# "Titan Company Ltd Q4 FY17-18 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Titan Company Limited Q4 FY'17-18 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 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 '*' then '0' on your touchtone telephone. 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:** Thank you and thank all of you who are listening on this call. This is Bhaskar Bhat. With me my colleagues, Subbu, Venkat, Ronnie, Ravi, Ajoy, Rajnarayan as well, who has just walked out of the room. You have seen the results; it has been a truly wonderful year for us. The top line as well as particularly the bottom line margin improvement and so on. There are only three themes I am picking up to share – One is all businesses perhaps barring the Sunglass part of the eyewear business have done well, of course, relatively different performances, the Jewellery business as usual has recorded an extraordinary growth, Watch business, in a way conclusion of the recrafting story has played out and we can see both growth coming back, brands getting better in performance and the smart watch today beginning to improve. Not just that, an important emerging channel such as eCommerce, I mean, online sales as well as the LFS Watches are growing faster, it just indicates the demand for watches, still strong. Of course, it was the year of GST. On the prescription eyewear, we have done very well; we met our targets and even the beginning of the year has played out well to that growth plan of the eyewear business. So it is a mix of all these around November we also went into looking at the long-term five year projection for Titan rather than projection we have established an ambition of Rs.50,000 crores, five years from now. There is a great confidence in the company of marching towards that goal. So I think much like last time when I said the sectors in which we play it has been significantly unorganized as the economy gets more and more formal from a life, the benefits are flowing even more rapidly. Added to that our strategic posture in a way of playing to the lifestyle aspirations of Indians is helping in jewellery for example, the growth in diamond jewellery sales, premiumization journey, watches, now the tailwind of GST and formalization is helping all that. We look forward to a great current year and the next five years as well.

Of course, coming back to the year, I would like Subbu probably to take us through something that you should note.

**S. Subramaniam**: I think I will skip the financials part, I think you have seen the numbers, the numbers are good, I just wanted to focus on a few things on the financial statements which is regarding certain exceptional one-off items and changes in disclosure. Starting with the first one which is the exceptional item, at the year-end we assess the progress of Favre-Leuba as a brand and the investment that we have made there. As an annual year end process of looking at impairment for any of the investments that we make, we went through this exercise and we thought it was only right that because of our experience in the last one year, while it is still a very-very short timeframe since the brand actually was launched, it is about a year and a half, since the numbers that we had were lower than what we had targeted for ourselves. We revalued the investment case as such and we have therefore gone ahead with the provision of Rs.75 crores for impairing investment that we made in Favre-Leuba. So, out of the Rs.145 crores that we have invested so far in that company, we have taken the impairment this year. It does not mean we are not going to be investing in the company, we are going to do that and we are hoping that things will look much better but it is only prudent that we look at. Also from an accounting standard practice, we are required to do this. So that is the thing. This has actually no implications on the consolidated financial; this is only something which is provided for in the standalone accounts. So to that extent there would be a difference between the standalone and the consolidated as far as this is concerned.

On the other issue on disclosures, we have made one very significant disclosure change which is on gold on loan, previously used to be shown at the trade payables, we are now showing it separately on the face of the balance sheet. It does not change the nature of the payable but it is just that the right thing to do, we have obviously discussed with the accounting standard board and we arrived at this conclusion that it is prudent to show it separately.

The other big change as such while not very material on an annual basis is the commission that we pay the management agencies. We review all our accounting policies and practices at the end of the year along with the new auditors we had, and it was felt that maybe the commission to what we call L2 franchisees should not have been netted off from sales but should be shown separately as selling and distribution expenses. So to that extent, revenues are higher, but we have also restated the previous year numbers, so the impact of that really not too much but it is a better disclosure is what we think is the right disclosure.

So, I think we could possibly straightaway get into Q&A.

**Moderator**: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Manoj Gupta from Perfect Research. Please go ahead.

**Manoj Gupta:** Could you just give us some color on the consolidation happening in the jewellery and watches industry?

**C.K. Venkataraman:** Ever since the demonetization happened in ’16 Q3 and the introduction of GST, and the latest tensions in the banking jewellery sector bridge, certainly the organization of the industry is accelerating and benefits of that organizing will flow even more so to the jewellery business of Titan company.

**Manoj Gupta:** Sir, can you just give some light on the addressable size of opportunity and the market share in jewellery and other businesses too?

**C.K. Venkataraman:** Market share in jewellery is in the 4-5% range of the total market, it is complex to figure out the addressable market, maybe it will be approximately double or something like that because you have to go to every town to measure the addressable, it is difficult, we go about by the total rather than the addressable.

**Moderator**: Thank you. We will take the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

**Manoj Menon:** A couple of questions here; one, Subbu, if you could help us understand the EBIT margin better for jewellery, one is the better mix, is it gross margin led, just help us understand the significant margin expansion which we see in the jewellery business?

**S. Subramaniam**: First thing is that we had a studded quarter, right. So you know the margins are better, that our studded performance the activation did extremely well for us, so that was one aspect which give you a bump in the gross margin. The second one was the product mix itself was different as far as plain gold also was concerned. So we did gain substantially in that. On top of that, we have also mentioned that we had hedging gain of around Rs.18 crores which was carry forward in the last quarter to now. Those swings that we had on QoQ basis that was another Rs.18 crores. So essentially our gross margin was really outstanding this quarter and while costs have we generated same ballpark – thanks to our cost control program that we have been having, so it seriously driven our margins up. Whether this can be maintained is a question mark

**C.K. Venkataraman:** It will not be maintained, Manoj. You will have to look more at the annual performance on this account than Q4.

**Manoj Menon:** Is there any particular reason you are mentioning that any view on the mix or anything, I am just trying to understand the change in let us say why it cannot be maintained next year?

**C.K. Venkataraman:** No, I am talking about the Q4, expansion in gross margin was substantial in excess of the expansion in sales and therefore, lot of it flowed into EBIT expansion, for example, Rs.18 crores is actually not pertaining to the quarter, it occurred in the quarter, so it is not sustainable QoQ, whereas if you look at the annual expansion, that is a more reasonable which is coming because of this case.

**Manoj Menon:** Secondly, Venkat, one question on the gold exchange schemes and something what is happening in the market at this point in time. Just trying to understand a couple of things; one, from a consumer behavior point of view, what has materially changed in the last one year that one, the consumer is happy to exchange significantly higher than what you would have ever done in the past, so that is point #1? Point #2, you guys actually have got the scheme in the last year for a couple of months and then you actually had it in March 2018 as well. So, one, there is a consumer demand, second one as an organization you are actually activating it as well. Just trying to understand the drivers for this and hence the sustainability of this.

**C.K. Venkataraman:** We have progressively increased the exchange value of other jewellery to changing our policy in middle of 2016 and early 2018. So that is the weapon. All the 10,000 troops have been sort of rallied behind this weapon to market it to who walks in every customer they know. So the combination of these two have lifted the share of exchange and the growth in gold, both, it is a sustainable thing.

**Manoj Menon:** Venkat, the reason I am asking this because in my understanding the increase in the share of exchange gold for Tanishq appears to be significantly higher than the industry. Now that lays two questions; one, is it a specific customer acquisition tool which you are driving or is it more to do with the consumer actually happy to actually bought the gold rather than actually spending that incremental couple of lakhs on actually buying an asset which just does not appreciate?

**C.K. Venkataraman:** Actually, there are two things that work here; one is that there is a total market for exchange jewellery where our share was relatively low by making our exchange policy and the value that give to the customer is much better, and this whole army working on it, we are increasing our share of the total exchange, that is one. Second is that India has got 25,000 plus tons in the lockers, a lot of it is obviously old given that every year the sale is only some 800-900 tons. Therefore, the conversation with the customer saying that, look, you have 1 Kg or 500 grams or 750 grams of gold at home, you are buying something worth 80,000, why do you not bring in 50 more grams and even buy something worth Rs.2.5 lakhs. So it is increasing the ticket sizes in the wedding business, in the high value diamond jewellery business. In a way it is a share of wallet increase, making the customer spend more than he would have, it is not so much of barter, because if it is barter then it would be high cost for us, we would not get sales growth whereas ticket size increases give us sales growth and customers good value in that, anyway jewellery is sitting sort of idle in the lock.

**Manoj Menon:** Is it one of your hero let us say projects for getting new consumers, let us say what GHS was a few years back?

**C.K. Venkataraman:** Yes, it is, we will speak a little more about it soon.

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

**Amit Sinha**: Sir, firstly, on margin again. If I look at the jewellery margin for the entire year, it has gone up by around 170 basis points. So the question is the current level of yearly margin, is it sustainable or even that can see some dip going forward?

**C.K. Venkataraman:** When we spoke about this subject in the beginning of almost the same time last year, I emphasize that our focus was getting the sales growth and at least maintaining the margin at FY'17 levels. But I also said that in case we end up achieving our sales growth of 25%, we should certainly get the margin expansion which is what actually has happened. Our ambition is also the 2.5x which all of you are aware which means that if the FY'19 growth happens, hopefully the margin will expand but I will give the same view that the primary focus still remains the sales growth of 25% for FY'19. It is good as if the margin expansion can happen, but I am not very sure about to the same extent of 170 bps because as the base starts going up maybe that the rate of expansion will start coming down.

**Amit Sinha**: Just a follow-up; the way in which I see this 170-basis points expansion is one coming clearly on account of operating leverage and two there is a gross margin expansion as well. Now, again going particularly to the wedding jewellery margin, do you see significant improvement in the wedding jewellery margin mainly on account of better designs and better offerings from your side and that is what is kind of lifting the overall margin for the segment?

**C.K. Venkataraman:** In FY'18, like you rightly observed the big jump in the EBIT margin has come as a result of two benefits – one is the sales leverage and the second is the gross margin expansion. So the gross margin expansion low-hanging fruits have all sort of been plugged and therefore the FY'19 opportunity lies more in the sales leverage than in the gross margin expansion. Therefore, to that extent the EBIT margin expansion opportunity reduces.

**Amit Sinha**: On the jewellery sales again, this quarter particularly the retail growth was much higher than the primary growth. Any particular reason for that?

**C.K. Venkataraman:** Could be the scheduling of the L3s and all that…

**Management:** UCP concept, it is also because of that, because when we report for NSV, there is a difference between the UCP growth and the NSV growth.

**C.K. Venkataraman:** So it is to do with the base of primary sales and the base of retail sales of the corresponding quarter last year. So, that difference will always be there each quarter.

**Amit Sinha**: Lastly, would you like to give any guidance for FY'19 jewellery sales growth?

**C.K. Venkataraman:** No, I think we will not give guidance now, we have talked about the overall ambition, I think we should be within that, so no specific guidance.

**Moderator**: Thank you. We will take the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

**Nillai Shah**: Sir, first question is the GST impact on reported revenues. Could you quantify that for jewellery business?

**Management:** Actually, there is nothing for the jewellery business, because in case of jewellery we do not have what we call as UCP or MRP pricing. So it is not subsumed within it, it is always …

**Nillai Shah**: We were in the segmental reported revenues?

**Management:** Yes-yes, definitely, the impact of GST is not as much as it is in the watches and the eyewear business, which are UCP or consumer price led businesses, okay, so you do not get the impact here. It was in the past, that is the reason.

**Nillai Shah**: Second question is on the Watch business. What are the aspirations for FY'19 – are we still looking at a possible double digit revenue growth or higher in F'19 or still difficult to achieve?

**Management:** We have actually hit double digit this year after very long and our aspirations is to hit double digit again, new products have been lined up and market conditions look good.

**Nillai Shah**: Final question is again on jewellery business margins. Points well taken. Just to reconfirm that going forward Venkat expects the margin expansion to come in more from the operating leverage in the business which is anyways going to be there. What could be the levers that you would use to prop up revenue growth – is it the stuff like this 100% gold exchange, etc., which could drive the margins lower or anything else, we see operating leverage should be there with the kind of revenue that you are looking at, where can the margins be lower is the question?

**C.K. Venkataraman:** The sales growth in the context of our five years 2.5x, the sales growth is pretty high, the FY'19 planned sales growth. Now if you maintain gross margin, that entire sales growth will flow back into gross margin growth, at that level of gross margin growth, certainly we have leverage directly sitting. Now even if the gross margin were to drop slightly on account of one of the levers like you are saying, I am saying even if you were to grow the gross margin by 18, 19%, with the sales being a little higher, it is still high enough for us to keep track some of it into the EBIT expansion.

**Nillai Shah**: So EBIT expansion is almost given for next year given…

**C.K. Venkataraman:** Given if the sales growth happens.

**Moderator**: Thank you. We will take the next question from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

**Rakesh Jhunjhunwala**: The first question is the bonus that you provide one-time and gratuity to employees, is that a one-time I understand, where is the dividend in respective businesses?

**Management:** Actually, we have provided for that and debit the respective businesses. The bonus is done one-time, it depends on the performance.

**Rakesh Jhunjhunwala**: Based on performance it is a one-time payment, then why do you say it is a policy?

**Management:** It is not a policy, it is only a practice.

**Management:** It is not part of the CTC, what happens is when we perform way above our own internal plans, this is something which is then shared with the employees. Therefore, from that perspective, it is a one-time for the quarter, that is the point, it does not get amortized over the years, it is given at the end of the year.

**Management:** If it is much above its budget, then you debit it to the respective businesses

**S. Subramaniam:** That is what we have done.

**Rakesh Jhunjhunwala**: In the third quarter your watches margin was 15.5% to fourth quarter is 7.11%, hardly 8% drop and margins are up by 7% So is there some one-time expense correction was mentioned or something in that?

**S. Subramaniam:** What happens in Q4, typically two things happened and this time we had one exceptional thing which is the stockists, we corrected them, we sort of rationalized it, this is one-time…

**Rakesh Jhunjhunwala**: Tell us what is the cost involved, no?

**S. Subramaniam:** Not cost, we reversed the sale.. we took back stocks from RS, because we are consolidating them into other RS, we did not sell to them and therefore there is a drop in sales.

**Rakesh Jhunjhunwala**: One thing I wanted to make a point, Venkat, for reason of margin going up because you do not report the amount of jewellery you purchase or you exchange with the customer, so you get margin and believe in what you buy also no, that takes up your overall margin, am I right, suppose I come to exchange jewellery, I give you gold ornaments and buy jewellery from that, so the company gets two margins, one is of course in the sales, one is in what you purchase also no?

**C.K. Venkataraman:** In the olden days, it was but not after we changed our policy to make our exchange much attractive, we make all loss.

**Rakesh Jhunjhunwala**: You do not make any profit on the purchase?

**Bhaskar Bhat:** No.

**Rakesh Jhunjhunwala**: You have written-off Rs.75 crores. Over the next year, how much do you propose to write off further?

**Bhaskar Bhat:** No-no, we do not expect to write off any further, but we have just been conservative in our accounting.

**Rakesh Jhunjhunwala**: Your belief is make money?

**Bhaskar Bhat:** Yes, of course, we will but it will take us at least five years before we start making money.

**Rakesh Jhunjhunwala**: Ready to invest for five years?

**Bhaskar Bhat:** We will continue to invest for five years.

**Rakesh Jhunjhunwala**: First you can keep on investing and writing off, but we have some right to ask you, because you have written-off Rs.75 crores or how much do you intend to invest and what business plan you have?

**Bhaskar Bhat:** First of all, in the consolidated accounts, anyway it is all expensed off, right. The brand was bought at some Rs.8 crores. These are all losses that have occurred in that business during the last four years actually and we thought fit to impair.

**Rakesh Jhunjhunwala**: The impairment is absolutely right. I am only asking as a shareholder what is the kind of money the company intends to invest in it?

**Bhaskar Bhat:** No-no, as of now the order of magnitude of Rs.200 crores or so, before when we can see the business model working, only then we will take a decision to make larger investments.

**Rakesh Jhunjhunwala**: Rs.145 crores you have invested, Rs.55 crores you want to invest further or Rs.200 crores you want to invest further?

**Bhaskar Bhat:** No-no, including Rs.145 crores.

**Rakesh Jhunjhunwala**: Rs.145 crores you have invested, after investing another Rs.55 crores, you will take a decision whether to invest further or not?

**Bhaskar Bhat:** That is correct.

**Moderator**: Thank you. We will take the next question from the line of Amit Sachdeva from HSBC. Please go ahead.

**Amit Sachdeva**: Venkat, I have one question and understanding the revenue growth of jewellery and if you can just give some guidance on that how to interpret this. The reported growth is 13%. If I assume that the accounting change that Subbu was mentioning on L2, it would perhaps overstate sales growth by 1% if I assume it is not in the base but only in this quarter. Also, if I were to look at the number of stores if I am correct, there were 40 new stores opened this quarter. So they would also mean there is a lot of primary sales would have gone in this as well. So, in that context, does not 13% look a little bit light and given the quarter how it is, just help me think 13% number please, I am just perceiving it is a very low growth because a lot of stores have been opened in the quarter, is my understanding correct that the stores that got opened were all L3s and the primary sales would have already come in, in this 13% growth already or the store opened but there is some other one-off?

**C.K. Venkataraman:** Actually, the retail sales growth for the quarter is 19% which is a very good growth whereas the income growth they are reporting is 13%.

**S. Subramaniam:** Amit, there is also the other thing which the base effect, if you look at the last year Q4, we had something like 58% growth, this is a primary number and to your question whether the change in the disclosure of accounting of L2 margins, different hardly any because we reset the previous year numbers also, so they are comparable.

**Amit Sachdeva**: Just my only question maybe Venkat is that Tanishq stores have opened this quarter, were they L3 stores, if yes, then all the sales already included in that?

**C.K. Venkataraman:** This is anyway L3, but that would not be so material in this still because the base of the like-to-like would be much more than the new stores.

**Moderator**: Thank you. We will take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra**: In light of the fact that you have had a good growth, margins have gone up, is there a case to accelerate store openings over the next one or two years and if yes what is the kind of quantum if you could throw any kind of color on that?

**C.K. Venkataraman:** We are going to be stepping up on it, not so much because the margin has gone up, but because the ambitions are sort of reflecting and the opportunities in middle India are very large. So we are looking at 40+ stores for FY'19 compared to 24 or 23 that we opened last year, many will be small town in India.

**Arnab Mitra**: In terms of square feet also, is this a significant increase over this FY'19?

**C.K. Venkataraman:** Yes.

**Arnab Mitra**: The second question was this grammage growth for the last two quarters have been around 6% level. So is that anything to worry about from your perspective or it is pretty normal according to you that gold prices have gone up though that level of growth will depress?

**C.K. Venkataraman:** Because these things are inter-related, the prices go up, grammage comes down but the sales value growth is what we keep tracking.

**Arnab Mitra**: Overall in the demand environment in the situation where the gold has gone up a bit in the last few months, any changes you are seeing in the overall demand environment for jewellery?

**C.K. Venkataraman:** As far as we are concerned, we are pretty happy with the growth that we are continuing to get.

**Moderator**: Thank you. We will take the next question from the line of Disha Sheth from Anvil Shares and Stock Brokings. Please go ahead.

**Disha Sheth**: Sir, just wanted to check, how much is the share of studded jewellery in our total jewellery business?

**C.K. Venkataraman:** 36%.

**Disha Sheth**: In Q4, how much it has gone up like since our gross margin is because of studded?

**C.K. Venkataraman:** In the quarter we had a couple of percentage points increase.

**Disha Sheth**: We hope to maintain it going forward?

**Management:** No, it depends on the activation.

**C.K. Venkataraman:** Our focus is more on total sales growth and we are driving both gold and diamond jewellery because the wedding is also a big opportunity for growth and wedding is essentially gold jewellery. So the overall sales leverage is what will give us that margin expansion and we are not looking at any significant increase in the share of studded.

**Disha Sheth**: So studded does not have the highest gross margins?

**C.K. Venkataraman:** Studded does have the highest gross margins.

**Moderator**: Thank you. We will take the next question from the line of Akash Singh from Alpha Alternatives. Please go ahead.

**Akash Singh**: My question is regarding the revenue mix of the company in terms of jewellery segment like how much is gold jewellery revenue and the diamond jewellery revenue?

**C.K. Venkataraman:** Akash, we just shared that the Q4 studded share was 36%, so the rest was gold.

**Akash Singh**: Like the second question is what is the inventory turn for the quarter in terms of the jewellery?

**Management:** 2.2-2.3 for the year.

**Akash Singh**: Like the number of stores that we are planning to open in FY'19 is around like 40 plus. So how much of them is Tanishq stores?

**C.K. Venkataraman:** All are Tanishq stores.

**Akash Singh**: It will be on like the same model of self-owned stores or you are giving it to franchisees?

**C.K. Venkataraman:** 85% would be franchisees.

**Akash Singh**: Sir, like in the franchisees term, what is the effect of the franchisee stores versus the own stores on the operating margin of the company?

**C.K. Venkataraman:** The franchisee stores are two types, so the asset-turn in the L3 buy and sell is very high and the gross margin we get is relatively lower whereas in the L2 the asset turns are lower but the gross margin is higher and we make sure that it is a narrow range of return on capital so that we are little different in which format we pursue.

**Moderator**: Thank you. We will take the next question from the line of Richard Liu from JM Financial. Please go ahead.

**Richard Liu**: I still did not understand that the watches margin bit. The drop from 15.5% reported in Q3 standalone to about 8% now excluding the impact of RS. I know you mentioned about lower sales because of RS consolidation but if I were to look at the turnover, turnover is down by about Rs.38 crores QoQ but your EBIT is down about Rs.43 crores QoQ as in Q3 versus Q4?

**Bhaskar Bhat:** Richard, you have to realize if you look at every fourth quarter of the year, this is the time where we have two things happened which is the large format stores, the SOR, etc., is accounted for in that period, and any correction that is required in the trade channel also happens in that period. This year we had of course the exceptional part of our consolidation of the redistribution stockings. So that is one reason why the top line fell sharply. On top of that, Q4 also if there is a bonus being given which is extra, you realize that the watch division will have more people than other division. Therefore, the impact of that division will always be higher. So it is a combination of lower top line growth along with the overhead cost and we do not stop advertising and those expenditure at the same time. So it is a double-whammy and if you see progressively we are getting better on every Q4…

**Subramaniam S:** If you go through the last previous two years, Q4 '15-16 was 1.7% and the next year was 2.6%...

**Bhaskar Bhat:** Therefore, I think you should not go by one quarter ever for any business and that I think is the lesson here. If you look at watch business overall, it has been a fantastic year. The margins have come back so strongly. I think that is the way I would look at it rather than on QoQ basis.

**Richard Liu**: But be that as it may what you are essentially saying is that a lot of expenses get booked in Q4 and Q4 is typically a lower quarter from a margin perspective for watches?

**Bhaskar Bhat:** Yes, that is right.

**Richard Liu**: Venkat, you mentioned something about mix improvement within plain gold jewellery itself in Q4. Can you elaborate this a bit as in what happened there?

**C.K. Venkataraman:** There are two things; one is the gross margin improvement came partly as a result of some mix improvement and partly as a result of it Rs.18 crores that we have shown on the hedging gain.

**Richard Liu**: No, I got that, you said about one is studded jewellery share is higher and second you mentioned that even within plain gold the mix was better?

**C.K. Venkataraman:** No, so I am just coming there, we continue to push products like open Polki, Kundan Polki and products like Divyam and Shubham, Padmavati. These are relatively higher margin within gold. So as we push those the mixes for these are higher than average. So the more we push those, the more the gross margin flows into the business.

**Moderator**: Thank you. We will take the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

**A Ranganathan**: On the GHS, could you help us understand in terms of contribution for the full year and collections?

**C.K. Venkataraman:** On GHS, we continue to improve; 14% was the share of GHS in FY'17 and 14% has gone up to 17% in FY'18, the enrollments continue to grow and therefore we expect an improvement in FY'19.

**A Ranganathan**: Any nature of change in the ticket sizes we are seeing, because overall, we have seen this, there are two parts which I want to post this question as, one is for the quarter particularly also how has wedding done and how has high value studded done and these two businesses overall account for what portion of annual business?

**C.K. Venkataraman:** Ticket sizes have grown pretty well in the year and in the quarter and they have grown both in high value diamond jewellery as well as gold jewellery and Q4 was particularly good on ticket size growth that is. Regarding the contribution of wedding and high value jewellery, 30% or third is my sense.

**A Ranganathan**: This is associated with this on the gross margins. Is it fair to say that the higher ticket size in our case comes at a higher gross margin and when you said that we do not have much leeway on this, is there limited scope to improve the ticket size from here on?

**C.K. Venkataraman:** The higher ticket sizes in diamond jewellery intrinsically come with an opportunity for the higher gross margin because the content of gold proportionately can reduce the price of a product and the customer is also more or less status kind of a customer, whereas gold typically wedding business, we have what is called the bundling offer which actually rises with the way talking about the ticket size and therefore the gross margin is implicitly reversely correlated with that. So, on the diamond side, ticket size most of the times bring us gross margin improvement, on the gold side yes or no.

**A Ranganathan**: When you said, there is a limited room to improve gross margin next year, are you alluding to the fact that you want to reinvest or possibly improve the bundling offer next year is that something you are looking at rather invest in improving the value proposition and hold on to the margins?

**C.K. Venkataraman:** Yes, it is also for example the share of exchange actually depresses because the exchange comes at a cost. So the higher the share of exchange then there is an impact on the gross margin on account of that. So net-net, the kind of gross margin expansion that we got in FY'18 partly as a result of studded share improvement and partly as a result of the margin improvement in gold itself. We are concluding that we have got most of the low hanging fruit and therefore that opportunity is low in FY'19 and virtually all the operating margin expansion will come only through sales leverage.

**Moderator**: Thank you. We will take the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

**Aditya Soman**: I had a question on the exchange of gold. So you are running a scheme which I believe was extended on gold exchange scheme. What would be the contribution in terms of particular exchange gold scheme to the total gold source? Secondly, you mentioned that the exchange has implicit cost, can you just elaborate a little more on that?

**C.K. Venkataraman:** The share of exchange in our purchase is about 40, the gold exchange which is buying other people's jewellery, that is in the ballpark of 30% to total sales and I mentioned that we have revised our exchange policy twice including the scheme that you are referring to once in July of 16th and second the scheme that you are referring to. The result of that is that we end up paying a relatively higher price to the customer than we used to. I would not like to share the cost of that but there is a cost to that and that depresses the gross margin.

**Aditya Soman**: Has this scheme been sort of a big driver of footfalls?

**C.K. Venkataraman:** Some footfalls but substantially ticket sizes.

**Aditya Soman**: So basically this is a lot of wedding jewellery or high value jewellery coming into this exchange?

**C.K. Venkataraman:** Not necessarily, even just the ticket size improvement from 80,000 to 1.5 lakhs by the persuasion of the sales force and telling a customer, look, why do you not bring some 30 grams of some old jewellery and buy a beautiful Padmavati Necklace of Rs.1.5 lakhs when your budget may have been 80,000. So not necessarily very high value but every single customer is being targeted with this opportunity.

**Moderator**: Thank you. We will take the next question from the line of Jay Gandhi from HDFC Securities. Please go ahead.

**Jay Gandhi**: Just one thing wanted to clarify; the share of exchange you said is around 30% of the sourcing, right?

**C.K. Venkataraman:** Yes.

**Jay Gandhi**: So sir like you just pointed out that if your share in the total sourcing increases from exchanges, there is a certain cost of funding there, right. Now you are already a brand which frankly there is hardly anyone matches the kind of recall that you have. Does it not make sense to have more and more sourcing as gold loan or does it give sense pushing this?

**C.K. Venkataraman:** The gold exchange program is a customer acquisition under sales growth driver whereas the gold loan is just a financing.

**S Subramaniam:** Jay, I think there are two things here; one, as Venkat said, this is an acquisition program which we are running. The benefits of this are that on a margin basis it is not dilutive at all because the benefits we get on hedging and so on and so forth. From an acquisition program, yes, it drives sales and we really do not see a problem, we have cash which generates better return on cash than keeping it as cash. Thirdly, very importantly, it is also derisking us from any eventual future possible curb on gold imports. So we are building up a very good base. Today as I said 40, 50% of the gold is coming in some deep sources overall between exchange, our own gold and other gold. So it is also something which we are consciously looking at de-risking our business in the future. So it meets all these criterias. Since it is not margin-dilutive at all, we do not see any reason why we should not.

**Jay Gandhi**: So if I have to even venture a guess, what would be the average cost of funding or would you not be keen on sharing that?

**Bhaskar Bhat:** It is not very material, overall funding here is extremely low because of the hedging forward contract that you get, so it really does not matter, effectively lower than even my gold on lease.

**Jay Gandhi**: In a stable and slightly rising gold price scenario, for your L3, does a throughput increase in such a scenario let us say you have two to three years window where prices are only going up steadily? The reason I ask you this is, I am not quite sure if they have the same gold on lease arrangements that your own franchise have, right?

**C.K. Venkataraman:** None of them hedged, even as the gold on lease, some of them hedged, some of them do not hedge.

**Jay Gandhi**: But actually, suits them to keep it open in a rising gold price scenario and probably make some more money out of it?

**C.K. Venkataraman:** Maybe yes, keeping it open will make or lose, yes.

**Moderator**: Thank you. We will take the next question from the line of Nishant Chawal from Equentis. Please go ahead.

**Nishant Chawal**: My question is basically what is the contribution of prescription eyewear in the total eyewear segment?

**Management:** If you take the total market we have market share of around 8-10%, but if you take only the organized market it would be around 25%.

**Nishant Chawal**: What are out plans for the revival of this sunglasses segment in particular because we have seen flat revenues on QoQ basis?

**C.K. Venkataraman:** What we are planning to do over the last few years is investments in marketing because primarily it is a brand play and our investments in marketing has probably been sub-optimal and in the coming years we plan to invest quite significantly in our brands to revive them and make them significant play once again in the sunglass segment.

**Nishant Chawal**: Can you put some number to this marketing target – is there any number that we can quote for this?

**C.K. Venkataraman:** Not right now but as I said significantly more than we have ever done in the past.

**Moderator**: Thank you. Ladies and gentlemen, this was the last question for today. I now would like to hand over the floor back to Mr. Subramaniam for his closing comments. Over to you, sir.

**S Subramaniam**: Thank you very much for attending our call. Good Evening and Bye.

**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.