Titan Company Ltd

2QFY14 EARNINGS CONFERENCE CALL

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Moderator: Ladies and gentlemen, good day and welcome to the 2Q FY'14 Results Earnings Conference Call of Titan Company Limited, 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Deshmukh. Thank you and over to you Deshmukh!

Sameer Deshmukh: Thank you. On behalf of Tata Securities I welcome you all to the conference call of Titan Company Ltd. post the second quarter numbers. We have with us the senior management team of the company. I 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: Good afternoon to all of you on the call. First of all on the eve of Dhanteras, a very happy Diwali to all of you and your family. May the festive season bring hope, joy, peace and happiness to all of you.

We have concluded sharing the results of the second quarter. it has been a challenging quarter by way of consumer sentiment and we have found the growth difficult to come by at retail.

The two of the older business i.e. Watches and Jewellery have had growth problems but the two of the newer businesses which is Eyewear and Precision Engineering have had a very good quarter. Across the channels which is *World of Titan*, *Fastrack* and *Helios*, we have had low single digit or negative growth rates in watches.

In jewellery from a very high growth in Q1 it has dropped to negative in Q2 both in *Tanishq* and GoldPlus. All of these figures I am talking about is like-to-like. The reason why I am saying like-to-like is because that captures the catchment area of consumer sentiment but if we were to take footprint addition, obviously the numbers change.

Net-net the topline grew by barely 1% for the company and the bottomline grew 4%. The silver lining really a robust growth in margin, in watches the gross contribution we have been talking of the price increases that we took and somewhere it is beginning to show. Similarly the mix improvement in jewellery by the sale of studded jewellery has led margin improvements. Eyewear continues to grow very well and Precision Engineering continues to grow very well.

The H1FY14 have been helped by the extraordinary growth in quarter one. For the first time after long time the company has borrowed money, specifically to fund the working capital in the jewellery business.

So just to give a quick summary, The slowdown in the economy has turned consumer sentiment weak. Average gold price was 5% lower than the previous years' level. Because of the nation's problem from the CAD, RBI has disallowed the gold on lease facility. We had to take debt on our books. We are at about Rs950 Crore of debt as on date. Significant depreciation and fluctuation of the rupee has affected material costs in watches as well as in Eyewear.

It has had a beneficial impact in Precision Engineering, which has a significant portion of its business with overseas clients. Diamond jewellery activation has worked very well. Sale of gold coins has been discontinued in principle by us to help the government efforts in whatever small way we can to reduce the current account deficit.

We have had a great launch of perfume brand *Skinn*. It is flying off the shelves and we are hoping to replenish the shelves only post Diwali but it seems to be a good product launched by Titan at least from the markets perspective.

Retail expansion focus has continued, perhaps not as aggressively as we would have wanted it to be, but the company's principle of investing in the future continues, be it in calibrated expansion in new stores, new categories like *Skinn*, new products like *Inara* and *Flair* and new advertising. We are not holding back in any of these.

Well the retail sales growth figures for Q2 are there in the presentation -11% in *World of Titan*, like-to-like *Tanishq* -7% and *Gold Plus* -21%. We want to state that the company is totally focused on generating growth in the second half and it is growth that will kick in with improved performance in H2.

The next few days of course are going to be critical certainly from injecting confidence across the board. We are seeing improved walk-ins perhaps not to the extent that we would have hoped but it is certainly far better than what it was a week back or ten days back.

I would like to open it up for the Q&A from all of you. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Mr. Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: Good evening everybody. My question is actually with respect to availability of gold, current regulations aspect of gold purchase and the subsequent hedging policy, which you have currently adopted and how do you think this will move forward over the course of next three to six months?

C K Venkataraman: Hi, Puneet. This is Venkat here. As far as the availability of gold is concerned, over the last two months ever since the restrictions have come in, we have been able to manage through three different ways. The first way is that there are actually domestic producers of copper, whose byproduct is gold and given the huge volumes of copper based smelt, it has been an important and consistent source of supply. The second is the bullion dealers were stocked up for quite a while whose stocks came out now. Third was some of the gold deposit scheme route SBI and all that, that was available so, so far and we also got a little more aggressive on our own stock, which was more than nine months old and one year old and all that. So we have been able to manage to meet the requirements and at the moment we feel that we can go up to at least till end of November without any great tension and at the same time the 20-80 scheme is also falling into place, initial imports have happened, banks and nominated agencies have got used to the processes so we expect that by early December that also should fall into place and from a supply side given a reputed company like us we should not be having any issues. There are other issues which I am sure questions will come up and we will answer them at that time.

C K Venkataraman: On the subject of hedging, we have a limit today of the five tons from MCX and our overall inventory is nine tons today but the gold loan lease liabilities are still there and we are winding down those positions. We are also in touch with the RBI to let them permit us to do forwards outside the country and it is being considered by RBI. So if that happens, then our entire inventory can actually be hedged through the forward markets outside India and we are also in touch with FMC and MCX themselves for taking up the domestic hedging limits as yet.

Bhaskar Bhat: All of them are not just sympathetic, they understand and they are very much wanting to provide up with this facility so it’s taking time and there is a bureaucracy involved and therefore we are hoping to crack this as soon as possible.

Puneet Jain: Okay, my question linked to this is it, are you currently running any un-hedged gold running in your balance sheet as of now?

S. Subramaniam: At the moment yes we do have some un-hedged gold Puneet, but the increased limit that we talked about now we had four tons limits which has gone to five tons now so that should take care of this, but you are right there could be a risk that may happen at short-term till we get the RBI approval.

Puneet Jain: Thanks a lot I got more question but I will get back in the queue.

Moderator: Thank you. Next question is from the line Mr. Jaibir Sethi from Premji Investments. Please go ahead.

Jaibir Sethi: Good evening Sir. Thanks for taking my question. I just wanted to understand if there was any impact on this quarter's margin from a) the customs duty hike and b) the mark-to-market which we had seen last quarter from gold volatility?

S. Subramaniam: Yes there was that impact. If you remember last quarter we had given you a certain number about Rs34 Crore or so where we had said there was a mark-to-market problem with the grammage scheme that has reversed this quarter. You are right therefore to that extent the margin is higher. Customs duty would be similar to what it was last quarter. So it would not really make a material difference but on the mark-to-market yes there was.

Jaibir Sethi: Okay and Sir the second quarter was around the current festive season, any sense that you have both for yourself and for the market as a whole on how demand is trending and for the market in general where the suppliers has been able to keep up with the level of the demand?

Bhaskar Bhat: If you were to take the two different businesses Dasera to Diwali we track. Dasera was not as exciting and the trend has begun to improve only in the last few days otherwise Dasera to Diwali growth rates were very weak both in watches and in jewellery. The competitive situation if you are asking how it is doing, the situation seems to be quite bad amongst other jewelers; they are reporting 30% - 40% decline. You are all aware that pure play retailers of other categories have shown good growth same store like-to-like Shoppers Stop and Westside but those growths are more in the apparel side. Apparel seems to be doing well but the last few days have been much better. That is all I can say. Nowadays consumers not having too much time and hence they are not planning so much in advance, they are buying closer and closer to the date and tomorrow being Dhanteras we should see a very big boom.

Jaibir Sethi: Thanks for that. Just as a follow up you have reported a negative 22% volume number for the watches business. I just wanted to get a sense of when was the last time that the business for this sort of a volume decline seems the last say through a strategic?

Bhaskar Bhat: It is not in the recent memory of the company

Jaibir Sethi: So even then say 2008-09 was on that sense?

Bhaskar Bhat: Never I think as far as we know in fact the worse we have seen is in first quarter 2012-13 and it was –3% before that and after that this has been the worst case.

Jaibir Sethi: That is all from my side. Thanks a lot.

Moderator: Thank you. Next question is from the line of Mr. Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question is on the mark-to-market loss are you seeing the entire Rs 34 Crore has now been reversed?

Bhaskar Bhat: That is right.

Arnab Mitra: If I adjust that in your margins the jewellery EBIT margin has actually gone down if I were to adjust for that despite the studded share going up so what would you ascribe this drop in margins despite better mix?

C K Venkataraman: Our sales leverage. Our sales hardly grew.

Arnab Mitra: Right and on the studded side would you say even there margins because you probably ran a stronger scheme this time in terms of flat 15% has that also impacted the standard part of the margins?

C K Venkataraman: Actually fortunately and we had also planned it accordingly, the studded margins in 2Q this year were same as the studded margins in 2Q last year despite the scheme being far more attractive to the customers.

Arnab Mitra: Second on the gold availability the three sources you mentioned so what you are indicating is that if the 20-80 scheme picks up it's fine, otherwise these sources are not good enough to take care of the ongoing demand the copper one and the domestic source that you indicated?

C K Venkataraman: Yes of course. In the last two months, the stock of billion dealers added up plus the SBI gold deposit scheme helped which are not going to be available in the future. The local copper company sources are available right through it is not an issue, but that is not enough to meet our demand. But we are certainly in touch with all the canalizing agencies and the banks and the sense is that it should fall into place.

Arnab Mitra: Could you throw a bit more light on the direct import license any clarity there and if at all you can use it and how you could operationalize that?

C K Venkataraman:: Yes, we have had clarity both from DGFT and the RBI that we can directly import. We are currently pursuing and our understanding from DGFT is that we can also sell to exporters which means that whether directly exporting jewellery ourselves or selling to exporters of jewellery like any other, the 20-80 rule can be used. We are at the movement in the process of settling it with potential clients who can buy from us on a regular basis and then scoping it to use it to import.

Arnab Mitra: So would you say within this quarter itself you could start using this?

C K Venkataraman: Yes hopefully on that we are betting, but certainly Q4, On the other ones which is getting from the importers because things are falling into place.

Arnab Mitra: Just one last question has the coin sales we heard that some of the industry has taken off that self-imposed ban on sale of coins what is your position on that?

C K Venkataraman: We continue to hold the position of not selling coins and we had taken this decision as a responsible company on July 15th and our view at that time was at least till the CAD situation eases in the manner in which we pursue it to be easy we will hold on to that decision.

Arnab Mitra: Thanks so much Sir.

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

Vivek Maheshwari: Good evening everyone my first question is on the mark-to-market or rather on the custom duty bit why are you saying there is not going to be a meaningful impact of that because I thought that the customs duty change twice in this quarter and you would be carrying inventory where you should be having a gain to the extent of inventory that you were carrying inventory where you should be having gain to the extent of inventory that you are carrying over?

S. Subramaniam: You are right. The point is that what I meant was it was not very different from what it was in Q1 that is what you mentioned. So there is an impact of that, but when you compare Q1 to Q2 is not different that is the point.

Vivek Maheshwari: Is it possible to quantify the impact?

S. Subramaniam: We are not quantifying that now to anybody, so I think I leave it as that.

Vivek Maheshwari: Second on the debt of Rs 950 Crore if I heard it correctly could you indicate what the cost of borrowing is and hedging and everything put together?

S. Subramaniam I would not want to talk about that because obviously these are all work-in-progress. We have certain borrowings, but obviously we will also be looking at reducing the cost of borrowing. The position as at end of the quarter was Rs 604 Crore and that was for a very short period. It was just in the second half of September that borrowing started. We are waiting for things to settle down, market seems to be much better in terms of liquidity so cost is coming down and therefore we look at alternatives to raise the funding or rather replace the funding that we already have in place. So it may be little premature to talk about the cost.

Vivek Maheshwari: But the fact that you are carrying Rs 950 Crore what is that you are paying right now? Is it possible to know at least that?

S. Subramaniam: I would not want to share that now may be next quarter we will be having a better picture.

Vivek Maheshwari: Third thing is you mentioned about the hedging 9 tons today and you can do hedging in the international market and all, I am sorry I am not very clear with this hedging thing is working can you please explain or elaborate on that bit, how much you can hedge today and what are the regulations and all?

S. Subramaniam: The thing is as far as the gold on lease the old one which is remaining or the SBI gold deposit scheme is concerned it is a natural hedge nothing has changed, but that is only for a certain portion of our inventory today. The balance we have been buying on spot. Up to 4 tons we were hedging it on the MCX by doing the sell future. Now beyond that I said about 1 ton or so is our exposure today, but that hopefully will get covered in the next few days because we have got permission to go up to 5 tons of hedging in the MCX. Now anything over 5 tons as and when we replace the gold on lease liability we would start having to hedge somewhere else. If RBI does not give as an approval it would remain unhedged.

Vivek Maheshwari: Thank you very much.

Moderator: Thank you. The next question is from the line of Mr. Abneesh Roy from Edelweiss Capital Limited. Please go ahead.

Abneesh Roy: Sir thanks for the opportunity, my question is on the Titan Eyewear business, one is the online companies are running a lot of discount schemes for example LensKart also advertising heavily in spite of that we are doing quite strongly in terms of 25% like-to-like growth? Second is the latest development of Fastrack brand also being introduced in this? So I wanted to understand in spite of competitive intensity being high are we taking share because all other segments like-to-like growth is flattish or negative, this is still 25%, so is it market share gain?

S. Ravi Kant: Abneesh, this is Ravi here. The game that Titan plays in all its businesses and categories has always been developing the market and creating the market as opposed to market share game. You are right that online is picking up and LensKart is on air for some time, but what Titan has been doing in the Eyewear business also is about creating and identifying new consumer segment, developing the market, creating new opportunity for consumers to buy and especially if you look at the last quarter our Flair collection has been launched which with 68 SKUs has done exceedingly well. In fact it contributes to about 25% of our house brand sales. So it is a very successful collection, so it is all about I think identifying new opportunities, new segments as opposed to market share.

Bhaskar Bhat: The point Ravi is saying this is still a market which is in very, very early stages of maturity, which we cannot even call it. It is in very young stage, so the size of the market is going to be determined by the player. So market share gain is not what we should be looking at market growth and in that growth how much more you are going to grow than the average of course at the end of the market share, but if you are big market share in a small market it makes nobody happy.

S. Ravi Kant: Just add to what Bhaskar mentioned in fact what we were also doing this time to reach out to whole set of potential consumers who are not even aware that they need vision correction, you were talking of online sales what we have actually progressed to is online eye testing which you have heard of, so the whole idea is to get people to realize that this is the category they cannot avoid or stay away from and then meeting their requirement through different segment collection that I spoke about.

Abneesh Roy: Sir coming back to the watch segment, which was discussed in some detail. You mentioned this same store decline is one of the lower numbers in the recent memory, so is this because of some higher price increase in gold jewellery I understand postponement led to lower growth, but is lack of marriage demand also or what has suddenly changed quarter-on-quarter? Has the sentiment really gone worse or is it lack of marriage days or maybe price hike being quite high that is the reason?

H.G. Raghunath: The reduction in walk-ins indicates consumer sentiment being low in the first half. The decline in numbers was seen post Q3 of last year, so as a category it appears that in this times consumer is wanting to buy other things and then if he still has money probably consider discretionary purchases. It seems to be one of that therefore consumer sentiment coupled with priority of discretionary purchase seem to be one of the reasons for this. New products are there. On our part we are putting our add campaigns there is no shortage of attempts, expansion we are careful and in this month that is in these last two to three weeks we seem to be seeing some walk-in growth.

Bhaskar Bhat: Price increase yes as it is very aggressive. As the dollar cost goes up so we have to pass on this price increases to the consumers and you can see that also is in the margin improvement.

H.G. Raghunath: Gross contribution margin has improved quite significantly, but as Venkat said in the jewellery business the leverage since there is a sales decline it has gone straight to a bottomline in terms of lower profit.

Abneesh Roy: Thanks for this and just one follow-up on that we have spoken in detail on expansion and distribution in the jewellery part of the business and Eyewear, on watch part of the business is distribution expansion now largely done in our markets any plans you can share on how you planned to expand in the next two to three years in the watch distribution?

H.G. Raghunath: The expansion will continue and the expansion will be based on the strength of the catchment and how the store can become profitable, finally the growth should happen that really is the geographical value-add that we are adding in expansion, the expansion but it will continue.

Bhaskar Bhat: Also from the next two to three years perspective *Fastrack* will grow much faster in terms of its own store, *World of Titan* not that fast, but still will grow because there are still unrepresented areas and *Helios*. *Helios* of course is not going to go the numbers that *Fastrack* and *World of Titan* would be, but it will still be reasonable kind of growth, so high growth *Fastrack* middle level growth in *World of Titan* and *Helios* at 48 stores right now, will grow at a steady pace of 10 to 12 stores a year.

Abneesh Roy: That is all from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: I just needed insight on the capital employed in the jewellery business. We have taken Rs 604 Crore of additional debt in the quarter ended September, so if you could just give some insights as to what does it do to our return on capital employed in the jewellery business over a steady state in the next 6 to 12 months?

S. Subramaniam: If you look at our slide on capital employed we have mentioned here is the capital asset for jewellery and for the company was net of the debt of Rs 604 Crore, which means it is pretty much the same way we used to present our balance sheet before when the gold on lease credit was available. So therefore the ratio here should not change much from that perspective. Having said that this is something, this is an accounting issue we are discussing with our auditors that could be a change in segment wise accounting from the next quarter onwards when the debt really goes up. This Rs 600 Crore was as I said taken only in the last 15 days of the quarter. Since it was primarily for jewellery we put it in jewellery it is something that we still are discussing with our auditors and the segment wise accounting of this might undergo a change. If that does so, then the cash balances, the surplus cash balance that we have along with the debt might get into a corporate segment, so in that case the numbers for which the divisions may change, EBIT will not change, but the capital employed can change.

Manish Jain: Thanks.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: Good evening everybody. I have couple of questions. My first question is regarding the golden harvest scheme where we are having a lot of advances from the customers, so as per the new policy and as we now to fund purchase of gold, so are we allowed by RBI to use that money for funding the purchase of gold or we will have to retain it in the form of cash or gold we will have to retain it in the form of cash or gold assets?

Bhaskar Bhat: There is no RBI restriction on use on cash, the color of cash is the same, and there is no such restriction.

S. Subramaniam: It is just our own conservatism which is keeping as cash otherwise there is no real ban on using the cash management.

Amnish Aggarwal: But what is the policy of the company going forward that will we be using that money by keeping say small reserve and not resorting to a very large amount of borrowing?

S. Subramaniam: That frankly we are still debating internally. We will take a position on that may be in a quarter’s time.

Amnish Aggarwal: Sir the second thing is that now the two issues, one being that you rightly said that you are using the gold from say State Bank of India gold deposit scheme or some of the local copper refiners, but at the end of the day that is not sufficient so in that event as the 20-80 schemes comes into play, so is the exports of gold jewellery from India sufficient enough so as to provide enough your gold requirement for the domestic consumption and secondly in view of the rising your cost are you also looking at increase the making charges on Jewellery?

C K Venkataraman: On the first question if we go by the generally indicated export figures of 2012 the total imports that can be made on the basis of that are perhaps short of the requirement for Indian jewellery production. It may be 70% to 80% of the Indian jewellery production need, but because we are right at the top in terms of reputation and contacts with all the entities, which are involved in importing gold we are very confident that we will get our 20 tons out of the 300 or 350 tons that totally they would have to import for domestic consumption, so we do not see a problem at the overall level. It is the operationalizing of the 20-80 procedures that are actually keeping us away from getting a steady flow everyday of that gold, which hopefully is a matter of a few more weeks and that should get sorted out. On the second point at the moment we do not have any intention of increasing our making charges, we want to remain competitive, we believe over the next few months if overall cost of financing in the industry is anyways going up, there will be pressure on the other players perhaps to increase their making charges and we will review it at that point in time.

Amnish Aggarwal: Thanks a lot Sir. Just one housekeeping question in this quarter, we have seen very sharp increase in our other operating income from something close to say less than Rs 18 Crore to Rs 39 Crore and on the similar manner our financial other income has also gone up from Rs 23 Crore to more than Rs 30 Crore so any particular reasons for this?

S. Subramaniam: The financial income is because we have the higher cash balance, average cash balance over the previous year.

Amnish Aggarwal: Other operating income?

Amnish Aggarwal: In the P&L which we have given below net sales between the net sales and total revenues there is item of Rs 39 Crore?

S. Subramaniam: It is sale of stones and things like that which are higher this quarter. Sometimes when we do not require the raw material particular in diamond particularly we will sell them, so the sale of that was higher this time. The cost of that would be sitting in raw materials.

Amnish Aggarwal: Thanks.

Moderator: Thank you. The next question is from the line of Mr. Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Thanks for taking my question. I just wanted to understand that after the activations in Q2, now that they have been discontinued, diamond sales how has the growth been, because second quarter has seen a good growth in diamond sales as well, at least the number seems to suggest that? Secondly Sir I wanted to just understand on watch segment what is the kind of price hikes, is there any pricing still required or have you already take the price hike required for the INR depreciation?

C K Venkataraman: The diamond jewellery growth in the last many quarters has jumped up whenever we have had a good activation and coasted down to low double digit level perhaps after the activation has gone off because of the overall sentiment towards discretionary indulgence products and diamond jewellery is one of them. So that issue seems to be there even in the month of October as we speak, but we also have a very, very solid wedding season which are sitting in Q3 and we still have 60 more days for the quarter to end, so we are hoping to do things between now and in December to crank it up and reach closer to our targets.

H. G. Raghunath: On the price increase for watches we took price increases to cover the dollar cost as recent as September.

Avi Mehta: Given the current situation at the MCX wherein hedging is actually resulting in a loss, it is a very weird situation that we are seeing right now, but would you still continue hedging in the situation?

S. Subramaniam: Hedging for us is something that we will do, whatever cost the issue is that you are right there was a situation when it was going at a discount, when self-forwards were going in discount but not anymore, it is not the case but there was the time you are right.

Avi Mehta: That has corrected. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Mr. Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Expansion side if you could just give out some details on the square foot expansion for the next year in watches and in gold expansion, if anything is planned, and for this year if you want to review your expansion?

Bhaskar Bhat: Next year's plans are still very, very fluid. We have not even started thinking about it. Calibrated growth will happen etc., we can state at the present moment, but this year as we said yes we have been looking at same store growth rather than expansion because that is the right way to look at it and in *World of Titan* for example we have been very careful about where we open the store. Jewellery similarly we have opened 13 stores in 2013-2014 and the square foot addition is 65000 square feet.

C K Venkataraman: There we have a target of 100,000 sq. ft. 2/3rds is already done and we have not really pulled back which we had said in our Q1 meeting.

Pritesh Chheda: Any area of cost head you think that can actually be consoled and brought down, if you could share some thoughts there?

Bhaskar Bhat: I think there is nothing that we can bring down. Certainly on the head count addition where we have planned because now three businesses have significant intensity at retail which is every store will bring more people, so when you do same store growth concentration therefore headcount addition will come down. In our results our own store staff cost are sitting in the employee cost, so therefore headcount addition will certainly be calibrated to the network expansion, which we had already told you that in watches particularly and even in jewellery we are not holding back, but certainly 20,000 square ft store is not even visible right now and there is no need. On the factory side no new recruitments are taking place except in jewellery so there is nothing advertising we are very, very conscious that we will not reduce because that is the fundamental strength of this company. Here and there some efficiency drives and so. Productivity is the greater focus, not cost compression.

Pritesh Chheda: Just wanted to confirm Venkat told us that till November we are comfortable with the current inventory that you guys have in the jewellery and some clarity should obviously emerge in sometime which would handle the gold procurement requirements post December that is the reading right?

Bhaskar Bhat: Up to November we are comfortable.

C K Venkataraman: From sourcing confirmation because some of the gold stock which the bullion dealers still have and all that kind of thing, but post that it will be only the copper companies and all that which is may be 25% to 35% of our requirement, so the 20-80 rule should kick in to give us the balance from December.

Pritesh Chheda: That was helpful. Many thanks to you and have a golden Diwali.

Moderator: Thank you. Next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Good evening everyone. Thanks for taking my question. Sir if I have to strip out Rs 34 Crore of mark-to-market charge reversal from the jewellery profits, and I presume that it would be fair to assume that growth margin would have expanded quite a bit since you stopped selling coins and even studded turnover quite good. In the context of this, I would presume that at least calculation such as that the overheads have actually grown quite a bit and it is not merely an issue of operating leverage which is making the margin actually lower YoY. Is my interpretation correct that overhead itself has actually grown quite a bit? I also see that from the SEBI P&L release that there is actually 34% increase in other expenditure which actually has gone up by about Rs 30 Crore quarter-on-quarter that is the September quarter versus June quarter, what would be, can you help us in these things together?

S. Subramaniam: Richard, as far as overheads are concerned, there will be growth because the network has been expanding and we have been putting up some of manufacturing facilities and so on so forth, but to answer your question it is not because of overheads that we are seeing the margins having the problem, but it is largely because of operating leverage. If the growth is just going to be a 4% over the previous year in the jewellery division, then we have a problem because overheads will be higher and that is the reason why the margin is under compression, it is not because of anything else we had a very studded sale, yes, but gold coins did not happen, now gold coins might not give you the margin but it gives you clearly from EBIT perspective whatever it brings in is clearly down to the bottom line and that is not happening now, so that it makes a big difference, so topline growth is the issue not really overheads.

Richard Liu: In terms of the absolute overhead that has really not grown?

S. Subramaniam: That is not a major issue.

Richard Liu: Did I hear you correct you were mentioning Rs 950 Crore of debt in the opening remarks?

S. Subramaniam: As of now. That is right. As on date.

Richard Liu: That has gone up Rs 350 Crore in the last one month.

S. Subramaniam: Basically this is payment for both new gold and for the gold on lease liabilities that we squared up.

Richard Liu: When will the balance gold on these contracts totally exhaust?

S. Subramaniam: Most of them get over by December there will be some of them going up to February, but largely by the end of this quarter.

Richard Liu: Can I ask the physical gold that you are holding right now or rather the one that you are actually we forced to hold right now. Compared to the rate which you would have bought it at various points of time, are you at a profit on that, or you had a loss on that as of now?

S. Subramaniam: Are you talking about the unhedged gold?

Richard Liu: Yes the unhedged gold.

S. Subramaniam: We are neutral on that, but we cannot take that charge. There is no risk, if that is your question but as we speak.

Richard Liu: Just last thing if I may am I sensing a little less level of optimism about the balance part you have, then I would probably have sensed at the end of the last quarters Call, is that correct?

C K Venkataraman: The sales of the Q2 have certainly been lower than the sales of quarter 1 and that would have certainly influenced our optimism at the end of Q1. Now the question here is are we optimistic about Q3 versus or we optimistic about the next 12 months, I think from an overall opportunity point of view what this company as across all its businesses is set of advantages which certainly will take us in the direction in which we normally travel over the next 12 months, but as we speak Diwali to Diwali is a little dull and obviously that is showing and last three months have been dull as well that is certainly showing in assessment of the situation and before what we are getting in a way.

Bhaskar Bhat: Richard the one thing we are not doing, certainly is what differentiates us from the rest let us say in each category is the power of our brand. What Ravi said differentiated offering etc, so we are banking on that brand and our ability to generate new product because we have our own manufacturing etc, so this festive season despite whatever we have seen we are continuing to invest in the brand and make it interesting for the consumer. The only thing we are not doing is, doing a big consumer scheme, therefore our margins will be better, the sales pressure will be on from a retail perspective and therefore we will win more than the others. If generally it is not to be a low sentiment we will create energy in the company to be able to grow. How much that growth will be? It is going to be a question mark. So it is not pessimism or less optimism. It is just being practical what is that asset we can put into leverage today is what we are talking about.

C K Venkataraman: Just to add into what Bhaskar said if we were to look at the performance of the industries in which we operate and most of the other players who are in that industry versus us in Q2 and that is what I would reinforce what Bhaskar said is about our better performance relative to any others.

Richard Liu: This part that that you have spoken about earlier regarding some of the other jewelers deciding to start selling coin again. I understand what you are doing is obviously to help the government and other guys in the industry unfortunately are not as helpful, just from a consumer point of view since there is a lot of coins purchase obviously that will happen during the festival season will this not draw at least for this particular festival season Sir?

C K Venkataraman: Today while we are not in a extreme shortage situation on gold, it is not as we are in an excess situation either, which means that even if we choose today to operate to sell coins back changing our stand on it, our flow of gold will be first priority to jewellery and then only to coins so to that extent coins will have to wait even from that point of view, so in the really short term there may be a little bit of dissatisfaction of some customer why *Tanishq* is not selling coins, but as soon as the supply situation improves we will also have an opportunity to review this, right now that is also an aspect on this.

Bhaskar Bhat: Also the brand image of *Tanishq* is a combination of all this. We do what is right and therefore to an extent while we are not saying this is not advocacy on our part with consumers. We would like consumers also to understand that what we are doing is right and therefore those kinds of consumers come more to us, yes disappointment apart I do not think they are going to walk away. There is judgement call we have taken that is what stand we have taken and sticking to that stand is more important even to the customer not just for us.

C K Venkataraman: In fact in the message in our stores is to help the nation to shine again and there are many customers who have seen that message and appreciated the stand the company has taken.

Richard Liu: Great. Thank you very much. Wish you all the best and happy Diwali to all of you.

Moderator: Thank you. Next question is from the line of Mr. Ashit Desai from B&K Securities. Please go ahead.

Ashit Desai: Thanks for the opportunity. Just a few questions on watches can you share your performances between the brand *Sonata, Titan, Fastrack* and any color on the new launches activation that you have done?

H.G. Raghunath: *Sonata* has done well. In terms of volumes *Titan* has declined in the first half compared to the budgeted quantities. *Fastrack* has done reasonably well for some time, but in Q2 even *Fastrack*, the growth has been less. We are not short of advertising campaigns and expansions and all the ground level work that needs to be done in retail. This really is the summary in terms of the performance. *World of Titan* we showed you the slide. *World of Titan* like to like sales growth is minus 11%, *Fastrack* is at 1%. The large format stores have been at minus 5%. This indicates both the shortfalls in walk-ins, current sentiment in the consumers mind and his preference for categories and products at this time.

Ashit Desai: Any measure that you have taken to arrest the decline in margins because despite the sales decline you somehow reported a sequentially better margin?

Bhaskar Bhat: The gross contribution is much better. We have been taking to you about Q1 is not just well, 18 months 35% price increase or year-on-year it has been 19% for the quarter, so it is a significant change in a way in the pricing and that has helped to improve the gross contribution, but because volume has declined obviously the PBT margin has got affected. This Diwali and wedding season to follow gives us lots of hope that in the coming months will the retail pick up and the sentiments improve, the festival feeling and the weddings will it bring the increased the sales, we are hoping and waiting for. From our part we have done lots of new products and campaigns, we will continue aggressive appeal to the consumer and for its consideration of the products.

Moderator: Thank you. Next question is from the line of Mr. Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: A couple of questions. Very quickly I will just submit out all so that you can answer. First is the understanding clear that the advances in the golden harvest scheme you actually keep cash on the balance sheet against that? The second question is that where do you report the entire *Fastrack* brand sale is it get all captured in the watches segment or some of them go into the other segment and also some of the newer categories like *SKINN* and whatever others are, are all of them are today part of others? The third thing is that on the like-to-like growth assuming that the gold prices remains stable from here on what kind of like to like growth would you expect in the *Tanishq* format?

S. Subramaniam: On the cash part it is just a policy that if the cash it has not requirement that we need to keep the golden harvest scheme amount in cash as it could very well be converted to gold and could be kept has inventory as well.

Hiren Dasani: But currently you do keep cash against that?

S. Subramaniam: Keeping cash that is right. On the second one which is *Fastrack*, *Fastrack* watches will come under the watch segment whereas *Fastrack* accessories would come under the other segment and the fragrances will also come under the other segment. Sunglasses will come under the Eyewear.

Hiren Dasani: Is it possible to know what is the overall *Fastrack* brand sales would be, let us say on a yearly basis also?

Bhaskar Bhat Around Rs 800 Crore. We do have retail but it includes the sales to trade and from our retail stores.

Hiren Dasani: What you would book as revenue basically in the *Fastrack*?

Company Speaker: Correct.

Hiren Dasani: On the like-to-like please? I am just saying that what kind of in this stable gold prices kind of a regime, what kind of like-to-like growth one should look at?

C K Venkataraman: 10%.

Hiren Dasani: 10% is what you would expect this close to deliver. Thank you.

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

Rakesh Jhunjhunwala: Good evening everybody. My first question is that we have told that lot of people are paying premium over the revenue prices who procure gold in India, have we to pay this premium, or do we have the converted price as based on the international price?

S. Subramaniam: Yes we have paid premiums when we purchase but the premium has not been as high as what is being reported in the market off late.

Rakesh Jhunjhunwala: You have passed the premium to the customers?

S. Subramaniam: We pass on what is the market rate.

Rakesh Jhunjhunwala: Market rate is the converted rate plus the premium?

S. Subramaniam: That is right. It includes the premium, so premium is also passed on Rakesh.

Rakesh Jhunjhunwala: What kind of sales you had in October when Dhanteras was there, are we going to have a sale growth in Diwali in the quarter?

C K Venkataraman: Like-to-like we are targeting 10% growth Rakesh in gold.

Rakesh Jhunjhunwala: What are the reasons we have diagnosed in watches, do you think it is just because of discretionary spending or is it something more structured?

Bhaskar Bhat: It is not structural. I think we should not say it is not structural, but there is not enough reason to believe that it is structural. There are three reasons Rakesh. Certainly the continual price increase which we have passed on has had an effect only in one manner, which is we have vacated certain price points which are important from the mid market consumers point of view which is sub Rs.3000 price point. These are not visible in big cities because the demand for those watches is not so high. It is really in the mid market middle India where there is a big demand and in the traditional watch outlets where there are push back is coming say we need products in those price point, so our price increases have taken these products out of those price.

Rakesh Jhunjhunwala: But you are not selling the new products at those price points?

Bhaskar Bhat: We have not created. We are creating now and therefore there is a correction, but lost sale is lost sale. So one of the primary reasons is that apart from the consumer sentiment for discretionary product the category shift or structural change certainly is not to be ignored and that is the work that we are currently doing, but our view is for a while the accessory role of the watch which is good looking product at great prices, design, retail is going to continue for a while, but at the same time technology in viewing the watch with technology is work that is going on in the company and there will be products that you will see which will have that kind of appeal, but not the Samsung kind of watch.

Rakesh Jhunjhunwala: Another thing is about the new strategies and there is so much strong, but what is the value of sales Rs 20 Crore or Rs 15 Crore per quarter so where is the company really going to focus on this products?

Bhaskar Bhat: We have launched the fragrances. We are almost launching one category a year. Helmet is very soon to be launched in the next few months, well these are still small categories ultimately.

Rakesh Jhunjhunwala: What is the expense of retailing these products through the *World of Titan*?

Bhaskar Bhat: Not all products will come through the *World of Titan*. *SKINN* is there today, but *World of Titan* is still very significantly to be used for watches.

Rakesh Jhunjhunwala: We are going to tough times and we are fighting it out, with time, things will improve.

Bhaskar Bhat: Yes absolutely.

Rakesh Jhunjhunwala: Thank you.

Moderator: Thank you. Next question is from the line of Mr. Rajasa K from Jefferies & Company. Please go ahead.

Rajasa K: Good evening sir. My first question is on retail expansion. Are you maintaining your target of adding about 100,000 square feet this year?

Bhaskar Bhat: Yes.

Rajasa K: In this current environment do you think you are getting enough interest from franchises or do you feel that you have to do it on your own the contribution of your retail expansion will be higher this year?

C K Venkataraman: No. The interest is very much there because while the overall sentiment is depressed the opportunity in the jewellery market is so good that it may delay their perceived sales level by six months or so and so. So people are still interested.

Rajasa K: Question on your balance sheet, the increase in inventory end of this quarter as base of sales or as based of cost whichever way you look at it has been going up each year from September to September of each year, what reasons would you attribute to that?

C K Venkataraman: We are investing in inventory to increase sales as well as hoping to increase gross margin that is the background to this and our brands have typically being perceived by the customers to be offering less choice than others because we have followed deep penetration network strategy so we have may be 7 stores in Delhi as opposed to 3 or 4 stores of some other jewelers, while that convenience has helped to ramp up sales faster over the years that small store relative to competition in a way has also made the choice available in that store lower relative to that competition so we have been investing in better choice because of that.

Bhaskar Bhat: We certainly prefer to err on the side of having more products available on display and sales rather than less product because I believe in, across categories particularly in jewellery when you are in a differentiated mode of offer and you have a reasonably high margin you should take that risk.

Rajasa K: Thanks Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question, I now hand over the conference to Mr. Deshmukh for closing comments.

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

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