"Titan Company Limited Q1 FY 2017 and 2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Titan Company Limited Q1 FY2017 and 2018 Earnings Conference Call. 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. All the representatives of the media are welcome to join the call for management commentary and I request 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 * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhaskar Bhat from Titan Company Limited. Thank you and over to you, sir.

Bhaskar Bhat: Good afternoon, everybody. Thank you for joining us on this call for the quarter one FY 2018. As you would have seen the numbers that have been uploaded, we have had a good quarter, 43% topline growth, and backed by all-round growth in all the formats, and of course, particularly in Jewellery, which has had a 55% growth. Of course Akshaya Tritiya was in this quarter, and so was the anticipated GST which surged sales up during the second half of June. Thereafter there has been some adjustment in July which is kind of, while the YTD growth rate is still good, there has been advancement of sale into June from July and we will talk about that a little later. And bottom line also has had a 40% plus growth.

So we go straight into the questions rather than go through anymore because the presentation has been uploaded on the website. Please go ahead with your questions.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Mihir Shah from Deutsche Bank. Please go ahead.

Manoj Menon: This is Manoj Menon here. Few questions on the Jewellery business. One, there is a line item in the presentation, which talks about a 250 crores number in Jewellery revenue. So are you saying that this is the one-off element all quantified, so what I am simply trying to understand is 3,300 crores of reported revenue, so should I see 3,300 crores minus 250 crores on the base of last year. Is that the right growth number we should look at?

Bhaskar Bhat: Yeah, Manoj.

Manoj Menon: Okay. So, this includes the 15 days in April, includes the June preponement, basically all one-off, the way you have defined it.

C.K. Venkataraman: What is 15 days in April?

Bhaskar Bhat: No. This is the GST impact. 15 days in April last year, the right one.

C.K. Venkataraman: Let me just clarify, I mean elaborate. Because of perceived tax savings, if they bought in June, many high value customers appear to have advanced their purchases from July and maybe August into the last 10 days of June, which give us this huge peak in that period. And the growth rate was exceptionally high for those 10 days. Our estimate when we closed the month was about 250 crores which is starting to be confirmed as end July. So therefore, you are right, you need to subtract around 250 crores for computing the right growth.

Manoj Menon: Understood. But any sense on, if we have to adjust those 15 days in April, how does the…?

C.K. Venkataraman: What is the 15 days in April, I don't understand. You are talking about last year FY 2017?

Bhaskar Bhat: This was already factored in this thing, right? We knew that it was an event which has gone.

C.K. Venkataraman: No. He is saying therefore the growth is even for the….

Bhaskar Bhat: No.

C.K. Venkataraman: No, it would be too much of frankly worrying about kind of thing.

Manoj Menon: Understand. No, Venkat the reason I asked because, last quarter you were very helpful in throwing a number of around 30% - 31% as the underlying growth, adjusting for the March base. So I am just looking for a similar number if there is any?

C.K. Venkataraman: At the moment, there is no. Well your point is right. There was a depressed first fortnight of FY 2017 April, yes, what you are referring to, but we were not really focused too much on that. And my suspicion is that these 250 crores is a larger item in the reconciliation than whatever that was.

Manoj Menon: Okay, fair enough. Secondly, Venkat, now that the market share gain thesis hypothesis for the organized industries playing out well, probably now there will be a shift in terms of more product orientation at the organized industry level. So what I was trying to get it was if you could comment little bit about your customer growth, your historical retention ratios, how it is trending now, etc.?

C.K. Venkataraman: The customer growth was very good in Q1 at about 30%, and we will have to deflate that 30% to some maybe 24% or something like that taking into account this GST advancement that we spoke of. So 24% customer growth and about I think 10 odd percent ticket size growth would be the true picture for the quarter, maybe a little more ticket size growth. So 24% customer growth is very handsome, and we are also seeing an improvement in the share of new customers in the quarter compared to Y-on-Y. Customer ticket size is also pretty -- new customer ticket size is also pretty decent, confirming that we are now directly gaining customers in the wedding and high value diamond jewellery spaces.

Manoj Menon: Understood. And what would be your estimate of the current run rate of the customer retention ratios?

C.K. Venkataraman: We did about roughly half-and-half. 50% of our sales comes from existing customers and 50% from new customers.

Manoj Menon: And has it improved in the last year or two?

C.K. Venkataraman: Yeah, Y-on-Y, it is couple of percentage points high.

Manoj Menon: Okay. And secondly, and I will come back in the queue after the second question, is on the gross margins. How do I look at the gross margins at an overall company level is what I can see here, because the mix in jewellery is largely the same. So is it discount-led or if you can throw some light on the gross margin bit?

C.K. Venkataraman: The gross margin in the jewellery business, in the gold jewellery business is slightly lower than last year because of significant growth in the wedding space as it was planned and as it has been achieved, but it is on plan, nothing to frankly elaborate on. The gross margins on the diamond jewellery business continue to be healthy and as good. And therefore the overall gross margin is pretty close to the plan for the quarter.

Manoj Menon: Understood. So if I understood correctly, it is essentially the higher proportion of 75 grams and above purchases which is also driving the ticket size increase as well?

C.K. Venkataraman: Sales growth, ticket size increase and marginal gross margin depletion.

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

Avi Mehta: I just wanted to understand the GST impact. Now it is kind of been a month. How has the unorganized industry in Jewellery and how has the Watch segment behaved, both of these segments especially in the Watch side as well because the tax rate is going up, is there a pressure there in as well?

S. Ravi Kant: Okay. This is Ravi here. Obviously the Watch segment has been hit lightly slight because of higher GST rate. What we are doing is, as you know we are widely distributed and we have about 8,000 dealers across the country. We are helping a whole lot of dealers enrolled themselves on GST, where certainly a lot of our channel partners have concerns because their margins are getting diluted on the higher tax impact. We have told them that we will take care of their margin drop to the extent possible, and offered some support in this quarter. And we have not announced any increase in terms of trade, but this is something we will have to navigate because we are in the process of understanding all implications including, excise duty benefits, etc., which I think we will have by the end of this quarter, so by September end. And if any change has to be done, we will do that October onwards and see how much we can be made out of price increases or increase in sales. That is where it stands right now.

Avi Mehta: Okay. On the Jewellery side, sir, especially the unorganized side?

C.K. Venkataraman: It's too early, frankly to observe anything yet. Everybody is gung-ho about the prospects of the organized sector, but on the ground it is too early for us to observe anything.

Avi Mehta: Okay. And sir, the Gold on Lease versus purchase of gold, you have indicated that the Gold on Lease was higher. How is that kind of playing out right now, is it Gold on Lease continuing to be the higher thing? And related is that the reason why you have seen a sharp increase in corporate income? If not, what was the reason?

Bhaskar Bhat: Yeah, I think, Gold on Lease is the primary mode of purchase of gold, other than exchange. Exchange, as we mentioned, last few quarters has gone up substantially. This quarter also it is around 45% of the total gold secured, but of the balance 55%, most of the gold that we have bought is on lease.

Avi Mehta: 45% is the exchange number now, sir?

Subbu Subramaniam: Yeah, because we ran an exchange program which was very successful.

Avi Mehta: Okay. And so, we are just continuing, is this the steady rate that we should kind of look at, or you think it's too…?

Subbu Subramaniam: It seems to be between those numbers, whenever we do a program on exchange. It does go up substantially. So, I don't know whether this would be the average, but I would think between 35% and 40% should be possibly the average.

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

Amit Sinha: Sir, in the Jewellery segment, what part of the growth and the adjusted growth, I mean would you assign to the improvement in the macro after especially the seventh pay commission has reflected in the last two quarter data from the World Gold Council? And how much would you assign to your market share gains through various initiatives especially in the wedding and the high value diamond jewellery?

C.K. Venkataraman: So, it will be impossible to slice it like that. All we know is that the conditions in which we operate have improved owing to the points that you are making. And the strategies on wedding, high value diamond jewelry, Golden Harvest, increased enrollments in FY 2017, expansion of stores and market share programs in 20 cities are the 5 big ticket programs that we are building on for the next five years and we have executed whatever we planned very well in the first quarter. The conditions are good, so the results have come. Now to separate 10% of that came because of pay commission and sudden gain would be impossible.

Amit Sinha: Sure. And you also talked about the adjustment in July. So, I mean the quantum of the adjustment which you have seen in July, is it in line with the 250 crores number which you have mentioned or…?

C.K. Venkataraman: Yeah. It is pretty close, even though it may not exactly match in reality, but it is pretty close.

Amit Sinha: And the last question is, you have alluded to this that, you know it's too early to decide. But according to your expectation, what should be the logic for the market share gain in the GST regime. Will it be more on account of price differential coming down or will it be more on account of customer now being more conscious about dealing with the irreputable jewelers?

C.K. Venkataraman: The second phenomenon actually started post-demonetization itself. There was a certain fear of dealing with disreputable jewelers that started kicking in. So, we have been seeing effects of that from November 8th itself. The first one is going to make the operations of the unorganized sector very difficult, and even the cost of doing business higher. So we certainly expect prices to go up, unbilled transaction to become total, and therefore the overall price advantage I think will be in our favor. But even the five-year plan like we reinforced in the conference 2-3 months back, our five-year plan does not really take into account the favorable conditions coming as a result of the GST. Our five-year plans are more built on, the market share gain opportunities in every segment. So this would be either an enabling factor, or a booster depending on how actually things start playing out which we only know as a concept, but this is in our favor. In very concrete terms, we have no visibility.

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

Manoj Menon: Just a couple of more questions on the jewellery revenue. Is it correct that this quarter had significantly higher number of wedding days, let's say, versus base?

C.K. Venkataraman: Yeah, I think so.

Manoj Menon: Okay. No, I know that there is no 1:1 correlation, but I am just trying to get at that the current growth rates of 30% plus is obviously very good, but I am just trying to get it, what is the sustainable, okay, let it put differently. So in FY 2017, you had actually given an aspiration of 15% to 20% revenue growth for the full year, what is your thought process, let's say, for fiscal 2018 and 2019, if you can help us with that?

C.K. Venkataraman: See when we thought about the five-year timeframe, we felt that 20% CAGR was certainly achievable given the market opportunity, particularly in 2 segments, which is wedding and high value. That is what we had announced it as a 2.5X in FY 2022. My own sense is that we could perhaps be a little more bullish on that given the conditions. I don't know, so maybe a 25% kind of thing is possible in FY 2018, and maybe even in FY 2019. Even if I take that 20 CAGR, the 20 CAGR may actually come like a little more like a 25, 25 now and maybe 17, 18 then because the base effect will also play, and current performances are also sort of reinforcing that likelihood.

Manoj Menon: Got it. That's wonderful. And secondly, if you look at June plus July, is it positive if given that this 250 crores preponement and now that July is over?

C.K. Venkataraman: June was a huge month.

Manoj Menon: No. June plus July is it a material positive? I mean, is it a double-digit positive or something like that?

C.K. Venkataraman: Yeah, it is a double-digit, significant double-digit.

Subbu Subramaniam: Yeah. It's significant, but because of May it was not a very great month that way. So I would do a YTD July.

Manoj Menon: Okay. Got it. And how are we tracking, where are we tracking in GHS currently, you know in terms of absolute numbers this point in time?

C.K. Venkataraman: You just want the enrolment?

Manoj Menon: No, the outstanding as well as if you get any other metric, if you can talk about?

C.K. Venkataraman: The share of GHS to sales?

Manoj Menon: Yeah.

C.K. Venkataraman: Every quarter it has been climbing. And so we are on plan. I wouldn't like to say how much at this moment, we will wait for the latter part of the year to share that, but it's certainly climbing and on plan, so it is a driver of growth.

Manoj Menon: Okay, fair enough. And one last thing, from our side, the big unorganized to organized shift is definitely a tailwind, but when I look at the experience of some of the other industries, essentially in India, it's all about implementation on the ground and not just the law. The only thing which I may request you to comment would be that, have you seen on the ground significant implementation; let us say, for example, excise duty by the department. While I have seen some media reports sporadically in some parts of India, in your sense has the execution or the implementation really improved versus the law what is in place?

C.K. Venkataraman: You are talking about in July or over the last one and half years?

Manoj Menon: No, generally. Let me be more specific, so for example while excise was implemented in June last year, so some of my friends in the jewellery industry in Kerala was saying that, looking at the first few months, many large players not necessarily complied to the T until in October, November, lot of excise raids, etc. happened which created the fear and then a lot of jewelers fell in line. So it is all about the execution on the ground. Well, I really don't know what is happening nationally on this, so any comments from your side on what you are picking on the ground would to be very helpful?

C.K. Venkataraman: No, nothing really Manoj. Nothing,

Bhaskar Bhat: So, we are not betting on this, like I said, we are betting more on the market share opportunity and the strategies, rather than the shift. The shift if it comes maybe it is a bonus.

Moderator: Thank you. The next question is from the line of Vivek Maheswari from CLSA. Please go ahead.

Vivek Maheswari: First question again on 250 crores, I am a bit confused, so you mentioned that Rs. 250 crores could be advancement from July or August of high value customers. Does that mean that, so basically are you just factoring in the high value customers over here?

C.K. Venkataraman: Actually all, but a preponderance of high value customers, because the tax saving, the 2% tax saving between 1st of July and 30th of June, is Rs. 20,000 on a 10 lakh product, and Rs. 2,000 on a 1 lakh product. So if I am likely to buy a 10 lakh product on 1st July, it makes sense for me to advance it to 30th June.

Vivek Maheswari: Okay. And if I can ask you how did you arrived at this Rs. 250 crores number?

C.K. Venkataraman: How did we figure this out?

Vivek Maheswari: Yes.

C.K. Venkataraman: We have a rate of growth happening in April, in May, in June, and as the period comes closer and closer to the end of June, there is a lot of activity by other jewelers buy before GST and all that, so in terms of advertisements, in the last 10 days of June. And if you just place the quarter into various periods and look at the growth rates, and you see suddenly a huge hockey stick happening, and then you say I discount that hockey stick rate of growth, and say, normally it would have gone so much, but it went so much, so difference is approximately 250 crores.

Vivek Maheswari: Okay. Because even if I adjust this Rs. 250 crores basically then also growth is upwards of 40%, obviously there was a base issue also, but 40% still is adjusting for this a huge number then.

C.K. Venkataraman: Yeah, we are very satisfied. You are right, Vivek. Yes.

Vivek Maheswari: I see. And this business associate income of 19 crores, could you just elaborate on you know --

C.K. Venkataraman: No, no, it's an expenditure.

Bhaskar Bhat: It's an expenditure, Vivek.

C.K. Venkataraman: We have a biannual conference where we take all our franchises outside India.

Vivek Maheswari: Sure. And was the timing, should we read anything into the timing, just ahead of GST?

C.K. Venkataraman: See, normally, every year it is in April.

Vivek Maheswari: Okay.

C.K. Venkataraman: Every second year.

Bhaskar Bhat: Every alternate year.

C.K. Venkataraman: Every time it happens, it is in April, with every second year.

Vivek Maheswari: Okay, got it. Second there are these media reports talking about, let's say, governments intend of reducing custom duty from 10% to 2%. That obviously we have discussed it in the past, but I just wanted a clarification. If that happens, obviously overnight the making charges go down in absolute rupees, in terms of rupees per ounce or per gram. So is that a big headwind, would you worry only about it?

C.K. Venkataraman: No. Like any other headwind which has come out of it, we will have to manage. And I am sure the price also drops, the demand can go up. So we will manage. It is an issue that we have to simply manage.

Vivek Maheswari: Basically, it's not a make or break because if you are making let's Rs. 100 and 8% goes away, straight away from your making charges that is a huge hit, 100 becoming 92 and given that bulk of the cost at stores are fixed cost, it's a big delta, right?

C.K. Venkataraman: Yeah, we can actually calculate it and see, we know roughly what our making charges.

Vivek Maheswari: But basically the point is, is this a make or break case, or this is something that can be handled?

C.K. Venkataraman: Not at all a make or break case. Vivek, I think it is an issue, it's an operating impediment that the business has to deal with and overcome, that's all.

Vivek Maheswari: Okay. And lastly quick one, Subbu. Any roll over gains in this quarter, like you had in the base?

Subbu Subramaniam: Hardly any. Actually this quarter is actually lower than last quarter. Last quarter we had actually some gains which was higher than this quarter. I am talking about last corresponding quarter, okay, last two…?

Vivek Maheswari: Yeah, 24 crores you had in the base, yeah.

Subbu Subramaniam: Yeah. That last year, we had a lot of gains because of this and also because of the fact that gold rates were discounted on spot, okay, which is the benefit we didn't get this year.

Vivek Maheswari: So, there is no major RO?

Subbu Subramaniam: So on a base, yeah, I think this is more disadvantageous.

Moderator: Thank you. The next question is from the line of Aditya Somani from Goldman Sachs Asset Management. Please go ahead.

Aditya Somani: My first question is on just the jewellery store openings for this quarter. So it was significantly lower than the full year run rate. So would this mean that you would sort of accelerate openings and was this because there was obviously conversion of 9 Gold Plus stores?

C.K. Venkataraman: No, the conversion of nine Gold Plus stores didn't have anything to do with the under achievement on the Tanishq expansion. It is just that sometimes; it doesn't happen despite our best efforts. We have a much higher emphasis placed on same-store growth for growth. So to that extent, we are not worried about it. It's not impacting the overall growth of the brand. We have better visibility for Q2, and we are more satisfied with what is likely to happen in Q2. And Q3 and Q4 should be better rate of achievement than Q1 has been.

Aditya Somani: Understand. And secondly, in terms of difference between the consolidated and the standalone, does this include any bit of Caratlane now?

C.K. Venkataraman: Yeah, it does. I think we have mentioned it in the reports which have come out, which Caratlane, Favre Leuba, TEAL, which is now our Precision Engineering Division, which has been subsidiarized. These are the 3 big ones, then there are smaller one called TTPL etc. but these are the 3 big ones. So Caratlane is part of that. You are right. And on the P&L of course, it is Mont Blanc**.**

Moderator: Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra: Have you effected any changes in the gold price premium or making charges post GST?

C.K. Venkataraman: Yeah. Not on making charges, on gold price, yes. We have passed on some of the benefits of the input tax credit on that, yes.

Latika Chopra: Okay. And would you be able to quantify how much of that benefit?

C.K. Venkataraman: We wouldn't want to do that, but what is required by law we have done.

Latika Chopra: Okay. And the second one was on, you have recently rolled out an activation in the July month on your diamond jewellery. Would that be affected by the advancements that you saw in the June month?

Subbu Subramaniam: **Appraisals 27.15** that is why the July month is not as good as it would have been because certainly hat category particularly high value diamond jewellery did exceptionally well in the last 10 days of June. And I am sure even if some consumers were aware because this discount scheme is a reasonably well known scheme in the system. Customers know that we do this in July. So some customers may have perceived the advancement as more advantageous than getting the discount in July and they must have advanced. And to that extent the sale in July would be depressed.

Latika Chopra: And you will not consider increasing the duration of this game, right?

C.K. Venkataraman: Not because of this, because finally we are also having a YTD target, right? See actually we had a YTD target which we handsomely exceeded for Q1, and if it affects Q2, it's okay. H1 is what we will see.

Latika Chopra: All right. And just lastly, a quick one on watches. You have registered 11.5% margins in the quarter. Is this a steadier state of margins that one should expect from this division for the year?

C.K. Venkataraman: Actually if you look at the record of margins every quarter, they are very largely on account of 2-3 factors. One is, when you run activation the payouts are high, so there is an impact on margins, overall percentage. The other is advertising spends also lead to that, so it is very difficult to say, what you should look at is, at the end of the year and look at the four quarter average, and I think it is part of the presentation if we were to go back to it.

Subbu Subramaniam: Yeah, Latika, also the Rs. 11 crores spend on the bank; these are all…

C.K. Venkataraman: The last quarter, if I remember was only 2%. So if you just look at a period of four quarters…

Subbu Subramaniam: In watches particularly I think you have to look it on an annual basis.

C.K. Venkataraman: Seasonality, activation, ad spends which are actually linked to launch of products, new products and new collection.

Latika Chopra: Yeah, so basically, you are just 10% odd margins for last fiscal. So is 11%, 11.5% viable for the year because you had cost rationalization initiatives also in place?

Subbu Subramaniam: We aim to touch a double digit margin. I just earlier on spoke about the GST impact. We will have to see how that impacts this year. So let us hope that things work out well.

Moderator: Thank you. The next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

Arshad Mukadam: With reference to the watch segment, any chance of expanding the premium and luxury watch category with say more international Swiss brands?

S. Ravi Kant: Well, premium for sure, and because luxury is beyond premium, and actually after premium is affordable luxury and then you have luxury. Because luxury is, I would say, 3 lakhs, 4 lakhs, 5 lakhs, in that price band, but premium certainly we are participating in through our Helios store. Apart from you know the fashion brands we are enhancing our Swiss Play, so sales of brands like TAG, Movado, all that are showing good growth. Apart from our own brand launches in the smart space, you know like, just we had a 28,000, 29,000, but luxury is not in the immediate future.

Arshad Mukadam: What is the rough timeframe for these launches of the premium brands, which you mentioned?

S. Ravi Kant: No, these are already in our Helios chain which is a retail chain we have with about now, as of now 55 stores across the country, where we market all international brands, the Swiss brands, and a whole lot of fashion labels. But we are also looking at partnering as an opportunity and that is something we are always exploring. There is one step we have taken in the direction of luxury, which is you know we acquired the Favre Leuba launch, and we have launched that in many countries including India, but that is early days as of now.

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

Rakesh Jhunjhunwala: Sir, I wanted to know that what is the effect of GST on the watch division?

S. Ravi Kant: The impact of GST on the watch division is pretty high.

Rakesh Jhunjhunwala: Pretty high means, as a company percentage?

S. Ravi Kant: It is a significant impact, but the experience is not elevating, because earlier, Rakesh, the total tax incidence on watches was about 22%, 23%. And now as you know, we have been slotted at 28%. And therefore it is certainly hit to the business. Now we have to see, now there is a hit to us in terms of the impact on excise duty, because as you know, a lot of our production was in the excise free zones in North, and there is a hit in terms of margin dilution of all our channel partners, so dealers, franchisees, the large format stores all of that.

Rakesh Jhunjhunwala: Mr. Ravi Kant, but have we assessed it and have we passed it on?

S. Ravi Kant: No, sir. What we have done is, we have taken this quarter as a quarter of understanding in terms of all the excise duty benefit related notifications are coming in and we are understanding what is the final impact on that front. And so we have given some support to our partners as an interim GST support for this quarter. As far as October onwards is concerned once we have a complete understanding, we will. Plus, you know, some of our partners also will benefit from input tax credits. So, whether it is large format stores, some of our franchises, some of it we may have to compensate…?

Rakesh Jhunjhunwala: But Ravi Kant you have, first of all, you have 10% single digit margin in watches to claim yourself to be a big brand, and then you last year gone to a cost cutting measure, then you have a doubt about double digit brand margins. Then you want to wait on passing cost increases. I don't know what is the problem in passing on the price with the tax. Government is levying a tax and you don't pass on the increase, so we have the right to pass on the increase, right? You can't get double-digit margins after a cost saving exercise, after paying 100 crores of VRS, then when are we going to get it and how long are we going to absorb the cost?

S. Ravi Kant: So Rakesh when we meet next time or I run into you, I will explain the competitive situation to you. We are not the only player to suffer…?

Rakesh Jhunjhunwala: You have 65% market share, what is the competitive position?

S. Ravi Kant: If I may just complete, Rakesh, we have all the international brands in the market today, and what other international brands are doing…

Rakesh Jhunjhunwala: They are paying GST, you know, they are not paying GST or what?

S. Ravi Kant: They have a bond. They are bearing the entire margin as far as channel partners are concerned. So when we are dealing with multi-brand outlets, we have to deal in a certain manner. So I am not saying that we have taken a call. We will have to play with a combination of price increase, I am not saying we will not increase the price. We will have to bear with the combination of price increase, look at how we can increase our sales and various other…

Rakesh Jhunjhunwala: What we would like you to say is that I am going to get double-digit margin this year, sir. Has to be more than double-digit margins when you have hired a consultant, you have paid 100 crores of VRS. With 2,000 crores sales and India's big brands, 65% market share, you can't get double digit margin?

S. Ravi Kant: I don't think I mentioned that we will not get a double digit margin.

Rakesh Jhunjhunwala: You responded to somebody saying that?

S. Ravi Kant: Let me just repeat what she asked and let me repeat my response. She asked me will you get 11.5%. I said we will certainly get a double-digit margin that is what we will work towards. We have not taken the final decision on price increase, Rakesh. What are you pushing me to commit to? Are you saying that you want me to commit to 11% margin? I cannot at this stage.

Rakesh Jhunjhunwala: And what about Favre Leuba? How much Favre Leuba have you sold?

S. Ravi Kant: What about Favre Leuba, what is the question?

Rakesh Jhunjhunwala: What is your strategy, you want to create an international brand, luxury brand, how much are you investing in it?

S. Ravi Kant: Yeah. We want to.

Rakesh Jhunjhunwala: All international luxury brands are shrinking. I think you need at least 1,000 crores to create an international luxury brand. If you want to invest that, then you invest in Favre Leuba. It is not 50-80-100 crores, unless and until you are able to commit Rs. 1,000 crores, can you create a luxury brand in the world? Think about it.

S. Ravi Kant: The play in India is, the kind of distribution strength we have in India and the understanding we have of the consumer in India, India is going to be I think a very important market as far as the Favre Leuba is concerned.

Rakesh Jhunjhunwala: So it is an India-centric brand or a worldwide brand?

S. Ravi Kant: It is a worldwide brand. Yes, we are there in 7-8 countries now.

Moderator: Thank you. The next question is from the line of Deepak D from Monga Securities. Please go ahead.

Deepak D: I wanted to understand, regarding the gold metal loan scheme. So, prior to the launch of GST, there were a few articles in the media that procuring gold through banks, so the gold metal loan scheme might run into problems because banks would have to pay GST and then claim for a refund which would block their funds. So, I wanted to understand whether there is any impact on that channel of gold procurement?

C.K. Venkataraman: Yeah, you're right. There was some issue here. Basically because of the tax and how they are going to pass it on. So having said that there are banks which are also doing it, so not all banks have an issue with it. There are banks with whom we are working, where we don't have a problem. So we have not really been affected as of now, yeah. But you're right, there are some banks which are not doing it because of lack of clarity.

Deepak D: Okay. Sir, till this clarity comes, I mean will this affect the sales growth during…?

C.K. Venkataraman: No. It has nothing to do with sales. This is procurement and I don't think it has any impact on it and neither on profitability.

Deepak D: Okay, right. Sir, other question that I had was, if you look at the capital employed in the business, there is a jump of around Rs. 1,700 crores in the other segment. So out of that I understand 357 crores is due to Caratlane. What is the balance increase in capital employed towards?

C.K. Venkataraman: It's largely cash. You can see our other income has increased substantially and that is because our overall average cash balance has gone up substantially.

Deepak D: So this will be around Rs. 1,000 crores?

C.K. Venkataraman: Yeah, that's right. More than Rs. 1,000 crores.

Deepak D: Okay. And sir, my last question was on the Eyewear segment. So since, we have been investing in the business and investing a lot in building the business and advertising over the last 3-4 years, and yet I mean the pace and the margins don't seem to be picking up, and now the company is also planning to enter into backward integration by launching its own frame manufacturing facilities. I wanted to understand, I mean given the work in progress and the capital that is employed and what the returns that it is getting, what are the prospects that you see for this business, given the competition in the country and also pertaining from a return on capital point of view?

Ronnie Talati: Yeah. So this is Ronnie here, answering your question. As a company, we see the eyewear businesses as a high growth business first. What you are seeing in the first quarter results are it is non-comparable to last year because last year was an activation. This year we had a very limited activation. When you see end September, the growths will be far better for the half year, and all the initiatives that we have put in place over last year and we have invested in this business, all the advertising and so on that you have spoken about have begun to show results. And as I said, we hope to end the half year and the full year with relatively good results and the capital employed will increase significantly, the return on capital employed will increase significantly. Why we are going for backward integration and setting up frame manufacturing is that we have been almost 100% dependent on imports so far. With the result that we couldn't create any differentiation in the business, we are the market leaders, we want to lead the market. Frame manufacturing, one is, it will enable us to create this differentiation in terms of design; and two, it will give us cost advantages too. Our lens manufacturing has been hugely profitable for us and we are on the highest margins on our in-house manufactured lenses. And typically we are hoping for similar margins with our frame manufacturing too. So that's the overall answer to your question.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: If I may just ask Venkat, about the discount scheme that has been going on for a while which is a quantity discount and I believe that in Akshaya Tritiya week, this discount scheme was actually expanded lower quantity and higher discount as well. So I just wanted to ask what percent of sales in this quarter actually came from ticket size greater than 75 grams?

Subbu Subramaniam: Actually I wouldn't share that Amit. But the thing is that, if I were to take the two drivers of growth which is more than 50 grams and less than 50 grams in the gold side, and more than 2 lakhs and less than 2 lakhs in the diamond jewellery side. So, these two categories are the drivers of our growth for the next 5 years, including FY 2018. And we are very satisfied with the divergence in the growth rates of these two categories. The more than 50 is clearly substantially the growth rate in more than 50 is substantially higher than the growth rate in less than 50. And the growth rate in more than 2 lakhs is substantially higher than the growth rate in less than 2 lakhs. So they are practically pulling the growth away.

C.K. Venkataraman: So in Q1, that was a very marked thing as it was actually through the last many quarters. Other than in the last quarter, there were a little bit of hiccup because of demon, but the secular trend continues now and we have got a good momentum on this whole thing.

Amit Sachdeva: Great and thanks so much. But Venkat do you see, so I assume this is successful, so this will continue, and this will remain a core part of the consumer appeal. But do you see that other jewelers replicating your discount scheme, and also sort of doing the same stuff that you are doing. Do you see more pressure coming from other peers also doing the similar stuff and that has…?

C.K. Venkataraman: Actually they could have done it earlier. Actually we are doing something that they were very good at. They had a much better wedding range, they had a much better high value diamond jewellery range. So those customers were not looking at us at all earlier, because we were weak on it. Now, if you go and see, I mean if you have recently been to some of our stores, we are actually quite overflowing with choice. In high value diamond jewellery, now we are selling 60 lakhs, 70 lakhs, 80 lakhs orders are not uncommon, they're pretty often. And so people are seeing what Tanishq is offering and they are migrating from other jewelers.

Amit Sachdeva: Okay, got it. That is very helpful, Venkat. And very quickly, if I may ask, just I don't know this is not a straight question, by I just want your comment on it. If I look at like segment EBIT of this quarter, all three, and I sum them up, and I look at the Y-o-Y growth on that sum, it is 76% and when I look at EBITDA growth it is 27%. So, what am I missing?

C.K. Venkataraman: For the company?

Amit Sachdeva: For the company as a whole, if I look at segment PBIT growth, I am sure they are corporate and other things that come with it, but seems to be a bit of a large deviation. If you sum the…?

C.K. Venkataraman: The EBITDA growth and the EBIT growth of the segments.

Amit Sachdeva: Yeah. If you take the EBIT, like segment EBIT that you published…

C.K. Venkataraman: Yeah, A plus B plus C. That growth is much higher than the EBITDA growth of the company.

Amit Sachdeva: Yeah. And the divergence is very large, I am just trying to reconcile where it is coming from?

Subbu Subramaniam: Yeah. I will go offline on that.

Amit Sachdeva: Sure, Subbu, I will catch up with you on that. Perfect.

Moderator: Thank you. The next question is from the line of Nilay Shah from Morgan Stanley. Please go ahead.

Nilay Shah: Sir, my first question is on the exchange program for gold, given that it has now become 35%, 40% as you indicated Subbu. What are the implications for this on the business from a long-term perspective in terms of either customer stickiness or whatever? How do you look at this number from a long-term perspective?

Subbu Subramaniam: There are multiple dimensions here. One is the overall cost of procurement. It has a bearing on the cost of procurement because we are buying from the customers at a certain price, but it also depends on the purity of the exchange that is coming in because the price at which we buy from customers is determined by the purity level of that particular transaction we have different policies for different purity grades and all that. So net-net, there is an implication on the cost of purchase. It also has a bearing on the overall spot versus GOL mix, so from a working capital point of view, from the overall EBIT max point of view. But a huge upside of new customer acquisition which exchange actually enables and the stickiness of the customers because when they come and see that what they thought was 22 carats which they bought from somewhere else is now turning out to be 17, 18, 19 and all that. Not only and the fact that they are getting exceptional exchange value in Tanishq, tickets size has improved and the customers are very loyal to us because we have enabled them to discover the problem with earlier purchase. So it's an overall balancing that we need to continuously keep doing to use this as an engine of growth and contain its potential impact on the profitability.

Nilay Shah: Got it. Very clear. Second is that given that we are in this phase now where we are gaining market shares. Given the potential benefits from GST that could accrue to us, is there any thought process internally in terms of expanding the store expansion program in terms of opening up new stores quickly to benefit from new customer acquisition in new regions, new geographies, etc.?

Subbu Subramaniam: Not because of the GST, certainly our ambition for FY18 is much bolder, but unfortunately the execution challenges continue to remain. So, we certainly need to go back and re-look at all the things which are currently in our way, I mean, as to how do we meet our ambitious 12 months' target. But as it is, the target for the year is pretty stiff and we are quite behind on Q1, as you may have noticed. So right now, we are not stepping up on the expansion program as much as looking at how do we actually reach the target that we have set for ourselves for this year.

Nilay Shah: Okay. But there is some thought process internally of looking at accelerating this at some point in time in the future?

Subbu Subramaniam: I think once we get a good grip on executing the current plan, we would reach the talk about that, I mean we will consider that.

Moderator: The next question is from the line of Krishna Karwa from MC Research. Please go ahead.

Krishna Karwa: Can you make a mention of the 5 ticket program, 5-point ticket program for the next 5 years again?

C.K. Venkataraman: Yeah. Wedding jewellery, high value diamond jewellery, market share gain in 20 cities, Golden Harvest and Middle India.

Krishna Karwa: Middle India and Golden Harvest.

C.K. Venkataraman: It is there in our investor meet presentation of 3 months back or 4 months back, but these are the points.

Krishna Karwa: Okay. And talking of headwinds in the jewellery and watches segment, what would the major ones be and how does the company intend to kind of tackle those?

C.K. Venkataraman: We are not perceiving any headwinds at all at the moment in the jewellery business nor in the watches.

Krishna Karwa: So you believe it could be a steady trajectory going forward?

C.K. Venkataraman: Yeah. In the jewellery business because the market share is very low, we believe our strategies can help us ratchet up the growth, growth rates that we have declared.

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

Abhishek Ranganathan: Question from my side, how have the L3 franchisees taken the transition to GST and did we see any kind of destocking or additional stocking either way from their side during this quarter?

C.K. Venkataraman: Not really, Abhishek. It passed pretty smoothly. We didn't have any issues because they are also aware that if there is any loss or whatever the company would stand by them and everything has been pretty smooth and they are pretty gung-ho, I mean, nothing to do with GST, but certainly gung-ho about the overall conditions for growth all around them.

Abhishek Ranganathan: Right. And the second question I had is on the wedding hub which you had touched upon earlier. One is how was that and that in terms of how many wedding hubs have we created, and do we have a structure in place whereby the stores which are referring get incentivized and all stores, particularly the L2 and L3, are they on board on this?

C.K. Venkataraman: The hub-and-spoke is actually in deployment Abhishek. The growth, you know it has become more organically than through the hub-and-spoke. So I am hoping that in the next 2-3 months, the hub-and-spoke should sort of fall into place because we need the zones in all the hubs for the spokes to start referring and all that. And hopefully we will get a bigger kick in in the hub-and-spoke, but right now it is more through every store kind of thing.

Abhishek Ranganathan: Okay. So just a clarification, the hub-and-spoke basically still under deployment and therefore it would mean that we will still invest more in terms of stock in particular stores. Is that how we will be building it, yet we have not seen…?

C.K. Venkataraman: A very large part of the stock deployment actually has happened in Q1. And the sales growth actually is a result of that. I am talking about the particular point that you are making about the referral, which is what a spoke is supposed to make to the hub, and the sharing of the commission and stuff like that. Those are still in deployment.

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

Richard Liu: Sir, can you help me understand this 15 crores quarterly losses that is there in Caratlane, I am just trying to figure out what is the cause here. Is it that Caratlane sells at lower prices or is it lower gross margin or is there some incubation on build-out cost involved? Thank you.

C.K. Venkataraman: Caratlane basically is because you are expanding, right? You are spending on advertisement much more than what topline can deliver. Margins have actually improved over last year. The growth has actually been exceptional on a year-on-year basis. So I think we are on the right track. So we are actually going as per our plan.

Subbu Subramaniam: It's an investment in the business.

C.K. Venkataraman: It's all investment for the business. That's all.

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

Rakesh Jhunjhunwala: Venkat, I think in last call, we had said that we will be able to convert 25 of the Gold Plus stores. And I think you wanted to open 25 new stores?

C.K. Venkataraman: Yeah.

Rakesh Jhunjhunwala: So now instead of 25 we can expect 20 or 15 or 20, I understand the reason because I think good location is the main problem. Am I correct?

C.K. Venkataraman: Location, franchisee, because most of these are L3, Rakesh. And so investment, right kind of person and all that. I don't know, at the moment, I have not had a review, so I won't be able to give you an honest answer. My sense is, I mean the commitment have been given is that, Q2 against the number of store months targeted in Q2, we were at a much higher likely closure compared to Q1. And Q3 and Q4 I have not got into, but I am sure we will be in the 15 to 20 ballpark number of stores for FY 2018, new Tanishq and Gold Plus, anyway it's a matter of, I think in Q2 we should virtually wrap it up, that is my target also. And my understanding is that we are significantly, I mean work is underway to ensure that by September virtually all Gold Plus get converted.

Rakesh Jhunjhunwala: And you know we have converted the first Gold Plus store about 6 months ago, if I am right?

C.K. Venkataraman: 3 or 4 months back.

Rakesh Jhunjhunwala: There will be opportunity once we convert from Gold Plus to…

C.K. Venkataraman: It's very good. The performance of converted Tanishq has been very good. And so I am sure its addition to the business should be reasonably decent. So we will may be share specifics with you in the next call after giving, first of all it is only the number one store one month, one store two months like that, it's too few. The town may color it, you know it's a good town, the sales also could be good. So we will do a small segment on it for you next quarter.

Rakesh Jhunjhunwala: And I wanted to ask Ronnie, when is this plant coming into production?

Ronnie Talati: We started trial production already, Rakesh. So I think commercial production, probably will be by October-November.

Rakesh Jhunjhunwala: Do you think it should make a big difference to all? And how has the sale been in July?

Ronnie Talati: Sale has been very good so far. In fact, every month we have been hitting our targets after a long time month-on-month in our eyewear business. Sunglass business, of course, has taken a hit, because of the GST. Even now, it is taking a hit, dealers are not really picking up any sunglasses. They're very averse to it. Like our Chartered Account told not to take but the eyewear business, the retail business is doing excellently right now.

Moderator: Thank you very much. Due to time constraints, we take that as the last question. I would now like to hand the conference over to Mr. Subramaniam for closing comments.

Subbu Subramaniam: Thank you for being on the call and we hope to meet you guys sometime soon. Thank you.

Moderator: Thank you very much. On behalf of Titan Company Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.