

# PC Jewellers

## Q2FY17 Conference Call Transcript

### Moderator:

Ladies and gentlemen good day and welcome to Q2 FY2017 Results Call of PC Jewellers, hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the 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. Sameep Kasbekar of Emkay Global Financial Services. Thank you and over to you Sir!

### Sameep Kasbekar:

Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Sanjeev Bhatia – CFO, Mr. Rajaram Sugla – President, Account and Taxation, and Mr. Nikhilesh Govil – President, Small Stores. I would now handover the call to Mr. Bhatia for his opening remarks. Over to you Sir!

### Sanjeev Bhatia:

Good afternoon ladies and gentlemen. Many thanks for sparing your time and joining us on this call. I am Sanjeev Bhatia – CFO and with me are my colleagues Mr. Rajaram Sugla – President, Account and Taxation, and Mr. Nikhilesh Govil – President, Small Stores. I am sure that you must have all gone through our financial results and the presentation uploaded on our website as well as exchanges.

I would like to come straight to the relevant points actually. You would have all seen variations in the quarter-to-quarter margins both in the domestic as well as export sector. As we have already explained in our presentation that Q1 of this financial year saw an upsurge in the jewellery demand due to disruption in the month of March 2016.

Our studded jewellery percentage also went up to 37% in Q1. So frankly there has been a correction in Q2 whatever decline in margins we are observing for Q2 is mainly due to decline in the studded jewellery percentage in the sales mix only.

Similarly our export performance shows a big variations when we observe its Q-on-Q figures. Our export sales are order based in Q2 saw good orders. We have also been hoping that the initial overseas is keeping in touch with our customers. We also started exporting our detachable jewellery Flexia in Q2, which has higher margin. Our export margins have also gone up in Q2 due to the benefit of rupee depreciation.

Keeping in view the seasonal variation I would submit that our six months figure give a more correct into picture of our performance has clocked in. The company is currently carrying on its business normally and I would like to assure all the investors that the current demonetization is not going to affect either our long-term fundamentals or our growth led. I would now like to explain our business model for the further clarification on this topic.

If you look at the expenditure side apart from some package expenses the entire payment of the company including staff salaries, rent etc., are done through the banking channels only and there is not going to be any packed or the company's payment obligation due to demonetization move.

Coming to the revenue side we advised that the topline of PCJ consist of both domestic and export operation. Our export operation constitutes 30% of the total and the balance 70% is in our domestic. There is no cash component involved in the export business and the 30% of the company's operations are therefore totally outside and effective from the current events.

### Analyst:

**Mr. Sameep Kasbekar**  
Emkay Global Financial Services

### Management:

**Mr. Sanjeev Bhatia**  
CFO  
PC Jeweller

**Mr. Rajaram Sugla**  
President, Account and Taxation  
PC Jeweller

**Mr. Nikhilesh Govil**  
President Small Stores  
PC Jeweller

Regarding domestic operations we are doing that on average our sales breakup consist of cash 50%, exchange of old jewellery, credit cards with cheque leaf balance 50%. So thus cash sale consists of approximately 50% or 70% that is only 35% of the total revenue of the company and we are confident that even this segment would also see normalcy sooner than later.

Our confidence also stems also from the fact as the wedding jewellery company and this demand does not evaporate. It only gets preponed or postponed so we are confident that whatever demand we may use in this quarter will be compensated in the coming months. Even today we have got good footfalls in our showroom. Customers are making purchases through the cheques, RTGS and other banking channel.

The customers who were earlier going to the unorganized sector will now start coming to the organized players. This is because these players for these players the transaction of predominantly in cash holding both purchases as well as sales. The impact of demonetization will be basically on the unorganized jewellery sector only.

There is an interesting side story and totally unforeseen consequences of this demonetization exercise, which we are now witnessing. A lot of hidden savings of Indian housewives, which was in cash, is now being deposited in banking accounts. However, we even for feel more secure when the savings are in their personal custody and hidden from others including their husbands they are not comfortable with deposit in a bank which is always visible to others so we have already started experiencing additional sales coming from this segment consisting of ladies who are converting their cost bank deposits into jewellery but we remain confident with the current demonetization exercise is not going to fetch the long-term fundamentals as well as growth profits of the company. The company continues to remain committed to its growth plan and it moving ahead as plan on expansion plans includes opening of around eight, to ten margins as well as commencing work on the new manufacturing facility.

In this connection, we also feel that the demonetization exercise will also supplement the recent steps taken by the government to regularize this industry and bring more transparency networking, the imposition of exercise pan numbers were to still compulsory all marketing system etc., are all steps towards this direction and increasing the base of declining of the unorganized sector. Therefore all these steps are making organized jewellery sector more strong and adding to its growth.

Thank you and I now leave the session open for Q&A.

**Moderator:**

Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. We take the first question from the line of Rohit Potti from PPFAS. Please go ahead.

## Question and Answer Session

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**Rohit Potti:**

Thank you for the opportunity. Sir I just wanted to get a clarity on how much would wedding jewellery sales be it percentage of our total sales on an average?

**Sanjeev Bhatia:**

Which jewellery sorry.

**Rohit Potti:**

Wedding segment, how much would wedding related jewellery purchase be a percentage of it?

**Sanjeev Bhatia:**

We are a wedding jeweller and more than 90% of our sales consist of wedding segment only.

**Rohit Potti:**

When we are talking about unorganized to organized movement so if you could clarify whom you mean by unorganized players that would be quite helpful?

**Sanjeev Bhatia:**

The unorganized players we consider both which do not really issue you a bill, will do not have an open purchasing channel to be shown if so required and which also do not has any sort of they do and they will not clacked any the VAT or excise or any other taxes from. It is basically a small set up in which promoter concerned or that shall be sitting and basically family run shops can be covered under this thing, even many promoter run shop which may not be listed but they have organized themselves they have got clear cut documented procurement channel and they sell you against proper receipt and NOIC and those jewellers we considered in the organized segment and the type of jewellery which they sell an organized player will only be selling you hallmark jewellery whereas many of those unorganized segment people will not be selling you hallmark jewellery.

**Rohit Potti:**

So when you talking about organized segment you are including both the private as well as the public players who are doing it though proper channels using hallmark jewellery and issuing proper bills right sir.

**Sanjeev Bhatia:**

Yes if you look at this thing so if you consider the public space hardly two or three jewellery companies who are in the public space rent of them are still private but many of them are organized.

**Rohit Potti:**

According to you what percentage of the jewellery industry right now is in the organized space rough proportion?

**Sanjeev Bhatia:**

Rough proportion would be 25% to 30% not more than that.

**Rohit Potti:**

So 25% to 30% right now is in the organized and you see that accelerating because of these moves?

**Sanjeev Bhatia:**

Actually this shift was already happening for the past few years so what we feel now with this current exercise and it is not a standalone step taken it is the sequence of the steps taken earlier by the government also to bring more transparency to the sector, so it only will to hassle the shift from unorganized to organized. I would also say is not that since India is such a huge country one cannot say that it will be only organized players everywhere that even in the most optimistic scenario what we feel is that the share or unorganized would continue to remain at 20% to 25% will cater to a totally different consumer segment and that would remain.

**Rohit Potti:**

So if I can ask one more question so where do you see this organized market share maybe moving to four, five years from now?

**Sanjeev Bhatia:**

Next seven years, seven or maximum ten years four, five years is not this about seven to ten years maximum we see the pendulum going to the other extreme, 75% to 80% would be organized and balance 20% to 25% should be unorganized.

**Rohit Potti:**

Thank you for your answer. I will get back in the queue.

**Moderator:**

Thank you. We take the next question from the line of Vivek Tulshyan from Creador Advisors. Please go ahead.

**Vivek Tulshyan:**

Sir you mentioned about the long-term benefits that you are seeing with the demonetization move what do you think would be the immediate short-term impact for the coming few quarters?

**Sanjeev Bhatia:**

The immediate short-term impact, we are actually looking at basically till December 15 only because even in the normal course of event from December 13 till January 1, which is onset of Sankranti, Lori and Pongal etc., we do see that there is no jewellery sale in those almost a month that is known as a Malma for sort of inauspicious days where even wedding do not take place and people do not buy any valuable item. So our short-term is still December 15 only and we are pretty confident that when the stores sales period comes back things would have normalized to a very large extent.

**Vivek Tulshyan:**

How has been the impact in the demonetization was announced?

**Sanjeev Bhatia:**

The impact has been there one cannot say the impact has not been there. I would on a very, very this thing guess that whatever scale we should have been doing at this point of time perhaps we were doing 40% of that.

**Vivek Tulshyan:**

Thank you.

**Moderator:**

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

**Aniruddha Joshi:**

Sir just two, three questions; one are can you indicate the sharp jump in the other income the key reason for that. Also what is the reason for jump in exports business and lastly third can you give the breakup of studded jewellery versus gold jewellery in this quarter?

**Sanjeev Bhatia:**

The studded versus gold jewellery in this quarter is something around 22% and your second last question was...?

**Aniruddha Joshi:**

Reason for jump in exports as well as other income?

**Sanjeev Bhatia:**

Yes, see our exports keep on moving from quarter-to-quarter because this is an order based it is a B2B order based business and if there is a festival of Eid or some other things which comes up, so in that quarter we get more orders and the sales go up. But on a steady state business level what we have said that it will only be a gradual increase of exports in the overall quarter, but the year-end perhaps it would be 32%, so it is up to quarter-to-quarter variation can be there, but on a yearly basis exports would be we will not see show such variations, it may be only limited increase and regarding other income, other income consists of the MDM available as on

that date and our interest includes on fixed deposits and other bank deposits so this also keeps on varying as on the balance sheet date, what is the exchange rate and the interest component as such is increasing as our amount of bank deposits increase. So these are not really at a concern with the fundamental operations of the company.

**Aniruddha Joshi:**

Sir can you divide it between mark-to-market gains and the pure interest and interest kind of income the 50.4 Crores.

**Sanjeev Bhatia:**

This figure is not available with me right now but I think it is perhaps it should be around 50% - 50% which is very rough, rough guess on my point because at what this is a rough guess on my point.

**Aniruddha Joshi:**

Thank you.

**Moderator:**

Thank you. We take the next question from the line of Sameep Kasbekar. Please go ahead.

**Sameep Kasbekar:**

Sir what would be your like-to-like growth in our stores for this quarter?

**Sanjeev Bhatia:**

Like-to-like store in this Q2 has been flattish.

**Sameep Kasbekar:**

And have we had any store closures?

**Sanjeev Bhatia:**

No.

**Sameep Kasbekar:**

Sir just wanted any update on the online sir of WearYourShine?

**Sanjeev Bhatia:**

WearYourShine keeps on giving a good traction. It is moving at a steady base. We have got more designer than outsiders on both it is a very vibrant market place as on date and we are getting good traction but obviously after demonetization we have stopped the COD business. That is on hold but for the entire October and till the first week of November the business had shown a growth of nearly 40% on a yield on with the previous.

**Sameep Kasbekar:**

Since demonetization you mentioned that you stopped cash on deliveries so what percentage was the cash on delivery for WearYourShine?

**Sanjeev Bhatia:**

About 40% or more.

**Sameep Kasbekar:**

Sir would you like to comment anything on your JFL scheme?

**Sanjeev Bhatia:**

Yes JFL is also getting traction now currently we have got more than 46000 members already enrolled and going forward what we see that as now this scheme starts maturing from the Q4 because the scheme started in August 2015 and some of it is 14 months some of it is 20 months so now we will start looking at the benefit, but overall member base and deposit base in this scheme is also growing up.

**Sameep Kasbekar:**

Sir what is the likely revenue impact from this if you just share that number?

**Sanjeev Bhatia:**

Revenue impact see ultimately it is of that see somebody whatever is the maturity amount it would be exactly the same. So I do not know frankly how much would get mature in which month and if the maturity amount is x it is possible the consumer they purchase x plus something whatever past experiencing also this thing has been that if their maturity amount is x the purchase is mainly 2x. So we hope that our earlier experience continues to hold good even now.

**Sameep Kasbekar:**

That is all from my side. Thank you.

**Moderator:**

Thank you. We take the next question from the line of Sameer Kapadia from Fortunate Interfinance. Please go ahead.

**Sameer Kapadia:**

Can you help me understand how is your business model ran by the ex-creditors owned stores all had franchised and what is your strategy going ahead and how much capex is required in terms of opening on new stores in terms of working capital requirement?

**Sanjeev Bhatia:**

Till last year our business model was the single vertical which is the large format store on high street. Since then we have also added this franchise business vertical also. Currently we have got three stores under the franchise model and going forward because we also kept into listing for the first time so we also wanted to test the water before opening up large number of franchise stores so we have got three work is going on about three to four more so till March 2017, we expect seven, to eight stores under the franchise model but once we are debugged the system, worked out all the modalities, certified ourselves then we can step on the base. And as I said before whatever structural changes are taking place in the sector, the unorganized segment is on a decline part we are getting a lot of enquiries from smaller jewellers they want to come under the franchise umbrella because that gives them a secure source of inventory that gives them protection of a brand, media, staff training so we get the benefit. So we are getting very good enquiry and from next fiscal franchise would be very, very important component of our expansion process.

**Sameer Kapadia:**

What would be capital requirement for this?

**Sanjeev Bhatia:**

In franchise, we basically do not need any capital because we sell the inventory upfront and the franchise only who will be building up the store also as per the PCJ specifications. However obviously we will have to keep the finished goods ready for whatever period before the franchise picks it up so that would be certain component increase but that will be quite such transitory so I do not really see any impact on our working capital requirement. On the contrary because we will be getting the profit without investing ourselves so franchise model will help us to improving our ROE.

**Sameer Kapadia:**

If you can help me understand the competitive scenario how are you face vis-à-vis your other competitors like TBZ and Titan?

**Sanjeev Bhatia:**

Titan has been a different business model all together. We are a wedding jeweller and do not be any competing with Titan in this segment. Titan does not sell wedding jewellery in majority of the places, we are in limited places which have got old stores can be considered Titan as a competitor, but in jewellery's yes our major competitors are those local players who have organized themselves they are strong regional players who have in every locations of the country and even though they are not a jewellery in maybe one or two stores strong, but if they have organized themselves they are not compromising on quality they have not in all inventory range so those are our business competitors.

**Sameer Kapadia:**

Lastly how much your margin difference would be there by like you would have to share with the franchise?

**Sanjeev Bhatia:**

It is an internal matter which we have worked out the margin would depend on what type of jewellery is basically demonized by the franchise but we have assured since because since the franchise is taking care of all the running expenses of the stores including staff salary, electricity, etc., so I can only put it this way that we have ensured that the franchise of it gets an ROE of 18% to 20% almost.

**Sameer Kapadia:**

Basically what I was trying to understand is it going forward our margins could deteriorate a bit because of the newer model, which we are trying to adopt?

**Sanjeev Bhatia:**

No why they should because we are just sharing the profit, sharing the value addition and our expenditure is not there, so if we have straightaway entering our bottomline.

**Sameer Kapadia:**

Thank you.

**Moderator:**

Thank you. We take the next question from the line of Gaurav Nigam from Catamaran. Please go ahead.

**Gaurav Nigam:**

Sir what are the average ticket size and what percentage of our jewellery business is greater than 2 lakhs and 5 lakhs?

**Sanjeev Bhatia:**

I would not know that because what percentage of this thing keeps on varying so I would not be able to know because lot of sales have taken place in the festive season to what as a trend changed or not I frankly would not be able to know, but our ticket size.

**Gaurav Nigam:**

Can you give us the ballpark figure?

**Sanjeev Bhatia:**

About 30% I think if I look at my figures maybe but about 5 lakhs would be perhaps 20% about 2 lakhs 30% and balance would be less than and 50% would be less than 2 lakhs.

**Gaurav Nigam:**

And sir average ticket size.

**Sanjeev Bhatia:**

Will be about 1.4%, 1.5% something like that.

**Gaurav Nigam:**

Thank you.

**Moderator:**

Thank you. We take the next question from the line of Kirti Dalvi from Enam. Please go ahead.

**Kirti Dalvi:**

Two questions. What is the impact area in terms of the SSD terms number of shops we have opened by September and I think you had 65 stores so total year under operations currently we do.

**Sanjeev Bhatia:**

If I remember correctly I think we have till since the last figures we have added about 9000 square feet.

**Kirti Dalvi:**

Would that be for all 68 because I think three stores got opened in October, November side.

**Sanjeev Bhatia:**

Yes so that would be inclusive of that list.

**Kirti Dalvi:**

Okay, so 9000 will be addition post our Q1 number.

**Sanjeev Bhatia:**

Yes since June 30.

**Kirti Dalvi:**

So you mean to say till date on this year for nine months would be 9000 FFT addition that is what you are saying?

**Sanjeev Bhatia:**

No basically this effects from June 30.

**Kirti Dalvi:**

So post June 30, 9000 square feet and in this you are including this franchise as well right?

**Sanjeev Bhatia:**

Yes.

**Kirti Dalvi:**

The second Sir if you could give a bit on balance sheet details what is our gross debt and net debt today?

**Sanjeev Bhatia:**

See the balance sheet figures are in front me? Our working capital is 1083 and our cash in hand and balance balances are 131 plus 194 Crores.



**Kirti Dalvi:**

Roughly 320 odd Crores.

**Sanjeev Bhatia:**

Yes.

**Kirti Dalvi:**

Sir in terms of our margins, if I see a domestic business our gross as well as EBITDA which is function of your cost has come down so what are the sustainable gross margins you are seeing in the metric level side?

**Sanjeev Bhatia:**

What happens is we have to take care from both aspects, if you look at our cost you will see that the cost are pretty much stable as a percentage cost are not really going up for pretty much stable so our margins basically get impressed or how much of diamond jewellery we are able to sell in that specific period and this you do are an exception because of the very high in Q1 but going forward I feel what earlier we have been achieving around 72% to 72.5% in gross margins in the metric sector are should be available to us.

**Kirti Dalvi:**

But the question because this quarter probably given the demonetization and all that impact probably the gold share would go up in Q3 assuming that, so you think that still 17% gross margins would be sustainable in domestic retail side because the mix would get tilt more towards your gold jewellery than the sector?

**Sanjeev Bhatia:**

Again rather than concentrating only on this quarter because then Q4 is also coming there so if I am saying 17% to 17.5% I am taking the complete year in.

**Kirti Dalvi:**

Okay for the year as a whole 17%.

**Sanjeev Bhatia:**

Yes quarter-to-quarter yes, obviously it can vary and you are very right that in the festive the gold sale is more but we are not fully taking into account October the sales has gone up and I do not have the figures with me but the diamond jewellery sales have also taken place.

**Kirti Dalvi:**

For exports similarly where do we see our sustainable gross margins?

**Sanjeev Bhatia:**

Our stable gross margins are about some 6.5% to 7% that is the value addition you may call on our jewellery.

**Kirti Dalvi:**

Sir you did indicate in the presentation that exports going forward would constitute roughly 30%, 33% will that be for even for next year as well you are saying this is for FY2017?

**Sanjeev Bhatia:**

See lot of your exports in monetary term goes up as a rupee changes now the rupee itself has touched almost 69 so there will be an automatic increase in your export component so let us see how it all compare but from our side from the production side and from the sales side leaving aside the exchange rate variation it will only be a gradual increase and it is around 30% it may go up to 31%, 32%.

**Kirti Dalvi:**

For the year as a whole what is the target we are setting for our store expansion we did almost eight stores till date post March?

**Sanjeev Bhatia:**

We still do open it we are working to up on it eight to ten stores more.

**Kirti Dalvi:**

Sir in balance five odd months?

**Sanjeev Bhatia:**

Five months.

**Kirti Dalvi:**

Eight to ten more in addition to eight what we have already done?

**Sanjeev Bhatia:**

It would include both ours as well as franchise stores.

**Kirti Dalvi:**

Sure so eight to ten so all in put together roughly 16 to 25 kind of targets.

**Sanjeev Bhatia:**

Yes.

**Kirti Dalvi:**

Probably for FY2018 and 2019 next year for 2018 similar number one can assume?

**Sanjeev Bhatia:**

Yes.

**Kirti Dalvi:**

Average area would remain in the range of 5000, 5500 average?

**Sanjeev Bhatia:**

No I think the average would come down because the franchise stores are in smaller locations so there the franchise store is something around 2500 and if we open more small stores our small store vertical is about 1100 square feet so average area would not come down from 5000 I think but future it may be around 3 or 2.5.

**Kirti Dalvi:**

So if I am correct out of this 16 hypothetical if I assume 16 stores per annum this year you have opened three franchise stores so out of balance eight how many franchise stores we are planning to open.

**Sanjeev Bhatia:**

It should be around three more franchise.

**Kirti Dalvi:**

Thank you very much and wish you good luck.

**Moderator:**

Thank you. We take the next question from the line of Dharmesh Gupta from Trivantage Capital. Please go ahead.

**Dharmesh Gupta:**

Sir just a clarification you said that 50% of the sales come from cash and 50% from non-cash so are there some customers who do partial cash and partial non-cash payment as well?

**Sanjeev Bhatia:**

Yes, see any wedding there is quite a substantial process when the consumer bring in the old jewellery and that also forms part of their overall payment so and balance amount they would perhaps paying in cash so if the total component is about 80% they can bring in old jewellery and balance 20% to 25% this is as the example which I am giving to it can work both ways. Normally but it is a general trend normally it never happens that somebody paying almost 100% back then so we would not be left nowhere.

**Dharmesh Gupta:**

Sir I wanted to know the value share of your domestic revenues, which comes from transactions, which are 100% non-cash?

**Sanjeev Bhatia:**

No, there it is not possible to say also and there maybe hardly one to two transactions I would say because I think I have not seen it when the consumer is paying 100% via old gold there is always some balance it can vary from customer-to-customer but there is always some balance.

**Dharmesh Gupta:**

Sir I have not put my point fully well. I think so I am talking about the net payment, of course there would be a set off against the gold which the consumer brings in of the net payment which the customer has to make what is the value share of the revenues which come from payments via credit card, debit card, cheque, RTGS, net, these means.

**Sanjeev Bhatia:**

This figures I have been never thought about it also, and I do not think we have ever analyzed this figure that what is the balance which come through see the balance which is coming through this channel.

**Dharmesh Gupta:**

So typically if I am a customer if I buy something worth Rs.2.5 lakh and Rs.1 lakh gold is my own so I am liable to pay 1.5 lakhs so typically of this 1.5 lakhs part is pay through cash and a part is pay through cheque is it.

**Sanjeev Bhatia:**

It can be normally there is no such fixed tool there can be such thing but have not frankly kept a track of this breakup.

**Dharmesh Gupta:**

And of your overall revenues 50% is paid through non-cash.

**Sanjeev Bhatia:**

Yes, correct.

**Dharmesh Gupta:**

And sir one more point when you said your sales have come down by 60% in this period post demonetization announcement you are only referring to the domestic sales only right.

**Sanjeev Bhatia:**

Yes it is a showroom footfall.

**Dharmesh Gupta:**

It is the showroom footfall.

**Sanjeev Bhatia:**

Yes.

**Dharmesh Gupta:**

And you also mentioned that 90% of the sales is weddings related is it?

**Sanjeev Bhatia:**

Yes.

**Dharmesh Gupta:**

And how do you decide that what is the logic this and saying that this is wedding and this is non-wedding?

**Sanjeev Bhatia:**

The type of jewellery frankly which have sold, there is a clear cut demarcation because with the type of jewellery which is moved for you day today we are adjusting or as a sort of office wears is totally different from the type even party wear which is quite different from what we wear on the wedding and on similar occasions so there is no clear cut guidelines written on that but it is something which we have learned by experience and if you look at our website the type of jewellery which you see on that which we have put in this balance category that is totally different from the type of jewellery which you see in our store.

**Dharmesh Gupta:**

Sir has you done any surveys amongst your customers to figure out what percentage of your customers might be salaried versus business owners?

**Sanjeev Bhatia:**

Frankly no, but see it is almost a catchment area of that store where the store is located that would give a fair indication of what type of client base we are getting if it has been a store, it has been another residential locality or nearby this thing perhaps we would be getting an more of salaried person and more of this thing and in our large format store in the south has rolled back it will be at more of business family so because we also because it is not we really do not demarcate on the basis of their ownership whether they are salaried or business is more from the purchasing power how much of that catchment area, what is the purchasing power of the catchment area. So your inventory should be in line to clientele of that from that area if not that, if you keep 1 Crore plus you will be in a area of any X Y Z this is where your consumer do not have that type of purchasing power.

**Dharmesh Gupta:**

Understood.

**Moderator:**

Thank you. We take the next question from the line of Rohit Potti from PPFAS. Please go ahead.

**Rohit Potti:**

Just wanted to go back again to the franchise agreements. Just wanted to understand what are the terms generally my thought suddenly was who has the rights to terminate the agreement and can it happen that the franchise decides to shift from one organized player to another and how easy or how difficult is that.

**Sanjeev Bhatia:**

See ultimately somebody wants to walkout so you cannot stop him, but in our written agreement we have got a three lock in period.

**Rohit Potti:**

Three-year lock in period is it.

**Sanjeev Bhatia:**

Yes.

**Rohit Potti:**

And so after three years. Two questions within three years if PC Jewellers finds that the franchise is not performing up to the mark is there any termination right with there or post three years if there is a termination requirement from either party how long is that final period before the termination happened?

**Sanjeev Bhatia:**

Actually this question is too premature for us because we have just started this vertical and all these issues well if and when they come it will be handled at that point of time only if you ask me now because we just started first franchise last year and that added two more and we do not have any answer to this thing at this point of time.

**Rohit Potti:**

Your experience so far with that first franchise store has been satisfactory.

**Sanjeev Bhatia:**

Yes sure.

**Rohit Potti:**

Thank you. That is it from me.

**Moderator:**

Thank you. We take the next question from the line of Priyanka Bansal from India Ratings. Please go ahead.

**Priyanka Bansal:**

Sir just wanted to understand that as you mentioned that post demonetization there has been a 40% almost fall in the sales as compared to the normal sales that we normally undertake during this period so is there any adverse impact on the inventory building and due to that inventory building how has the debt levels of the company, are there any adverse impacts on the servicing of the interest on the debt levels also?

**Sanjeev Bhatia:**

No, nothing like that because number one it is only 40% and if you look at our leave aside this demonetization as such if you look at the general working of our company or any jewellery company as such there are certain periods when the sales go down in a very substantial extent and the certain period when sales suddenly jump up like we put examples of extreme summer or Shradh or rather it is in a Malma where your sales is even more than 40% and practically there. So as a company you guys use to these ups and downs which is a normal part of our business it is not something new for us and regarding your the immediate liquidity excise or something well there and what will happen to our normal statutory payment interest dent etc. So the 38 days starting from 1st October has been so good because that was as peak season when we did very substantial sales. So as such company does not have any problem of that any liquidity or hang or any issue in settling its dues at the right time or any banks. So we are very, very comfortably placed.

**Priyanka Bansal:**

Thank you. That is it from me.

**Moderator:**

Thank you. We take the next question from the line of Dharmesh Gupta from Trivantage Capital. Please go ahead.

**Dharmesh Gupta:**

Just a clarification on earlier question when you make a sale of Rs.2.5 lakh out of its Rs.1 lakh is customers own gold you account for Rs.2.5 lakh as the revenue is it.

**Sanjeev Bhatia:**

Yes.

**Dharmesh Gupta:**

Sir you make a sale of 2.5 lakhs with our customers and the customer brings gold worth Rs.1 lakh of his own then this 2.5 lakh is recorded as your revenues is that right?

**Sanjeev Bhatia:**

Yes that is right.

**Dharmesh Gupta:**

Sir when you say 50% of the revenues are in cash then what is the percentage of your revenues, which is covered by the gold, covered by the customers.

**Sanjeev Bhatia:**

That is around 25% to 30% that would also depend from month-to-month so but on average it is about 25% to 30%.

**Dharmesh Gupta:**

So 25% to 30% is covered by customers gold, and 50% covered by cash and rest by other means.

**Sanjeev Bhatia:**

Yes.

**Dharmesh Gupta:**

Thank you Sir.

**Moderator:**

Thank you. We take the next question from the line of Manish Poddar from Reliance Capital Market. Please go ahead.

**Manish Poddar:**

Sir I just had one question assuming that on the November 9 a lot of unorganized jewellers sold a lot of jewellery that day and they would be relatively in a comfortable position going ahead in this next two quarters because I believe large part of the sales of the year would have occurred on that day for the large unorganized jewellers and the tier I cities of India. So would for you all now incremental pressure would come in and you all would start a discounting earlier than expected?

**Sanjeev Bhatia:**

No that is why should that happen.

**Manish Poddar:**

Because consumers would have already other than the marriage jewellery if he has to do occasional jewellery if you would have already purchased on that occasion so probably.

**Sanjeev Bhatia:**

As we always says there is always a proponing and postponing of the market it is possible that a lot of jewellery demand would have got preponed also and not only from unorganized that also from us. So yes that that keeps on happening in any days even if the gold is yes leave aside this thing even if there is something we find that the if you find out that the gold prices have come down you would see a suddenly the people coming in that those days your sales would go up and on the reverse this increase in prices people then come back and they make. So what we have seen there is always a preponement and postponed on demand, which has happened on this case yes there was a preponement of demand, which took place and nothing out of the order that it is a normal, listing.

**Manish Poddar:**

So I would like to put in the other way so do you envisage in a discounting or the making charges discounts which are do regularly sometime in Jan or Feb can you preponed.

**Sanjeev Bhatia:**

Even if we do making charges discount is somebody has already purchased wedding jewellery they are not doing to some specially to buy now.

**Manish Poddar:**

Now I am just trying to understand would this discounts, which we have done generally in Jan or Feb, would be preponed to December or January?

**Sanjeev Bhatia:**

No we have just finished our scheme and I do not think there is any such move to bring in any immediately now.

**Manish Poddar:**

There is no difficulty in procuring gold as of now right.

**Sanjeev Bhatia:**

No, nothing we never had any difficulties.

**Manish Poddar:**

That is it.

**Moderator:**

Thank you. We take the next question from the line of Rajendra Mishra from IDFC. Please go ahead.

**Rajendra Mishra:**

Just on this you said post demonetization still this come down by 40% so can you just give some color on that big cities how has how much was this figure that NCR or Mumbai or some other markets. So how this number has varied was it standard 40% across all markets or different?

**Sanjeev Bhatia:**

It is on average since we have almost 70 stores it would not be able to exactly find out the big store is facing what but this is an average what we have seen that and again it is a notional thing because we are expecting a certain amount of sales and now we are finding that these sales so it is a very, very nebulous figure. It is not that something that with that on these days we should have Rs.100 only at fixed based 40 so it is known to be nebulous and what we say our inside

listing that actually disburse sales should have been coming at this point of time, but there is no backup to that figure.

**Rajendra Mishra:**

My only point was that any particular market or any city which was now complete outlier to this average number so this average was at 40 let us say from an internal sense any market which was extremely outlier so that was the only thing I have.

**Sanjeev Bhatia:**

No frankly I would not be able to say, I would not know presently and we will not.

**Rajendra Mishra:**

Second thing is that you said 50% payment was used to be through cash and other this 50% non-cash now this could change going forward over next three months, six months, nine months how do you look at how are this the entire this transactional nature of the business how do you any views right now or is it too early?

**Sanjeev Bhatia:**

See number one it is too early and number two the more we will be very happy if the amount of cash reduces because that is only another cost center for us and then going and then getting the deposited and I think so it is more transactions go on the banking side which will be much more convenient and operationally also much more better for us so if it moves in that way but one of the very major inhabitance of credit card, and then the plastic money, India is number one. The limits are not as such that somebody would like to or if possible going a position to pay that the wedding jewellery only through plastic money and number two as on date your transactions are almost 2% on early card swipe so for any person who is already paying jewellery and then 2% taxes of that and additional 2% that nobody wants to have that percent. So but somebody pays us through RTGS or any optimal but then we have to wait until and unless our account gets credited. So it will involves slightly longest procedure you come to the store first then you finalize your bill and all that then you take your cash into the bank, then you get the money transferred. So that is slight people who get have to the habitual to this thing but we will appreciate and we will be happy if for more and more transaction start getting routed through these channel it will be slightly consumers who are high to adjust because we cannot give delivery or a jewellery before our account gets credited so they will have to make basically from one trip to our store, first trip, finalize, finalize the amount and then go back and then transfer the money and then come back.

**Rajendra Mishra:**

Thank you so much.

**Moderator:**

Thank you. We take the next question from the line of Anand Shah from Kotak Securities. Please go ahead.

**Anand Shah:**

I just had one question on the gross margins part if I look at our studded share has gone lower levels one reason, but if you do the mix and average margin calculation it seems your gross margins even in gold have gone down significantly both Y-o-Y and Q-on-Q based on the mix that we had for last year it looks like gold?

**Sanjeev Bhatia:**

If you look at this so almost there, the thing last year our domestic gross margins 17.42 now they are 17.06.



**Anand Shah:**

That is one edge if I look at Q2 versus Q2 it was 17.9.

**Sanjeev Bhatia:**

Yes so that is what we are saying on quarter-to-quarter so yes we are seeing it this there is a huge amount of variation and that is there.

**Anand Shah:**

So what would be the gross margin gold is that average how much is that because last quarter if I remember in 1Q FY2017 has gone up significantly.

**Sanjeev Bhatia:**

Because the diamond jewellery also had gone up very significantly so that is the major thing. On gold our margins are more or less stable but it is possible yes you are right it is possible that since this Q2 was not getting season it is possible that if we are sold more commodity like items like in each the margins would have been best since the margins on gold would they have also decline because this has got a uniform margin on all type of gold items as if you sell more of that or more of other studs or more of other intricate items you get more and it is possible that but Q2 has always been more or less holding on operation for us and I do not think there is anything different especially in this Q2 what happens our entire Shradh also came completely in Q2 so it is normally they spill over few days here and few days now this time the complete thing has also come in Q2.

**Anand Shah:**

Are you seeing any problem in terms of sourcing of gold or is there any premium on gold money shortage or so?

**Sanjeev Bhatia:**

No there were gold market is very, very stable.

**Anand Shah:**

Lastly did you also benefit at all from the initial surge on demonetization in that eighth, ninth, tenth period and all?

**Sanjeev Bhatia:**

It is only eighth not ninth and tenth but yes see our stores was actually in any case quite were having a huge amount of footfalls during those days because we are running our scheme and as we has been telling those 38 days has been very, very hectic for this thing so stores in any case having a huge amount of walk-in customers where in sales so some stores did close at the normal time after settling all the customers, some stores where the customers had come in they kept open late but in average it was not for a one half this thing is that eighth only saw this thing, because right from October 1st there was a continued inflow.

**Anand Shah:**

Have you done study like Diwali-to-Diwali how much growth would you have done because this time there was a festive time mismatch say by was to compare just this Diwali period versus last Diwali period?

**Sanjeev Bhatia:**

Basically these are Q3 figures and I would not like to comment immediately on that but I can only say that I feel that this was one of the very good seasons we have seen in past two, three years and what I feel that since the government had also released the Seventh Pay Commission arrears and the monsoon had also been good so there is a very good feel good factor and it is not only we are facing agree other company even autos are everyone had a very good festive seasons. I think the same went for us also.

**Anand Shah:**

Lastly on the studded share average for the your would share guidance will be still 30% plus?

**Sanjeev Bhatia:**

Yes.

**Anand Shah:**

Thanks a lot.

**Moderator:**

Thank you. We take the next question from the line of Kirti Dalvi from Enam. Please go ahead.

**Kirti Dalvi:**

Sir just one follow up on the area part you said that 9000 square feet of addition which has happened post June where we added roughly six odd stores so if I do the average square feet addition it comes to roughly 1500 that seems to be little lower because rightly you have opened only two franchise store in these nine stores and the rest all are normal stores which are take one or two floors base.

**Sanjeev Bhatia:**

No small stores.

**Kirti Dalvi:**

So average here has come down drastically for 9000 square feet?

**Sanjeev Bhatia:**

Yes.

**Kirti Dalvi:**

Thank you. That is it from my side.

**Moderator:**

Thank you. Since that was the last question. I now hand the conference over to Mr. Sameep Kasbekar for his closing comments.

**Sameep Kasbekar:**

I would like to thank the management once again and thank you all for joining in the call.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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**Note:** 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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