"PC Jeweller Limited Q1 FY 2018 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2018 Results Call of PC Jeweller hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode. 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 telephone. Please note that this conference is being recorded. We have with us today from the management of PC Jeweller, Mr. Balram Garg, MD & CEO and Mr. Sanjeev Bhatia, CFO. I would like to hand the conference over to Mr. Sameep Kasbekar of Emkay Global. Thank you and over to you Sir!

Sameep Kasbekar: Thank you Inba. Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now like to hand over the call to Mr. Sanjeev Bhatia for his opening remarks. Over to you Sir!

Sanjeev Bhatia: Good evening everyone. I extend a very welcome to all the participants on this call. I am Sanjeev Bhatia, CFO of the Company and Mr. Balram Garg, MD is also along with me. For the Company FY2018 has begun on a positive note with a very strong quarter-on-quarter growth in sales volume. We have achieved good topline growth in both our domestic and export segments and heartening aspect is that this topline growth is matched by a growth in the bottomline as well. The figures are in front of you and I am happy to advice that both our turnover and profitability have increased by more than 30% during the quarter. I am also very confident that the Company would be able to maintain this growth momentum in the coming quarters as well.

We have opened three new showrooms in Q1 and fourth one in July. We are currently moving ahead with our target of opening 25 to 30 new showrooms in this fiscal, which would be a mix of Company owned and franchise stores. We are getting very good response in our franchise vertical and are targeting to open between 10 and 15 franchisee showrooms during this fiscal itself.

Our online and Azva verticals also continued to perform well. Online vertical has given us an opportunity to reach out and connect with the totally new set of consumer and youngsters which are wedding jewelry dominant stores who are not able to do so. Similarly, azva provides us a very strong foothold in the high premium branded jewelry and provide access to discerning set of consumers who are willing to pay premium for a branded product.

We are finally in the GST regime. We are very happy with the same as it assures in the new era of transparency and compliance in this country. Also for the jewelry industry, the rate remains more or less inline with the rate prevailing earlier. Hence we have not seen any consumer resistance operationally also we have put all the required systems in the place and are fully compliant with all the extent rules and regulations. We believe that the GST regime is going to provide a fillip to organized jewelry retailer by increase in the shift from the unorganized players.

GST compliance is relatively tedious and will be more cost effective for the organized retailers because of their large scale of operations. PCJ is also expected to benefit from the set of tax paid on various services. Further because of the cascading nature of tax, the entire jewelry supply chain will come under tax net making it more traceable and thus advantageous for the organized retailers.

The Company is undertaking several initiatives to bring more efficiency in its working capital and inventory management. It is also undertaking several steps to further improve its margins and would be sharing the results of the same in the coming quarters. I now leave the forum open for question and answer.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the GST impact. You mentioned the cost the entire dynamics would be difficult for unorganized sector. So you expect them to go out of the trade, will it be that bad or will it be just that the margins for the unorganized will come down?

Balram Garg: First of all, it is very difficult for the smaller player to comply in the GST regime. So two things are going to happen in future and it is happening right now. One is that the smaller players are coming, they are approaching us for the franchise, because they have the customer based, they have the good location, they have the capital also, so they are coming under our umbrella or any other of brand umbrella. So there is a good demand of the franchise model. Second some players who work a little bit big, they do not have the small shops. So they have to be organized. So there is a level playing field right now and whatever gold is coming on the official channel so government can track everything and it is good for the organized sector.

Abneesh Roy: On sentiment, we are seeing this quarter most of retailers give us, including you report very good set of numbers. So if you could tell us after July does settle in terms of GST. You expect this sentiment recovery to sustain?

Balram Garg: Actually if you see the recovery has already started from the fourth quarter and now month-on-month basis, it is not that the sales are coming from the June or July, it is every month, the footfall is increasing. If you see the March sale is better than February, then April sale is better than March then Akshya Tritiya is good and even in July. There was a less sale in the first week, but now the footfalls have increased. So we are expecting the same growth for the whole year.

Abneesh Roy: Taking the different provisions in GST into account antiprofiteering and the new rates, what is the sense you are getting now for you, how the rates and overall margins will be in the GST?

Balram Garg: We are expecting earlier when we transfer the goods from the head office to the branch office so there was 1% additional tax was there because we have to pay tax in every state and we were charging only one time from the customer. So we will save that cost in the GST regime. Second is earlier we were not getting any input credit from the various expenses like marketing expense and rentals. So now we are getting the input credit in those services. So we expect that there is a little bit increase in the margins in future in the GST regime.

Abneesh Roy: That you would not need to pass on right because of the antiprofiteering?

Balram Garg: Little bit we will pass to the customer, because earlier we were charging 2% from the customer. So for the customer if we pass 1% even then we can increase our margin little bit.

Abneesh Roy: You mentioned the unorganized players are coming to you as an offer for franchise and also trying the smaller box format. So if you could update on this what is the potential here in both these?

Balram Garg: Because last year we have started the franchise only and right now we have seven franchise stores and before next quarter we are opening another six franchise stores and henceforth before March, I think we will open another seven franchise stores. So in this year we are opening total 30 stores out of the 15 franchise and 15 own stores and out of our own stores we are opening seven small format store and seven large format stores. So we have right now three models. One is the small format, which we are opening in the smaller markets of the big cities, and large format stores we are opening on the high street and the franchise model we are opening in the Tier 2 and Tier 3 cities. So these three models we are opening stores on these three models.

Abneesh Roy: Next year also similar run rate will be in terms of franchise small box?

Balram Garg: 50% out of total stores, 50% will be franchise and out of the 50% I think 50% is large format and 50% the small format.

Abneesh Roy: That is all from my side. Thank you.

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

Manoj Menon: Congratulations on an excellent performance. Sir couple of questions here; one on the studded mix how it has been in this quarter?

Balram Garg: Diamond jewelry mix is 33%.

Manoj Menon: Secondly looking at the revenue line and also the gross margins, so I am trying to understand that are there be any higher discounting because for 30% revenue growth you would have expected a little more of leverage benefits to actually come. Could you just explain that part because the revenue growth is pretty strong, yes profit growth is good, but how is your operating leverage been playing out?

Balram Garg: If you see in the margins in the PAT level, the margins are similar to the last year's first quarter and if you see our total domestic growth is more than 30% and in the domestic business almost PAT level, the growth is 30% only. There is no decline in the margins, but yes there is a decline in the gross margins because last year March 2016 the one-month was complete close and every year we run some schemes in the March quarter for the diamond jewelry. So the pent up demand came last year first quarter and our diamond jewelry shares have increased to 37%. So this quarter is 33%, it is better than the other quarters, but it is less than the last year first quarter. So if you see our EBITDA level margins in the other quarter, it is around 11% to 11.5% and this quarter also it is 11% to 11.5% because the diamond jewelry sales temporary in that quarter margins have increased little bit.

Manoj Menon: Very clear and on the employee cost, which has grown 4% year-on-year considering that you are opening quite a few new stores and you are still in expansion mode. I am just trying to understand how are you managing the employee cost so efficiently because I would have expected slightly higher growth number on the absolute employee cost?

Balram Garg: If you see in this quarter, there is a SSG 15%, the total growth is 30% out of the 50% is the same store sale growth and 50% is from the new stores. So if SSG 15% then definitely the employee cost will not increase much.

Manoj Menon: I will take it offline. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vivek Tulshyan from Creador Advisors. Please go ahead.

Vivek Tulshyan: Can you give us the gross margin split for domestic and export business?

Balram Garg: Gross margin in the domestic is around 19% this quarter and for the export is around 5.25%.

Vivek Tulshyan: You also have the EBITDA split for export in domestic?

Sanjeev Bhatia: Our domestic EBITDA is almost 14.50% and export is 5.05%.

Vivek Tulshyan: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Jogani of Prabhudas Lilladher. Please go ahead.

Gaurav Jogani: Thank you for answering my question Sir. My first question is that GST benefits that we are saying that will incur, also I understand we have manufacturing facility. So is there a GST benefit on that also that we would incur?

Balram Garg: Right now that is not clear, because we have some facility in the exempted zone also like Dehradun, so that point is not clear. We are hearing from the government side that they will pass some benefit to the companies who have units in the excise free areas. So that is not clear but we are expecting that some 0.75% or 1% may be par, they will refund. So but we are not taking that profit into account right now. So apart from that there is a benefit also right now, but that thing will be cleared in another one month.

Gaurav Jogani: GST on the making charge like what it would be like the Kharigar charge what is the GST on that?

Balram Garg: On the labor charge it is 5%, because we can take the input credit of that, so there is no impact because of that.

Gaurav Jogani: Okay, so the net incidence of taxation on the consumer would be 3% only right?

Balram Garg: Yes, 3% only.

Gaurav Jogani: I think earlier you mentioned that your earlier charging consumer 2% in norm because of the benefits and now you would be charging 1%.

Balram Garg: No because GST it was 2%, 1% excise and 1% VAT, after GST it is 3%, but 1% benefit we are passing to the customer, because our cost is in the GST regime because after taking the averaging input credit, these around 1%. So for the customer it is same as earlier.

Gaurav Jogani: There is no change basically on the taxation part for the consumer?

Balram Garg: Yes.

Gaurav Jogani: On the franchise dynamics like what is the model in franchise are we adopting, so is it CoCo model like the inventory is entirely sold to the franchise or is it the inventory is owned? What is the model like?

Balram Garg: No, only we have one model. We entirely sell to the franchise, so right now we have only one model. So there is no investment by the company in the franchise model.

Gaurav Jogani: One more thing like the franchise that we open as you said that there are many jewelers who are interested in getting the franchise opened by you, taking PCJ as a franchise, so is there a risk if in case you pass on your franchise to these guys, the delusion of the brand equity, because they have been using some practices that they have been used to earlier also. So how do you ensure that the quality is still maintained?

Balram Garg: Customer will not know whether this franchise own, because they have almost controlled by the company only. The investment by the franchise and controlled by the company only.

Gaurav Jogani: Like how the company is ensuring that the quality would be maintained. Like we have our people there, like how would the model be?

Balram Garg: Everything is controlled by the system and procedure and internal audits, whatever as we are controlling our own store, we are controlling those stores, so the difference is in place of the manager; the franchise is sitting there. This is the difference only. Every system procedure is same.

Gaurav Jogani: Thank you so much Sir.

Moderator: Thank you. We will take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Just wanted to understand like when you do a sale to a franchise that is basically accounted as sales in your books now if you are opening large number of franchises in a particular quarter your sales can just go up by virtue of new franchises selling up their stores, is that correct?

Balram Garg: Yes. This quarter we have opened one franchise store only, but next quarter definitely we are opening six to seven franchise stores.

Shekhar Singh: The new stores that you are opening of your own what is the breakeven time for those stores and how much is the investment in each store?

Balram Garg: Actually investment depends on the city and the place. It varies from 10 Crores to 50 Crores and even some store more than that also. So if you talk about the breakeven where we are already existing so in those areas the breakeven is almost six to nine months and when we open a store, it takes around one year for breakeven.

Shekhar Singh: What is your plan in terms of the capex that you wish to do for your stores?

Balram Garg: Actually this year we are opening. There are two types of capex and one is the construction of the store and everything that is around 6000 per square feet. We are opening around 30 stores this year, 15 franchises and other is the inventory, so inventory depends on the location and the city. So I cannot confirm you right now the capex, but we are opening in different formats and in large format typically is around 5000 square feet and small format is around 1500 to 2000 square feet. So it takes 6000 per square feet for the furniture fixture and balance is the inventory.

Shekhar Singh: Sir, the same store growth of around 15% is very strong, just wanted to understand is it a natural thing like okay there was pent up demand because of demonetisation earlier and all or is it something which is like because of GST the unorganised sector the shops have decided closing down and therefore your growth has gone up?

Balram Garg: Actually demonetisation impact have gone in the fourth quarter, so there is no impact of the demonetisation, because of demonetisation but the month on month growth is there, because there is a huge shift from the unorganised sector. So this is the only reason that demand is there, because even the industry growth is 10% but our organised sector growth is more than 30% right now.

Shekhar Singh: This is basically then saying if I was to ask you that what is the percentage share of organised sector in the total jewelry sales in India, how much will that number be?

Balram Garg: Right now 30%. Earlier we were thinking that it will take 10 years to shift from unorganised from organised but right now the way the market is shifting, and after GST and the hallmarking is going to be compulsory I think in the next couple of months this year, so after that we think that this market will organise in the next five years. There is a huge scope for the organised sector to grow in this market.

Shekhar Singh: Perfect Sir. Thanks a lot.

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

Anand Shah: Just a couple of questions. Sir one thing on exports, I mean, we have seen a 20% growth in revenues despite slowdown in Middle East as well as import duty imposition so what is driving this.

Balram Garg: Actually right now because we are not exporting to the Gulf only because there are so many countries where NRIs are there, so they are our customer, so now the demand in the Gulf is right now is good and we have added some more customers because we are doing regularly the divisions, so we are getting very good orders, only thing I think in march the demand there was less demand, because after Dubai imposed a duty but it is only for the Dubai market. So from the Dubai, when re-export is from Dubai they can take the duty refund.

Anand Shah: But UAE almost 50% of your export business?

Balram Garg: Yes, you can say around 40% of the total business.

Anand Shah: So you have seen incrementally stronger growths in non-UAE markets?

Balram Garg: Yes.

Anand Shah: And your guidance on exports would be still low single digit or we can see similar Q1 types of growth happening for the full year?

Balram Garg: Actually for this year, the guidance is around 15%.

Anand Shah: 15% on exports.

Balram Garg: Yes.

Anand Shah: Just on the franchise, if you can just simply run basic dynamics first of all what is the store size and what kind of inventory do you put up and what kind of ROCE you make?

Balram Garg: Actually typically in the franchise model, we require around 10 Crores of inventory, so it depends on the city, but around 10 Crores you can say, 8 Crores to 12 Crores and investment by the franchise only. We share almost 50% whatever gross margins we have, this year it is 50% and we spend around 1% on the marketing out of our own profit, so right now our PBT is around 8% and in franchise model also after spend on the marketing the PBT level margins are same. So it will help us to increase our ROE in the future.

Anand Shah: So your investment per se in store, capex and all that is not involved, so that is all owned by franchise?

Balram Garg: Yes.

Anand Shah: This 10 Crores inventory, let us say that you book if you are opening 6 you will immediately book 60 Crores in that quarter itself?

Balram Garg: Yes.

Anand Shah: That will happen upfront?

Balram Garg: Yes.

Anand Shah: Just one bookkeeping question; what would be the store count currently and the square feet as of 1Q FY2018 end?

Balram Garg: Total store right now is 79. Square feet by around 4 lakhs square feet.

Anand Shah: Another one last thing, I noticed you mentioned your gross margins are in the domestic business were about 19%?

Balram Garg: Typically, if you see the gross margins for this quarter and otherwise our gross margins are around it will vary from 17% to 18% depending on the diamond jewelry sales. Because the diamond jewelry is 33%, if the sale is 30% then the margin is around 17%. It will vary from depending on the diamond jewelry sales, but if the diamond jewelry ratio is 30% and gold jewelry is 70% then the gross margins are 17%.

Anand Shah: If I compare to 4Q you did do 31% studded share and you ended up 16% in terms of gross margins for domestics so just 2% incremental delta has driven this 3% jump in gross margin?

Balram Garg: Which quarter you are talking about?

Anand Shah: 4Q, March.

Balram Garg: At that time, we run the scheme also, because in Q1 there is no scheme. We run some discount scheme also.

Anand Shah: The March ends the diamond activations that you do?

Balram Garg: Yes.

Anand Shah: Because of that the gross margin was lower but right now you did very strong diamond growth without any schemes?

Balram Garg: Without any activations, yes.

Anand Shah: That is why we are seeing higher margins?

Balram Garg: Yes.

Anand Shah: Thank you.

Moderator: Thank you. We will take the next question from the line of Rishi Maheshwari from Aksa Capital. Please go ahead.

Rishi Maheshwari: Thank you so much. Great set of numbers Sir. Congratulations. Sir, one question what we have observed is that over the last few years, your first half has generally been much better in terms of margin profile versus the second half while there have been a variety of reasons last year would have been accompanied by demonetisation subsequent quarters, would we expect that this year would be different given the kind of cost leverages that you have as well as the changes that you have done for the franchise model? Would you believe that there is scope for actually margin improvement in the rest of the year also from here on?

Balram Garg: Actually if you talk about the last two years, last year in second half the demonetisation was there, so that is why there was a decline in the sales and the profit. Last to last year in the second half March month was completely closed. So because of those reasons only, our profits declined in the second half otherwise there were no reason to decline the profit because last year also the October month was very good, but after that November, after demonetisation one or two months was not good. So we are expecting this year the same growth that we are showing in the first quarter and because we have started the franchise model also definitely there will be increment in the ROE or ROCE.

Rishi Maheshwari: That is certainly there. Second question was on the same store sale growth, very robust number to see 15% kind of growth. Just wanted to understand if you can give a little more colour on it whether this is coming on the back of volume growth or increased pricing? Is there a product profile that has changed some kind of mix change that you have seen, because as I understood, your studded share has actually come a little lower? Obviously that has got to do with activation and culling of activation, but however, it is still lower, so if you can throw some more light just for us to understand what kind of sustainability do we see over here?

Balram Garg: Basically 15% is a very good number, but because from last four to five months, month on month growth is very good and customer footfall is very good and second is we have gone through new, new collections. This quarter we have launched three new collections and if you see the diamond jewelry share if you compare to the last year first quarter definitely it is down but it is better than the other quarters, because it is 33% and generally we do 30% to 31% average diamond jewelry sales and we are expecting that and the growth in volume wise and amount wise is same because the gold prices in the last year first quarter was same, so the volume growth is same and both the growth is same. So we are expecting this year and last year there was one week a complete close was there because of the excise duty, so because of that also same store sale growth is better this year in the first quarter and for the whole year we are expecting the same store sale growth between 10% and 15%.

Rishi Maheshwari: Lastly on the franchises, how many of these are contracted, out of the 15 that you intent to open this year? How many of them are already contracted?

Balram Garg: Everything is signed and now we are signing the franchise for the next year.

Rishi Maheshwari: Great Sir. Good luck Sir. This is good set of numbers. Thank you.

Moderator: Thank you. Our next question is from the line of Roshini Devi from Cogencis. Please go ahead.

Roshini Devi: Sir, I wonder if you had mentioned this earlier, but you had said last time that you are planning to open a factory. So is that factory already functional?

Balram Garg: Actually because of the GST, because we have already finalized some places earlier, but because of the GST now the new industrial policy is coming, every state is framing the new industrial policy and they will give ransom benefit under the GST regime because the old law is not there and every state was offering some benefit. So we were talking to Haryana and Rajasthan and UP, nearby Delhi, so right now it will take another one or two months to frame the new industrial policy. After that we will acquire land and we will start the factory and last year because of the delay we have increased our capacity so now I think in the next couple of months or three months, after the state government will announce the new industrial policy then we will acquire the factory.

Roshini Devi: So, just to confirm, because of our 24% growth in this quarter, you are expecting the same growth throughout the year, right?

Balram Garg: Yes, not 24%, it is for the domestic front, we are expecting more than 30%.

Roshini Devi: Okay for domestic and exports?

Balram Garg: Export is around 15%.

Roshini Devi: Thank you.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Navis Capital. Please go ahead.

Ashish Agarwal: Thanks. How is the Azva business tracked for the quarter and what is the potential you see for this business for the rest of the year?

Balram Garg: Actually because every month there is an increase in footfalls and right now there is a huge shift from unorganised to organised, so we are expecting the same growth for the whole year, which we have achieved in the first quarter.

Ashish Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Sir just one thing like the shareholding pattern shows that the promoter shareholding has come down. Why is that? Any idea that you can give?

Balram Garg: We are not selling any shares, but because it is not promoter is selling, because promoter group some one or two person which they have gifted some shares to the other family members?

Shekhar Singh: And those family members are not classified as promoters?

Balram Garg: Yes, under the promoter group.

Shekhar Singh: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Just one question, I missed the guidance that you gave for domestic business as well as the margins in domestic business and exports?

Balram Garg: In domestic front, we are expecting a growth of more than 30% for the whole year, which we have achieved in the first quarter. Export is around, we are expecting a total growth for the whole year at around 15%.

Aniruddha Joshi: Margins?

Balram Garg: Margins, we are expecting some little bit increase in the margins because when I say earlier we were before the GST, when we transferred the goods from one state to other state we have to pay 1% additional tax. So now we have received that. We are expecting to little bit increase in the margins when compared to the last year.

Aniruddha Joshi: Lastly, what is the effective tax rate that you are expecting for FY2018?

Balram Garg: Effective tax rate, income tax rate?

Aniruddha Joshi: Yes income tax rate?

Balram Garg: Around 28% or 29%.

Aniruddha Joshi: Thank you.

Moderator: Thank you. Our next question is from the line of Rajesh H an individual investor. Please go ahead.

Rajesh H: Sir, couple of questions on the domestic front. What would have been the sales growth taking into the consideration the two things, one is that your April 2016 had 15 to 20 days of washout due to excess related strikes and the pre-GST sales that is the advancement of sales due to higher GST rates?

Balram Garg: Actually one thing is that last year only one week was wash out only. So there was no impact of that because there was only an impact of one week only and second we have not seen any demand because in April the demand was very good, May better than April. So we did not see any demand because of the increase in GST and earlier we were charging 2%, so right now we are charging 3%, but 1% we are passing in another way, we have introduced them to the customer, so there is no impact of the GST.

Rajesh H: Thank you. One question on the EBITDA front, the EBITDA margins compared to last year have decreased. Are there any higher discounts or schemes ran this year?

Balram Garg: Last year certainly the diamond jewelry was 37% because of that temporary there was an increase in the margins in the last year first quarter, but on a steady basis, the margins are same.

Rajesh H: It is around 11% to 12% right.

Balram Garg: Yes, and if you see the PAT margins it is very much comparable to the last year first quarter.

Rajesh H: Thank Sir. Congratulations on a great set of numbers.

Moderator: Thank you. The next question is from the line of Roshini Devi from Cogenesis. Please go ahead.

Roshini Devi: Your employee expenses have fallen slightly so any reason for that?

Balram Garg: As a percentage, it will not increase much and it is very much comparable to the last year because there is a 15% same store sale growth so because of that the employee expense is almost the same compared to the last year or little bit less as a percentage.

Roshini Devi: As a percentage only it is less.

Balram Garg: Yes, it is less.

Roshini Devi: Thank you.

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

Anand Shah: Sir, just one question on this interest expense, if I look at QoQ and over the last three quarters it has fallen by almost 10 Crores from 70 Crores to 60 Crores. So any particular reason for that?

Balram Garg: Actually, we said that we are managing our inventory as well as our working capital requirements and as a franchise model we develop that this costs will come down further.

Anand Shah: This is basically since the asset like expansion your overall inventory has gone down and so gold loan, these charge and all would have also gone down?

Balram Garg: Yes. Not decreasing the ways, the sales are increasing.

Anand Shah: Can you share the inventory days?

Balram Garg: Right now we actually do not have the numbers because we will talk about the balance sheet later.

Anand Shah: No issues. Similarly, just on the other income side, I mean that has also doubled YoY.

Balram Garg: Because we use the FDRs to give for the gold loan, so because as the operation is increasing, so definitely we are giving more FDRs to the banks to secure the leases.

Anand Shah: Thanks a lot Sir.

Balram Garg: Thank you. Our next question is from the line of Sameep Kasbekar from Emkay Global. Please go ahead.

Sameep Kasbekar: Good evening Sir. Thank you for taking my question. Just wanted to know if the store count of 79 this includes the franchise stores?

Balram Garg: Yes, it includes the seven franchise stores.

Sameep Kasbekar: In terms of geographical expansion, is there any particular the way we are going forward in terms of region wise, city wise, for our new stores?

Balram Garg: Actually except the Deep South, we are going everywhere. So we have right now our presence in around 18 states, so definitely we are adding two to three states this year and basically it is in North India, Central India, West India, East India everywhere except we are not going to Deep South because there the margins are less, and we are going only to the cosmopolitan cities like Hyderabad, Bengaluru. We are not going to the Deep South except that we are going everywhere.

Sameep Kasbekar: Sir in the North and Central India are we looking at smaller towns and cities and villa store formats change?

Balram Garg: Everywhere Tier 3, Tier 4 everywhere, so from Tier 2, Tier 3, Tier 4 we are opening the franchise model, and Tier 1 metro we will open our own stores.

Sameep Kasbekar: Thank you so much Sir.

Moderator: Thank you. Our next question is from the line of Rishi Maheshwari from Aksa Capital. Please go ahead.

Rishi Maheshwari: Thank you for taking my question. I believe there are a more number of auspicious days in this fiscal vis-à-vis the last fiscal, so is it right to assume that the studded jewelry mix will sustain at about 33% or thereabouts in your view?

Balram Garg: Actually the days are same because in this quarter Akshaya Tritiya every year it should be in the first quarter only. Marriage season is almost actually; yes, in the second half the dates are more, if you compare to the first half, and because we are launching new collections every quarter. Next quarter we are launching four new collections. This quarter we launched three new collections. So because of that we are able to increase the demand in diamond jewelry.

Rishi Maheshwari: Right so for the full year our studded jewelry mix will roughly be about 32% to 33% and this should sustain, right?

Balram Garg: We are expecting the whole year around 32% to 33%. Earlier it was around 31% but this year because we are launching so many new collections, and our focus is more so we are expecting that it should be around 32% to 33%.

Rishi Maheshwari: Great. Second thing is I believe there are lot of digital initiatives undertaken by the company with respect to the inventories we keep so a lot of it is kept in the form of digital and not as hard inventory, so inventory rationalization that can be expected?

Balram Garg: Actually that work is going on and we are expecting something that you can see all the measures, which we are taking the effect, will come, you can see from the third quarter.

Rishi Maheshwari: Sir, how much would be the improvement in terms of inventory days vis-à-vis what it is currently?

Balram Garg: Right now we cannot say anything because we talk about the inventory at the time of the second quarter but right now we cannot say, but definitely we are taking so many things to reduce the working capital requirement, to reduce the working capital inventory days.

Rishi Maheshwari: Thank you and all the best.

Moderator: Thank you. Our question is from the line of Himanshu Shah from HDFC Securities. Please go ahead.

Himanshu Shah: Thanks for the opportunity. Sir, what kind of gross margins we have in studded jewelry?

Balram Garg: The studded jewelry is around more than 30%.

Himanshu Shah: Thanks. That is, it from my side.

Moderator: Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Sameep Kasbekar for closing comments. Over to you Sir!

Sameep Kasbekar: Thank you Inba. I would like to thank the management once again and I would like to thank all the participants as well.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.