



“PC Jewellers Management Q1 FY2016 Earnings Conference Call”

August 13, 2015



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*PC Jeweller Limited
August 13, 2015*

Moderator: Ladies and gentlemen good day and welcome to PC Jewellers Management Conference Call to discuss the Q1 FY16 Earnings Call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. Anand Shah. Thank you and over to you sir.

Anand Shah: Thank you Darryl. Good evening everyone and on behalf of Kotak Institutional Equities I welcome you all to the 1Q FY16 Earnings Call for PC Jewellers. We have with us the senior management team of PC Jewellers represented by Mr. R. K. Sharma – Executive Director and Chief Operating Officer, Mr. Sanjeev Bhatia – Chief Financial Officer, Mr. Rajaram Sugla – Senior VP, Accounts and Taxation and Mr. Nitin Jain from WearYourShine.com. With this I would like to hand over the call to Mr. Sanjeev Bhatia to discuss the results and comments. Over to you sir.

Sanjeev Bhatia: Good evening everyone. I welcome you all to our Q1 results investor call. I have with me Mr. R. K. Sharma – our ED and Chief Operating Officer, Shri Rajaram Sugla and Mr. Nitin Jain.

The financial figures clause 41 is already in front of you. I'm sorry that our presentation has been delayed slightly. We are putting up a detailed presentation also on our website as well as exchanges and that should be available within an hour. Meanwhile we will continue to discuss what I have to say.

Q1 FY 2016 has been a promising quarter for us. Our overall sales have grown year-on-year at 14.19%, of this our domestic retail sales have grown at a healthy year-on-year growth of 21.8% and domestic PBT has improved from Rs.84.24 crores to Rs.95.80 crores. This is the growth of nearly 14%. Similarly the domestic PAT also has increased from Rs. 59.09 crores to 68.05 crores. I would like to point out the figures of domestic EBITDA which has remained more or less constant during the two quarters. This is in spite of the decline in the gross margins. Actually last year the premiums on the gold was very high, this led to an increase in the gross margin figures. However as the lease was not there the finance cost was also correspondingly high. So the high gross margins were compensated by high finance cost. This year the premiums have gone therefore gross margins have declined but similarly the finance cost has also come down. So the effect on EBITDA has been neutralized so what we feel that one should really look at the PBT figures rather than the EBITDA figures and I will request all of you to also look at the figures in the same manner. We are not seeing any pressure on margins that we are catering to wedding segment with emphasis on designer jewelry. On the contrary the decline in gold prices has led to improvement in customer sentiments and increase in sales. I'm confident that we should be able to see the impact of the same in Q2.

Our exports sales have remained flattish and we do not expect any significant growth in the same. We continue our focus on more profitable domestic retail segment. Our same-store sales growth remains around 5%. The stores opened in FY14 and 15, basically in the last two years which had only partial years of sale before are contributing higher to our top-line.

Overall gross margins have remained steady at 14.02% domestic retail margins are also steady. Contribution from diamond jewelry continues to show improvement and that's grown from 27.46% in Q1 FY15 to 32.43% in FY16. The overall finance cost has started declining as the company has now starting to get benefit of maximum gold on lease.

Now for some other information; I'm happy to advise that Deloitte which is one of the big four global audit firms has recently included us in the global powers of Luxury Goods 2015 as amongst the top 100 luxury brands globally. This report also puts us amongst the top-20 fastest growing luxury goods companies across the globe; in that we feel very humbled and also happy with the same and we feel that it's recognition of our innovative designs and brand positioning. We are also re-launching our 'Jewels for Less' scheme on this 15th of August 2015, we have received all the necessary statutory clearances, necessary credit rating of that exercise and we are going to launch it in a very big manner across all our stores.

I would now like to say something about our growth plans and our strategy for the next five years. Our growth drivers, number one, continue to remain our large format retail showroom, will continue to emphasize on the same and our focus would remain on Tier I and Tier II locations. The response on these locations has been very encouraging for us as the customers are welcoming entry of strong brand like PC Jeweller. The operating cost is also lower in these places and hence we are seeing a much faster breakeven. Number two, our growth driver is going to be franchisee stores. Franchisee model is accepted to be highly capital efficient and help us scale up fast. This model will be based on profit sharing with the franchisee. The key to a successful franchisee model we believe is to identify the right partner and to leverage on the PCJ brand while ensuring that proper risk management practices are in the place. We have finalized a few franchisees and are working aggressively towards launching a pilot store in this first half only. We have got good number of requests from potential franchisees and we expect this business to contribute significantly to our overall figures in the next few years.

Another initiative which we want to take is to develop a small store format. We are now exploring the launching of small store format, there is a very strong market potential in targeting middle and lower middle class jewelry customers who are not very comfortable investing large format showroom and especially which are located at high street. So there is a whole client set of customers whom our large format stores are not able to tap and we are now thinking of having a small store format located in high footfall markets in local colonies and areas of cities and the focus of these stores will be more on plain gold jewelry and small ticket diamond jewelry.



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Number three remains Flexia jewelry collection; we have already advised that Flexia is a unique jewelry, detachable jewelry developed by us. The customer response to this product has been extremely good. Women are loving the concept as one jewelry can be worn in multiple ways and each product looks different and unique. Our initial launch in this jewelry was in the range of more than 1, 50,000. However now we are developing more lightweight jewelry in this thing and some pieces would be less than 50,000 also. We would be launching Flexia as an independent sub-brand, the counters across all our showrooms and also evaluate exclusive sales point for Flexia outside our showrooms, basically launching through shop-in-shop model. With that this should give us a very wide coverage of potential customers in high footfall areas like malls, airports, shopping centers etc.

Our WearYourShine foray, e-commerce foray continues to grow strong. We have an independent team with experienced professionals across technologies, designs, operations, marketing. We are also developing the mobile site. Back end has been considerably strengthened including technology, design catalog, process; packaging logistics etc. we are seeing a strong growth in leads and conversion in the last 8 months of launching the platform.

We also plan to set up experience zones at select malls and airports for our online items. Experience zones will have digital screen for order placing and also display selective products for customers to evaluate the quality and craftsmanship. Actually these would be samples but we will also explore some fast moving designs for sale over-the-counter also. You would appreciate that growing top-line doesn't really because we need to strengthen our back end processes also especially our manufacturing capabilities. Our existing manufacturing we feel would be sufficient for us for next 3 to 4 years then we have already started evaluating setting up a new manufacturing facility so which would be ready in next 3 to 4 years and when the existing one gets saturated the new one can start taking up the load.

So this is one for the item which we are thinking of; technology. We expect technology to be a key differentiator in the years to come. We are working on various technology initiatives and working with select vendors on the following like incorporating CRM and other related analysts for showroom. **Advertising 11.26** inventory across showrooms, **fact** based virtual reality solutions for our lounges, innovative technology driven frontages for the showrooms etc. I thank you all for listening so patiently and would be happy to have any questions now.

Moderator:

Thank you very much. We will now begin the question and answer session. Our first question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon:

Could you just tell us why the domestic margin has declined in the quarter even a brief answer would do, probably I will read the transcript if you had explained it earlier.

Sanjeev Bhatia: The domestic margins have not really declined if you look at our PBT figures. I will try to explain that why the EBITDA figures are more or less constant. This is actually a very peculiar situation which came last year due to very high gold premium so the margins in the domestic business went up because we were getting benefits of the very high premiums on the gold. But at the same time the finance costs were also high. So at the one end your gross margins were high at the lower end because the lease had gone, your finance cost rate also gone up. Now this year the reverse situation has happened, due to the free availability of gold the premiums of gold have gone down and due to the availability of lease your finance cost has also gone down. So the EBITDA remains more or less at the same level. However if you look at our PBT level you will see that the domestic PBT has improved from Rs. 84.24 crores to Rs. 95.80 crores. We feel that this is a much better line item to understand the business because both gross margins and finance cost have moved considerably in the last quarter vis-à-vis this quarter.

Manoj Menon: Is it fair to say that this phenomenon will actually continue for a few more quarters?

Sanjeev Bhatia: See our domestic margins should be something around 17.5% only so more than 18% gross margins were basically an anomaly, now going forward the gross margin should remain more or less steady whereas the finance cost should continue to decline or not increase let me say even if it doesn't decline in the absolute number it will not increase in the same proportion as the increase in sales. So we will start looking at benefit in PBT level in the next quarter, further improvement in PBT level.

Manoj Menon: Secondly I'm sorry I couldn't find your presentation.

Sanjeev Bhatia: I actually apologize for that in the first only. Presentation has been delayed slightly because the board meeting also and call also everything got squeezed in the same day but I think you will get the presentation at our website as well as exchanges in the next an hour or so.

Manoj Menon: Could you just tell us about the same-store growth movement?

Sanjeev Bhatia: No, movement has been not very high, around 5% only. You can take it either way it is not something to jump up also but nothing because even after the decline in prices we can still get a 5% which I feel is a pretty good work done so but it's around fiveish only.

Manoj Menon: Two questions there, the gold price I think has declined 6% weighted average for the quarter versus last year so which means it implied a double-digit same-store growth. But having said that do you have the number handy how the same store growth looks excluding your top few stores like let's say Karolbagh, etc., which might be actually vitiating the whole picture, do you have the same-store growth number excluding the top store?

Sanjeev Bhatia: Frankly wouldn't be having but we have noted down the query and we would be...

- Manoj Menon:** I heard you briefly commenting about the gold correction and consumers buying more volumes, if you could talk that little bit in more detail in terms of let's say particularly in July and August also how we have actually seen that consumer behavior? The reason I'm asking is because yesterday in the Titan's analyst meet they made a very specific comment that the volume increase because of gold correction is not commensurate so basically 1% reduction in gold price is actually resulting in less than 1% higher volumes this time compared to a better price elasticity earlier, what's your experience?
- Sanjeev Bhatia:** I would like to say that in any case the July and these months are not much of jewelry season. The jewelry sales start going up as the festive season start coming in and the marriage days starts coming basically around first week of August and some so I am sure in July Titan, what you are saying is correct that the decline in gold prices is not really resulted in commensurate jump up in the volumes. I feel one month is a very small time because in any case that's a lean season. Let's wait for these two months and I think the overall impact in the quarter would be much higher than the one month figure.
- Manoj Menon:** Do you think this 'Adhik Maas' phenomenon had a material impact in the June month this year because that's a leap year phenomenon, on demand?
- R. K. Sharma:** During this 'Adhik Maas' people refrain from buying gold jewelry so a class of society believes in this 'Adhik Maas' concept effects slightly overall turnover during this month Adhik Maas month.
- Manoj Menon:** What's your debt position currently?
- Sanjeev Bhatia:** Won't be giving balance sheet figures at this point of time but if you say that overall our debt equity position remains better than what it was in March.
- Manoj Menon:** The reason I'm asking this because are you into full-fledged gold on lease as we speak?
- Sanjeev Bhatia:** We are almost 85-90...see whatever gold we are securing is now on lease only, almost 85 to 90% of our stock is on lease. But you have to appreciate that in our case especially we are a very big buyer of diamonds also. Almost as we gave in our March end presentation, almost as 50% of our inventory consist of diamonds so that is not available on lease so for us this phenomenon would always remain. If you say that if the lease starts going up your debt would start coming down or our debt would become zero but as the operation grow and you are selling more and more of diamond jewelry because diamonds are not available on lease, you would always have some debt on your book. The debt issue is not that much of this thing, it is more of your debt equity position and your overall finance cost is I think more relevant in our type of business. That would always be there because as your diamond consumption goes up,

you have to keep a large amount locked in the inventory so the effect of lease really doesn't help you there.

Moderator: Thank you. Next question is from the line of Neil Bahal. Please go ahead.

Neil Bahal: How many more stores do we plan to open this year?

Sanjeev Bhatia: We have already opened four; I think work is going on four more. Our internal target is 15 let's hope for the best.

Neil Bahal: Do we have any guidance for EBITDA this year?

Sanjeev Bhatia: No, the way the gold and I don't think anybody would be able to give guidance. What we always claim and what I have said before also that we expect our margins to remain where they are.

Moderator: Thank you. Our next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: In terms of total retail space in India what would that number be for the first quarter? Last year we had 258,000 and in the fourth quarter we are around 313,000 so what did we aim to...

Sanjeev Bhatia: 3, 34,700 as on 30th of June.

Arjun Khanna: Just trying to understand because if we look at last year's number on an average it comes to a roughly 30,300 per sq ft and with that number you just gave comes to roughly 28,370 per sq ft, does that mean that the newer stores we have opened have a much lower throughput?

Sanjeev Bhatia: See four stores we opened in the first quarter only.

Arjun Khanna: So we ended with 54 stores, right?

Sanjeev Bhatia: Yes so two of them got open in the month of June only. One of very big store, Jaipur store was opened in the month of February so obviously all these stores would have their impact. The sales would start coming only after a time lag.

Arjun Khanna: If we even assume the last quarter's number of 313,300 it yet comes to 30,300 roughly being flat on year-on-year level so I'm just trying to tie in with that 5% same store sales growth that we talked about assuming that this quarter whatever stores we added didn't have any throughput even then the number comes flat.

- Sanjeev Bhatia:** That's what I'm saying as I am saying 5% is not a very this thing and within the same store also there are variations amongst stores and store. Some of our stores continue to remain robust specially Delhi NCR stores no doubt about it so there can be variations between store and store.
- Arjun Khanna:** Secondly in terms of the price of diamonds, they seem to be heading downwards, in the sense that do we ever take inventory hits for the same or how is the accounting done?
- Sanjeev Bhatia:** Inventories I think for cost price only, market price whichever is this thing but in case of see what happens is this is more applicable on solitaire only some sort of benchmark is available. What we purchase is more of small diamonds and on which frankly there is no benchmark pricing because if you purchase same consignment and I purchase same identical consignment the prices can vary. So in this case there is no actually fear of inventory loss in case of diamond especially in case of small. In solitaire I can take your point note in other diamond prices.
- Arjun Khanna:** Looking forward to that presentation and my last question is, lastly in terms of the franchise business, how would that uptake be going forward? You mentioned we are looking at adding a 5 to 10 stores this year so for the year and the year ahead how many stores do we plan to add on the franchisee basis?
- Sanjeev Bhatia:** I would be very happy when the first franchisee store starts running because there are lot of teething problems, there are lot of hand-holding issues which we are facing. This is our target that we would see...yes we have got enquiries, we have got definite enquiries but until and unless that because there are lot of teething issues that this guy wouldn't be having some clearances, electricity connection. There are lot of operational ground level issues which you don't realize in the beginning but when you actually start, give a timeframe then all these issues start coming. So as I said we would be very happy when the first franchisee store hits the ground.
- Arjun Khanna:** By when do we see that happening?
- Sanjeev Bhatia:** We are actually working on it and frankly we are hopeful we are working that during September itself we should be able to.
- Arjun Khanna:** And what would be the rough size of the store in terms of the square feet?
- Sanjeev Bhatia:** This would be a slightly bigger store than what we have envisaged. So once we actually get it done will be able to give an official communication of the same but this first store would be, what 1500 figure we are quoting, this would be a slightly bigger store than that

- Moderator:** Thank you. Next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** In the conference call of Titan we had spoken there are lot of rural weddings in this particular quarter. First of all just want to ask on that information and secondly how has demand in that side been for us because we are more into wedding jewelry segment and also we are into Tier I and Tier II market so just want your sense on that?
- Sanjeev Bhatia:** I really wouldn't be aware even there are more rural weddings this year or not frankly.
- Prashant Kutty:** No I'm just talking about this particular quarter which went by.
- Sanjeev Bhatia:** Yes this quarter also because see, even though our Tier II showrooms cater to the nearby rural areas also but the number frankly I wouldn't be able to comment. We would be very happy if there are more rural weddings.
- Prashant Kutty:** I just want to have clarification, you said that the diamond share is 32.4% if I heard it correct.
- Sanjeev Bhatia:** This quarter, Yes it did go up.
- Prashant Kutty:** Was there any specific activation that were done in the quarter to increase as to why you are seeing this diamond share increasing, anything of that sort?
- Sanjeev Bhatia:** There was an activation also we started from 'Akshaya Tritiya' and went on till mid of May so almost for 2 to 3 weeks we did have an activation also. Otherwise also as I am been saying it's not that if we reduce the prices the sales would start going up. You have to continuously be in a position to offer something new and something different to the consumer so that's what we have been trying to do. We have been launching new ranges and our stores do keep on getting fresh verities and fresh new designs at regular intervals. I think price reduction can work only still a certain extent but beyond that customer is not looking only at prices, he is also looking at something fresh and new because the choices are many, same prices would be...for lower prices you can go anywhere.
- Prashant Kutty:** You just highlighted about this Jewel for Less, if you could you just explain us some details on this particular...?
- Sanjeev Bhatia:** Yes, I will request Mr. R. K. Sharma to speak on JFL. He will just tell you the details what we have but I can only say this thing that it was a long and tedious process because a lot of treasury clearances had to be taken and credit retaining and permission from ROC and, etc. That is why it has taken so long. So we have cleared all that regulatory hurdles and now from 15th August, so Sharma Ji would be telling the details of the three.

- R. K. Sharma:** We are launching our JFL scheme from 15th of August. Earlier we were also running such type of scheme but due to some regulatory issues, we had to close it down in the month of June 2014. Now we have got all the clearances and sorted out all the issues. We have planned 2 types of schemes. Number one, that is for 14 month. In 14-month scheme, depositor will have to deposit one installment every month and at the end of the period, we will give discount equivalent to one monthly installment. In second scheme, we have that is for a longer period, that is 20 months, and we will be adding equivalent to 2 installments as a benefit to the customer in the form of discounts. Actually, this scheme is basically focused to increase footfall in our stores. So once the number is enrolled in this scheme, you will be getting visit to our stores continuously for a longer period to deposit installments and all that and during that period also if there is a need in his family, you can purchase from our store and that person is a good brand ambassador for us to popularize our schemes. So basically we are starting it from 15th and hope it will be a great success.
- Prashant Kutty:** This scheme is within those return of deposit norms that should be within 12%, so if that scheme is...?
- R. K. Sharma:** Yes, that is less than 12%.
- Prashant Kutty:** Just one last question sir on the capital employed in the export business, there seen a bit of increase. If you just put your comments on the same, any specific reasons?
- Sanjeev Bhatia:** The capital I am sure by the next quarter they should decline actually. It was capital that was more in the form of samples and some finished goods because it is frankly is more of an aberration and I feel by the next quarter we should see a substantial decline in the same. What happened till that DTA, the 20:80 scheme was there, we had developed a lot of samples and a lot of what we say inventory because in that thing there was a pressure as to from the bank side also to have a turnaround of the jewelry. So we had maintained certain level of inventory and finished good, etc., but now we are drawing it down and I think in this quarter end, you will see a totally different picture.
- Prashant Kutty:** Sir lastly on the franchise part yesterday obviously the Titan has been in the Analyst Meet they spoke about, they obviously have been a pretty large in the franchise modeling. They actually spoke about that the franchise addition actually has been on slower side. Obviously it is very new for us but any re-throw over here for PCJ over here in terms of this?
- Sanjeev Bhatia:** One of things what we feel, I mean Titan because we are not privacy to the internal this thing. What we feel is that in the Titan model, franchise was open to the gold price movement. This is not a documented thing, this is my guess work. So as long as the prices were going up, the franchises were also happy and everything was good but now since the prices are so volatile and especially declining, I am sure some franchise would be facing the heat. So this may be

one of the reasons why Titan is not able to get a very good interest in adding more franchises. So that is what we have been trying to work around this problem also for our franchises. So that is why it is taking a bit longer also because initially if you still 1.5 years back this problem was not really there, now when the gold prices have started more on a declining mode or even at a stagnant mode, this problem is now coming up. So this is a new problem. So I think Tanishq would also be facing now and still we are also, this launch is being delayed due for finding a solution to this issue.

Prashant Kuttly:

How do we intent to address this?

Sanjeev Bhatia:

Frankly, once we find a correct solution and implement it, I think then we would be in a better position to say as we are also working around a lot of possibilities, frankly.

Moderator:

Thank you. Next question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

Vinod Malviya:

My question was on the e-commerce front like what is the progress on that like? How is the WearYourShine and the Blue Nile tie up which we have done sometime that have been progressing and is there a significant contribution coming from that space for us?

Sanjeev Bhatia:

I will request Mr. Nitin to reply to this thing.

Nitin Jain:

Coming to your question on Blue Nile, so we did a tie up with them in February and the idea was that to launch their specific set of products in India. So on that front we are working with them in terms of working on the co-branded product range and more or less the work is done and we are looking at launching that co-branded range sometime in the next few weeks. So the idea is to harvest this festive season. So the work was done earlier but since the timing was not that great, that is why we have not launched it. So the idea is that we will be launching it very shortly. The co-branded PCJ Blue Nile engagement ring and many.

Vinod Malviya:

That would be sold online right?

Nitin Jain:

That will be sold online and in very select showrooms but it will be advertised, but it will be pushed significantly online.

Vinod Malviya:

What about the WearYourShine?

Nitin Jain:

We launched WearYourShine in October and in the last 8-10 months, I think we have scaled up in terms of our expectations on the number side we had beaten those expectations. The scale-up in terms of the traffic and the conversion rates have been fairly high. If you ask us the conversion rates for us would be perhaps highest in the industry purely the reason being that

currently we are only doing a high ROI digital campaign. So we are also looking at doing some offline ad spend which will get us some more traffic and some more visibility.

Vinod Malviya:

Can you share what is the revenue contribution coming from the online space?

Nitin Jain:

At this stage the numbers, we are not disclosing the numbers for WearYourShine but in terms of as an overall percentage contribution, it would be fairly small.

Sanjeev Bhatia:

One thing which I would like to add is that we have now shifted this online business to this wholly-owned subsidiary Transforming Retail Private Limited. So, separate numbers, etc., would be available soon enough.

Vinod Malaviya:

Sometime back also we were planning to split out the export business into a separate subsidiary and may take it private also some time. So still that plan is on table or we are not planning to do that thing?

Sanjeev Bhatia:

Frankly, there are a lot of issues in that.

Vinod Malaviya:

Because you also had like PC Jewellers Universe as a subsidiary, I remember if rightly?

Sanjeev Bhatia:

Yes, it is the same thing regarding limits from the Bullion Bank, limits from the Working Capital Bankers, then we are getting the new customers, so a lot of regulatory approval. So we are working on all of them but in order to dissipate all these things pending this thing if you remember last quarter, we gave a very detailed breakup of both the segments separately, we will continue with it.

Vinod Malaviya:

On the export front, this time we expect flat growth for the full year FY2016?

Sanjeev Bhatia:

More or less on the volume front, yes but some of this thing balance sheet figure would change with the change in rupee value and all that. That is not really on the volume.

Moderator:

Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta:

Just wanted to understand what is the square feet as of the end of this quarter?

Sanjeev Bhatia:

In square area amount to 3,34,700.

Avi Mehta:

I wanted to understand then on the demand front while you have seen a 20% kind of sales growth, how are you seeing the underlying demand front? Are you seeing uptake now in the second quarter going forward, would you say that?

- Sanjeev Bhatia:** As the gold prices are corrected, we are seeing better footfalls. In Q2, we should see the full impact of this price correction. If you want the time period, basically the prices started correcting only from July onwards. So as we said as the price especially in the wedding segment what happens the monetary budget is fixed, so when the price goes down, then the volume increase. So it is compensated by increase in volumes. So now when the festive season has started, people have started purchasing this thing. So I think Q2 would be a better quarter to look at this entire phenomena.
- Avi Mehta:** There has not been a fall back, right? That is what I just wanted to kind of confirm because some companies suggested that your footfalls are very good and then they have come off and now it is early to call that.
- Sanjeev Bhatia:** What happens is there is always this thing happening. Many people will keep on waiting; yes the prices are declining; let us wait for some more time. Even many jewelers start advising the customers. To wait rather than buy now. So there is a lot of this preponement or postpone of purchases which keeps on happening but if there is a wedding or if there somebody has to buy for this and then it is almost a compulsory purchase. They can prepone or postponed by some time but ultimately the sales do take place but it can spill over from one quarter to another. That can happen.
- Avi Mehta:** On the interest cost bit and the other income now we have moved to gold loan lease increasingly but if I look at the last years' number, it is just an increase in gold lease rate. So has the lease rate started to come off and now we are seeing much better lease kind of rates being available because if I look at the trade payables numbers, it suggests that the lease rate had moved up very sharply last year. So has that come off back to normal levels and hence we should see interest levels moderating, can you say if you can kind of give us a sense?
- Sanjeev Bhatia:** It is right, lease rate have come down. What we say is but they have come down but this started happening only frankly in the month of June only. So since this is a 180 days cycle in the case of the domestic this thing so I think we will have to wait for 2 quarters to see the full impact.
- Avi Mehta:** But as the interest cost, the way it has behaved that should continue, the decline should continue even going forward, right? That is a fair understanding?
- Sanjeev Bhatia:** It does not decline in the absolute manner. The percentage should go down because as the operations grow, you take more gold on lease them. In any case you are paying more, in absolute amount we are paying more of interest. So I am not very confident that interest will more go down in the absolute amount but as a percentage wise, yes.

Avi Mehta: Lastly, I just wanted to understand in terms of the store expansion, have we changed guidance or are we kind of reacted at the remaining keeping the same, if you could share that?

Sanjeev Bhatia: Sorry I missed it. What are you are saying?

Avi Mehta: The store addition guidance for the full year?

Sanjeev Bhatia: We continue to remain very bullish on store addition. We are finding locations, we are searching locations very seriously, we are working on various offbeat locations like there in the first 4, you would have seen in this fiscal. Places like Bhagalpur or Siliguri or what we say even Yamuna Nagar which are not in the normal radar. So we are looking at such type of locations where the scope of branded jewelry remains high and there is practically no competition. Our targets remain ambitious and as I said before finding good quality real estate at proper locations remains our biggest challenge. So that can be a constraining factor. I may be thinking of 15 and I may be having internal capabilities to open up 15 but if I do not get proper location then I in spite of all my efforts, I would be unable to do so. So that does remain a challenge but our target remains 15 for the current year.

Avi Mehta: Last question, you highlighted that you are going to small shop to cater to that is one format. Sir would you be launching it as a separate sub-brand or would it be under the PCJ banner itself, how have you given any thought on that as well sir? That is all from my side.

Sanjeev Bhatia: Basically we do not want to dilute the parent brand also. So we have given the mandate to our ad agency as to how these two contradictory things can be because PCJ, the customers would come to a known entity but at the same time we do not want to eliminate other customers also that we do not know to dilute the brand image also. So we have given the mandate to our ad agency to find out through via-via media. So the ad agency should come up but it would be something different, it would not be purely PCJ.

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

Manish Poddar: Could you give us some color on how is the unorganized sector actually performing in the regions where you are operating because if I believe if you have same store of 5% and gold prices have been kind of benign or stable actually, so your old stock also declining. So with store expansion for the standalone or individual players, how are they performing in the regions?

Sanjeev Bhatia: Sorry what you are saying?

Manish Poddar: How is the unorganized sector performing?

Sanjeev Bhatia: That is what I was going to say. If you are opening stores in location like Bhagalpur or Siliguri or Durgapur, so the market is there and this market was being catered to the unorganized segment only till this point of time. So where there are no options, yes the customers have to go to unorganized segments but there the options are becoming available, the customer is shifting to branded players.

Manish Poddar: How is it playing in places like Delhi?

Sanjeev Bhatia: Delhi, Bombay, and this all the metros are saturated market. So there is still a large component of unorganized segment and our small store concept is basically to work on this unorganized segment which still exist in smaller localities like I am sure in Bombay also you would be able to identify many such lower-middle class and middle class localities where people would not be really be coming for Bandra and Linking Road to make their jewelry purchases. They would be more happy in their small markets and local jewelers. So the small store concept is to tackle or to get the customers of these areas which are not really moving out of their localities and moving and coming to all the way to major shopping area of the city.

Manish Poddar: How about the large format stores? How would, actually my question is pertaining to the large format stores? How is actually the unorganized competition performing in the large format stores in places like Delhi which are mature markets where you have a footfall since long?

Sanjeev Bhatia: So the competition is there for large format store and your strategy to fight out this thing is through better designing and innovative range only because everyone is offering the same quality and every name is know. So the only way you can compete in such a market is through your better product offering for what additions you can offer to the customer. This is the strategy which we applied in Jaipur also where we opened only recently and this is the strategy which would happen. So what is happening in this thing, you have some loyal customers also in big cities but then you cannot really rest. You have to fight from on your product offering only?

Manish Poddar: How is this like and is the Flexia range available across all your stores right now?

Sanjeev Bhatia: Flexia would be yes.

Manish Poddar: Store-in-store concept would commence or we are in talks. So we will get into some stores like Shopper Stop and stuff like that for or...?

Sanjeev Bhatia: See frankly in Flexia, the margins are much higher and we want to launch it as a sub-brand and make it more popular. So currently the jewelry is available but along with other jewelry this thing, does not have a separate identity in our stores also. We want to give it a separate identity with the separate counters, separate staff, and separate branding and all that. So it will be

within our store only and then as we develop our lighter weight jewelry, it would be available even outside our store.

Moderator: Thank you. We have a question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: You mentioned in your commentary that you are investing on technology and strengthening of backend systems. If you could just illustrate further as to what are the initiative you are taking on that side?

Sanjeev Bhatia: Yes I will request Nitin to inform the technology aspect.

Nitin Jain: Couple of things that we are working on. One is that in terms of this CRM so we have an existing CRM in place but what we are trying to do is we are strengthening up the CRM so that from a customer engagement perspective because the more we are able to engage with the customer, the satisfaction increases and typically in a jewelry purchase, the customer stickiness is fairly high, so the customers are happy with the service and then they typically do a repeat purchase. Coming back to the point, the first key agenda for us is to develop and enhance our CRM initiative. Second is that, we are also trying to digitize. So currently on WearYourShine, we have the digitized inventory available and that is for the smaller work-wear pieces but at all our showrooms we have the pieces which are expensive pieces. So let us say the heavy sets are also available. So we are trying to digitize all that inventory so that sitting in one showroom if a customer comes to our Karol Bagh showroom and when he sees that okay that he has liked. So he is looking for certain gold set within 50-60 gm and now he has looked that design but he is saying that show me some more samples. So there will be a digital access in which the showroom manager can show him the designs which are available at the nearest store. So in that case what will happen is that certain expensive sets will not be replicated across the closer store and that the digital inventory will be available which can be shown to the customer.

Abhishek Ranganathan: Right, this CRM, this data how long you have been capturing the system to run this analytics?

Nitin Jain: If you ask us that how long. So we have been capturing the data since a very long time at least couple of years but currently the data if you ask me in terms of organization and how well we are able to utilize it on a scale of 1-10, I would say it would be at least 4-4.5. Our target is to touch-base at least 8 or 9x. So that from an engagement perspective, we can significantly increase the engagement. In addition to that, there are couple of other innovative things that we are working on something like let us say we are working on a virtual reality and the idea is to launch this in select showrooms, select lounges, so that customer can actually **with** a button he can see how that product looks on the face, they are actual launches which increase the engagement for the customer.

Abhishek Ranganathan: All these systems are you making any further investments and what would be the amount spending in these?

Nitin Jain: In terms of if you ask me investment, obviously I think this is technology demands investment and our perspective where we are very clear that if we are getting any systems, etc., in place they have to be from the top quality vendors. In terms of investments, we are talking to vendors and for some ideas for some initiatives, we have the quotations placed and work is in process. For some others, we are still talking to vendors and getting the quotation. So today if you ask me, today we do not have in terms of the number with us but these things are planned and the suitable budgets are also assigned for these activities but again technology investments if you ask me from ROI perspective, they are fairly high ROI investment.

Abhishek Ranganathan: This is linked to an existing system or you have to put in a new thing altogether?

Nitin Jain: So our existing system for the CRM, the plan is to set up a new system. The existing system is there. So till that time the new system is up and streamlined, we will run the initiative in both the systems and the existing ERP system is in place. That is something which is working and the digitizing is something the vendor get digitizes something which we are setting our completely new system.

Abhishek Ranganathan: The other question just I had is on the deposits you mentioned 14 and 20 months, just the duration of this I thought would have to be a little less than 12 months, how is it that we have managed to do this?

R. K. Sharma: Actually we are following all the rules for deposits. According to that there is no restriction of term for which we can go for a luxurious thing.

Abhishek Ranganathan: No I think I understand the calculation is 365 days. I guess there is some kind of ambiguity there I presume in terms from where or what date you calculate this 365 days?

Sanjeev Bhatia: Annual rate of interest you cannot go more than 12 months.

Abhishek Ranganathan: Yes and said you cannot hold the deposits for more than 365 days.

Sanjeev Bhatia: Really think, because ROC has also given us clearance.

Abhishek Ranganathan: Yes, I understand. Fair enough. I was curious to know if there was the calculation.

Sanjeev Bhatia: The interest component cannot be more than 12% and the Companies Act is more concerned with the annual return which you can offer.



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Moderator: Thank you. Ladies and gentleman, that was our last question. I now hand the floor back to the management for closing comments, please go ahead sir.

Sanjeev Bhatia: I thank everyone for sparing the valuable time and listening to us. The questions were interesting and I hope we have been able to satisfy to the maximum extent. I again apologize for delay in uploading the presentation and assure that it will be done within the next 45-60 minutes and we remain open for any query or any other question at any point of time one-two-one. We will be most happy to assess. Thank you all.

Moderator: Thank you very much. On behalf of Kotak Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.