

**Q2 2012 Earnings Call - Titan Industries**

**Dt-24 Oct'11**

## **Operator**

Ladies and gentlemen, good evening and welcome to the Titan Industries Limited Q2 FY12 Earnings 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. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sameer Deshmukh. Thank you and over to you, sir.

## **Sameer Deshmukh**

Thank you. Good evening.

On behalf of TATA Securities, I welcome you all to the conference call of Titan Industries, post the second quarter FY12 numbers. We have with us the senior management team of Titan Industries.

I now request Mr. Bhat to make opening presentations, post to which we could commence the Q&A session. Over to you, sir.

## **Bhaskar Bhat, Managing Director**

Thank you. This is Bhaskar Bhat here and with me my colleague, we call Subbu, Subramaniam, Head of Jewellery, Head of Watches business and Harish Bhat, -- business as of precision engineering and Kailash --. I hope could be better. Thank you for being with us this evening.

Volatility in growth prices has had an effect on demand and in fact the month of August, we did see challenges on gold volume growth. Diamond prices continues to be high affecting the sale of studded jewellery and therefore the share of studded jewellery and therefore the margin in that business. But we continue to -- expansion, 61 outlets in 67,000 square feet. The average during the quarter.

## **Operator**

Thank you for your patience. This is the operator. I'm very sorry to interrupt you, sir. Just want to ask the management of Titan Industries to please just speak a little more closer towards the mic, sir. It's echoing, sir.

## **Bhaskar Bhat, Managing Director**

Yeah. Thank you. We will do that.

## **Operator**

Thank you so much, sir. Continue with your presentation. Thank you.

## **Bhaskar Bhat, Managing Director**

Is it clear?

## **Operator**

Yes it is sir. Thank you.

## **Bhaskar Bhat, Managing Director**

Okay. This slide is self-explanatory as you can see in the last year, to note is that we had expected the difference between same store and total growth is in modern watches and in World of Titan and in Tanishq. And the big growths are in Helios and Fastrack, as you can see. Helios because number of stores has grown quite significantly, some of this three to four to 14, it has grown, so the base is different.

Similarly, Fastrack has doubled in total growth but even same store growth is 72%. And I think not an interesting -really from understanding the market sales needs, last time, our store performance in watches were the total is 52% and the same store growth is 24%. I think 24% represents drive to effect the impact for this behavior in the market. And for the quarter 24% and what seems relatively good compared to other product categories. But overall performance have been much less in the past.

I have seen a 19% decline in same store growth. But that is not strictly comparable, because the last year we have the promotion in Q2.

And this year we have that promotion in Q1. Overall, growth rate below expectation and slightly the slowdown beginning to be felt. PAT stands at 148 crores on a turnover of 2,125 crores. The H1, the YTD performance of course has been influenced significantly rising. Q1 performance that we crossed to 4,000 crore mark, interestingly enough the turnover in the quarter is higher than the last quarter, first quarter.

And profits are also at 210 crores is higher than that the previous quarter. So sequential growth has been there from quarter-to-quarter in terms of PBT as well as turnover. Although the rate of growth has come down -- same period last year.

We have capital employed so we captured -- capital employed is at 138 crores as you can see. But the cash balances have been adjusted and have been passed in the respective divisions. Till the last quarter, all this was fitting in the corporates whereas now you will see corporates has -- to 126 crores and jewellery has gone up to 627 crores and watches reported 51 crores. And total to 38 crores.

It is therefore impacted the calculation of ROCE, not calculation, the capital employed exchange in the businesses. And jewellery which we used to have a negative capital employed is now having positive cash sitting in the capital employed.

Market GAAP at Rs.276 -- are today is close to US\$4 billion, crossed US\$4 billion, 20,000 crores.

Coming to the watch division. Due to performance has been -- whereas volume growth of 19 -- and 16 value growths. PBIT is lower due to mezzanine cost increases which we are not been -- I hope they have not been able to pass on, they did not pass on in Q2, one to eight of the entire fact.

The other cost increases on account of the exchange loss and of course materials. And we have now collected paths of price increase has been taken, the impact of -- after a few weeks -- some of these products which are priced in earlier -excise duty, you have to sell watches at prices as much as they give the traction. So, this will increase -- impact the bottom-line on this next ramp amounted in November.

So volume growth for the first half is 18, revenue growth 19% for the first half at Q2. It's therefore, we'll look at it and very disappointing, -- continuous investment and its funding distribution particularly the network or the -- as of now we stand at 11,000 -- 2,500 -- recovered, when the -- has added six in the first half at 317 crores and 130 down, Fastrack has 64 stores, 17 have been added in the first half, 27 down -- we as 14 stores and -- have been added by the -- stores in the quarter. And our international presence are quite healthy. The big story in the quarter was the branch of our lifestyle watches -- the new collection of technology watches. The best part of it is to develop the entire the in-house and the initial consumer reaction has been splendid to both to the watch and the --.

We have stock, Harish -- so the only stock we see is on the next slide. And it's not the only the collection was also watch, inspired by our captive achievements.

Farhan Akhtar has been signed up as brand ambassador for Xyllys and I guess you must have by now seen that beautiful face and not as much the watch on the hoarding in Mumbai and that is a price that anybody who can guess the name. Fastrack has crossed 2 million fans on Facebook, now it is the third largest Indian brand in the states.

Jewellery division and that continues on its growth streak has grown 45% in the quarter. Grammage growth has come down 15% and the Titan share stands at 28%, the PBIT has grown a healthy 0.6% growth marginally.

Group's first quarter performance and the first half performance however has higher than watched and adding the company, which is few much higher, because it's our first quarter. 49% grammage growth has dropped to 3% as you can see. So the Q1 to Q2 has seen a drop.

From 40% in the first quarter to 3% in the second quarter and relatively 21. But it shares for the year for that 25%, profit share has obviously improved in Q2. Revenue growth in 27 PBIT -- its not just the positive growth PBIT. There has been 300 crores for the year and 150 crores for the quarter, After long time, Tanishq has added many stores, now 127 including two -- stores, five have been added in the first half of which one is in the last, both the last format. So, Andheri and Pune are opened in this quarter, each of them are on 20,000 square feet, the other is 12,000 square feet. Just as -- store and we have 356,000 square feet added in the first half of the year. We are present in 78 towns rather than any other -- in the country I suppose in terms of networks and the --.

Gold Class continues 30 stores, we added a few, and we added one in the first half. But we've been correcting, by closing some of the poorer performance store than that. Opening store investing some of the more, we're at high profitable -- 30 stores are in the town. 58,000 square feet and 8,000 has been added.

It's a one store and we no longer have 2,500, 1,500 kind of store. We are now -- single store is 8000.

The bigger story in the quarter was the launch of most innovative idea of Gold Class Nano. The guard has been taken to all four stores left out, presently traveling in Andhra Pradesh.

Tanishq itself is very visible on television. And you can see Amitabh-Jaya story continue with promoting diamonds. And a little before that the campaign on Golden Harvest scheme, which has been very well received -- and beautiful parts collection. Collection of fine jewelry inspired by the founder of the World of Titan.

Eyewear, from precision engineering, these two businesses together contributed to a revenue -- of 65 crores and revenue growth is 16 crores higher revenue growth has been 36 crores, precision engineering 36%, sorry.

And then loss is lower than the previous year. Precision engineering has several orders pending to be build in Q3. And therefore it is showing a decline is not visible here but it has shown a decline in turnover. But it is -- order backlog is very good. Precision engineering is less affected by slowdown although the slowdown is in -- deep in the markets that our customers are operating but then we are moving their orders to India with various cost pressures, I mean attractive in the cost --.

Order backlog therefore in transition, I believe very good.

Eyewear, low ahead are number one, 185 stores, 35 stores have been added in the first half. 135,000 square feet, 18,000 square feet has been added in the first half. The present is 62 -- and manufacturing has been profitable in Bangalore.

During Precision Engineering division, as I said the order book positioning orders, positioning growth, the business of component manufacturing had site cost as -- turned around and in fact in the quarter has broken even. And the business has even been able to improve on its cash position controlling and releasing data. We expect the business to breakeven in the current year, a level of turnover of 100 crores for the year.

Eyewear has crossed 1 million customers since launch, a new collective in collection NEO and RIO we launched in the quarter. New trendy aesthetic collection now towards the end of Q2, the response is very positive, and RIO is colorful sporty frame that's now of course anything fashionable from Titan Eye Plus is excellent.

Facebook fans, fans, club crossed 1.25 lakhs. Company continues to earn professional recognition. I think the fee has just -- several marketing awards and other awards. I think the Qimpro award which you can see for best innovation in jewelry, Economic Times rating brand Titan 73 amongst top 100 brands as some of the great place to work with most important, great place to work as a team overall. And first thing we've improved our position by four place during the year having reviewed in this competitive previous time from 19 to 15 to overall position and continuing to be first in retail.

Q3, it is of course oh, before I forget happy dhanteras to all of you. We are half way into the dhanteras, rates are going pretty strong in our jewelry and watch source. It is of course the strongest quarter for retain in this company. There are -- continues to be a -- volatile gold prices. The volatility has dropped certainly in the last series or so, in fact not the There could be -- demand is a little sluggish, growth is difficult to come by. Volume growth is effectively difficult to come by. But pricing power thanks to our brands and network and our diversified businesses, not only have we diversified and the company across businesses, we have also diversified within businesses having multiple segments, multiple price points, multiple appeal in what is from Titan, Sonata, Fastrack, Raga, Nebula, Zeus, Xyls, pretty much everything is covered, and in detail with World of Titan India, Fastrack etcetera.

Unnati and Jewellery, Gold Plus, Zoya, Tanishq, so it's a time we get affected within one, two segments or one or two channels. So, we are right to take on whatever effect of the downturn.

But we do believe, that it is our responsibility and in a way watches an opportunity to leverage this pantaloons in a very different way, take care of -- by industries strong leading brands. And I think the message especially in the last month is that taking the price increase of between 5 and 20% and 6 to 27% in Nebula adding...

It's not that's a gold move, I think it's a very confident move -- something we are confidence of pulling up because we have strong brand and a retail network. The company moved into Q3 with a confident outlook although the markets is sluggish. We continue to invest in advertizing and in retail network expansion. But concern continues to be that that could with the concerns by growing more and more customers into our brands, into our stores and continuing to grow the business.

Lastly -- moves thank you very much for the patient hearing, and we'll be happy to take questions.

## Questions And Answers

### Operator

Thank you so much, sir. We will now begin with the question-and-answer session. [Operator Instructions]. We have first question from the line of Anish Roy from Edelweiss. Thank you and go ahead.

### Analyst

Sir good set of numbers. Congrats on that. My first question is on the watch business, the margins have been very volatile, we see margins did by some 500 bps plus in this quarter and in Q4, we have seen that the reasons are different.

My question is how much is it due to the ad spend? Ad spend is -- 37% Y-o-Y and we have been spending in terms of brand ambassadors and higher advertisement. And how much is the impact from ForEx? And you said 5 to 20% price hike should be doable, there is lot of confidence. What is the competition doing in terms of watch pricing? That's the first question, sir.

## **Corporate Participant**

Harish -- start from the watch business, responding to you, can you hear me?

## **Analyst**

Yes sir.

## **Corporate Participant**

And second the impact of the -- price went up. In fact, the cost of our gold plated watch did go up, that's the key reason why you are seeing margins having come down in second quarter this year. And both of those leading had no interest in the -- towards 6% to 27% increase in the price of watches.

Well -- margins in quarter four of last year, but when I'm talking of a one-time employee provision, you can see we had a big clearly a -- impact, which was of a substantial amount. So, the reason for that sick environment and the current equity margin in quarter two are quite different from each other and neither have anything to do with advertising. I hope I'm clear.

## **Analyst**

Sir, some follow-up. How much of the raw material watches do we import and do we do anything hedging for this?

## **Corporate Participant**

We import a substantial amount of our raw material, raw material both component which is moving through the watches -- the watches as well as whole watches from overseas. In the past, we are not -- but there is a proposal that in the future we would be.

## **Corporate Participant**

We talk about hedging of the proceeds, we have not been doing that -- we have a quality but maybe we are re-visiting that now.

## **Analyst**

Sir my second question is on the jewelry side. Again, standard has been get volatile because of the gold prices underneath. Standard was 74% in Q1 and now it is 28%. So to see in Q3 again standard being lower because now gold prices have corrected and also stabilized?

## **Corporate Participant**

See we are no longer so expensive on those share -- as long as we achieve the targets on said rate, but over achieve the total target, because the targets on gold, so share did drop in the first quarter with the leverage still on -- the EBIT margin increases are still possible despite standard share not being expensive.

## **Analyst**

And sir lastly in terms of Eyewear and Precision, why did he change the discounting from Q2 to Q1 in Eyewear? And Precision, why we have seen again volatility? You said that deal flow looks very good. But in Q2, I think numbers are slightly muted, what was the reason for that?

## **Corporate Participant Analyst**

Yes.

## **Corporate Participant**

Is that what you -- okay? See that's a promotion that we have and we've said that when we had it in July last year, it was not effective enough because of monsoons and other factors, seasonality was also... With glasses, there is a lot off season which comes most on the other retailers run.

## **Analyst**

Yes.

## **Corporate Participant**

And therefore we said run it in June this year, therefore it got reformed to the first quarter.

Sorry, can you just the repeat the second question? Because I don't think we've got that.

## **Analyst**

Sir regarding Precision, you said order backlog, order flow looks very good, but I think in Q2 the growth was muted in the Precision, Engineering, so it's been extreme volatile?

## **Corporate Participant**

We have had -- we've not been able to build some machines to the order of about 10 crore and they are all ready -- and they have been discussed in the first half of October itself. So, it was just let's say shifting of revenue in Q3.

## **Analyst**

Okay sir. I'll come back if I've more. Thanks for the opportunity.

## **Corporate Participant**

Thank you.

## **Operator**

Thank you so much, Mr. Roy. [Operator Instructions]. We have the next question from the line of Jaibir Sethi from CLSA. Thank you, go ahead.

Good evening, sir. Thanks for your interest to take my question. I just wanted to get your sense on how would the festive trading in October be, particularly in the jewelry business? Anecdotally, some of the other smaller jewellers seem to be complaining about headwinds on volumes. Have you also seen some softness in the market or do you think it is more specific to those retailers?

## **Corporate Participant**

Volumes are not still like first quarter. But the overall value growth is pretty good. And particularly in the last one week, even volumes have picked up. If we expect the season to be pretty good and on target, have a good growth over last year.

## **Jaibir Sethi**

And secondly sir within watches, you mentioned that there has been a price hike in October and the effect of that would start showing from November. Do you think that where we'll have an impact on demand particularly as I recall fourth quarter tends to be a seasonally strong quarter in the watches business? So, do you think there is any lift to volumes for that for the coming months from the price hike?

## **Corporate Participant**

This is Harish here again. The price increases, 27% price increase has only in our solid gold watches material. The price increase percentages in all our other brand is leading from 6% to 7%. Typically, this translates to about Rs. 100 per watch for a watch price between 1,000 and Rs. 3,000. May be Rs. 200 per watch for a 2,500, Rs. 3,000 watch. Rs. 300 for a Rs. 500 watch.

I think those price increments should be fairly for consumers to accept. However, the ricochet we have taken is that we should I mean we have strong brands, we have been investing in those brands, and therefore there has been extra-ordinary cost pressures because of the depreciation of the rupee or gold prices going up, we should pass those on to the consumer.

There is some risk, but not a very large risk that this would have any significant impact on volume growth. In fact, we will continue to advertise, continue to invest in advertising and branding -- demand and we have a number of collection launches coming up to add consumer.

I guess you're right quarter four is a strong quarter for watches, because there is lead up to Valentine's Day, which is very, very strong in price purchase and I'm confident that will be good quarter not outstanding these price increases.

## **Jaibir Sethi**

And any precaution you have taken to ensure that there is no overstocking in the channels ahead of the quarter?

## **Corporate Participant**

Ahead of the fourth quarter or the third quarter?

## **Jaibir Sethi Corporate Participant**

No, because see the price increase in this current format has little impact on overstocking. We carefully control stocks in all our World of Titan showrooms and in all departmental stores.

So at least as far these two channels are concerned, the question of overstocking does not arise. Also, I think in the bigger channel typically invest in an optimum -- month itself, more than that we would not be willing to hold in any case. So, I don't think we should see overstocking.

Your question is will dealers buy up more of the old price stock, cheaper little more, yeah I think can happen across the country -- the channel, does not mean the World of Titan showroom channel or in the departmental store channel.

## **Jaibir Sethi**

And that's all from my side sir. Thanks for taking my questions.

## **Corporate Participant**

Thank you.

## **Operator**

Thank you so much Mr. Sethi. We have the next question from the line of Kuldeep Khanapurkar from Kotak Mutual Funds. Thank you and go ahead.

## **Kuldeep Khanapurkar**

Kotak, Kuldeep. Good evening, sir. Sir one question. Could you just explain how do we account for the cost attached to the Golden Harvest Scheme.

## **Corporate Participant**

Golden Harvest is considered as a discount and is accounted in the month in which the discount is being given. So, if we had 11 installments where we have paid, the 12 is then the discount is given....

## **Corporate Participant**

At the purchase...

## **Corporate Participant**

Span of the purchase is what will be -- is accounted discount.

## **Kuldeep Khanapurkar Corporate Participant**

Yeah. We have over 800 crores.

## **Kuldeep Khanapurkar**

Yeah, 800 crores Okay. So, for entire outstanding balance, so one month installment is paid by company over 11 months?

## **Corporate Participant**

Yeah, but it is all, so it won't exactly work that way. It depends on how many months and keep on calculating...

## **Kuldeep Khanapurkar**

Okay.

## **Corporate Participant**

Not all of them are 12 months.

## **Kuldeep Khanapurkar**

Yeah. Alright.

## **Corporate Participant**

They are now...

## **Kuldeep Khanapurkar**

Yeah. Alright sir, that's very good. Thank you.

## **Operator**

Thank you so much Mr. Khanapurkar. Our next question is from the line of Hiren Dasani from Goldman Sachs. Thank you and go ahead.

## **Hiren Dasani**

Yeah. Just one question in terms of the overall revenues which you reported for Eyewear and Precision, Engineering 56 crores for the quarter and 145 odd crores for the half year. Would it be possible to get a sense, how much would be Eyewear for the quarter as well as half year?

We normally do not give a break up of this. So, we just give the indication. The fact that there are others -- down the basic up.

## **Hiren Dasani**



Okay. And any sense on watches, what's the absolute volume for the quarter? And you indicated the growth, volume growth.

### **Corporate Participant**

Yes, 19% was the volume growth in quarter two the watches business, which I think we have reported on this slide, business slide. The slide Titan watches performance, it's a growth of 90% in volume.

### **Hiren Dasani**

Yeah. You're not disclosing the absolute numbers in volume.

### **Corporate Participant**

No.

### **Hiren Dasani**

Okay. And just on the jewelery side, what's the sense considering that the focus now is not so much is on the started but it's overall operating leverage and throughput. What's the sense? How would the gross margins more in the jewelry segment?

### **Corporate Participant**

Actually, I would like to just make a small correction, it is not that the focus is not on salary, the focus is not on studded shares, the focus is on studded sales, so all that initiators, they are a mark of products and investments go towards achieving a certain level of sale in studded. It is just that in the last many months, the sale of plane gold jewelry has surpassed our expectations and delivered a resultant lower share, but coincidentally a higher leverage.

### **Hiren Dasani**

Sure. So, I mean...

### **Corporate Participant**

So, I mean even if the gross margin is not as per target because the studded share has not been achieved, the gross margin in crores is much higher than planned, and therefore the EBIT margin increases and the EBIT margin increases.

Okay. And just to get a sense on the two season as somebody asked earlier, I mean what would be good for you? Because this quarter revenue growth from the jewelry is about 45%, that is also considered good than last quarter was 72%, which is also quite good. So, I mean what's your definition when you say that the purchases will be good?

### **Corporate Participant**

Somewhere about like the second quarter.

### **Hiren Dasani**

Okay, thank you.

### **Operator**

Thank you so much, Mr. Dasani. Our next question is from the line of Nicky Punjabi from JM Financial. Thank you and go ahead.

### **Analyst**

Hi. Thanks Richard from JM Financial. Thanks for taking my question. Sir, question really just want to understand the driver behind the

margin in jewelry, because if you were to look at it I don't think you sounded very -- shares about jewelry, gold having grown that much. Although, I still see that you have made a margin about 9.2% and this is after the excise charge.

I mean would it be wrong for me to say that if you were to gross up for the additional excise charge, you actually made a margin which is closer to about 10%?

## **Corporate Participant**

Yeah, 0.3, 70 to 80 basis points now.

## **Analyst**

Sure. And what is the driver behind this? I mean your mix seems to be a little adverse.

## **Corporate Participant**

The leverage is a big driver, except the operating leverage, the quick share volume that we have -- generate over the same fixed cost is just that.

## **Analyst**

Okay. Sure. And you mentioned about August not being in great demand as far as jewellery business was concerned. But, like the previous caller said, I think 45% growth is still pretty decent, has that come out of July or was it from September?

## **Corporate Participant**

Actually, it came through all months. We had an activation spread from July 26, till August 31. So the last five days of July which are actually a part of August from a strict acquisition timing point of view happened in July. So it is in that context you should see the fun.

## **Analyst**

Okay sir. The next one is on watches really. How has the mix being in watches in terms of Sonata and others, and I think that you have had actually a realization decline because you had 19% volume growth and the worse of that will be 16% revenue growth. If you can just throw some light on this.

## **Corporate Participant**

The realization decline, that is the average earn per watch has come down by 3% because of the extraordinary growth achieved by two lower price clusters. One is Zoop, which is the watches for kids that we have introduced and they are valued between 350 and Rs. 300, a little bit more. And the second is Sonata Super-Fibre, which Rs. 500 economy market, which are priced now between Rs. 275 going on the rate of Rs. 550. Both these clusters are growing at much more than the average 19% growth that we have seen in watches business. So I think the average price up.

The third reason is that Fastrack, which is our huge brand, it also registered during the quarter a higher growth rates than Titan. And that has also resulted in the average price coming down because the average price of Fastrack is much lower than the average of Titan.

All this, however, is good news for us because Zoop's growing faster, Super-Fibre is growing faster. Our both main strategic moves like Bhaskar had just mentioned. And you should therefore see the price decline in that context. And mix opportunity improves. I think Sonata, and Fastrack have all delivered good double-digit growth during quarter two in volumes. The problem with the watch business, realizations in quarter two has really been in margins which we have explained earlier.

## **Analyst**

Alright. And how much of this 400 basis points swing in gross margin that you mentioned a while back, is due to the high growth in the lower price segment, or they may not affect?

## **Corporate Participant**

The 400 basis points swing had little to do with the mix. We ensure that Zoop and Super-Fibre are very much equal and marketing to Sonata, which is also in that price bracket. So we got little to do with the mix. If price has to do with different factors that I emphasized earlier in this conversation, which are to do with material cost of the business, going up because of currency depreciation of the rupee as well as to do with the gold prices going up.

What it has really had in quarter two was that the Indian rupees depreciated about 15% vis-à-vis the dollar within a few months. And depreciated much more with respect to the Swiss Franc, which is also one of the sources from where you get material. And also depreciated versus the Japanese Yen. So, that is what created a major impact. It has nothing to do with the mix during the process. There may be some marginal impact of the mix, I don't have the figure right away. But it is not having significant process in focus. And what about the Helios store investment that was impacted margins a while back? Has that also...

## **Corporate Participant**

I have reported as one of the reasons impacting margins. But you are absolutely correct. We have impact in -- and in the first year we planned to put up -- stores. We have 14 stores like Bhaskar mentioned by the end of quarter two. And in any given quarter, you may have about 1.5 crore, 2 crores impact on our PBT. But that will continue for the next two years to give you a --. those investments will continue. But that is also not the major point for focus.

## **Analyst**

Okay. Sure. Thanks. And would you be able to share what was the volume growth in Titan, I mean just the Titan segment?

## **Corporate Participant**

The volume growth in just the Titan segment for quarter two was more in the region of about 10%.

## **Analyst**

Okay. And thanks for that, and I just have one last question for Mr. Subramaniam. What explains the near doubling of unallocable expenditure. Because if I were to look at your segment growth, your segment EBIT has done much better than the reported profits, but I think there is a huge swing in the unallocable expenditure if you can just throw some light on that?

## **Corporate Participant**

Your question wasn't clear.

## **Analyst**

If I were to look at the segment format of reporting, the unallocable expenditure net of all allocable income is about 59 crores -- sorry 6 crores versus 2 crores.

## **Corporate Participant**

That's basically the headcount, et cetera, -- expense that we have in --.

## **Analyst**

Yeah. Okay because if I were to look at even quarter-on-quarter, there is quite a big jump. Basically, if I were to look at it, I mean, on a comparative basis, I mean, you have reported a number of about 2 odd crores versus 6 crores this quarter. And my sense is that this is after netting of other income as well. So that -- growth...  
...much lower this time. Because of the reclassification that we did.

## **Analyst**

Sure.

## **Corporate Participant**

Yeah.

## **Analyst**

Yeah. But in terms of the absolute expense of unallocable nature, if you can just share some perspective on that?

## **Corporate Participant**

May be we can share with you later. You can have a call on this. I am not sure exactly.

## **Analyst**

Okay, sure I'll do that. Thanks for time and wish you all the best.

## **Corporate Participant**

Thank you.

## **Operator**

Thank you so much Mr. Punjabi. Our next question is from the line of Bhushan Gajaria from IDFC Securities. Thank you and go ahead.

## **Bhushan Gajaria**

Sir, just one thing. Is there any impact of gold pricing because at the end of the quarter, the pricing was much lower than probably what our average pricing would be -- and since we follow a FIFO system, is there any impact on the inventory valuation?

## **Corporate Participant**

No.

## **Corporate Participant Bhushan Gajaria**

Okay. Thank you.

## **Operator**

Thank you so much Mr. Gajaria. Our next question will be from the line of Nilay Shah from Morgan Stanley. Thank you and go ahead.

## **Analyst**

Sir my first question is on the jewellery segment. Given the fact that the diamond prices will be coming down, would we see any impact on the margins going forward as a one-time hit?

## **Corporate Participant**

Actually we don't price, we don't mark-to-market our prices to customer based on our procurement prices. The actual drop in prices haven't yet been executed for any sites -- just been talked in London about it. Even the rough sales in the last sites didn't really dropped. They more or less catered the same level. But furthermore these are the prices in the wholesale market, we will take our time just as we took time in the reverse situation and the prices rose and we had stock with the earlier procurement levels. We didn't pass on the entire increase as it happened. The same way we will not come down to the new levels as they happen, and we will take our time to make sure the margins don't get affected.

## **Analyst**

Got it. And the Gold Harvest scheme. What percentage is that of the total sales right now?

## **Corporate Participant**

20%.

## **Analyst**

20% right. Coming to the watches segment. You said 10% growth in the Titan brand of watches. Would the margin differential between Titan and the other brands, do you envisage a scenario that next quarter and the quarters following that will actually result in lower EBITDA margins within the watches segment because of product mix.

## **Corporate Participant**

Titan has grown volumes of 10% but Titan has grown values that cost much higher than it has been. Because the strategy of Titan is to really go up in value and sell higher priced watches which are -- Bhaskar spoke about rightly regarding our watch. The average range of earning for that watch is Rs. 8,500. So Titan strategy is really going up in price and the margins that we make really needs to value rather than the volume and little much --. Also prices have been taken up, also prices have been taken up. So you should not look at volumes...

EBITDA margins I guess contracts or enhances. It drops, so we have to get it back. And the second point that you made, the pricing and higher margin of the other brand is not entirely correct. Titan and Fastrack had around the same margin. Sonata has slightly lower margins -- structure.

## **Analyst**

Right sir. And the final question I have is on the cash allocation, which you have removed from unallocated that driven these segment numbers. Could you break it up for us this time, how much is it in the watches segment and how much is going to be jewellery?

## **Corporate Participant**

You could see the numbers and the shift that you are seeing from last quarter to this quarter. So, jewellery has moved to about 650 and watches also moved up by about 100. So essentially about 700 and 800 crores that we had in cash have moved into dividend.

## **Analyst**

Alright. So whatever had been the shift is basically on an account of the cash movement.

## **Corporate Participant**

Yeah, that's correct.

## **Analyst**

Okay. Thank you.

## **Operator**

Thank you so much Mr. Shah. Our next question will be from the line of Amnish Aggarwal from Motilal Oswal. Thank you and go ahead sir.

## **Amnish Agarwal**

Hi sir. I have a couple of questions. My question is regarding the watch division where we are seeing some sort of a mix change in favor

of the Zoop Sonata. So my question is that is this shift which is happening is it across the country or is it more in the, say, Tier 2 cities and small towns?

And secondly, if we look at the last year's numbers even in 3Q last year, we had in watches around a margin of say 18% at the PBIT level whereas a year before that it was less than 15. So once we have taken price increase, do we expect to reach the levels of volume which we had in, say, FY11 whole or rather it will languish for sometime around these levels, because this year will both the quarters have margin expected?

Let me respond to your first question. For Zoop and Super-Fibre are growing much more rapidly than the rest of the portfolio, actually a small proportion the Zoop is less than half a million -- reduction. So what I said, we are still doing in watches and you should compare in the context of the entire watch division releasing more than 13, 14 million watches per year. But for the response here continues -- at least they are doing uniformly well or the Zoop has been much better in the top tier cities and metros, whereas from a Sonata Super-Fibre is doing much than to entire three -- of the country.

The second on margin, I think we will have very stable good margins. I would expect margins, PBIT margin to stabilize at about 15%. Because you must remember that we are also investing in new businesses that in the large investment going into -- then the large investment going into building, accessories for Fastrack and Titan. So we are also incubating two new businesses which are essential to future growth. And with 18% margins that you saw in previous years that none of these new businesses were yet on the road. So the watches business is, therefore, now reflecting margins for the -- business, and vendors too which are very interested in the --.

## **Annish Agarwal**

Okay, okay. So it means that margins you see there it means that while we have taken the price increase margins are not likely to increase in the near term?

## **Corporate Participant**

The margins in the watch and jewellers should increase but the margins that you see in the watches stream are weighted average...

## **Annish Agarwal**

Yes.

## **Corporate Participant**

Mature watches business, to the -- business, which is just before coming up and every store require investments there. So that's all the -- what is reflecting at 15% is the weighted average of this market.

## **Annish Agarwal**

Okay, okay. Sir my second question is regarding the jewellery business where after a good time gap you have opened one Gold Plus store during the quarter. So I would like to know about the strategy on the Gold Plus as a brand now. And secondly, where do we go in the jewellery business overall from here post this quarter in terms of, first of all, the volumes and secondly in terms of margins because even while our garments growth has been only 3% of margins of still of Y-o-Y, and once all your store openings accelerates, do we see a position or a situation where our margins in the coming quarters would be slightly low?

## **Corporate Participant**

On the first point, we have worked on making the Gold Plus business retail model more viable. And after about a year or so, are focusing on it as when we decided to move, as with few more stores which we have done in this six month.

As far as the second question is concerned, very difficult to predict the rate of margins, sorry, the grammage will grow because the fair amount of -- is also dependent on the price of gold. But what we are focusing on is that the growth for Tanishq as well as Gold Plus is very large, and we enjoy a unique competitive position the second person in the industry like us is far, far away. Therefore, the focus is on getting share gain from the existing industry rather than worrying about so much the gold price.

So either the price of gold is very high, there are value growth is -- comes through price. If the price of gold is reasonable then our value growth comes forth through volume and price. So irrespectively, we need to grow by about 40, 45% at least to get the kind of margin improvement that we have been seeking and that will be our focus.

## **Annish Agarwal**

Okay. And sir just one add-on. In terms of Gold Plus' four new store which we have added, have we entered with a Gold Plus model in North India or are these stores also in more in the Southern region of the country?

## **Corporate Participant**

It has been in Andhra Pradesh particularly.

## **Annish Agarwal**

Okay. But has any store been added in the North or North side of India?

## **Corporate Participant**

No. We want to concentrate first on South and then move to North.

## **Annish Agarwal**

Okay, sir. Thanks a lot.

## **Operator**

Thank you so much Mr. Aggarwal. [Operator Instructions]. Our next question is from the line of Ashat Desai from BNK Securities. Thank you and go ahead.

## **Analyst**

Hi everyone.

## **Corporate Participant**

Hi.

Just had one or two questions. Sir, in your initial remarks, you talked about the slowdown been felt steep, can you tell us in which of your categories in your view, the effect would be more prominent?

## **Corporate Participant**

Currently, and explained by my colleague little bit, there has been some impact in one case the volatility of gold, and then in other case general and regarding it. If you ask me, watches that is really moved into -- having more into significantly as an accessory product is simple. It drives purchase and during these kind of periods that gets affected first. And that impacts volume.

So for each category your response has to be different. Watches would perhaps get more great, more affected. Eyewear now we'll go, get your eyewear behind where we love it. We have been trying to push the time back and I am trying to get people to own -- come more frequently on own multiple things. That to an extent it will get affected. But if you ask me watches, eyewear, jewellery. Jewellery is a category by itself, very unique. People continue to buy jewellery even during difficult parameters, that is almost like a -- when you spend on.

## **Analyst**

If I look at the revenues for eyewear is it that the category has grown -- the growth has been lower compared to the other categories considering we have added so many stores in this category?

## **Corporate Participant**

Yeah. If you have the slide, we spoke about quarter two specifically being a bad quarter, because once we felt the activation was in the previous quarter last year. Overall growth has been -- yes I agree, lower than what we had expected, but that is got to do with the response we have got with some of our new collections this year compared to new collections last year.

To give you an example, last year we had a extremely successful collection called Futures which drove growth and make quarter two to be a very good quarter, unlike this quarter. So there are various factors, which have affected that. Now the biggest one that we mentioned earlier, that being the -- from Q2 to Q1 this year.

## **Analyst**

Okay, okay. Sir just one last question on your watches, besides the price that you have taken would you need further price hikes to offset these inflation and adverse currency movements?

## **Corporate Participant**

As I have mentioned very clearly. I think we have taken the entire impacts of whatever increase in -- are currently visible to us both in depreciation and whether the other material cost increases, and passing on the entire impact to the consumer and our weaker brands are strong enough to do that. At this point, we have no intention of taking any future price hikes in the near future apart from this one which is a necessity.

## **Analyst Corporate Participant**

Yes.

## **Analyst**

So, we would be looking at almost a 60% growth compared to last year? I think we did -- it is 62 crores last year.

## **Corporate Participant**

It could be at the order of 35 to 40%.

## **Analyst**

Okay. The growth rate would be 35 to 40%. Is that right?

## **Corporate Participant**

Yeah. Yes, yes, sorry.

## **Analyst**

Okay.

## **Corporate Participant**

Thanks. A lot and all the best.

## **Corporate Participant**

Thank you.

## **Operator**

Thank you so much Mr. Desai. Our next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Thank you and go



ahead. Hello, Mr. Jhunjhunwala?

## **Analyst**

Hello. I have two questions. Hello?  
Yes Rakesh.

## **Analyst**

I have two questions. The first question is that how has the successes in stored for watch business. Alright, from what I hear now, I consider -- do you consider 40. Mr. Venkataraman says 40 to 45% growth in jewellery is what the target is for festive season. And third thing is whatever new products the company's going to launch in the next six months. And not in the -- are we close enough to launching any new categories?

## **Corporate Participant**

Look, I think in festival season growth are a little more than what we saw in quarter two. But I think what happens today and as well as in the next three days on Diwali which are the huge peak days for what we -- when we'll discuss and what the final growth figure will be. The one place the growth have come down a little bit is in the impulse channel, which is the -- channel. Bhaskar points it out to 24% in quarter two.

Similar growth in October also, but we must recall that that was 30% plus in quarter one and the quarter before that. So that is some slowdown in impulse -- which is very clear. Yet number of new corrections which we have planned for the next several months on the Titan, Sonata and Fastrack, and you will see a number of launches happening in November, December, January, February and all these new collections.

We do not have any plans to launch any new category. We have -- market laid out, leather wallets and the belts, leather accessories basically under the Titan brand name in the Bangalore, one of the Titan stores. Today, these are doing well. They've been appreciated for relying quality and most surprisingly price. So we did see a good opportunity here but we are still far from going for a national launch. It will take a little while. New products in both jewellery as well as eyewear, it's a continuous exercise. Several collection is expected to be launched and the brand ambassador we spoke about, Farhan Akhtar -- and the KK.

## **Analyst**

I have a follow-up question for Harish.

## **Corporate Participant**

Yes Rakesh.

## **Analyst**

In the long-term watch brands, your margins will be 15%. For this quarter margins are about 16%, I think. And you have taken a 6% or 5% price increase, a major part of the products. So then you are saying that you will pass on the full cost and you still think that long-term margins will be only 15-16%?

## **Corporate Participant**

So Rakesh, please hear me out of this. There are three reasons why margins will be that kind of a medium levels. First is the impulsion to jewellery of to -- it will be more available in the next two quarters. If we go on to do the 100 store

## **Analyst**

Right.

## **Corporate Participant**

And we understand that the satisfaction of many of our investors, who think we should be even more aggressive...

## **Analyst**

exactly.

## **Corporate Participant**

We will be more aggressive. But that will have an impact on our margins.

## **Analyst**

Fine.

## **Corporate Participant**

I think that Bhaskar had said, the exact -- market is -- best marketed leather in Bangalore. And the initial response has been very encouraging. So if the initial holds out and very encouraging into October and November also, if they in every national brands seminar of the entire, of the entire category. So -- and third of course, we are expanding our store numbers without any letup, whether it's Fastrack stores or Titan stores, and that again has some investments cost in the initial phase. So I would still stand by my earlier statement that 15% would be the median margin for quarter we will achieve.

## **Corporate Participant**

The trick here really is we are confident of the price increase going through, which is passing on the cost. But if we get the volume growth, volume growth is merely a demand issue. If you combine this price increase with volume growth what you say should happen. The challenge is volume growth, whereas pricing power we do think we are and we will -- but it doesn't mean that we should take a 10% hike, which would simply be an unreasonable like and begin to affect the current volume itself. Therefore, the investment that -- in both network expansion and advertising is to help achieve volume growth.

## **Corporate Participant**

And at last nearly that Bhaskar, I would even, Rakesh, mentioned that when we take up prices in this manner, we have to drive volume growth forward. And to drive volume growth we will have to invest behind that. Actually nobody is questioning the investments. I mean is it possible to make a --, I don't want a fictitious figure, but what percentage of margins are we investing for the future 3%, 4%. I mean there is a certain 15% -- if I say 15% is my market PBT margin after bearing losses for the business. Then we have for the future which I think we must. What is the percent of margin you have reduced, 3%, 4%, 5%?

## **Corporate Participant**

5%. As we have start in the next couple of quarters, it will be anywhere between 2 and 3%.

## **Analyst**

That was our long-term sustainable margins, then watches would be 18 to 20% or 18%?

## **Corporate Participant**

17 to 18%.

## **Analyst**

The long-term sustainable margin, when we don't invest --.

## **Corporate Participant**

That is the kind of margin which we are targeting. But 2 to 3% of that will go into making new business.

## **Analyst**

Okay. So the long-term sustainable margin for watches is 15%?

## **Corporate Participant**

Yes.

## **Analyst**

Very well. Congratulations. You're growing well.

## **Corporate Participant**

Thank you.

## **Operator Amit Goel**

Hello.

## **Corporate Participant**

Hi.

## **Amit Goel**

Hi everybody. I just want to know if I know, what's the same-store sales growth for Jewellery and store-store volume growth for Jewellery?

## **Corporate Participant**

In quarter two the same-store volume growth was negative.

## **Amit Goel**

Okay.

## **Corporate Participant**

Minus three or minus four or something like that.

## **Amit Goel**

Okay.

## **Corporate Participant**

What was the second part? Volume growth overall was 3%.

## **Amit Goel**

Volume growth overall was 3% and same-store volume growth was minus three.

## **Corporate Participant**

Yeah.

Okay, okay thanks a lot. And just on the brand ambassador side, Bhaskar mentioned, Katrina Kaif is the new brand ambassador that's the...

## **Corporate Participant**

You can buy our -- and have it in my name.

## **Amit Goel**

Okay. Thanks Bhaskar.

## **Corporate Participant**

Thank you bye.

## **Operator**

Thank you so much Mr. Goel. As we see that there are no furthermore questions, I would now like to hand the call over to Sameer Deshmukh for closing comments.

## **Sameer Deshmukh**

On behalf of Tata Securities, I thank the senior management team of Titan Industries and also all the participants for this call. Thank you very much sir.

## **Corporate Participant**

Thank you. Happy Diwali.

## **Bhaskar Bhat, Managing Director**

Thank you and Happy Dhanteras. You can go to the current. It's been open -- also.

## **Sameer Deshmukh**

Surely sir, thank you.

## **Operator**

Thank you so much. On behalf of Tata Securities Ltd, that concludes this conference. Thank you for joining us. You may now disconnect your lines.