PC Jewellers Limited Q1 FY2019 Earnings Conference Call

August 10, 2018

MANAGEMENT: **MR. BALRAM GARG – MANAGING DIRECTOR - PC JEWELLER LIMITED**
MR. SANJEEV BHATIA – CHIEF FINANCIAL OFFICER - PC JEWELLER LIMITED
MR. R.K. SHARMA - EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER – PC JEWELLER
MR. ASHNEER GROVER – PRESIDENT - - PC JEWELLER LIMITED
MR. NIKHILESH GOVIL – PRESIDENT - PC JEWELLER LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the PC Jewellers Limited Q1 FY2019 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjeev Bhatia, CFO of PC Jewellers Limited. Thank you and over to you Mr. Bhatia.

Sanjeev Bhatia: Good evening ladies and gentlemen. A very warm welcome to the earning call of PC Jewellers for Q1 FY2019. I am Sanjeev Bhatia , CFO of the company. Along with me on this call, we have Mr. Balram Garg, MD, Mr. R.K. Sharma, ED & COO, Mr. Ashneer Grover and Mr. Nikhilesh who are the president in-charge of different business verticals of the company.

The Q1 results are in front of you. Company has achieved a topline growth of almost 17% in its domestic segment on a Q-to-Q basis. The growth in the export segment is almost 10%. The company has also grown its EBITDA by 9%. These results are in spite of the industry scenario remaining tough during this quarter. There was a decline of almost 40% in the import of gold in the country and as per our knowledge, there may have been degrowth of almost 20% in this sector. The liquidity conditions in the gems and jewelry sector also continues to remain very tough as on date because banks are trying to reduce their exposure in this sector.

Keeping view of the current scenario, the focus of the company during this quarter was on customer acquisition & market share and not on margins exactly. In the current scenario, the need of the day seems to be conservatism and consolidation. Therefore, the company during the current year will focus on stronger branding, customer acquisition and same-store sales growth. The store rationalization and optimization also remain at our agenda.. At the same time, company will try to expand its franchisee network. The company however continues to work on upgrading its offering and product range. It has opened the first retail showroom of its high-end brand Azva at Taj Santacruz, Mumbai and is working on expanding its designs and product range. Azva which used to manufacture only gold jewelry is also expanding its product range to diamond jewelry. We have recently launched India's first real-time augmented reality jewelry buying experience at 11 of our stores at Delhi NCR and we will be expanding the same progressively to our other showrooms as well.

We have launched our Lal Quila collection of jewelry in April. It employs the Japanese manufacturing technique called Mokume-gane and has been used to manufacture 22 carat gold jewelry for the first time. This technique provides a totally different look to the conventional gold jewelry. It has been very well accepted by the customers. Going forward also, the company will be bringing out new innovations and designs in the jewelry market. I now leave the session open for question and answer please.

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

Ayush Tandon: My question is regarding the buyback that was proposed and then subsequently cancelled. Can you specify what transpired the cancellation of the buyback? and why did we leave it to the very last day when this was cancelled?

Balram Garg: There is a process when we raise capital or any buyback. For any capital raising, certain NOC is required. So last NOC is pending with the bank. So we were discussing with banks number of times and finally they refused to give NOC because they want that cash to be used for either reduction of debt or growth of the company. So finally, when they refused, immediately we call the board meeting and board decided that if banks are not giving the NOC, then there is no point to go for the buyback.

Ayush Tandon: Did the refusal come on the very last day?

Balram Garg: Refusal came on the week when we did our board meeting, but we applied again and then the day we received another refusal, we immediately called for next board meeting.

Ayush Tandon: Okay, thank you.

Moderator: Thank you. The next question is from the line of Mangesh Barge from VLS India. Please go ahead.

Mangesh Barge: This is Mangesh and my question is about the profitability of the company. So as I understood, in tough environment you are performing the sales 14% growth quarter-on-quarter basis. So my question is that going forward with the same pace of growth shall we expect the profitability should be higher than current profitability?

Balram Garg: Definitely. If we look at the past trend, we were growing by topline and were also growing by the bottomline on the same pace. We have increased our margin last year by 1.5%. So this year, you see that the environment is not good. If you look at the industry environment right now, we are hearing from everywhere that industry growth is down by 20% and import down by 40%. So in that scenario, we do not want to lose our customers. In this quarter, we ran some schemes and out of three months, two months was for the complete scheme. One is for the exchange jewelry scheme and one is the discount scheme. So this time, company decided we do not want to lose our customer and want to acquire more customers. Hence, we compromised little bit on the margin side. So it is not going to happen every quarter, like July month was not good but in August, the sales are very good. So right now, it depends on QoQ what company decides whether we want to increase some margins in that quarter or we want to compromise the margin.

Mangesh Barge: Okay, so it is based on this quarter and my last question for you is that you are expanding your business model with franchisee route and I think that last quarter you have opened three franchisees in Pune and all. So I have visited that franchisees, what I found is that your franchisee size is smaller than local or your direct competitors. Does it affect your business? because people in their mind thought PCJ as a brand and when they entering to the showroom, they find it is like below like the way PCJ is having the showrooms. Franchisee showrooms are not that big as compared to the own stores. So does it affect your growth? on one hand we are adding the new stores with the franchisee route, but does it give that level of the growth as you are own store are giving?

Balram Garg: You are right, this is a very good question. The one you talked about Pune store is the second store of PCJ in Pune. We would be open in the mall, so that was the experiment or if you look at the other franchisee stores, they are very big stores according to the market. They are the big stores only. Yes you are right, Pune store in the mall is our second store in the mall, first we opened in the mall in NCR. This is the second store and this was on trial that whether we can run the store in the mall. So this is on trial basis and we opened this store two - three months back. If you look at other franchise store like we have opened store in Hyderabad and other places, these stores are big stores and according to the market. We are opening in tier 2, tier 3 cities. Our own store size is the same and the franchise store size is the same. So, we are not compromising on the location on the size of the store and the inventory in the franchise model also. Your Pune store experience is just exceptional because that is in the mall and is the second store we have opened in the mall. This is the first franchisee store in the mall.

Mangesh Barge: Yes, PCJ is carrying some brand value in the eyes of the customers and that should be retained which has shown in your franchise stores, locations etc. So my worry is it should not affect it.

Balram Garg: Your point is right. Company is doing so many things like they are changing the location like we have converted some small format store to the large format and in one or two places where the potential is not good and we have already opened large format, we have converted into small format also. So according to the market, we are doing. Some stores we have converted into the large format like Ghaziabad, we have converted some other stores as well. So company is doing all the things. That was the first experiment if it is not suitable then we will close the store.

Mangesh Barge: Okay, that is it from my side and best of luck for your future work as you surplus the Titan this quarter, the Titan is only 5.1%. Best of luck basically from my side.

Moderator: Thank you. The next question is from the line of Jiten Joshi from ENAM Asset Management. Please go ahead.

Jiten Joshi: Good evening Mr. Bhatia. My question relates to what is the gross debt and the gross cash that we are holding?

Balram Garg: We have given a detailed in our presentation. There are two components, one is the gold lease and one is the debt. So altogether, the net we have around Rs.3000 Crores, we have given detailed thing in our presentation.

Jiten Joshi: Your net debt is Rs.3000 Crores?

Balram Garg: Net debt is including gold lease like creditors and the debt.

Jiten Joshi: When you exclude the gold lease, but we have not received the presentation, so far it is not there on the website, so can you just?

Balram Garg: It is less than Rs.1000 Crores.

Jiten Joshi: That is your net debt?

Balram Garg: If you exclude this lease gold, total liability like debt plus the gold lease have liability is around more than Rs.4000 Crores, but we have cash on the balance sheet, so net is around Rs.3000 Crores.

Ashneer Grover: In fact, we have uploaded presentation on the BSE and NSE website. If you look at the presentation this time we have given a detailed breakup on how the gold loan works, how much debt we have both on gold loan and what we have drawn down as debt and the cash position thereof. So it is in great detail given this time, If there are still any doubts, we are happy to sort of…?

Jiten Joshi: No problem, Balram Ji, what is our idea of keeping the cash, why do not we go and reduce our borrowings rather than holding so much of cash?

Balram Garg: We have started reducing that. The main problem was two years earlier as we were not holding cash. Because we have started franchise format, there is cash surplus and generated the cash from last year onwards. So the bank sanction the limit either for the lease gold or for the other limits. So they have sanctioned more than Rs.4700 Crores limit to us and we were keeping Rs.1200 - Rs.1300 Crores cash because whatever cash we are generating we are putting in the FDs. Why? because once you return the cash to the bank they typically cancel the limit. Earlier, we were opening our own stores. Hence, we do not want to cancel the limit. Now we have converted our model to the franchise model and we do not require any debt for further growth. That is why we have reduced in Q1. And we will definitely reduce further in the Q2 by the FDs and cash surplus. For the future growth, we do not require any debt, that is why we are reducing it.

Jiten Joshi: My second question Balram Ji would be that we were proposing to do a buyback, but unfortunately our bankers took objection to the buyback, buyback would be done when you find very deep value in your stock. So the stock is going very, very cheap, could you give us any kind of an idea if the promoters would be interested in doing a creeping acquisition?

Balram Garg: Right now, we cannot comment on this. We are totally focusing on the business side. Right now, I cannot give answer of this and cannot commit anything. But definitely company is doing good and we keep opening stores. Day after tomorrow, we are opening stores and opening another two stores by this month end. So company is doing their business and definitely in this quarter, we are reducing the debt also.

Jiten Joshi: For the year, what sort of guidance would you like to give us?

Balram Garg: Right now, I do not want to give guidance. This year Q1 was down by 40% throughout the industry but we have grown by 1500, 1600 supported by some schemes or launching some new collections. In this quarter, July month was dull but August month is very, very good, excellent growth. So, we want to wait for this quarter also. Whatever company was doing earlier, company is doing the same thing that is keep opening stores, franchise stores, keep launching new collections either the diamond jewelry collection, gold jewelry collection and with innovative ideas we are acquiring more customers.

Ashneer Grover: In terms of the year going forward, what our focus is to acquire new customers within our network itself. So we already have 93 stores out there and we will keep expanding on the franchise route, on our own stores. We want to drive more and more customer into the store. Now, how are we doing that? So if you look at online, now across platforms we have maintained PCJ as a brand. So earlier, we were doing Azva and for some time we did WearYour Shine. But now, we have maintained PCJ as a brand. So people are discovering our designs online not only by our website pcjeweller.com but also on Flipkart, Amazon, Myntra, Jabong. So, there is a sort of multichannel approach where people can discover the brand in multiple places and will come & shop in our shop or online where they feel like. Similarly, we have launched for the first time gift cards which are again being sold on Amazon. This drives new customers to our stores. We have launched augmented and virtual reality. So even if you go to our store, not only can you see the inventory which is available physically but also look at the inventory which is available in the adjoining stores. So we can arrange it for you if you like some other designs. So, the focus of the company for the next one year is completely on driving density to our existing store.

Balram Garg: One more thing we are doing is that some stores like two stores, we have closed and will closed one or two stores more. We are shifting some stores to the good location. So, we have analyzed everything and we are opening new stores also. so we are upgrading the stores with some different interior. So company is doing marketing, branding, acquisition of new customers in these new ways. So, this is the focus of the company for the whole year and definitely growth will come.

Jiten Joshi: Okay and you are very focussed now on franchisees, so mostly all the new openings will be franchisee stores?

Balram Garg: Yes, mostly in the franchisee. We will open some own store also but mostly franchisee.

Jiten Joshi: And what was the same-store sales growth for this quarter?

Balram Garg: Same-store sale growth is around 5% this quarter and balance is from the new stores.

Jiten Joshi: Okay, wish you all the best Balram Ji. Thank you Ji.

Moderator: Thank you. The next question is from the line of Akash Singh from Alpha Alternatives. Please go ahead.

Akash Singh: Good evening. My question is regarding to the franchise and own store model of the company. So basically in terms of sales, is that the outright sales that we do with the franchisees?

Balram Garg: We have only one franchise model like whatever inventory we give to the franchisee, we sell and we take the money from the franchisee. So inventory is on the franchisee books. So this is the outright sales.

Akash Singh: Okay and what is the profit sharing ratio between you and franchisees?

Balram Garg: Profit sharing ratio is there with two - three models according to the diamond jewelry sales, gold jewelry sales, but we share the almost 50%.

Akash Singh: Okay and this sharing is that operating profit level or…?

Balram Garg: This is for us like PBT model.

Akash Singh: And what is the guidance for FY2019 in terms of number of stores that you are planning to go ahead with?

Balram Garg: In April, we have opened two. This month, we have already opened two. This month end, we are planning on opening two. So, we are not giving any guidance but we will keep opening the stores. If we have opened in four- five months, four stores. Definitely, we keep opening the stores, but right now we are not giving any guidance.

Akash Singh: Like currently you have total of 92 stores in pan India right?

Balram Garg: We have 95 stores but two stores we have closed and So right now, we are 93. Day after tomorrow, we are opening another one then this month & another two later, so definitely soon we will cross 100 stores.

Akash Singh: And of this 93 what is like franchisee and own stores ratio?

Balram Garg: Around 15 is franchise. We have started our franchise model one-and-a-year half back.

Akash Singh: Okay. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Rohit Hariakar from HDFC Securities. Please go ahead.

Rohit Hariakar: Thanks for the opportunity. Sir I cannot find trade receivable numbers in your presentation, can you please share the number outstanding as on June?

Balram Garg: Actually, we have given the numbers leads to debt and the inventory, so right now we do not have the numbers, but in September we will share the complete balance sheet.

Rohit Hariakar: Okay and what was the studded ratio for the quarter?

Ashneer Grover: Just to give you some clue on the way the movement has happened on trade receivable. If you look at the segmental balance sheet which has given with our results, you would see that the export segment it has come down to Rs.2300 Crores roughly to Rs.1930 Crores. So that is the reduction of almost Rs.400 Crores on asset side on the export.

Balram Garg: But exact number we do not have, but definitely that number is also reduced.

Rohit Hariakar: Okay, so my second question was regarding studded share, what was that for the quarter?

Balram Garg: Studded share this quarter around 25%. There are two, three reasons that margins… because last year our usual margin in every quarter is around 16% to 17% gross margins. But last year, first quarter the margin was more than 19%, because first time was studded ratio was more than 35%, because we have launched two, three collections of diamond jewelry that quarter. This quarter we launched gold jewelry collection only, so that is why studded jewelry sale has come down. But in this quarter and the next quarter, we are launching some diamond jewelry collections, so we will definitely achieve that around 30% here in the diamond jewelry.

Rohit Hariakar: Okay and Sir out of the inventory of Rs.1400 Crores how much of that is of studded and diamonds?

Balram Garg: That number we do not have right now, so definitely…the exact numbers we do not have right now.

Rohit Hariakar: If you can give estimate I mean the tentative…?

Balram Garg: I do not want to give any kind of estimate but definitely in September we will share.

Rohit Hariakar: Okay, sure. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: We are seeing your export in domestic margins separately for the first time. Here, the PBT margins in the export business are about 4%. You also mentioned that there are mark-to-mark gains of 4%. So does that means at PBT level breakeven this quarter excluding mark-to-market?

Ashneer Grover: No, number one point is that we have been giving separate vertical wise figures always and is not the first time. But what we have given in our presentation also this 4% figure that our gross margins are higher by 4% and similarly at the PBT level also if that a mark-to-market...

Balram Garg: Mark-to-market is always there, so because every time when we give at the quarter end, every time in export, the mark-to-market is there, so PAT level the margins are same in the export every time, but only because this quarter because of dollar fluctuation, so margins have increased in export, you can see the other income in export side that is the mark-to-market.

Devang Patel: So, the EBITDA has gone up from 5.7% to 10.6%, but at the PBT level it is 2.7% to 3.7% only.

Ashneer Grover: Because whatever our gross margins have increased…

Balram Garg: I explain this like that. In the gross margins steady basis our gross margin is around 5.5%, but it has grown by 2%, so 2% margin increased because this time in export, the hedging cost have increased a lot and that cost we have passed. We have hedged on with the buyers and we are passing that extra cost to the buyer. So this gross margins increased there and that extra cost is including the finance cost. So that is why the gross margin is also higher and that extra cost is in the finance cost.

Devang Patel: Okay, got it. When you say August sales have picked up, are there any activations that you have done or this is the normal pickup in sales you are seeing in August?

Balram Garg: We are doing some activations also, but without activation also the sales are very good in the August.

Devang Patel: On the loan side, you said across the sector there is pressure to reduce from the banks to reduce exposure to the sector, so are you also facing certain such pressure to reduce borrowings?

Balram Garg: Actually yes, there is a problem in the sector wise. But our company is in very comfortable position. So whatever cash we have, banker are saying that do not keep the cash and reduce that amount. So apart from that, we do not have any problem and whatever cash we have, we have already reduced. In this quarter, with balance cash we are reducing it. So in 3000 level including everything like gold lease, we are very much in comfortable position and banks are in very comfortable position.

Devang Patel: Okay, I see you used about Rs.900 Crores of margins for gold loans. So if you reduce this cash, what happens to the limits you are getting for gold loans?

Balram Garg: We have given a very detailed thing like you have asked everything like what the lien amount is? what is the free cash? so after deducting everything, so what we are doing in this quarter, so it is almost less than Rs. 3000 Crores.

Devang Patel: My question was that it is used as margin against borrowing.

Balram Garg: The margin against borrowing is FDR is there, so that is not Rs. 900 Crores, that is around Rs.200 Crores.

Devang Patel: If you reduce the cash, you will be repaying the non-gold against gold lease loan?

Balram Garg: We are reducing the liabilities. Yes, we are repaying and we do not require because we have now moved to the franchise model, for the further growth we do not require any extra inventory. So if you look at we have reduced the inventory also and we are opening stores. If we open own store that time we require more, so right now we do not require more cash for the growth.

Devang Patel: Finally what kind of operating cash flow has been generated in the Q1?

Balram Garg: This is currently not available

Sanjeev Bhatia: But what we have done is we have given the debt position and the cash position. So from that what it is pretty clear that we have repaid Rs. 426 Crores back to the banks. After that Rs. 426 Crores repayment also, we have Rs.182 Crores free cash on the books. So that is where our cash position stands and beyond that we have Rs.980 Crores of FDs which are either given for gold loan or as lien to the banks.

Devang Patel: It is implying your cash flows are healthy. My second part of the question was that for the full year as you generate more cash other than reducing your FDRs, is there any further debt reduction you are planning from your cash position?

Balram Garg: No, there is no planning to further, whatever cash we are generating we will keep and there is no need to further reduction and if required definitely whatever free cash is there… so there is no need form the bank side, but it will decide whether free cash - from where we want to use that free cash.

Devang Patel: Could you give a broader sense of how much debt you are looking to reduce this year?

Balram Garg: In September, we are giving the guidance. In September if you compare to the March, 4500 and September is Rs.3000 Crores.

Devang Patel: Okay. That is all from my side. Thank you so much.

Moderator: Thank you. Next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thanks for the opportunity. Sir first of all like if I am not wrong just highlighted like on your franchise you have a 50% sharing on PBT level?

Sanjeev Bhatia: No, at gross level.

Manoj Gori: At gross level?

Balram Garg: Suppose our margins in the business are like 17% right, so 8.5% we are giving to them and 8.5% we are keeping. Out of the 8.5%, almost 1% we are spending on the marketing side. So that is the only thing, which our company is spending, so our PBT margin is around 7.5%. So as on today also if you look at our own order the PBT margins are around 8%.

Manoj Gori: Right Sir, secondly in the Q4 concall you highlighted like how you are going to utilize the Rs.1400, Rs.1500 Crores of cash on your books. So like it was approximately Rs.400 Crores to Rs.450 Crores would have been utilized for a buyback and rest of them would have been largely utilized to repay the debt. So in this case, yes, as you highlighted like banks denied and there was no issue of NOC, but if you look at the debt repayments would be in the tune of Rs.430 Crores. So in this case why cannot we actually repay the debt like in the three months, like so suppose Rs.1000 Crores of debt repayment you are planning, so what made you actually stop like you repaid only Rs.430 Crores?

Balram Garg: Actually, you are right because fund is in the form of FDR and FDR is maturing and that amount we are returning to the bank, so till September everything will be returned.

Manoj Gori: Okay, you would not be having any debts at gross. So everything post September would be the gold metal loans?

Balram Garg: No, it is the mix of both, some fund will be the working capital and major portion will be the gold lease.

Ashneer Grover: Just to give you a sense, we get overall working capital limits from the banks, now depending on the need of the business at that point of time we use that working capital limit either as a drawdown, which might be used for buying diamonds or for expenses and expansion or we could use it as a gold loan limit, so we want to always maintain that fungability of that limit at the discretion of management depending on how we want – where we see the market is going. At this time also around, we have given you the complete details of it and we are at Rs.4000 Crores of total bank exposure today and what we are pointing out is that that Rs.4000 Crores of bank exposure by end of September will come down to Rs.3000 Crores.

Manoj Gori: Okay, that is all from my side Sir and all the best Sir.

Moderator: Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.

Ankit Shah: Thank you for taking my question. Sir there were two recent store opening one is Deoria and one is Rewa, could you please tell us if this is through franchisees or these are company-owned stores?

Balram Garg: Both are franchisees.

Ankit Shah: Okay, Sir just one more thing, thanks for a detailed explanation on the debt fee in the presentation; however, just one missing link here. Sir can you split the 4064 Crores of bank exposure between the gold loan and the regular debt?

Ashneer Grover: Sure, so as the reason we have not sort of given a split because as we told you that fungability we always want to maintain, but just to give more sense roughly it is 3000 and 1000, so Rs.3000 Crores of gold loan and Rs.1000 Crores of drawdown debt.

Balram Garg: But we were keep decreasing every time, so we think that either Rs. 1000 Crores is a liability.

Ankit Shah: Sir just one more on this is, in the last quarter's conference call management had guided that within next three months, we should be able to reduce debt substantially most of the cash could be utilized to reduce debt and that has kind of only partly happened, again last time there was a selective disclosure on above Rs.400 Crores receivables being realized and again in this quarter you are not disclosing the receivable number, Sir I appreciate your effort in trying to sort out issues that are coming up, but Sir it would be really helpful if we have a consistency in disclosure norms that will be really useful to build credibility amongst the shareholders. This is just one piece from my end, if you can keep this going forward and Sir are you kind of certain that you would want to reduce the bank liabilities to less than Rs. 3000 Crores by September end?

Ashneer Grover: Yes, I will take the first question, the first part of it, so absolutely, so one of the thing we have learnt over the last sort of six months is the market obviously wants a lot more disclosure from us right and we are very happy doing that disclosure as long as it is not competitive information that we are giving out. Now as part of that process, we have to understand it is a process. It is not me taking a call one day and saying today I am going to disclose everything. So as a process, we are trying to educate the market on how the business run, which are the key areas where the market needs immediate address – something need to be addressed immediately, which is the debt and the cash position. Now going forward, we will also evolve these disclosures more so that you get more segmental information, you get more tie up of the P&L balance sheet and cash flow right. So that is all in the works, please bear with us over the next six to nine months you will see a lot more change in terms of the disclosures that we make.

Balram Garg: And the second part your question is we have already – because as I explained earlier also in the earlier call, earlier participant asked me that we are keeping the cash on the FDR and as the FDR date is matured, we are repaying the debt to the bank, so yes we are 100% sure before September this is going to happen 100%.

Ankit Shah: Okay. Thank you so much for your clarification. That is it from my side.

Moderator: Thank you. Next question is from the line of Parish from Alpha Captial. Please go ahead.

Parish: So my question was around this franchisee model, which the company is fully steadily adopted. It looks like that is the full key to debt reduction and answering a lot of other questions investors have. Can you provide some more information around the interest you are receiving from franchisees? What is the process you adopt to on-board franchisees? What are the geographies where your focus is going to be on in this particular model?

Balram Garg: Actually mainly we are opening franchisee store in the mainly tier1, tier2, tier3 cities and we have a different franchisee team. We have selected the cities where we want to open the stores, so when any franchise applies from there we do complete due diligence and after that we give franchisee to the person. We select the location and set the criteria like how much inventory we needed for that market. If that the franchisee can invest that much of inventory and we give franchisee to the person. We share the 50:50 profit in that and we do not give any credit to the franchisee.

Parish: So for the 15 odd stores you have opened, you are pleased with your learnings and the way it has evolved and you see this sort of getting ramped up in near future?

Balram Garg: Yes, that is why we are opening more franchise, yes we are opening some own store in future, but mainly our growth will growth will come from franchisee.

Parish: And just specific question, one of your last competitors obviously ran into troubles. I think the business has shrunk, are you seeing some migration from some of those franchisees people who are maybe running stores with that large competitor?

Ashneer Grover: Yes, there are lot of franchisees applying and some are from the competitor side also and some are other person also. So our process is the same, whether the person has franchised for other competitors or he is not franchised for that competitor. So, we follow the same process.

Parish: Okay that is fine. So, second question, which is kind of related to my first one, obviously last six months have not been into that great or since nine months. Has this impacted your sort of enquiry from the franchise perspective? and relate point you had obviously signaled the buyback as an intent to the market that you are undervalued and you want to sort of buyer your own stock that has been not fulfilled by your bankers. There have been a lot of discussion around that and exchange has also asked for more information. So now as the signaling mechanism, do you propose to do something else or you just going to be focused on just improving the business and then market discover the right valuation for the company?

Ashneer Grover: It is a good question, what you want also sort of reemphasize is that when we even announced the buyback right. See what our intention, our intention always is that we see everyone on the liability side of the balance sheet as a liability right whether it is a debt or an equity holder. We felt the market would want more comfort if we or get more comfort if there was some sort of cash, which we back to the equity shareholders. Similar to the way, we were reducing us debt in parallel and that was very true intention with which we went about it. The learnings for us was that obviously the banks want themselves ahead in the waterfall of any reduction in liability. That is a lesson that we have sort of clearly learnt. So, we are not worried about whether our stock is overvalued or undervalued that is for smart folks like you to make the market and make the market clear at the right price. Our focus and our learning from the last six months is that we need to be focused (a) on our business. (b) we need to run the business with the simplest principle of corporate finance, which is saying the first liability to be dealt with is the banks liability because it is coming at a higher cost and therefore it has priority. The subsequent liability is the equity liability so that is a sort of our simple learning from the last six months.

Second thing, you have to understand that the business market and the capital markets have very different perceptions of business. So you might think that buyback was announced and it did not eventually take place and what is happening. But if you look at the larger market, it gives a very strong signal where the business is saying I am happy to return money back to you if you needed for any purpose as a liability right. So the franchisee's enquiry are actually not affected by what the capital market think about the stock at a given point of time. They are slightly more sort of linear behavior there as against the very sort of volatile behavior that one observes in capital market.

Parish: That is fair enough maybe. I will just rough ask kind of leading questions so in terms of learnings and again your market will clear its own price and their various things. But obviously as promoters and key management staff, this whole collapse in stock prices is certainly not something desirable. Are you guys thinking as a team around may be communicating differently to investors obviously management presentation is evolved. Anything more proactive around larger retail investors because the number of retail participants have increased many fold over the last few months. Any thoughts around the whole corporate communication and investor communication given that what has happened in six to nine months?

Ashneer Grover: Absolutely every business have to evolve right and every business will go through certain phases, where things are not happening as they are intended for no fault of your either right. So just because one of the players in our sector got in the line, the banks in the sector have become very risk averse and all of sudden, which is fair. Like if I were a banker I would have the similar view sitting on the other side of the table, but what we have sort of learnt and what is the clear learning for us is we have to be (a) we have to more interactive with the market and as a first step to that hopefully this presentation that we sent out today leaves you slightly more educated about our business than before, (b) corporate governance is the key so everything that we do we have to have a very strong lens of corporate governance on all our actions going forward. So those are the two things greater disclosures better corporate governance and sort of better interaction with the market at large. Sometimes what we have been **(inaudible) 44:12** is that we sometimes thinks that we are doing very good business, we are delivering the growth, we are delivering the margin and therefore market should by itself understand what we are doing. Clearly that has not happened and that is our learning that we need to slightly more of dialogue based with the market going forward.

Parish: That is great. I think one thing which you guys can do is relaunch your Akshay Kumar campaign, I am sure things will get corrected. So all the best. Thank you so much.

Moderator: Thank you. The next question is from the line of Saurabh Gupta from Isha Financial. Please go ahead.

Saurabh Gupta: First of all, I wanted to know who the second person is answering the question, what is the name of second person?

Ashneer Grover: Hi my name is Ashneer Grover.

Saurabh Gupta: And you are part of management there, PC Jeweller.

Ashneer Grover: Yes Sir.

Saurabh Gupta: Okay. My second question is related to your modus operandi for exports business. So if it is your own entity whom you export or do you export to different people. How does it work? this question is related to getting more feedback on the free trade receivable and is that the market is little nervous about trader receivable from the export sector. So we just wanted to may this question I wanted to ask with relation to whether these trade receivables are secured and what is the mechanism so little bit light on that?

Balram Garg: First of all, we have given a complete process of how we do export and how we send document in our presentation. But I will explain that. Every document go through the bank and we do not export to our any entity and we export only the outside party only. So we are not exporting to our own entity number one. Number two, so all the documents are going through the banks only and we are doing only gold jewelry and every shipment is apprised by customer and we have given a complete process on how we do that and all the metal procured on export also on the lease model only from the banks. so this is the a quartile and receivables are not LC bank, but all the document through banks only.

Saurabh Gupta: Okay and these takes place through letter of credit or how does it take place?

Balram Garg: These are not LC bank. I am already saying that these are not the letter of credit so. These are through banks, but we are not sending any document directly all the document through bank to bank.

Saurabh Gupta: Bank to bank only and typically how much is the duration for particular export in getting receivable, what is the cycle time 30 days, 90 days?

Balram Garg: The complete export cycle because when we take a gold only, whatever gold on lease it takes sometimes to manufacture jewelry sometimes it take one month, sometimes it take two months, sometimes three months. So all the process gets completed within almost 180 days.

Saurabh Gupta: 180 days and when you export the jewelry you get the payment within how much time does it take the realize payments?

Balram Garg: Process is different. Different banks have different things. So all the process complete almost within 180 days.

Saurabh Gupta: Okay thank you. No more questions.

Moderator: Thank you. The next question is from the line of Ajay Thakur from Alder Capital. Please go ahead.

Ajay Thakur: I have two questions, one was on the hedging policy. So can I just know if we have 100% off our domestic gold purchase being hedged or is it actually…?

Balram Garg: Actually buy gold from the banks only on the lien model, but when we exchange jewelry from the customers that portion is not hedge. But whatever inventory we buy from the bank that is totally hedged.

Ajay Thakur: Okay so what is your total unhedge gold position that would be there?

Balram Garg: It keeps on moving, actually will not be more than 1520.

Ajay Thakur: Okay and secondly, there was mention of around 100 to 130 basis point of margin impact because on the domestic gross margins because of forex MTM, mark-to-market. Can you just explain that in a better way?

Balram Garg: There are two components involved when we buy gold on the lease. So there is lease creditors also and these creditors on the dollar side. So when the dollar fluctuate a lot like if dollar fluctuate one dollar or rupee fluctuate Rs.1 and Rs.1.5 then it will not impact, but if a particular name because creditors are there, a particular time when the dollar fluctuation is higher like more than Rs.2 so it affects the margins specifically so at a particular time there are the forex loss on the creditor, but yes this is only notional less, it is not the actual loss.

Ajay Thakur: Okay thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraint this was the last question. I now hand over the conference to the management for their closing comments. Over to you Sir!

Sanjeev Bhatia: I thank all of you for joining us at this late hour on a weekend and I am really thankful for a very lively question and answer session. I hope that we were able to satisfy majority of the queries and I wish you all a good evening and a happy weekend.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of PC Jeweller Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.