"Titan Company Limited's Conference Call Discussion Of Damas Jewellery Acquisition"

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TITAN COMPANY LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Titan Company Limited's Conference Call to Discuss about Damas Jewellery Acquisition.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. C K Venkataraman – Managing Director, Titan Company Limited. Thank you, and over to you, Mr. Venkataraman.

C K Venkataraman: Thank you, Sagar. Thank you, everyone who is on the call. With a lot of excitement that I would like to share the background relating to this development in our life.

You are all aware that we have been in the international jewelry industry in some countries starting middle of 2020. And particularly in the GCC, we had some early intentions to start catering to nationalities other than South Asians, Indians to start with, other than South Asians thereafter. But after some time, we started realizing, which of course is not a surprise, but we started realizing that for us to actually make a mark in other countries, other cultures, relevance, brand assets are very, very key. And as we started observing the jewelry market in the GCC, the kind of customers who are there, the fundamental aspects of jewelry, like in India, this whole thing of gold rate, making charge is such a big part of Indian jewelry purchase because customers give a whole lot of importance to the store of value aspect of jewelry in India and the accessory value is thereafter. Whereas in most international markets, and in this case, even in the GCC, the accessory value of jewelry is very strong, which means the question about gold rate, the question about making charges, all those are not there and even the share of diamond jewelry is very high, the share of what we would call value-added premium gold jewelry is very high, where the making charges could be 40%, 50% at that level, you do not even know because no breakup is given. So, therefore, it is a true accessory market with multiple advantages coming as a result of that fundamental aspect.

So, we started warming up to this whole thing of becoming a global jewelry company because there are so many things that we do well as a jewelry company after nearly three decades of being here. And it would be totally natural for us to capitalize on those capabilities and actually scale through inorganic outside India as opposed to take only the diaspora and our own organic brand route, which of course is going at a very, very brisk clip. All of you are aware of the Tanishq march outside India.

So, this sort of slight intention, desire, openness and all that of course in the backdrop. And when this opportunity came our way some months back, and Damas was very well known to us. We had, in fact, worked with them many years back. We were present in some of their top end stores in the

UAE, particularly with small collections of Tanishq, starting around 2015. We were familiar with the brand, with a few of the people in the company, and we were aware of the chequered history of the company and of course the strong lineage and actually the strength and the popularity of the brand in those markets. And when this opportunity came, we immediately warmed up to it and thereafter many months passed and here we are.

So, if you go back to the strategic rationale, Tanishq is doing exceedingly well, growing at a very, very high double-digit in the GCC over the last few years and we see the momentum of that continue for a while because the network expansion opportunities are still there for two, maybe three years, and thereafter it will probably slow down a little to 15%, 20% kind of LTL and all that kind of growth. But the market for added customers is totally open. We do not play there. While we may get one-odd customers here and there who are Jordanians or Emiratis or Saudis or Egyptians or other ethnic nationalities, there are few and far between the brand name is not relevant for them, the products that we make are not relevant, our sales staff are Indians and South Asians. So, every which way it is not meant for Arabs, but the jewelry market for Arab segment is $4 billion and particularly the UAE and KSA continue to be stable parts of that region, and the macro-outlook is reasonably strong. GDP growth rates are pretty good and the overall interest in the jewelry category is also strong. It is an accessory market like I said very high diamond jewelry, very high share of value-added gold jewelry products as well. So, gross margin is very strong. Very strong brand in the UAE, the #1 brand in terms of recall, consideration and all that, pretty strong brand in the KSA, not as strong as UAE, but pretty strong, nevertheless, with exceptional distribution in the UAE, some distribution in the KSA and some Qatar and Oman and all that. But these two countries, UAE and KSA make up for 75% of the opportunity.

So, very strong brand, strong networks, good organization, culture fit and all that. People who know customers in those markets very well. So, we saw it as a good combination of strength that what they bring to the table, the customer obsession, the deep category expertise in terms of processes and all that, the strong retail ops experience that Titan company has. So, three, four things that the Damas company brings to the table, three or four things that the Titan company brings to the table, and together, we can really march far faster, better, higher than they have been able to do. And the owners of the company were also not from the consumer businesses, and therefore, it made sense for them to look for a company like Titan and Tatas and all that. And they were very particular that Damas gets housed with the right partner, and they were also very keen that a partner like Titan, Tata is the right one. So, that is where we are.

And I think from an acceleration of the expansion of Tanishq in the region as well, this partnership has got potential to sort of kick-start and take the acceleration to a higher level.

So, one is the role of Titan Company in the management of the Damas business catering to the ethnic Arab customer segments across the region and scaling that at a faster rate than earlier bringing to bear multiple capabilities Titan has, using it with the strong assets as well as the capabilities that Damas has. So, that is one part of the benefit.

The second is the acceleration of the Tanishq brand in these two countries and even other parts of the GCC countries because of the connection, because of consolidation, the benefits some of which are very visible, some of which are like under discussion. So, this is the background to it.

And also, the way we operate. You are aware that we operate, we create divisions or operating subsidiaries, we create strong leaders, build or bring strong leaders for each one of those business units or subsidiaries, and we have a central leadership team, which is M.D., CFO, CPO, Chief Digital Officer, Chief Design Officer and so on. So, the center gives a fair amount of operating freedom to the units, and in a way, connects at the levels of values rather than on strategy and of course on the financial performance targets, both credit, ROCE, cash flows and all that and gives a very good freedom to the operating units, and therefore, we were also clear that this would not come in the way of complicating Titan companies, like today because we did think about where are we today, what are the things which are high priority for us between domestic operations, intensifying of competitive activity in the jewelry industry in India, the scaling up requirements of the new businesses which has taken a little longer than we thought, the consolidation of the international businesses to extract the appropriate value, which is that is not taking time, but that is certainly a priority, now how that scale has been established.

So, in all these priorities and all these things are in our plate, would this be the right time to do this, but finally, the markers are never clear that this is the right time to do anything. I think it is finally a matter of judgment that we apply. And after considering everything on our plate and some of the things that are starting to play out very well in the domestic market, in the new businesses as well as the consolidation in the Tanishq jewelry business outside India, we felt that we can certainly and we should take this on at this moment and create the same leadership depth and give it the same freedom, while retaining, like I said fundamental aspects of control over values as well as financial performance.

So, this is where I would stop and perhaps leave some space for questions before Ashok comes in, in the next part.

Moderator: We will now begin the question-and-answer session. Our first question comes from the line of Avi Mehta from Macquarie Capital. Please go ahead.

Avi Mehta: Yes, hi, team, thanks for the opportunity. I just wanted to kind of understand the growth opportunity in Damas, especially if you look at the historic sales over CY'19 to '24, it has been largely flattish, if you could kind of just give us a sense on how do you see the opportunity here, what gives you confidence because while Tanishq you cited to double-digit on 15% to 20%, is that number something that you cite here as well? And just a related bit, what I am trying to also appreciate is how should we look at the acquisition synergies in terms of margins, in turn to appreciate the EPS dilution / accretion over the next few years?

C K Venkataraman: Yes. Thanks, Avi, for that question. If you look at the UAE market, the UAE market is where Damas is pretty strong already from a network point of view I would say it is at a mature level with some scope for network expansion. But the opportunity for the acceleration of market share in the UAE is still decent, both from a share of catchment increase at one level as well as the significant improvement potential that are sitting in the retail KPIs in the existing stores. We build our sales in the jewelry business, particularly through metrics called walk-in conversion, basket size, ticket size and the total sales value. So, when we look at the 140 Damas stores across the region, and maybe 60 or 70 of them are sitting in the UAE, the opportunity for maximizing the sales through driving the KPIs in each one of these, that potential is very strong and therefore, we see a decent sales growth CAGR coming from the UAE. If I look at the KSA, KSA is a much lower penetrated market for Damas, relatively much less organized as an industry than the UAE and therefore the opportunity for the formalization is greater, and it is also a country which is sort of poised for a dramatic social change, there are hundreds of thousands of young women, women in general and young women, in particular, whose lives are changing dramatically in the KSA, women are driving Uber taxis at night and taking up jobs in various fields, and therefore, the accessory potential for a new social transformation that is happening in the KSA from a customer's point of view is very strong. And therefore, not just in the jewelry market of today, but shaping and expanding consumption of jewelry with these social changes happening in the KSA is one. And on the jewelry market itself, because the market share is very low, the presence is middling I would say, and therefore, the opportunity to set up a lot of new stores in KSA is very high. So, in the business plan that we have worked with the team, the thrust is actually the KSA expansion in terms of new stores and substantial improvement in the retail KPIs in the UAE. And through these, we expect a pretty decent sales growth that we are looking at. At the moment, we are not sharing the sales growth. Obviously, the Tanishq situation is rather different because it is a very new brand to market full of Indians, and therefore, just by opening stores in so many places, our overall CAGR is at a much higher level. So, on the second part -

Ashok Sonthalia: Just to add to Venkat, while Venkat spelt out the opportunity, how do we see in the future, to your question that you looked at 2019 to 2024 data, and I wanted to provide you some context to that. In terms of the refocusing and positioning brand towards more Arab customers around COVID time, large part of network was closed down by Damas in their effort or in the judgment of that management team. So, that about 20%, 25% of network was closed down and rationalized at that point of time which is falling under that period of 2019 to 2024. The other one also Damas was while mostly targeted towards Arabs, but it was also doing Southeast Asian and Indian, there is a part of network, which is focused on that. And that part now is we are kind of refocusing that, that did not be continuing in the same format and that part in the last five years with the increasing gold price volatility, lot of large Indian jewelers expanding their retail was under pressure as far as the Damas as a player. While they are doing very well on the Arab side of it, they call that 'Signature' network, that is doing well. But this part of it, which was also a significant part in terms of value was under pressure. And this is what you see the flattish number. One is the retail network closure. The other one, the Indian Southeast Asian part of the business under being pressure resulted. We are repivoting the strategy of Damas to completely focus on Arab nationals and expats and those kind of premium customers. And that is how we are very confident. And if you look at only that portion of growth in the last two, three years, they have been growing healthy double digit I would think around 12%, 13%, 14% as far as that part of their network is concerned. So, that is just some context on 2019 to 2024. Your question of EPS..

C K Venkataraman: Before that, I am just building on what I Ashok say, so there are some reasonable number of stores of Damas which are focusing on the South Asians with not so much of success that he was describing. Now in the whole consolidation process, we would be converting them into Tanishq stores, and therefore, the whole kick starting or acceleration of the Tanishq journey in the GCC region will be enabled by this fusion.

Ashok Sonthalia: Yes, yes. And now coming to your last point on EPS, our current estimate of the future is there, which will get further sharpened. So, CY'25, they follow calendar year at this point of time, CY'25 is going to be used for all these restructuring which we have in our mind, the Southeast Asian-focused retail network partly getting converted into Tanishq, partly running, partly getting closed down, some of the inventory refresh actions, etc., would be done. So, CY'25 is kind of a restructuring year for us. And the real work and the value extraction, I would say CY'26 onwards would start. CY'26 would still be EPS-dilutive at a consolidated Titan balance sheet level. We believe CY'27 should become neutral and CY'28 onwards it should be positive.

Avi Mehta: Got it. Very clear, sir. Very clear. Just if I may, more strategic, I hear you in the start that you were kind of looking at an international footprint, so would you see this is more like an attractive opportunity which we have capitalized or a start of expansion into other international markets? I mean where I am coming from is the history, unfortunately, is littered with consumer companies who found it difficult to make international expansions work. So, would love to hear your thoughts on how we should look at it from a strategy perspective? That is all from my side.

C K Venkataraman: Yes. It is not an easy answer. You are very right in your overall observation about the history. One of the other considerations which were strongly there, even before we were seriously into the Damas evaluation was also the distance from India and the cultural like, for example, investing in a company in the US targeting Americans versus investing in a company in Dubai, targeting Arabs. Both our familiarity with the GCC even a geography, we have been there many times whichever way and it may be a little easier for us to understand Arabs, even organizational cultures are perhaps more alignable, it is four hours flight to Dubai versus 14 hours to LA or whatever it is. So, those are also considerations and culturally different and all that. So, it is a first important step whether it is going to naturally lead to the second or third, we will see. I think it will make us more confident. And obviously, the success of this is not that six months from now, we will be talking about another international company in any case. So, we have to become confident that we can succeed, that we can integrate with, that we can keep it free and then extract the value the milestones for the EPS thing has to happen. Otherwise, it would be pointless for us to simply look at second. But if we succeed and the milestones are visible, then the question would be why not some other company? Because finally, it is the capabilities of Titan company, in a way, a global leader. We are a domestic operation, yes. But we would think that we are a global leader of sorts certainly in some areas on capabilities. So, why would we not want to use those capabilities globally.

Avi Mehta: Okay. Thank you very much.

Moderator: Our next question comes from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Hi, thank you Venkat and Ashok for the detailed rationale. Sir, some book-keeping questions. The EV that we are paying is close to INR2,400 crores. Is there any goodwill component also in this?

Ashok Sonthalia: So, Devanshu, the way we have looked at it, we have of course disclosed about AED 1 billion is the Enterprise Value. And of course, you would know the Equity Value will be derived at the time of closure, with the debt and cash and some other adjustments, which we have agreed to. And so 67% equity will entail a certain cash outflow at the time of closing which will be of course less than 67% of Enterprise Value so it will be further less than that. So, tranche one is the cash outflow, which we have drawn our comfort when discussing or agreeing for the price with what business currently has, what kind of assets it is backing. So, it is a very, very reasonably priced tranche 1 keeping Titan risk at a very, very manageable level. And I think both the partners, when we work for the next five years and bring all the Titan operating excellence, which is more required, brand is already there and retail network is already there at a very, very key location which is very, very difficult for any other player to get hold of. So, over the four years when the value gets created, I think both the partners will actually realize far higher value and Mannai, who is the seller, they will also be hopefully rewarded well at the time of Tranche 2.

Devanshu Bansal: Understood, sir. And where do you plan to raise this debt capital? And what is the expected cost of debt for this accretion? So, whatever may be the capital outflow that we are foreseeing, so I am asking related to that.

Ashok Sonthalia: So, we believe we will be raising this fund at our overseas subsidiary only where the asset is in the same geography we will raise the funds. With the current indication of the interest rates, I think about 6% plus/minus we should be able to raise this fund. Largely, debt funded, a very small Titan money would go to that. That is the current thinking. But we have time for the next three to four months. This acquisition requires certain customary antitrust approval in the two, three geographies. And so we have three, four months to kind of fine-tune our debt raising strategy, but that is the thinking at this point of time. And if you really want to say about AED 500 million to AED 550 million, about INR1,200 crores kind of fundraise at 6%, that is the size we are looking at.

Devanshu Bansal: Fair enough, sir. Just lastly from my end. So, Damas definitely is a strong brand, but in that particular part of the geography, the purity of gold is unquestionable, right, and many retailers sort of sell basic design set via zero making charge as well. So, in my opinion, design is the only big differentiation in that part of the geography where Damas has an edge. Do you think that the turnover typically can be relatively lower because obviously the customers may be purchasing from somewhere else, and also because design is the only component, so the brand may have relatively lower margins versus what we command in India?

Ashok Sonthalia: So, like the Signature network, we focused on Arab and expat population where the going forward future focus of Damas would be a network expansion also will be there. The ratio of studded and gold is pretty high there. About 50% or more is the diamond jewelry, which is picked up by these customers. And gold also, as Venkat was alluding to, it is not metal plus making charges kind of things, mostly per piece prices happen. So, actually, Damas gross margins are better than certainly in India what we get. So, as long as some of the synergies and cost things are being worked on and sourcing efficiency, inventory efficiencies are brought in, actually, their margin can improve quite a bit.

C K Venkataraman: Also, the best practices of Titan company in what we call merchandising effectiveness, which is understanding the requirements of customers in every catchment and creating what we call category price band structures for that store, populating them with the right best sellers, keeping buffers for supply so that things are not stocked out. So, that entire machine, the principles as well as the machine once we bring in and the scale economy from a per store sales, that opportunity will directly kick into the margin expansion also. So, that is the potential that is waiting to be unlocked. Obviously, we have to execute well, but I am saying in principle those levers are very much there.

Devanshu Bansal: Thank you, Venkat, Ashok. Thanks for taking my questions.

C K Venkataraman: Thank you.

Moderator: Our next question comes from the line of Videesha Sheth from Ambit Capital. Please go ahead.

Videesha Sheth: My first question was, are there any changes in the business model of Damas that can be expected because based on the existing numbers, it seems that it is holding an asset-heavy model. So, I just wanted to know how will the operating model evolve post-acquisition? Are we looking to convert any COCO stores into franchisee-owned?

C K Venkataraman: It is too early to comment on this, Videesha. Too early to comment on this actually. The franchising model is not a common model in those parts, even though we are running a pretty robust franchising model in Tanishq ourselves. That is because we are used to it. But no, no view yet. We need to get into the business to conclude on those things. Maybe a year from now we will be in a much better position.

Videesha Sheth: Got it. The second question was on the sourcing bit. Just wanted to understand how is the sourcing managed for Damas? I mean since 40% of Titan sourcing is coming through the GML facility. So, I just wanted to get an understanding from that market.

Ashok Sonthalia: Okay. So, Videesha, because as we are saying that going forward, their product portfolio mix will undergo some change because their focus on South Asian, Indian diaspora will reduce and gradually keep coming down and go in favor of Tanishq, etc., And right now, all the sourcing of gold, GML is available in those markets also. So, they have been extensively using GML. As time progresses, I believe the reliance on GML will keep coming down and the non-working capital loan to support the diamond jewelry, etc., will go up. But GML is available and as much as gold you want to carry, it can be supported by GML at a very, very attractive price there also. My colleague, Vijay, wants to add something.

Vijay Govindarajan: Like India, there are restrictions on the tenure of GML. In India, we have 180 days tenor, whereas there you can continue to carry the GML longer.

Videesha Sheth: So, just wanted to understand, if I look at the finance cost or the finance charges as a percentage of sales, it was pretty steep versus the India operations. So, just wanted to get a sense can that reduce going forward?

Ashok Sonthalia: So, with the Titan credit coming into play, we definitely expect all these facilities can be further fine-tuned. But they have been also running their ship nicely, I would not say, but some possibility to bring down finance cost because asset turnover comes through more asset turn, inventory optimization, some of the inventories which we discovered can be actually through asset turn can be improved and capital can be brought down. So, through that finance cost will come down. From the rate perspective, opportunity is minimum, but that also will be exploited.

Videesha Sheth: Got it. The Signature network that you are alluding to, how much percentage of sales does that make up for Damas?

Ashok Sonthalia: In terms of number of stores, there were about 65%, 70%, and in terms of top line about 50% - 55%, roughly half up between gold jewelry and Signature network. It was there, but this mix is going to change as we progress.

C K Venkataraman: Because the gold jewelry stores of Damas. typically target South Asians and Indians. And there the ticket sizes are high, per store sales is high, but it is all gold-led like here. And those are the ones which are waiting to be converted or closed or a few of them including the support of Tanishq, some Tanishq merchandise can also come into those stores to strengthen it.

Videesha Sheth: Got it, got it. That is helpful. Thanks. That is all from my side.

Moderator: Our next question comes from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: Hi, I had a couple of questions. First was, as you are trying to grow Damas in these markets, what is the market structure here, in the sense that the share gain will be organized and organized shift, or you would have to gain share from large, organized chains which are already there? I just wanted to understand the main source of growth. And also, what is the industry growth in these markets if you could give us a broad sense of?

C K Venkataraman: Hi, Arnab, Venkat here. The growth would certainly come from a shift, I mean unorganized to organized rather more in the KSA and relatively less in the UAE. And this is a really difficult for me to be that clear at this stage. But when I look at the potential for extracting value from the operations of the network, for all those people who are coming into every store every day, are we maximizing the bill value from each one, are we maximizing the number of people who are coming in who should go out with the bag in their hand, that opportunity is reasonably visible. And where they are finally going and buying today is not that clear to me yet for me to totally confirm on this. But in both countries, certainly to the nature of the industry, I would think that the maturity of the South Asian jewelry industry in the GCC is perhaps at a slightly higher level than the maturity of the jewelry industry, which is targeting the Arab segments. And I am not talking about the international luxury brands who are there, I am talking about the local brands. So, therefore from an opportunity for converting unorganized to organized in both the countries, the opportunity is there.

Arnab Mitra: And any broad sense of what share of the market is unorganized, any broad range of number there?

Ashok Sonthalia: So, I think UAE have become organized quite a bit. To my mind I would say 50% to 60% organized. And the reverse would be KSA. KSA is 30%, 40% organized maybe and 60% unorganized. Quite fragmented.

Arnab Mitra: Sure. And my one last question was given the higher studded share, the obvious question is, is LGD a bigger factor in GCC than it is in India. So, any insights on that? And is Solitaire a large part of the studded share? Those were the two related questions on the studded part.

C K Venkataraman: Damas themselves have a brand called GAIA, which is an LGD brand, which sells inside their stores. And they have actually managed to create a very good synergistic or consolidated portfolio strategy and GAIA continues to do well but sold as the natural diamond line of Damas. So, it is a good symbiotic relationship. So, no issues there. From a LGD presence to the extent that I can recollect and remember, it is rather more active here. I mean, a number of brands and stores, which are today in India seems to be rather more than what we could see or notice in there and Solitaire is not a very big thing in Damas. In fact, it may be a little more pronounced in GAIA than in the diamond jewelry of Damas.

Moderator: Our next question comes from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Just a couple of things. One was, you did mention in the release that the Graff portfolio you will not be taking it to. Just wanted to know how material is it from a revenue standpoint?

Ashok Sonthalia: Okay. So, GRAFF is you must be aware ultra jewelry global brand. And they had three stores as a franchisee partner; Damas was a franchisee partner. And that is going away. It is not part of our core transaction. So, GRAFF would like to run those on their own. It was roughly like in post-COVID era; GRAFF stores have started doing well because a lot of influx of expats were happening in UAE. And that is about 20% of the revenue, which we have also reported, about 20% was on account of GRAFF.

Harit Kapoor: Got it. Got it. And profitability wise also similar to the…

Ashok Sonthalia: Yes, while it was a franchisee, but the profitability was quite healthy, and gross margins were almost same as Damas own business. We do not know the details because then the rest of the costs were common, and we will not be able to call out the rest of the profitability. But it was a healthy margin business equal to the rest of the business.

Harit Kapoor: Right. So, this revenue that you reported in your release includes GRAFF, we have to expect to see the real size of the business that…

Ashok Sonthalia: It includes GRAFF and that 20% roughly is on account of GRAFF.

Harit Kapoor: And the second part was on the synergies. So, you did mention the revenue-led synergies. Are there any kind of opex synergies also rather opex costs that given that you have such an efficient player and you run your opex, so such a clockwork manner, is there a possibility in terms of synergy on that side also cost reduction possibilities. I mean, my question stems from the fact that the opex cost in Middle East is high, but just looking at the numbers, the opex numbers are reasonably high as percentage of sales. Is it a function of the market or there are some opportunities where you can streamline with?

C K Venkataraman: On the face of it, there is very much an opportunity. For example, if I were to just look at sourcing, so the consolidation of sourcing, the best rates that vendors give Titan on diamonds, on making charges, labor charges for jewelry, all that is a possibility. Titan factories making for Damas is a possibility because we have very deep expertise in manufacturing of diamond jewelry in Hosur, we have a plant, we have a plant in Pantnagar. So, the sourcing and of course the GML rates stuff like that. Talent, difficult to say at the moment in the sense that could we sort of support from India, and the talent cost could be lower, could we consolidate. Possible, but I would not venture there until we really get deeper into the business to understand all those synergy potentials. Certainly, in terms of negotiating with landlords, we will have two brands now opening stores, so we go to landlords with more square feet and therefore next to each other and all that, that consolidation thing, marketing budgets, I am talking media agencies and all that.

Harit Kapoor: Great. Those were my questions. Congratulations once again and wish you all the best.

Moderator: Our next question comes from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: Sir, my question is relating to the 146 stores that you have announced. While we have seen in the annual report that they earlier had some 300-odd stores, so what is the difference between these 300-odd stores versus 146 stores on that that you are reporting, what all are not included?

Ashok Sonthalia: So, that 300 stores number to my mind would be 2012-13 when Damas went into huge difficulty and a bankers-led transaction happened when Mannai, the existing owner came in. And of course, then different managements who were trying to kind of bring Damas out of certain difficult situation. So, that has been continuously coming down. In December '20, it was 182 stores, and I was referring to another 40 stores during COVID time got closed. And that is where 145, 146 in the last three, four years, something got added, something got closed. So, that is the number which kind of we have now with them. Again, we are saying out of 146, we have plan to kind of rationalize some of the Southeast Asian focused store, convert some of them into Tanishq, some of them will continue as Damas. And the Damas Signature part, which is right now about 110 stores, they will continue to grow and add in KSA and other parts of UAE.

C K Venkataraman: Targeting the Arabs.

Gaurav Jogani: That is very helpful. And sir, my second question, if you look at the reported numbers in terms of the EBITDA margin to the PAT margin conversion, while they make around 10%-odd kind of an EBITDA margin. However, the PAT margin is lower at 1%. So, really, what is that goes in like you can possibly help to bring it down and improve profitability?

Ashok Sonthalia: So, like if you look at pre-IFRS, then EBITDA is just breaking even 2%, 3%. But IFRS adjustment make it look much better than if you just deal with the rent without distributing into depreciation and interest, which IFRS forces you to do. So, they are just breaking even and slightly positive on EBITDA. And then all the finance costs, etc., which are real finance costs, keeps below that and mix whatever number you are seeing. So, that is the right way to think about it.

Moderator: Our next question comes from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Hi, congratulations on this acquisition and thanks for the opportunity. Ashok, could you explain us a little unit economics as of today versus the L1 store of Tanishq because even you did mention that 50-50 is the mix between studded and gold and gross margins are better. But if pre-Ind AS EBITDA margin is 3% despite no franchising, then what is the big cost item in their opex, which is very different from what it is for you in India? And is that more of a geographic thing or specific to that geography or is it something that you will be able to sort of bring it to India levels?

Ashok Sonthalia: So, the gold jewelry business, which was right now contributing about 50% has a very low (Gross Contribution) GC for them. And our focus is now completely on the Signature part of the network where very healthy GC is there. And my comment is with reference to that Signature part of GC. And because we are going to focus on that and expand that, I see definitely potential of their margin going up. And that is also the reason because when you compete only on the gold jewelry, UAE is a very, very competitive market, and I think Damas has been trying to respond to the onslaught of large Indian jewelers coming in and the local jewellers and that is where I would say that there was a difficulty with their overall profitability. And I think that has been now identified and will be acted upon as we get into the kind of more involved with Damas operations and execution.

Jay Doshi: The Signature part of the business, pre-Ind AS EBITDA margin is much higher than 3% is what -?

Ashok Sonthalia: Yes. But many common costs and then you have to get into allocations, etc., which sometimes also can… so this is why I would not venture into giving you EBITDA margin for Signature because corporate costs, many costs are common costs and then you end up allocating them and then you get a picture which may not be the right picture. But gross margin wise, the rest of the business, Signature business is a healthy gross margin business.

Jay Doshi: Understood. I know it is early days, but is there something which India business can benefit from Damas, either designs or something which is different, which you think, you did talk about that there are a lot of things that you do well, which you will be able to sort of improve the operations of Damas, but any cross-learning opportunities for you?

C K Venkataraman: Certainly, the immersion that the Indian teams will get through this acquisition to a whole new different world of customers and the kind of things that they buy, like stuff which is made in Turkey, stuff which is made in Italy, all those are very ultra-niche in India, and therefore, they are drowned by the abundance of the Indian jewelry in our stores, right? So, you do not see the green shoot potential of things like that. But when I make a visit, I am a merchandiser, I am a category person from Tanishq in India, and today when I make a visit to Dubai, I go to the Tanishq store typically. And even if I go to Damas store, it will be like a tourist, I cannot sit there, I cannot probe, I cannot get deep. But now it is a partner company. And when our teams go, they will go deep, they will talk to the store manager who may be a Jordanian and they will pick up those pieces in their hands and then find My God, so beautifully finished, they are very modern, yes, sure, the making charges are high, but then they fabulous and they are light and therefore, the total budgets are low. So, therefore, the confidence in trying these out, our standards will certainly be lifted by that kind of exposure, which today we would not get… we will get only like a tourist.

Ashok Sonthalia: And just to add, Venkat, the other piece also, and again, only as we get into, we will know for sure, they have good association with some of the international brands. Some of them sell through their boutiques there. And when our team visits that and if they find relevance because India is becoming more and more relevant for some of a little bit premium to luxury kind of…..

C K Venkataraman: Like Roberto Coin, Mikimoto, all these are sold in some of the Damas stores. We have met some of those leaders ourselves.

Jay Doshi: Which are the brands that Damas competes with for the Signature stores, right? Because I think there are two jewelry markets that exist in Dubai. One is basically catering to South Asians where making charge is lower than what it is in India and the other one is where making charge does not matter. So Signature part of the business, what are other brands competing there?

C K Venkataraman: There is a brand called Jawhara in the UAE and Lazurde is a well-known name in the KSA. And there are actually some independents whose names are not top of mind for me yet in the UAE as well. But they are like what I would call the better independents in India who are not unorganized or organized themselves very well, branded themselves, delivering a pretty good product quality and very good customer experience. But that 40% Ashok was referring to in the UAE, that 40% is not small also which is unorganized.

Moderator: We will take one last question from the line of Nihal Mahesh Jham from HSBC Securities.

Nihal M Jham: Congratulations for this acquisition. Sir, I have two questions. First one was on the competitive set itself. You did mention a couple of names. And just to get some clarity, would say, some of the international design-led brands also be a part of the consideration for the Arab population that we are serving or there is a different market for that?

C K Venkataraman: See, finally, these things would be defined by the price premiums that the international brands charge. Typically, the international brands that are popular and popular maybe not the right word, but desired across the world of the luxury jewelry brands, and they are out of reach for a large part of the population. Now the UAE and the KSA being much better off than India from a per capita GDP point of view, obviously, like there is no GRAFF store at all in India, but there is a GRAFF Graph store in the UAE. It says something about the ability of the Arabs to buy brands like GRAFF. But there is a very large I mean, relatively speaking, of course, but there is a very large upper middle-class equivalent in the KSA in the UAE, which would be looking for brands of our type. And that is where Damas would be. We have Cartier, we have GRAFF, we have got Bvlgari stores in Dubai, but those are the really rich Arabs whereas at the next level, you have brands like Al Ain, Samra, Liali and all that, which, like I said, I had to look at a slide and read those names because they are not yet top of mind for me. So, we are not talking about Cartier and Bvlgari and Van Cleef. They are there, but they cater to the rich Arabs whose percentage there maybe 7%, 8% as opposed to 1% in India, yes, but it is still high single digits as opposed to high double digits.

Nihal M Jham: Got that. Last year in the analyst meet you had given a target of USD 500 million for the international business. Does this acquisition be over and above that or it is a part of that target that you are looking at?

C K Venkataraman: I would certainly like this to be over and above that.

Nihal M Jham: Thank you so much.

C K Venkataraman: Thank you very much, Sagar, and that brings us to the end of this chat.

Moderator: Thank you. Sir, any closing remarks that you would like to give?

C K Venkataraman: No, nothing. Just that all the questions were so clearly supporting, encouraging us on this venture, and as always, grateful to all of you for that.

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