"Titan Company Limited Q3 FY '17-18 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Titan Company Limited Q3 FY '17-18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. All the representatives of media are Welcome to join the call for the management commentary, and are requested to disconnect before the beginning of the Q&A session. Any recording or reproduction of any recording of this call is strictly not permitted. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. S. Subramaniam, CFO, Titan Company Limited. Thank you and over to you, Sir.

S. Subramaniam: Good Evening to all of you and Welcome to the investor call Q3 FY '17-18. Bhaskar will be joining us very shortly. We have here with us Venkat, Ravi, and Ronnie, and I think we have had a very good quarter. We are continuing our trend of good growth. The numbers to some extent those reflect that because of the primary Retail secondary difference, but I think it has been a very good quarter. Some of the good things which have happened have been the Prevention of Money Laundering Act being suspended and that has actually helped the jewelry sales quite substantially during the quarter. We believe it may come back in a different form, but that should be fine because the limit is definitely going to be higher than Rs. 50,000 that we expected to be last time. As far as GST is concerned, we have very good news again, both on watches and sunglasses, the rate was revised to 18% after a lot of representation by all industry bodies from 28%, so that was a very Welcome move and the same thing happened with the frames as well, from 18% to 12%.

Now, both the divisions, watches and eyewear immediately took a price correction, commensurate with the reduction in the GST rates, so there was a 7.8% reduction in the form of a discount given right away for all products after the announcement and the pricing of the watches will be altered later to comply with the reduced rates. The reported revenue numbers as I mentioned are understated in the case of both watches and eyewear to some degree because of the excise duty equivalent which is getting subsumed now in the revenue component, therefore, the stated revenue growth is much lower than what real one is, and I think we are talking about the actual growth on a like-to-like basis in the subsequent slide. We continue to do very well on the cost optimization front. We are getting good traction on various tax of course particularly in overheads side, so we have added about 73 stores that include the conversion of the **(Inaudible) 3:25** stores about 75,000 square feet have been added so far to date.

Jewelry, very good traction in the wedding jewelry segment. Sections like Padmavati are a very big hit, branch health matrix continued to be strengthening in fact it is getting better. The base last year was very, very high and that was because we had possibly the best ever Dusherra-Diwali last year for quite some time and it also happens that Dusherra and Diwali happened in the same quarter, so to that extent and this year if you remember, Dusherra did come in the Quarter-2 and of course while there was the one-off event of demonetization, the effect of that on

Tanishq was very, very minimal because we still ended up with a growth of 15% in that quarter last year, so the actual retail growth which is the secondary sales was about 15% in this quarter. The primary growth of 7% was largely because if you remember last quarter we mentioned something like a 250 crore primary sales towards the end of the quarter which was for the L3 channel which was for the season coming up, for stocking of the season, so if we were to take that into consideration then the growth on the primary front also would be close to 15%.

Gross margins continue to be good and about 32 Tanishq stores were added during this period, about 100,000 square feet that includes the conversion of Kotla stores. Watches had a very, very good quarter. The top line growth as indicated in the numbers, the official numbers is 4.7, but if we were to restate them for the excise duty correction, the growth is about 11%, and the best part is that the volume grew by about 11% and it is very, very encouraging to see that happen. This is going to be one of our best figures in terms of volume in very, many years. Fastrack grew about 26%. Our initial debut on the Amazon site is looking good. We have added few stores in WT and nine Fastrack and 18 Helios and so on, so watches is pretty much on a roll, you can see the margins later are really tracking up, so that is good news from the watches division.

The Eye Plus division, the prescription eyewear division did well on the Retail front with a 23% Retail growth and a 14% like-to-like to growth. The problem that we face was on the sunglass business, which continued to decline because of the disruption after GST, very many distributors are continuing to wary about stocking this category and this is a challenge which is the reason why the overall growth for the division is very neutral, about 30 stores were added so far during this quarter. Omni channel we are working, Kathleen has been helping us on that, so that initiative continues. Retail growth as you can see on the chart we have had an 8% World of Titan sales growth, 7% like to like, Tanishq is 15% and 12% like to like, Helios of course did very well, 37%, like to like a 4% is basically because a few stores got shutdown during the year for renovation and so on, so that is the main reason the difference is very stark.

Fastrack continued to do very well 10%, 6% like to like. LFS is doing well, Titan Eye Plus overall 23% sales value growth and like to like of 14. Company as a whole, 7% top line growth, but profit grew about 22%. As I said earlier, gross margin improvement clearly is there and we have had significant cost efficiencies coming in and of course operating leverages kicking in big time with the top line growing quite well. The PBT margin continues to be over 10% for the quarter, overall 10.7 and we think we should end the year around that level. I think we could possibly go to Q&A now, the numbers are there.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Sir, just wanted to understand this third quarter performance would you still reiterate or retain your guidance of 25% jewelry sales growth in this year or does this kind of suggest any risks to that guidance especially because the implied growth rate for 4Q is a little stronger despite an adverse base for 4Q?

C. K. Venkataraman: The nine-month growth rate is in excess of 25%, it is close to 29%, and Q3 is 15% because last year Dusherra was in October and this year Dusherra was in September, so despite that the month of October, we ended up on a flat note which is pretty good and November and December we were in excess of 30%, so that average is 15 whereas nine months is 29 and so we are staying on the 25% for the year.

Avi Mehta: November-December is 30% growth?

C. K. Venkataraman: Yes, because this year the entire Dusherra sales went into Q2 and also the other complication Avi is the PMLA was introduced in the last week of August, from the last week of August till October 5th when the government suspended it, the sales were pretty bad.

Avi Mehta: But November-December is more like to like comparison during the quarter?

C. K. Venkataraman: Correct, November-December we are in excess of 30% and January is not in that league, but pretty good.

Avi Mehta: Sir, the second was on the watch side, you have seen margins at 12.6, now while you know the headline numbers are where they are, would it now be fair that the concerns on watch margin which we have seen last year are more or less behind us because of the VRS scheme and we are moving to a more superior margin profile over there and kind of closing…?

S. Ravi Kant: Yes, it certainly is heading in that direction of being in the whereabouts of 10% to 12%.

Moderator: Thank you, Sir. We have the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Sir, first clarification, Subbu you mentioned in your opening remark 250 crores was the impact of L3 primary sales whereas the presentation says 170 crores, so what is the difference, sorry?

S. Subramaniam: 270 was the sales that we made in last quarter, net adjustments after this end of the quarter could have been 170, that is what I meant. We had mentioned that also, we had reported that about 250 crores of sale we had made more, so that was the primary, that is what I meant.

Vivek Maheshwari: Sir, this quarter on a like-to-like basis we just need to add 170 crores to get to an underlying number?

S. Subramaniam: Right, 170 is the number if you add.

Vivek Maheshwari: Second, how much will be exchange in this quarter?

S. Subramaniam: 40%.

Vivek Maheshwari: Lastly, custom duty what I read today was on diamond was hiked from 2.5% to 5%, so that will be a net cost for you?

C. K. Venkataraman: Most of the diamonds are made in India, 80% of the world's diamond are manufactured in India, the kind of diamonds we buy are those, this would be larger than which come into the country, we are not too much into that and whatever is that we will pass it on in any case meaning wherever it is relevant like we do buy some Solitaires from Israel, for example, it will get passed on so there is no impact.

Moderator: Thank you, Sir. We have the next question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy: Sir, my first question is on store expansion, if I see in Helios you have added 18 stores YTD which is almost one-third of the total stores, so very sharp expansion, but when I see like to like, it is just 4% number, so is it not very aggressive expansion and on the other hand in Mia for the last five quarters there is no expansion at all, so if you could address both the questions?

S. Ravi Kant: Talking about Helios, you are absolutely right, there has been rapid expansion because those opportunities came up, some of them were opportunities for both World of Titan and Helios. As a combined store, it is just a niche product and those locations were just apt for Helios and we have seen a very good growth in Helios given the growth that we are getting in a lot of our on the one hand Swiss brands that we have got as well as the fashion brands that we have added there. The 4% like to like is also subdued on account of, I think, Subbu mentioned this earlier that there were some stores closed for renovation, and therefore, the like to like, so I would say 8% to 9% would be the steady state as of now for Helios if you were to take out the expansion.

Bhaskar Bhat: The other larger point about Helios expansion is the following which is watch market to make it grow, one of the thing is to make watches and visible and accessible in certain formats, we are seeing a very clear segmentation between the Helios customers, the large format store customers, the World of Titan customers, they do not visit each other so just because there is a World of Titan store in a certain location does not mean you will, so this is our strategy to expand our reach for multi-brand store and therefore gain market share, so therefore it does not matter whether it is same-store sales, growth in the management of profit whereas expansion is expansion for growth.

Abneesh Roy: Sir, FY '19 also would Helios see sharp expansion?

C. K. Venkataraman: Not this time, may not be this time.

Abneesh Roy: Sir, if you could address Mia last five quarters no expansion at all, in fact it has come down from 32 stores it is down to 30 stores in five quarters?

C. K. Venkataraman: We have not been able to establish a certain base level of sale for Mia yet, and there was also some issue to do with that terms of trade that we were offering to potential franchisees. The second thing has been corrected recently and the interest is now rising and we hope to step on the gas and actually secure a much higher level of expansion in FY '19.

Abneesh Roy: Sir, my second and last question is on Fastrack, this is a brand which has been a more challenging business for you, you have reported Fastrack watch is 26% volume growth, but when I see Fastrack like to like, it is just a 6% growth, so if you could?

C. K. Venkataraman: I think that is only the stores, Abneesh, that is only for Fastrack store is the Retail channel, Fastrack brand sells through many channels, Fastrack stores it sells through large format stores, it sells through World of Titan and one of the biggest drivers of that growth in this year is the e-commerce channel, it is doing extremely well, the e-commerce channels in all the Flipkart and Amazon that we partner with.

Abneesh Roy: No base effect in this, so if that Amazon and Flipkart thing which obviously will continue, so is this a structure growth you are calling out?

C. K. Venkataraman: The 26% growth let me say e-commerce it is an added channel, it will not be sustainable going forward 26% to 27% kind of growth, but the brand is certainly seeing resurgence, so we were struggling for growth in Fastrack couple of years ago. Certainly, the brand has come alive once again and we should be growing at I would say what at least 10% to 15% during the coming year.

Abneesh Roy: Sir, one small follow up on Skinn, that is one new product category which seems to be doing well, any numbers you can share, I understand this is a small category, but you are advertising also on that and you have called out in your presentation also, so any numbers you can share?

S. Subramaniam: We would end up new city turnover of about 90 crores at the end of the year, I think a million units of 80 to 90 crores, 60 odd crores on the book. It has become the number one brand in the three store formats which is Shoppers Stop, Lifestyle, and Central. That is where we are, potential is very large for number growth and it is brand which can give us access as Titan. We have also just about launched Body Mist, so I do not know what other numbers you would like to look at.

Abneesh Roy: Sir, is this as per target and how are the margins on this, is it obviously margin accretive?

S. Subramaniam: Right now, it is a good gross margin business, but we are still importing the juice and there are steps to internalize which is bottling and so on, because all of which will accrue but we still need scale of about 300 crores to begin to make money.

Abneesh Roy: When do you see that happening?

S. Subramaniam: Three years.

Moderator: Thank you. We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: Sir, on the jewelry division just wanted to understand how was the pace of market share gains during the quarter, both in terms of your gains in the wedding and high-value studded which is internal, and second on the market share gains from the unorganized?

C. K. Venkataraman: Amit, the drivers of our long-term growth continued to kick in, so the bridal category outstripped the non-bridal in gold, so high-value diamond jewelry outstripped the daily wear diamond jewelry in diamond and our sense from the ground is that our sales growth of Q3 was higher than most brands across the country. Our acquisition of new customers continues to be strong, in fact YTD, the new customer growth is higher than repeat customer growth. New customer ticket sizes are higher than repeat ticket sizes, and therefore, we are clearly seeing migration at the middle and the higher end from rest of the jewelers.

Amit Sinha: Sir, my question was more from the perspective as in we all know that you have been outperforming others and the growth in wedding and high-value diamond is significantly ahead of rest of the segment, but I wanted the comparison, let us say compared to first and second quarter and how it has been in the third quarter, whether the pace has continued because what we gather from some of the channels is that some of the unorganized have got back after three or four months in the GST regime, so please comment on that?

C. K. Venkataraman: I understand but it is a little difficult to distinguish so much quarter by quarter, I am saying that the basic, for example, the new customer growth outstripping the repeat customer growth is a sign of market share gain and that is continuing in Quarter-3 like in Quarter-1 and Quarter-2, now the extent of that may vary, so to that extent the rate at which the market share gain is happening maybe less or more in a quarter, but the secular trend continues and that is what we are looking at.

Amit Sinha: Sir, secondly on the gold plus converted stores, how has been the response there and is it the run rate is basically satisfying your internal benchmark?

Bhaskar Bhat: Yes, it is quite satisfying and particularly in the diamond jewelry category and even more stores in the high-value diamond jewelry category, we are seeing good traction for the converted stores and we also have a program to focus on those 25 over the next 18 months to really make sure that each one performs to its potential, but overall we are satisfied with the current performance.

Moderator: Thank you, Sir. We have the next question from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Sir, can I come to jewelry revenue for Q3 once again, please correct my understanding, you have written in the release that 170 crore sales were done to L3 this quarter, is that the correct understanding or is this the lower by that?

Bhaskar Bhat: 170 is the primary sales is lower, that is the point compared to the secondary sales.

Amit Sachdeva: 170 was lower compared to the secondary sales?

Bhaskar Bhat: Yes.

Amit Sachdeva: Just trying to understand when I look at the commentary from the release and the last quarter when we had a conference call, some commentary I do not know trying to make sense of it that if I remember correctly, Venkat had sort of commented that from September 21st to October 21st which was the large part of festive period you have seen about 15% jewelry growth which perhaps would include large part of the base of October as well, which was very high last quarter and now when we hear that October was flat, is it little bit, so I am just trying to make sense of it how to sort of reconcile the two statements?

C. K. Venkataraman: I think September 20th to October 31, 2017, finally ended up around 12% growth, but October 1st to October 31, 2017, was flat whereas November 1st to December 31st is plus 30%, so that is plus 30% for two months and zero for the first month of the quarter translates to 15% for the quarter overall.

S. Subramaniam: The base also of October last year if you remember we had mentioned 55% was the growth of that month, Dusherra-Diwali so being flat on a 55% growth is the previous year.

C. K. Venkataraman: Amit, what you are recalling is from September 20th to October 21st, something you are mentioning, correct?

Amit Sachdeva: Correct.

C. K. Venkataraman: Whereas I am talking about October 31st, so September 20th to October 31st, 40 days Dusherra-Diwali period our growth rate was 12, which must have gone in from the 15th that you are describing which is 30 plus days out of the 40 days.

Amit Sachdeva: Second question, very quickly on the jewelry side only the diamond promotion, I have seen Q4 which is going on and I noticed that you have expanded the discount of 20% to 1.5 lakh ticket size this time down from 2 lakhs which was in the last season, how that price shift has responded and has it helped you in increasing the ticket size, can you give us some flavor of how the studded promotion is actually going in the light of that change?

C. K. Venkataraman: I am not directly familiar with the impact of that particular change on the promotion, but the promotion itself is doing to plan, meaning the total sales that we have targeted for the month of January we have achieved, so the promotion has been very satisfying, I do not have a direct answer because its operating aspect which I am not directly familiar.

Amit Sachdeva: But what I am saying is if you could reflect like what is the ticket size typically for the diamond jewelry is and what sort of ticket sizes that you are seeing in this promotion days, I am just trying to make a sense of whether that some shift in pricing has?

C. K. Venkataraman: I understand, it is just that I am not into that understanding at the moment to respond. Normally, the ticket size is right and certainly because of, we have what is called a bundling offer whether discount prices with the ticket size and typically this we started three or four activations back and typically it has pushed up ticket sizes, I am sure the same thing has happened now as well and I know that this is the best month of diamond sales ever.

Amit Sachdeva: You are saying this is the best month ever?

C. K. Venkataraman: It is quite satisfying, but those specific metrics I am not able to answer you at the moment.

Amit Sachdeva: Just last bit, can you share the expansion plan for Tanishq stores for FY '19, I would assume that you had mentioned that next year you would like to accelerate the store expansion which has been little on the softer side last year, can you share some ideas about how we should see the expansion plans going into the year?

C. K. Venkataraman: The actual expansion plan for FY '19, we will share it at the investor meet that we will have I think in May or whenever, but FY '18 we are likely to be pretty close to 30 stores, the highest ever and much more than FY '17 in any case and surely the ambition for FY '19 is larger, but we are just in the process of analyzing that and we will be ready to share it a little later.

Moderator: Thank you, Sir. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: Venkat, I have just a question on the wedding jewelry, is that you used to make a comparisons that how has the wedding jewelry growth been versus studded over this quarter?

C. K. Venkataraman: In the quarter?

Abhishek Ranganathan: Yes.

C. K. Venkataraman: In the quarter, actually like I said the bridal within gold is running ahead of non-bridal and high value diamond jewelry is running ahead of daily wear diamond jewelry, so that is the first and important long-term trend which is continuing and I think the high-value diamond jewelry did better than gold in Q3.

Abhishek Ranganathan: Is there some seasonality associated with this particular thing because wedding has to be, given that this has not been, generally it is not a studded promotion quarter and you have done better in the studded than in wedding, is there any seasonality element which we have to read into or which might get reversed or converge over a period of time?

C. K. Venkataraman: No, actually multiple factors are at work here, the sentiment around gold in a particular quarter because of the price also determines where customers are moving in the direction of gold or in diamonds and we are continuously expanding our presence in the studded categories, particularly high-value studded category, we launched a collection called Glitterati which is a cocktail line of diamond jewelry and it did reasonably well and added to the overall choice for customers so it is just a greater and greater inroads that we are making into that segment.

Abhishek Ranganathan: Just a related question to wedding is that in terms of little slightly longer-term trend is that where do we see where we are in terms of the returns which we are getting out of the wedding jewelry inventory in our stores and where do we aspire to be?

C. K. Venkataraman: Sorry, could you just repeat that, where are we in terms of…?

Abhishek Ranganathan: Where are we in terms of the throughput or turns which we are getting on the wedding jewelry inventory today and where can we get to?

C. K. Venkataraman: As our current purpose is actually delight the customer with a choice that we are offering and not worry so much about the turns because we are making up for a lot of years of not operating in this segment, and therefore, particularly wedding segment turn is not an objective, but it is a phased growth, but the overall turns for the year are actually better than last year and therefore we are satisfied with the overall the result on the turns.

Abhishek Ranganathan: But where do we think we can get to, where are we, are we halfway through the journey, are we scratching so much, where are we in the journey?

C. K. Venkataraman: I think the real turn improvement in the wedding will come maybe in FY '20 because we would have by then saturated the stores, we are actually building two or three different categories of stores, for example, something like South Extension we would say almost best-in-class when it comes to choice whereas CP in the same Delhi city will be not so best-in-class, Kamla Nagar may be at the third level, so when we lift Kamla Nagar and CP to higher level, you would have much better traction on sales growth and then the turn will follow.

Moderator: Thank you, Sir. We have the next question from the line of Nilesh Shah from Morgan Stanley. Please go ahead.

Nilesh Shah: Just one question from me, how do I think about operating margins in the jewelry business in context of two or three things, one is the obvious product mix improvement that is underway, second is the cost control that you had on your own, and third is the GST benefits in a certain line items at the operating level. Last quarter, we did about 13.6% margins, we have come down to 11% at this point in time, so how do I think about the drivers for margins going forward?

C. K. Venkataraman: It was actually the sales growth which was exceptional in Q2 because of the season changes between Q2 of FY '18 and FY '17, in a way the contrast that is just happening in the Q3 of FY '18 because the 250 crores that Subbu spoke about and which we did in Q2 and the 170 short which we did not do in Q3, so the Q2 was superheated margin and Q3 is suppressed also because of Q2, so I would look at more nine months rather than between Q2 and Q3 numbers.

S. Subramaniam: I think Nilesh we mentioned this even last time very clearly that 13.6 was an aberration of that one-time.

Nilesh Shah: Basically, based on Venkat's comment somewhere between the 11% and 13.6% range is where we can assume things to be as long as the sales growth continues to be in the ballpark that you are looking at, fair comment?

C. K. Venkataraman: Yes.

Moderator: Thank you, Sir. We have the next question from the line of Jay Gandhi from HDFC Securities. Please go ahead.

Jay Gandhi: Just couple of questions, in your annual report I was reading that you maintain a certain hedge ratio to assess the effectiveness of your hedges, therefore, I want to understand does this ratio materially change from time to time?

S. Subramaniam: In the annual report, we have mentioned …I think we have tried to explain this in some of the calls, it is a little complicated technical subject, I will take it out separately, may be that call I will take.

Jay Gandhi: Also Sir, you mentioned that 40% is exchanges, I am assuming that 60% is gold on lease, right?

C. K. Venkataraman: It is also on spot and gold on lease.

Jay Gandhi: Pardon my naivety, Sir, just wanted to understand how big is the imitation market and how has that moved over the last four to five years?

C. K. Venkataraman: Imitation market?

Jay Gandhi: Yes.

C. K. Venkataraman: I have no idea.

Jay Gandhi: I am just trying to understand can it be a substitute to one of the categories that you kind of cater to?

Bhaskar Bhat: No, we have very different customer segment, I think earlier also gold in India is so fundamental, I think it has appeared in the budget, is that the reason why you are asking this, imitation?

Jay Gandhi: Yes, Sir.

C. K. Venkataraman: We have no clue about the imitation market, so it is that small.

Bhaskar Bhat: We are genuine.

Moderator: Thank you, Sir. We have the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Just one question only for Venkat here, given the changes in the regulatory landscape particularly the mandatory hallmarking etc., is there a realistic opportunity in the real medium-term which is three years or even five years, actually have in a small store concept to essentially cater to the relatively lower strata of the population because otherwise the modern now is that Tanishq is aspirational so as consumers move up in the income chain, obviously they will come to you, it is like that even to happen, is there an opportunity for you to actually have, it could be a differentiated brand, I know that you tried gold plus earlier, maybe for different reasons, is there a bigger opportunity sitting there?

C. K. Venkataraman: It is a very complex question, Manoj, I would not be able to answer this so easily. The other big thing, we as a company we are very good at what we do in Tanishq and what we do in Titan and like that and it requires a very different kind of mindset to operate in the budget market which is what you are somewhat describing and to make money which is comfortable to the kind of returns this company delivers, so it is not a thought on our mind and the compulsory hallmarking in any case make it even better a Tanishq because the price differences in many markets where the gold purity move up, the price differences will reduce and customers will find Tanishq more attractive in any case, so at the moment there is no budget brand in mind.

Manoj Menon: Out of the, let us say 600 tons of gold which India imports, if I remember correctly last number I saw was around may be hundred times the bullion, which probably means somewhere around 500 tons is actually the jewelry consumption, correct me if any of the numbers are wrong, so how big is this market, it could be a rough estimate is it like 20%, 50%, the BOP, Bottom of the Pyramid market?

S. Subramaniam: But Manoj, there is an increase in exchange, so you have to add that, significant increase in exchange about 30% to 45% of the market is exchange, our own figures are growing.

C. K. Venkataraman: It would be I expect some 40% to 50% of the market, forget the Tanishq for a minute, of the total market would be the kind of market you are describing, so if we take a brand like Waman Hari Pethe in Mumbai, a Senco in Kolkata, GRT, maybe even Alukkas, certainly GRT in the South, Lalitha these are the budget kind of strong brands, so they may be in the 40% to 50% of the country.

Moderator: Thank you, Sir. We have the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: In terms of size, how big is bridal jewelry and high-value diamond jewelry for you now, I understand it is growing at a faster pace, but in terms of size how large it is for you in terms of contribution?

C. K. Venkataraman: It is in the 20 percentage to total of gold and diamond respectively, in the 20% to 25% range.

Kunal Vora: Second question, Sir, on GST rate on polished diamond like it was recently reduced in January, I believe it largely impacts the exporters but just wanted to check if it impacts your business in anyway, the lowering of duty?

C. K. Venkataraman: Not really, I said it will be better from a cash flow perspective because 0.25% on input.

Kunal Vora: Lastly, can you share the numbers on Golden Harvest, how it is doing now?

C. K. Venkataraman: It is continuing to do well, I think the sales from Golden Harvest would be about 17% to 18% this year.

Kunal Vora: Similar to like last quarter, I think you mentioned 18% last quarter as well, so similar trend?

C. K. Venkataraman: It will be marginally I think, because every month is a better month for enrolment historically and as we speak also every month, but in that ballpark.

Moderator: Thank you, Sir. We have the next question, a follow-on question, from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Sir, I missed the margin range that you had kind of indicated to the earlier question, the range that was indicated for jewelry segment margins?

C. K. Venkataraman: What I said was that the margin of Quarter-2 was superheated because of the non like-to-like situation and the advancement of the L3 billing which was part of the sales issue and it was very high because of that and whereas the Q3 is like a more realistic, I talking about person Jay, who did would it be safe to assume somewhere between these two, I said, yes.

Avi Mehta: Okay, this is a more normalized number. Sir, now in that sense just a follow up on it, now if I look at the like to like or you know adjusted the 170 crores, you are close to about 15% kind of growth, now you said that 30% or 20% plus is where you are seeing January or what probably steady state, how should I look at going forward basis given that the market share gains from unorganized have kind of come in, would you argue that the 20% CAGR is now that you have gone 25 it is kind of start moderating from here on, how should we see that now, Sir?

C. K. Venkataraman: I think two quarters back on a call I think Manoj had suggested front loading of the, he had hypothesized that the front loading of the growth, so I said yes, which means 25 for FY '18 and FY '19 and then it starts tapering off, so we are running to that plan now, we are at 29 for nine months which is in excess of the 25 guidance that was given in a way, but within the nine months it is a little bit, it is not exactly the every month because we had a big PMLA intervention in August and September because of which the Diwali season was only 12%, but November and December like I said has been excess of 30% and December is in excess of 20%, it is some 22% or 23%, but 20 or 23 is still around 25, so it is not like substantially lower than that 25 also, therefore, we are confident of delivering 25 for the year and we are working towards delivering 25 for FY '19 also because that is the overall figures.

Avi Mehta: Sorry, 25 for FY '19 also is what we would at least?

C. K. Venkataraman: I am saying that is overall guidance, we confirm it when we speak later, just giving a perspective because you are asking about slightly medium-term plan.

Avi Mehta: Last quarter you had indicated we would focus on sales growth over margin expansion while you know this quarter has been healthier both the fronts, is it more operating leverage based play or more product mix related thing that you are seeing the margin expansion, basically I am trying to understand is this margin expansion more a customer evolving because it is lateral kind of driving this growth, that is why?

C. K. Venkataraman: It is actually a combination of things, margin expansion because of product mix, margin expansion because of pricing, margin expansion because of control on costs, costs also can be tightly managed.

Moderator: Thank you, Sir. We have the next question from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Just two questions, firstly, if you could give a sense on what is the growth differential like between the high-value and bridal jewelry range and the adornment kind of a range for you right now?

C. K. Venkataraman: High-value and daily wear diamond jewelry is about I think 5 to 7 percentage points and between bridal and non-bridal it is about 4 to 5 percentage points.

Harit Kapoor: If you could just also comment on the health of the unorganized players I mean, it has been about six months now and I know for the last two quarters you have said that they are facing significant challenges, would you still remain in the same comment?

C. K. Venkataraman: I think our assessment made about a week back about the Quarter-3 performance in many of the South Indian markets confirm to us that performance, our growth in Q3 has been substantially higher than virtually everybody else barring two or three major players who also of course less than us, but marginally less than us whereas most others grew substantially less than us.

Harit Kapoor: Just a follow up on that, the South markets we had seen in the past may be two or three years back that there were certain pricing pressures in terms of making charges etc. and the promotional intensity or the making charge led intensity was very high, in the last few quarters because of what has happened on the regulatory environment, are you seeing some of those pressures abate with the regional guys also?

C. K. Venkataraman: Actually, I have been seeing that recent three weeks back very large national change, but substantially South based, full-page newspaper I think 3% making charges starting, so very clearly sales pressure, that is a brand is actually known for design and pushing design as a strategy rather than price, so there the sales are under pressure and therefore, they are pushing price to growth.

Moderator: Thank you, Sir. We have the next question from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Sir, two questions, firstly as a part of your store expansion strategy, how much of the expansion do you think would come through franchising route going ahead, asking the question just to understand if there is any collaboration opportunity if a local jeweler shuts down?

C. K. Venkataraman: Actually, Prasad, 90% plus I would say may be even 95% of our expansion FY '19 will be franchise. Even this year, I think about 85% to 90% is franchise.

Prasad Deshmukh: What is the profile of the franchisees?

C. K. Venkataraman: Similar to the current franchisees, we have not expanded our thinking to include jewelers because we are not keen to do that, the properties may become available because jewelers are now becoming getting into a tight spot, but taking on a jeweler as a franchisee is not in our consideration at all.

Prasad Deshmukh: Second question is on the Favre Leuba brand, what is the, is there any update in terms of scaling up the brand in India, I know it is available online through I think Ethos watches and so on, but is there any direct distribution that you may be starting here?

C. K. Venkataraman: Now, we do not have plans of distribution, it is a fairly exclusive brand, so the good news is that it is beginning to pick up and sales are growing over the last couple of months, but it is right now in about five to six stores and it is likely to move to, we will add about three to four stores in the coming let us say six months, but not beyond that, there are no plans of distributing Favre Leuba.

Prasad Deshmukh: Not through Helios also?

C. K. Venkataraman: The three or four stores that I was referring to are likely to be Helios stores over the next six months.

Moderator: Thank you, Sir. We have next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: Sir, this is regarding the number which you gave as to FY '19 of 25% growth and it will tapered down, a question I have here is about tied up with the network expansion and where we have hardly seen any kind of space addition in terms of net space addition in the jewelry business this year, are we possibly underestimating the potential of what kind of tailwinds the network expansion can give us because so far what we have achieved and what we will achieve next year also let us say 20% or 25% growth, it will be largely same store given the fact that network addition this year has not been much, next year if we add will not start contributing immediately as margin, so wanted your thoughts on this?

C. K. Venkataraman: The substantial emphasis in the 2.5X is on like same-store growth actually, Abhishek, and despite the fact that we are likely to add a large number of stores in this period, the 2.5X we are looking at some 16% to 17% CAGR for the same stores, so because of the market share gain opportunity is sitting around each store in wedding, even today, out of the 29% growth YTD, there are something like 24% same stores, so the expansion opportunity is large, but it is also an execution challenge. This year is much better than earlier year, next year is certainly going to be even bigger, so whether we are underestimating the 25, I do not know yet, that we will talk about it at the right time, but the 25 certainly we are gunning for next year as we discussed in the earlier five-year review.

Abhishek Ranganathan: Just other question I wanted to ask on the franchisees that will we be seeing increasingly higher share of franchise stores than historically, historically, we had been one-third approximately on L1, L2, and L3, would it be any different say two or three years down the line?

C. K. Venkataraman: In terms of numbers, certainly; in terms of sales, I am not too sure because our biggest store today is growing fastest almost I can say, so our South extension I will not give you the figures but just as a concept, our South extension store in Delhi is our largest store and its growth rate is among the highest in the country, so the opportunity for big L1 stores is even larger, so the place share may not dilute that much, but the number share will be.

Abhishek Ranganathan: When you said opportunity, are you saying for the existing or even adding new L1 store?

C. K. Venkataraman: No, I am talking about existing, expansion will not be so much into company stores, but each of these large company stores can grow at a very healthy rate.

Moderator: Thank you, Sir. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Bhaskar Bhat for closing comments, over to you, Sir.

Bhaskar Bhat: Thank you all of you for listening in and we look forward to meeting you again after the end of the year, but we look forward to one more good quarter and many more years of engaging with you. Thank you for being with us and staying invested and staying interested.

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