



“PC Jeweller Limited Q4 FY-15 Earnings Conference Call”

May 15, 2015



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Moderator: Ladies and gentlemen good morning and welcome to the PC Jewellers Q4 FY-15 Earnings Conference Call hosted by ICICI Securities. As a remainder, 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you, Mr. Mour.

Anand Mour: Hi, welcome all. On behalf of ICICI Securities welcome all the participants on the PC Jewellers Q4-FY15 Conference Call and management of PC Jewellers represented by Mr. Sanjeev Bhatia – CFO, Mr. Raja Ram Sugla – President, Accounts; and Mr. Nitin Jain – President e-commerce. Despite the challenging environment we find that PC Jewellers have reported strong Q4 FY-15 Results. I request the management to take us to the Financial Results and drivers of the same.

Sanjeev Bhatia: Yeah, good evening, everybody. Let me get start by welcoming you all to the Q4 and FY 2015 Result Conference Call. I am sure you must have all reviewed the results and that you find the same satisfactory. The company has maintained its growth path with improvement in both top-line and bottom-line. Last year we added nearly 67,000 square feet of retail space across 9 showrooms. We plan to continue our expansion initiatives across metro, Tier-1, and Tier-2 cities and add another 1 lakh square feet in FY-2016. We are seeing significant response from Tier-1 and Tier-2 cities wherein customers are welcoming entries of strong brands like PC Jewellers.

The operating costs are also lower in these places and hence we are seeing quicker breakeven. Though there has been a year-on-year increase in domestic sales, we have witnessed near flattish same store sales growth this year. This was mainly due to negative same store sale growth in the first quarter which we fear I think at other jewelers also mentioned before due to the general election held in middle of May and April the consumer sentiment there was very weak and the sales were in the negative, the first quarter was de-growth. However, there has been a pick-up in subsequent quarters which have compensated for the complete year.

The company is however focusing on improving the sales mix in favor of diamond jewelry which helps in growing the margins even with the flattish revenue growth. We are actively working towards launching the pilot franchise operation in second-half of this fiscal; the model will be asset like for us and will be based on profit sharing with the franchises. This is expected to be incremental positive to our ROE.

We have launched a unique detachable jewelry collection termed as Flexia in November 2014. The same has been a significant success with our customers. We plan to focus on it and develop it as a sub-brand and evaluating independent outlets as well as shop and shop concept



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for the same. We also launched a focused eCommerce vertical in October 2014 with an aim to become India's finest online fine diamond jewelry portal. This platform focuses on work wear jewelry with tickets size ranging from Rs.3,000 to Rs.50,000. We have also done tie-up with Flipkart, Amazon and Snapdeal for the same. We are very optimistic on the growth potential of this platform and are already seeing a very strong positive response of the customers for the same.

We have been in export business for a fairly long time and focused basically on handmade designer gold jewelry. In the past two years, owing to the 80-20 scheme to ensure availability of gold for our domestic retail operations, we participated in several global jewelry exhibitions to boost our exports sales. Correspondingly, we have got some good order for exports which have also resulted in a top-line growth for exports for the fiscal 2015. However on the long run, the export market potential for handmade jewelry is limited and we do not expect much growth in this segment either in volume or margin terms. We therefore expect the export sales to remain steady at current level. We are also exploring export of Flexia Collections now under our own brand, you are all aware that we currently export on a wholesale basis, but this Flexia we are exploring under our own brand so it will be a higher margin item for us. But having said that, I must say that we continue to focus all our energies and management bandwidth on domestically retail business, we simply believe it has higher growth potential.

With this I would like to open the floor for questions and answers. Thank you.

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 Vinod Malviya from Florintree Advisors. Please go ahead.

Vinod Malviya: I wanted to understand the economics of the franchise model. Can you just explain in detail?

Sanjeev Bhatia: See basically the franchise model economics that we would be selling the inventory to that person. He would have own premises the running cost et cetera everything would be borne by him only. The advertisement cost would be borne by us and he would not be paying any royalty to us but we would be selling him the jewelry at a lower mark-up. Say for example if in diamond jewelry we have a mark-up of 30% we would be selling it about 12% or 13% so that it will be basically on the profit sharing model. And this is the way we want to proceed and frankly the actual how it actually pans out on the ground will only come when we actually start rolling it and have worked on it for some month, but this is our basic concept on which we are working.

Vinod Malviya: And what would be normal profit sharing revenue in terms of percentage, how much would be yours and how much the franchisee would be taking?

Sanjeev Bhatia: As I said it would be basically either 45-55 or 40-60 something like that.



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- Vinod Malviya:** Okay. And normally what would be your target like which city you would be targeting and what type of store you would be looking for like small stores in the franchise model?
- Sanjeev Bhatia:** The format would be the same the focus would again remain on the Wedding Jewelry only. So we are looking at a franchise which has a store, reasonably big store but not as big, it should be something around 1,500 square feet to 2,000 square feet in the main shopping area of the city or the town and he should have a business background, not necessarily jewelry background, because we expect him to maintain an inventory level of something around 10 crores, so obviously his financial network has to be good enough to support this much expenditure.
- Vinod Malviya:** I mean when you say his investment would be 10 crores sir that would be in the form of what, can you just split in the form of infrastructure?
- Sanjeev Bhatia:** Basically regarding infrastructure we expect him to spruce up his shop and renovate the store and plus install computers and whatever, so on that we don't expect an expenditure of more than 50 lakhs it will be a onetime expenditure basically. And the main expenditure would be on inventory only.
- Vinod Malviya:** Yeah, I mean what I have heard about from the other players is that the inventory would be basically generally done by the franchise owner, franchisee. Now in your case basically inventory would be provided by you, so how does that actually...
- Sanjeev Bhatia:** It will be sold by us, it is not provided by us, it will be sold us but at a lower mark-up.
- Moderator:** Thank you. A reminder to the participants, anyone who wishes to ask a question may press "*" and "1" on your touchtone telephone. Next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.
- Manish Poddar:** I had a question, why is the rent cost first of all commendable on the strategy of given on the retail and exports front. And one thing on the rent cost which you have shown in quarter four FY-14, why is this negative for us for the retail division?
- Sanjeev Bhatia:** I think in the last quarter it was some adjustment done by the auditors because of the straight lining of rental because rental is something which we commit for next ten years, so they had done some accounting adjustment. So it is not actually negative but after that accounting adjustment it was a onetime provision which was credit back to our account.
- Manish Poddar:** And what is happening on this pan card issue, how much percentages of the sales are actually through pan card?



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- Sanjeev Bhatia:** Currently we are charging pan card for sales beyond 5 lakhs, but obviously currently we are waiting for instructions, we are waiting for operating instructions to come how they do expect, because in jewelry many people come back with their own jewelry.
- Manish Poddar:** How much of our sales are more than Rs.1 lakh?
- Sanjeev Bhatia:** Currently I think almost 50% of our sales should be more than 1 lakh.
- Manish Poddar:** 50%, and how much is credit card?
- Sanjeev Bhatia:** Credit card would be about 10%-15%.
- Moderator:** Thank you. Next question is from the line of Vishal Gupta from IIFL. Please go ahead.
- Vishal Gupta:** Sir recently Titan has reduced the making charges for some of its plain gold jewelry products, so do you feel competition is intensifying across the board and have you taken some concrete action for the same?
- Sanjeev Bhatia:** See, the type of jewelry which we sell is quite different from the type of jewelry which Titan sells. Right from day one what we have been emphasizing is to how to create a differentiated product. We try to emphasize more on designs and more on something different in that jewelry so that the customer is willing to pay a higher margin for that. And what response we are seeing from customers, we are very sure that we do not want to reduce our margins.
- Vishal Gupta:** Okay. And how do say current pan card requirement impacting a business in case they were implemented?
- Sanjeev Bhatia:** Yeah, at this point of time what happens that it is impossible to say what will be the impact because we had to see the operating instructions which we expect it would be should issued in the month of July perhaps, because as I just said in case of jewelry there are a lot of other issues like many people come with their old gold, they want to exchange their jewelry. So even though the gross sale is more than 1 lakh but the net if you net it off then it would reduce substantially. So we are actually in a wait and watch mode.
- Vishal Gupta:** Okay. And how has been off take over your gold advance purchase scheme, have you seen good uptick on that?
- Sanjeev Bhatia:** We do not have gold advance...
- Vishal Gupta:** Your installment scheme was for customers...



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- Sanjeev Bhatia:** From that scheme frankly, we have to obtain our shareholders' approval and yesterday only we have taken board approval for the same, we have got the scheme drafted and everything. Now, we have to submit the same to ROC, all these are statutory formalities, I think it will take, we are hopeful that we should be able to launch it in the month of July.
- Moderator:** Thank you. The next question is from the line of Apurva Shah from Dimensional Securities. Please go ahead.
- Apurva Shah:** Sir basically I missed your target for the space addition for the current can you repeat it again?
- Sanjeev Bhatia:** Our target is 1 lakh square feet.
- Apurva Shah:** Okay. And out of that like that is own store or it is inclusive of franchise?
- Sanjeev Bhatia:** No, no this is not inclusive of franchise, franchise would be what we will launch we will take two franchise on board and then run this model on a pilot basis. But this 1 lakh would be our own stores in the existing market.
- Apurva Shah:** So in FY-16 there will be very minuscule contribution from franchise, it will be a testing model only?
- Sanjeev Bhatia:** Yeah, because that is something very new for us and we will initially test the water so we will run the two franchises for some months and let's see how, because we are pretty sure that there a lot of teething problems.
- Apurva Shah:** Right. And sir what is current contribution from NCR region?
- Sanjeev Bhatia:** NCR region is our biggest region and the number of stores are also maximum limit, there are 13 stores and two of the stores Karolbagh and SouthEx are the biggest. So NCR would be not less than 40% frankly, 40% to 45%.
- Apurva Shah:** 40% to 45%. Sir can you include all this numbers into your presentation so it will be very easy to track the NCR region wise how that revenue...
- Sanjeev Bhatia:** See frankly what happens that the region if you say, NCR perhaps can be de-marketed but then if you take NCR then it will distort the UP this thing, but as an NCR we have noted it down and...
- Apurva Shah:** And other parameter just to highlight how your new stores are developing, like we can get it through your revenue growth but basically how our new stores are performing, if include that kind of parameter that will be very easy to understand.



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- Sanjeev Bhatia:** Actually, frankly see there are a lot of information which we do have internally and which we use in kind of day to day operation, but there are a lot of issues which cannot be disclosed as such due to competitive reasons and all that. So it is not that we do not track individual store performance or this thing, it is done internally. But giving out this information in public space, the format and how to, it will be a bit tricky.
- Moderator:** Thank you. Next question is from the line of Avi Mehta from IIFL.
- Avi Mehta:** Sir I had two questions. One, on this 1 lakh notification, I just wanted to kind of clarify has it already been kind of, is it out in the public, are we aware that it has come in because I could not find it in the Black Money Bill that just passed.
- Sanjeev Bhatia:** It was not part of the Black Money Bill, it was a part of Finance Bill. So it was a part of budget piece of the Finance Minister. See what happens, after the bill is passed, the concerned department then issues the operating instruction. So like in the budget they also said that we want to introduce the gold monetization scheme, but the operating instructions and how it is to be operationalized is something which will come later.
- Avi Mehta:** So sir we are not sure whether it is part of the past Financed Bill as well, because it is not there even in the finance bill that was proposed?
- Sanjeev Bhatia:** So you are very right, so that is what we are paying as of this point of time is not possible to say the impact or what is going to until we actually see it in black and white that what are the things there.
- Avi Mehta:** Sir and the second thing you have indicated that you are looking at 1 lakh square feet kind of addition and you have highlighted this new model that you are exploring the franchise model. Now, I am just trying to understand is that 1 lakh kind of already factoring in some kind of franchisee base expansion?
- Sanjeev Bhatia:** No, no these two are separate things. Franchise is something in which the store and everything would be with the franchise only, we would be selling the inventory, the employee, and everything would be his own. This 1 lakh is which we set up our own stores.
- Avi Mehta:** And sir sorry, one more clarification with franchise, you highlighted that the inventory risk as you highlighted is with the franchisee but you also said that the mark-up will be lower and the number that you suggested, would it mean that the margin from the franchise on an EBITDA basis would probably be similar to our existing company margin or would it be higher would it be lower, I understand you cannot share an exact number you could some qualitative commentary around it sir, if you could?



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- Sanjeev Bhatia:** No, obviously the margins would be nearly 50% of what this thing, but then at the same time they would compensated by the fact that then we are not having any other expenditure on it.
- Avi Mehta:** Sir correct, so EBITDA wise it should be the same right sir, logically, because you said a number which is kind of almost around 15% of gross sales which you looked into...?
- Sanjeev Bhatia:** You are very right, we would not be spending anything on rent or staff or other miscellaneous expenses or anything. So it is possible that we would only be including that area in our advertisement range. So how it actually pans out and where the financials actually rest is something which we also have to see. But what we expect that if we are able to sell it directly then it will be an asset light model and we will be able to improve our ROE even with a smaller amount it will give an immediate pump-up to the ROE.
- Avi Mehta:** Okay. So it means it is primary to get higher throughput from our existing assets?
- Sanjeev Bhatia:** Yes, yes.
- Avi Mehta:** Sir and the last bit. You had, I understand that we have got the permission to explore, do we have permission to explore the international markets for hedging sir?
- Sanjeev Bhatia:** Frankly, the way this gold on lease works that you really, it is national hedging only because the Bullion Bank which provide us the gold, when it takes-up the gold with the HDFC India then it does a back to back coverage with whomsoever it has obtained gold in overseas. So it is international hedging but with the channel partners involved.
- Avi Mehta:** But have we got any approval for international hedging license sir or no that is not the case with us, we do not have approval?
- Sanjeev Bhatia:** We did obtain, we did got permission from the RBI for hedging through a bank, again through a bank, not directly hedging this thing, but we did got a permission last year, but frankly **23.09** scheme was reintroduce immediately thereafter and we never had any occasion to use that facility.
- Avi Mehta:** Are you exploring that sir because some of your peers were suggesting that that route is actually cheaper on gold procurement versus the existing gold on lease?
- Sanjeev Bhatia:** Actually, see what happens, if I try to explain it, what happens that if you buy spot and sell forward, ultimately I do not think how it all be cheap because if you spot and sell forward whether on Indian exchange or on international exchange you always get a premium. What I think the hedging works, you buy spot and sell forward and then when you sell spot then you buy forward. So these are two contradictory this thing which keeps on working, ultimately what is you have bought, you have sold. So what you have gained that 1 lakh, you lose that at



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another lakh. It is possible that due to premium differential at various point of time, it can work either way, either way you may have a net gain but it can also have a net loss. So I am not very sure, but this is a way it would work and not only internationally but on any other exchange also domestically. Buy spot - sell forward, then sell spot - buy forward. These two things keep on continuing each other, you gain on 1 lakh and you lose on 1 lakh.

Avi Mehta:

Okay, sir. And sir and one last question sorry if I may. The export business you highlighted that you have started, you have recently gone to more shores and that has kind of helped the growth rate. I am just trying to understand versus the existing business wherein we knew the partners that we are dealing with, would these be relatively new players and hence have we, I am not sure but earlier you had highlighted because the existing very long **25.07** clients there need for LCO was relatively lower. But for these news guys, I mean if you kind of give us a sense on how are we?

Sanjeev Bhatia:

Ultimately what happen that ours is a B2B business, so even though if we get a new client we do not deal with him directly, we route it through our existing dealers only. So this due diligence and everything is done by our existing dealers only. Those people came to them and say that we want to jewelry manufactured by PC Jewellers. So that we are not dealing directly with them actually in any case.

Avi Mehta:

Okay, so the risk is actually lower on the debtors because it is routed through a known party.

Sanjeev Bhatia:

Yes.

Moderator:

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

Manish Poddar:

Sir why is the other income so high this quarter?

Sanjeev Bhatia:

Other income, if you look at our presentation and if you look at Clause 41, there is differential. Actually our other income has gone down because other income consists of income whatever we have our fix deposits and income from investments in mutual area. Initially the other income was higher because of our utilized IPO funds which we had invested in mutual funds. So as per our calculation, if you look at our presentation you will see that other income has actually gone down. But auditors had actually reclassified something so they put one entry into another which has not really affected the bottom-line, the PBT if you notice would be the same but this 20 crores other income has moved. I think it is more something which the auditor from last moment reclassification, but in reality our other income has gone down because I know we have utilize the IPO funds the interest income available from mutual and FDs has gone down.

Manish Poddar:

Which item actually because I am not, where it is on PPT actually, if you could help me with that?



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- Sanjeev Bhatia:** If you look at PPT, we have it you look at PPT our clause 41, clause 41 shows our EBITDA is around 67 crores and our PPT shows that around 47 crores.
- Manish Poddar:** No, I am sorry if you help me which page will that be on the PPTs the presentation which you have shared?
- Sanjeev Bhatia:** I think Manish it is on third page or something; it is on which year given highlights of our Q we have given EBITDA of 747 crores. It is in third page only. Six page.
- Manish Poddar:** I will take that offline, no issues. And can you help me why does EBIT let's say from the segment wise and when you do it from the P&L EBITDA minus depreciation, does it add-up?
- Sanjeev Bhatia:** Yeah, sorry?
- Manish Poddar:** Our segment wise EBIT does not collaborate with the P&L EBIT?
- Sanjeev Bhatia:** Manish I think whatever this type of calculating we can always discuss one-to-one and this thing, this is a way of looking, so me and Raja Ram can talk to you but because this would take much more time and if people in the queue...
- Manish Poddar:** No worry, I will take that offline.
- Sanjeev Bhatia:** So, but I told you the main reason behind the other income. So as per our calculation other income has actually gone down.
- Moderator:** Thank you. Next question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.
- Vinod Malviya:** You have something like 756 crores of receivables in export business, I can see that it has reduced from 46.3% last year to 41.8%. Generally, qualitatively looking at the receivable has there been anything outstanding for long period say more than three months or something?
- Raja Ram Sugla:** No, when you look at our published balance sheet you will see the auditors have classified, there is nothing beyond. In balance sheet it is anything about six months or something, so there is nothing beyond that and let me assure you there is nothing all the receivables have been received, as on balance sheet there is nothing overdue, there is no receivable overdue.
- Vinod Malviya:** Okay. And there was also plan to spin-off the export business into our subsidiary?
- Sanjeev Bhatia:** We do have a subsidiary PC Universal in which we have started transaction during the month of March, but then there are a lot of operational issues not that because we need the gold lease facilities from overseas bankers and we will need other facilities from local bankers, so when



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you notice the balance sheet the parent company has given an advance of 10 crores to PC Universal to commence business. So it started with this thing, and then gradually going forward we have this intension of shifting businesses separately but till that time it actually happens we thought it will be good to start giving at least figure separately so that even though they are in the same entity the people can have a clear cut idea of how each division is performing.

Vinod Malviya:

Right, okay. And just on gold lease, will your franchises benefit from gold lease as well and if so how will that be routed because right now you enjoy gold lease facility but how do the franchises benefit from that?

Sanjeev Bhatia:

This is another possibility we are looking at if we can help our franchise to get gold lease, if he gives us this sold and then we manufacture it in jewelry and give it back to him then he also gets benefit of this thing. You are very right, we are looking at it but then again it involves two set of bankers also, the Bullion Bank as well as Working Capital Banker. So the franchise will need to get his credit facility from both of them. So even though it is a very good idea and it will be beneficial for this thing, but the operating formalities are there and these have to be worked. But as a concept it is a very good concept.

Vinod Malviya:

But as a concept is gold lease available for such smaller players, I mean somebody who has say 10 crores close on inventory?

Sanjeev Bhatia:

See this is basically we will have intervene with the bullion supplier and tell him that he is our franchise and otherwise you are very right, otherwise he would not be entertained by the Bullion Bank.

Moderator:

Thank you. Next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor:

Just had a few questions, on same store sales growth, you said FY-15 was flat. If you could just help me with what was the Q4 same store sales growth for us in domestic?

Sanjeev Bhatia:

See basically the quick figures are, there was a de-growth of nearly what we say 30% to 34% in the first quarter and this was then made of gradually in Q2, the Q3 was better and Q4 was even better. So ultimately this 34% was de-growth of first quarter was made up in next three quarters, not in the same proportion. Exact figures I do not have but it gradually improved, Q2 was better than Q1 then Q3 better than Q2 and Q4 was then biggest.

Harit Kapoor:

If you could also just highlight FY-16, how are you looking, what do you think same store sales growth will be like and in the context of that how are you seeing April and May really pan out, April especially with Akshaya Tritiya?



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Sanjeev Bhatia:

April was good because of Akshaya Tritiya, but see what happens is that in this business things have really changed in the last two years because the gold in this range with the commodity price has actually declined. Earlier everybody used to have this tailwind of increasing gold prices but you could have 10% increase ever year. Now this is something which has turned into reverse and this is one factor. Number second factor is, the store basically matures after a certain time, if the store is able to turn around this inventory about four times in a year, which is the maximum which we see normally it is around 3x to 3.5x, then the store matures. If there is no price increase or there is no other tailwind to push it through then the store will become stable, then it is a what we say cash cow, it will be like a zero stationary satellite, it will be moving in its own orbit. So in those locations you really cannot expect same store sales growth. But what happens in these stores we try to rather than working on top-line we try to work on the sales mix, so even with the same top line earlier that store was selling so 31% of diamond jewelry, if it manages to increase the percentage to 35%, so without any effect on top-line it would have boosted its bottom-line. So this is a strategy for us for these type of stores where we know this store has reached its maximum potential, then we try to work on changing the sales mix.

Harit Kapoor:

No, I just actually did not want a guidance, I just wanted your sense on based on demand maybe not for...

Sanjeev Bhatia:

The demand issue is interesting, but one thing which goes highly in our favor is that Indians love jewelry, Indian's have an in-built this thing to purchase jewelry, be it white or European or U.S. would not go and really spend on jewelry, but if an Indian gets a surplus income or something the first choice of spending I feel would be on some jewelry item rather than an LV Purse or Burberry Jacket or perfume. So this we have got this advantage that Indians still have this immediate urge to purchase jewelry, but having said that this is also very clear that you cannot sell them anything. Being in a consumer space you have to continuously innovate, bring out something fresh, offer him something better, the customer which we made sure of that he is getting value for money, he is getting something different. So even though if he likes to purchase jewelry, he would not purchase it because he likes, he has to be sure that okay this is something good for you. So we have to continuously work on your product offering that is hopefully we are doing. And our Flexia range which we have to create it as a sub-brand and bring off additional varieties in the sale, I think in the few months you will start having more visibility of Flexia because we will step in that direction only.

Harit Kapoor:

Understood, sir. The second question really was how much of our revenue is now based on online sales?

Sanjeev Bhatia:

See online we started only in October, it is just a six month old business and the average ticket size in online is approximately 15,000. So if you look at in the percentage wise it is always going to be in something decimal, but see the online, the main thing is if something which we



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feel this is the next growth frontier there is huge potential and there I would request Mr. Nitin Jain to speak a few words who is looking after our Online to tell gathering that how do we really view online space.

Nitin Jain:

The way you look at online is from two-prong, the first is that it gives us an opportunity to tap into the work wear segment which because our model is primarily Wedding Jewelry focused so work wear segment was something which we have not been focusing, which is growing very fast because as more and more women are coming into the jobs and the men are becoming independent so people want to buy regular wear jewelry which is roughly Rs.15,000 to Rs.20,000 jewelry so people have started buying this jewelry online because from a price point perspective, from an ability to take and let me go and buy this thing online perspective, so people are open that. So one is that it gives us an opportunity to tap into that segment which is growing fairly faster that is the first point. The second point is that, for us in terms of the margins as you have discussed earlier and in terms of the money, the maximum money for us in terms of on the Wedding Jewelry side, but the way correctly the consumer is evolving is that today the decision making for Wedding Jewelry is primarily with the parents, right. But five to six years down the line this decision making is going to shift towards the bride and five years later when the bride is going to take a decision which shop should I go to buy jewelry, so obviously in this segment the loyalty counts a lot. So if she is exposed to a brand as of now and for the next three to five years' time she buys a little bit trinkets or 10,000 to 15,000 jewelry and she likes to experience, then five years down the line if she has to buy an expensive jewelry set and the way we are growing we will definitely in the next five years' time we will I would say 100 cities to 150 cities. So at that time she definitely tell her parents that okay let's go and check out the designer as PC has a showroom now also. So that is from our perspective that gives us huge marketing funnel, and typically in this business let's say the showroom business, the conversion ratios are very-very high. So if a customer gets convinced that, okay I liked the experience, I liked the customer care, I liked the product, then one is that obviously during those initially else she or he is buying from us, then when she reaches the marriageable she also becomes the potential customer for us. So this is how we are looking at broadly, one is the current potential plus the future potential for the store business.

Sanjeev Bhatia:

So basically it will be an offline-online combination and I think PCJ is in a unique position to exploit both of this opportunity.

Harit Kapoor:

Understood, sir. On gold lease I just wanted to check how different is the interest cost for us on gold on lease vis-à-vis what it was about two years back when the gold lease was not disallowed, and now post it being allowed again completely, is there a differential rate of interest cost that we are actually paying or is it very similar?

Sanjeev Bhatia:

No, not really. See what happens this gold lease are LIBOR based and what the domestic banks add up its own margin on the same and then offer gold to us.



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- Harit Kapoor:** So what is our average interest rate now?
- Sanjeev Bhatia:** It is about 3.5% to 4%. But it depends on customer-to-customer, if you are somebody it may be different from this, but for us it is something 3.5% to 4%.
- Moderator:** Thank you. Next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** So firstly my question on the exports business. If I just look at the segmental results, sorry if I miss this part, we have seen an increase in our capital employed for the quarter if you can just help us?
- Sanjeev Bhatia:** Yeah, I think it is also in proportion with the increase in turnover. Capital employed would be something that.....
- Prashant Kutty:** Just to give a number, this number is almost 377 crores on a 555 crores top-line in the export segment.
- Sanjeev Bhatia:** See you are talking about specific quarter?
- Prashant Kutty:** Yeah, for the quarter I am asking, any specific reason as to you've seen that rise exports capital employed?
- Sanjeev Bhatia:** We will come back to this, frankly we are not really have capital thing for the quarter, so that is what I was trying to, actually on the yearly basis it is more or less in line with the increase in operation that you had seen from the quarter view point, yes, it is slightly less.
- Prashant Kutty:** If you can give me year end capital employed as of exports stands at about 377 crores and if I just look at the quarter before that it is about 141 crores kind of number so there has been a sharp...
- Sanjeev Bhatia:** You are very right, this is not in proportion to the turnover but we will have to check-up.
- Prashant Kutty:** Secondly sir, we have seen a improvement in our receivables for the in the export business and thank you for actually telling the disclosure levels, but if you just look at the receivable days could you probably give us some sense is to what could be the extent of reduction which we could see going forward as far as the receivable days are concerned to the export business?
- Sanjeev Bhatia:** See, basically our terms of creditor was 180 days and it is more or less slightly in-line with the stock, see here in India also basically the gold jewelry turnover is about 4.5 months to 4 months, so this is a similar thing there the wholesaler will be keeping this thing on display in the showroom. So I do not really think that there can be substantially improvement in this be



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the receivable days or something, on average there would be something around this only, give or take 10 days or some but not really.

Prashant Kutty:

Okay. And lastly sir, if you look at the demand environment is obviously challenging, while we have also seen that the gold demand being on the weaker side or on the benign side, apart from effort like something like Flexia being launched what are the other initiatives that we are taking? So do you think competition for doing a lot of as far as cutting making charges are concern, we are not doing anything like that but what are the other strategies which we are adopting?

Sanjeev Bhatia:

See one number is that our expansion in Tier-I and Tier-II is giving a good result because these are structurally virgin territories, so that is why we are expanding, we are trying to expand fast and we will totally unbanked area. Like I will give you example, we recently opened in Bhagalpur in Bihar, these areas if you move into interiors of India you will not see branded jewelry. You will see branded electronics, you will see mobile shops you will see branded garment but in India still 80% of jewelry market is unorganized, mainly in the outskirts in Tier-I and Tier-II this thing. Even in a capital city like Patna and Ranchi when we have opened store we are the first apart from Tanishq franchise there was no other branded jewelry. So in these areas frankly the competition level is low, you basically have to emphasize on your quality, purity, and range. But the level of competition goes up much higher in metro. There you have to offer something different and there are designer team and our diamond procurement capabilities help us. Like if I give you an example, it is easy to say that you are the one of the highest diamond selling jewelry company, but you have to do a lot of work in diamond, you have to continuously innovate like we have now started a pure white diamond becomes it starts getting very monotonous after sometime so we have started using it with color stones, with precious rubies, or coral or something so that it gives the splash of color to the diamond jewelry. We have started procuring yellow diamonds and then you mix up white and yellow diamond to create a different look. You start procuring rose diamonds, we try to create different types. So in diamond jewelry also it is not only that okay I am selling diamond jewelry.

Prashant Kutty:

So typically it is largely revolved around product innovation to per se?

Sanjeev Bhatia:

Product innovation is very very important and every time the customer expects something different from you and you cannot take customer for granted. You have to be in a position to offer something different. And it is not only product but also your store visual esthetics, your packing, and your overall atmosphere. So in this case I would like to advise that we have also appointed a very experienced and a lady professional who has been given a specific mandate of improving of a store esthetics, our staff behavior, their way of interacting with the customer, your packing, and your visual merchandizing. There are a lot of other issues which also helps



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in creating a sales rather than a customer walk-out. So not only product but all this complementary also things are very-very important on which you are working very hard.

Prashant Kutty: So all in all it is largely going to be product innovation and to an extent this whole expansion, but nothing more on the promotional front specifically?

Sanjeev Bhatia: No, promotional front also see, that is what I am saying, you just cannot set-up shop and say okay the customer will start walking in, you have to be in a position to say how we are different, what you are doing. So all these things work in tandem, nothing can be done in isolation, so your advertisement has to be in tune with your promotion, your product, your packing, your store esthetics, and your staff behavior. So all these things have to work in tune only then you can actually get a customer to purchase.

Prashant Kutty: Okay. And sir lastly, is there any target which you are keeping as per the franchise model is concerned, any particular number of stores which you are looking at?

Sanjeev Bhatia: No see frankly what happen this is something very-very new for us, so we want to start one or two stores on a pilot basis and see if they got teething problems or any other issues are there, once we are satisfied that, okay that we have got entire thing under our control then the roll out would be much quicker than our own store. But as on date we do not have any definite target, let's first workout two franchise store and debug every problem and issue, then we can start thinking of it.

Prashant Kutty: And sir lastly on the diamond jewelry contribution, sir we are already seeing going up about 32% if I am not wrong for FY-15, what is the further scope for increase over here I mean or is there any targets which you are looking at?

Sanjeev Bhatia: I think not really, because when you open a new store the initial sales are higher in the gold jewelry, the customer starts, what I feel as we open newer stores a percentage wise I am pretty confident it is something between 31.52% to 32.52% going to remain in this band only.

Prashant Kutty: Okay. And lastly if you like to comment anything as far as what our guidance would be on the same store sales growth and for the sales growth for let's say the next two years?

Sanjeev Bhatia: Gold is one of the most dangerous commodities to this thing. So no sense saying anything frankly.

Moderator: Thank you. Next question is from the line of Karan Thakkar from Dalal & Broacha. Please go ahead.



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- Karan Thakkar:** I just had one question, why you have not started stores in the Tier-I city of Mumbai, being your traders have located here right, some of the diamond trader, so why focus more on the other terms and there is Mumbai still left to be tapped?
- Sanjeev Bhatia:** See Mumbai is a very-very difficult market to be in. You are very right Mumbai is a market with great potential and this thing but at the same time it will be not an easy market to be in. You already have many heavy weights there and the segment in which we are you are you cannot be seen as a non-serious player. The customer would come and purchase anything high value when he has already got so many alternative he will come to you only if you are able to offer something totally different. So Mumbai does remain on over radar, it is not that but we have to take care a lot of issues by finding correct location, finding current lease, finding it correct concept with which to come in Mumbai. We are aware that given the level of competition in Mumbai you just come and open a store in routine manner you are just to bleed money, you are not going to get anything. So Mumbai does remain on our radar but we will have to take and think very carefully and develop the entire concept before entering the city.
- Karan Thakkar:** That is totally true, it is a little tough market to compete. But do not you think your presence here would give a better visibility to the brand PC itself?
- Sanjeev Bhatia:** See obviously you are very right, it will give us better visibility with the investor community, but from internal view point if the store is losing cash and bleeding money then frankly it would not be good for our business profitability and long run for investors. So currently we are very happily opening stores in location like Bhagalpur, now next one is we will be opening in Durgapur, Siliguri, these are markets practically nil competition and huge potential, people have money, they are aware of the brand and in many locations they are turning 100 of kilometers to purchase quality jewelry. So we find that like spending your energy in these locations is much better rather than fighting it out in a highly competitive location.
- Karan Thakkar:** Yeah, that is true but still I think that people in state of Maharashtra are unaware of the brand itself.
- Sanjeev Bhatia:** You are very right. As I said Mumbai in on our radar, and not only Mumbai, few other locations also in Maharashtra. But see again jewelry is a regional thing like in Maharashtra PM Gadgil is a known name, and in every community and every this thing has got its own peculiar demands for jewelry also, so it is not something you can just come and open store. So for coming in new location you do have to think, plan, and work in advance so which we are doing, it is not that we are looking at this thing but nothing will be done in a hurry.
- Karan Thakkar:** All right. So when do you foresee this happening?
- Sanjeev Bhatia:** No timeframe frankly.



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- Moderator:** Thank you. Next question is from the line of Vishal Gupta from IIFL. Please go ahead.
- Vishal Gupta:** Sir, will you require to setup an additional factory given that you are planning to have 1 lakh square feet and you are planning to tie-up with the franchises so any CAPEX with effect to setup.
- Sanjeev Bhatia:** It is a very good question and you have raised a very relevant issue. Yes, you are right, we have started planning for a new manufacturing unit. Our current manufacturing facilities we feel are good enough for next five years but as we start thinking and conceptualizing a new unit it will take another at least four years to come up from scratch. So it is a very relevant question, yes, we are planning to start something this year looking at land and building, taking necessary permission so we have a timeframe of next four years for the same.
- Vishal Gupta:** Okay. And what is current status of 1 lakh circular you told, has it come out or yet to come out. Can you just throw some light?
- Sanjeev Bhatia:** No, it is yet to come up.
- Vishal Gupta:** So this is not implemented as of now?
- Sanjeev Bhatia:** No.
- Vishal Gupta:** So it has been passed by the Parliament in the Finance Bill itself or is it yet to be passed?
- Sanjeev Bhatia:** This will be notified by Income Tax department though some notification, only then it is operationalize and all, they will inform us the procedure how do we go ahead and how we should report and all.
- Vishal Gupta:** So as of now it is not present, right?
- Sanjeev Bhatia:** No, as of now it is not.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing remarks.
- Sanjeev Bhatia:** Yes, I thank everybody for spending their valuable time and coming on the conference call. We hope that we were able to satisfy all of your queries. However, we remain open for any future query or any question for which we can be contacted directly and we will be happy to respond. Thank you very much.



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Moderator:

Thank you very much members of the management. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.