Titan Industries Ltd

1QFY13 EARNINGS CONFERENCE CALL

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Moderator: Ladies and gentlemen good day and welcome to the Titan Industries Q1 FY'13 results conference call of Titan Industries Limited 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 at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. 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: Thanks. On behalf of Tata Securities, I welcome you all to the conference call of Titan Industries post Q1 FY'13 numbers. We have with us the senior management team of Titan Industries. I now request Mr. Bhaskar Bhat to make his opening remarks post which we could commence the Q&A session. Over to you Sir.

Bhaskar Bhat: Good evening and welcome to this call. I have with me S Subramaniam, CFO, the COOs of all the businesses, H.G. Raghunath from Watches, C.K. Venkataraman form Jewellery, S. Ravi Kant from Eyewear and Mr. N. Kailasanathan from Precision Engineering. You would have seen the results and it has been a tough quarter reflecting really the absence of wedding dates, the consumer sentiment, the price of gold, including the closure of some of the stores for some time because of the protest in the gold jewellery industry, inflation as well as the weakening of the rupee, but all said and done the sales performance certainly has been more than a bit of surprise to us as in we did expect the sentiment to be weak, but the actual going has been tougher than we thought. So we have had to manage the quarter a little differently and we have been able to achieve this topline growth of 9% and 8.5% on the bottom line. Thankfully, few divisions, like Eye wear and Precision Engineering have done much better than expected and watches and jewellery have had a bit of a difficult time but margins, as you can see, are healthier than what was achieved last year same quarter. I think we will go into the presentation straight away and answer your questions at the end.

So, you can see the growth rate. The critical one is the like-to-like growth rate, which is 9% in World of titan and 3% in Tanishq and a decline of 8% in gold plus, Helios like to like growth stood at 19% and Fastrack at 12%. If you were to look at the typically discretionary spend items such as in watches, the large format stores reported 3% like to like growth and total value growth of 23%, which is because of network expansion. World of Titans reported 9% like-to-like growth but overall sales growth was 14% and the strategy is really to go into more and more non represented areas and achieve growth. So, that is certainly a good sign. I think Tanishq has 3% LTL and 11% overall growth, which is a big fall from the growth rate we used to achieve in the past. What we are seeing, there is definitely a big problem with the lower-middle class coming in to purchase anything for that matter because life is getting tough, food inflation and general inflation, transportation cost, education, electricity bills, these are the ones which are on people's mind at that level and any increase is certainly making products like jewellery and watches less attractive.

Profit performance however has not been bad at all. You can see we have achieved Rs 212 Crores of PBT and a Rs 156 Crores net profit on a Rs 2200 Crores of top line. It is only 8% against that track record of much higher. .

S. Subramaniam: In Watches, I think Bhaskar mentioned about the slow down. I think in this environment, achieving a 14% growth has been quite commendable and obviously the growth has come from increase in prices rather than from volume, because as we see, volumes actually declined by about 3% during the quarter. Some of the things which also affected margins a little, were excise duty hike of about 2% and therefore getting a 14% growth overall I think, I would not say satisfactory but at least it is something we managed to do. Jewellery is where we got hurt far more. We grew by 8% on the top line; basically it was the high gold rates and let us not forget the high base effect as well. Last year we grew 71% the same quarter. Therefore a 8% growth on that is what we achieved but if you were to take it as a CAGR for the last two years I think it is close to 40%.

Jewellery volumes declined 21%. This is against estimates of around 30% to 40% and even 50% declines in the markets that we are hearing. World Gold Council is talking about 40% or so decline in the last quarter. Customer decline is about 2.4%, which essentially was in the South; it was not in the rest of India. So, Tanishq did not decline as much as Gold Plus. Ticket sizes went up by 11%, which means people were paying a little more and the positive thing was that studded grew about 22% and studded share has gone up to 25% which is why we have got a very healthy PBIT growth of 9% and margins at around 10% at the PBIT level. So, margins have been maintained in the jewellery business, largely because of this.

The Others segment has done quite well. Eyewear grew by about 6%. Overall revenue in this segment grew 16%, this as you realize includes our sunglasses, accessories, bags, belts, wallets also, along with the precision engineering division, and so overall growth was about 16%. PED division continues to be profitable. Eye wear is still not making profits but the losses were considerably lower this quarter.

Capital employed went up from Rs 1192 Crores to about Rs 1613 Crores. Basically it is divided equally between inventories and cash balances, which has contributed to the increase. I am not going into the performance trends, which are old numbers. With this I think we will leave the floor open to the analysts to pose questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Neeraj Gaur from Franklin Templeton, please go ahead.

Neeraj Gaur: Hello sir, my question pertains to Tanishq. We saw a like to like growth of 3% but the total sales growth of 11%. So roughly about 8% there is a growth we have got from new stores, whereas I believe the store expansion we have is about of the order of 30% - 35%. So is it that the ramp up of the new stores is pretty significantly below and how was it couple of years back, what is the kind of ramp up we are seeing in the new store now, if you can throw some colour there?

Venkataraman: Actually the 3% and 11% difference that you are referring to is contributed more by the stores which were opened in 2011-2012 rather than the stores that are planned in 2012-2013 and we added about 100, 000 square feet in 2011-2012 on a base from 330000 or something like that end March 2011. Those are the ones which have contributed to this 8% only thing is some of them were open also partly during Q1 of last year. So to that extent it is not strictly like to like but nevertheless typically what happens is that the stores ramp up from a base of may be Rs.75,000 – 80,000 per square feet in the first year all the way up to Rs.1, 50,000 – 1, 60,000 in the third year and that is also driven by typically the golden harvest enrollments, that are not there in the first year at all. After you set up the store, you start enrolling in the golden harvest and actually there is a certain exponential growth that happens in the second year of that store. So, that is why if you take the square feet addition as a percentage of base and try to compute the growth that can come from the square feet addition it would not sort of add up.

Bhaskar Bhat: It is not like a switch the light comes on, it is a slow burn.

C.K. Venkataraman: The second thing is as for as FY'13 store and square feet addition is concerned, we had announced in the last concall a target of between 200,000 and 250,000 square feet addition for the jewellery division for the year and we are continuing that target and we are reasonably clear about our ability to achieve the target but the target will be achieved by end of FY'13.

Neeraj Gaur: Just a follow up on that, I absolutely understand that the stores, which we are adding will take time. So, I am just asking on what the stores that we have added in last year, both the first half and the second half, how is the contribution coming in from there, is the ramp up similar to what was earlier or has the ramp up become more slow?

C.K. Venkataraman: Ramp up of sales is certainly a little slower than we originally visualized because the overall sale itself is low.

Bhaskar Bhat: But under 3%, the 3% like to like that you are seeing that is affecting every store.

C.K. Venkataraman: The consumer sentiment is low which is why the like to like store performance is 3% and not 20% as is normal and therefore the base sale of the new stores is obviously lower and therefore the ramp up is taking longer.

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

Abneesh Roy: Sir, thanks for the opportunity. My first question is on gold plus we see a more impact there and in the previous cycle of down turn also we had seen similar kind of impact. So any change in plans of gold plus, some clarity on that?

C.K. Venkataraman: The biggest difference between Gold Plus and Tanishq is actually the nature of competition that is there in south, is probably the strongest in the jewellery industry. The players like Kalyan and Alukkas typically are much more present in the smaller towns of South India than elsewhere and Gold Plus has to actually battle that out and in terms of game plan some of the network expansion plans for this year also includes much larger gold plus stores in some of the existing towns where we will be on a much better platform to fight a Kalyan or an Alukkas with more range, better shopping experience and so we expect by end of Q2 and certainly by end of Q3 to compete better in the smaller towns with Gold Plus. So there is no change in the plan, it is actually an improvement of our strategy, where we are.

Bhaskar Bhat: The minor change etc., is obviously what Venkat mentioned in the beginning and I did which is there is the impact of this customer because of food inflation and the rest of it is much stronger, much more negative than lets say the upper middle class which is a Tanishq kind of customer or the Titan watch buyer. So to that extent, they have refrained from buying gold jewellery.

Abneesh Roy: Sir, you mentioned Kalyan jewelers, they are also using Amitabh Bacchan as the brand ambassador and I was very surprised because Tanishq also uses, so, are we taking some corrective action there?

C.K. Venkataraman: No, Tanishq used Amitabh Bacchan in a campaign last year and Kalyan has signed up Amitabh Bacchan as brand ambassador now. So we are not taking any action. They have taken the action.

Bhaskar Bhat: We never had him as our brand ambassador; he did two campaigns for us along with Jaya and that is it.

C.K. Venkataraman: So we had a limited period contract.

Abneesh Roy: Sir, coming to studded we see a percentage vary every quarter, so any seasonalities there in terms of based on marriage days or based on gold prices, the number varies, some colour on that?

C.K. Venkataraman: It is actually we have what is called an activation where we offer studded jewellery on attractive discounts, in fact we started one just four days back. So Q2 studded share and Q4 studded shares typically are much better because of these activations, whereas in Q1 and Q3 we do not do that. So that is the reason, the seasonality in a way is driven by the company action.

Abneesh Roy: Sir, the next question is on your new products. You have done lots of innovation under Titan brand name, under Fastrack in the last one to one-and-a-half years. So could you give us product wise some colour on these innovations?

H.G.Raghunath: The innovation and new products that we have been talking about in watches is revamped. The slimmest watch in the world belongs to Titan, you are aware of that, Edge. So the revamped version of Edge and technology product called HTSE, High Technology Self Energizing, which uses solar power. They have both won the marketing award and the consumer appreciation in terms of sales. The HTSE, which is a new platform and innovation for the watch division has actually sold out and they have done very well. We have got new quantities re-launched but then watches have been received by consumers very well. The Raga watches which take a new theme every year in the form of different cultures and colours and design, if it was water, one time if it is an inspiration called Raga aqua, this time it was called Raga weaves on the basis of different designs and philosophies across the country. This collection was received very well. We got a very positive response. There is a starch watch, which we have developed in Sonata. We have also developed some stylish, super fiber watches in Sonata. We introduced new collection for children called Zoop. All these new collections, new ideas, new products received very good response.

Abneesh Roy: Sir, my last question is on your watch business, we have seen 3% volume decline. Is it a structural change in terms of growth, is it because marriage season was low or is it because price hike was around 16% - 17%.

Bhaskar Bhat: I would not attribute it to price hike. Yes, it has steeped over the year, but it is certainly the marriage season that has affected and the declining consumer sentiment. It is finally a discretionary purchase. So it is not a kind of permanent change, it certainly is getting more and more difficult, you have to buy sales by way of discount or you have to show case your new product. Either way, being market leader at 55% - 60% share, you cannot take away share from another competitor. You have to grow the market and go and if the market is not growing, the cost of growth is on the market leader. This is the way I look at it. Therefore it becomes expensive but nevertheless brands are strong, so that is where our confidence comes from, pricing power is there. So if we do some smart targeted kind of marketing, which is depending on geographies and certain channel which are doing well, certain products which are doing well, we should be able to navigate this year and expanding the network etc.

Abneesh Roy: Sir, one classification in Eyewear business Mr. Subramaniam said losses are lower, is it quarter-on-quarter, what is the reason for that?

S. Subramaniam: No, we are in activation this quarter. Our losses are lower.

Ravi Kant: This is Ravi here, good evening. We had a good quarter, the first quarter of the year. The losses are I think lower than the budget because we had a successful activation and Eyewear also is a category which is more of a functional need, so it tends to behave differently compared to watches and jewellery where there is very little of impulse purchase. So in that sense, we have had a good quarter and that is what I think it was referred to that losses were lower than budget.

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

Hiren Dasani: Couple of questions, the other expenditure growth of about 4% is commendable cost control, is there any one-off there, any reversals there or this is the trend?

S. Subramaniam: No, I do not think any one off or something here in this quarter. Nothing exceptional. Basically, we have been focusing on cost, which we need to do when revenues are going to be tough to get.

Hiren Dasani: This does not gel with the kind of space expansion, which you are targeting?

S. Subramaniam: Because the space expansion is not entirely in our books, because most of the stores are still franchisees so when we say 200,000 square feet, it is not all company stores.

C.K. Venkataraman: 150,000 would be franchised.

S. Subramaniam: In fact in the case of watches it will be only 10%, less than 10% would be company owned; the rest of them would be franchisee.

Hiren Dasani: On the jewellery side, would we be able to know what kind of number of marriage days, lesser number of marriage days this quarter compared to last year, what would have been the impact there?

C.K. Venkataraman: Actually from what we hear a lesser number of days this year compared to last year particularly in states like Andhra, we had only some, two days were available for marriage, mahurat versus 14 days last year.

Hiren Dasani: Is Andhra a sizable portion for us?

C.K. Venkataraman: Yes, it is a decent market for us, certainly.

Hiren Dasani: And so what happens is, this sale lost forever or this captured in some other quarters of the year?

C.K. Venkataraman: Actually people argue that there are two days everyone gets married on those two days and sale is not lost and all that, but we have typically seen whenever marriage days are les sales are less. So I presume they get married later but we do not know when exactly.

Hiren Dasani: And lastly, would it possible to know what was the full-year revenue from the precision engineering last year i.e. FY'12?

S. Subramaniam: We are not giving specific numbers on that. Others have not been actually segregated between precision, eyewear and as I mentioned earlier accessories as well.

Hiren Dasani: But would the growth be like 15%, 20% for the full year I am asking.

S. Subramaniam: You could work it out. I am giving you only Eyewear because it is a consumer facing business. We have been mentioning Eyewear consistently but not mentioning PED.

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

Jaibir Sethi: Good evening sir, thanks for taking my question. Wanted to understand two things, first in the presentation it mentions that Eyewear only grew about 6% in this quarter, is there something in the base or is it some shift in strategy which is focussing on profitability against growth in this business?

Ravi Kant: We have observed that in the past the ticket sizes have been much higher than the rest of the industry. In some things we were limiting our appeal in terms of the consumer base and in terms of consumer segments that we attract. So we have looked at a new strategy in this year which is targeting new consumers, newer segments and targeting customers who are not coming to us by way of new products that we have introduced. So in that sense, our ticket sizes have dropped in this first quarter compared to last year, which has brought down the value growth but the volume growth is very encouraging. So, the new strategy is to appeal to a wider audience and a wider base.

Jaibir Sethi: So, for the year as a whole we would continue to see a similar sort of drag on realizations dropping and volumes growing.

Ravi Kant: Down the line, as long as we keep getting the volume growth then we have in some sense investing in the future, so that is the game plan for this year.

Jaibir Sethi: Second, in jewellery, we understand that the base this time around was exceptionally tough, but going ahead, do you expect volumes for you as well as the industry to come back in subsequent quarters or do you think volume growth will be tough to come back for the rest of year as well?

C.K. Venkataraman: We had a flat customer growth in Q1 for Tanishq and a small 10% drop in customer growth for gold plus in Q1 and I cannot speak for the industry, it is little difficult to guess the customer growth but going by the tonnage differences between the reported industry performance and our own performance, I presume that the customer declines for the industry were worse in Q1 because the industry, we are a little perched at the top in terms of segment share. Industry caters to a little more middle class than we would and I suspect that the industry fare worse on customer than we did. Going forward, it is very difficult to predict what is going to happen for the industry but our focus is to get more intense on customer acquisition through share gain and one of the pillars of that was the entire network expansion and we are continuing to focus on that plus we are looking at other ways of increasing our share from other jewellers. So, whether overall industry footfalls drop or not, it is going to be our job to make sure that we turn around faster.

Jaibir Sethi: So, on a same store basis, you expect that things would probably remain difficult but network expansion should help overall numbers.

C.K. Venkataraman: Yes, and we would also want to push same store growth because that has been a big driver of our CAGR for the last ten years, each store has grown up some 20% CAGR for ten years, so we would not like to let go off that, obviously it is going to take a little few months to get a better grip on the problem but we are going to get a grip on the problem.

Moderator: The next question is from the line of Avi Mehta from IIFL, please go ahead.

Avi Mehta: Thank you for taking my question. Sir, I just wanted to understand you highlighted that overall consumer demand has weakened in jewellery segment. Had it changed post the quarter how are you seeing that because you are continuing to maintain the retail network expansion while I understand for the long term, but do you see any change in demand?

C.K. Venkataraman: Yes, certainly July is better than first quarter in terms of YOY growth. One reason certainly was the base effect of last year but that may not be the only reason. Sentiments were down, but we also geared up on our action on some fronts in sort of helping us to deliver a better growth in July compared to the first three months and we also have a much deeper understanding of the underlying factors that are affecting middle class, upper middle class sentiments and therefore we are putting together a set of short-term measures to overcome the situation and get us ahead on the curve. So that in a way reinforces our perception about our competitive position in the industry and therefore the desire to continue to invest as opposed to pull back on the network or whichever initiative that we have. Certainly the things in July are looking better.

Avi Mehta: Sir, secondly, you did highlight that in terms of network expansion while it is through franchisees is there an inventory kind of, that we have to take or is there any kind of hit on the margins or no, typically expansion will not, because I believe that revenue growth will decline, so logically there should be some decline and second is, continuing with that are you going to relocate the guidance in terms of profit growth given how the performance has been before the quarter?

C.K. Venkataraman: Let me just do the first point. See, we have three-channel strategy, buy and sell franchisee, a consignment agent franchisee and of course company stores and the broad mix of that channel strategy is not significantly altering in FY'13, so to that extent maybe 70% of the total inventory that will be required for this 200,000 square feet will come from the company's books but considering that inventory is on gold on lease which is at a reasonably low cost, we do not see the big issue on that. Of course inventory turns are under pressure because of the overall slowdown, so to that extent the cost of the inventory as a proportion of sales will be a little higher than what we had planned but we do not see it as a material issue in the overall context.

Avi Mehta: And the second part is, I know it is a little early, but still would you, are you looking to the guidance for full year growth?

Bhaskar Bhat: To be fair, the first quarter's 9% certainly has dampened our own confidence in terms of achieving the top line growth that we were pursuing of 30% but there are still 9 months left and aggressive growth is what we will continue to pursue investing in brands and network expansion quite unabated but a little more cautiously. We would not be pursuing a 30% top line growth but achieving a bottom line growth will be the objective. So protecting margin and certainly growing beyond the 9% and 10% that we have achieved as of now is what we will pursue, so anywhere between 15% to 20% topline growth is what we will be pursuing in the quarters to come by.

Avi Mehta: Sir, sorry. I did not get it, you said 15% - 20% growth by year end and you are saying that in terms of revenue, but in terms of bottomline you would look for 30% growth.

Bhaskar Bhat: I am not changing our estimates of profits.

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

Hemant Patel: Couple of questions, one in terms of these square feet roll out you mentioned that on the jewellery you are looking at a 200,000-250,000 square feet increase this year and I believe probably on the watches you will be in the magnitude of 100,000. If I look at both of these versus the amount that we have done in the first quarter, could you give us some sense on confidence or clarity as to these expansions going to be more lumpy in nature more towards the second half or how are we managing to achieve these targeted roll out?

C.K. Venkataraman: We are looking at between Q2 and Q3, to achieve about 40% to 50% of the targeted expansion in Tanishq and we have achieved about 15% so far. So by end 9 months we expect on the basis of our current sighting about two-thirds and the balance third in the last quarter.

Hemant Patel: And in terms of the watch division roll out?

H.G. Raghunath: We have expanded by 13 stores in the first quarter. The World of Titan has gone up by five, Fastrack stores have gone up by 10 and we have expanded about 13 and for 10,000 square feet.

Hemant Patel: So, our full-year guidance from that would be what, 80 – 100?

H.G. Raghunath: As we go forward we have a plan of about another 40 World of Titans, another 100 Fastrack stores and about 40 Helios stores for the rest of the year. Actually Helios, from 25 it will become 65 at the end of the year.

Hemant Patel: And fair bit of visibility in achieving this.

H.G. Raghunath: The pipeline stores for Q2 gives us confidence that in Q2 the expansion will be much more aggressive than the first quarter.

Hemant Patel: Second question in terms of the studded mix improvement to around 25% for this quarter versus last year of around 22% what I wanted to know am I reading too much into this or there has been a genuine improvement in the demand for studded jewellery at this state, despite the fact that consumer sentiments are at a weak point at this stage.

C.K. Venkataraman: See, while it is happy to know that the sales mix is better, but it is on a low sales growth. So to that extent we are not really satisfied with that it is not an indicator of anything because the studded has grown 22% when the plain has fairly grown, whereas last year even if studded shares dropped the plain grew 70% and the profits grew so much more. So we are not in a way celebrating on this particular statistic. It is just that the pursuit of studded is in a way the lifeline of this business and to that extent it is an encouraging sign.

Bhaskar Bhat: Therefore the point is, rather than look at the resultant proportion, I think the differential growth rates are what need to be, they are really quite different. I would not say they are dependent, because the drop in plain gold jewellery sales growth is probably driven by the lack of investment demand in a way for plain gold, as in we could see the significant decline in coin sales for example. Whereas, diamond jewellery sales growth is because people want it for adornment and not so much for investment. So these are two independent tools. So if diamond jewellery sales grows at 22% - 25 % we should be happy, we should be happy if the plain gold sales grows by 70%, we should be happier up but if it grows by 10% and this grows by 30% it does not mean that the proportion has ended up and therefore these should be looked independently. Essentially if jewellery division grows by 30% - 40% on the back of plain gold jewellery, scale helps us achieve profit and within that a studded growth by 20 plus percent, the margins improve. Now, at the end, the blended margin may drop but the focus should be on total gross margin growth

C.K. Venkataraman: So the larger emphasis is the total gross margin growth as opposed to the root only thing is in a suppressed situation like this, we see the opportunity push for the customers better than trying to push the Gold customer.

Hemant Patel: And one just last question. The other income component has not actually grown in a significant manner, whether I look at it on a quarter-on-quarter or on a year-on-year. Just wanted to understand has the off take in terms of gold harvesting scheme been weaker at this particular point of time?

S. Subramaniam: No, it is not necessary because of golden harvest. Golden harvest has been expanding but the basically the level of its deposit are about the same levels at what it was last year because inventory levels have gone up significantly. That is largely because of gold prices.

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

Richard Liu: Thanks for taking my question. The first question is actually on jewellery margin. If you can help us dissect that, I would think that in a high operating leverage business like yours, ability to maintain margin despite the low top line growth was actually very commendable. I would presume that there is also the benefit of the excise reversal flow through that could have come by because of the abolition of excise in branded jewellery and how does one actually read into that and also in the context of the increased share in studded jewellery in terms of percentage?

C.K. Venkataraman: Actually there are many reasons for this. One is the share increase of the studded, the second is we also improved the product margin in the studded and third what you are referring to which is the excise duty. So we had a weighted average excise duty for the quarter which was lower than what we had last year, which was full excise duty. So these together helped in delivering an overall gross margin growth. So the sales growth was only a single digit. We had a good gross margin growth, which helped us more or less deliver the same EBIT margin.

Richard Liu: Sir, would it be possible to elaborate on what are these measures and terms of gross margin being better.

C.K. Venkataraman: If you mean giving details we cannot share the details but these are the factors which help the gross margin of the jewellery division, increase more than the sales increase of 8%.

S. Subramaniam: Richard, to answer the question, our gross margin this year was higher than what it was last year, that is the thing what you are looking for, we cannot give you the numbers but the answer was that and that because of the reasons Venkat just mentioned now.

Richard Liu: If i can also relate this to what Bhaskar mentioned a while back regarding maintaining the 30% profit growth target but looking at the most subdued kind of a top line growth, again I am bringing in the context of you all being a reasonably high operating leverage business. So if you can just throw some light on that?

Bhaskar Bhat: Yes, it is basically a combination of several things which we have to change track at the middle of the year. Things that are picking as opportunities are, what Venkat said which is about studded jewellery growth. There is a mix improvement even in watches, for example, a price hike has already been taken in watches and the premiumisation drive etc. in watches that should help and Eyewear division continually reducing the loss burden on the company, and precision engineering kicking in the greater profits. These are some of the things which we believe are initiatives and surprises which will kick in to help us achieve that. Well, 30% is still very aggressive and challenging but the number is in excess of Rs 1000 Crores of profit is what we are pursuing and cost cuts.

Richard Liu: Sure, second question, just one more related to one on this. The watches, the revenue growth versus the volume growth that stated in presentation, I think that it basically implies somewhat like a 17% kind of a pricing/ mix growth. If you can help us understand whether it is pricing or is it because of better mix?

S. Subramaniam: We did about two or three price hikes from last year onwards, if you realise last year we did one in April which would have kicked in from a revenue perspective only around middle of around June or so and then we had that big increase in September/October and then one now. So I think it is essentially price increases and not so much of mix.

Richard Liu: Would the growth very different between Titan and Sonata in terms of base growth?

S. Subramaniam: Yes, it would be.

Moderator: The next question is from the line of Subramanian P S from Sundaram Mutual Fund, please go ahead.

Subramanian P S: Sir, last time that you had such a low sales growth was sometime in March 2009 and during that period we saw that for 3 consecutive quarters there was a significant pressure in terms of the top line growth. Any parallels that you think you would draw with a slow down and any reasons why this time should be different from what you experienced then?

Bhaskar Bhat: I do not know. History might repeat itself but we do not want history to repeat itself. So expansion will continue. There are a few buttons we certainly would press the situation, for example, in Eyewear and Precision Engineering was very different at that time and we are much stronger in the market place now. Certainly Fastrack has become a very big brand and jewellery mix and jewellery strategy itself is different today as compared to four years back. So there are things working for us, the assets that we have built and those we are more confident of that the earlier year. I would not say the market will respond or the market is going to change. We have to make it happen. The whole channel in watches which has become very big, 200 odd stores, which is large format stores, department stores in watches, it was quite negligible at that time. Those are actually additional and protect in a way downside risk. It has done 23% as you can see, although same store growth is only 3%. There is a total growth of 23% and those are things which will help.

Subramanian P S: So, the strategy of expanding fast we have seen, while the EBITDA margins have moved up by 15% and at the PBT level the growth is only 8% and in that context, your guidance on growing profits by 30% seems a bit stiff given that you still want to continue with the space of expansion, so if you could elaborate on that.

Bhaskar Bhat: Not stopping on expansion is more a building long term assets rather than looking at the year alone, costs will kick in but a lot of expansion is franchised. So those do not really impact our watch business, some parts of the jewellery business and even Eyewear. So to that extent they do not impact our overhead. Overhead does not go in the proportion as the store expansion. Every store we open the revenue will come in.

Subramanian P S: Sir, any sense on the recent expansion that you have been doing, how has been the initial response in these stores as of now?

C.K. Venkataraman: I had clarified a little earlier that the rate of sale in a particular new store is currently dampened by the overall sentiment which is affecting the old store as well. So obviously the speed with which we were expecting the ramp up is going to be a little slower but in terms of response from the market to any new store has been very, very gratifying, we opened four new stores in Q1, we opened a prestigious new store in the Turner road area in Bandra, which was opened to rave reviews, we opened a very prestigious store in the

Phoenix Mall in Whitefield in Bangalore, very dominant store which actually defines the mall, again open to very good reviews. So from the impact that we wanted to create from a strategic point of view we are achieving it, but first month, second month sales are below our original plan because the overall sales itself is like that.

Moderator: The next question is from the line of Pritesh Chheda from Emkay Global, please go ahead.

Pritesh Chheda: Thank you for the opportunity sir. Just a question, could you estimate or make some assessment on the SSG front for the current year in context to the overall top line growth that you are looking at, so what kind of growth would be more achievable considering the current scenario, four months have passed in the year and anything above that would actually be a bonus.

C.K. Venkataraman: Sales store growth you are talking about?

Pritesh Chheda: Yes, SSG for the company and within that if you could SSG for jewellery and watches.

Bhaskar Bhat: SSG for company is not relevant. They are not interdependent at all.

C.K. Venkataraman: It is a bit difficult to break it like that, starting with jewellery for example, we had, in a way visualized such an eventuality about a year back and the whole idea of expanding substantially was with that kind of a scenario in mind. So the 200,000 square feet set up is to buck any problem in the SSG growth which is in a way proving to be right because the first quarter, despite very damped circumstances, we still grew 11% in retail in Tanishq because of the addition and therefore we do expect the additions to kick in the next nine months but at the same time we want to improve the situation in the SSG but at the moment to give a view on the SSG for the balance nine months is frankly, without our own grip on the action, it will be very, very academic and just a response.

Bhaskar Bhat: I think at an overall level there is a certain target we are setting for ourselves as a company starting from what we said about challenge of achieving topline but focusing on the bottomline and therefore a focused attempt, as I said focus on geographies, focus on certain brands versus certain other brands, focus on certain segments versus certain other segments that is the way forward, how it will actually pan out in terms of same-store growth is extremely difficult to predict, so it is initiative that matters, not the outcome.

Pritesh Chheda: My second question is the current set of promotional activities which are going on, is there any one off or special in nature or typically they are routine which we do for both of these business segments?

C.K. Venkataraman: Currently, whatever is happening is routine.

Pritesh Chheda: Any chance that in order to activate the growth we might up the promotional activity and thereby there could be a case for lower margins.

Bhaskar Bhat: Very selective, this is very difficult to answer. These are all everyday questions and we answer them everyday depending on the brand, the store, the city. Today we have four regional business heads who are contributing to our everyday sales with inputs on whether something will work better in some other place, so it could lead to dilution of margin, but let me articulate that in the current year, focus is on achieving a very good growth in bottom line, this is let us say the answer now whether topline will grow by 30% also is very difficult to say because it has not grown, it has grown at 9%. The objective is to cross the Rs 1000 Crores mark in PBT terms and all initiatives are aligned towards that. Let us keep it that way and quarter-on-quarter how it should pan, the whole idea at this point in time is to be totally agile and respond to the market, so if Sonata needs no scheme and Titan needs another scheme it shall be so.

C.K. Venkataraman: Other thing is by end of FY 2013 each of the brands to come out stronger in its market place compared to where it started.

Pritesh Chheda: What cost levers do Titan Industries have as on date which can actually be harnessed this particular year?

H.G.Raghunath: The strength of our watch manufacturing a lot of value addition in in-house production compared to if you are buying from China etc., the capabilities that has been built around in the manufacturing is really playing its role this year, that is the first point, the second one is we have an in-house design studio, we don't even have to source designs, we do not even have to go outside for designs. We are increasing that, the number of designs from in house will go up, otherwise overall focus on overhead reduction etc.

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

Pratik Biyani: Hi Sir, most of my questions have been answered just two more questions in Jewelry business, Bhaskar mentioned about some store closure due to strike of jewelers?

Bhaskar Bhat: Not closure. The industry was forced.

Pratik Biyani: How many days of sales did we lose in that?

C.K. Venkataraman: About a week to ten days kind of. It was a period of unrest for the industry in the second fortnight of March and first week of April. Overall industry was 17 days I think. It just added to the complexity of the quarter.

Pratik Biyani: Did we get any clarity on direct gold import license that we obtained and any benefits that can flow through in the coming quarter with respect to Jewelry margins.

C.K. Venkataraman: We are now permitted to import gold directly and through that we will not have to pay VAT.

S. Subramaniam : Essentially what we have got is an import license now to import certain quantities of gold which is fairly substantial for this period and what we would have to do is go back to the government every now and then whenever this quantity is exhausted to go and get back the license, so it is not a permanent license to import any quantity of gold. It is a certain quantity which has been specified now, we need to get back to the government after it is exhausted speaking them to give us licenses to import more so that is how it is going to work.

Pratik Biyani: Essentially the 4% VAT that you pay is no longer you need to?

C.K. Venkataraman: I am glad you asked that question. VAT is 1%, that 4% you are talking about is customs duty. Today, we buy gold locally from MMTC and MMTC charges VAT to us when we buy the gold whereas now we become a direct importer we still pay the 4% customs duty but we don't pay the VAT.

Pratik Biyani: So this can flow directly in to your EBIT margin for jewelry?

C.K. Venkataraman: As and when this particular import is starting to get sold.

Pratik Biyani: Has it already started, when do you plan to start that?

C.K. Venkataraman: We just got the license and we have inventory of many tonnes in our books for which we have paid VAT so this is an important dimension in our business but the benefits will start flowing a few months down. The imports of course will start as soon as we can organize the paper work but the benefits will flow few months down.

Pratik Biyani: May be from Q3 it can flow.

C.K. Venkataraman: That is right.

Moderator: Next question is from the Ankit Bable from Subhkam Venture; please go ahead.

Ankit Bable: Sir what has been the volume degrowth in this first quarter sir in jewelry division?

C.K. Venkataraman: We have had a volume decline of 20% and a customer decline of about 3%. The thing to note is over the last six or seven years every year the average grams per bill has been falling by about 10% because the gold price has been going up and up and up each customer has been settling for less and less grams and therefore the industry, while it has exploded in terms of total value, stagnated or only marginally grown in terms of volume and therefore we have maintained in all our views that the volume growth that we track is more importantly the customer growth and less so the kilogram growth, so in a 20% kilogram decline, our decline has been 3%. All customers have settled for lower grams each.

Ankit Bable: Sir one more clarification, you just mentioned that you are aiming for a Rs 1000 Crores profit, so is it on a PBIT level?

Bhaskar Bhat: Profit before tax.

Ankit Bable: Sir in South India as you mentioned the competition is high, so just wanted to know are the margins also lower in South Indian market as compared to the rest of India in the jewelry business, I don't want the exact number approximately but is it low at 20% lower than the normal margins?

C.K. Venkataraman: Possible.

Moderator: We will take a final question from the line of Rakesh Jhunjhunwala from Rare Enterprises; please go ahead?

Rakesh Jhunjhunwala: What I wanted to know is the methodology by which government has allowed direct import of gold will it being assured that it will be done on a continuous basis?

Bhaskar Bhat: The government announcement specifying Titan having been given the import license or import permit was more than three months back whereas the actual license has been received only very recently and RBI on the other hand has been making some noise about curbing import of gold, so this is a very uncertain situation I would say. Right now it is no strings attached, but going forward next year what the view will be of the government particularly the stock on March 31, 2012 this is up to March 31, 2012 that is how it says.

Rakesh Jhunjhunwala: Condition is on the date, not on the quantity?

Subbu Subramaniam: There are quantity limit and a date limit, so the quantity is not an issue, I think going by the term we have we should be absorbing that quantity.

Rakesh Jhunjhunwala: Saving cost is 1% of the size of the gold?

Bhaskar Bhat: Yes.

Rakesh Jhunjhunwala: My personal impression is that if the rupees stabilize then I think government will extend it, the way gold imports are falling, purpose is already achieved, if that is stable, but that is a very substantial saving, it amounts to 10% of your margin.

Moderator: That was the last question. I would now like to hand the floor over to Mr. Sameer Deshmukh for closing comments.

Sameer Deshmukh: Thanks for participating in the call. Thank you very much sir.

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