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"Titan Industries Limited Conference Call"

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MANAGEMENT: **MR. BHASKAR BHAT**
MR. H.G. RAGHUNATH
MR. S. SUBRAMANIAM

ANALYST: **MR. SAMEER DESHMUKH**

Moderator: Ladies and gentlemen, good evening and welcome to the Q2 FY'12 Earnings Call of TITAN Industries, hosted by Tata Securities. As a reminder for the duration of this conference, all participants' 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. Should you need any assistance during the conference call, 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. Bhaskar Bhat. Thank you and over to you Sir.

Bhaskar Bhat: Thank you all of you for joining this call, at the end of Q2. It is a quarter, which from the results perspective, the significant event really is the improvement in the margin of the company. Despite low sales growth of under 10%, which obviously was because of economic slowdown that we noticed through the first half and to be fair Q2 did see an improvement in consumer sentiment and in fact it was better than Q1, not in volume terms but in sheer sentiment terms.

Higher gold prices affected gold volumes because customers had to pay more, but we continue to expand our network by 32 outlets and 59000 square feet during the quarter across all the divisions. We launched new products both in TITAN watches as well as in jewelry. Particularly in TITAN youth collection in a way, lower price, fashion watches, tagged, and then Sonata, the *Super Fibre Ocean* series, is the first touch screen watch, was a major innovation at an extremely low price of Rs.1495. Titan eye plus had an extremely successful brand and sales quarter with significant volume growth because of the introduction of trends which brought in great design at reasonable prices and an aggressive advertising campaign on television.

All in all, it has been a tough consumer quarter, but because of the initiatives we took, we have been able to grow to whatever extent we have. The bottomline is that there has been improvement in the margin, but the topline growth has been difficult to achieve. Retail growth in our channels, same store growth there is decline in the World of TITAN, 4% in total, Tanishq again, it is a 12% like-to-like value growth, 19% overall, Gold Plus is a decline like-to-like 8% and even a total decline of 2%. The good news is that the like-to-like sales growth in Helios, which no longer is small. It is actually now 32 stores and the like-to-like is 19%. Of course the total growth is 127%

Fastrack is a little disappointing with 7% like-to-like and 71% all stores. In the last one-year in fact, we have added a large number of stores in Fastrack. The real story is in the large format store for watches, a decline of 10% in like-to-like large format stores. That means, impulse purchase items really have got hit, hit less in the World of TITAN, less in Helios, less in Fastrack but significantly in the large format stores where there is no planned purchase either to buy the brand or to buy the watch due to the impulse purchase. As I said, we could see the best performer is TITAN EYE+ with sales value growth in the Eyewear stores at 32% and same store growth at 19%.

Rest is available to you. Revenue growth 10%, PBT growth 18% for the quarter, and for the half same revenue growth 9%, and PBT growth 13%. Therefore when I said that the quarter has been

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better than the first quarter, you can see that the YTD growth in PAT is less than the quarter's growth in PAT. So, Q2 has been therefore better in terms of business performance.

You can go through the rest. In watches, the Q2 sales performance PBT has dropped from Rs 67 to Rs55 Crores, sales growth of 13%, and volume growth of 4%. The point to note is that watches continues to get volume growth and revenue growth. Margin was affected because of the excise duty and higher material cost and overhead. YTD, again, there is a marginal 1% volume growth and a 14% revenue growth. There is a decline in profits by sheer number of Rs 10 Crores in both, the quarter as well as in the half-year. This is the effect of 2 consumer schemes, which did not do too well, and also because of the slowdown. It has got affected by the dollar, which was at an all time high for us in the last quarter.

Jewelry has done extremely well in terms of diamond jewelry sales. The share has gone up to 32% in the quarter and retail growth at 17% whereas the total revenue growth is 6%, because there has been a postponement in purchase by the so-called L3 stores, so while the total retail has grown 17%, there has been a down stocking by the L3 channel, because of Dussehra is far away this year compared to last year and Diwali of course is much farther. However, the good news is margins are better because of the growth in diamond jewelry has been better than the growth in the business. That is why you can see a PBIT growth of 35% compared to the topline growth of only 6%.

Overall, the margins have improved. Profits have grown although the growth is unprecedently low in this business. Other segments, which include Eyewear and Precision Engineering, it has grown at an impressive 49%. Eyewear growth is at 32%, PED also continues to grow both topline and bottomline. Similarly, if you look at YTD, it is quite clear 31% in topline and within that Eyewear has only 4% growth.

Capital employed has been a bit of a challenge. Our stocks have gone up. That is primarily because of sales, which are not up to the expectation as it has not gone up, but this is likely to get corrected in this current quarter. There is an interesting chart that we have here, which are serial half-year sales. Serial last year sales have shown a bit of a decline in jewelry. Watches have shown a steady growth over the last seven and a half years, and jewelry has taken a slight dip in H2 FY'11-12 and H1 FY'12-13.

PBIT have been continuously growing serially. Here of course, the watch trend is reversed as against the jewelry; watches have dropped too high whereas jewelry has grown from 100 to 400 in four years or seven and a half years. I think pretty much you can see the total sales and the capitalization. I think, we want to really inform that TITAN has been selected by Forbes Asia in the FAB 50 companies list. It is an honor to be there. CLSA says top 50 Asian companies in corporate governance we will keep demanding the Pan card in the shops, and we keep paying excise duties for watches and so on, VAT on our products, and TCS, which is tax collected at source in jewelry and legitimate business in Eyewear.

Just to close this part of my discussion, we are seeing that second quarter is an indication of what is likely to happen in the festive season, we are seeing, I would not say it is a significant inflection point, but it is certainly a change in sentiments. The retail sales growth is different across watches and jewelry, but still it is a positive compared to first quarter. If I were to contrast first and second half of second quarter and the early part of the third quarter we certainly are seeing better consumer sentiment, which means better growth in traffic into the stores, compared to the first quarter and the first half of the second quarter.

So things should look well, of course the behavior is different in jewelry and watches. Eyewear continues to aggressively grow in terms of volume as well as value. Thanks to the introductions of *Trendz* and generally making the chain more friendly in terms of value for money. Watches also have seen a volume growth in the World of TITAN stores. So, we look forward to a reasonably good Diwali season. Of course, this quarter is also full of wedding days up to December 15. So we are open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have first question from the line of Pritesh Chedda from Emkay Global.

Pritesh Chedda: Good evening Sir. Congratulations for good set of numbers. My first question is if you help us decipher the like-to-like growth. Now I have two numbers here for Q1 and for Q2. For jewelry Q1 was 3% in like-to-like growth, and jewelry growth was 8% and in Q2 the like-to-like growth was 12% and the revenue growth was 13%. If you could decipher these two quarterly numbers how to read into this? The corresponding topline growth in Q1 was 8% and Q2 is 13%. Is it the gap, which is contributed by stores, which get added in the system in that quarter, which were not there in this quarter?

S. Subramaniam: Is the question, the difference between the like-to-like retail stores vis-à-vis the primary sale growth?

Pritesh Chedda: Yes.

S. Subramaniam: The difference is because in this quarter, if you take previous year, the primary billing was much higher because Diwali was much earlier. Diwali came at the end of October, so therefore, the L3 model, which is the franchises, stocked up much earlier in September itself. Dussehra had started much earlier. In this quarter since it has delayed significantly, the purchases on that from the franchises have been delayed, whereas the sales at the secondary level are still being continuing, therefore there is a big gap between the retail growth and the primary growth. It will get corrected this quarter when they will buy more.

Pritesh Chedda: My second question is and it is a request, we give like-to-like growth across formats, is it possible to get a company level like-to-like growth?

S. Subramaniam: It does not make sense as two segments of watches and jewellery are totally different categories

Pritesh Chedda: My next question is on Jewelry Division. Did we get gain benefit from using the direct import license this quarter or that should flow next quarter?

S. Subramaniam: Marginal. This is only our first import sales.

Pritesh Chedda: My last question is on the cost head side, if you could give some light, because if I look at the cost heads they have been in a tight zone for the last few quarters now. Any direction there, which is other than the employee and raw material? I am hinting at advertising and other expenditures?

Bhaskar Bhat: We are not seeing any significant trend change. It is just there maybe some rescheduling of advertising and so on, but it is not a significant take. I think you should take it as it is there. There is no significant difference. Is there any big number shift? We are not seeing any big number shift.

Pritesh Chedda: I am just hinting that one of the reason for the same that there is no big number shift and two, should one extrapolate this?

S. Subramaniam: We cannot tell you about extrapolating; because that is we are not giving forecasts here, but the pattern is pretty much what it has been throughout. There is not going to be any major shift in costs.

Pritesh Chedda: Many thanks and all the best.

Moderator: Thank you. Next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Sir, what could be grammage growth for the quarter, the growth or de-growth?

S. Subramaniam: As far as jewelry is concerned, let me give to you in two ways. One is if you were to look at the overall jewelry decline, the volume decline, it was in the ballpark of around 11% for the quarter, but if we were to isolate that to only plain gold jewelry volume decline, that would be in the one to two percent range. So essentially the big decline that happened in the grammage was in the coin segment, which in any case is not something that we want to promote so much so it has not been too bad at all.

Hiren Dasani: This 11% number is comparable to the number what was there in the Q1 presentation?

S. Subramaniam: Yes that is right. The total decline was 21% last quarter.

Hiren Dasani: That 21% has moved to 11%?

S. Subramaniam: 11%, that is right.

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Hiren Dasani: My second question is on the inventory, the increase in inventory is it largely due to higher number of stores or per store inventories are also going up?

Bhaskar Bhat Is it jewelry specifically or overall you are asking?

Hiren Dasani: I do not have the inventory data, overall.

Bhaskar Bhat: It is both. It is also less than projected sales in watches and therefore we did make for an expectedly higher sales and new stores in jewelry so it is a combination.

S. Subramaniam: The shortfall in sales from our own projection perspective also contributed.

Hiren Dasani: Some part of it would be also stocking which might have gone into the L3 channel but it is now sitting on our books?

S Subramaniam: Yes, they are postponing their purchases to that extent, yes they are lying in our books.

Hiren Dasani: Lastly, there was this RBI policy yesterday where they said that banks cannot finance the gold purchases other than the working capital. Does it anyway impact us?

S Subramaniam: We are not sure of the guideline, first of all. We need to get the detailed guidelines. We are checking with our banks and we will be able to answer that only when we understand what it is about.

Hiren Dasani: Thank you.

Moderator: Next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Sir, in terms of the store expansion Q2 has also seen a fairly muted store expansion, so are you on track to achieve 200000 square feet?

Bhaskar Bhat: Yes we are. Lot of stores are opening in Q3. Certainly for jewelry, Fastrack and Helios. May be World of TITAN may get a little muted but it is not significantly so.

Nillai Shah: What is going to be the split because last time on the conference call, you had mentioned that about 70% of this space addition would be L1 plus L2, does that numbers still stand?

Bhaskar Bhat: I mean even 30% of our own stores seems very high because of the large formats we are going into less and less large formats, but yes it would be.

Nillai Shah: Basically, what I am saying is 70% of the inventory you will be sitting on our books, right?

Bhaskar Bhat: Yes.

Nillai Shah: There is basically a timeframe before a new store ramps up obviously, it could take up to two years, so do you envisage in the interim some amount of impact on both the capital employed and the ROE profile of the company?

S. Subramaniam: To an extent yes. There would be a slightly a higher capital employed to that extent.

Nillai Shah: You wouldn't require debt to finance this at all, right?

S. Subramaniam: We would not require debt.

Nillai Shah: The final question is on the margins in the jewelry business, massive margin accretion this quarter, is it because of the coin versus plain gold jewelry mix?

Bhaskar Bhat: It is because that studded versus plain gold jewelry percentage.

Nillai Shah: Sir, but studded last year same quarter, if I am not mistaken was about 28%, now it is about 32% so 4% change makes such a big impact on your margins?

Bhaskar Bhat: It is a combination; price also is having an effect.

S Subramaniam: I think it is a combination of them. That is one the studded ratio was much higher. The coin ratio was much lower. We also made price increases or rather margin increases in the studded jewelry segment, so that also helped this whole thing. So it is a combination of various things.

Nillai Shah: Do you think that is contributing to the sluggishness in the volumes, or it is completely independent of what is happening?

S Subramaniam: I think that is independent.

Nillai Shah: Thank you.

Moderator: Next question is from the line of Amit Sachdev from HSBC Securities. Please go ahead.

Amit Sachdev: Thank you. Just one question, because my studded part question, is answered. Can you split the breakup of expansion achieved till date on jewelry? For example, this quarter if you can be very precise about how much retail area actually has been added and which format?

S Subramaniam: We have added about 60000 overall for the half year, of which around 20000 is from the large format, which will be the L1 and the regular itself most of them would be actually company stores, so not only too many stores opened, but in terms of area we have added 60,000, but as you speak now by end October, we have crossed the 100000 mark for the jewelry additions. So as far Bhaskar was mentioning sometime back, I think we been adding almost every two three days now. It will continue till Diwali, a lot of stores coming up at this point and that will be a combination of all L1, L2, and L3.

Amit Sachdev: The target for the full year stays at 200000 for the jewelry?

S Subramaniam: That is right.

Amit Sachdev: Thank you very much.

Moderator: Thank you. Next question is from the line of Rakesh Jhunjhunwala, an Individual Investor. Please go ahead.

Rakesh Jhunjhunwala: Good result. Congrats. The question, I wanted to ask is that this increase of studded to 32%, how sustainable that is? Are we seeing the same kind of thing in October also?

Bhaskar Bhat: We actually triggered this growth because we knew there would be a challenge on volume growth on the plain gold side and we still have to maintain our targets and our promise to our stakeholders. Now the good news is really that we do expect volume growth in plain gold, and therefore what we lost there would help makeup, margin might drop actually speaking.

Rakesh Jhunjhunwala: But sales may go up?

Bhaskar Bhat: Yes, and therefore, I think that is a better scenario to be in, even though the proportion of studded jewelry drops. I do expect studded to grow at a very good pace, but I think if plain gold also grows we should have good quarter.

Rakesh Jhunjhunwala: Your watch margins are worrying. At 11.5%, you have great brand, and this is after 12%-13% price increase in one and half years?

Bhaskar Bhat: I agree. We have seen it and it is we believe there is an immediate not just correction; it will happen in the next quarter, but there is also a longer term solution sitting within the division. In the immediate, we know that there is a correction that is going to happen. One is the sale itself has not been on target or the growth is only 13%. We could have been much higher in terms of growth and we are aware of this problem.

Rakesh Jhunjhunwala: Bhaskar, when is your Eye Division going to breakeven?

Bhaskar Bhat: Now we are seeing good traction. I expect that we are hoping to break even in the last quarter, as a quarter, but that does not mean next year will be breakeven but certainly the second half of next year we should see breaking even.

Rakesh Jhunjhunwala: 19% like-to-like growth is very good actually?

Bhaskar Bhat: Excellent growth except that the price growth is not that good.

Rakesh Jhunjhunwala: But if you get back the customer you will get the volume?

Bhaskar Bhat: Absolutely, that has been our objective and that is happening.

Rakesh Jhunjhunwala: Thanks. Congratulations for good set of numbers.

Moderator: Thank you. Next question is from the line of Manish Jain from Nomura. Please go ahead.

Manish Jain: Congratulations on good set of numbers. My primary question was on the Jewelry division volume growth which you have already answered, but just to add on to that, one more question how has the sales been particularly in the month of September and October? Have you seen some kind of a pick up in retail sales in these months?

Bhaskar Bhat: It is too early to say anything, but if you look at Navaratri, the mood in Navaratri has been good, whether this will sustain through Diwali and see all your signs are right. First of all, there are plenty of wedding dates, going up to December 15, there is from our side product, new product in watches are all aligned, all advertising is all happening, stores are in place and all the three festivals, if you take Dussehra, Diwali as well as Christmas and New Year, it is happening in this quarter. The Onam, did not go all that well but Dussehra, certainly has seen volume growth on the two critical as in those, which are impacted by festivals that is Jewelry and watches has seen a certain growth, which is I do not know whether it will sustain but it is reasonably good. It augers well for the quarter whether it is last for the Q4, is not sure the Q3, we should make up a lot of our lost ground not that we have lost too much ground, but there is lost ground in terms of sale.

Manish Jain: Thank you. That answers my question.

Moderator: Thank you. Next question is from the line of Neil Kansari from Sands Capital Management. Please go ahead.

Neil Kansari: Just a follow up to the Jewelry expansion, on numbers you put out. Could you give us some qualitative sense of where these stores are coming? Are they in the big metro cities or are they tier 2, tier 3 cities, geographically how is the spread, and also what would be the average square feet of these new stores?

Bhaskar Bhat: Let me answer, the first part, most of the expansion has come in existing locations and they are all either shifting from the current location to a larger store or opening the second or third store in that town. New towns were there in the first quarter there was but Q2 and Q3, I am not seeing any new towns being added, but on the square footage, there are no large format stores in this quarter. We did have them in the last quarter, this quarter we do not have. One we had in the last quarter, large format stores, but they are all in the normal formats 5000 square feet to 8000 square feet.

Neil Kansari: Thank you.

Moderator: Thank you. Next question is from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: Thank you for taking my question. I had just one question. Sir, if you could help us with the number of the deposits in the golden harvest scheme as of September?

Bhaskar Bhat: It is about over Rs 1000 Crores now.

Rahul Bhangadia: This is reflected in the other current liabilities, right?

Bhaskar Bhat: That is correct.

Rahul Bhangadia: In the other current liabilities the entry is almost about Rs 1500 Crores so what is the remaining Rs 500 crores because this number in March for about Rs 200 Crores?

S Subramaniam: It is also gold on leased, let us not forget. That is also a big ticket there.

Rahul Bhangadia: So that is including other current liabilities or trade payables?

S Subramaniam: As I said, it is in excess of Rs 1000 Crores now. It comprises of all other payables, all overheads, and statutory clearance, coverable. It is a Rs 300 Crores increase over what it was in March, of which more than Rs 100 Crores is just on the golden harvest. That is it.

Moderator: Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, just one question, on the watches side, has you taken any price subsequently or have you seen correction in the import prices?

H. G. Raghunath: We have taken price increases almost in TITAN, Sonata and Fastrack. We have covered the material cost increase through these price increases as recently as between August and September we took 4% to 5% price increase in all the brands.

Avi Mehta: The 3% is equally spaced, the volume growth that we saw in watches. It is not like front-ended in the quarter as well. It is not like that, right? The volume growth that you saw in the 3% it is not front-ended, so the price impact has not hit volume growth or anything?

H. G. Raghunath: It will take a while for the complete price to get impacted.

Avi Mehta: That is all from my side. Thanks a lot.

Moderator: Thank you. Next question is from the line of Hemant Patel from Axis Capital. Please go ahead.

Hemant Patel: First broader question, have you see the recovery in jewelry demand in general from Q1, this is not for particularly for the company, but I am talking about the industry as a whole?

S. Subramaniam: There has clearly been some revival in the demand for jewelry, in the second quarter and more particularly towards the end of the quarter going into the festive season, there seems to be a change in mood.

Bhaskar Bhat: While we were talking low double digit in watches, it certainly has gone into the high double digit in watches volume as well as value growth and a significant change in the plain gold jewelry growth.

Hemant Patel: One more question in terms of direct imports you were mentioning last quarter that you would commence that. Has that been initiated?

S. Subramaniam: We have done a consignment. We are still waiting for certain things from RBI, in terms of the credit period and so on and so forth, there are some issues which are still there and we would go whole hog once we get those clearances.

Hemant Patel: So, benefit in terms of margins has not really flowed in and into your numbers as yet?

S. Subramaniam: Not in the Q2 numbers.

Hemant Patel: How much would you say that this will actually help you in the second half, if this actually goes full hog?

S. Subramaniam: 50 bps at least.

Hemant Patel: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Punit: Good evening. This is Punit. Just a follow up question on margins. Like you mentioned, that part of the margin growth was because of increase in studded share, while the proportion of gold may increase in the coming quarters. So, how much would you attribute the jump in margins on a QOQ basis to this fact for 2Q versus 1Q?

S. Subramaniam: The studded share in Q2 was significantly higher than the studded share in Q1. So, that has helped a lot and as I said we also made some price corrections or rather we took up the margins in the studded share as well, so it is a combination of both the things which caught that.

Aditya Soman: So will it be possible to split this between these two?

S. Subramaniam: We would not be able to split that.

Aditya Soman: Because your margins have typically been in the range of 9% to 9.6% over the past 7 to 8 quarters and while in this case, there has been a sharp jump. So, will it mean that customers are willing to accept a slightly higher price and this could be sustained going forward was well?

S. Subramaniam: I do not think it is a question of accepting a higher price. It is a question of the mix changing. It is also because of coin sales being significantly lower. As we as said earlier, the coins volume had declined. Those were the lower margin items as well. Therefore, it is a combination of all these things which are taken the margin up.

Aditya Soman: Thanks a lot.

Moderator: Thank you. Next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

Pritesh Chheda: Just a follow up, I just wanted to know this square feet addition of 60,000 sq. ft., you said was for Q2 because I heard it?

Bhaskar Bhat: That is first half.

S. Subramaniam: There are two things. What you are seeing in the presentation is all the format, not just jewelry, that includes watches and so on, because the outlets we are talking about includes everything. That is for the company as a whole whereas as far as jewelry is concerned, we have done 61000 sq. ft, 34000 sq. ft we did in second quarter.

Pritesh Chedda: So if you could give us this 60,000 sq. ft Q2 breakup, say in jewelry you said is 32,000 sq. ft?

Bhaskar Bhat: 34,000 sq. ft and balance is watches and Eyewear, Eyewear is marginal but you can take watches, Helios, Fastrack and World of TITAN.

Pritesh Chheda: Year-to-date square feet addition at the company level would be? Year-to-date in sense up to September first half for company level?

S. Subramaniam: It is close to 100000 sq. ft.

Pritesh Chheda: Many thanks and all the best to Sir.

Moderator: Thank you. Next question is from the line of Subramanian PS from Sundaram Mutual Fund. Please go ahead.

Subramanian PS: Just wanted to understand your strategy on the jewelry business. I was just looking at the commentary after the results, and you said that you are actually having to buy sales, but if you talk about the actions, you seem to have taken up margins in the studded business and you are actually delivering in slowdown in growth and an improvement in margins. Just wanted to understand, what is the overall strategy of the company in this regard. Also, I wanted to understand what happens to franchise profitability in a situation where sales do not actually ramp up, you also mentioned in the presentation that you had better terms of trade with your franchises. I wanted to know, do you think these margins are something that we should think, we should be able to sustain or do you think there is some amount of margins that we need to give away to get growth back and make franchises more profitable in the current scenario?

Bhaskar Bhat: The slow growth has two components to it. The first is the low growth or the decline in the volume in plain gold jewelry sale. Plain gold jewelry is a large contributor to the jewelry business, right. So, when it says decline or grow at a very low pace, whereas diamond jewelry has been growing at a certain pace, which has in fact improved and so on. Therefore, what we are seeing in the third quarter is, growth will come back from its 9% and 6% in jewelry, growth will come back and as a result proportion of diamond jewelry will drop and as a result margin will drop but the overall profit in terms of quantum will go significantly high. In a business like this, scale matters and therefore you when you achieve significant growth as a combination between diamond and plain gold you end up with much higher sales and therefore much higher profits not necessarily margin. So the margin improvement in jewelry is also because of the low sale of plain gold jewelry. So going forward, you may not expect the same level of margin growth or the same level of margin itself in the jewelry business. It is not of fundamental business model shift that has occurred. It is a slow pace, and I do not think we can expect the same, but we can expect significant addition to the bottomline in terms of quantum profit.

Subramanian PS: My second question is on Fastrack, we seeing lot of ads and a lot of new products being launched in Fastrack, just wanted to get a sense on what is happening on Fastrack? Anything in terms of how big the brand is now and what kind of growth rates are you clocking there?

H. G. Raghnath: There are a lot of things are happening in Fastrack. In the first half also we introduced new collection. We have had campaigns for watches, sunglasses, bags and belts, and wallet. So that is about store expansion. That is about product collection launch, and then the campaigns that we have ahead. Store expansion we have added 12000 square feet for retail space into the Fastrack expansion. So, these activities are happening in Fastrack. Fastrack is growing in square feet of retail presence, product launches are happening as per what I explained. Brand is about Rs 650 Crores.

Subramanian PS: What is the sales growth in Fastrack?

H. G. Raghnath: 71% total and 7% like-to-like.

Subramanian PS: Thanks Sir. That is it from my side all the best.

Moderator: Thank you. The next question is from the line of Rajasa K from Jefferries. Please go ahead.

Rajasa K: Good evening. Just a couple of questions, first you have mentioned that Navrathri sales were good. If I just had to look at it from a like-to-like basis this Dussehra versus Dussehra last year, would you be able to comment on what kind of growth you are looking at in Jewelry specifically?

Bhaskar Bhat: I do not like you to give specific numbers, but if I were to take decline in volumes in Jewelry that has gradually come down, if you saw it was -21 in Q1, -11 in Q2 and it is trending to 0 now in the early part of Q3, whereas the diamond jewelry is going at a reasonably similar clip. The Navrathri sales have been a significant change in jewelry business in terms of growth rate. 20%-

25% that we were seeing in the past is happening, but whether it is sustained, is what I was saying so it may sustain in the Q3, but not likely in the Q4. We are watching the market closely because this quarter we end up with the very significant growth because of the three things; the Diwali, Dussehra and wedding season. Perhaps it will not be able to sustain the growth into the next quarter. There are not so may days, so the sentiment certainly has changed and if we can end up with even 15% to 20% growth instead of the current 6% and 7% we have a very good performance.

Rajasa K: Sir, when you say that wedding days are bunched up in 3Q, I am assuming that even when compared to last year you will see a lot more auspicious dates this year. Is that a correct assumption?

Bhaskar Bhat: Correct, as against the first quarter when the weddings days were so much lower than last year.

Rajasa K: Your retail expansion plans what is the status on Gold Plus?

Bhaskar Bhat: We have added just one store a week back otherwise in the quarter there was nothing.

Rajasa K: Going forward mostly it could be mostly in Tanishq?

Bhaskar Bhat: Yes.

Rajasa K: In the presentation, you have mentioned, for jewelry that there were better terms of trade that benefited margins, what does that mean exactly?

Bhaskar Bhat: We renegotiated terms of trade with our franchise, because as they grew, we have been able to renegotiate and that helped us brought marginal savings to the company, at the same time not robbing them of good returns.

Rajasa K: This is something that is sustainable. It is not temporary?

Bhaskar Bhat: It is sustainable.

Rajasa K: Sir, in coin sales any change in the demand or the coin sales continues to remain the same as last year?

Bhaskar Bhat: It continues to be quite low. The growth has been negative.

Rajasa K: That is it from my side. Thank you.

Moderator: Thank you. We have a follow up question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Just one small data point, there is some regrouping in terms of between sales and other operating income can you just explain? There seems to be some regrouping for the earlier quarter that is June 2012 as well as September 2011, between sales and other operating income?

S. Subramaniam: This is to be in line with what has been published under the revised schedule as of March 31.

Hiren Dasani: What would be the nature of this revenue?

S. Subramaniam: It will be scrap sales etc.

Hiren Dasani: Thank you.

Moderator: Thank you. Next question is from the line of Pratik Biyani from Standard Chartered. Please go ahead.

Pratik Biyani: Just a few questions on jewelry business, you mention about retail growth of 17% in this quarter, what was the retail growth in first quarter in jewelry?

Bhaskar Bhat: It is 11% total for Q1FY13, as compared to the 19% in the Q2.

Pratik Biyani: Your presentation says 17.

Bhaskar Bhat: We are comparing 19 of Tanishq to 11 of Tanishq.

Pratik Biyani: What was the proportion of coin sales and if you can quantify that in the base quarter as compared to you were mentioning that the point sale ratio went down this quarter, what was it in base and what was it in this quarter?

S. Subramaniam: I am not giving the actual numbers, but it is quite low.

Pratik Biyani: You also mentioned about L3 down stocking that happened in this quarter and resulted in higher retail growth, since some of the festive seasons have passed and Diwali is just two weeks away. How has the L3 restocking been in the month?

S. Subramaniam: It will obviously pick up. It is picking up.

Pratik Biyani: It has been healthy?

S. Subramaniam: That is right.

Pratik Biyani: Sir, you mentioned about impact of VAT in terms of margin. How was that, I just missed that? When you start importing gold, you will save 1% on VAT? What would be that impact?

Bhaskar Bhat: Because one consignment has come in, so that will be start kicking in after this quarter onwards.

Pratik Biyani: How much it will impact the jewelry margins, you mentioned some numbers?

S. Subramaniam: I already mentioned a number, something like 50bps.

Pratik Biyani: That is it. Thanks.

Moderator: Thank you. Next question is from the line of Gautam Duggad from Motilal Oswal Securities. Please go ahead.

Gautam Duggad: Sir, just wanted to get sense on what is the volume decline in gold coins for the quarter?

S. Subramaniam: Above 30%.

Gautam Dugged: Secondly, just wanted to get your outlook on the watches margin going forward?

Bhaskar Bhat: There is significant drop, which is certainly temporarily and the margin is a combination of low sales and price increase not kicking in time plus the impact of the dollar now the dollar has weakened, rather the rupee has strengthened and the sale improvement, the primary reason which is sale improvement in Q3 should be able to bring the margin back in the watch as well at least for Q3.

Gautam Dugged: So, you expect it to move up to 13%-14% again or will it be too early to say?

Bhaskar Bhat: Q3 should be that see that kind of number.

Gautam Dugged: Lastly, in the earlier calls you did mention about targeting 20%-25% PAT growth for the year so does that target stay or is there any change?

Bhaskar Bhat: There is a big difference between 20 and 25 so let us stick to 20. Rs 1000 Crores PBT I said last time, we will cross the Rs 1000 Crores mark.

Gautam Dugged: Thanks a lot.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Thanks for taking my question and good evening everyone. Sir, if I heard you correctly, you mentioned something regarding price change in studded jewelry, which actually helped you on your margin. I was just wondering that with the kind of economic environment that we are in and weak consumer sentiment pressure, why would you go for such kind of pricing changes in this kind of an environment?

Bhaskar Bhat: Wherever there is opportunity, we should encash. Our brand is very strong, and we are known for our Diamond jewelry design and so on. So, I think the change has been well received and it is getting very competitive in the jewelry business and watches have already competitive and what brings in the margin is the differentiation Richard, and the more we differentiate ourselves, the better of the brand will be the better off the margins will be. We cannot compete on price. So, if we are better design, better quality, better retailing better brand image, you better get the price also, so this a simple theory we are following. In plain gold, it is finally all said and done it is a commodity. There we dont have too much pricing power despite our having changed the business model to percentage making charge. With this kind of a price of gold, it has become difficult to get the price from the customer, but still we are held on to our making charge percentage, which varies from 16% to 28%, but in diamond opportunity is there and therefore we have also introduced lower priced diamonds and so on, so there is a lot of action in that diamond space. It is not about price increase. It is selectively doing it so that you will grow margin without losing sales.

Richard Liu: Would it be a correct base on this to infer that the way the consumers are actually looking at both parts of the jewelry business namely studded and plain gold, are perhaps quite different despite the gloomy environment in the sense that is sentiment still buoyant on the studded jewelry front, is that a fair reading?

Bhaskar Bhat: It is the other way round, Richard. Your conclusion is right, but the articulation according to me is attractiveness of the plain gold jewelry business has declined because of the investments non-attractiveness, because of the price, I think, the investment, it is obvious from decline in the sale of coin, so there is a large number of customers who had come into the market with investments in mind and are buying jewelry. Now in that first half or rather it is for the last 9 to 10 months, I think they had stayed away whereas when the opportunity comes they come in to the market and I believe they are coming back whereas in the Diamond jewelry it has been a consistent acquisition of new customer because of all the things we are doing. It is design and branding and etc., so short answer to your question is there are two different customers. One is continuing to behave in a positive way, which is coming more and more to the brand and design which is a studded customer. The other is has gone away because of the investment the gold was not been attractive enough in India. I do not know about what is the effect of smuggled gold and all kinds of things because of the high customs duty, what really is happening is not very clear, in the sense Tanishq can become unattractive if there is a large part of the market which sell at a lower gold price because of the customs duty, because we pay customs duty and buy our gold, but that apart it is only really the investment sentiment customer who has gone out temporarily and will come back this is my reading. I could be wrong.

Richard Liu: Did I hear you correct, you were mentioning about high double-digit growth in watches for the ensuing quarters?

Bhaskar Bhat: Yes. I am basing it on the retail sales performance in the last two weeks.

Richard Liu: You said, Eyewear breakeven sustainably is expected around second half of FY'14?

Bhaskar Bhat: Yes.

[redacted]

Richard Liu: If I just put it in more on the maintenance side, if I look at the corporate unallocated segment, there is a revenue growth of about Rs 4 Crores there, I mean, at Rs 6.7 Crores this year versus Rs 2.7 Crores last year. What revenue is this?

S. Subramaniam: That is the interest income, income from our FDs income.

Richard Liu: Thanks a ton and wish you all the best.

Moderator: Thank you. The next question is from the line of Dhwani Modi from ICICI Direct. Please go ahead.

Dwani Modi: Good evening Sir. Thanks for the opportunity. My question relates to the watches segment. Would it be fair to assume considering that the margins have remained weak quarter-on-quarter. Is that the product mix is more and more skew towards the economy segment or is there a gap in my understanding here?

Bhaskar Bhat: It is not. The primary reason is the lower sale growth and it is not because of mix.

Dwani Modi: Also the unfavorable currency? Follow-up of that would be how is the sales in the premium segment picking up?

H.G. Raghunath: Recently, we launched EDGE Skeleton Watch, but in the new design in price range of Rs.12000 to Rs.17000. The new collection for Raga is being launched for Diwali with a price range of Rs.6000 to Rs.10000. Our HTSE, the solar watches have been launched in the two months, a new series. So, in this segment, there have been two to three new product collection launches, which have happened and they have got good response. The festive season is around. So, we hope that the retail should be very encouraging.

Dwani Modi: As you have mentioned earlier, once you sales to come in this segment, you will probably see some improvement on the watch segment margin as well?

Bhaskar Bhat: I think, the point, Raghunath is saying is that the consumers have now got used to paying a higher price. I think, price point is no longer a big problem in the watch business in the sense, if you are able to offer attractive enough design, people are willing to pay a price, so Raga, HTSE and EDGE that we spoke about, we have priced them higher than what we would have normally done and sales are happening whereas probably you were also meaning what is happening to Xylys and Nebula, which are higher priced by themselves. Those have also been selling well. So it has really in fact the volume segment and the budget segment, where we are finding challenges to grow volume. It is not in the premium segment, and recently in Fastrack, we are seeing some challenges of growing volume.

Dwani Modi: Lastly, what according to you would be a sustainable margin level for your watches segment?

Bhaskar Bhat: We are targeting 15%, no doubt about that. I think the current slip is an extraordinary event because of the decline in the rate of growth.

Dwani Modi: Thank you and all the very best.

Moderator: Thank you. Next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good evening Sir. My first question is on your jewelry business. You did mention that on the retail side your growth was 19%, but because of destocking, the company level growth is at around 6%. Just wanted to understand since in the second quarter the growth was in the range of 19% to 20% and this quarter being a festive season quarter, if suppose it is 30%, it is better that Q2, then this coupled with the restocking what will be the growth..?

Bhaskar Bhat: let us assume that it will be 20% there will be a 5% to 10% addition because of the stocking up.

Ankit Babel: That is what I wanted to understand. Second, was you did mention that you see the Q2 margins at 12.5% are not sustainable, but definitely in the second half would they be higher than on a YOY basis.

Bhaskar Bhat: Compared to last year it was a poor, it should be better. I think, it should certainly be better in terms of topline growth. Margin also should be better, but surprisingly we have not done that calculation, but we are only headed for Rs 1000 Crores PBT.

Ankit Babel: Considering the first half performance do you still maintain your guidance of 20% topline growth and 30% profit growth?

Bhaskar Bhat: I am looking at Rs 1000 Crores PBT.

Ankit Babel: Thank you. Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. At this time, I would like to hand the conference over to Mr. Sameer Deshmukh for closing comments. Thank you.

Sameer Deshmukh: On behalf of Tata Securities, I would like to thank the management and the participants for the call. Thank you very much Sir.

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