Titan Industries Ltd

1QFY14 EARNINGS CONFERENCE CALL

MANAGEMENT:

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MR. C K VENKATARAMAN – CEO, JEWELERY, TITAN.

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ANALYST:

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Moderator Ladies and gentlemen good day and welcome to the Q1-FY14 Earning Conference Call of TITAN Industries Limited hosted by TATA Securities. As a reminder for the duration of the conference, all participants' lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sameer Deshmukh, thank you and over to you sir.

Sameer Deshmukh On behalf of Tata Securities I welcome you all to the conference call of Titan Industries, we have with us the senior management team of the company. I now request Mr. Subramaniam to make his opening remarks post which we can commence the Q&A session. Over to you sir.

S. Subramaniam Good afternoon to all of you this is Subbu from Titan, Bhaskar will join us any time now, other CEOs are all here, Venkat and Ravi and Mr. Raghunath. So going to the Q1 background, we have seen the economy very sluggish during the period and consumer sentiment continue to be weak as you all know gold prices were about 7% lower than what it was a year back, when I talk about 7%, I'm talking of an average here. We discussed enough of the regulatory overhang on gold imports, sale, gold on lease etc, I'm sure there will be enough and more questions on this later, I think we can address them when they come up. One of the things we did was from the middle of July stopped the sales of gold coins so that we could help the government in its efforts in controlling the current account deficit. We did contribute both the company and the employees for the Uttarakhand Relief Fund. We launched our unified loyalty program across the country *Encircle* so all the basic loyalty programs across the three divisions have now sort of got consolidated, in the last quarter we have opened 22 outlets, which is about 49,000 square feet. We launched the *Ducati* watches, very well received initial response are very good. Titan Tagged collection more than 1 million views and of course other things like Jewellery, Fastrack with an *Explorer* collection of sunglasses, bags, jewellery, bangles collection and importantly jewellery came out with the *Inara* collection quite recently with very good response. Titan Glares sunglasses were also launched.

Going to the retail growth you can see from the numbers that as far as watches are concerned it has been quite challenging. The World of Titan itself grew by 4% but the like-to-like growth was a negative of 1%. Helios grew 52% but the like-to-like growth is only 5%, Fastrack 46% overall with like to like at 8% and I think as we keep seeing earlier, the barometer for the consumer sentiment is normally the large format stores and if you see the number there, while the sales growth overall is 12% the like-to-like growth was a negative of 2%. *Tanishq* grew 42% on the sales growth and very impressive 29% like-to-like growth. Goldplus grew 37% like-to-like growth, the reason it is higher because one store got closed and therefore we find like-to-like higher than the total sales growth. *Titan Eye* also did very well, 26% overall sales growth to the like-to-like of 21%. Going to the company performance, over all the growth was 42% it was largely led by jewellery division doing very well. We had two very excellent months, April and May were exceptional due to the lower gold prices, volumes went up very-very significantly and therefore we had a very good first two months therefore you see this 42% growth.

On the PBT we grew about 19% and on the PAT we grew about 17%. There is one thing, I think you might have noticed in the financials, we are have in note two of the financial across which talks about a certain impact on the financial which we had due to the Golden Grammage scheme that we run in the jewellery business. I think it is appropriate that I explained that in a little detail at this point in time, you are aware that we have the Golden Harvest Scheme and we also have Gold Grammage scheme, the Grammage scheme is where the customers give us advances and we convert that equivalent to grams on the date on which they gives us the advance these are 12 installments and at the end of 12 installments they are entitled to buy jeweler worth the number of grams that they have at the rate on which they come in buy the gold. Now the way we have hedged this entire liability is by buying gold on the date on which we get the advance from the customer and therefore for us it has always been a natural hedge. Now so far we have not had any impact on the financial on the inventory valuation of this gold item, the reason being it is a cost or market value whichever is lower and gold prices have not declined until what we saw in this last quarter.

You are aware that we value our gold on the FIFO basis and these are inventories which are what we call fixed inventory which means we have fixed the prices of the gold and therefore when we value this on FIFO basis you have seen that in the last one quarter the gold rates has fallen very-very sharply and that has resulted in a mismatch between the value of the inventory which is held as a hedge and the equivalent liability for the Grammage scheme, the difference is that Rs. 34 crores that we talked about in our note, which is the note 2 of the financials for the quarter which essentially means that for the quarter the profit is diminished by Rs. 34 crores basically in the jewelery segment and therefore for the company as a whole which is one major reason why you are seeing the margins decline to 8.1% from 9.8% last year. The other part I think we can discuss when we go to each of the divisions. The PAT grew by 17%, the reduction was basically lower margins in the jewellery business, watches grew 11%, we mentioned that watches did have a tough time, the discretionary spend has been under severe pressure and that is one major reason why you are seeing the volume growth just about 3% and PBIT margin also declined by 10.3% from 14% last year largely because of higher overheads. We are hoping that the rest of the year is going to better than this I think there ever was also mis-match of scheme which happened last year in Titan which has not happened in the same quarter this year, so there would be some mismatches but the fact is that the watches division has been under pressure in terms of top line growth. Jewellery grew by 47% on top line I think the matrix on the rise that is the customer growth grammage growth have been exceptional, 49% customer growth which basically came out from the fall in the gold price, Grammage growth was 67% and I think this is one question a lot of analysts have been asking us as to what could happen if gold prices fall and I think this is one example of volume catching up when prices fall, so we had a 47% overall revenue growth, the concern largely was on the studded share, it fell to a low of 16% which is about the lowest we have had in a very-very long time and we believe that this is not restricted to *Tanishq* it is across the board, the decline in the diamond space was exceptional in this quarter and I think it is largely because most people have been looking at buying gold rather than investing in diamonds at this point. And therefore due to the lower studded share of 16% and the impact of the Grammage scheme valuation which I talk about which were Rs. 34 crores the PBIT margin declined to 8.8% from 10.2% last year. The division yet grew by 28% over the last year on the PBIT front. Others as you are aware that comprises of a Eyewear division, our precision engineering division, it also includes our accessories which is the *Fastrack* sunglasses and *Fastrack* and Titan accessories, it grew very impressively at 37% despite the economic conditions, Eyewear grew at 34% and PED did exceptionally large with a 60% larger than assisted by machine building and automation group which grew very sizeable last year. So on a year-on-year basis the PBIT was far better at Rs. 3 crores plus as against minus Rs 2crores last year. Capital employed we mentioned there, it is good news about the capital employed even though there is an increase most of that increase is because of a much higher cash balance, the exceptional months of April and May did generate a significant amount of cash for us and therefore even though the capital employed is higher, the cash balance has been was one which actually contributed to most of it. Bhaskar keeps getting awards every month, so you have seen the Business Standard one, IMA one and so on and goes to other recognition for brand and our programs. So with this I leave the floor to questions, sorry Bhaskar with us now, anything you want to add Bhaskar or we can leave the floor open to questions now.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy My first question was on the like-to-like growth, *Tanishq* has seen 29%, Goldplus has seen 37% so the difference, the Gold plus has seen higher growth that is because of specific geographical presence in those areas, number of marriage days are higher, is that the reason?

C K Venkataraman It is also a smaller base and finally these are determined by a complex set of multiple reasons I will not be able to isolate that, just as the *Tanishq* brand is much bigger brand in South India and the share of plain gold in Goldplus is more, plain gold business has also done better.

Abneesh Roy For overall jewellery business how much is gold coins and bars in this quarter because you have specifically mentioned that in the earnings release also?

C K Venkataraman it was around 10%. We have stop selling them now.

Abneesh Roy Regarding the strong volume growth in *Tanishq* you have said in your presentation that significant fall in gold price was the big reason but how much do you attribute to the strong marriage season, anyway can differentiate based on the higher end of jewellery selling more any sense on that?

C K Venkataraman Actually there are three reasons because of which there was a significant grammage growth, one was of course the sentiment driven by the price and a lot of people coming into the market and second is better marriage date and the third is we also did a big campaign on communicating the affordability of *Tanishq.* It is a big campaign to inform customers that we are not as expensive as you think and therefore we got more than 40% growth in new customer acquisition which was more than three times the growth rate of the new customers in the last many quarters. So the combination of all that gave us that 63% grammage growth. It will not be so easy to isolate the individual factors like you're asking but one good thing that happened after many-many quarters as the number of grams per bill increased for the first time in perhaps 8 quarters because it was steadily dropping over the last five years and certainly over the last many quarters and climbed for the first time by about 7% to 8% in this quarter over the last year same quarter.

Bhaskar Bhat One more data point to support what Venkat is talking about which is Akshaya Tritiya sales in itself the date were not significantly higher in terms of volumes or value but the quarter sales is much higher, so that point about new customers and therefore branding becoming the reason for buying in Akshaya Tritiya predominantly is auspicious, so there is certain number of customers or whatever there is a certain segment which goes every year and buy but the growth is not because of that, the growth was also because the price had become attractive for many people to get in.

Abneesh Roy My last question is on the watch business, in the presentation you said the margins were lower because of higher overheads but was there any gross margin pressure in this business and higher overhead is basically the advertising spends?

Bhaskar Bhat Gross contribution is in fact is higher and because of pricing power, my colleague Raghunath will explain.

H.G. Raghunath In the first quarter, 3-4 reasons were responsible for the overheads, gross margin was better actually in the first quarter. Employee costs were higher in the first quarter but as we go along I think margins will slightly improve as the overhead gets spread.

S. Subramaniam Ad spends were higher and employee costs were also higher because the settlement which we had to provide for now, so that was basically the reason for lower margins in watches.

Bhaskar Bhat We have concluded the 3 year wage settlement with the employees and as every three year it has an impact which is a quantum impact not just a percentage.

Abneesh Roy Two follow-ups on that in spite of rupee the way it is, the margins will be higher and second Mr. Subramanian said in the opening remarks said that rest of the year will be better, this is in terms of the volume growth or this is in terms of the margins?

Bhaskar Bhat Margin terms. Volume have been impacted in this business. If the value growth and the volume growth were on target and we would have got a benefit of scale this is what we're talking about so they are linked. But the margin would improve per say because the price increase is also sitting as a benefit in the future for every watch that we sell.

Moderator We have the next question from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain My question is with respect to the Rs. 34 crores of inventory the adjustment you took in the quarter, now assuming the customer buys jewellery will this Rs. 34 crores get reversed?

S. Subramaniam You're right, what would happen is actually let us assume that the gold rates remain at the same level and let us assume nothing happens that is the inventory value does not go up and it remains at the same level this year, then it will get reversed when the consumer actually buys it, so the profits will come back at that time in the account.

Puneet Jain Would you like to classify this as an extraordinary?

S. Subramaniam It is not extraordinary, it is just we wanted to clarify that there was an impact of that.

Bhaskar Bhat It is extraordinary only in one sense that it is the first quarter in which we have seen steep drop in price of gold. The drop of price in gold was not triggered by the company or not intended, therefore and that clubbed with the company's policy of FIFO and need to account gold inventory in a certain manner, all three are sitting in this whereas you are totally hedged on the grammage scheme, so what we have done is buy on behalf of the consumer keep it in stock with us but the financial impact of this is because of three reasons, the steep price fall, FIFO and the accounting treatment.

Puneet Jain But to assess the true profitability of the business I'd should add this back to EBIT?

S. Subramaniam As a quarter yes I think you would want to do that.

Puneet Jain My second question will be with respect that you mentioned your cash flow grew by Rs. 1000 crores in the quarter so which means that you have reduced inventory levels in the quarter and if there is a case why have you done that?

S. Subramaniam It is a combination of various things, the Rs. 1000 crores came because of first of all the sales in April and May was exceptional as we mentioned. Second that we did get a lot of gold on lease during this period of which various things we had whether it was direct credit or the other means that we had. Second there was also a drop in the inventory, inventory levels also dropped over the period so it is a combination of all things.

Puneet Jain Although now with this export commitment being coming into existence, just wanted your thoughts and how it will change the business dynamics going forward for Titan?

C K Venkataraman The importer of gold has the obligation for this and not the consumer of gold so to the extent Titan industry buys from a bank or a nominated agency, there is no obligation for Titan industry to export to satisfy this condition. The State Bank of India is importing 1 ton of gold under the new rules it can sell 800 kg to the domestic parties who operate in the jewellery industry and 200 Kg has to be earmarked for export and sold to an exporter. After that exporter exports at least 75% of the 200 Kg only then State Bank can import the next consignment and so on.

Puneet Jain And this time just two follow ups on this do they think it can affect quantum of gold coming into India thus creating some sort of shortage and second one is will be that can it play the differential pricing into domestic gold versus gold being consumed for exporting?

C K Venkataraman It is meant to restrict the supply of gold into India that is the primary objective of the policy and link the foreign exchange outflow to foreign exchange inflow by making domestic consumption not exceeding four times the export they want to contain the total import and thereby the CAD, so that is the purpose of RBI doing this. It will certainly bring the total supply of jewellery gold into the country to 60% of the number of what was imported last year. The balance 40%, which the government is wanting to eliminate was going into bullion and bars and coins and stuff like that which were deemed to be not very productive, so therefore if 900 tons was the estimated import last year, if it comes down to 500 tons, that is what the government is seeking to achieve so in that sense yes, but since we are the most reputed manufacturer, retailer of jewellery in the country we think we will be in a good position to get early on the queue for the 500 tons that is approximately going to be available. On the second point of weather the prices go up, it is very difficult to comment on that finally the dynamics of this actually will determine that.

Moderator The next question is from the line of Sanjay Singh from Standard Chartered, please go read.

Sanjay Singh Just wanted to know more on the new policy thing, so can you give an idea of exact exports that we have had last year because the numbers that we have been hearing varies from as low 60 to 70 tons to high as 250 to 300 tons, so do you have a sense of how much was exported last year and what can we have this year?

C K Venkataraman Export of 70 to 100 tons, but we have not heard 250 tons at all, 70 to 100 tons is the range that we have been hearing which means that the total will be 350 to 500 tons for domestic consumption, so that we have not heard anything more than 100.

Sanjay Singh So this means the domestic consumption almost comes down to 50% so in this scenario, first of all has this already started, what is currently happening on the ground, how you're getting your gold?

S. Subramaniam There is one correction here I think when we talk about gold consumption 900 tons included gold coins and bars, the 500 tons is what is our estimate for jewellery consumption last year was therefore if this year also based on this new norms it is still 500 tons we may not have a problem per say coming to the question which you are raising now as to how exactly this is going to work out frankly we do not know, the banks are still discussing this. They need to discuss this with the customs people as well because, how is this export going to get monitored is the key question here, so as of now at this point in time I do not think any bank is importing gold which is for consumption for domestic purposes, so I would assume exporters who have licenses may be importing. We have been using certain alternate mechanism so far to source our gold, one has been the gold deposit scheme from SBI, we have got substantial gold from them over the last month and a half or so and we're exploring certain other avenues as well which I'm sure you have read in the press so we're been doing that for the time being we're hoping that in the next one month there will be some clarity clearly on this.

Sanjay Singh When you mentioned this 70 to 100 tons there is another confusion which is there is what gold goes into SEZ does that become part of that 70 to100 tons or it is over and above that 70 to 100 tons if you recall that the thing that what goes into SEZ is separate so when we are talking about the 20% rule is a inclusive exports inclusive of SEZ?

C K Venkataraman I'm also not very completely clear in fact I had a discussion with the Gem and Jewellery Expert Promotion Council yesterday and my understanding is also somewhat like yours which is that it is for sales to exporters outside SEZ?

Sanjay Singh But sales to exporters outside SEZ would be very very less because it would not be competitive if I'm sitting outside SEZ and paying 8% customs duty?

C K Venkataraman Like I said it is not clear think because then we were talking to the GJEPC office to see if we can tie up some exporters in to this, this point was indicated.

Sanjay Singh Are you sure that if you're talking to them whether you are a conversation with RBI or other regulatory authorities do you have a sense that this is going to come or there's is a possibility that this is a pretty absurd rule which is very difficult to implement and probably will go back to the old one which will be the ban on gold loan lease etc and 100% cash up front.

Bhaskar Bhat Why would it be difficult because this is just bringing down the CAD anyway so putting pressure on export is a smart thing to do, is it not?

Sanjay Singh But exports can rise because of other various means it is not we are a very entrepreneurial country and exports can there are various ways to increase exports, so you can increase exports in pretty much many ways and then if the demand is there gold will come into the country and governments will not get solved because monitoring becomes a huge issue?

Bhaskar Bhat Government's problem will you mean false exports and then...

Sanjay Singh Yes.

Bhaskar Bhat I guess government cannot craft a law assuming that people will break it.

Sanjay Singh As of now you're not doing anything on gold loan lease you are paying cash up front and buying gold as of now or no?

S. Subramaniam No. As of now we have actually getting gold on lease because we're getting it from alternate sources which have domestic deposits of gold with them.

Moderator We have the next question from the line of Pritesh Chedda of Emkay Global. Please go ahead.

Pritesh Chedda First question on the other expenditure or other overhead side it has been fairly a lot of quarter that we have not seen a substantial jump and last full year was also a year where we had a tight control on costs both other expenditure and your A&P any thoughts to be shared on these areas incrementally?

S. Subramaniam Nothing particular, Sequentially it is not significantly higher see Rs. 197 crores last year now Rs. 206 crores last quarter so it is obviously you have seen our expanding network so the number of stores that we are taking up are significant no growth equipment is stopping.

Pritesh Chedda Second you have seen fairly confident on sourcing the gold despite what the RBI new rules seemed to be coming up, can you share your thoughts in terms of how do you see this year for jewellery business panning out also considering the fact that were their are least 20% higher auspicious days or wedding dates which are planned for the year, so your thoughts there to add it up, typically at the beginning of the year you also tend to share the PBT guidance do you wish to do it this year?

Bhaskar Bhat We cannot provide guidance but every year we talk about a 25% growth in top line, 25% growth in bottom-line we are aggressive on the top line growth we have shown now 40% growth in the first quarter so divisions are pursuing a high growth of top line and we are prudent enough to protect our bottom line. Margin dilution may occur because of the mix of businesses but we do not provide guidance on bottom line, so Rs. 10,000 crores revenues going to Rs. 12,500 crores or Rs. 13,000 crores is something which is easily achievable.

C K Venkataraman On the outlook itself for the last many-many months and we have judged that if the gold rates fall and that was the question which was raised with us many times, if the gold rate fall substantially we judge that the demand will actually go up and more than compensate for the average rupee realization drop. That was visualized to happen and that has actually happened in the first quarter and in terms of the growth in the grammage it continues even as we speak, except that the rate of growth are obviously not at those peak levels and millions of people converged on the industry and bought. So on the gold jewellery front we're pretty confident about the rest of the year and even our customer acquisition initiatives of Q1 have paid off and we see a good traction on new customer acquisition because of changing price perception of *Tanishq* and Goldplus. What has been challenging for many quarter is the growth of diamond jewellery and even in Q1 of this year it was very disappointing but it is disappointing for the industry as well and perhaps even more so for the rest of the players, so what we are pushing is diamond jewellery growth and many initiatives underway, we have started a very attractive discount scheme today and over the next five months and we hope to create a very strong pool for diamond jewellery and actually help push our gross margins and get our EBIT targets for the year.

Pritesh Chedda Just I will add here, two top concerns which are probably running through our minds if you can give some reassurance or directions there, one obviously the recent RBI and your ability to source gold and second is your expansions which we probably think some where can slow down a bit, so if you could shed some light and reassurance over there?

C K Venkataraman On the first one, let us take the possible 70 ton of exports last year assume that there is no export growth this year and that 70 tons will mean that the domestic industry can get 280 tons to be imported.

Pritesh Chedda And your requirement was 22 tons last year?

C K Venkataraman So we are less than 10% of the 280 tons and the people who are going to be importing these 280 tons are large reputed banks and canalizing agencies and we are most reputed company in the jewellery industry, so there is no reason to suppose that the 22 ton that the Titan Industries needs will not be made available from the 280 tons that these reputed companies import, it is the operationalising of this whole thing of how do you actually keep track of that 20% export and documentation etc., which is in confusion state and we hope that to settle in the next few weeks.

Pritesh Chedda Can you ask here are you considering the 10 ton import license that you have in that calculation or you are not considering that?

C K Venkataraman We're not considering that because we need some clarification on that front because that was meant for actual use and not for resale and we were not an exporter and so there is some confusion. We have kept that aside and if that happens then it is even more clear why there is no issue on the supply of gold to Titan. On the first point actually there is no issue and gold on lease is also back and therefore once dust settles we believe that we are in a good place.

Pritesh Chedda On the store expansion?

C K Venkataraman On the store expansion we had planned for adding 100,000 per square feet for the year and our reasonable good estimate for 6 months is about 75,000 sq. ft out of that 100,000 sq. ft.

Moderator Next question is from the line of Abhijeet Kundu, from Antiques. Please go ahead.

Abhijeet Kundu I just have one question, in the current scenario the gold prices have gone up, so in this quarter when you had closed your accounts you have seen an inventory loss because of the fall in gold prices now with the increase in gold prices, would you see the inventory gain again?

S. Subramaniam Not a gain but we may recover some of that Rs 34 crore, which is possible. I'm talking about the grammage scheme here against that there could be some, it is only limited to that otherwise it is on lease and unfixed.

Abhijeet Kundu And secondly if you could share that at the current juncture what would be your mix of gold sourcing, what would be broadly your gold sourced on lease in your inventory and what would be the direct imports within your gold inventory if that is possible to share?

S. Subramaniam The direct import is also on lease except that they are for 90 days that is the only difference otherwise they are also on lease.

Abhijeet Kundu But what would be the components broadly more than 90% of your gold is right now on lease?

S. Subramaniam We would not like to divulge that.

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

Nillai Shah First question is basically on this number of 70 tons that you have given why is there so much of ambiguity because on the Gems and Jewellery Expert Promotion Council website it is clearly mentioned what the exports from the domestic tariff area is and that comes out to about 40 tons and anyways why is there so much confusion because it should be a crystallized number what is the exports outside the country is?

C K Venkataraman We would not be able to give an answer that because even people in the export council itself have some different figure, we will sort it out, the confusion in that we are not an exporter, it is a new area for us that is the reason. So you are right to the extent of your observation on the website.

Nillai Shah And the second question is basically on this Rs. 34 crores of the inventory accounting loss that has happened I am a little surprised because I thought that the total customer scheme which we're running was the tune of about Rs. 1000 crores to Rs. 1200 crores of which the pre-dominant figure was for the Golden Harvest scheme which I thought in my assessment was Rs. 800 crores plus?

S. Subramaniam You're absolutely right on those two numbers, the issue here is that the Golden Harvest there is no problem because it is cash advance and the customer buys gold at that rate and there is no fixing the gold. The grammage scheme is about 1.3 tons that is the quantity of gold that we have and that is why this impact, that is about Rs. 400 crores.

Nillai Shah But about 7% impact on Rs. 400 crores is not Rs 34 crore?

S. Subramaniam The 7% is the weighted average number that is what I mentioned and these numbers are based on FIFO, which means that they would go on the last 20 to 25 days of consumption and June was when the rates really fell so the rates are about 20% lower and that is why you find an impact.

Nillai Shah And can you quantify if what is the impact of the inventory gains from the customs duty hike that has happened in this quarter?

C K Venkataraman About Rs. 15 crores.

Moderator Question is from the line of Amnish Agarwal from Prabhudas Liladhar. Please go ahead.

Amnish Agarwal First question is regarding the watch business where our margins are now closer to 10% you indicated that there is some impact of wage settlement also so how do you see that margins in the watch business panning out, in terms of the fact that now the rupee has further depreciated and what was the impact of the wage settlement in this quarter?

H.G. Raghunath On the dollar impact on 1st of April we had a price increase for all the brands and therefore the price increases are meant to take care of the volatility of the dollar to a great extent that we cover. As far as the margins are concerned we clarified just some time back, that we will protect margins through price increases.

Amnish Agarwal As the price increases which we took in the beginning of April, will they be able to cover the recent deprecation which is around 8% to 10% which will happen in the past month or so?

H.G. Raghunath We do not sell watches on the daily rate basis.

S. Subramaniam They would not cover because we had looked at 53-54 rupee to a dollar at that point and I do not think we anticipated 60 -61 now.

Amnish Agarwal So this means some round of price increases is expected in the coming months?

S. Subramaniam Quite likely, yes.

Amnish Agarwal And what is the quantum of wage resettlement impact in this watch business, this quarter?

H.G. Raghunath That is difficult to disclose. A large part of the manufacturing employment is in the watch business because the value-added is high, but every three years settlement has to be achieved with the unions. There are about 1300 employees who are directly impacted by the wage settlements.

Amnish Agarwal My second question is regarding the jewellery business where I understand that both the Golden Harvest and the other fixed grammage scheme which are running so that is usually for a period of up to 12 months in most of the cases, so going by that it means that the entire loss of Rs. 34 crores that we have booked in this quarter will be reversed at the end of the financial year, is my estimate right?

S. Subramaniam Something that we will enroll in April of 2013, it will mature in April 2014 but would have been re-evaluated as part of this.

Amnish Agarwal But I think the major part would be?

C K Venkataraman Possible yeah.

Moderator The next question is from the line of Prasad Deshmukh from DSP Merrill Lynch. Please go ahead.

Prasad Deshmukh Two questions, as far as the supply of gold is concerned you said there is a bit of confusion right now, however, you are procuring from other sources so for how long are you covered from these sources as far as need of gold that you would have?

C K Venkataraman Correctly speaking till the end of August on contract.

Prasad Deshmukh Secondly we saw Q1, there was a very strong momentum as far as volumes were concerned in jewellery, now is it still going, is the momentum as strong?

C K Venkataraman No, it is not as strong but it is pretty good.

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

Vivek Maheshwari I'm a little confused on the way in which you are procuring gold, as of now is my understanding correct that everything that pretty much buying other than the customer bringing exchanging the gold is on leasing as we speak now?

C K Venkataraman Yeah, let me elaborate a bit on what Subbu had said earlier now if a domestic bank is having customer deposits of gold they are permitted to lend to a jewellery houses like us on 180 day basis, so we have been utilizing that facility in last couple of months, similarly gold ETF fund is permitted by SEBI to lend 20% of its deposits through a bank to companies and parties like us that is another route that we are using. So these are all domestic stocks of gold against which these companies can make offer a loan to jewellery enterprises like us.

Vivek Maheshwari So these are on 180 days?

C K Venkataraman Yes.

Vivek Maheshwari And over and above that if you need gold basically you can go to the foreign banks and get it for 90 days, is that how it is going to work or how will you?

C K Venkataraman No, we will go to the domestic bank who will import as long as they can sell to 20% of their imports to an exporter let us say SBI, now SBI can import 1 ton of gold, give 200 Kg to an exporter and give 800 Kg to TITAN Industries on 180 days lease.

Vivek Maheshwari And on the customer deposits you said there is no gold export obligation over there, is that correct?

C K Venkataraman For that ultimate buyer no, there is no obligation.

Vivek Maheshwari For SBI when you say customer deposits and they can give you against that a part of that in a way?

C K Venkataraman That is a domestic deposit of gold that SBI has collected from customers and temples and all that in the country, there is no import there.

Vivek Maheshwari No, I'm saying that there is no obligation also because it is within the country itself in that context?

C K Venkataraman That is right.

Vivek Maheshwari But even for customer deposits when they have those gold these will be first the customer should have borrowed money, this like a security with the bank?

C K Venkataraman For example like, Tirupati Temple has got a lot of gold it simply goes and keeps it, converted into bullion and keeps it into the State Bank of India and they get a small rate of interest in return instead of keeping it simply gathering dust in the lockers they keep it in the State Bank's locker and get 1% or 1.5% per annum. State Bank has this stock of gold and 20% of the stock can be lent to Titan Industries to be repaid 180 days later.

Vivek Maheshwari When you're talking about the physical gold over here, does SBI need to again import gold from international markets or they can give you out of this?

C K Venkataraman That part is little unclear what will happen to the replenishment of the gold 180 days later because there is now new rule on import and export, so that is one more clarification that we are waiting for.

Vivek Maheshwari What will be your branded cost of gold financing right now?

S. Subramaniam I would not share that now, it is too fluid at this point of time let us wait for maybe a couple of quarter more till we get some idea of what the average cost would be.

Vivek Maheshwari Second on the gold grammage scheme one more clarification you mentioned this is around Rs. 400 crores and all that and you have in the past indicated that you will aggressively pursue Golden harvest, will that strategy continue and will this grammage scheme become a big part of the overall pie or it can continue one third, two third pretty much in all that the leasing is back?

C K Venkataraman Actually the Golden Harvest and the grammage scheme are ways to acquire customers. That is the primary purpose and of course it has got the cash flow advantages as well but when the gold prices were rising sometime back, the grammage scheme was introduced in response to customer requirement, when gold rates dropped like we have dropped in the last few months and the attractiveness relationship between Golden Harvest and the grammage scheme actually changes, so that dynamic is very difficult to predict and we are not very sure but we are pursuing both aggressively because of the same two reasons of the customer acquisition and cash flow, In what share they will pan out is not so much under our control and we are not so worried about the share either.

Vivek Maheshwari And one last bit on 70 tons of gold and your comfort that you should get gold in India obviously the demand is typically skewed around wedding season which will be in particular months, is there a possibility that the country can still face limitation on gold import because there can be that much disconnect between import and export cycle because this will be typically linked to 70 tons if you look last year it was full year number but it may be skewed to couple of months and matching exports around the same time might be difficult task?

C K Venkataraman I am agreeing to that point that every month exports may not be 6 tons or there cannot be a month, where the domestic requirement is 100 tons, exports are only 25 tons. That we understand but we do not have an answer on that.

Moderator The next question is from Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra My first question is again around the RBI norms, just wanted to get your sense in terms of the coming festive season because if these issues are not sorted out, is there a real risk that there is a shortage of gold for you to sell or is the current position enough for you to have confidence that the September-October period will be covered well?

C K Venkataraman We are quite confident that we will resolve the issue. We are in touch with banks, we are in touch with DGFT, we are in touch with nominated agencies, and all of them are very keen that a company like Titan comes out of the situation like with flying colors because they know we represent the future of the industry. That is the basis of that confidence and I'm sure within few weeks we will get this sorted out.

Arnab Mitra In terms of the local gold price, are you already seeing a slight premium develop over the prices so the dollar rate into the rupee conversion rate, is the local price already going at a premium and does that in any way help your margins going ahead?

C K Venkataraman This is a very complex situation because what is happening is that you also have this 8% customs duties and therefore the impact in terms of the smuggling potential, so whenever smuggled gold comes into the country in big lots, the price can actually dip and whenever there is not that much of smuggled gold coming into the country the supplies may be short and therefore may be at a premium in the general market. It is very difficult to predict and what we only do is keep an eye on it every day and take actions on the basis of that information.

Arnab Mitra But as we speak is there a kind of premium that is there, like last one or two weeks that you are seeing?

C K Venkataraman Nothing that we have perceived now.

Arnab Mitra Just one question on the customs duty increase, you quantified at Rs. 15 crores, this obviously increase happened around sometime in June, so is there going to be an effect even in the 2nd Quarter of this increase in your margins?

C K Venkataraman Yes, there will be an impact in Q2 as well.

Arnab Mitra Anyway you can quantify the impact of bars and coins getting discontinued, it was about 10% as a sales but what kind of very approximate impact can it have on your profits, the fact that you won't be able to sell it in the coming months?

C K Venkataraman It will have an impact on our profits but we have decided that we will not let it have that impact by doing many other things in the next few months to make up.

Arnab Mitra Just last question on the studded part, what kind of growth or decline has been there in the value of studded jewellery year-on-year and how do you see that going ahead?

C K Venkataraman It was more or less a flat kind of Q1 and the studded jewellery sale in Q1 of FY14 was more or less the same as Q1 FY13 and its been continuously declining trend that is the situation and lot of it is to do with the public sentiment on discretionary products and diamond jewellery is sitting near the top if not at the top when it comes to indulgence so that is been one big reason for generic industry stagnation on studded jewellery, in fact in our understanding many of the other reputed jewellers have actually declined in studded jewellery as we hear from them. And even more pronounced in the higher end of the studded jewellery market, people don't seem to be interested in spending Rs. 10 lakhs and Rs. 15 lakhs on so on and so forth. So we have a slew of measures to kick start interest so we have now discount scheme which started today and for the first time we have all products a 15% flat off offer which is a never before kind of thing and we have a huge campaign backing it with the lot of advertising money going into it. Then the two big marketing initiatives *Mia* and *Inara* which we launched early July and all the pre-Diwali buildup work that we will be starting from middle of September so lot of ideas, collections, initiatives which are chasing this diamond, we hope to get some results out of that.

Arnab Mitra This whole view that this huge spurt in gold demand in the June quarter was a preponement and hence the next few months could be very lean, do you share this or are you seeing any sign that is actually the case or are you seeing pretty normal trends even after that spurt was over?

C K Venkataraman What is happened is actually *Tanishq* has been able to increase its share of new customer by two things, one is the god sent which was the gold price drop, which made

Tanishq to be perceived more accessible. The second is campaign that we did with a low grammage products, low making charge products and the campaign around it which helped customers perceive that *Tanishq* is within reach. So both these actually pushed up the growth in the first quarter. What also happened was some of the *Tanishq* customers advanced their purchases from the near future may be August- July to April and May but after talking to large number of our existing customers, our conclusion is that the share of advancement to this big spike in sales growth was a minority share and the majority share was more middle-class customers coming into the market and *Tanishq* becoming more competitive because of which we expect the level, even if drops, but the growth to continue happening in Q2 and Q3.

Moderator Next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki Basically just wanted to understand this quarter margins although you have explained the one off Rs. 34 crores, do you think your margins would be higher if it were not for certain promotional schemes which were necessary to sort of bring in more demand, could you please give a rough approximation of how much would be the margin impact of these promotional schemes?

S. Subramaniam No, I don't think it is promotional schemes as much Percy, the main thing was of course the Rs. 34 crores you talked about and the lower studded share, I think these two combine are the reason why our margins are particularly lower. In fact, with 34 the margins are half back to about 9.3%- 9.4% overall but I think studded share was low, if you compare that is one reason why it is low. I don't think it is really got too much with schemes.

Percy Panthaki Also when you have a 30% like-for-like kind of growth you generally do see a very strong operating leverage?

S. Subramaniam The operating leverage did get diminished because of this. If we have done possibly a 23% or 24% studded share, I'm sure you have seen the margins in excess of 10%.

Percy Panthaki Again coming back to this Rs. 34 crores effect like you mentioned earlier it is because of the rate in the last 20-25 days being lower than the average for that quarter which is the FIFO effect basically wouldn't that FIFO effect have worked in your favor when the gold prices were going up whereas the last 20-25 days of the quarter the gold prices would have been higher than average?

S. Subramaniam No, it is normally a cost of margin market value which was lower, that is the all thing. If it goes up then there is no problem actually, there is no accounting issue.

Percy Panthaki When the gold prices are going up basically even if you are doing it on cost because it is a FIFO the goods which are purchased towards the end of the quarter would reflect as the inventory and those goods are purchased at a higher cost than the average inventory

Bhaskar Bhat Inventory valuation of what you bought….

Percy Panthaki No, I'm not saying it would be market value, I'm just saying that the cost it is purchased let's say at different points of the quarter what reflects in a FIFO is the stock which is purchased at the end of the quarter and therefore the cost of that itself would be higher than the average price for that quarter?

S. Subramaniam Percy, I think you are right from a principle perspective but we have not seen those gains, in the past we have not seen those gains because first of all the quantities have grown in the last six months plus and we have not seen this impact at all in the past. Unfortunately this time we saw a huge reduction and that is why this has come up.

Percy Panthaki I just want to understand on diamonds, I have been tracking Titan for about 5-6 years now and we have been always trying to increase the proportion of diamond jewellery, it was at 30% at one point of time, our target was within five years to take it at about 40% that is not happen due to a variety of factors but what I just wanted to understand is whether gold prices goes up or down in both scenarios, the diamond jewellery tends to suffer, when the gold price is going up because of the value impact, the quantity that the person purchases in value terms of gold is higher and therefore the quantum of proportion of diamond declines and now we have seen that when gold prices going down also, the share of diamond is declining. So in what scenario structurally, do we see our target of taking the diamond shares to 40%, how do we see that happening?

Bhaskar Bhat We have to see diamonds independently. This percentage is always a little mysterious.

C K Venkataraman Percy, if you go back to the principle of studded being 40% target in five years, the principle was that the gross margins of the business will increase by 2% or 3% points because of the studded shares going to 40% and through that gross margin expansion we will get an EBIT expansion to 10% in the same period, that was the principle but what happened was because the gold jewellery sales were exceptionally higher than planned, even though we achieved barring 2012-13 we achieved our diamond jewellery sales target every year without fail but because of the rising price of gold we always see exceed our gold jewellery sales as a result of which the diamond jewellery share was never met but because the overall sales was in excess of the target, the scale plays out and the EBIT margin targets were achieved, in fact one year ahead of that. Therefore we were starting to realize that there is no point in trying to achieve that share target what we need to achieve is the sales target, so this year for example the target for diamond jewellery is X, we would have been very happy if we have achieved that X which we didn't, even if the share had fallen from 30% to let's say 26% but because we didn't achieve the target we went to 16% that is because we exceed in our gold jewellery return by so much.

Bhaskar Bhat So the essential point is that there is no linkage at the level of the consumer therefore the drop in price of gold attracts people to come and invest in plain gold, the allure of diamonds make people to come and buy diamonds so the jewellery division effort in at pushing that diamond jewellery sales is independent of the price of gold in a way. There is a linkage at some point in time but unfortunately or fortunately when we see the results of the division, you see the blended margins, so we can't have an effort for having a percentage achievement. We are having an effort for achieving sales and increase in PBT and a growth in PBT.

C K Venkataraman For example if we add back this Rs.34 crores, despite probably the lowest studded shares in maybe five years or more, our profit growth is exceptional, which is what the company needs and wants.

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

Rakesh Jhunjhunwala Why do you think that the gold imports can be done on the basis of last year's exports. They have not said that the import can be done on the basis of historical exports. The obligation to export is after you import than who says that India cannot export 150 tons this year? Let us say gold the value added yield is 4% so one talk about India's exports being 100 tons last year and therefore we can import only 400 tons for over consumption, to me, it is completely imbalance and without any basis. First of all there is no obligation to link the import to past exports. I have to export in future the value added needed is 4% I get a duty draw back benefit so I think there's going to be no shortage of import of gold into this country because it is not very difficult to export when there is 4% value-added?

Bhaskar Bhat Rakesh, I think all we are saying is that the data as of now is 70 tons or 100 tons. I think the government move is very smart, it is pushing industry to export and you are absolutely right.

Rakesh Jhunjhunwala I wanted to know is that you are giving guidance that we have 25% growth in turnover and no guidance in terms of profitability, am I right?

Bhaskar Bhat No, every year we grow 25% in top-line and that is the minimum range we should grow.

Rakesh Jhunjhunwala Every year you have grown 25% in bottom-line also so the past is not the guidance what you're saying about the future that you target 25% growth.

Bhaskar Bhat We don't give guidance that's all we said.

Rakesh Jhunjhunwala The other thing I wanted to know is nobody's talking about eye business, you have some plans where you have done wonderfully well and what are your plans for it, don't you want aggressively expand this?

S. Ravikant We are planning to open about 40 stores this year. We have launched many new products in the last quarter, most of our stores that we have opened in the last one year are doing as of plan and going well, we had a very successful activation in the last quarter, 2- 3 new collections are to be launched in the coming quarter we have got a very relevant collections for the (+40) segment, in fact in a couple of days we are going to break our new campaign. So there are lots of things lined up on the lenses side also we are launching many new products with specialized coating for different kinds of uses and application.

Rakesh Jhunjhunwala And when do we first see the first sign of green in your balance sheet in the business?

S. Ravikant In due course of time, within the next couple of years.

Rakesh Jhunjhunwala My other question is on watches, where margins have come down from 19% to 10.5%, Don't you think some urgent action is needed there?

Bhaskar Bhat I agree with you and Raghu is here and several actions are on the cards when in fact the action is already started. It has been a tough year and the tough quarter particularly, the watches are in the discretionary space but that is not an excuse, not to improve the margins, so Raghu is here.

H.G. Raghunath Two-three actions which we are certain that can impact on this business as we go forward, the brand Titan will get rejuvenated and then the campaigns in Titan, the product collection and the marketing initiatives of Titan are all planned. Second action, expansions of stores and consolidation of stores making each store profitable, celebrating the products in each of the store and no aggressive expansion in the World of Titan are all part of making the product. The third important thing we did was we had business units Sonata, Titan, Fastrack and all. Now we have restructured the watch division in such a manner that marketing and sales functions are the functional ones instead of different business units competing with each other internally, so all that goes synergy and efficiency will really be driven.

Bhaskar Bhat Also Rakesh, because we went into an outsourcing model, significant outsourcing from Hong Kong and China the impact of the cost implications and the price inability to pass it all on, we did price, I mean we have taken aggressive price increases but they are not sufficient enough. Now independent of that, we are investing in manufacturing so that will kick in little later but the immediate reorganization, the pricing power, the consolidation and not expanding the World of Titan and depending on the lower cost channels and the existing channels to same stores growth essentially are those which are let's say low hanging fruit.

Rakesh Jhunjhunwala And when you thought on Helios are you going to expanded aggressively?

H. G. Raghunath Helios is doing well. We will continue the planned expansion and each store is now delivering better

Rakesh Jhunjhunwala What about the business of precision engineering, how is that doing, any game plan, any strategy for that?

Bhaskar Bhat 50% top-line growth doing extremely well, the order book is full up to nine months from now. It is a high capital intensive business but it is growing and it is profitable and it is at the 10% margins which is the company's margin so it is not lower than that, it is not diluting margins, it is certainly not a Rs. 500 crores business yet but it is going to be Rs.200 crores this year.

Rakesh Jhunjhunwala And it will become Rs. 500 crores also in time?

Bhaskar Bhat Yeah, certainly it is possible and the only concern is it will require Rs. 400 crores of investment that is where the ROC issue is but we are not stopping that business from growing, when we want to relook at it is the only question that we want to have in terms of ownership and investment.

Rakesh Jhunjhunwala What is the amount of cash flow level on 30^{th} June?

S. Subramaniam Over Rs. 2000 crores.

Rakesh Jhunjhunwala So this year we can look to 40% the distribution of dividend?

Bhaskar Bhat You also have higher gold on this liability because we have got a lot of gold during that period.

Rakesh Jhunjhunwala But that cash will grow. I hope you are going to give higher percentage of dividend this year?

Management You are talking about payout ratio or you are talking about growth in profit?

Rakesh Jhunjhunwala Payout ratio

Moderator Ladies and gentlemen we are going to take a last question from the line of Richard Liu from JM Financials. Please go ahead.

Richard Liu How do you actually look at pricing in jewellery now in terms of your making charges, my hypothesis is like this that the unorganized guys obviously had a lot of commodity profit hitherto which is no longer there in view of gold prices deflating right now so therefore the need to actually increase making charges to my mind would be actually more pressing for them than it is for you. So is this situation or margin expansion opportunity for you?

C K Venkataraman We look at it more as a market share expansion opportunity rather than a margins expansion opportunity because we perceive and real premium of *Tanishq* will actually drop in the scenario that you are visualizing and that would be to our advantage because a lot of customers want *Tanishq* but were earlier hesitant because of the average per gram absolute rupee difference. Now with this situation where the gold rate has fallen plus the conditions are making the others costs rise and the per gram rupee difference actually drops and the opportunity get a lot of customers over to our side is high and we would bet on that rather than increase the price and make money that way. We will give more sales and will make more money, that would be the way we will take it.

Richard Liu So if I leave out Q1 where you saw the huge drop in gold prices and therefore extraordinary volumes, if I have to look at let's say the month of July as a more normal kind of growth one can expect in the lower gold price regime, is it fair to really say that operating leverage is actually playing out without you having to increase your gross margins?

C K Venkataraman In some sense yes. What also happens is that at lower gold rates the product mix also has a chance to improve. People are not so hesitant to pick up a product on which the making charges let's say 23% of the gold rate as opposed to the gold rate was Rs. 3000, 23% was Rs. 690 whereas where as at 25% it drops to some Rs.600 so in a way the opportunity for the product mix increase is higher, the opportunity for market share gain is higher, therefore the sales and the overall gross margins can be higher as oppose to average gross margin.

C K Venkataraman And the stocks turns have improved I suppose in the quarter so that also kicks in. So if you were to take the vertical of plain gold alone it would have improved in its profitability because more of the higher margins product would have got sold because of making charge in quantum terms will be more friendly when the price of gold itself is low, but diamond jewellery was lower in sales and therefore the overall blended margins were lower.

Richard Liu I'm sorry for being repetitive but considering the number of iterations that are being there I just want to doubly confirm this that I presume that the 22nd July notification is way a happier situation for you than 4th June one?

Bhaskar Bhat Yeah, we think so because one fundamental thing they said is that they have reversed the earlier restrictions because the earlier one was the restriction on the funding of import of gold so reversing of that which means gold on lease is back. Now it is the job of the bullion traders and the industry in a way to ensure that domestic gold that needs to be available is made available so therefore everything can't be handed out on a platter by regulatory authorities.

Richard Liu Because I read this statement in your press release which said that we are working on plans to deal with weak consumer sentiments and also the recent measures introduced in the financing of gold imports, so can you elaborate what does that mean, I thought that the financing issue has now been dealt with?

Bhaskar Bhat The RBI is certainly wanting less import, now if you want to have more domestic gold you have to export, this is the condition of the RBI. Now assume that aggressive exports don't happen, the quantum of gold available in this country will be the problem and at the same time the funding or let's say the direct import license that we have whether that will have a condition of export is not yet known, so things are little nebulous so we want to do it with confidence. Confidence that we have plans ready any which way to ensure that the business does not suffer, so that line you can read it that way rather than saying that we are now going to borrow or not borrow, etc., we have a strong balance sheet, we have strong brands, we have the network, so we will not let sales suffer. I can only simplify it to that extent, beyond this we have to wait and watch, it is bank by bank, bullion trader by bullion trader kind of negotiation to put together the whole because people have to act on this policy now and that has not happened.

Richard Liu If I heard you correctly say this earlier, in July you are still seeing the benefits of lower gold price on your volumes in jewellery?

C K Venkataraman In July, yes.

Moderator Ladies and gentlemen I would now like to hand over the floor back to Mr. Sameer Deshmukh for closing comments. Thank you.

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

Moderator On behalf of Tata Securities that concludes this conference call. Thank you for joining us you may now disconnect your lines. Thank you.