Titan Industries Ltd

3QFY13 EARNINGS CONFERENCE CALL

MANAGEMENT:

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MODERATOR:

Mr. Sameer Deshmukh – Analyst, Tata Securities Limited

Moderator: Ladies and gentlemen good day and welcome for the Q3 FY'13 Earning Conference Call of Titan Industries Limited, hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference to Mr. Sameer Deshmukh. Thank you and over to you Sir.

Sameer Deshmukh: On behalf of Tata Securities, I welcome you all to the conference call of Titan Industries post the 3Q numbers. We have with us the Senior Management Team of Titan Industries. I now request Mr. Bhaskar Bhat to make his opening remarks post which we could commence the Q&A session. Over to you sir.

Bhaskar Bhat: Thank you. Welcome to everybody. Happy New Year. You have seen the results; we have seen Q3 has shown certainly improved consumer sentiment and improving consumer sentiment during the festival season that also had wedding days. We continued to expand our retail network as well as launch new products and overall we have kept to our strategy. The pronouncements of the Finance Minister and the RBI etc., impacting the gold business because of the tightening of credit period for gold on lease through nominated agency etc., were the only highlights which would have affected the strategic posture of the company but this is work in process, so essentially the quarter was all of launches and expansion and a better consumer sentiment.

Same store growth has been healthy compared to the first six months. World of Titan same store growth is 11%, total sales growth is 14%, for Tanishq, it is 10% and 19% respectively, Gold Plus also grew 12% LTL, Helios LTL growth stood at 18% , *Fastrack* 31% and what probably indicates consumer sentiment is the large format stores, which we have always maintained represents impulse spending by customers. The growth of watches in large format store at 10% compared to the previous quarter of minus 10% shows a significant swing. Titan Eye+ of course because of its new levels of pricing has continued to grow like-to-like in volume not so much in value.

There has been a slight margin improvements because of the profit growing 24% and revenue at 23%. YTD too, bottomline has grown 17% with revenues growing at 14%. In watches we have been able to grow the volume in Q3 by a small amount of 4%. The entire impact of the price increases we took in the last one year is now visible so revenue growth stood at 11%. However margins have got affected by increase in excise duty and higher material costs. In YTD as you can see the quarter volume growth is higher than the earlier so the trend is good.

Jewelry of course has had a very good quarter. One key metric for us has been the customer growth and that has also gone up so as the ticket size and the studded share is at 22%, which is lower than the annual YTD, which is at 27%. That is the only difference in this quarter. Revenue growth at 27% and PBIT at 29%. So both the old businesses have shown improvement of margin and reasonable topline growth.

In Eyewear, the revenue growth is 21%, whereas the total revenue growth in Others' segment is only 4%. We have had a particular issue in Precision Engineering in machine building and automation which is a temporary issue because customers have not picked up the machines they have ordered although they have paid advance. So they are delaying and their invoicing has got delayed otherwise the revenue growth at 20% really captures the first six months performance of this business.

Capital employed has gone up but that is also because of a significant growth in network and investments in fixed assets. For YTD FY13, total revenues are at Rs 7400 Crores with watches at Rs 1256 crores and Jewelry at Rs 6015 crores. PBT is at Rs 739 crores. Watches PBT at Rs156 crores it is lower than last year as I said the margin did get affected because of cost pressures on raw material and jewelry of course is a big jump compared to last year.

Some recent recognition I think the most satisfying has been the Forbes Asia recognition in the Fab 50 companies list in Asia, which is the best governed Company Award amongst the best companies governed. CLSA similarly has rated us high on Corporate Governance and more recently with announcement that come from the Asian centres of Corporate Governance. Others brand awards *Fastrack* sitting at number four position below some of the world's biggest brand and above some of the world's other bigger brand at such a low ad spend is very creditable and that Titan itself is placed 16th because of the target audience is 16 to 24 but Titan itself is surprised being it all considered in that segment.. Tanishq advertising continues to be very, very charming and effective. We are all here now. We would like to start answering questions please.

Moderator: Thank you Sir. The first question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Puneet: Good evening everybody. This is Puneet for Goldman. I wanted to ask that your retail growth is 19% while your revenue growth is 27% so while your studded share also has fallen to 22% does it mean that that franchisees are continuously buying more of gold than diamond Jewellery.

C.K. Venkataraman: See the 19% growth is the off-take that is the customer side sales growth whereas the company sales growth is the primary sales. 27% is the company sales growth for the Jewelry division where the customer sales growth is lower that's your point right?

Puneet: Yes.

C.K. Venkataraman: Now you are aware that we have a third channel called the buy and sales channel. So the buy and sales channel the sales from that channel and the purchases of that channel do not match every quarter, depending on when Diwali is the offtake from that channel will follow a certain pattern but the buying will be in advance. And therefore we will always see a difference between the growth in secondary sales retail sales and the growth in primary sales. Because last year in Q3 what customers bought versus what franchisees bought from us there would always be a difference. So that is point No.1. Point No.2 is we also opened new stores. As we open new stores there is an operating stock that the franchises have which is addition to the sales that we make. So these are the two parts on the total sales difference. Studded share is 22%.

Puneet: So does it mean that in case of additional primary sales, more gold sales are happening?

C.K. Venkataraman: What it means is that the off-take itself of studded jewelry in Q3 has been low. The growth in studded jewelry in Q3 was quite low it was only in single digit because of which that this studded shares sell to 22% compared to 27% for the nine months. So it is nothing to do with the franchisees buying. They typically buy what they sell. It has to do is customers who are not buying enough studded jewelry as they normally buy.

Puneet: And would you like to attribute any particular reason for the same?

C.K. Venkataraman: The sentiment towards studded jewelry is not very positive at the moment. Because studded jewelry is seen more of an expenditure compared to gold jewelry because gold is expected to appreciate in the near term all the time even though there may be immediate term fluctuation whereas there is no such thing associated with diamond jewelry so in terms of general consumers sentiment being poor studded jewelry does get hit that is our general understanding of Tanishq our division sales as well as industry sales in the last four months.

Puneet: Thanks a lot.

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

Arnab Mitra: I just wanted to know the volume growth numbers in terms of like to like or even the overall retail sales in Jewelry side?

C.K. Venkataraman: The customer growth in Q3 is 12% and the grammage growth is also around 12% and this 12% is a continuing improving trend over the three quarters. The gold business has clearly been improving quarter-on-quarter.

Bhaskar Bhat: In fact from a decline it has reversed.

Arnab Mitra: Just one thing on the grammage side what we have been hearing from various other companies and discretionary consumption is that after the festive season being good we have seen a big dip in demand so how have you seen it over December and the initial parts of January is there a major slippage or are you seeing the trends continuing to improve over there?

C.K. Venkataraman: December was not particularly different from October, November on grammage growth it was reasonably similar so we did not see a particular drop. January is a little lower than that.

Arnab Mitra: Just wanted to understand this significant reduction in advertising spends year-on-year anything to read into that why that would have come up so much?

Bhaskar Bhat: It is not a strategic shift. jewelery is a very retail business. There is a fair amount of brand advertising done similarly watches there is good component of retail and we certainly have calibrated it to the sale - one of the reason that sale have not happened but a large number of stores have been opened. So visibility of the brands have increased therefore it was a judgment call as to what to do in terms of profitability. It is not a strategic change in terms of cut or anything, but some brand level investments have been cut certainly but what is necessary to drive demand we have not cut back on but is a significant number so it looks big.

Arnab Mitra: Right and on the store expansion side I read that you are now at around 5 Lakhs square feet so what kind of number would you likely end FY'13 at and any plans on FY'14 in terms of how much space addition could be there in the jewelry side?

C.K. Venkataraman: At the end of December, we were at 110,000 sq. ft. and we added about 40,000 sq. ft. in Q3 out of that 110,000 sq.ft, so 70,000 sq.ft. up to six months and 40,000 sq ft in the next quarter and based on work actually going on, my estimate is 145,000 to 150,000 sq.ft. by end of the year and based on sighting of business development and all that we are hoping not sure may be clearer in February, we would reach our target of that 200,000 sq.ft. by end of Q1 FY'14 is my sense but I know better in you know why. As far as next year is concerned we not yet ready to share the information.

Arnav Mitra: Just one housekeeping question I see a big jump in other operating income quite sharp at 90% YOY so what is this income actually and what is led to this increase?

C.K. Venkataraman: Actually it is in percentage terms it is but not in absolute terms right?

Arnav Mitra: Yes.

C.K. Venkataraman: Yes so this is non-moving jewelry or non-moving stone, which we have sold back.

Arnav Mitra: That is it from my side. I will come back if I have more.

Moderator: Thank you. The next question is from the line of Hemant Patel from Axis Capital. Please go ahead.

Hemant Patel: I have a question on the jewelry margin business and hopefully you can help me dissect this into what is happening over the nine months and how do we look at it over the probably the next year? If I look at the margin levers can you give me some insights into a) the mix change and how do you see this panning out. B) The benefit of direct imports that you have stated earlier that we will start and come in? C) in terms of the favourable terms that you had worked out with your franchise so in a positive signs these three and in the negative sense how tightening of credit will push back some of this benefits?

C.K. Venkataraman: Yes, we had a EBIT margins drop in Q1, a substantial expansion in Q2 and decent expansion in Q3 and our overall decent expansion for the first nine months and that is how the EBIT margin panned out and in the first two quarter particularly in the second quarter the EBIT margin growth was led by a gross margin growth while in the Q3 we had a gross margin depletion but due to cost control, we have EBIT margin growth in Q3. The factors that you mentioned in various ways contributed to that PBT expansion - one is the product margin improvement in studded jewelry, second is the product mixed improvement in studded jewelry in the first six months, third is the terms of trade reduction on the franchises and all that and some of these will go away next year because the terms of trade will be same in the base period. It is through a much more aggressive marketing of studded jewelry of all types where we had our target of 40% share a while back for our PBT expansion but we ended up achieving that without the expansion in studded share but we want to bring that back as a big program and the drive it especially in the context of low overall customer growth. So it is through that

that we expect and plan to drive to keep the EBIT margin at least if not expand it in FY'14. That is point No.1. On the subject of credit period while the noises are there at the moment, the fact is that, at the moment is that we continue to get 180 days gold loan credit period from banks as per RBI policy. The only problem with this is it is a little more expensive than nominated agencies but impact of that additional expense side is not more than 20 or 25 basis points on our EBIT margin so it is a Rs 20-25 Crores impact on our business, which we can take it on our shoulder next year. So unless something happens to this and while we are working very hard on the direct import side actually if we are able to convince RBI to commit 180 days credit with the direct import option, actually the reverse will happen where the EBIT margin expansion opportunities clearly is seen.

Hemant Patel: Can I just clear this again, you are saying that with the direct imports which I think Subbu had mentioned in the last quarter that we will have a 50 basis points improvements in the margin profile, will still contribute a net to net addition even after taking into consideration the impact of tightening of credit that's what you are saying into next year?

C.K. Venkataraman: No, no, it is not. Let me clarify one thing. On the direct import there is a clear margin expansion like Subbu said. The current RBI policy restricts direct import credit to 90 days. Therefore we are not going that route. We are not getting that expansion at the moment because we have particular credit period is 180 days. So we are today buying from domestic banks with 180 days credit. The consequence of that is margin depletion to the extent of 20 BPS. While we are representing to the RBI to permit us to import directly with 180 days, should that happen the margin expansion that Subbu spoke about will happen. If that does not happen, the margin depletion that I just described of 20 basis points will happen.

Hemant Patel: Thanks a lot sir that it from my end.

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

Amit Sachdev: Good evening everyone. Just one small question on the retail area could you just spread this new retail area into L1, L2 and L3 which has been added this quarter and also please clarify that as a new area has been added, what portion of that area in your estimate is at a normal throughput level or how do we see it going say next 12 months as we reckon that this area takes a bit of time that it becomes full throughput so what sort of area that effectively would be going in next year which sort of becomes throughput in FY'14? Some clarity on how you are seeing that expansion benefiting you in the next year and what it benefits this year in this quarter?

C.K. Venkataraman: On that L1, L2, L3 break up I do not have it ready. I will have to share it with you subsequently. As far as the productivity is concerned there are two dimensions to it typically we find that the ramp up to mature levels of sales per square foot takes about three years and we have generally deemed Rs.80000 to Rs.100,000 per square foot per year to be starting a minimum requirement for overall viability and good profitability over time. We are at the moment meeting that reasonably and what this would also mean is that in the last three four years one other thing that we have consciously taken a call on is to relax a little bit on the square feet productivity for a greater emphasis on customer experience and product mix improvement over time. If we have a more spacious and grandly setup store, the opportunity for delighting customers and extracting a higher ticket size or a diamond products sale then improves I supposed to have very crowded bazaar kind of situation. And therefore we are giving up bit of sales per square foot in the last couple of year's expansion that you have seen for a gross margin improvement per square foot ultimately. But it cannot happen in the first couple of years. In the first couple of years we may still see a lower gross margin than otherwise but as customers start getting used to this grand store from Tanishq in Borivali or R City Mall or Front Garden etc., the right kind of customer comes back in a bigger way. Therefore so if you were to take a thumb rule question that you were asking if I were to take a one third space got added let us say in a particular year and that was available for all 12 months of the next year and if you were to take about may be 60% to 65% productivity of that because partly of the ramp up requirement and partly of the gross margin spaciousness criteria in the right area. So may be a 33% space growth in a year may translate to at 20% sales growth for all the 12 months if it was available. A 0.6 fraction on 33% would be the kind of thumb rule building blocks that you could use.

Bhaskar Bhat: And the point is what Venkat is saying is this is the kind of investment in the future that is being made so the visibility of the brand as well as the sales potential for the brand both you are investing in, so to that extent your question on advertising for example. Large stores certainly become visible. So it is nothing to really worry about right now we are at more interested in expanding the network.

C.K. Venkataraman: So just build on Bhaskar's point we are opening a store in Borivali any day now and that store is a mega, mega store in the Borivali areas its 12,000 plus square feet, the sales per square feet in that store would be substantially lower than the sales for square feet of the current network but it is being done like that keeping in mind the exponential sales growth opportunity with the strategy like that so in a couple of years we may be like that and then we can see jump in the sales, particularly its gross margin because of the Kundan, Polki, Diamond jewelry mix of that store so a trajectory can be much happen after two years.

Amit Sachdev: Can I just clarify one small point here, if I am hearing you correctly what you are saying is, is the large format stores such as Borivali would take about say two to three years may be three years for becoming a full matured throughput store. That's point No.1 and second as you go along next year what area has been added now for example this it has added little to the sales growth that you seen in this quarter is that can we say that?

C.K. Venkataraman: Yes certainly.

Amit Sachdev: Is it also safe to assume that the throughout put level in the large format stores in a matured one would be say nearly twice than that of a normal weighted average?

C.K. Venkataraman: No. Because actually the gross margins per square feet throughput is what we would be more interested in than to the sales. So that would be the intent and we will achieve it at the moment because some of our stores are built long back are so productive today after 15 years of maturity that would be impossible for this Andheri store to beat that kind of a record.

Amit Sachdev: What is the target for example gross margin per square feet for you in terms of in ideal store which is not yet there say at the old very successful store but say Andheri store typical which is new but yet come into a throughput level what is that ideal gross margin per square feet that you look at?

C.K. Venkataraman: I would not like to share the gross margins perspective figures with you. The sales per square feet is known to you and I would leave it to you to imagine that.

Bhaskar Bhat: Also I do not know number really represents even we cannot do the math because the gross margin per square feet in Chennai kind of place very different from Delhi therefore applying an average or an ideal, the ideal in Delhi it is relevant to that market.

C.K. Venkataraman: The other important point here is when we are expanding so much, the incremental gross margin from that particular store even if it is a little lower than the current gross margins per square feet from a scale leverage point of view it will pay back a lot more in EBIT margin growth in any case. There is good time to settle the gross margin square feet over time to acceptable level.

Amit Sachdev: That is it from me sir. Thank you very much.

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

Abneesh Roy: My first question is on the studded jewelry you mentioned consumer behavior changes specific to this quarter. We have this long term target of 40% for the studded any change to that and what is the specific reason if you could dwell deeper into why suddenly is it tied up to the huge number of marriage days is that also a part of the reason?

C.K. Venkataraman: On the first question yes our long term studded share target remains 40%. On the second questions the understanding is not really complete I must say and I do not know frankly it will be really complete. The subject like this is a very deep subject customers themselves do not know why they do not spend. We have done fair amount of research on the subject and there is a certain feeling of uncertainty that upper middle class customers have spoken to us about six months back. There is a feeling of helplessness that middle class people are spoken about similar time back. These are showing up in many of the sector performances, trends over the last many quarters so jewelry being a very discretionary product even though it has got value sitting in is an eminently postponable category unless it is for weddings which are time bound, the other purchases can be postponed. Our sense is that but at the same time given that our market share even in studded jewelry will be if at all high single digit it going to be work much harder on wooing customers from other jewelers with much better overall value propositions and now so much worry about what the sentiments are.

Abneesh Roy: Does your channel check say that the industry also would have seen similar trend in Q3?

C.K. Venkataraman: That is the sense we get because we are in touch with the MDs or the proprietors of the various jewelry companies and our sense is that. The gold jewelry has done exceedingly well in Q3.

Abneesh Roy: Sir next question is on Gold Plus, 6% sales value growth versus 12% like to like so is there some store closure which has happened?

C.K. Venkataraman: Yes.

Abneesh Roy: How much and what is the reason?

C.K. Venkataraman: There are a couple of markets where we exited because of the realization that they are not viable to continue and some of them we have closed and we are opening a new store, so in the intervening period that is Q3 there has been no sale in that like two stores in Andhra - Warangal and Karim Nagar we closed them in August – September if I am remember right so zero sales this year in Q3 for those two but the new store is opening in another three weeks so it will come back into the reckoning.

Abneesh Roy: Sir, will that be the strategy larger format stores which we have done quite well in Tanishq you want to replicate that in Gold Plus as well?

C.K. Venkataraman: Somewhat similar, not of course that large in the 3,000 to 5,000 square feet range we have already done two one in Erode and one in Dindugal both in Tamil Nadu and the results have been very encouraging. We have seen 40% to 50% kind of change in the average daily sales profile and the next years plan includes a few more touch.

Abneesh Roy: Sir my next question is on the jewelry the new brands *FQ* and *Mia* are they meeting by internal expectation that segment of the market is extremely crowded and we have got lot of brand ambassadors of the competitors there so how is it shaping up?

C.K. Venkataraman: *FQ* is actually in the pilot stage and I would not like to comment on it because it is not really been deployed in the right manner completely because we are still learning and sharpening the strategy. *Mia* is doing exceedingly well and the sales performances have been very satisfactory we have a lot of ambition and expectation from *Mia*. And we expect it to contribute meaningful way to the fortunes of the jewelry division in the next three four years.

Abneesh Roy: Sir my next question is on the Watch business I was seeing the 9 months PBIT last three years if you see we are seen a trend which is going downwards so, is the margin now bottoming out what is the confidence we are getting there and where do you see the margin stabilizing if I take off the investments which we are making in Watch business Helios expansion then how is the margin trend looking in watch?

H. G. Raghunath: The volatility of the Dollar versus Rupee which was very, very high in the beginning of the year. In fact if you are aware the Dollar price jumped from Rs 44 to Rs 51 and thereafter suddenly Rs 51 to Rs 55 levels. We have been taking a price increases to cover the cost on account of Dollar parity and excise duty hike in the beginning of the year. From the beginning of the year we have taken two price increases as we have already mentioned to you, the price impacts are happening on the products and therefore in Q3 we are able to be back to growth both on revenue and if you are asking me where are you heading towards margin etc., the price increase impacts are actually impacting the Watch division in a positive manner.

Bhaskar Bhat: I would not say that it is bottoming out it is low but it is going to start climbing that is we do not expect into remain at this level. There are several initiatives to ensure that it comes back, one of them being pricing power which we been using I think a 12 month increase little over 12 months increase is 23%. So I wouldn't call it bottoming out it is if you look it as a hockey stick. It is on the climb.

Abneesh Roy: Sir could you comment on the Helios part which I asked why I am asking this is one is you are saying that upper middle class and middle class you are seeing definitive signs of concern and Helios clearly does target the upper middle class and we have been aggressively expanding this so any change in terms of expansion plans there and if I take off the Helios losses how does the watch margin grow?

H.G. Raghunath: Actually Helios like-to-like stores growth has been 18% which is quite healthy and the expanded number of stores the 41 stores are as on now each of the stores has been behaving the manner which we expected in terms of performing.

Bhaskar Bhat: But even if you take out the losses of Helios there is still a decline in gross margin certainly, the gross contribution there has been 1.6% decline which is what Raghunath was talking about cost pressure and further prices increases not being taken. You are right there is a dilution in margin.

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

Richard Liu: If I would look at the like-to-like growth at Tanishq that that you have shared at an overall level we have seen about a 19% retail growth which is more or less at the same level what we saw in the second quarter. Now in the light of some of your comments in the press release regarding consumer sentiments improving during the quarter etc., but if I would also look at Tanishq like-to-like retail growth I see that that has come off to about 10% compared to about 12% clocked in the second quarter so I mean if you can just help me understand this part?

C.K. Venkataraman: The customer growth in Q3 has been the highest in the three quarters in a sense it indicates the sentiment.

Bhaskar Bhat : Therefore consumer has been spending less per ticket but customer growth is a very good sign because as you increase network it is also increasing this year, double whamming effect as we go into the future.

Richard Liu: Okay got that. Now if I look at jewelry margin so at a reported level one has seen about a 20 basis points expansion in jewelry margin but I also recall that there was actually about a one percent excise duty that was payable in the last fiscal years, which is not there right now so if I were to adjust it for like to like have you seek or a sharp as Venkat mentioned about gross margin declines so I would think is that a rather sharp number that you have seen?

C.K. Venkataraman: The adjusted gross margin has fallen compared to last year significantly driven by the studded share change partially driven by the excise duty point that you are raising because of which the adjusted GC margin has fallen, but the adjusted GC has grown by about 15% because the sales has grown by 26%. The cost has grown less than sales therefore the EBITDA is grown by 20 BPS.

Richard Liu: And can I just request you to comment on the post festival demand again I missed when you were talking about it earlier. Did I hear you say that January you actually had a volume decline?

C.K. Venkataraman: No I didn't say that. I said the December performance the growth were sort of similar to the festival. January has not been that good. The volume growth is still there it is not like as it was in the end December.

Bhaskar Bhat: In fact December the prices if you were to compare the gold price compared to same period last year it was only marginally high. So volume in case our old theory that when price comes down or rather the price increase is not significant year on year, volume tends to grow and that has happened. Even now if you take the price today barring the customs duty impact if you take global gold prices they are up by only 6% or 7% if you has corrected to the Rupee also. We do see continuing volume growth but not at the rate at which dues were up.

Richard Liu: If I can just push in one more question I mean there is any comment from your side regarding the RBI policy document rather the draft that has come out on metal gold loans being subjected to base rate and if any comment on what if this 190 days credit is reduced to 90 days and let say RBI does not really implement so how do you see that impacting going forward and what are the steps you would take to really counter that?

S. Subramaniam: Richard to start with RBI invited comments from all of us and we have put in our comments particularly on this issue of base rate. We believe there is no basis for that and we have enough arguments in our favor and the good thing is that even the banks feel the same way and I am talking about Bullion banks here who are dealing with us and with others as well they believe the same that there is no rational for the base rate fixing. So we do hope that RBI would consider a comment that we have made. Of course even the Gem and Jewelry Federation would have made comments on similar lines the government is already taken up the customs duty 6% to some extent the questions raised in the report have been addressed. Of course we are working on trying to reduce the overall imports by looking at stocks which are lying in our homes is 20,000 – 25,000 tons, which has been the talk of. But we do hope that the RBI would look at this favorably because the quantum of gold which is coming in on the metal gold loan basis about 50 to 70 tons out of the 900 ton therefore first of all its not material secondly it's a back to back there is no subsidy etc., happening so we don't think there would be any reason for them to do that but if they do it then it's a very different case because when the business model would have to change drastically. We might be going for example the 90 days direct import basis that makes far more sense because there I would still get possibly the lower rate and we would not have liquidity as much in terms of credit period. So our business model may change slightly but we are hoping we don't need to go to that.

Richard Liu: If I understood you correctly I mean right now you are actually choosing to sacrifice some bit of a margin to maintaining working capital efficiency?

S. Subramaniam: That is right. That is what we are doing we are taking it from the domestic gold banks now at 180 days slightly higher cost but thats still better.

Richard Liu: And if the base rating comes in then you will probably suffer working capital deterioration to that extent?

S. Subramaniam: It makes absolutely no sense doing in that case so we would look at possibly the 90 day direct import.

C.K. Venkataraman: So we will sacrifice capital term dilution for EBIT margin improvement.

Richard Liu: Sir it is very useful thanks and wish you all the best.

Moderator: The next question is from the line of Subramanian PS from Sundaram Mutual fund. Please go ahead.

Subramanian PS: My query was on the new businesses that you said you would want to enter into one is on the *Fastrack* part of the business where you said you would want to introduce more accessories like helmets and second thing was on the silk business just wanted to get an update on these two how is that progress so far?

Bhaskar Bhat: Silk business is a not a business we have been evaluating amongst the many, many categories which we were asked about what categories would you be looking at amongst the many categories, silk was also mentioned. But yes *Fastrack* has expanded itself apart from bag, belts and wallets we had mentioned helmets. The projects has got delayed a little it should have been launched by now, but it has got delayed for various reasons of design and quality and sourcing. So that is a next product that is coming up. And we have been evaluating other categories.

Subramanian PS: Thanks. That is it from side.

Moderator: The next question is from the line of Rohit Gajare from UTI Portfolio Management. Please go ahead.

Rohit Gajare: Could I get a couple of working capital numbers what is the inventory levels and payable days?

Bhaskar Bhat: Across the company?

Rohit Gajare: Yes for the company. Basically I want couple of balance sheet number the inventory, debt payable?

S. Subramaniam: We do not give it now. Sorry we do not share other than half yearly we give the balance sheet. So we do not actually give you the numbers at this stage.

Rohit Gajare: Okay can I get the cash balance as on date?

S. Subramaniam: Even that we do not share. We do not share the balance sheet in detail.

Rohit Gajare: Thank you.

Moderator: The next question is from the line of Rakesh Jhunjhunwala, an Individual Investor. Please go ahead.

Rakesh Jhunjhunwala: One thing I wanted to know is this share of studded jewelry, will it be 27% for the year or you expect some further dilution studded jewelry in the current quarter?

C.K. Venkataraman: Certainly it will be 27% for the year because quarter four we get a very good share and the thing is that targets are typically higher than 27% for the last quarter which I am not sure yet.

Rakesh Jhunjhunwala: Secondly I want to ask I am confused about your like-to-like growth and what is the same store sales growth in jewelry?

C.K. Venkataraman: For which period?

Rakesh Jhunjhunwala: For the last quarter?

C.K. Venkataraman: 10%.

Rakesh Jhunjhunwala: 10% the same store?

C.K. Venkataraman: Tanishq 10%.

Rakesh Jhunjhunwala: Both together also about 10%.

C.K. Venkataraman: It is 10%.

Rakesh Jhunjhunwala: And what is the total square feet area you added on 1st April 2012?

C.K. Venkataraman: 383,000 sq.ft. was the opening area on 1st of April'12. So this year, we have added 110,000 sq.ft.

Rakesh Jhunjhunwala: Another thing is that some news in the press of what were the business you are going into, into education and fragrances and helmets so have you decided which business you are going to into and by what likely timeframe?

Bhaskar Bhat: We are in the business of making money for our shareholders. That apart the education business has been misinterpreted. We have come out in the open and said we are looking at kids as a category. Now when you perform a market research etc., somebody has come to the conclusion that this is gone into and we wanted to get into it in a novel way. Now edutainment has been the conclusion so let me once again clarify that just like *Fastrack*, we have identified children as a segment and to enter into that segment in a unique way through product so edutainment is the thing. Helmet yes it has got delayed it is certainly on the card so right now it is helmets and kids segment is little far away from launch and we believe to concentrate on the current three businesses in life time especially this difficult year we would have to focus on network expansion improving margin and sales growth.

Rakesh Jhunjhunwala: So the new products are not the real focus?

Bhaskar Bhat: Not a significant focus I agree.

Rakesh Jhunjhunwala: Not even fragrances?

Bhaskar Bhat: Not even fragrances.

Rakesh Jhunjhunwala: Thank you.

Utpal: With regard to Helios at this point of time our network expansion is seems to be growing at a very fast cliff where should we end up by the year end in Helios and by what timeframe will Helios exceeds 25% of our total watch sales?

Bhaskar Bhat: It is a long time. It is sure by the end of the year the expansion will happen. This year has been a more aggressive than last year but we are seeing good traction per store. The profitability per store is the only question but again this is an investment for the future Utpal but 25% is the long way off. We have not estimated I mean that is a good question to figure out but we have not estimated when it will be 25%.

Utpal: I have follow on question on that then like Helios would you look at even higher segment chain store like Helios?

Bhaskar Bhat: In fact Helios was our first step in multi-brand retailing but of premium watches. World wide this is the very important segment which is luxury watches and our play in the luxury watch segments we have been evaluating whether to do it through our own brand or through retailing. it fits as an opportunity certainly luxury watch brand sales or luxury watch retail sale is the only debate in the company we are not yet ready to launch anything separately.

Utpal: Thank you very much.

Moderator: The next question is from the line of Manish Jain from Nomura. Please go ahead.

Manish Jain: I just wanted to get your sense on the studded jewelry share once again I know I am picking your brain a little bit here but the share was 32% in Q2 right and then it deteriorated to 22% in Q3 do not you think its too big and too sudden a move to happen on a quarterly basis and to be attributable just to the consumer sentiment?

C.K. Venkataraman: To clarify in quarter two we had diamond activation where we gave up to 20% off on diamond jewelry to customers because of which the studded share was 32%. 32% fell to 22% in Q3, now the Q3 studded share normally would have been 26% or 27% and not 32% because we do not do and did not do a studded activation in Q3.

Manish Jain: But studded activation has started again from January this year right sir?

C.K. Venkataraman: So we are not talking about Q4 now right we are talking about Q3.

Manish Jain: I got my answer.

Moderator: The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir my first question is on your proposed venture of edutainment I do not know what all would be the business model but just wanted to get a sense on your side that you know the return ratios in your existing businesses are very high in jewelry it is as high as 100% and in quarter.

Bhaskar Bhat: I think we should not proceed because as I said earlier this it is been misinterpreted from a children category to edutainment.

Ankit Babel: So what exactly would be the game plan?

Bhaskar Bhat: *Zoop* is the children's brand so the adjutancy is for watches much like in *Fastrack* where we have explode adjutancy as the sun glasses, bags, belts, wallets helmets etc., our children is a very big category potentially very large because parents spend significant amounts of money because of nuclear families and all that on keeping them happy and so beyond toys there are lots of products which they invest in so this we are seen as a potential segment and we have a toe hold in it through *Zoop*.

Ankit Babel: Okay so you will be supplying only products for the children not any education?

Bhaskar Bhat: To begin with yes.

Ankit Babel: Sir my second was that though you had a target of increasing your share of stud jewelry to 40% but you know if you could just quantify how long like would is it a five year target or a three year target or when you plan to increase it to 40%?

C.K. Venkataraman: It was part of our five year plan in 2008-2009. We wanted to improve our EBIT margin from around six, which was at that time. So around 10% or across 10% by 14-15 with this studded share increase to 40% but unfortunately or fortunately the gold jewelry business grew much more than what we thought in the intervening period, as a result of which even though we met a studded sales numbers our share did not improve as much as we thought or we wanted to improve and we ended up achieving our EBIT margin before 2010 even though we did not achieve the studded share, they are reasonably far from it.

Ankit Babel: There is a scope that once it goes to 40% there is a scope for further improvement in margin that's what we need to understand?

C.K. Venkataraman: Yes exactly.

Ankit Babel: Sir lastly on your watches they have been disappointing since last few quarters both in terms of growth and in terms of margin you had already thrown some light on that but still you know the 14-15% kind of margin can be witness in the next few quarters?

Bhaskar Bhat: Not next few quarters but certainly that is the endeavor to improve go back to the 14%-15% which we were at and initiatives are in play but it won't happen like that in the next few quarters.

Ankit Babel: Sir but definitely it would not deteriorate from here?

Bhaskar Bhat: Yes.

Ankit Babel: Thank you so much.

Moderator: Ladies and gentlemen due to time constraint the management will be taking one last question. The last question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: I just want some clarification on the credit related policy and the few numbers, which were shared earlier the 25 basis points impact that you highlighted is a function of today the gold leasing been done from local banks vis-à-vis international banks earlier?

C.K. Venkataraman: Yes.

Pritesh Chheda: It is 25 BPS increase on account of that. Second you know the contemplation is that 180 days local bank comes down to 90 and you have two choices here. One choice is you still be with the 90 day the renewed 90days credit with the local banks or use your direct import license and avail the 90 days credit there. In the direct import and the 90 days credit how does the costing would work vis-à-vis the current costing from local banks?

C.K. Venkataraman: We are not clear. It is a little fuzzy there because the party involved there is the bank let us say of Singapore from whom we will be directly importing so the current understanding is that if the base rate changes it will apply everywhere. Therefore we will go to the cheapest we will go the direct import route because for obvious reasons.

S. Subramaniam: We are not actually sure of that because the base rate today the recommendations is on domestic bank applying base rate so it does not talk about that, so at the point yes actually it's is not clear at the moment how it will play out. We know what will happen if for example 90 days come up, we know what will happen to our capital employed, we will know what will happen to ROCE at the current levels and therefore direct import can give us. All those scenarios are known to us.

Pritesh Chheda: Can you give some idea on the ROCE and the cash flow if a 90 days comes in?

C.K. Venkataraman: No not on the stage now.

Pritesh Chheda: From the costing perspective instead of 180 if its 90 transactions charges which gets in?

S. Subramaniam: It is just a small amount.

Pritesh Chheda: What is the larger impact is shown from the cash flow perspective?

S. Subramaniam: Yes correct.

Pritesh Chheda: Now how much of the entire arrangement is shown on balance sheet and how much is off at this juncture?

S. Subramaniam: Everything is on balance sheet.

Pritesh Chheda: Lastly my last question is on *Fastrack* if you could give us some performance targets which we have achieved for nine month fiscal '13 the brand size, the growth, the reach, and you know the cash break even here?

H.G. Raghunath: The store expansion has continued the way we have planned and if you see the *Fastrack* like-to-like stores growth, which is 31% which is healthy. The *Fastrack* brand has recently been launching new products called *Commando*. *Fastrack* bags and packs were recently the campaign for them was received very well. The Facebook fan base has gone up to 5 Million.

Bhaskar Bhat: It has also been also been adjudged fourth best amongst the youth the brand equity, *Fastrack* is the unique model of brand promotion both in media as well as in creative. It has very strong connect with the youth. So on the brand side yes. On the sales side the rate of growth has been affected by the consumer sentiment overall but it still growing like-to-like 31% and we do expect to meet our profit target even if do not expect to meet our topline targets of *Fastrack*.

Pritesh Chheda: What are the nine months sales for *Fastrack*?

S. Subramaniam: We do not share numbers.

Pritesh Chheda: And lastly I just want to check one thing is it a fair assumption that next year as well there should be a minimum square feet addition of 200,000 just as it was this year in terms of target?

C.K. Venkataraman: Nothing to share at the moment.

Pritesh Chheda: Many thanks to you and all the best sir.

Moderator: Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Sameer Deshmukh for closing comments.

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

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