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PC Jeweller

Q1FY17 Conference Call Transcript

Moderator:

Ladies and gentlemen welcome to the Q1 FY2017 Results Call of PC Jewellers hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions at the end of today's presentation. Should you need assistance during the conference please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sameep Kasbekar, Research Analyst of Emkay Global. Thank you and over to you Sir!

Sameep Kasbekar:

Thank you. Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Balram Garg – MD and CEO, Mr. Sanjeev Bhatia – CFO, Mr. R.K. Sharma – ED and COO, Rajaram Sugla – President, Account and Taxation, Mr. Nitin Jain – who heads the online business and Mr. Nikhilesh Govil – President of Small Stores. I would now handover the call to Mr. Garg for his opening remarks.

Balram Garg:

Good afternoon ladies and gentlemen. Many thanks for sparing your time in this conference call. I am Balram Garg – MD. I have with me my colleagues Mr. R.K. Sharma – ED and COO, Mr. Sanjeev Bhatia – CFO, Mr. Rajaram Sugla – President, Account and Taxation, Mr. Nitin Jain –Head of our online business as well as Mr. Nikhilesh Govil – President of Small Stores. I am sure that you all must have gone through our financial results and the presentation uploaded on our website as well as Exchanges website.

We have been able to cover a lot of momentum loss due to long strike in Q4. From the industry view point the issue of excise was resolved amicably and all the operational issues were resolved. We are happy to note that the government went a long way to meet the industry demand and solve the practical issues. We believe that this along with the compulsory hallmarking is very important step making this industry more organized and regulated.

Another important event during the quarter was nearly 10% hike in the gold price though this dampened consumer sentiment initially it has helped us in pushing the diamond jewellery sales vis-à-vis gold jewellery. I am glad to advice that the company has achieved highest ever percentage of diamond jewellery in this quarter though I would also like to emphasize that we are always on the job by introducing new varieties and ranges of jewellery at regular intervals.

We also launch our lightweight Flexia Three collection of diamond jewellery during this quarter though the price has been kept in an affordable range and which is aimed at the younger generation and the daily wear segment. The company has achieved 10% sales growth during this quarter. This growth has mainly come from the new stores and the same store sales growth has remained flat.

The company has finalized its vision for five-year growth and expansion target last September and fund requirement for its next phase of expansion. The company plans to increase its expansion rate across various store format setup a new manufacturing unit as well as investing technology upgradations. We are very glad to advice that we have been able to do it very successfully with two investors investing in the form of convertible security. The company has already received fund from the DVI and the financial from the SMR is expected to be completed within this month August only. This fund raise is expected to be sufficient for the company to achieve the growth target and the expenses once finalised last year.

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Management:

Mr. Balram Garg
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Mr. Sanjeev Bhatia
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Mr. R.K. Sharma
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Mr. Rajaram Sugla
President, Account and Taxation
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Mr. Nitin Jain
Head of our Online Business
PC Jeweller

Mr. Nikhilesh Govil
President of Small Stores
Pc Jeweller

We opened two new stores in this first quarter, one is Delhi, one is Dhanwar, Bihar. We also entered over eighteenth state by opening our 63rd store at Bhubaneswar, Odisha on the 3rd July. We have developed different formats catering to different customer segment, large format at high street targeting rich and upper middle class, small format at local markets for middle and lower middle class we have to take geographic spread, we plan to have our own stores in metros in tier one locations and franchise stores in tier two, tier three and tier four.

Going forward we will continue to focus on growing all the formats and are targeting opening 20 to 25 new stores during FY2017. Our online business is doing well. WearYourShine.com is great, complement to our physical showrooms and aligned with our strategy of targeting future wedding jewellery customers at an early age.

WearYourShine is a curated jewellery market place and unlike the other market place jewellery platform has a strong business model and paired to profitability. We are getting good quality visit, transactions and repeat purchases and have now more than 8000 designs lying on the website. We have also finalized plans to launch AZVA Ethnic and gold jewellery brand in this quarter and we are looking to leverage this brand to further enhance our trends in high-end wedding jewellery market. Our work to on smart jewelry is progressing fast and we hope to launch the same commercially in late Q2 or early Q3. I now leave the forum open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Akash Jain of Creador. Please go ahead.

Question and Answer Session

Akash Jain:

Balram Ji I have two questions, one is related to the fund raise like you said we have done a fund raise from Fidelity and DVI can you give us a little more detail in terms of the end-user for things a little more detail in terms of capital expenditure working capital etc.? I want to understand whether we are trying to do more fund raising in that three four years or you have raise funds for your requirements for how long, so that is the second part and the third question is on the diamond jewellery so obviously as you said this quarter was a significant growth in diamond jewellery so any specific reason how we were able to achieve such high growth of diamond jewellery in this quarter?

Balram Garg:

To your answer for the first question this industry now this is a $50 billion market this industry is more than 3 lakh Crores market and the organized sector is only 20% so there is a huge shift from unorganized sector to organized sector and earlier we were opening around ten stores, because whatever profits we have in the company after paying the dividend that profit is sufficient to open ten to twelve stores every year, but we want to increase the pace of the stores, because we want to capture more market, and we want to capture the more market share and so company have finalized their five years growth plans last year and first of all this now from this year onwards we want to open almost more than 20 stores every year first we want to increase the pace. So for the capex of the stores and also the inventories of the stores we require fund to open if we want to open more stores number one. Number two we have a manufacturing facilities who can cater only the next two year demand. And we want to set up a big unit, two big manufacturing facilities for the future to cater the future demand, because we are opening so many stores every year and our business model is we do not depend on the more outside job workers or the we do not purchase jewellery outside and so that we require big manufacturing to cater the future demand. So that is why we raise this fund and now we do not require any fund for the future note, and we can easily open 20 to 25 stores every year and we can easily set up the new manufacturing facility after we have raised this fund. And your second question I think Mr. Sharma; however, the diamond jewellery you can answer.

R.K. Sharma:

Good evening. As far as sales of diamond are concerned during Q1 our total sales proportion of diamond jewellery were 37.18 our total sales while during Q1 of the same that preceding year it was 32.34. The growth was contributed by three factors. Number one diamond sales are good in the month of March every year, since during this March business was totally closed due to strike we got postponed sales in the month of April onwards. Secondly we launched diamond light weighted collections and focused our media campaign purely on diamond due to rise in gold prices also we could convert customers to diamond for purchase of diamond. Number three we organized diamond factory at various showrooms during the quarter. These are the mainly three business due to which we could achieve this robust growth of around 70%.

Akash Jain:

Thanks.

Moderator:

Thank you. We have the next question from the line of Ashutosh Adsare of SBI Capital Securities. Please go ahead.

Ashutosh Adsare:

Thank you Sir for giving me the opportunity. I have three questions. Continuing on the first question member asked the fund raising so could you quantify how much for store expansion, how much for facility and others and working capital?

Balram Garg:

Actually there are three things one is the capex for the store. There are three things in our stores expansion. One is when we open a store we require a capex to furnish the store. Number two, we require diamond inventory and we require gold inventory. So if you talk about the gold inventory we take gold on lease, so we do not require, we only require margin funding to take the gold number one. So we require money for the diamond inventory and the capex of the store and so right now we are opening around 10 stores so we are doubling the store almost 20 to 25 stores so if you talk about how much money we require for the stores and how much we require for the factory around if you say around 60% money will go for the store expansion and 40% will go for the factory.

Ashutosh Adsare:

Sir second question is you said you are planning to expand 20 to 25 stores across all formats so can you breakup how much in large format, small format and franchisee as well?

Balram Garg:

Actually if you talk about the franchisee stores right now we have already finalized five franchisee right now and this year our target is to open only the five franchised stores and if you talk about the small format in this format also we are opening around five to seven stores, five stores in this small store model and the balance stores we are opening in the large format.

Ashutosh Adsare:

The last question data point what is the volume of gold that you used to share earlier any kgs in this quarter as well as in the last quarter?

Balram Garg:

Actually we are not a gold company so right now we have stopped tracking the gold volume, why? Because we are selling diamond jewellery, we are selling studded jewellery, the more profitable jewellery so this is not relevant because it will not give the correct picture. If suppose my one store is pushing of converting the gold jewellery customer to the diamond jewellery or the studded jewellery and right now we have started the silver jewellery also we have designer silver jewellery also in the store. So this is not relevant to track and we are not tracking the volume, so we are focusing more onto how to increase the possible jewellery item sales right now we have started the stone sale also so we are selling the Garland Mala and everything so we are focusing more on the items where we can get more profit so we have stopped tracking the volume data and this is not relevant information.

Ashutosh Adsare:

One last question if I can squeeze in, Sir in the online portal WearYourShine last time you have given the revenue numbers so can you share for this quarter and the target for FY2017?

Nitin Jain:

See firstly for the online platform last year we moved it to the separate entity in July so for last year of eight months we clocked around 11 Crores of the topline so this year the momentum is very high and with the festive season coming we expect to sale to grow very fast but when it comes to the numbers that is something that we are not share in the public domain because that is something that we will share by the end of the year, but one thing what I can share you about the online sales is that unlike like the practical retail where you look at a Q-on-Q growth in online where we have targets, which is month-on-month target so the growth is rapid and our objective is to focus on a profitable growth so unlike lot of other online players who are more focused on spending money on ads and acquiring customers at any cost our focus is to grow smartly because this is one segment where we strongly believe that in online space it can become profitable and it can grow really fast.

Ashutosh Adsare:

Thank you Sir. That is it from my side.

Moderator:

Thank you. We have the next question from the line of Rahul Aggrawal of VEC Investments. Please go ahead.

Rahul Aggrawal:

Good afternoon. Sir, my first question was generic based on GST given this reference to your plans for growth over next three to five years the GST change anything whenever it becomes applicable?

Balram Garg:

Yes, actually the GST first the GST is well implicating companies who are doing business in various things, because we are procuring the raw material in one state and we are selling jewellery in other state. So right now we are saying double tax. So if GST comes it will help company that company will pay only one time tax so it will help company to reduce the cost number one. Now the question is rate? What is the rate in GST? Right now the government is proposing the rate, which we saw in the paper that they are proposing the rate from 2% to 6%. What we are hearing from the government that right now they are charging 1% VAT we are paying 1% VAT 1% excise and 10% custom duty so they are saying that the rate will not be more than 12% because if they will keep the rate more than 12% it will increase the growth. So suppose they keep this GST rate at 4% so they will reduce 2% custom duty so what we are hearing from them, so we are waiting that but so we are expecting the GST rate should be around 3% to 4%.

Rahul Aggrawal:

At 3% to 4% just for a sake of assumption, we think that overall on a cash outflow basis we should save money work with unorganized player is that understanding right?

Balram Garg:

Yes.

Rahul Aggrawal:

Secondly I wanted to know is the JFL scheme how is that doing in terms of addition of members per month and how much do you collect per member on an average and what is the outstanding balance today is it possible to share?

Balram Garg:

Actually in JFL scheme because we started last year JFL scheme and per member average per member we are at 3000 per member we have right now collecting.

Rahul Aggrawal:

That is per month right.

Balram Garg:

Per member, per month yes, and right now we have around 35000 members and because our business model because we have even earlier our out of total sales our 5% sales were coming from the scheme only and this time also we are expecting that we will achieve 5% to 7% sales from this scheme because our customer base is totally different because we have stores in high street so the customer base which we have they do not like to buy jewellery in this scheme so this scheme will not be very big, but we are expecting 5% to 7% revenue from this scheme.

Rahul Aggrawal:

And addition of member per month in numbers on an average I am just saying on an average how much do you add?

Balram Garg:

Around you can say 20% increment is there every year.

Rahul Aggrawal:

Last question on the debt side I am looking at your number is about 60, 65 Crores of interest we are paying for the quarter is not it so I was just trying to understand what is the non-fund exposure today for the company and what is the balance sheet debt?

Balram Garg:

You are right but these are the balance sheet items so we will discuss it in the second quarter right now we do not have the number.

Rahul Aggrawal:

I do not need the exact number what I was asking is any direction you can provide over next two to three years wherein the company headed in terms of.

Balram Garg:

It will not increase that I can say it will not increase.

Rahul Aggrawal:

Thank you so much.

Moderator:

Thank you very much. We have the next question from the line of Sameep Kasbekar of Emkay Global. Please go ahead.

Sameep Kasbekar:

Thank you for taking my question. Sir just wanted to understand what is the like-to-like sales growth for your stores in the quarter?

Balram Garg:

Actually the sale is flattish because there is a 10% growth overall for the whole company so the company growth is for the new stores, there are no same store sales.

Sameep Kasbekar:

Secondly Sir what is the growth outlook for exports so we typically had a single digit sort of a growth outlook for the revenues from exports but last two quarters we have been highlighting that we are going to exhibitions and showcasing our jewellery there so is there any change in strategy in that regard?

Balram Garg:

Actually right now from the export side we are expecting a definitely single digit growth last year but now we are taking the different. Like this Flexia jewellery that we want to sell global and this AZVA we want to pay this global and this smart jewellery which we are launching in October so that we want to take these jewellery global so our code with this which we are exporting earlier we do not see any further increment, huge increment. We are expecting 8% to 10% growth in that business, but because of these segments like AZVA, this Flexia jewellery or Smart jewellery we are expecting some increase in export business also because of these three brands.

Sameep Kasbekar:

And what is the reason for decline in our export margins?

Balram Garg:

Actually on a steady basis our export margin is 6% to 8% because we are doing two type of jewellery one is the designer jewellery, one is plain jewellery so if you see the export margin is around almost 7% so these are stable margin but if you see last year first quarter because of our margin in export only fluctuate because when the rupee, dollar fluctuate so because of that the margin increase in last year first quarter, otherwise our on steady basis our margins are only between 6% to 8% only.

Sameep Kasbekar:

My last question sir any change in our growth outlook for our overall business?

Balram Garg:

No there is no change and we are expecting because monsoon is very good and second is festive season is there in future and we are expecting a very good sale and gold price is also stable right now and I think government is also now encouraging this jewellery so we feel that the potential is there and there is a good scope of growth especially the stores which we are opening in tier two, tier one locations they are giving us very good traction and I think government employees are also getting the arrear so we are expecting a good sale in future and there is nothing we are expecting 8% to 10%, 15% to 20% growth we are expecting for the whole year.

Sameep Kasbekar:

Thank you Sir that is all from my side.

Moderator:

Thank you. Next question is from the line of Ashish Agarwal of Navis Capital. Please go ahead.

Ashish Agarwal:

Thanks for the opportunity. Just a quick follow up question on your previous response, the 15% to 20% guidance was for revenue and if you could also share the guidance for EPS and intended capex also for the year?

Sanjeev Bhatia:

Actually Ashish we really do not give guidance because this is not a practical aspect in the retail thing what we were just basically saying that as given the past projections we do expect that we will be able to maintain this momentum during the current year also it is not really watertight.

Balram Garg:

The one more thing I want to tell you that the as far as bottomline is concerned because we are more focusing on the profitable items and we are more focused on the diamond jewellery so you can predict in the same line we will achieve our bottomline also.

Ashish Agarwal:

My next question, which is just to confirm the 37% diamond and the domestic revenue that representative of steady state from here on or you expected to trend downwards?

Balram Garg:

Actually this quarter it was especially good and we are not expecting that in every quarter we will achieve the 37% but definitely in future because the customers are liking our stuff in diamond jewellery and we are making stuff for every segment so we are hopeful that it will be better than the last year and we are hopeful that internally we have targeted for the whole year is around 35% for the diamond jewellery.

Ashish Agarwal:

Thank you so much.

Moderator:

Thank you very much. We have the next question from the line of Janaki Raman of Franklin Templeton. Please go ahead.

Janaki Raman:

Good afternoon Mr. Garg. I wanted to understand the rational behind this capital raising so you are raising about 260 Crores right?

Balram Garg:

Yes.

Janaki Raman:

So the business seems to be reasonably profitable and you are saying that for the working capital mainly for the inventory you go for leasing where only margin funding is required from your side so what exactly is the need for this additional capital?

Balram Garg:

Actually because we open the large format stores so we require a good capital to open a store so whatever profits in our company yes we have a good profit and that is why we are opening every year 10 to 12 stores every year and there are two types of inventory now almost 50% inventory is the gold inventory and 50% inventory is the diamond inventory and there is around 6000 per square feet expense for the capex so one is capex one is the diamond inventory, whatever gold inventory required we have to give 20% margin to the bank so that 20% plus the diamond inventory and for the capex there are three things we require and still we require. So whatever profits in our company and whatever cash flow we have after paying the dividend we can easily fund for ten to twelve stores, because right now the market is changing so fast and we want to be the leader in this industry and we want to be in the top three only, so we want to capture the more market share we want to open store everywhere whether the tier two, tier three, tier four and tier one and we want to capture the every segment whether this right now from the super rich class we are targeting from about that launches we have ten to twelve launches in our stores and upper middle class and the rich class we are targeting from our stores the high street stores and the lower middle class and the middle class now we are opening the small format stores so we want to target every segment and we want to target the every place of the country with the different, different models so for additional stores we required fund number one. Number two presently earlier I said that we require the big manufacturing facility because in future after ten years when this business will be in the hand of only the 20 to 30 players, that time when the competition is there right now there is no competition because the market is from base it was 80% unorganized sector and we are getting shares on the unorganized sector, but after ten years when 20 stores in a street the customer will buy item from only they buy from those companies where the rates are reasonable and the designs are different so if I have my own manufacturing facility so I can pass that margin to the customer so right now that is why our business model is totally different and right now we are 70% manufacturing in house and 30% outside only and in future also because we are opening so many stores so we required big manufacturing facility so we will that is why we raise this fund and now for the future we do not require any capital for our future growth.

Janaki Raman:

So you have about 63 showrooms as of now if I take three-year view what kind of potential we have to grow this network?

Balram Garg:

Surely this year to rise this we are opening 20 to 28 stores and next year onwards definitely we will increase the pace so what I can say that at least you can predict that there is three years we will open more than 75 stores minimum.

Janaki Raman:

So you more than double the current network.

Balram Garg:

Yes.

Janaki Raman:

The second is the increase in margin that you have reported in the domestic segment this quarter is it only driven by this higher share of diamonds?

Balram Garg:

Only driven by the share of diamond.

Janaki Raman:

Many of the jewelers all of them are taking refuge in sale of diamond jewellery in order to increase their margins so this kind of exceptional margin that diamond jewellery seems to be delivering right now is that sustainable?

Balram Garg:

Actually I do not agree because if you see all jewellery company, which belongs to south, they do not have much diamond jewellery and their focus is gold jewellery. I think most of the companies have only 5% to 10% diamond jewellery then more than 90% is gold jewellery sales. So what our company feel that there is a less competition in the diamond jewellery and there is a more competition in the gold jewellery hence from the first we are when we started our company we are focusing on the diamond jewellery so we have a very specialized thing that is why we are launching the new, new collections so we do not think in near future there is a competition in the diamond jewellery but definitely if you have unique items and if you have value for money if you are charging less from the customer and you have unique designs so you can sell more. Our focus is more on diamond jewellery in future outlook.

Janaki Raman:

Lastly Sir does rise in gold price does it help or hinder demand for jewellery?

Balram Garg:

Actually I think if the gold price is higher or lower it does not affect the sale, but definitely when price fluctuate that time customers stop buying but now when the price is stable that time customer buy so sometime they postpone the demand or prepone the demand only so as a whole if you see it will not affect the demand if the gold price is higher or lower but it will prepone the demand or postpone the demand.

Janaki Raman:

Thank you Sir that is all from me.

Moderator:

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

Vivek Tulshyan:

Balram Ji I wanted to understand what is the impact of the pan card requirement on the overall demand and sales?

Balram Garg:

Actually yes if you talk about the industry, there is an impact of the pan card and even our company there is an impact of the pan card. If you talk about five years back that time there is no requirement of pan card but five years back government imposed the pan card for more than 5 lakhs. So for a certain period it affects the demand definitely but right now it is very difficult to say that how much it will affect because now it did not said only pan card required. If a person does not have the pan card we can take the identity proof also. There are some document, I think there is a list you can pay for Form 16 you have to go to the Form 16 you can take the Aadhar card, you can take the election photo ID card, you can take the ration card, you can take the driving license, passport, pension photo so there are at of 14 that you can take, so now definitely we are getting the pan card also and we are getting the other things also so it will take more time to assess how much affect but we do not think that there has been more because from last one year we are preparing ourselves and we were earlier if you can see about 30% sales more than 2 lakhs but now the number has reduced to almost 15% to 18% so people are giving the pan card and we cannot say how much impact but definitely it will impact, there will be an impact of around 5% for this pan card.

Vivek Tulshyan:

Thank you Sir.

Moderator:

Thank you. We have the next question from the line of Abhas Gupta of Kotak Securities. Please go ahead.

Abhas Gupta:

I just wanted to ask on this domestic margin front again you did highlight that the improvement in domestic gross margins broadly because of the mix change essentially from gold to diamond, but if I do the math normally you have 10%, 11% gross margins in gold and about 30% odd in diamond that would hit the current mix in the 1Q FY2017 or would just add up to about 18% in that based and does not tally to 21%?

Balram Garg:

Actually on a steady basis the margins are 60% to 70% so mostly 30% of diamond jewellery.

Abhas Gupta:

No I am taking the current mix only?

Balram Garg:

Second is if you take the 37% and one more thing is that in the new collections if you talk because we are launching the new collections so we are charging more in those collections, and if you see the gold margins also we are selling more designer jewellery. We take 10% to 12% if we are selling more designer jewellery the margins are 12%, if we are selling the less designer jewellery the margin is 10% sometimes 11%, 1% or 2% fluctuate because of the seasonality that what type of items people are buying more so only the margin increase is because of the mix change in this and one more thing is there when we talk of diamond jewellery, we talk only the diamond jewellery. Now the company is selling the studded jewellery also more company is more focusing that studded jewellery sales will account under the gold jewellery and that studded jewellery also we are starting more compared to the plain gold jewellery.

Abhas Gupta:

So then this quarter let us say the gold the gross margins in gold and diamond itself would have also gone up materially along with the mix. It looks like if I do the math?

Balram Garg:

Yes, whatever new collection we launch we do not give any discounts and those are not part of the any scheme and because this Flexia is unique collection that in this collection we are not giving and this is not a part of the scheme and we are charging more in this collection.

Abhas Gupta:

But how much would they contribute because margins seem to have gone up like in diamond also from almost 30% to 35% and it is 5%?

Balram Garg:

No, we do not have number of the collection wise.

Abhas Gupta:

On the new collections roughly on average would be how much could pipeline 10%, 20% for this quarter?

Balram Garg:

Actually because we do not have the number so as we cannot say how much percentage would be.

Abhas Gupta:

This expansion that you have seen in your gross margins within gold as well as diamond because of higher studded in gold and higher designer jewellery and new collections in diamond is it structural or this was more in 1Q?

Balram Garg:

No, can you repeat the question?

Abhas Gupta:

I am saying is this improvement in margin that you have seen both in diamond as well as gold because of your new collections more focus on studded all those things will this continue for this entire year and going forward to be structural or this was something which was one time focus this quarter?

Balram Garg:

We are focusing on these items and our company aimed to how to increase the margin first our focus is as I told earlier that if we want to be in the competition that we have to create new things and we are creating those things and a total this year we are launching six new collections in gold and diamond and acquiring AZVA is part of that because AZVA we can charge highest making charge, AZVA making charge is more than 25% so company is more focusing on the how to increase the margin that is why we are launching new collections and new things.

Abhas Gupta:

From the result of other players and what commentary we have in the jewellery players we have had that the last few months and overall demand environment has been extremely bad for the jewellery industry but your numbers suggest wise?

Balram Garg:

Sir actually we do not know the other players because every company has a different business model. We have a business model basically you know from the first year we are more focusing on the studded and diamond jewellery so for the diamond jewellery this quarter is very good. Definitely for the gold jewellery this quarter was bad and because of diamond jewellery our margins increased, our profit increased, but gold jewellery there is a less demand because if you see the import figure also almost the import is almost 50%. In gold this is definitely the gold business has declined for our company also. So gold jewellery yes there is decline in the gold jewellery volume and sales, but there is an increase in the diamond.

Abhas Gupta:

And would this be continuing in July because if I compare it with July the gold prices have gone up even further versus a month average?

Balram Garg:

Yes, actually July is almost a dull month for overall sales, but August onwards there is a good demand and because all festivals, Rakhi is in August and the demand increase from August onwards so July is always a dull month for us.

Abhas Gupta:

Thanks a lot.

Moderator:

Thank you very much. We have the next question from the line of Samarth Sanghavi of Phillip Capital. Please go ahead.

Samarth Sanghavi:

Good day Sir. Congratulations on a good set of numbers. Sir just wanted to understand I wanted to come to the question with respect to your new stores where do you see because we have seen that we are a bit heavy on the north and especially not in the south because again with respect to the customer preferences with gold and diamond where will a new set of stores be opened because we are looking at 75 storerooms in the next three years where do you think that you would be opening these stores?

Balram Garg:

Actually, I will tell you right now we are operating in the 80 states and except the deep south we are opening to everywhere so this year actually south we are opening stores base we can sell more diamond jewellery and we are targeting they are not the South Indian clients. We are targeting more in the North Indian clients there and we are opening store on the cosmopolitan city. So you can expect three four stores in south not more than that in the next three years our whole expansion will be on basically other than south and now we are opening once we are opening 70% stores where we already exist, our policy is we open only 70% stores where already exist and 30% we go to the new places, new states. So the policy remains same in the future also.

Samarth Sanghavi:

So where we already existing does that mean the state or the city?

Balram Garg:

The state, so the states where we already exist we open 70% so 30% we open the new states so this year we have already opened at one state is Odisha and we are getting one more state Maharashtra, so Maharashtra is going in first tier two and tier one city and after that we will open the other states.

Samarth Sanghavi:

Typically our cost of expansion of a new store would be remains the same as the metrics would remain the same?

Balram Garg:

It is only 10% plus, minus typically our cost is around 6000 per square feet for the capex.

Samarth Sanghavi:

My other question was do we expect exports because now that we are focusing more domestically and with the capex that we are planning do we expect exports to reduce?

Balram Garg:

No we do not expect the export will reduce because this export I think we are doing this export from last 25 years and we have a very good base in all over the world and people like our jewellery so we want to pay other brands. The main reason what we are doing it this is not we cannot increase suppose we are doing 2000 Crores or it is the 1800 Crores export, we cannot say we will double that export or we can increase from 1000 Crores in next two, three years but what we want to say is these brands like which brands, which we are launching for the smart jewellery and this AZVA brand then Flexia we want to pay these brands to the international markets and that is why we are taking the participation in the exhibition and we are getting very good response from the international market so we will increase visit in these brands.

Samarth Sanghavi:

I am sorry I joined a little late probably could you tell me if you could give me the matrix for same store sales versus new store sales.

Balram Garg:

The same store sales growth is not there in this quarter. It was flattish and because as a whole company level the growth is 10% and the growth is coming from the new stores only.

Samarth Sanghavi:

Thank you so much and all the best Sir.

Moderator:

Thank you. We have the next question from the line of Sagar Karvat of Nirmal Bang. Please go ahead.

Sagar Karvat:

Thanks for this opportunity Sir. I have two questions one is, is there any typically consumption pattern on diamond when you see in tier one city versus in the tier two cities if you could throw some light on how the consumer pattern is? Secondly when you talk of doubling our store counts over the next three years I just wanted to understand that when you are opening new stores do you anticipate any risk in new customers working in and getting use to the brand and actually buying diamond jewellery vis-à-vis your existing stores where you already have a loyal customer base? Thank you.

Balram Garg:

Yes actually you are right that when we open new stores in the new areas that are why we are not opening store only for the present. We are not going to the market it is where we do not see that people know our brand or they will buy from us. That is why we are opening 70% stores where we already exist. It means that people know our brand and 30% we are opening in new states so we are opening like this and as far as the diamond jewellery sales when we open a store in the new cities definitely that year the diamond jewellery mix is have almost 20-80 slowly, slowly increase the diamond jewellery so in some, the old stores, some our old stores are doing 50% - 50%, 50% diamond jewellery and 50% gold jewellery, so slowly, slowly customer start buying the diamond jewellery and our showrooms convert our gold jewellery customers to diamond jewellery customers, and your first question was.

Sagar Karvat:

In the consumption pattern of our tier one city customer versus?

Balram Garg:

Right now this is a very good question right now we are getting very good because this aspiration the medium class that they want to buy earlier they were buying only the gold jewellery now they are start buying the diamond jewellery so there is a very good response from the tier two cities and the tier one cities of the diamond jewellery slowly, slowly we are expecting that we will get a very good business from the tier two and tier three and the tier one cities.

Sagar Karvat:

Sir just one follow up with your opening a store, which is near your existing store or where the customer know your brand, is there not a risk of cannibalizing your existing store sales?

Balram Garg:

No right now actually customer prefers to buy jewellery from the nearby market so now we have to reach customer do not travel more to buy jewellery so now, because we have already touched it this quarter and we have earlier like Delhi, we have stores in every market, and some other cities also where we are opening stores, the markets are different and even some markets like in Delhi some markets where only medium and lower medium class buy jewelry and in some markets only the upper middle, rich class and super rich class buy jewelry, so markets are different and customers buy jewelry from the different markets so we do not see that.

Sagar Karvat:

I am not still very clear Sir. My question is if you have a store in a particular locality where the customer knows your brand, does it not cannibalize having a new store in the similar market?

Balram Garg:

Similar markets, support we have a particular store in a market, so when we open another store, so we study that in this market from which colonies we are targeting and when we open a store in the new market so that the new market the customer base is totally different, so we do not think that if I open a store nearby the market the other store sale suddenly will be down or we do not see that.

Sagar Karvat:

Thank you Sir. Good luck. All the best.

Moderator:

Thank you. We have the next question from the line of Vivek Mavani of VMFS. Please go ahead.

Vivek Mavani:

Good afternoon everybody. Thanks for taking my question. I would like to understand your margin matrix better in terms of two things. In a scenario of gold prices going up every month, I mean that is what we have seen in 2016 every month the gold prices have been higher, so how much do higher gold prices result in a margin expansion? That is number one, I mean, if there is any contribution. You may not be quantifiable at least directionally what does it mean in terms of margins? Number two; I am going back to the diamond versus gold mix. So if diamond is a more profitable and there is going to be, but is it a secular trend that one can understand that margins will continue to get better as your contribution of diamond jewelry in your total sales increases. So basically wanted to understand the margin drivers on these two parameters?

Balram Garg:

Actually if the gold prices are going down or going up, it will not affect our margins. Our margins are steady. It will not affect our margins. Margin effect when we sell more designer jewelry or we are charging more in the designer jewelry the margins is basically gold rates it will not affect our margins. Number one. If the gold price is going up or going down, if the gold price is going down, it will not reduce our margins, in fact if the gold price is going up, it will not increase our margins. Number two, in diamond jewelry definitely diamond jewelry right now there is no competition and we do not see in future that there will be a competition that if we sell more diamond jewelry and so there is a competition that we will not good margins in future so even there is a scope to increase the margins in diamond jewelry and we do not see that in the next three to five years say there is a threat from any competition that our margins will reduce because there are less players in this segment, in the diamond jewelry segment. There is more competition in gold jewelry segment.

Vivek Mavani:

But just coming back to your gold price assuming a customer buys gold jewelry today, obviously he has built base on the gold prices today.

Balram Garg:

We are charging on the per gram basis. We are not charging as a percentage basis.

Vivek Mavani:

I am precisely coming to that, on a per gram basis today probably he is paying a 31500 but you may have acquired that gold two months ago at may be 29000.

Balram Garg:

We are totally hedged. We are not playing on account of gold. We are buying gold on the lease basis and we are hedged company and we do not play on the price.

Vivek Mavani:

Thank you.

Moderator:

Thank you very much. We have a question from the line of Manish Poddar of Religare Capital Markets. Please go ahead.

Manish Poddar:

Just wanted to get some clarity on this new collection, AZVA collection or the brand, which you have taken over what sort of pricing does it play in?

Balram Garg:

Actually AZVA is the designer jewelry brand and this brand earlier was with World Gold Council. Now we have acquired this brand through our subsidiary and this brand we are launching this month and we are selling the AZVA jewelry from our own store also and from another company also. We are selling jewelry to the other companies also. Like we are in the markets where we are not there. So, we are selling AZVA from the other company showrooms also.

Sanjeev Bhatia:

So this will be sold primarily to the leading retailers within cities where PC Jeweller is not present and in terms of the price typically are located from grammage perspective the typical grammage of any AZVA item would be upwards of 30 grams up to 300 grams of gold.

Manish Poddar:

The margins on the same where are we trying to pitch in, so this is coming in line with Flexia or this is coming, I am just trying to figure out is this?

Balram Garg:

Basically the margins in the jewelry which we are selling on our own stores definitely the margin is more in the AZVA brand if you compare to the other jewelry and we say that one is we are selling it out from our own stores. Second is from the other companies leading stores. So in theirs that is our B2B business. In that the margins are less for the company.

Manish Poddar:

I will take this offline. Just a thing, how much would Flexia of the total sales now?

Balram Garg:

We do not have the separate number right now.

Manish Poddar:

No worries. Thanks.

Moderator:

Thank you. Next we have a follow up question from the line of Vivek Tulshyan from Creador Advisors. Please go ahead.

Vivek Tulshyan:

Balram Ji, I have one last question from my side. If you look at inventory tonnes and we do not have inventory tonnes numbers for the quarter, I understand, but directionally inventory tonnes are dependent on two broad reasons. One is how many stores you open, how many matured, and non-matured stores are there, and also inventory tonnes is dependent on your share of diamond to gold jewelry because diamond inventory terms I understand is lesser than inventory tonnes on gold, directionally where do you see inventory tonnes being for the firm because could that extent impact the overall inventory and working capital requirements for the company?

Balram Garg:

Actually if you say our inventory tonne is in the line of other jewelry companies, so right now you can say our inventory to sale is around 1.45 and in future definitely we will maintain this because we are opening this because we are so many stores and when we open 20 stores this year, definitely we are not getting the full year sales, but we are putting the inventory. So we are managing our inventory very well and our inventory tonne will not be less than this 1.45 and yes earlier when our business was very small you can say three to four years back, that we had only 20 to 25 stores that time, that time our inventory tonnes were higher because there are two reasons; one is the diamond jewelry sales were less that time and secondly the operations of the company was small, and we were not opening every year the ten stores. We are opening at that time two to three stores every year. So in future definitely we will maintain this even we are opening 20 to 25 per year, so we are very hopeful that we will maintain this inventory.

Vivek Tulshyan:

Thanks.

Moderator:

Thank you very much. Next question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera:

Good afternoon Sir. Thank you for this question. Sir, I just had one small technical question. Like you take a lot of gold on lease and if tomorrow the government announces an import duty cut, so how does that effect your profit and loss account or you are still hedged?

Balram Garg:

If the government raise a duty cut because we are hedged with a price, there is no risk on account of price. If any duty cut is there, definitely it will affect, if the price reduce, because on account of duty, definitely it will affect the profitability, not profitability, but definitely we have to reduce the inventory valuations because you cannot hedge the duty, so we have held the price.

Sachit Khera:

That was all from my side. Thank you.

Moderator:

Thank you very much. That was the last question. I would now like to hand the line over to Mr. Sameep Kasbekar of Emkay Global for any closing comments.

Sameep Kasbekar:

I would like to thank once again the management for giving us the opportunity and thank all the participants for joining in the call. I would now like to hand over the call to Mr. Garg for closing comments.

Balram Garg:

I will say the vote of thanks. I would like to thank everyone who took time to listen and ask questions, and encourage us in for our future endeavors. Thank you very much.

Moderator:

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

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

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

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