



PC Jeweller Limited Q3 FY 2016 Earnings Conference Call

January 25, 2016



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Moderator: Ladies and gentlemen good day and welcome to PC Jewellers Limited Q3 FY2016 Post Results Conference Call hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the 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. Pranshant Kutty from Emkay Global Financial Services. Thank you and over to you Sir!

Pranshant Kutty: Good evening everybody. We welcome the management of PC Jewelers. We have with us today Mr. Sanjeev Bhatia – CFO, Mr. Rajaram Sugla – Senior VP, Account and Taxation and Mr. Nitin Jain – the head of online business. We thank them for giving us the opportunity to host this call. I now like to handover the call to Mr. Sanjeev Bhatia for opening remarks. Over to you Sir!

Sanjeev Bhatia: Good evening ladies and gentlemen. Many thanks for sparing your time and joining us on this call. I am Sanjeev Bhatia – CFO and I have with me my colleague Mr. Rajaram Sugla, who is President account and taxation and Mr. Nitin Jain is also connected who is head of our online subsidiary.

I am sure that you would have gone through our financial results and the detailed presentation uploaded on exchange as well as the website. Q3 has been a good quarter for us; we have opened two new stores in this quarter, which also includes our first franchise store. This was our pilot store and we are very happy with the response. We are giving full tension to this new format and we will be able to open a few more stores in the next coming months.

The company's existing large format stores continue to perform well. I feel that the company's strategy of shifting its expansion to Tier I and Tier II locations is paying off now; however, again opening in Tier I or Tier II locations does not imply any dilution of standards either in quality, inventory, simple procedure, staff qualities training etc., so the efforts which goes in setting up a Tier I or Tier II store is as equivalent to what would have been in macro store. It is only the location which is different not anything else. We continue on our expansion, we have opened two more stores in January two are opening in February and work



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is going on to open three more in March. Thus the company is hopeful of closing this FY with store count of 63 as against 50 as on March 31, 2015.

I am sure that all of you would be interested in knowing our reaction to the new rule of pan card for any sales above Rs.2 Lakhs. This rule came into force only in January 1, and actually it's too early to quantify its impact if any. In any case the company has been launching various types of lightweight jewellery for more than a year now and today almost 70% of its sales are less than Rs.2 Lakhs. The fall in gold prices are also helped in the same. Also given a limited number of pan cards in circulation the government has also given permission to accept a few other identity documents like Aadhar etc., which we are doing.

We have displayed our smart jewellery in the Las Vegas CES show in the first week of January. It is a totally new idea and it is specifically targeted at young and working women. PCJ has a distinction of being the first jeweler in the world for this product. The jewellery incorporates a smart chip which gets synced with any mobile phone, the wearer of the smart jewellery would get call alerts, message alerts on the jewellery only, it also has a health features as well as SOF alert. We planned to do a commercial launch of the sale in Q1 FY2017.

Our online jewellery platform Wear Yourshine.com is going steady. This is a curated jewellery market place and we have brought various brands and reputed designers on board as well. Our catalogue was also increased significantly. We are convinced out of platform and are investing in ramping up technology and operation.

I now leave the forum open for questions. Thank you.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Nitin Mukhi from BW Holdings. Please go ahead.

Nitin Mukhi:

First of all congratulations on good set of numbers. I have several questions, to start with I just want to understand kind of brand that we are using for the small stores because we understand that PC Jeweller stands for something which is high value something that high network people associate so are we using a

separate brand for the small retail format? Second question was in terms of shop expansions, so now we have three category of shops our own brand the franchise as well as the small retail so going forward what will be the proportion of these three set of stores expansion and the third question was in terms of certain resolutions passed at the AGM in terms of raising more funds, increasing FII limits, so what is the update on that and finally if I can squeeze in one more in the last call there were certain discussions in terms of using technology extensively to improve your experience so if you can just further add on to that about development happening on that end? Thank you.

Sanjeev Bhatia:

If I start from last number regarding technology extension, we are still working on the same, we have been given few demonstration by the provider, we have asked for certain amendments and certain improvement and frankly as on date we talk the work is still going on. So I am not very sure or I do not have any exact date by which we would have a working model in our store but the basic format has been worked out now only the gaps have been filled in so this is regarding technology. We are hoping hard but frankly we are not the actual doer we are depended on someone else to fulfill our requirements so we as on date if you ask me I cannot quantify the date why this date, but we will be working on our stores, but on the background work is going on. If you look at the various resolutions passed, yes they were working and as on date there is no update on the same. Further fund resolution is valid for an enabling resolution, valid for a year and that gives the company some comfort and some thing going for further whenever it actually feels the need for the same and I am sure the board will take a suitable decision, whenever the actual requirement comes. Now if we come to your various format store so let me tell you for the customer, any customer who enters in either of these stores there is no demarcation. This demarcation is something very much internal to the company and this is more of how we are approaching that particular location rather than any store differentiation. So if a customer wherever he or she goes they will not be able to whether it is a franchise store it is a small store it is a large format store. The only difference would be that in the location where each of this specific format is located and the size of the store but given the system, technology, quality of inventory, procedures or decors or whatever the customer will not be able to tell the differentiation.



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Nitin Mukhi: But Sir we have this exclusive launches in the big format stores and now the fear is that we should not dilute the mother brand especially using the same name for small retail?

Sanjeev Bhatia: See again as I said it is the small or this is something for the internal for the company, it is more to do with the location where that store is being made. It is not to do with the brand dilution as such. Even today if you look at our existing large format stores also the inventory of retails as per the purchasing power of that particular target area, which the store it servicing. If you are even within Delhi the level of inventory, which is available in our Karol Bagh or South Extension Stores will not be there in this thing our Pitampura or Preet Vihar or Indirapuram stores because we keep the inventory as per the purchasing power also. If you look at Chennai where we have or if you specifically ask me about the launches so where we are getting that type of clientele so we have created that launches and in those launches high value jewellery is available so I do not really feel that keeping a whatever 'X' amount of inventory in a location where there is no purchasing power or the same, whether it is a small or large that is I do not think will help anything. So this is more of the policy decision, what type of inventory to place in, which type of store. The format is frankly a relevant for the same.

Nitin Mukhi: Finally in terms of expansion that we see going forward we have now three categories of stores so which category is going to see the highest expansion going forward?

Sanjeev Bhatia: See we will be very happy if we are able to open more franchise store because that gives the company method of expansion without investing any of its or a very negligible amount of stores capital but we cannot remain dependent on specific growth format so going forward we will be working on all the formats and in various types of location.

Nitin Mukhi: Thank you.

Moderator: Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Securities. Please go ahead.



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- Manish Poddar:** Hi Sir, I had few questions. You said that 70% of the sales are below 2 lakhs right?
- Sanjeev Bhatia:** Yes.
- Manish Poddar:** How much of it above 5 lakhs?
- Sanjeev Bhatia:** 10% is above 5 lakhs.
- Manish Poddar:** Is it possible if you could quantify the amount done through credit transactions in this 2 lakh to 5 lakhs bracket?
- Sanjeev Bhatia:** See I can tell you overall but between two to five lakhs in any case above two lakhs you have to give your identity irrespective whether you are purchasing by cash or credit card, so the overall credit card sales are above 20%.
- Manish Poddar:** You just mentioned about the other income have you realized any hedging gains stuff like that in the other income this quarter?
- Sanjeev Bhatia:** Yes other income does actually include our forex margins or forex gains or whatever or how do you put it, which we frankly while calculating our GP we take it as part of our operations but as per the accounting norms it has to be shown separately so other income does thus contain the forex.
- Manish Poddar:** How much would be that of the other income forex gain?
- Sanjeev Bhatia:** Almost 80%.
- Manish Poddar:** Just about the Flexia range so how much is actually the Flexia range in the entire jewellery sales, I mean I understand (inaudible) 13.34 just wanted to understand what is the average ticket size and how much would that we contributed to our overall jewellery sales, let say on a yearly basis, because now it has been close to a year?
- Sanjeev Bhatia:** Actually our billing system does not demarcate between a studded jewellery or a Flexia jewellery I mean there is no different tag for a Flexia jewellery a tax amount in continuation for whatever type of jewellery so we really do not have



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this information what is the exact quantum of Flexia jewellery being sold but we are now having Flexia jewellery in three price ranges.

Manish Poddar: So what would that be?

Sanjeev Bhatia: We also introduce lightweight Flexia ranges we starts from 50000 and now Flexia goes up to 5 lakhs, initially there was only high value range of between three to five but now gradually we have introduced it in lower price range also but I am sure the overall quantum of sales must have gone up.

Manish Poddar: Have you succeeded on plan about the shop and store formats and stuff like that for Flexia or that is still in work-in-progress?

Sanjeev Bhatia: That is still work-in-progress. That is actually again. That is a totally different format for us we are not used to it. Talking with the right person then working on the economics and all that that is still work in progress.

Manish Poddar: Just a final if I may, this is with regards to the online format so we initially were putting up a platform to sell our own jewellery we have an online and offline pieces which are may be a right inventory, which are not getting sold fast could we sold on the online format but now this quarter around we started to tie-up with other platforms what is our internal strategy with regards to online platform?

Sanjeev Bhatia: No.1 I mean the statement is that the items which are not being sold offline can be sold online I mean this is not correct because the jewellery which is being displayed on our website is totally different from jewellery which is there in our stores. There may be a few common items. There are some items actually which are readily available in our store which are also can be publicize it on our online, if somebody want immediate delivery then we can give those items immediately so there we no need manufacturing thing. No.2 regarding the inclusion of more making it more of a market place so that frankly we already have said the infrastructure is already set, the system, resources, human resources everything in place so that gives us an additional income on that visiting platform without investing anything. That gives us more eyeballs because the designers and the brands which we have incorporated we have the own set of clients we have own

known people so once they start searching for their goods, I am sure they would be surfing through other varieties available also and that gives us more eyeballs and if some good of that x person get sold through our website we get a selling commission without investing anything of our own.

Manish Poddar: How much is that?

Sanjeev Bhatia: That depends on person-to-person, I am sure it about 10% to 12%.

Nitin Jain: Just to add to that, see if you look at the way we are looking at platform is that we are creating a curated platform so there is a certain set of jewellery have, which we put plus there is certain set of jewellery which let say very exclusive to certain geographies which we are currently not catering to so specifically for those set of geographies so for example South India or the Far East part of India so for that we have tied up with the brands, and coming from our rise, as Mr. Bhatia mentioned that if since we already have the infrastructure in place and the marketing is in place that it makes lot of sense to at least have more varieties so that for a customer we get much more variety when he is looking at the product.

Manish Poddar: Thank you.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Sir if you could just elaborate on the as to how the demand scenario been specially in December and the early part of January as well obviously we know that the wedding season was fairly strong and the festive season is fairly strong but if you could just give us some qualitative assessment in that side?

Sanjeev Bhatia: We continue to see the demand going and I am sure that our statement is not taken at the face value. This is backed up by the newspaper reports that India continues to import our increasing quantity of gold every month and every quarter so much gold is coming in the country and given that the investment demand of gold is I am sure no sensible person would be really investing in gold as asset during this point of time. So what we have seen that the demand for

jewellery is growing, the only question is what type of clientele are we serving and what type of product are able to give to that consumer. As the gold prices have stabilized people are buying more so in spite of we have given a specific Q2 to Q3 gold price comparison also and in spite of 5% decline in gold prices our sales have gone up. This shows the growth both in volume as well as physical terms as well as monetary terms. So our jewellery does remain an integral part of our purchasing, the only question remains is company able to get how much share of that demand.

Prashant Kutty: You have highlighted that this quarter's SHG number was 6% could we know what are the same number last year in the same quarter and I also want to know as to what do you believe is the sustainable number for the SHG going forward?

Sanjeev Bhatia: I would not be able to answer the first question because I am going through the previous quarter's presentation we will not be able to give.

Prashant Kutty: So we do not have the data for the previous quarter last year that is the reason I asked surely, I could take that offline Sir. But Sir what is our more sustainable number from SHG perspective?

Sanjeev Bhatia: If you ask me sustainable thing is it has to be in single digit, I am sure about 5 or 6 would be a very good thing. We would be very satisfied with the 5% growth. In the year of declining gold prices having SHG 5% is to me is not bad.

Prashant Kutty: Sir lastly on the export's business, if you look at the exports growth it has grown to about 12-odd% whereas I guess our earlier commentary has always been on the fact that we don't expect we have significant growth in that particular segment and we don't expect anything like a not more than 5% - 6% kind of a growth rate?

Sanjeev Bhatia: We are still below the previous fiscal complete fiscal. I mean exports one cannot really grow by quarter to quarter.

Prashant Kutty: We just want to ask anything specific in this quarter as to why you have seen that 12% kind of a growth rate number that's what we were delving upon?



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Sanjeev Bhatia: There was Eid there and again as marriage season because again we are supply to Indian overseas and Muslims. Eid was there, some festive, so the demand goes up but keeping view the overall scenario complete year-to-year this is more or less be the same.

Prashant Kutty: Because on YTD basis you have seen a growth of almost 20% so that is the reason as to why I asked you?

Sanjeev Bhatia: Prashant you are very right but then it went up in the last quarter of fiscal so I think the growth will be lesser in this quarter. Year-to-year basis it should be slightly more than again what we are saying nothing significant.

Prashant Kutty: So it should be something around at the 10% kind of a mark I believe?

Sanjeev Bhatia: Maximum.

Prashant Kutty: Thank you Sir I shall come back on the queue.

Moderator: Thank you. The next question is from the line of Abhishek Banerjee from UBS. Please go ahead.

Abhishek Banerjee: Just wanted to ask you about the studded growth, if you would give some idea of if the demand is increasing in that front?

Sanjeev Bhatia: What had happened if you look at the absolute figures, in the absolute figures studded thing has gone up, if I talk about a first nine months of this fiscal and the previous fiscal, the overall sales have gone up by may be 200 Crores but if you look at the percentage terms there is a decline because as the gold prices become more attractive the Indian psyche does remain tilted towards gold purchase and that sometimes inherent on which cannot be changed.

Abhishek Banerjee: You have seen it is a relative decline.

Sanjeev Bhatia: It is a relative decline, in absolute terms it is not a decline it is a relative decline.



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Abhishek Banerjee: Sir one more thing, this new product range wish that you mentioned so have you done any beta testing of it and if you have if you could tell us what kind of response it is got in terms of its ethics?

Sanjeev Bhatia: We just displayed it at the consumer electronic show at Las Vegas in the first week of January, we have not yet launched it commercially and it is not yet been made available to the consumer as such. That will be done in April or May also.

Abhishek Banerjee: Thank you Sir. That will be all from me.

Moderator: Thank you. The next question is from the line of Anand Shah from Kotak Securities. Please go ahead.

Anand Shah: Most of my question have been answered just few maintenance questions, Sir one thing I would say is your rental expenses are almost been flat on a Y-o-Y terms almost last two to three quarters despite of the store addition just wanted to know what has been done in that?

Rajaram Sugla: Basically the thing is our rentals are increasing in actual terms but due to the straight lining it had, the numbers are almost same.

Sanjeev Bhatia: That is why we have given in the presentation there is an increase in the absolute amount but as per the straight lining of the rental, I think Mr. Rajaram will explain what straight line means.

Rajaram Sugla: Anand, you do not know about straight lining because we take showrooms for the long term lease of we take showroom on a long term lease so after every three years there is an incremental clause so what we will do is they combine the nine years rent and then go for straight lining, so slowly you can say we are paying more rent but our financials it shows are on the latter side. Our actual figure is around 12 something but here due to straight lining effect it is shown as 10.8 something.

Anand Shah: Okay and even in terms of advertising, I mean just wanted to guide us on that I mean that is also down.



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- Sanjeev Bhatia:** I think the analyst should be happy that that the company is able to controlled its cost and not spent.
- Anand Shah:** No I am just trying to understand that this is more of your expansion in Tier I, Tier II?
- Sanjeev Bhatia:** Because their local advertisement is cheaper because local newspaper or local cinema halls, and we have got out of a few expensive what we say sponsorship that we keep on rationalizing. More of it is now because of Tier I and Tier II expansion your overall cost of local advertisement has fallen significantly. Another thing is see as we grow in cluster like we first open in Patna then we opened in Baghalpur now we would be opening say in Bihar is the same newspaper which circulate among this thing and we get a consolidated rate. So slowly we are getting effect of the thing. Like in Bengal we opened in Kolkata now we go to here Durgapur so a region based newspaper then we get a consolidated rate for all the additions so that also makes the difference.
- Anand Shah:** Okay and in terms of a sourcing of gold you completely into gold only?
- Sanjeev Bhatia:** Yes whatever is see, gold on exchange we get that was there previously also. There is no outright purchase, 100% gold loans.
- Anand Shah:** So then what would be your debt currently your gross debt?
- Sanjeev Bhatia:** That figure is not in public domain and if necessary we can discuss it later on.
- Anand Shah:** One more thing Sir gross margins in this domestic business have been falling so it is partly because of studded and partly because of last year you had a very high some gains from the gold premiums that is the reason right?
- Sanjeev Bhatia:** Correct.
- Anand Shah:** So 16% to 17% range is still sustainable?
- Sanjeev Bhatia:** I am sure that depends loss on the diamond percentage and I am sure that we should be able to get, there is sustainable and hence to improving our level, if I put it and use this term.



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- Anand Shah:** Lastly Sir now that you have these three formats, assets, franchise, and small stores what would the inventory let us say on average you would have on this formats in absolute terms?
- Sanjeev Bhatia:** Sorry can you repeat?
- Anand Shah:** Sir let say for an average LFS store you would have for example 5000 square feet you would have 30-odd Crores or 40-odd Crores worth of inventory on average, like in franchise and in a small store format what kind of inventory would you be achieving?
- Sanjeev Bhatia:** Again and again it depends on what is the location and what is we have answered in the previous the cost of the goods being kept and if small store again I think the small store is small only in area of location because we area of the cover area because we do not population to get overwhelmed or it should blend in with the local crowd it should not stand out that is a high cost item but that does not mean that we can not keep more inventory if the local population requires so the inventory in any store would be as per the sales potential of that area and since franchise is in a smaller location where the sale potential is also limited so the inventory there would be smaller vis-à-vis is a bigger sale potential.
- Anand Shah:** Which franchise what is the mechanism of inventory you bill it to them or how is it?
- Sanjeev Bhatia:** Yes we bill it to them.
- Anand Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Puneet Jani from Goldman Sachs. Please go ahead.
- Puneet Jani:** Thanks for taking my question. My question is you have given gross margin breakup between your export business and sale business is it also possible to get the same on the EBITDA margin side?



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- Sanjeev Bhatia:** We have given EBITDA percentages.
- Puneet Jani:** So your EBITDA on 7.82% on export and so will it be possible to separate the capital employed also in the two businesses?
- Sanjeev Bhatia:** Yes the clause 41 does give capital employed in various categories, if you look at page 2 we have the demarcation of capital employed in export and domestic.
- Puneet Jain:** How will the capital employ move in exports over the course of next two years? So what is the target?
- Sanjeev Bhatia:** I do not think there is expected to be any further capital deployment in exports. It will be pretty stable at this time and we do not foresee any increase in the capital employment in exports.
- Puneet Jain:** So whatever incremental capital we employed they will just get employed in the domestic retail business?
- Sanjeev Bhatia:** Yes.
- Puneet Jain:** Also do you have any comment on diamond prices because the gold prices have fallen even the diamond prices seem to have fallen off late so will that help you in any manner in terms of like you had last year brought certain amount of diamond inventory so do that help you or will it hurt you due to the fact that you have brought certain amount of diamond inventory?
- Sanjeev Bhatia:** Actually what we have heard is diamond prices De Beers is trying to control the supply and the prices are hardening up a little bit. I am not very because I do not deal with the thing personally but what internal discussion we were just having and in casual talks that De Beers is not trying to limit the supply and push up the prices. Usually the De Beers has a policy that it would produce whatever it want and it will push this and now what we have heard that it is trying to restrict the supply and increase the prices so I do not think the prices are going to fall any further. They are only going to be stable or go up, because more due to supply restrictions frankly because the biggest diamond demand comes Europe and USA, USA is the largest and this if USA starts picking up then

demand would also go up and the prices would then harden further. But as on date they are stable, De Beers has forced prices to be stable we are not falling any longer.

Puneet Jain: As we look forward say in a near future what do you think will be the positive on the gross margins and also say negatives on gross margins so what should be the direction gross margin in domestic retail business from the current levels?

Sanjeev Bhatia: That is what we always been mentioning that our gross margins are somewhere between 16% and 17% give or take a few BPS 17% should be a very good gross margin for is in the domestic business.

Puneet Jain: Thanks a lot.

Moderator: Thank you. The next question is from the line Anand Mour from ICICI Securities. Please go ahead.

Anand Mour: Good evening Sir. Sir you mentioned about the contribution of diamond coming down primarily because of the gold prices remain subdued?

Sanjeev Bhatia: Only in the percentage terms not in the absolute terms.

Anand Mour: Just wanted to understand as we see the gold price continues to remain subdued are we seeing that the contribution of diamond should continue to be on the lower side or do we see a scenario where the contribution of diamond can increase in coming quarters or years?

Sanjeev Bhatia: Given the current scenario what I feel we are currently around 30% so in Q4 also I mean it is very difficult to predict. It should remain around 30% only, going forward it is not possible to say anything. In Q4 again that was very internal 30% again we should remain in 30% only.

Anand Mour: So essentially what you are saying is the wedding demand for jewellery is much higher than that is what is driving the contribution of diamond now so it is only the second half kind of a number?



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- Sanjeev Bhatia:** Not necessarily but see Indian do retain a charm for gold jewellery psychologically and the gold is taken as a store of value. So when you feel okay I am able to get this thing now the prices have gone down and I am getting it at affordable rate and now ultimately see what is happened in the past few years we were designed and workmanship and your output finish etc., in gold jewellery is also improved a lot. If you look at gold jewellery as such it will be quite different from the routine gold jewellery, which you were getting a few years back. Now there is lot of precious stone studded, there is Meenakari; there is a lot of work, which has happened on the gold jewellery also. So it is that way also.
- Anand Mour:** Just another question on wanted to understand a bit more on the smart jewellery wish, is the tie-up only for the Indian markets or the tie-up also for the any other market?
- Sanjeev Bhatia:** Actually it is too early to say anything but when we displayed it in the CES, we did get a lot of interest from the overseas jewellers also who were visiting the same so, it is an exciting thing, and if necessary, we get interest, then everything is open at this point of time.
- Anand Mour:** Okay but the agreement does not restrict you?
- Sanjeev Bhatia:** There is no as such restrictive agreement we are just purchasing this technology and the market. It does not matter to where we sell that specific model.
- Anand Mour:** Sir you mentioned that some Q1 FY 2017 we are going to commercially launch it, are we going to sell it only from our stores or we are going to use MBOs or other channels?
- Sanjeev Bhatia:** That is what I am saying as on date everything is opened and whatever interest we get as we had mentioned in that we are interested in SIS model in Flexia etc., also so we can perhaps introduce in SIS perhaps in our stores, I mean as on date everything is open.



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- Anand Mour:** If you can actually say while we were going out for the shipment, definitely would have strived to assess the size of opportunity, if you can just guide us in what kind of opportunity we can look at from these initiatives?
- Sanjeev Bhatia:** Sir but the quantum you mean?
- Anand Mour:** I mean how do we see in ramp up of revenue, how do we call it a successful launch?
- Sanjeev Bhatia:** As on date all this things are still being learnt about what should be the marketing campaign, how it should be positioned and at what price range will be the final product be. All that commercial aspects ultimately that what price range it may be able to come, how many designs we are able to develop all that.
- Anand Mour:** Fine, so I think may be in the next quarter earning call we can have more detail?
- Sanjeev Bhatia:** Correct. As on date I am not in a position to say anything because everything is been work-in-process.
- Anand Mour:** That is it from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** Just wanted to check the store opening plans for let say this quarter as well as for the full year next?
- Sanjeev Bhatia:** This quarter as I said in my speech that two we have opened this month two we plan to open next month and we are trying some three in the month of February and two in March. Similarly we will continue to we keep on look it at various locations, various stores, so we would continue to open. Our target as such is about 12 to 15 every year.
- Kashyap Jhaveri:** What would be the total store count at the end of Q3?
- Sanjeev Bhatia:** 56.



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- Kashyap Jhaveri:** Let us say if I look at your SSG growth it was about 10% in Q3 of last year about 10% in Q2 of the this year and now about 6% in Q3. Would it be right to assume that from here-on more incremental growth, will come from the new store opening rather than SSG growth, which probably would have matured?
- Sanjeev Bhatia:** Yes as I replied in the previous question we would be really achieved the 5% SSG growth so majority of the growth, which we see coming in from newer stores only.
- Kashyap Jhaveri:** That is it from my side.
- Moderator:** Thank you. The next question is the follow up from the line of Manish Poddar from Motilal Oswal Securities. Please go ahead.
- Manish Poddar:** Sir just wanted to continue on the same point, which you just mentioned so have you thought about reconsidering a making charges for the jewellery items?
- Sanjeev Bhatia:** No why?
- Manish Poddar:** Because let us say the same store is clocking around 5% to 6% and we see deflation in gold prices let us assume that to continue then our sales growth would be only in line with the same store growth?
- Sanjeev Bhatia:** Increasing the making charges?
- Manish Poddar:** In that case this is what our trend has been right, we used to historic do it?
- Sanjeev Bhatia:** No, there is an internal policy I mean that must be for all the jewellers not only for us so at least for us the making charges are set in a band, since the gold prices range between this and this then our making charges are fixed depending on the cost. Only if the gold prices move beyond that band then you adjust the same. So currently if the gold prices move between a range of say 1000 and 2000 you really do not shift your making charges.
- Manish Poddar:** So that has remained on the same if the prices stay at this same level. Just another thing, have you witnessed any increased discounting activity let us say in the northern market both from the organized and unorganized stores?



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Sanjeev Bhatia: If you look at Diwali season there is a general discounting thing which goes on for from Navratri till a week after Diwali we have to regain all that, so that is the main discounting season for us. But otherwise when we open a new store then in the beginning for 15 to 20 days we have a bumper price and we have discounts schemes etc., but it is only for new stores the other stores continue to sell at the existing prices.

Manish Poddar: So it has not change anything year-on-year as such?

Sanjeev Bhatia: No it is the same policy.

Manish Poddar: Then we require that discounting pre the sales. That is helpful.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Just want to delve upon the margin side which you said that you are looking at something like 16%-17% kind of a gross margin number in domestic business while you just highlighted about a 5% kind of or a 6% kind SSG remain probably been happy with that part, also we are headed for now we are actually seeing a golden or a deflationary because of that you would surge for the gold demand as well?

Sanjeev Bhatia: What I feel there is not going to be any further deflation. If you look at recent trends of gold and again the crude is also strengthening, gold has also not stabilized that has actually gone up by few dollars per troy ounce so I think this should be the new normal.

Prashant Kutty: Okay, so even assuming that gold stays where it is in or even if it goes up let us say by over 5% or something, assuming that gold price remain more or less stable so in that case we are talking about demand for gold to be fairly strong in coming quarters as well. All I am trying to understand is that where do we get that margin lever from of that 16%-17% we currently at about a 14% kind of a gross margin number and if my diamond jewellery or my studded jewelries stays at about 30% or something where do I get that margin lever from or please explain me if you can tell me as to what would be a more what would be a



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steady state of diamond jewellery number at a 16%-17% kind of a gross margin number?

Sanjeev Bhatia: If you look at our nine months then our gross margin in domestic was 16.48 so this is at nine months diamond sale is 30.35%, so going forward if we assume my status quo then I think 15.50% in gross margins are sustainable gross margins assuming that the diamond jewellery percentage remains constant.

Prashant Kutty: Sir lastly just one thing I am sorry if you did mention at what price is this starting the smart jewellery, which is there, the Wish which is there?

Sanjeev Bhatia: As on date there is no price range because it was just what we say commercials are still to be worked out.

Prashant Kutty: Thank you Sir.

Moderator: Thank you. As there were no further questions I would now like the hand floor over to Mr. Prashant Kutty for closing comments.

Prashant Kutty: I thank PC Jewelers for allowing us to host this call and Sir if you have any final comments.

Sanjeev Bhatia: I would like to thank everybody who has given their valuable time to come and listen on this call and ask questions. We would be happy to connect individually if anybody has any questions or queries later on also. We can do so individually or through Prashant. We will be most happy to reply to any questions or query or doubts.

Prashant Kutty: Thank you Sir.

Moderator: Thank you. On behalf of Emkay Global Finance and Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.