

Transcript

Conference Call of PC Jeweller Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen I am Beulah moderator for this conference. Welcome to PC Jewellers Limited 4QF14 and F14, post results conference call. We have with us today Mr. Mahantesh Sabarad, Deputy Head of Research, SBI Cap Securities; Mr. Sanjeev Bhatia Chief Financial Officer PC Jeweller and Mr. Balram Garg Managing Director, PC Jewellers. At this moment all participants are in listen only mode, later we will conduct a question and answer session, at that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Mahantesh. Over to you sir.

Mahantesh: Good evening everyone. On behalf of SBI Cap Securities Limited I welcome you all to the Q4F14 post results conference call of PC Jewellers. Without wasting too much of time, I now call upon Sanjeev Bhatia to begin the conference with his initial comments. Over to you Sanjeev.

Sanjeev Bhatia: Good evening everybody, I have with me Mr. Rajaram Shukla our Senior VP Accounts and Taxation; Mr. Garg unfortunately is not there with us today as he had some other urgent work so he had to leave. But I would like to go through our speech. The salient financial parameters of the Company's performance everybody has seen. During the current fiscal we had a total turnover of 5324 crores with a domestic retail of more than 4000 crores this is vis-à-vis our total turnover of 4018 crores in the previous fiscal and where we had a domestic retail of 2991. So overall we had a growth of nearly 30% in our top line. Similarly, our EBITDA was 5806 crores during the current fiscal and 481.8 crores of the previous fiscal. So there has been an absolute growth in the amount though there had been a slight decline in the percentage the reasons for which we will go in later.

During the current year we have continued to concentrate on our domestic retail business which is growing at a fast pace. Our retail sales as a percentage of total sales was 75.2% in FY14 as compared to 74.5% in FY13. In FY12, the share of domestic retail was 67%. So there has been not a very...but there has been a substantial increase in the sale in the past three years and we have maintained our export sales at 24.8% in FY14 actually more to ensure availability of gold under the 20:80 scheme and will continue to do so. We have been participating in global jewelry exhibition to tap new overseas market and maintain our exposure to ensure availability of gold for domestic operations. However, we will continue to receive our position on export share in line with the prevailing policies of gold procurement. Though the overall jewelry industry's demand growth has been slow in the last few quarters, we are seeing continuous shift of demand from unorganized to organized sector. This has been a strong driver for retail

sales growth for the large organized players like us. We also feel that improvement in the overall economy with a strong government in place is expected to boost the sentiment leading to increasing consumer appetite. We also envisage a custom duty cut in the near future which will further improve the sentiment.

Regarding diamond jewelry percentage, there has been a decline in the quarter also and in the complete year also. Whereas in FY13, our total diamond jewelry percentage was 30.8%, which has declined to 26.4% in FY 14. If we compare the two quarters, Q4 of 2013 and Q4 of 2014, there has been actually more decline. IN Q42013 we had 32.4% of diamond jewelry in our domestic sales which declined to 24% during the last quarter. We feel that it is an industry wise phenomenon, though there was an absolute increase in diamond sales in FY2014, the ratio has declined. We feel it is an industry wise phenomenon which should be a temporary one. We are already seeing an uptake in the diamond jewelry sales in this quarter and we hope to regain the original percentages once again and we continue to emphasize on diamond jewelry and our focus remains the same.

Regarding the expansion plan, we in 2013 fiscal opened six, in 2014 fiscal we opened 11, and during the current year we have a target of opening 15 new stores and adding a total of approximately 1 lakh square feet of retail area. Out of this 15, the date of opening for three have already been finalized. We are opening in Ranchi, Guwahati and Jammu in the next three weeks almost and work is also going on to open four at Patna. Patna we are trying to make it come in this quarter only so that by June 30th, we should be 45 stores strong. By March 15th we have a target of 56 or so. This whole storeroom expansion has helped us achieve good overall growth this year also because of the eleven stores. Though the same store growth from existing mature store was muted, overall growth was primarily driven by newer stores which consisted of six opened in FY 13 and 11 in FY14. This has basically contributed to our retail sale growth. The same store growth during the current year we have not seen any major jump, it has been a muted growth only. Company's retail presence is spread across locations in metros, tier 1, as well as tier 2 towns and we will continue to open stores as per our existing pattern only.

Now I will come to business profit. Our '12-'13 PAT was 356.30 crores out of which 23 crores retail relates to our MTM profit. So our business profit for FY 14 was 333.30 crores. This should be compared with our business profit for the previous years. In 2013 we had a PAT of 290.6 crores and our MTM gain was 5.6 crores. Our business profit comes to 285 crores, so this 285 vis-à-vis 333 has been our actual growth if you leave aside FOREX gains in the year.

Now some basic financial indicators: As on March 31st the company had liquid reserves that is fixed deposits, mutual fund investments of nearly about 500 crores. We have been paying dividends consistently since listing. During the last fiscal we have paid the interim dividend, the board had declared final dividend also which you people may already be aware of subject to the approval of share holders. And we continue to retain the dividend paying policy in the near future also. Our debt to equity ratio is very comfortable, 0.60 only and this is gross. If we take into account our cash in hand on that, then the ratio would improve further to I think 0.25 only but this is a gross ratio which we are considering. Crisil has viewed our company rating at AA1 which is a testimony to our robust business model and financial health. Regarding jewel for less scheme, we have temporarily suspended the same in order to get further clarifications

on that this thing. However we are not too much worried about it really because our overall (not sure) percentage contribution to our overall retail sale is negligible- less than 3%. Even if the doubt remains and there is no clarification the scheme remains suspended so it is not a major worry for us. Another success which you would have noticed regarding our export receivables; the absolute amount also has gone down and our days have also been reduced.

Now there are two other recent developments to which I would like to draw the participants' interest. Before the RBI circular of day before had come, as we have been communicating to our investors previously also we really were not comfortable on hedging on MCX whereas, we were trying to get this facility through banks with whom we had been dealing in the past and more operationally comfortable. So on the very same day as the circular had come, we had received sanction letter from a bank, I wouldn't be able to disclose the name, for hedging nearly 5 tons of inventory. So this means that now that circular is basically (speaks in Hindi) even if that circular hadn't come, we had already received permission for hedging 5 tons of our inventory through the product of gold forward. But this circular has further restored the gold metal loan product, we are confident that this should be operationalised soon and once it gets, we should go back to the original procurement policy which should help the company reducing its working capital interests costs and capital also. It should benefit the margins of the company. And we also feel that this relaxation in 20:80 scheme is expected to improve gold supply, reduce gold premiums and further boost customer sentiment. We should be good to other industry as such. I now leave the floor for questions if any.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. The first question is from Mr. Adhidev Chattopadhyaya. Please go ahead.

Ahidev Chattopadhyaya: Good evening thanks for taking my question; I've got a couple of questions firstly on the recent development of the gold loan lease. Could you clarify for us whether the scheme whatever the RBI has done, does it mean it is back to the old gold loan lease comes? Is there any difference between what it was earlier and what it is now or is it exactly the same? Secondly on your jewels for less scheme, when do you see this again coming back into the market? Thanks

Sanjeev Bhatia: Regarding number one question, actually in the official parlance, the terminology is GML only gold metal loan scheme. It is basically the gold on lease scheme is normally used more by the investment bankers and other people. The official terminology remains GML only and they are one and the same thing and so once....we hope that it should get operationalised very soon because there were many banks which were giving gold to us under this scheme so they already have systems and procedures in place. Number two, regarding the jewel for less scheme; frankly we cannot really put a date to it. I think this is still a fluid subject, nobody knows exactly how it will work out and we frankly do not want to rush into it and take some action which will not stand the (not clear) of regulatory later on. So it is better to wait and watch and as I said it doesn't really contribute that much substantial to our revenue turnover. We can

afford to wait rather than rush and do something which might turn out to be wrong later on.

Ahidev Chattopadhyaya: Okay and just one follow up question regarding your....you said your sales was also pretty muted in the last financial year due to obvious reasons. Could you quantify it? Either an absolute number or a range across stores what would have been the SSG?

Sanjeev Bhatia: You can put it more or less at 5% only.

Ahidev Chattopadhyaya: Okay thanks for taking my questions.

Moderator: Next question is from Mr. Abhi Mehta from IIFF.

Abhi Mehta: His sir, thanks for taking my question. I wanted to just understand what's the current in gold sourcing? The (not clear) domestic size.

Sanjeev Bhatia: We source through bank. Bank of Nova Scotia remains the major supplier.

Abhi Mehta: How much would that be sir? Is it 100% of our gold requirement?

Sanjeev Bhatia: About 70% to 75% I think. Then we also get gold from other banks like Kotak, through SBI as well as State Trading Corporation also has been giving us gold.

Abhi Mehta: Sir with State Trading Corporation would be for the export as of now only is it?

Sanjeev Bhatia: No, now everybody is giving gold for both operations. Now the gold, if Scotia is giving the gold, it is giving both for export as well as domestic. Similarly, Kotak is giving us gold both for domestic as well as export. This is our advantage because we are able to pick up gold for export operations also. So we get preference for other leg also.

Abhi Mehta: Sir almost 100% is on buyout basis, that is what the entire portion...?

Sanjeev Bhatia: Buy out meaning?

Abhi Mehta: Means you purchase it outright?

Sanjeev Bhatia: No, no, some export gold is available on lease also. Like SBI gold is available on lease even though it is for domestic operation. Scotia gives its export gold on lease basis. That's not basically mixed and matched.

Abhi Mehta: Sir could you give us the breakup of the 100% for domestic, how much would be currently on lease and how much is not on lease?

Sanjeev Bhatia: Currently on lease would be negligible. Only the gold which we get from SBI, (not sure) is on lease rest is all outright purchase.

Abhi Mehta: So it would be 5% what you would say?

Sanjeev Bhatia: Not more than that in any case.

Abhi Mehta: Sir that 95% is of the domestic, the reason why you are saying you are comfortable is because of your export requirement is that right sir?

Sanjeev Bhatia: No, no, before the circular, you couldn't get the gold on lease was for 24 domestic operations...

Abhi Mehta: Fair enough sir. But as of now, the circular restricts the gold on lease for the 80% component, versus the earlier regime where everything was available. So there is still a gap that's why I asked you. If you had everything means....procured from bank for huge....

Sanjeev Bhatia: You all know about the 20:80 scheme, prior to the circular, export gold banks were permitted to give on lease basis. That was always there. Some banks were not giving, that's a different question, but RBI didn't stop them from giving it only. Like I just told you, Scotia bank was giving all its export gold on lease basis only even prior to the circular. Now what would happen, after this new circular, in the 80% also which Scotia was asking us to purchase outright, will be able to give to us on lease again. So that 20% has always been on lease and this 80% also now from the start procuring on lease basis. This is the difference.

Abhi Mehta: What is the lease cost sir for us?

Sanjeev Bhatia: Least cost would be 5%...between 5% to 6% that would be...more or less it should be between that.

Abhi Mehta: And currently your interest cost is what sir?

Sanjeev Bhatia: That would be for anybody the normal...cash credit cost would be between 11% to 12%.

Abhi Mehta: Okay so I think the year end number is not the represented number for (not clear) because your total interest out go for the year is about 122 crores and your short term borrowings is almost about 1000 crores?

Sanjeev Bhatia: Actually this year, initially the lease scheme was there for the first half or so, then it was stopped. Our finance cost is 1.87 crores for the complete year.

Abhi Mehta: That's what I was trying to get at. (speaks in hindi).

Sanjeev Bhatia: (Speaks in Hindi).

Abhi Mehta: Okay so net-net you are saying that the domestic....if you could just give us a breakup of your gold between....I am just trying to get a sense of

how much the interest cost can reduce to? The current full year number...how do you see that...?

Sanjeev Bhatia: I think we will have to wait for a month or so frankly. It won't be possible to start calculating from immediate this thing. Number one, the circular has just come, the GMS scheme for domestic operation, let's wait how fast the bank can get their act into place. Number two, our operations are increasing year after year. Last year we opened 11 and this year as I said we are opening 15 and our volumes are increasing. So our absolute amount of interest payable would increase in either case. So I think we will have to....the basic deciding factor will be when these schemes actually start come into play.

Abhi Mehta: Any guidance that you can share or any expectations you can share?

Sanjeev Bhatia: No, we are already at the end of May frankly, so I think this quarter, one can easily let it go. Let the next quarter onwards be a good start over.

Abhi Mehta: Sir just a book keeping question. I am not able to understand the reduction in the interest cost on a Q-O-Q basis, because that is I think flowing into the...I don't know why that reduction happened so these 30 crores in other income in the third quarter, it has fallen to 10 crores....if you can just help me understand the reason for the reduction?

Sanjeev Bhatia: Yeah you are talking about the other income? It is basically our quarterly other income on an average is about 10 crores only. This increase is due to one other accounting entry which was put in by our auditors in the previous quarter, I think it involves a figure of about 17 crores but explaining it on the concall will be slightly difficult. So you can take it off line. This is not a representative figure actually; it is more of an accounting representative. Our other income basically ranges between 10 to 12 crores per quarter.

Abhi Mehta: Okay and sir one last question on MTM loss that you were highlighting....The MPM gain that you had last year and this year is basically on the underlying gold so.....

Sanjeev Bhatia: No, this is because of our export operation. We also have export operation. So we can sell our receivables in the forward market. This represents MTM gain on our forwards taken on our exports receivables.

Abhi Mehta: Sir could you please explain that I am not able to understand....?

Sanjeev Bhatia: (Speaks in Hindi). Mine is a running business. I know that I would be getting so much of inward remittances in the next six months. If I am getting a good dollar rate, I can sell those receivables or take a forward against those receivables today only. So then it becomes the difference, if I have taken my...if I sold off my receivables on say at a rupee dollar rate of 62 and on the balance sheet date the rupee dollar rate is 60. So that Rs.2 per dollar is my MPM gain. This is our actual underlying on export receivables.

Abhi Mehta: Okay that's all. I will come back if I have any questions.

Moderator: Thank you. Ladies and gentlemen please press * and 1 for your questions. Next question is from Aditya Khemani from HSBC Asset Management. Please go ahead.

Aditya Khemani: Hi sir, on the GML side it will be for 90 days or 180 days?

Sanjeev Bhatia: See the original instruction was for 180 days. We believe that RBI has not done anything to amend those instructions. So I think once it comes back it will be for 180 days only.

Aditya Khemani: But they haven't specified clearly as to how long will that be for in the recent circular?

Sanjeev Bhatia: I don't think there was any need because the total metal loans very specifically is 180 so it will remain at 180.

Aditya Khemani: What was the gross debt at the end of one year?

Sanjeev Bhatia: I think the balance sheet figures are there in front of you. In the short-term borrowing, it is almost 1000 crores.

Aditya Khemani: And sir on the inventory side, what was the total inventory at the end of March?

Sanjeev Bhatia: 2377 crores.

Aditya Khemani: And there seems to be the export side also know sir?

Sanjeev Bhatia: Yeah.

Aditya Khemani: Because gold metal loan you'd be entitled the export side so, in case you reduce the inventory on account of your export then how would this number fall sir?

Sanjeev Bhatia: I didn't get it. Even if we take gold under the gold metal loan scheme, at one end it does get included in our inventory, on the other side of the balance sheet, payables get accounted.

Aditya Khemani: Okay in case we do the inventory on the export side, because that is an accounting entry, so how much will this 2377 fall to?

Sanjeev Bhatia: We hardly have any export inventory because on the export side we have receivables. Normally when we get the gold we ship it. There may be some negligible quantity under work in progress or something but unlike the domestic where we have to keep inventory in our showrooms for display, in exports we have receivables.

Aditya Khemani: Mostly it will be for the domestic side only?

Sanjeev Bhatia: Yeah.

Aditya Khemani: Sir on the export margin you've said that as the gross margin....sustainable basis but last time I think the margins were pretty high, so what were those numbers sir? And what is the number we can expect going forward?

Sanjeev Bhatia: Can you repeat that question?

Aditya Khemani: On the export margin, you've said that 8% is your gross margin – your sustainable gross margin. Last year how much was your gross margin there sir?

Sanjeev Bhatia: Our export margins are generally steady around 8% only. 0.5% they may fluctuate. But our steady state margins are around 8% in the case of exports.

Aditya Khemani: But last year inspite of compensating (not sure) weren't your margins higher than 8?

Sanjeev Bhatia: What I am saying is yes, they keep on fluctuation, there is no doubt. 8% is the term we use on a steady basis assuming there is no currency gain or loss. You must leave out currency fluctuation because nobody can predict what would happen.

Aditya Khemani: But last year what was your number? Will it be 12%, 13%?

Sanjeev Bhatia: Last year number would be....10%.

Aditya Khemani: Gross Margin?

Sanjeev Bhatia: Yeah.

Aditya Khemani: Sir one last question, on the diamond inventory side, how much are we running now and generally what has been the trend in diamond prices?

Sanjeev Bhatia: In diamond....what are the prices?

Aditya Khemani: What is the inventory right now you have on diamond side and what has been the trend in prices in the last one, two quarters?

Sanjeev Bhatia: I think diamond prices also to my knowledge, frankly I wouldn't be very confident but as per my knowledge, the diamond prices have also been quite steady in the last one or two quarters. I don't think they have moved much. Regarding inventory of diamonds, it would be around 700 to 750 crores.

Aditya Khemani: Okay sir thank you.

Moderator: Thank you. Ladies and gentlemen please press * and 1 for your questions. The next question is from Mr. Pranav Mehta from Value Quest. Please go ahead.

Pranav Mehta: Good evening sir, just wanted to know the breakup of your gross margins, what are the gross margins for domestic operations and export operations for Q4?

Sanjeev Bhatia: I frankly don't have that data in front of me and we don't really do the breakup of the gross margin figures....

Pranav Mehta: Because the gross margins for Q4 are 11%, 15% comparative for the last year, Q4 FY13. So what is the reason for such a steep drop?

Sanjeev Bhatia: Steep drop in which margin?

Pranav Mehta: Gross margin of Q4FY14 versus Q4FY13.

Sanjeev Bhatia: Yeah you are very right. There are two major reasons for that one, number one is the decline in the percentage of diamond jewelry sale because your margins are quite high in the case of diamond jewelry, so that is number one reason. Number two reason was, in this quarter, we have exported a large amount of fast moving, low margin items vis-à-vis what we normally used to do. So our margins on export, the type of jewelry which we had exported has also reduced. So going forward what will be the approximate 75% of your sales currently are domestic...so that ratio will remain the same or domestic will increase?

Pranav Mehta: This ratio will not increase. It should remain between 23% and 24%.

Sanjeev Bhatia: Okay thanks a lot.

Moderator: Thank you. Ladies and gentlemen please press * and 1 for your questions. The next question is from Mr. Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: Sir some book keeping questions. The other expenses in fourth quarter a bit low, what's the explanation for that?

Sanjeev Bhatia: Yeah the other expenses, the auditors include an item of foreign currency fluctuation in the other expenses. When they complete the balance sheet, they re-instate our MTM; they reinstate our FOREX creditors, debtors and results comes out into net FOREX....so this impact of MTM as you said, suddenly reduces your overall....other expenses figure.

Aman Batra: The other question was on the balance sheet side, the loans and advances seems to be slightly up so what's the reason for that?

Sanjeev Bhatia: Loans and advances consist of a very large portion of advances given to various suppliers for supply of raw material. Because what we found if we have cash, if we give advances, we can get a pretty substantial discount on the purchase price. So we have been adopting this policy to reduce our overall purchase cost and these figures consists of advances given to suppliers for raw material and we keep on getting raw material....

Aman Batra: So this would not be for diamonds right?

Sanjeev Bhatia: This would also consist of diamond supply because they also constitute a very major part of our overall inventory and purchasing component. So we also give advances to our diamond suppliers so that...but ultimately it is a basic simple calculation that your interest cost should be less than the discount received from that supplier for giving that advance. So where we feel this arithmetic works, we do enter into such (not clear).

Aman Batra: Okay understood. Thanks a lot.

Moderator: Thank you. The next question is from Mr. Abhi Mehta from IIFL. Please go ahead.

Abhi Mehta: I just wanted to understand how have gross margins moved in the domestic or in the retail segment across gold jewelry and diamond jewelry over FY13-FY14?

Sanjeev Bhatia: I wouldn't be having....because we don't break up between gold and diamond jewelry as such but what I can say is that our margins have remained pretty stable during the two fiscal for domestic operations as such. I cannot break this.... I can only tell for the '13 and '14, both fiscal they have remained approximately 18%.

Abhi Mehta: Okay thank you.

Moderator: Thank you. Ladies and gentlemen please press * and 1 for your questions. .

Mahantesh: Sandeep sir, Mahantesh here. I think most of the questions are over, so would you like to offer any concluding remarks and explanation sir?

Sanjeev Bhatia: Shall I wait for a minute or two or shall I do it immediately?

Mahantesh: I think you can do it. We don't have any more questions now.

Sanjeev Bhatia: Okay so I thank everybody for joining us on this conference and asking the questions. We do remain available for any other query or any other question. We welcome even if people contact us even directly. No issues. We will satisfy any question of yours.

Mahantesh: Sanjeev I think we got one more caller in asking us, maybe we will take that question?

Sanjeev Bhatia: Yeah sure.

Mahantesh: Beulah can you get that question in?

Moderator: Yes sir. Next question is from Mr. Rishabh Chudgar from Enam Holdings. Please go ahead.

Rishab Chudgar: Good morning sir, how are you?

Sanjeev Bhatia: Fine.

Rishab Chudgar: Sir I just wanted to ask you about the recent norms released by RBI where it has allowed actually star and trading houses to import gold under 80:20 rule. So does this help you in any manner? Can you also import gold and use it as per the norms?

Sanjeev Bhatia: No, we don't come under this category. These are different identities who are classified as super star trading houses about two, three years back, almost back by the RBI and we don't deal with them directly because we take all our bullion through bank. But it will help us in that sense because once they start operating, the overall supply in the country will go up and reduce premium and reduce pressure on the gold overall supply in the country. So in that way it benefits us also. But we don't deal with them directly.

Rishab Chudgar: So sir how much do you expect the supply to increase by because of these houses being allotted to import gold now?

Sanjeev Bhatia: I think that should help substantially because the majority of the smaller jewelers which are mainly family run, unorganized, which are small operations, they were not really considered by the bank because the quantity was too small. If somebody wants 2 kg, 5 kg, 10 kg, the banks wouldn't be willing to deal in such small quantities for individual needs. So these are the players who are satisfying the needs of these smaller quantity players, so I think these smaller players should help once these big trading houses come back into action.

Rishab Chudgar: Okay.

Moderator: Thank you sir. There are no further questions sir.

Sanjeev Bhatia: So I would like to thank everybody for joining us on this call and as I said before also, we remain open to any query or questions any time. Everybody is welcome to contact us. We will be happy to take the query.

Mahantesh: Thank you Sandeep and I on behalf of SBI Cap Securities thank you for patiently answering the questions and queries of investors. I thank all the participants of the call. I hope we had a good chat in this call. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may go disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.