Titan Company Ltd

3QFY14 EARNINGS CONFERENCE CALL

MANAGEMENT:

MR. BHASKAR BHAT

MR. S. SUBRAMANIAM

MR. C. K. VENKATARAMAN

MR. RAVI KANT

MR. H.G. RAGHUNATH

ANALYST:

MR. SAMEER DESHMUKH

Moderator: Ladies and gentlemen, good evening and welcome to Titan Industries Q3 FY 2014 earnings conference call hosted by Tata Securities Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Sameer Deshmukh from Tata Securities Limited. Thank you and over to you Sameer.

Sameer Deshmukh: Thank you Mohsin. On behalf of Tata Securities I welcome you all to the conference call of Titan Company Limited post the third quarter numbers. We have with us the senior management team of the company. I would now request Mr. Bhaskar Bhat to make his opening remarks post which we can commence the Q&A session. Over to you Sir!

Bhaskar Bhat: Thank you, good evening everybody. I trust all of you have seen the press release, the numbers, etc. It really reflects the state in which the consumer markets are at least for lifestyle products. There are things which are sitting because of the environment and there are of course many things sitting that we could have done better but all said and done slowdown in the economy, price of gold and RBI's ban on gold on lease facility, issues with gold supply in the market, sale of gold coins having been discontinued all these have affected the jewellery business. Weak consumer sentiment, low walk-ins, volume decline in the watch business those have affected the watch business. Eyewear of course continues to grow same store as well as total quite healthily and so does precision engineering which continues to grow at high double digit numbers, now the festival season our conclusion is that it has been flat and the delta neighborhood of the festival season is a little better than the previous six month sales, what I am saying is that normally the Dusshera to Diwali period sales just compared to the same period last year, that sales did not occur and in fact if anything in decline it was flat in some businesses.

The Q3 numbers primarily were on account of the decline in the jewelry business that we do and the reasons for that are several. The numbers are in front of you. You can see watches there is a decline in like-to-like stores, World of Titan, Tanishq -15%, Gold Plus -30%. which in a way represents the competitive total watch category at the higher end showing a like-to-like growth of 10%, Fast Track surprisingly clocking in like-to-like of -9%, so there is a certain set of customers in the watch business who have stayed away or not come and there is a certain higher price clients where we have seen growth. Eye+ the year-to-date figure is much better than the quarter figure, so the quarter has been particularly a bad quarter as far as sales growth is concerned.

The next chart is on Q3 performance. For the first time in several years and several quarters the company has posted a negative growth both in topline as well as PBT. Year-to-date is of course 7.5% growth with a very flat Rs 2 Crore, in fact, decline in the PBT. Watches have grown marginally but remain flat on EBIT. YTD again almost flat with a 43 Crore increase totally only in the turnover but a decline in the profit also primarily a large part of the cost, the overhead increase has been in wage settlement for the factory workers but there are others, the big impact in the company has been the decline in jewellery which is nearly Rs 400 Crore and therefore a Rs 30 Crore decline in PBIT, however in both the businesses the margin improvement is quite significant at the GC level particularly, what you have a unit price increase of nearly 10% and jewellery again you can see PBIT margin has improved so has the gross margin which is before the overhead cost. There is however a decline in customer growth, the customer growth is negative, grammage growth is negative and if you exclude coins then it is marginal negative but with coins it is 21% negative. YTD performance however the grammage growth is primarily driven by the first quarter of extraordinary performance 12% grammage growth, 11% customer growth for the year, share of studded jewellery is no dramatic improvement 25% and for the year there is a margin declining to 10.5%. Other segments which include eye wear and precision engineering and accessories as you can see 19% growth and 24% growth. PBIT is a very marginal profit of 1 Crore for the year and loss of 2 Crore for the quarter. The precision engineering growth however is much higher than Eyewear, 46% in precision engineering for the quarter and for the year 32%.

One significant fact is that the capital employed has gone up in December 2013. This is net of debt of Rs 820 Crore and facts are known to you and reasons are known to you.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from Avi Mehta from IIFL, please go ahead.

Avi Mehta: Hi sir, thanks for taking my question. I had a question first on the debt levels. What I wanted to understand is that Rs 820 Crore that you have stated is that gross in nature or net?

Bhaskar Bhat: That is gross.

Avi Mehta: Sir, but then from the last conference call in Q2 it was about Rs 950 Crore. What has been the reason for that?

C.K. Venkataraman: Basically two reasons, one is we did get some gold from SBI again that was one reason. The second reason was that we had stocked up for the Diwali sale in September-October and after the Diwali sale happens obviously cash comes in. The growth was lower we always stock up before the season and therefore cash comes in and therefore the overall debt has come down.

Avi Mehta: So, we are shifting away from gold loan lease the payables are reducing while there is cash coming in, are you implying that the inventory levels per se in the system that are required could be possibly going down.

S. Subramaniam: They were down. They are down after the Diwali season.

Avi Mehta: On a year-on-year basis would it be fair to assume that there could be some decline in the inventory levels?

S. Subramaniam: There will not be any decline in inventory levels; actually it will be going up.

Avi Mehta: Second question what I wanted to understand was more on the demand environment, you had indicated that there was some green shoots towards the end of the third quarter and beyond that, has that sustained and if you could just give some guidance on the studded jewellery growth, how it has been in the third quarter if not numbers whether it is similar to Q1 levels, is it seeing some decline, the trend something of that sort Sir?

C.K. Venkataraman: The third quarter studded growth was muted even though we started seeing those green shoots that you are referring to in the month of December and January has been rather better and we also have an activation happening at the moment and the activations are good triggers in situations and the customer sentiments are muted in many categories, so we are certainly looking at immediate future basis what is happening now.

Avi Mehta: Is the green shoots are also in the gold jewellery segment sir?

C.K. Venkataraman: In December yes, in January it is not that high but that is also for us because we have activation push behind diamond jewellery, so lot more customers are being persuaded to buy diamonds today but we are reasonably happy with the gold jewellery growth performance as well.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs, please go ahead.

Puneet: Good evening everybody, this is Puneet. My first question will be with respect to gold availability right now, are you comfortable with it and where are we moving in that direction?

C.K. Venkataraman: We are very comfortable with the supply side and in the last quarter I think because we are such a reputed company all the importers are they want to do business with us, therefore we have not faced any issue on supply at all.

Puneet: What will be the sources of these supplies as of now?

C.K. Venkataraman: Canalizing agencies, banks, refineries which we had spoken about last time as such with the same three broad sources, share of the source however keeps changing from time.

Puneet: What is happening to the hedging policy, what portion of your gold inventory will be hedged?

C.K. Venkataraman: All, there is no change in the policy, there is only ability. There was some problem with ability but we have got the limited sanction from the MCX and today we have got enough limits to cover all our inventory, so there is no threat, there is no risk to the exposed gold.

Puneet: Just one bookkeeping question; what is your cash balance, can you mention that?

S. Subramaniam: Cash balance we do not mention because we do not do it this quarter but it is the same level generally that what we normally have.

Puneet: Similar to the previous quarter?

S. Subramaniam: Yes.

Moderator: Thank you, the next question is from the line of Amit Sachdeva from HSBC, please go ahead.

Amit Sachdeva: Thank you for taking my question. How much of the total inventory is bought upfront and which part is still in leases and if you could give some break up there?

C.K. Venkataraman: Could you repeat?

Amit Sachdeva: What I am asking is that as the rule has changed is there still some portion of the inventory in gold which is still available on lease and what part has now become bought upfront?

C.K. Venkataraman: I would say about 90% is cash on spot.

Amit Sachdeva: So basically lease part has nearly now come to a full end, so this quarter was a full representation of what your financial costs are basically when I look at the interest expenses which is about Rs 27 Crore and which is up from Rs 11 Crore last year, so can I say that impact of it is?

S. Subramaniam: Ballpark you are right for a year. That is a new normal.

Amit Sachdeva: Sir, when you talk about the demand outlook in general, I couldn't hear clearly but are you saying that diamond activation which is going now on a year-on-year basis are you seeing some amount of better trend or how do we read your statement?

C.K. Venkataraman: We look only at year-on-year basis to start with. Sequential quarter is a comparison in any case, soon a year-on-year basis diamond jewellery growth in Q1 of FY 2014 was muted, Q2 it was rather better, in Q3 it was again muted, January it is looking much better on a year-on-year basis.

Amit Sachdeva: January is looking better that is what I wanted to know sir and just one small question sir again on area that has been added was it all franchisee or is there any other stores that you have opened?

C.K. Venkataraman: It is a combination, we just opened a big store in Gorakhpur four days back, it is a big store franchisee, and we are opening a 14000sq.ft. company store in another two weeks, another 9000sq.ft franchisee store in Allahabad next month, so it is a mix.

Amit Sachdeva: Sir, if I may stretch a little bit more I see that jewellery margin has been actually pretty good despite such a fall in revenue and this obviously very respectable considering the topline, so is there no operating leverage and how does it really happen if you can give some color, margin at least looks pretty decent.

C.K. Venkataraman: I think the reason is also that we stopped selling gold coins if you remember, so the margins on that, so therefore Gross Contribution is better.

Amit Sachdeva: Is there any update on RBI, is there some international hedging being allowed or some sort are you still trying for it?

C.K. Venkataraman: Yes we are trying but very little update on that. But because they have been sympathetic hearing us out, they understand the problem, we don't see how we cannot get it.

Moderator: The next question is from the line of Vivek Maheshwari from CLSA, please go ahead.

Vivek Maheshwari: Hi, good evening everyone, a few questions sir, first is there any inventory gain or loss in this quarter?

C.K. Venkataraman: We do have that same hit that we had in the first quarter on the grammage scheme. We have not quantified it in the financials but it is roughly half of what we had in the first quarter.

Vivek Maheshwari: So you had roughly Rs 34 Crore, you are saying it is roughly half of that?

Bhaskar Bhat: Yes.

Vivek Maheshwari: Sir you mentioned that Rs 27 Crore pretty much represents the full year on an annualized basis this will be the kind of run rate on interest but you mention in the previous quarter that your fourth quarter will see debt levels peaking out, so are you trying to indicate that Rs 800 Crore to Rs 900 Crore is where the gross debt will settle at?

S. Subramaniam: It will go up a little, you are right, the other thing is also that we are also looking at different means of financing, so we are trying to keep our financing cost low which we did fairly successfully in the last one or two months, so therefore the debt level may be slightly higher but the cost is something which we are trying to control, you can look at this as a ballpark figure.

Vivek Maheshwari: The other thing is as Mr. Venkat was mentioning 90% today the gold that you have is on cash and 10% is on lease, so I would presume you would have still drawn down gold on lease during the quarter, so why should Rs 27 Crore kind of sustain, I would imagine it would be much higher than that if you are carrying even 10% of gold on lease today?

S. Subramaniam: As I mentioned it is about the cost of borrowing. We borrowed at a higher level now we are trying to hedge it though, so it is about that. You can just take it as a ballpark that is all I am saying, 5, 10% either way should be the number.

Vivek Maheshwari: Is it possible if you can quantify now effective cost of borrowing after hedging and premium and all that?

S. Subramaniam: Yes, it is sub 10%.

Vivek Maheshwari: If I have understood it correctly you are saying now there is no problem on hedging in MCX, so earlier last quarter you mentioned nine tons of gold, five tons you could hedge on MCX.

S. Subramaniam: That is right. We don't have an issue now. We got the approval to take it up to 8.5 on MCX itself.

Vivek Maheshwari: Because earlier you were saying there is a problem on liquidity and all that, is that now resolved is it?

S. Subramaniam: Yes, they gave an approval and we are now up to the full extent of our MCX.

Vivek Maheshwari: so that being the case why should there be marked-to-market gain or loss or there should not be now from here on, is that correct?

S. Subramaniam: That is probably for the grammage scheme. That will always be the case irrespective of everything grammage scheme will always have an issue, remember the liability I mentioned the liability to the customer and we buy the gold and keep it but the gold price is variable, based on inventory valuation which is on FIFO the month end valuation could be lower rate. It does not match the liability whereas we don't need to actually pay that out, but because inventory values are lower there is a mark-to-market on that element.

Vivek Maheshwari: So basically this is as a book entry which will get reversed.

S. Subramaniam: It will get reversed when the gold prices go up, yes, like it happened in Q2.

Vivek Maheshwari: Sure, so after this revised MCX thing you are fully hedged on gold, so there is no volatility at least on that part.

S. Subramaniam: Absolutely.

Vivek Maheshwari: Gold coins how much you said was there in the base quarter, third quarter last year?

S. Subramaniam: We have given you the numbers; you can see the growth was negative 15% and negative 3% without coins.

Moderator: Thank you, the next question is from the line of Abneesh Roy from Edelweiss, please go ahead.

Abneesh Roy: My first question is on the jewellery business and two parts to that, sir one is coin sales have been revived, are we a bit late on coin sales versus industry and directly impact us in terms of getting that share back and second part is you know jewellery only studded sales have been volatile, Q1 was weak, Q3 was weak, and Q2 was good and January again has been good, so in terms of consumer sentiments etc., what drives the studded, is it your own activation, is it the marriage days, is it the sentiment, how do you in your own model predict when will studded again revive?

C.K. Venkataraman: On the first point, as a responsible company we decided to stop selling coins in order to align with the government's objective of trying to bring down the CAD and we have reintroduced coins when the government officially declared that it has more or less under control, so it was the behavior of the responsible company both ways and frankly we were not really concerned about loss of profit to the company and that is responsibility is about, obviously the rest of the industry is looking at it with different objectives and we are different. We are not late. We came in. We went out when there was a request from the government. When came in when the CAD situation was under control. On the second point what is happening is because studded jewellery is particularly seen as a discretionary bordering on luxury kind of category, the demand across the industry has been muted, people however are very desirous of the category waiting for deals in a way and therefore you are right. The pickup in our own growth in Q2 when there was an activation and Q4 when there is again an activation is indicating that and therefore to some extent a shift of 100% of sales this year has been more towards these two quarters where the customers have got a deal. How long this is going to be we don't know it would depend on how long the customer sentiment exists.

Abneesh Roy: Sir my second question is on the other businesses, first is Titan Eye Plus, where we did not do the promotional event this time which did have a huge impact on numbers from 25% to sales to growth we dropped to 2%, what was the reason but in Helios I surprisingly see a different number change, so far minus 1% seems to in Q2 we jumped to 10% so what is driving that, was it any activation specific in Helios?

Ravi Kant: The decision to not do activation was for two, three reasons. One is that we wanted to go back to doing this once a year and focus all our energies on building the brand and consumers and the third was we felt that it was close to our budgeted frame without doing the activation and therefore protect our margins. Although we don't share the eyewear numbers for the same but you will be happy to learn that we have achieved over 90% of the budgeted sales from the quarter without the activation, so it was a right decision.

H. G. Raghunath: On Helios you are right, the growth is positive. Two interventions have happened. The first one is for high priced watches where we have started an EMI scheme, EMI facility for the consumer to buy, that actually has helped. Second one is at the store level, of course the general promotion continues on SMS etc., and all but the important point was the conversion rate was increased by putting efforts with the CROs and the team and we saw that also helping. People were coming in and making sure that the conversion is higher is the second thing. Third at a price bracket of Rs 6000 to Rs 7000 some very good Titan products were there in Helios. Titan is neutral in Helios, it also competes with other brands but the USP of titan and the numbers have been picking up at these high priced end which means the products are good, they are really looking up in the eye of the consumer measures well amidst competition. These are the three reasons we believe Helios have gone up.

Moderator: The next question is from the line of Arnav Mitra from Credit Suisse, please go ahead.

Arnav Mitra: Good evening couple of questions one on the margin side if I now add back this around Rs 17 Crore of mark-to-market loss which you have had, it seems your margins have expanded quite a lot so I understand that studded mix has improved from 22% to 26% but is that such a big factor that it offsets the 15% topline slowdown and is there any other impact of the fact that custom duties went up in August, any kind of positive impact from that in the margins this quarter?

S. Subramaniam: I can mention two instances where margin went up. One is the studded ratio. Second one of course was coin sale was zero right, so therefore gross margins were better, that was the main reason why the margins were better.

Arnav Mitra: Was there any element of gain because of custom duty?

S. Subramaniam: Custom duty gains are there but they are not very material. We do still have that benefit of 2% but it is not a very major, it was there even in the previous quarter.

Arnav Mitra: One question on the like-to-like growth on Tanishq has been negative 15%, overall revenues are also down 15%, how do we read this given that 20% new space has been added, is it that the new stores are ramping up very slowly or how do we kind of read this data point and how would you look at expansion next year of the space?

C.K. Venkataraman: This -15% number is retail and that is only Tanishq. It will not be easy to reconcile that but suffice it to say that expansion plan of the division continues to be as ambitious except that we are calibrating the size of the store a little better a little more circumspectly and also focusing on unrepresented towns first and really unrepresented meaning distant new catchment in existing cities next and that is the basis so that the incremental sale is really incremental but we are not pulling back on the expansion ambition.

Moderator: The next question is from the line of Hemant Patel from Axis Capital, please go ahead.

Hemant Patel: A question on customer growth, just noticed that it has been declining even in this quarter, so I am just trying to understand this on a demand perspective, is it that the pricing differential between organized and unorganized if I were to add up the premium of customs plus the making charges is one of the big reasons why we are not actually getting foot falls and conversions?

C.K. Venkataraman: If you look at the reports of the industry and if I just take the Diwali season sale many reported 50% drop in sales compared to their 2012 Diwali. The industry has seen a slowdown in Q3 of the kind it has not seen for many, many years. If I speak to the vendors of Titan, jewellery vendors of Titan who also supply to many of the other big jewellery companies, jewellers, they are talking about a big decline in their sales to those jewellers, so here they are not talking about a competitive shift towards smaller jewellers as you are asking us.

Hemant Patel: When you are saying industry you mean both organized and unorganized, that is what you are implying?

C.K. Venkataraman: When you say organized I don't know who you are referring to but when I say organized I am referring to Krishnaiah Chetty or Ganjam in Bangalore or Hazoorilal in Delhi who are not listed companies and who may not be defined as organized by you with whom we compete. They have all seen huge decline and fortunately our own Dhanteras sale was the same as 2012, so we were not much affected to extent we could judge, it looked like we were much better off.

Hemant Patel: One more question on so called city level penetration. I notice a few players like Joy and Kalyan and some of the others expanding at least in tier 1 cities more in the northern side of it, more aggressively with high intensity kind of brand investments. I wanted to understand what is the kind of impact that we see because I guess that tier 1 level penetration of an organized jeweller is fairly high versus tier 2 and tier 3, so are you seeing any impact of that?

C.K. Venkataraman: Yes we are seeing nothing big enough to hit our sales yet but beginners in terms of the threat that they represent in the future and therefore we are dealing with that in appropriate ways by intervening with much more of inventory in the right kind of categories, correcting prices where required because the nature of competition is also different, Kalyan represents a different kind of a threat, Alukkas may not be that much of a threat, Malabar represents a different kind of threat targeting the more design seeking, higher end customers wherever Kalyan is little more of a value seeking customer, so we have to therefore respond also appropriately, so all that is happening, certainly we are on the watch from that subjects rather more than the cost because the threat is there especially in an overall sluggish market everybody scrambling for the same pie and we need to be even more on guard on this.

Hemant Patel: What is our jewellery retail presence in tier 1 city? I mean to say share of your retail square feet presence in tier 1 cities?

C.K. Venkataraman: It may be about 40% I think.

Moderator: The next question is from the line of Nilay Shah from Morgan Stanley, please go ahead.

Nilay Shah: Thank you sir. My first question is on the margins. Sir the studded share for the quarter was about 26% and this is after you had stopped gold coin sales, so does it basically mean that the studded jewellery actually saw a big decline in this quarter on a year-on-year basis?

C.K. Venkataraman: No studded actually grew in Q3.

Nilay Shah: Sir, then you know your studded share should probably have gone up much more than it has given that you had stopped what would have been about 10% of your business.

C.K. Venkataraman: I will have to look at the figures and answer that. I know independently that the studded sales have seen a growth but what you are saying is hypothetically correct but we have to look offline and look at the figures plus you are looking at primary sales and looking at secondary sales growth.

Nilay Shah: My second question is again going back to the interest cost; would your gold jewellery inventory be roughly about Rs 1800 Crore at any point in time?

S. Subramaniam: Substantially higher than that.

Nilay Shah: If it is higher than that sir and you have to fund that entire gold inventory then for the full year even at a sub 10% interest cost would not your quarterly interest cost be upwards of Rs 40 Crore every quarter?

S. Subramaniam: It is not that. The debt alone, you are only looking at the inventory level, what about the overall debt level, the debt level depends on what cash I am generating also right, so you can't compare the inventory straight away with the debt.

Nilay Shah: Cash last quarter was about Rs 1200 Crore and a large chunk of that was on account of the golden harvest scheme and that is kept separately to generate other financial income.

S. Subramaniam: That is true, we have the Rs 1000 odd Crore of cash but the gross debt is what we are talking about now which was at Rs 820 Crore at December end, it is slightly higher now.

Nilay Shah: I cannot circle the two; it is Rs 820 Crore versus an inventory level which you said is upwards of Rs 1800 Crore. Would the debt level go to somewhere like Rs 1500 to Rs 1800 crore level eventually?

S. Subramaniam: Yes, but there is retained earnings. We have all the money which you have made in the last so many years, that is why your cash balance is what it was, it is not just on the golden harvest thing and then there are other liabilities as well for various other divisions.

Nilay Shah: Sir 80-90% of your cash last quarter was Golden Harvest?

S. Subramaniam: True, but I think we need to take this offline.

Moderator: The next question is from the line of Varun Lohchab from CIMB, please go ahead.

Varun Lohchab: Thanks for the opportunity. My first question was on the watches, could you just throw some light on the mix between Titan, Sonata and given slight improvement that we see despite a slightly higher base vis-à-vis Q2 what was the reason, have we seen slightly better operating environment for watches?

H. G. Raghunath: We have specific channels, multi brand outlets, World of Titan and the large format stores. The large format stores as we showed you already has grown positively albeit small about 7%. World of Titan like-to-like growth is -5%, so in terms of numbers we haven't really grown to a double digit but then we have grown positive 3-4% I think but the important thing which contributed to this is introduction of Rs 2000 to Rs 5000, Rs 5000 to Rs 10000 price range watches, new products, really new products contributed to this retail growth.

Varun Lohchab: If you look at Q2 performance in watches was very kind of muted on a year-on-year basis when the base for Q2 was slightly favorable and in Q3 of this year despite the base being better last year we have done better in terms of growth vis-à-vis Q2 of this year which means these are the sentiments has improved a little bit or your execution in the market place has been sort of much better than what it was in Q2, so are we seeing some signs of improvement in consumer sentiment for categories like watches or is it too early to say?

H. G. Raghunath: The consumer sentiment improvement is not visible but largely aided by a very good introduction and various new products and a growth in LFS channel also has contributed to this, actually the consumer sentiment improving is not visible at all.

Moderator: The next question is from the line of Ankit Babel from Subhkam AMC, please go ahead.

Ankit Babel: Sir, my first question is in your other income which is around Rs 26-27 Crore is it purely the interest income or are there any hedging gains or losses in there?

S. Subramaniam: No, this is the interest on the cash balance.

Ankit Babel: My another question is that you have a debt of around Rs 850 Crore, you have a cash of around Rs 850 Crore, so why are you keeping both cash also and debt also?

S. Subramaniam: We, I think, mentioned this earlier the reason we keep cash is because we have the Golden Harvest scheme and we took a call that we would try and keep a ballpark of Rs 1000 Crore of cash at all times because there could be a regulatory risk at any point of time on that liability, that is why we have kept cash.

Ankit Babel: Same question again which earlier participant was asking that if your inventory is in the range of around suppose Rs 2000 Crore and your funding it by just a debt of Rs 820 Crore then another Rs 1200 Crore of inventory is funded how?

S. Subramaniam: Don't forget that we still have some gold on lease balances. The gold that we got from SBI etc., those liabilities are still there, liabilities are falling and as they fall the debt will increase okay, now the reason why debt is not as high as inventory level because there are other things as well, other payables in every division as well and other divisions also are generating cash, so that is basically the reason why this happens.

Ankit Babel: Just for an understanding purpose supposing this quarter your all gold on lease and all those will expire, so what could be the debt levels at the end of this fiscal year?

S. Subramaniam: It will be higher. It is already at Rs 900 Crore plus now as we speak today. I would think the year wound end around Rs 1100 Crore or something like that or Rs 1200 Crore max.

Ankit Babel: That Rs 1200 Crore going forward would be repaid from internal accruals?

S. Subramaniam: That's right.

Ankit Babel: Do you feel that all your future growth would be taken care of internal accruals and debt will not increase from these levels?

S. Subramaniam: It should generally be in the same ballpark; there could be some increase depending on our capex plans so on and so forth but otherwise not much.

Moderator: The next question is from the line of Rajasa K. from Jeffries, please go ahead.

Rajasa K.: Good evening sir, my question is on hedging. I just wanted to understand how the volatility or the trend in local premium and on the spot prices have affected your margins, basically the dynamics of hedging is pretty complicated right now because of the physical import curbs, so just wanted to get your sense of what happened this quarter?

S. Subramaniam: You are absolutely right, there are issues on hedging. There are three components today, gold rate and then there is a big thing which is a premium in the market because of scarcity of gold, now these are also determinants in how much you can hedge in the MCX and the third fact is because of the scarcity sale futures are still at a discount, therefore the volatility is still there the more important thing for us is to ensure that we are hedging on our gold position, we don't want to keep it open despite this aberration in the near term. Once the supply situation gets more normal we would assume that the end state would reflect a better price and therefore you should start getting your premium but as of now there has been a discount.

Rajasa K.: In that sense did that depress your margin or your segment EBIT margin?

S. Subramaniam: To some extent yes, that's right.

Moderator: The next question is from the line of Pratik Biyani from Standard Chartered, please go ahead.

Pratik Biyani: Sir you did mention about some sort of risk of regulations in your Golden Harvest scheme, can you elaborate on that a bit?

S. Subramaniam: Yes we mentioned this earlier. There have been some queries from RBI and SEBI sometime back on the Golden Harvest scheme. We had replied to them and it seems that, that might not be an issue as of now, however if you were to look at their new Companies Act the definition of public deposits today, the guidelines which have come about which are in the draft format at this point seem to be indicating that Golden Harvest could be coming under this public deposit which means that there would be regulatory intervention which might affect the growth of this scheme that we have and to that extent therefore yes we have a regulatory risk, we have to wait till the final guidelines come out but as of now there seems to be an issue and there could be an issue. It doesn't mean that we would have to scrap the whole scheme, it would mean that we may have to control the amount, tweak the amount a little or make the period shorter, the definition was anything more than six months will be affected there and so if you can have a scheme lesser than six months it might not get affected.

Sanjay: Sir, this is Sanjay here. I had a query, you said the watch sales were improved a bit but sentiment has still not improved that much, so is it because of the timing of any of your promo schemes 20% etc., going on this.

S. Subramaniam: No it is in spite of that is what Raghunath told.

H. G. Raghunath: I just now clarified the LFS channel has performed with a positive growth of 7% and the launch of new collections and new products has helped in this Q3 a great deal, that is what I clarified. The consumer sentiment improvement is not visible.

Sanjay: Sir, just a clarification, there was some confusion as to the grammage scheme inventory benefit; it is an inventory gain this quarter right, not an inventory loss?

S. Subramaniam: It is an inventory loss of Rs 17 Crore.

Sanjay: In terms of the customs duty benefit you said it is not meaningful?

S. Subramaniam: It is the same what we had in the last two, three quarters it is not going to make a big difference.

Moderator: The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises, please go ahead.

Rakesh Jhunjhunwala: Hi Bhaskar, what I wanted to know is now in your jewellery business at the top you have Zoya and in the bottom you have Gold Plus and Gold Plus of course requires larger investment in terms of pure gold and I don't think it has significant part of the profits, do you have some thoughts of closing it down?

Bhaskar Bhat: Let me explain to you, first of all we have not expanded it at all; we have kept it at 35.

C.K. Venkataraman: Hi Rakesh, Venkat here.

Rakesh Jhunjhunwala: Not thought of closing it down.

C.K. Venkataraman: No, not yet. Actually we understand the levers that has kept us away from making a success of it in those markets and we also reorganized the structure within the division to bring in much more high level talent and capability in retailing, merchandising, marketing and all that and we can start seeing some of these early effects right away, so right now from a portfolio point of view in any case one-and-a-half years back we had limited Gold Plus too, South India where there is a value for money seeking customer is a resident in large numbers and the entire rest of India small town India was open for Tanishq, so to that extent your point about the contribution to sales which may be about 10% today and they contribute less and contribution to profit is even less in that sense it is limited and there would be ambition of Gold Plus is circumscribed, only thing is from a capital allocation point of view today the ROCE on Gold Plus is far lower than what Tanishq is delivering but that we are just figuring out now what would be a medium term outlook on that, would we be able to reach reasonably acceptable level of ROCE on Gold Plus and still not deny Tanishq what it requires. We will be thinking on that as far as our five year strategy and it will become clearer

Bhaskar Bhat: Rakesh, the recent regulatory decisions which have forced us to rethink let us say Gold Plus should not make us, the market there is real, okay, that is a value for money customer and we had launched this program, right now revisiting the strategy of Gold Plus and not the expansion of Gold Plus is what we are at and we cannot, suppose regulatory environment changes then we will be back in a big way having corrected the strategy, there are two answers to your question, if somebody says this is going to be the permanent solution in terms of regulation then there is a very serious rethink on Gold Plus that we need to do versus that this is something which is giving us a window to correct our strategy on Gold Plus whereas the market is there, the Rs 20000 Crore market is not going to go away.

Rakesh Jhunjhunwala: What is your thinking, do you think the regulatory matters about leasing will change?

S. Subramaniam: There are conflicting signs on this, I mean as recent as two days back Mr. Chidambaram has said that there is some easing that may happen two, three months from now. From three months from now we don’t know who is going to be eased that is a different matter and even various conversations RBI has given some indication that it may change which is don’t want to toss it out like that.

Rakesh Jhunjhunwala: What about Zoya?

C.K. Venkataraman: Zoya, the thing is that we have seen improving performance in the Delhi store because unfortunately for whatever hindsight we ended up choosing two locations which contributed significantly to the poor performance. We are opening a swanky new store on Linking Road in April, very close to the Tanishq store and we are betting big on that, so 2014-2015 must be a year of reckoning for both these, Gold Plus and Zoya.

Rakesh Jhunjhunwala: What are the other measures you are taking to face these challenging times, as I understand actually there is no decline in sales, if you remove the coin grammage; the sale has been the same?

Bhaskar Bhat: But customer growth is negative. Ticket sizes are lower. I think there is a triple whammy Rakesh, I am only conjecturing now, the downturn which is consumer sentiment led therefore gold any product which is in the lifestyle category getting less preference is one part whether it is watches or jewellery it is the same thing, the second is regulatory but in Gold this whole attractiveness as an investment is also a significant part is sitting there and the behavior in the festival season we sold almost exactly the same amount this Dhanteras and last Dhanteras, so that kind of customer who buys during festival season has not grown at all, so the negative 10% that we dropped in terms of customer you can see that in Q3 performance and overall growth of only 11% is certainly a specific issue in the jewellery business which is not belonging to other product category.

Rakesh Jhunjhunwala: How is this quarter panning out?

Bhaskar Bhat: Well I would not say that the market has bottomed out but it is certainly not getting worse and both in watches and jewellery ultimately as sales people we can only hope and we are certainly seeing some hope in the negatives reducing, negative growth rate reducing.

Rakesh Jhunjhunwala: What about watches, any revisions in watch volumes?

Bhaskar Bhat: Watch volumes are negative as of now and we expect to close the year also negatively. There are some specific reasons. There is a large volume loss in certain price bands which is also led by supply, so there also there are other problems, one is the sentiment, one is the supply side and whereas at the higher price points we have grown.

Rakesh Jhunjhunwala: How are your helmets and fragrances doing?

Bhaskar Bhat: Initial response has been very, very encouraging, the fragrance definitely whatever we had initial lots they got sold, even though it is an initial response there is really demand, helmets we sold 1000 pieces which is first few days of launch but it is too early what is happening in helmets.

Rakesh the longer term at least the first two, three, five months indication is that both these hold out promise for the company in the future. They may not be Rs 1000 Crore businesses but certainly they are big volume and therefore potential both for turnover and profits but in comparison to Rs 11000 Crore or Rs 12000 Crore it may be small but these are the small numbers which need to make the company's future.

Rakesh Jhunjhunwala: Are you launching any other new products?

Bhaskar Bhat: Not in the next few months.

Moderator: The next question is from the line of Richard Liu from JM Financial, please go ahead.

Richard Liu: Hi everyone, thanks for taking my question, someone alluded to this earlier, if I strip out these Rs 17 Crore of mark-to-market loss on the grammage scheme then it seems that jewellery margin was perhaps in the 11% range in the third quarter which is about 120 basis points higher when compared to the same period last year. This I guess is in a situation where the studded growth was I guess flat, at least that is what my calculation seems to suggest in the second quarter which was the September quarter you had about 20% plus studded growth and yet margins that quarter was actually 100 basis points lower year-on-year, all other circumstances remaining the same, both quarters mix of the gold fund was I guess more or less the same given absence of coins but how does one understand this difference in margin behavior, there is a huge expansion in the third quarter in margin net of mark-to-market loss and there was actually a margin decline in the second quarter and the behavior of studded is more favorable in the second quarter than it was in the third quarter?

S. Subramaniam: It will require a detailed offline discussion but some of the points that I can think of one is that you are comparing Q2 versus Q2 to start with for instance. We had a pretty good customs duty gain in Q2 of 2012-2013 and relative to that the customs duty gain in Q2 of 2013-2014 was lower and if I remember right Q2 FY 2013 PBT margin was exceptionally high 11.2% or something because of this whereas Q2 FY 2013 was different also because of share of Dusshera festival gain we got. As far as Q3 is concerned the question that you are asking is how come the PBT margin expansion has happened. I think we have to dig in to it and have a probably offline conversation.

S. Subramaniam: Basically the coin thing is a big thing; this quarter normally we have 15% of our sales coming from coins, so PBT margin is higher because the denominator change that is all. We will get back to on this.

Richard Liu: I have a second question, has there been a huge addition to the grammage scheme enrollment in recent months because if I work backwards based on that Rs 34 Crore mark-to-market launch that you had in the first quarter I would imagine that the gold rate of Rs 2900/gm odd at December end would still be higher than the average cost of the original 1.3 metric tons that was there under the gold scheme in June right, so I mean how come there is this Rs 17 Crore loss again.

S. Subramaniam: If you remember in the first quarter we had a loss of Rs 34 Crore. We actually made up the entire thing in the second quarter because the gold rates went up, this quarter again at the end of the quarter the gold rates had fallen. It has not fallen as much as it happened in the first quarter that is all, so it is a FIFO basis of valuation, so it depends on what inventories we hold and for what periods we are holding them.

Richard Liu: So based on that Rs 34 Crore and I think it was 1.3 metric tons.

S. Subramaniam: To answer your question the quantities are not very different. It is just that the rate decrease in this quarter is lesser than what it was in the first quarter.

Richard Liu: How much was net debt or net cash as on December end?

S. Subramaniam: We are still net cash positive.

Richard Liu: Around Rs 200 Crore level?

S. Subramaniam: Around that much yes.

Moderator: Thank you, Ladies and gentlemen due to time constraints we can only take one last question, the last question will be from the line of Prashant Gutti from Emkay Global, please go ahead.

Prashant Gutti: Thank you for taking my question sir, just one question over here, with regard to the, this time we are going to have an extended marriage season whereas this was not the case in the last year, so what has been the demand impact because of the same and what do we foresee going forward in regard to the same?

C.K. Venkataraman: In the higher rate categories which represent the value and demand we are seeing pretty good offtake in the last ten days particularly because the wedding season also opens but in the lower rates we are not seeing that kind of pick up so your point about the wedding season being good is certainly looking right.

Bhaskar Bhat: I think on the overall wedding season holds out good promise, watches specifically does have a peak during that time but there is a certain readiness in the watch business in terms of we are back in to gifting promoting gifting in watches, that should help, I think another commercial is getting done in watches so we are investing a fair amount of money in that wedding seasons for watches and jewellery.

Prashant Gutti: Sir, any target on the expansion front for FY 2015?

S. Subramaniam: Not yet, we have not closed on those audits yet. These are all expansions in FY 2015.

Prashant Gutti: We would expand, but would it be similar to may be what is there in FY 2014?

Bhaskar Bhat: No, we have not closed on that, now people plan not 12 months, they plan 30 days.

Moderator: Thank you Ladies and gentlemen that was the last question, I now hand the floor back to Mr. Sameer Deshmukh, over to you.

Sameer Deshmukh: Thank you. On behalf of Tata Securities I thank all the participants and the management team of Titan for taking time off for this call. Thank you sir.

Moderator: Thank you, on behalf of Tata Securities Limited that concludes this conference, thank you for joining us and you may now disconnect your lines.