cash and debt will be remaining in the corporate segment, which is unallocated.

Nillai Shah: How you have made the changes for the preceding quarter on a YOY?

S. Subramaniam: For all. We had to do it for everything.

Nillai Shah: Sir, I am looking at the YOY numbers?

S. Subramaniam: The issue was that you have to look at the segment reporting that we have sent for internal review. I think that is the more comparable one. In this you will find that the interest income which was generated from the cash that we had has gone through largely the division. It is hardly anything at the corporate segment.

Nillai Shah: Let me have a look at that Sir. The second question is on the watches business. In the presentation for World of Titan you said the sales value growth is 12%, yet the reported revenue growth is significantly higher than that. So has there been some push to the world of Titan channel pipeline?

Bhaskar Bhat: But there is a trade also. 50% of the business is with trade. What we showed was only retail, I mean as a channel.

Nillai Shah: So this has picked up on the trade basis?

Bhaskar Bhat: There has been because some product gaps have been filled.

Nillai Shah: So in that case will the next quarter even if the demand continues the way it is will the next quarter also reports the numbers or because the gaps have been filled, the numbers could be down compared to what they are for this quarter?

Bhaskar Bhat: Slightly down. Next quarter is also wedding quarter so.

H.G. Raghunath: Also an election quarter. So you will see.

Bhaskar Bhat: Lot of money in the market. We expect to see a good quarter.

Nillai Shah: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Sir good performance in the circumstances. Just couple of questions only. One if you could explain what exactly the ambiguity on Golden Harvest? Secondly your expansion plans for FY 2015? Quickly if I may add is the Jewelry capital now steady state, net of cash at 1600 Crore?

S. Subramaniam: On the Golden Harvest, the issue is basically that under the New Company's Act the definition for deposits has certain exclusions. One of the exclusion is advance purchase of any product. The issue there was there are two riders to that. One is if the advance is more than 365 days, it qualifies as a deposit. As of now our scheme can run within 365 days so that may not be the issue, but there is an explanation to the same note which also states that if we were to provide any returns, any form and accounted for in any manner then the installments or that entire scheme which runs on that would be deemed to be a deposit. We have met with the people at Ministry of Corporate Affairs. We have made an application seeking clarification on this whole issue. So, therefore from April 20th, we suspended this scheme, extending into any new customers. As far as the old customers are concerned, we are continuing to take their deposits. We hope to get clarity. At least what we verbally got was very reassuring. So we are hoping that we will be able to continue with this scheme. On capital employed yes we will not have debt. This will be gross and that is the way it will be and we will not have cash either in the segment. In our thing we will be having cash in our internal review. The one which we have put on the website, it will have the internal cash and the income in the division.

Manoj Menon: Actually my question was: is the capital employed now representative of these regulatory situation as of today, so the question is basically was if I look at the last quarter since you had carry forward hedges till November and December, the number may not have been representative. So now you had the first full three months under the new regulation. So is this number representative for the business and the volume, value what you have in the business as of today?

S. Subramaniam: I did not understand. What do you mean by the new regulation?

Manoj Menon: For example last quarter let us say since you had carry forward gold on lease…

S. Subramaniam: I will tell you what we did in the last quarter, we had actually netted off debt as well. So in our presentation we have mentioned the amount of debt, which was netted off, which is about Rs 800 Crore whereas now we are not netting off debt. Debt goes in corporate as it remains whereas cash to the extent that it pertains to GHS the Golden Harvest Scheme will be in the jewelry division and therefore the income on that is also being booked in that same division.

S. Subramaniam: In any case, in the finance cost it is showing separately.

Manoj Menon: Sir, the second question was your expansion plans for FY 2015?

C.K. Venkataraman: In the jewelry division we are looking at adding about 30 stores on *Tanishq* with a square feet of about 90,000. These are all in the smaller towns most of them. So that is the plan for jewelry.

Manoj Menon: Sir, L1 and L2, L3 broadly, I mean more franchise?

Bhaskar Bhat: More franchises.

H.G. Raghunath: In watches we intend to add 60 *World of Titans*, 80 *Fastrack* Stores, totaling about a lakh of square feet, and 140 stores.

Bhaskar Bhat: Totally 300 Stores totalling roughly 350,000 square feet.

Manoj Menon: Last question. One commentary from you on the recent exports, which you did in April and I will come back in the queue.

S. Subramaniam: We have not exported as yet.

Manoj Menon: I am talking about jewelry exports?

S. Subramaniam: No.

Manoj Menon: So, is that media information whatever it came was you are saying it is untrue?

Bhaskar Bhat: Untrue. We are establishing export channels, but we have not exported as of now.

Manoj Menon: I will come back in the queue. Thank you so much. All the best.

Moderator: Thank you very much. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: I have a couple of questions on the quarter numbers. Firstly employee cost seems to be varying every quarter significantly. What could be the reason for this?

S. Subramaniam: If you were to look at it from the last quarter, as I mentioned in one of the slides in the presentation we had an extraordinary provision made last year which is across the company, which is not there now. I think we have put it.

H.G. Raghunath: It was only in the watch division more. Serial quarter it does not change.

Bhaskar Bhat: It is only in the fourth quarter between last year fourth quarter and this year fourth quarter you will see some.

Prasad Deshmukh: Second is there is a decent jump in depreciation. This is only because of the new capex that was done?

Bhaskar Bhat: Yes.

Prasad Deshmukh: So that is a large number of stores have become operational this quarter?

S. Subramaniam: Our capex was more than Rs 200 Crore this year.

Prasad Deshmukh: Just small question on sometime back when we had met that time you had said that you are looking at online channel. What is the development here?

Bhaskar Bhat: Right now our own online sales are small, but through our partners like Flipkart and Jabong we do about Rs 70 Crore of sales. It is growing and growing very fast, but our thrust will be on a combination of partners as well as our own and to the extent possible to keep prices equal. Certainly not using it as a discount channel, but using it as a channel.

Prasad Deshmukh: Thanks a lot.

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

Abneesh Roy: Thanks for the opportunity. Congratulations for good set of numbers. Sir, my first question is on the jewelry business, *Gold Plus* 14% sales decline and 18% LTL decline. Sir, could you elaborate why we are seeing more slowdown there? In the previous down cycle I remember a few years back, also *Gold Plus* had suffered higher versus your main jewelry business. So what is the long-term solution for this and how do you plan to take this up in FY 2015?

C.K. Venkataraman: The performance of *Tanishq* in South India is also the worst across the four regions for *Tanishq*. There is a certain because of the very high dependence on gold jewelry the nature of value seeking orientation of the person, high share of middle class in many of the markets are keeping the performance of the industry itself low in many parts, significant parts of South India, Tamil Nadu being a large contributor to the jewelry industry in the South. So *Tanishq* has also suffered and therefore *Gold Plus* has suffered even more so because the brand *Tanishq* is much stronger than the brand *Gold Plus* in South India. So there are certain structural changes that we are making to the merchandize pricing, brand building and all that which are falling into place as we speak and we expect to show a much better performance in *Gold Plus* in FY 2015 and we are also containing like in the last two to three years containing the footprints of *Gold Plus* to South India and it will remain like that for a while.

Abneesh Roy: Two more follow ups on the jewelry business. Coin sales continue to be challenging. Sir, when do you see coin sales recover, when the prices come down because premium comes off or customs duty comes off and we did not have presence in coin sales for a few months, while maybe some other players might be continuing or would not have seen the same period of blackout? So, has that also impacted to an extent?

C.K. Venkataraman: We do not get a sense that that is the reason because there are lot of customers have been asking even as close to as in when we re-launched coins when we are coming back with it. Just as the demand for coins we have not done this why exactly or the root cause is, but the demand for coins seems to be low across the industry. I do not have a view on when it will come back.

Abneesh Roy: Sir, my last question is on the gold deposit scheme again. You have got some verbal assurance from the regulator, but are the other players also stopping this and if they are not stopping can it have some ramifications in terms of market share and Sir, how does it impact our overall model, if it does not come back, when do you expect the real assurance to come from the MCA?

Bhaskar Bhat: First of all Abneesh, let me correct it is not a Gold Deposit Scheme. It is an advance we collect for a customer of a jewelry purchase, so it is not a Gold Deposit Scheme. It is called Golden Harvest Scheme where we collect advance from the customer for executing an order of the Jewelry that she would like to purchase.

C.K. Venkataraman: There are two three parts to the question. A good part of the Jewelry industry is not from companies, private or listed, public or listed so partnerships and firms can continue to offer these schemes because it is only the Company Law which has changed so much of an industry doesn't have to change. Even the others which are some of them are listed companies many of them are private companies they chosen not to do anything about it. They are continuing it modifying it to bring below 365 days and all that. It is possible that in the period when we are suspending the scheme we may be losing some business to such competitors. It is possible. We have to live with the consequence of that. In the absence of total clarity from the government we are also unable to rollout a variant but we expect to do so in the next two weeks or so hopefully. It will depend on what the clarity is. So if the 365 Rule plays out then we will have a certain view and certain plan if the return thing becomes a constraint, we will have to have a certain plans, so we are flexible at the moment. It is a big contributor to the business of the jewelry division, yes, but at the same time given that it is a serious purchase and jewelry is bought when you need it, it is very, very possible that many of the customers, most of the customers would have taken this route to purchase because it is an attractive route but if the route is not available they will still purchase it because jewelry is needed by people. So therefore obviously there will be some impact but certainly not to the extent of the share of Golden Harvest that is in today.

Abneesh Roy: Sir just one follow-up on this. In the previous concall you had said we could have also reduced the time period to may be six months and you said some of the other players might do this so what stopped this because you highlighted that verbal assurance has been on the positive side?

S. Subramaniam: Abneesh, it is not about the 365 days or six months etc., it is also about the explanation to the same clause which talks about return and that is the 'operative word' here. The explanation talks about any scheme, which has any returns, which could be constitute to be a deposit that was the issue. So we need clarity on that more than anything else.

Abneesh Roy: Thanks a lot. All the best Sir.

Moderator: Thank you very much. The next question is from Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Two quick questions, including the one in current liability how much would be the debt on balance sheet as of March 31 and what will be the effective cost of borrowing?

S. Subramaniam: The debt is about Rs.800 Crore now.

Vivek Maheshwari: Including the one which is repayable in one year right?

S. Subramaniam: These are all short term debts only. There is also of course some liability lying in from a Gold Deposit Scheme of SBI which is not considered as debt, it is still a trade payable like in the old gold on lease scheme.

Vivek Maheshwari: The debt is only Rs 800 Crore right?

S. Subramaniam: Yes. That is right.

Vivek Maheshwari: What is the effective cost of borrowing?

S. Subramaniam: Well, I will not tell you that but you can, I suppose work it out based on it. It is sub 10%.

Vivek Maheshwari: Do you think the debt levels have kind of peaked at this level and should stay at this?

S. Subramaniam: It depends entirely on the whole Golden Harvest Scheme issue, if there is an impact on that it would possibly…

Bhaskar Bhat: As is where is, we could even reduce it if we improve our stock levels, but as we said the big ticket item is the Golden Harvest.

Vivek Maheshwari: But I thought Golden Harvest any which ways you have kept?

S. Subramaniam: We have kept cash but the total amount in that the liability is slightly higher so to that extent we might get impacted. I am not saying we will definitely.

Vivek Maheshwari: But it is, so the status quo and the debt number should be?

S. Subramaniam: In the ballpark.

Vivek Maheshwari: Second on the hedges, on currency as well as gold is this system as effective as Gold on Lease?

Bhaskar Bhat: We have not started it yet. We are just going to start it from this week or the next. It is not as effective as the Gold on Lease. That is the best. There is no doubt about it.

Vivek Maheshwari: No I am saying in terms of cost it will be only marginally higher, is my understanding correct?

Bhaskar Bhat: Yeah that is right. In terms of cost it can be marginally higher.

Vivek Maheshwari: Thank you Sir and all the best.

Moderator: Thank you very much. The next question is from Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Thanks for taking my question. On your space expansion strategy in *Tanishq*, how do you look at smaller towns because historically you have more focused on the larger towns in terms of productivity, the return on and in terms of different productivity matrix do they really differ from the larger towns and what is your expectation there?

C.K. Venkataraman: See the EBIT profile of a small town is low, partly because of the product mix and partly because of the channel cost meaning an L3, it is also very high asset turn opportunity.

So from a portfolio point of view anyway we have concluded that we need all three types of stores to go through. The advantage we get in small towns is that the choices for customers in terms of spending the money are little less compared to a big city and therefore and jewelry is a very favored product category. The second is the nature of competition is not as intense as in a big city and therefore we are typically the first city national brand to enter if I take a town like a Haldwani or a Ganganagar the recent towns that we have added, we can hit the ground running in those towns, hit good levels of sales which are profitable for us as well as for the franchise. So it is a good portfolio dimension to the business.

Arnab Mitra: Sir in the last two three years you have substantially increased your space in jewelry and because it kind of coincided with the slowdown in the market your sales per square feet on an overall basis has actually dropped quite a lot so how do you see the ramp up of the stores added in the last two to three years which is almost 200-300 thousand square feet space, does that give you a significant kicker in the next two to three years just the fact that they are ramping up to maturity?

C.K. Venkataraman: What typically happens is that new stores have the advantage of the Golden Harvest and is a big driver of the ramp up in the first two to three years of their life but like you said the starting average I mean sales per square feet is itself been dampened by the sentiment in every catchment that we have setup in a new store and therefore each store has started a little behind on its first year target on sales and sales per square feet and therefore would take maybe a year or 18 months longer than original plan to restore levels of sales per square feet. So that is a generic challenge anyway on the same store as well as the new store but they are certainly better off because of the new stores because we are having a decent part of overall sales and margin.

Bhaskar Bhat: The view we would take particularly in jewelry and also in watches and especially in Eyewear is a longer term view which is if you were to look at this from a capacity capability perspective the belief in the consumer markets in India is very strong in this company so we have been building capacity and therefore when the market turns we will hit the ground running faster than anybody else because we will have location and we will have the capacity. So to that extent, yes we will get same store growth up but certainly we will not like to significantly slow down the expansion. Because let us say *Tanishq,* the awareness of *Tanishq* is greater than the access of *Tanishq*, may not be so in the case of *Titan* because there is a distribution system in watches so I think the pace of expansion has to be little calibrated but not significantly slower.

Arnab Mitra: And one small question if I have squeezed you spoke about the premium on gold being about 7% at some points in time is it actually hurting business in the sense are you seeing Mom & Pop Jewelers actually sell lower or they are also selling broadly at similar prices?

C.K. Venkataraman: It does create complications for us not just Mom & Pops but even large jewelry retailers selling at this kind of discount and on some specific days it creates a lot of tension for us we have to respond or we have to hold tight depending on the situation, it does it does complicate things.

Arnab Mitra: Right thanks sir and all the best.

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

Sanjay Singh: I just wanted to understand the return policy for Golden Harvest? What you exactly meant by that?

S. Subramaniam: What I meant by returns is that if we were to give any interest or any other return on any scheme including say a gift or an installment free etc., that gets covered. In our view that is an explanation for the last clause in that whole rule which is for Nidhi companies, but there could be a view that it is for the whole for every other scheme and that is precisely that clarification that we are seeking now.

Sanjay Singh: That is it from my side. Thank you.

Moderator: Thank you very much. Next question is from Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just on the watch segment two clarification, this quarter we are at 12% despite higher promotions should we see just as a pick up and volume growth, which is what you are seeing right now margins could actually start inching closer to the earlier levels of 15% and if you could also clarify, you were highlighting some operational efficiency that you had undertaken. I could not quite understand what that meant, the synergy, distribution etc.?

H.G. Raghunath: In terms of the operational efficiencies what we spoke was integration in terms of synergizing the power of the portfolio of the brand rather than keeping the brands separate…

H.G. Raghunath: We had a sales force for each brand, so three people went calling on one multi-brand store. Now we have one person calling on it. That is one of the thing, second we had different distribution stockists for different brands and again in the same market three brands are operating in that manner. We have consolidated the distribution through one distribution stockist handling all the brands, the trade which handles 50% of our business the multi-brand outlets they depend to a large extent on Titan's business therefore this reconstruction and restructure gives us an operating efficiency whether it is travel, whether it is journey cycle plan, whether it is booking orders, whether it is reaching targets, whether it is showing the power of brands etc. We also re-introduced watches in the price range of Rs 1300 to Rs 2000, which are largely a part of these multi-brand outlets in the Middle India category for these kinds of customers so the large number of watches also got sold and after the re-introduction. The higher end of *Titan* started showing growth because of the promotions and the campaigns built around *Titan's* brand to attract new consumers and modern consumers especially the joy as gifting ads, the *Sonata* Wedding campaign, the *Fastrack* accessories all put together we saw good growths in the higher price brackets so *Sonata* started becoming or has become profitable more profitable in the year.

Avi Mehta: Sir, the thesis that I said you have 12% despite higher promotion so you are clearly inching closer towards the earlier level as we go forward?

H.G. Raghunath: 15% is sometime away, but our adjusted GC, our margins would all improve due to these improvements in efficiencies and product mix and integration.

Avi Mehta: The last question on my part was jewelry segment. What I understand is that there is no one off in the quarter but clearly there is a Rs 17 Crore gain that has to come going forward if gold price starts moving up, the grammage scheme gain. What I wanted to understand there is, in this kind of that gain and if regulations if you see assume easing how do you see margin trend and If you could just give some clarity and probably the operating leverage also kind of kicking in. If you could give some clarity on how do you see margins?

S. Subramaniam: Avi, the figure is slightly lower than Rs 17 Crore. It is about Rs 14 Crore or so now, okay, which will come in the future but that as I see it now could be an operating thing, which will keep coming in every now and then, so whether we will get this in this coming quarter or the quarter after it depends also the gold price, so that is one issue.

C.K. Venkataraman: As far as the premiums are concerned what is happening is whatever premium we are ending up paying now, we are passing on those- recovering that premium and sort of grinning and bearing it when the price difference between us and market increase is as a result of that. If the premiums were to fall because the government changes which is the customs duty then we will continue to pass on our prices therefore there is no gain really sitting there. It just becomes a really easier for us to operate. What was the other headwind related dimension that you spoke off?

Avi Mehta: Sir what I meant is on the custom duty cut there are custom duty gains that you have that would, I was just trying to get a sense and that would be offset by some international hedging related gains. So how do you see margins on an overall jewelry segment do you see them trending up or do you see them remaining flattish?

C.K. Venkataraman: We are targeting for a flat OPM for 2014-2015.

Avi Mehta: That is all from side. Thank you very much.

Moderator: Thank you. Next question is from the line of Varun Lohchab from CIMB. Please go ahead.

Varun Lohchab: Sir my first question is on jewelry. Again coming back to you know new stores ramp-up if you could throw some light on say the stores which were started two or three years back how are they tracking now in terms of ROCE versus some of your pretty old stores in jewelry? What I wanted to know is structurally the margin profile and the return profile of jewelry stores come down because of higher competition and out of these regulatory issues?

C.K. Venkataraman: Not so much regulatory issues. In a way we also opened out our retail strategy from a customer experience point of view whereby we made larger stores for brand impact as well as for customized mix so that itself brought the sales per square foot down right from the beginning. It was setup for a lower sales per square foot keeping an eye on customer satisfaction and delivery and from a medium term point of view to push towards a much better product mix because the kind of stores you put out the opportunity to sell more Diamond Jewelry, more value added gold jewelry also increases and therefore with a three year kind of view, we opened our stores and therefore the starting sales per square foot itself fell and it was compounded by the downturn in the sentiment and in each catchment the starting plan we did not achieve and so we were perhaps or 18 months behind on that which I explained about 10 minutes back and therefore the return profile of the newer stores are a little lower than the historic returns that we were achieving through the older stores but the overall scale from a company's division of a point of view the scale still helped deliver increase our EBIT in the last three years barring of course the last couple of years.

Varun Lohchab: Like as we move into smaller cities as you mentioned though margins might be lower will acceptance be able to compensate and you think the return profile would be similar like based on your limited experience?

C.K. Venkataraman: In a franchise store it is not our inventory. Our inventory is limited to the goods in transit and the goods that we keep in our C&F before billing so the inventory turns our as high as may be 20-25 in the case of L3 whereas it will be for three or something in case of an L1 and L2. So to the factor of some six or seven sitting on the turn and even when the gross margin drops substantially the ROCE of L3 compares pretty well with the company store or a management agent store, so anyway that is the balancing of the whole portfolio to be in product margin and return on assets.

Varun Lohchab: Sir what is the target for *Helios* going forward like how are we looking at the strategy for that, store expansion and everything?

H. G. Raghunath: As we are know, *Helios* retails International brand. In the last quarter, the stores growth has jumped and improved continuing in April so it indicates that if you have a good powerful portfolio of brands and if you have an excellent shopping experience as evidenced by our mystery audit the watch business as a category has potential to grow. That is the fundamental indication that we get through *Helios* growth. As we go forward we focused on making sure that content, the portfolio of brands of *Helios* will only get enriched and therefore *Helios* revenue grows profitably this is the intention and design. Bhaskar would you like to add?

Bhaskar Bhat: Well the strategy is really to play at premium price points. You cannot afford to own all the brands. Market is certainly becoming multi-brand. What was true 20 years back with *Titan* still dominating that market but not much choice being available now choice is available. The *Helios* strategy bang on in place in terms of leveraging the premium customer but not the luxury customer and the same store growth that *Helios* has experienced is the highest in the watch business and therefore the essential that is that it is attracting the customer has been established. What we need to do is to work on the bottomline therefore the business model of *Helios* has to improve to deliver a better bottomline. So the purpose for which it was established has in a way been proven but not achieved from a longer term profitability etc., so we are reviewing that. How we can squeeze more cost out of this system and how we can scale up the business store by store. There is work to do potential seems to be positive.

Moderator: Thank you. Next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: Good evening gentlemen. Just wanted to understand like because of the international hedges option available to you now and also the currency hedge option available there would be definitely a spread which is available between the spot and the future which becomes part of your gain and it does get adjusted with the RM cost or other expenditure going forward?

S. Subramaniam: It is at the RM cost level.

Nitin Gosar: Final question is that pertaining to Golden Harvest is there an amount which is very much sitting on the balance sheet?

S. Subramaniam: Yes we of course have it. It's part of the advance from customers in our balance sheet. As I mentioned between the grammage scheme and the overall Golden Harvest is in the excess of Rs 1300 Crore.

Nitin Gosar: Thank you.

Moderator: Thank you very much. Next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Good evening. It looks to be a fine result. I do not know really. Anyway first question I would like to ask is, when there is a difference of opinion about whether that clause applies to us or not why should we act earlier than that we can seek a clarification from the government if the government says no it applies you then we can stop the scheme. What is the need? I do not understand to pre-empt the copy without a clarification from the government when the opinion of the CFO is never applied to us.

Bhaskar Bhat: We have asked many. We definitely take in legal advice. The issue here is that the wording is such it says accounted for in any manner whatsoever. The interpretation is entirely the Ministry’s it is not ours. Therefore we should have a view on this.

Rakesh Jhunjhunwala: You yourself said that our view is does not apply and we have asked for a clarification. My point of view is you could not have waited until the clarification came? I am not saying that we should not seek clarification from the government.

S. Subramaniam: Because if the government’s view was right or rather the view is that the deposit, the scheme is that it comes under deposit, we would be violating it from April 1, so it applies from April 1, so there is no cooling period. That is the problem.

Rakesh Jhunjhunwala: That means today in your company you give me a 500 Crores advance on which charge interest on the advance that becomes a deposit?

Bhaskar Bhat: Listen Rakesh you are right. The tone we have taken with them is the same that this you know if we sell jewelry as somebody sells the car and we should be allowed to offer a hire purchase scheme for our product inasmuch as somebody has a hire purchase scheme for something else. Now the point is of corporate governance we are not talking of anything else and you will see in every one of the regulations it is the people who are above board who end up having to answer questions because once you slip they waiting to trap you.

Rakesh Jhunjhunwala: You are doing corporate governance for shareholders. Today you want to hurt your shareholders or you want to do corporate governance for them. Tell me one thing I agree that we have to follow the government law. I have no doubt about that. It is such a big scheme disrupting it I think without getting a clarification of the government because I do not think that can be the intent of the legislature that means today we will have to suggest if a Rs 5000 Crore infrastructure project is there and Rs 1000 Crore for advances interest can we treat it as a deposit. It can't be.

Bhaskar Bhat: I understand Rakesh. Please you look at other parts of the Companies Act. I mean I do not want to refer to anything else, do you know in fraud today even intent to fraud is considered as a crime so these are things we can take up but till it changes in letter and word.

Rakesh Jhunjhunwala: I do not think you have to decide. I think it is my opinion I could be wrong. Another thing I wanted to ask you is that is hedging that you have done have you got the permission to start the hedging?

S. Subramaniam: Yes, that is because it takes time to get the whole process done.

Rakesh Jhunjhunwala: So the benefit of the hedging will come in this quarter?

S. Subramaniam: Yes it will come in this quarter yes.

Rakesh Jhunjhunwala: So that means if you are carrying Rs 2000 Crore hedge and 5% is the rate of interest from the hedge or the interest which you get on hedging the annual share is Rs 100 Crore.

S. Subramaniam: Ballpark yes. That is right.

Rakesh Jhunjhunwala: Ballpark means, it maybe 4.5 % or 5.5%, Rs 2000 Crore of Dollar Rupees to hedge so that means until now you are carrying the risk yourself?

S. Subramaniam: No we are not carrying the risk but we are not getting the benefit of the premium that was the issue because we were doing it as a local commodity exchange which we will now get. That is the issue.

Rakesh Jhunjhunwala: All right. That should make Rs 100 Crores of the bottom-line?

S. Subramaniam: On a full year basis.

Rakesh Jhunjhunwala: The benefit that you did not get in the last quarter?

S. Subramaniam: That is right.

Rakesh Jhunjhunwala: Another thing I wanted to ask you if I can, that there is going to be a remarkable improvement in the watch division right, I mean I would think so?

Bhaskar Bhat: Yes it is.

Rakesh Jhunjhunwala: So all together two aspects to that. One is the higher sales; one is the cost saving within the company by the uniformication of these sales? You get my point, if there is a saving by higher sales there is also a saving because three brands are become common, sales have become common?

Bhaskar Bhat: Yes restructuring, that is what we were explaining earlier.

Rakesh Jhunjhunwala: So that restructuring benefits are over or they still to come?

H.G. Raghunath: The restructuring benefit is not about saving cost. The restructuring benefit was to synergize the power of the portfolio of the brands No.1. No.2 the distribution system consolidation including all the brands is about increasing operating efficiencies the productivity of people. The second the higher priced *Titan* and *Xylys* Watches are growing at double digit. The products are good, there has been good campaign, the resurgence of Titan brand is the direction we have taken to attract new and modern consumers. The World of Titan Showrooms are getting renovated. Sonata has become more profitable than earlier.

Rakesh Jhunjhunwala: So therefore the improvement of Watch division is continuing and in general if I were to ask you for business whether it is for Eyewear, jewelry or for watches or for Fastrack how has the April gone, is growth continuing in April?

Bhaskar Bhat: Yes April is good Rakesh and May should be better. I am saying excluding Akshya Trithiya, but April before Akysha Trithiya jewelry has been challenging it's not been easy to grow.

C.K. Venkataraman: The quarter for jewelry this year will be worse than last year Rakesh because last year was a bumper.

Rakesh Jhunjhunwala: But last year Rs 3000 Crore sales you never added in quarter in your life?

C.K. Venkataraman: So we will not have it in this quarter.

Bhaskar Bhat: Rakesh, the point that Raghu was referring to in essence the cost benefit you know it's not that we have downsized the number in terms of number of people. By restructuring we are getting greater focus and therefore on the same cost base we can get higher sales we are not recruiting any more but we are not also sacking people so it is just reorganizing and therefore they have become much more effective and the benefits are flowing by way of better running of the whole division.

Rakesh Jhunjhunwala: Another question I had is what kind of retail expansion having for this year?

Bhaskar Bhat: Next year *World of Titan* and *Fastrack* put together we will open 60 plus 80, 140 stores, 1 lakh square feet in Watches.

Rakesh Jhunjhunwala:1 Lakh square feet in watches?

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: Jewelry?

Bhaskar Bhat: One Lakh.

Rakesh Jhunjhunwala: Jewelry also one lakh?

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: And we are able to get franchisees for this?

Bhaskar Bhat: Yes it is a challenge.

Rakesh Jhunjhunwala: What about Eyewear?

Bhaskar Bhat: Eyewear is 60 stores of the main kind and then there is one more format so 60.

Rakesh Jhunjhunwala: So that means you are are talking 15%- 20% expansion next year from 1.5 million sq.ft. to 1.75 million sq.ft.

Bhaskar Bhat: Yes.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints that was the last question. I now hand the floor back to Mr. Sameer Deshmukh for closing comments.

Sameer Deshmukh: Thank you. On behalf of Tata Securities, I thank the management team of Titan Company Limited and the participants for this call. Thank you very much.

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