



PC Jeweller Limited Q4 FY 2016 Results Conference Call

May 30, 2016



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Moderator: Ladies and gentleman good day and welcome to the Q4 FY2016 results call of PC Jeweller Limited hosted by Emkay Global Financial Services. We have with us today Mr. Sanjeev Bhatia, Executive Director and Chief Operating Officer, Mr. Sanjeev Bhatia, CFO, Mr. Rajaram Sugla - President Account & Taxation, and Mr. Nitin Kumar Jain, Head, WearYourShine.com. As a reminder all participants' line will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal the operator by pressing * and 0 on your touchtone phone. Please note that this conference has been recorded. I now hand the conference over to Mr. Prashant Kutty, research analyst of Emkay Global. Thank you and over to you Mr. Kutty!

Prashant Kutty: I would like to welcome the management of P.C. Jeweller and thank them for giving us the opportunity to host this call. I would hand over the call to Mr. Sharma for his opening remarks. Over to you Sir!

Sanjeev Bhatia: Good evening. This is Sanjeev Bhatia. I will be making the opening speech. In case of any query or clarifications that can be taken from Mr. Sanjeev Bhatia. Good evening ladies and gentlemen. Many thanks for saving your time and joining us on this call. Me and my other colleagues are here and if you have any query clarification, please feel free to call back.

I am sure that you must have all gone through our financial results and the presentation uploaded on our website as well as the exchange kit. Q4 has been a tough quarter for us owing to nationwide protest by gems and jewellery industry against imposition of 1% excise duty. Sale for most of the month of March got impacted. Most of our showrooms are in North India, which was one of the most affected zones owing to the protest.

This also adversely impacted the percentage of our diamond jewellery sales as we generally carry out a significant diamond promotion scheme in the last month of the fiscal year. I would like to highlight the results for the current quarter that is Q4 FY2016 and the year ended March 2016 are strictly not compatible with the corresponding previous year financial. Q4 FY2016 and FY2016 financial should be in fact treated as two months and 11 months respectively for analysis purpose. We opened four new stores in the first two months of the quarter at Yamuna Vihar Delhi, Gaya Bihar, Jamshedpur Jharkhand, and Udaipur Rajasthan.

We have developed different formats catering to different customer segments. Large formats at high street targeting rich and upper middle class and small format and local markets for middle and lower middle class. If we take geographies thread, we plan to have our own stores in Metros, tier I, and select tier II locations and franchise stores in tier III and tier IV. Going forward, we will continue to



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focus on going on all the formats and our targeting opening 20 to 25 new stores during the fiscal 2017.

I am sure you would be interested in knowing about the new rules of pan card for any sale above rupees two lakhs. This rule came into force on 1 January, 2016 and frankly it is too early to quantify its impact if any; however this rule is applicable on all sale purchases of rupees two lakhs or more and not only for jewellery. This is a new normal and I am confident that consumers will adjust to the same as they had adjusted to the five-lakh rule a few years back. We believe that all these regulations are aimed at organizing the jewellery sector, increasing transparency in the system and will have a positive long-term impact and benefit organized players like us. We also believe that if the consumers like the designs and the product being offered, they will not shy away from giving the required documents.

That is why we continue to focus on developing new designs and new varieties and giving a great shopping experience to our consumers. Our online business is doing very well. WearYourShine is a great compliment to our physical showrooms and alliance with our strategy of targeting future wedding jewellery customers at an early age. WYS is a curated jewellery marketplace and unlike other marketplaces or jewellery platforms, it has a strong business model and a definite path to proactivity. We are getting good quality visits, transactions, repeat purchases, and now have more than 8000 designs live on our website. We have recently acquired Azva a premium gold jewellery brand from the World Gold Council.

We are looking to leverage this brand to further enhance our strength in the high-end wedding jewellery market. Our work on smart jewellery is progressing fast and we hope to launch the same commercially in late Q2 or early Q3. You are all aware that we have made a preferential issue of CCDs to DVI Fund Mauritius Limited that is Deccan Value. Deccan Value is a US-based multibillion-dollar investment partnership, which invests globally in public and nonpublic markets. It has been one of the earliest investors in PC Jewellers and this significant investment by them is a testimony to the trust and conviction that DVI team has placed in our industry potential, robust business model, and experienced management. DVI's representative Mr. Muneesh Chawla has also joined our board to support in our endeavour to build a world-class company. I now leave the forum open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin from B W Investment. Please go ahead.



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Nitin Mukhi: Good evening. Basically I have two questions. We are looking for 20 to 25 stores for the next year, so what kind of Capex are we looking at and in terms of timeline about reaching from 60 to 120 stores, what kind of internal targets that we are working with.

Sanjeev Bhatia: Now our capex remains at about 6000 square feet. The capex remains the same except from preferred franchise where the franchisee would be doing all the investment, so even if the store is big or may be small; the Capex per square feet will remain the same. So the final mix of out of if we take the example of 20 what would be the final mix whether large, small, or franchisee, so the final figure of Capex would be known only later on, but per square feet expenditure I have given you.

Nitin Mukhi: We have already had four franchise stores that are coming up, so any rough idea as to how many franchise stores we might be opening over a period of next financial year.

R. K. Sharma: So we are working on the franchise. See, franchise in the sense is not that you can open here or there or anywhere suddenly. In franchise, one needs to do a lot of due diligence initially get to know the background of the person who wants to become our franchise, his credit worthiness, his reputation in the local market because ultimately the consumers in the last will not know whether it is a franchise run store or a company owned store, the board is the same, so we are not in a hurry. We are moving cautiously and before giving any franchisee, we are doing our due diligence. So we cannot put a timeframe, but having said that I must admit we are getting a lot of enquires and lot of expressions of interest from various people who want to become our franchisee and we have got a very good choice, so there is no shortage of applicants in front of us.

Nitin Mukhi: Just last two questions. In terms of timeline when do we reach 120 from existing 60 stores and how do we plan to use 430 crores. I mean we would surely have a plan as to how much for expansion, what period of time, and how much of manufacturing capacity, so if you can just be a detailed a bit more as to how we plan to use this 430 Crores. Thank you.

Sanjeev Bhatia: So, this will be utilized in manufacturing and the capex of new stores. We have got sufficient cash flows to build up the inventory for new store, so if we continue to open 20 new stores every year, so 80 by March 2017 and 100 my March 2018 and within the next three years, we should be able to double our store count and the balance funds we will be utilizing within the business only. A very substantial portion would be going for setting up a new manufacturing unit and there are a lot of other issues also on which we would be spending the money, but it will all within the existing business only.

Nitin Mukhi: Thank you.



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- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** Thank you Sir. A few questions of year firstly if you could tell us what was the gold volume for the quarter and what is the gold volume for the full year?
- Sanjeev Bhatia:** Gold volume for the quarter.
- Prashant Kutty:** If you actually look it value you said that Q4 FY2016 numbers should be treated as two months only so while if you understand that was March was impacted, but probably from January-February perspective, how was the growth for January-February was with last year even a ballpark number would be fine and roughly with domestic business?
- R.K. Sharma:** The first 45 days of the quarter was very good. The demand started slackening of a bit in just about 10 to 12 days before the budget because people for the past one or two years they have been reworking as the budget would custom duty would go down, so people hold back in expectation so I would practically say the 45 days were very good, grace quarter then it does slid off.
- Prashant Kutty:** Sir, obviously when you made a comment that your SSG has remained flattish, again the same way I am referring to this 45 day period so do you mean to say that 45-day period and SSG number would also been in a healthy in a positive territory, if you could just give a sense in that.
- Sanjeev Bhatia:** It would not be practically possible for me to give you exactly 45 days.
- Prashant Kutty:** I am just says directionally, I am not asking for a number actually, because you say that SSG has remained flattish, so I understand we would also have an impact of one month as well, but that is why I am asking you from the two months perspective had this event not been there would we have been in the your normal course of events is what I am asking?
- Sanjeev Bhatia:** So, had the event not been there, so I am sure if you analyse our results, so they we are more or less where we were internally planning to be if you just analysis it was 11 months you will practically come to the exact figures where we also expecting to be.
- Prashant Kutty:** Typically March is a very strong month for us barring the fact that you have activation of diamond, but generally typically?



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- Sanjeev Bhatia:** In North India there are Navratri festival and all that also because after Holi festival there is a slack. People look at it after and then Navratri would be started, which is a main purchasing season, which continues akshayatritya. So we lost all that.
- Prashant Kuttly:** Typically, if you could just give us a sense as to how has April and May performance been, have we actually seen a pickup for that or when did this strike actually end and would there be any impact of this strike in the quarter numbers as well?
- Sanjeev Bhatia:** Strike basically ended about almost 10th of April.
- Prashant Kuttly:** So you will have 10 days impact on account that as well.
- Sanjeev Bhatia:** Yes.
- Prashant Kuttly:** How has the demand situation been in the last couple of months also taking into account the Akshayatritya season there as well?
- Sanjeev Bhatia:** If I put it frankly the demand was okay. It was nothing exceptional. Demand was okay. It was nothing exceptional, but I can only put it, it was okay in the normal what you generally expect in this quarter, nothing beyond that if you want to ask me was there any pent up demand which certainly came up our sometime frankly, we have nothing like that it was a routine thing only.
- Prashant Kuttly:** So while we actually said that in March you usually have your end of season or end of period activation or end of period promotion in diamond does that actually shift to the next quarter or it is just left out me, how does that happen?
- Sanjeev Bhatia:** That is what I am saying frankly we have not seen any ups and down demand after such a season, what we saw a very routine normal consumer purchasing after that strike period also.
- Prashant Kuttly:** I referring to you de promotion which you usually do in diamond in the month March, you said you did not do that so has had been?
- Sanjeev Bhatia:** We did that in this year akshayatritya.
- Prashant Kuttly:** We have done that in akshayatritya and ideally if I were to break it done in terms of how has gold demand and how has diamond demand been has any specific difference which you would like to highlight?



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- Sanjeev Bhatia:** Not, I would not be able to anything or so whatever.
- Sanjeev Bhatia:** But ideally this time your diamond sales would be much higher as compared to last year because is come in this year.
- Prashant Kutty:** I said ideally in this quarter your diamond sales much higher because your activation is coming this quarter, you are promotion is coming this quarter.
- Prashant Kutty:** Sir, just bookkeeping question over here in terms of manufacturing cost are quite significantly any specific reason over year to highlight?
- Sanjeev Bhatia:** Manufacturing cost?
- Prashant Kutty:** Yes, the other expenses basically, the other expenses almost about 31% for the quarter.
- Sanjeev Bhatia:** Quarter basically because the main quarter was 62, other expenses 67.3 and 62.50 nothing.
- Prashant Kutty:** Nothing outline over here?
- Sanjeev Bhatia:** Yes. Nothing.
- Prashant Kutty:** I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Anand Shah from Kotak Securities. Please go ahead.
- Anand Shah:** I just couple of questions, one is on the other expense I think there is big jump in advertisement I mean it has gone up from for about 20 odd Crores to 32 Crores and the domestic business this quarter what is the jump on account off?
- Sanjeev Bhatia:** Advertisement expenses you are taking about absolute number.
- Anand Shah:** Yes, absolute is gone up almost now 30, 40?
- Sanjeev Bhatia:** There were some expenses of Q3, which basically finally the bill got paid in Q4
- Anand Shah:** So that got essentially shifted in the working?
- Sanjeev Bhatia:** So if you look at the overall year, you would not see any impact.



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- Anand Shah:** It has not gone much? So it was just bunching up essentially, shifting?
- Sanjeev Bhatia:** Yes.
- Anand Shah:** Because this was just two month quarter period per se?
- Sanjeev Bhatia:** Yes, but actually from the expenses point of view it is a three-month only.
- Anand Shah:** No, I am saying in the add part, because you would not have done your normal promotion also right?
- Sanjeev Bhatia:** Yes, it is basically bunching of business, two three bills.
- Anand Shah:** Second, last year I remember you had told that the inventory has going up a lot and this was essentially partly because bunching up of larger stores that opened in 4Q and in inventory let say if I do it more on a personal basis, it has not come down much, exactly as not as what we would have expected this time do not have any bunch up us stores right in 4Q?
- Sanjeev Bhatia:** The only bunch up is on the opposite side, the inventory and as you said we have opened four stores in Q4 but the sales did not happen like we opened Udaipur store, I think February 28th, it just shut down on 2nd March. Similarly we opening Jamshedpur one week prior to that.
- Anand Shah:** But still if I take?
- Sanjeev Bhatia:** If you look at our overall sales versus inventory I am sure you will find the ratio is as per the norm. It is nothing out of the way.
- Anand Shah:** It has come down only marginally, if I were to look at let us say 2012-2014 period the days of domestic sales will be much lower than what has been for the last 10 years in 2015-2016? Sorry, if I take inventory, the days of domestic sales used to be about 210 to 220 days of sales. This has gone up to 260 in 2015 and still now it also looks like about 250-odd.
- Sanjeev Bhatia:** I think it is 190 or 194 now.
- Anand Shah:** 191-194 is the total days of sales, but that would still be upright instead of 185 days to 194 this number used to be 140 to 160 in 2014 if I take it as a total, it has gone up materially?
- Sanjeev Bhatia:** This thing would not come down, but what I feel around 200, which we tried to explain last year also.



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Anand Shah: That was 200 or 210 days of domestic sales, right because this 190-odd number is more on the total debt? Number is actually going up much faster than the mode of revenues? It is just going up.

Sanjeev Bhatia: Again, what happens is if you look at this thing, you open four stores in the two months and then no sales takes place in the last month, obviously if you and one way of looking maybe if you analyse our sales then perhaps I am sure the number would look much differently.

Anand Shah: Second thing also, your interest expenses in absolute terms has actually gone down, whereas your borrowing has gone up. How do we read into this?

Sanjeev Bhatia: Borrowing is not anything to do. The borrowings are at the same level for throughout the year. If the borrowing have actually also jumped up in the last month, because there was no cash flows incoming, but you had all the expenses to meet on your gold loan, whatever at the sectoral level etc., you had to pay them. So it is not that it was throughout the year and the interest is the accumulation of the complete year, this figure is a single digit.

Anand Shah: There is nothing like a lower margin or gold on lease or nothing like that. Those remain constant. These are the borrowings that you have done in 4Q?

Sanjeev Bhatia: But the overall still the borrowings have declined in spite of what I am saying. In spite of increase in operations and increase in gold loan lease and everything, what I am saying is you do not look at the absolute amount of debt as on that date only.

Anand Shah: This will come down in 2017 automatically?

Sanjeev Bhatia: I am not very sure absolute thing, absolute thing since the operations are increasing, so I am actually more worried about the ratio. So our percentage finance cost has declined substantially which is a good thing, rather than the absolute thing the percentage we should be looking at more.

Anand Shah: Lastly this thing on breakup of funds that you have raised from DVI can you give any breakup how much was last year?

Sanjeev Bhatia: The transaction has just been completed. So we are being on a major heads in which these funds would be utilised, but what exactly breakup as on date nothing as important to note.

Anand Shah: Any part of this would be utilised to repay debt or so.



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- Sanjeev Bhatia:** We do not have debt assets. We have working capital limits. We keep on moving or shifting. It will be used for further business expansion only.
- Anand Shah:** I will come back for more questions. Thank you.
- Moderator:** Thank you. The next is a followup question from the line of Mr. Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** Sir if you could just give us some qualitative comments on the exports business for the quarter, because if we look at it the margins have come down. I believe it is a function of forex gains, but if you could just tell me more on the exports business?
- Sanjeev Bhatia:** Forex gains or losses are frankly bonus or debt investment that we have created in the last moment, which we do not know till the last moment, but what I can say to you is that overall due to the very huge decline in the oil prices basically majority of the jewelry goes to gulf states. There has been a strain there let us not forget about it, and the people have been shifting from more designers and more complicated to more plain and we were also forced to reduce our margins in order to maintain. So the factor for oil price decline on the overall economy has been there and this has impacted us also. So that is why it has impacted us also. So that is why now we are thinking very seriously into see how much and to what extent can we diversify our export business also, since we are now introducing some new ranges and new varieties so we are trying to judge whether they have export potential so that is why we have mentioned that we want to diversify to the extent possible in more value added items rather than depending on clean gold jewellery only.
- Prashant Kutty:** Are we looking at new export country options as well?
- Sanjeev Bhatia:** Actually smart jewelry Gracia as well as gold but we are keeping a look out. It is not that we will be concentrating only on jewels, yes, for smart jewelry perhaps we may enter in western countries also, and these are market because this is not necessarily what appeal to India Muslims only because these type of jewellery and Flexia right way it can go and appeal to all.
- Prashant Kutty:** Sir, if you can actually help us understand you just said that you are looking at almost about 25 to 30 odd stores addition, if you could just give us the breakup as to how you are really looking in terms of how would the large stores number be and how would that let us say for smaller stores and also if you could just give us some qualitative for as to how the initial pick up was there vis-à-vis the smaller stores are concerned and also the franchise format as well while we understand it is still very early days, but if you could give us some sensible thing?



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Sanjeev Bhatia: We opened one small store in January and the other we are opening in April and as the results of both the stores have been very good and we are encouraged by this thing. It is not something quite a regulation for us also because right under our noses, we keep on talking about.

Indian jewelry being unorganized and huge market right under our noses we did not know that within Delhi there is a huge market, in which there is no branded player. So want to fill in all those gaps first, small stones we have, it is basically but small stone is actually slightly misnomer, which we all know. It is small to cater to that specific locality only. If we put up a store like Karol Bagh or South End in a low market locality, low-income locality, then it would not gel in at all, it will just stand out, and people of that locality will not enter that store. Mall is something, which is in line with existing stores of that area, but if you enter the décor, staff uniform, interiors, ACs, everything is as per the large luxurious showroom, so it is small only in that because it has to gel into that area.

Prashant Kutty: But what would be the size of the store?

Sanjeev Bhatia: About 1100 square feet.

Prashant Kutty: Out of which 20 to 25, which you are talking about how much, should be large format and small format?

Sanjeev Bhatia: Large format should be about 10.

Prashant Kutty: Balance 10 would be small and the balance 5 would be franchise that is how we are looking at.

Sanjeev Bhatia: More or less, yes. This is a very new asset for us. Small is something which we frankly after being in so for many years we did not realise that.

Prashant Kutty: Sir, looking forward obviously how are we anticipating, obviously we do understand that the pan card impact is yet to be known as per the system itself is concerned, I am sure you would have seen some impact of the same in this quarter as well, but just to highlight over here, how do we really see the demand scenario in terms of overall demand and what are the growth rate that we are kind of expecting and also in terms of how are we looking at the gold and the diamond mix as well going forward. Do you feel that somewhere diamond mix has peaked out or do we feel that there is scope and subsequently you will take the margins as well.

Sanjeev Bhatia: We sincerely believe that the diamond sales should pick up this year. Actually it is not in our hand, but whatever the consumer comes in purchases, we can only offer him the variety and the range and that is what we have written in presentation also, this would make us work doubly harder to give



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more range and more variety to the consumer. Ultimately, it is not in our hands, what the consumer picks up, but we have achieved 13% or 13.5% before and we feel that we should be able to go back to that figure.

Prashant Kuttly: What is your overall outlook as far as sales growth is concerned?

Sanjeev Bhatia: Sales growth whatever growth rate we have been achieving in the past we should be able to maintain that because if we managed to have a roll out of stores, so sales would come up and if what 10 stores is open doing this March FY2016 to start giving us complete sales during FY2017 so sales growth has to be there, but being in a retail business, I cannot exact a put a figure on it whether it will be 14.5% or 15.5%. There are lots of variables; permutations and combination will come in the last moment.

Prashant Kuttly: Just last one from my end. Would you be able to give us some sense as to what would be the overall sales of Flexia collection and also you have just written in the presentation about being launched in above 150 to the 2 lakhs range we are addressing that segment as well. If you could just help us understand as to what would be the overall sales of that brand be actually at this point of time?

Sanjeev Bhatia: We do not have that showroom wise, because the bills, which are generated in the system, they do not differentiate between Flexia and that. The only difference is because it is not so easy, you need to produce manufacturer, so whatever we are able to manufacture and sell it to store gets sold. So practically we are working at our full capacities. As the results are encouraging so that is why we are developing more and more varieties and ranges in the same.

Prashant Kuttly: Lastly Sir the gold volume number which you are supposed to give me?

Sanjeev Bhatia: We will share one to one.

Moderator: This is the next question from lineup, Anand Shah from Kotak Securities. Please go ahead.

Anand Shah: Hi Sir, just wanted to clarify on this DVI preference. There will be 13% coupon, right, for 18 months?

Sanjeev Bhatia: Yeah. Eighteen months is the max, so it is possible they may convert earlier so.

Anand Shah: Secondly you added just about 10 stores in FY 2016, what gives you confidence that you will be able to add again 20-25 stores now?

Sanjeev Bhatia: Before IPO it was four to five stores in a year. So, once we had influx of funds, we could then increase the pace to about 10 stores. We have even opened 12 stores, now we have reached a level



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where 10-12 stores is the new normal for us. So, with this infusion of funds, we want to push to a higher scale that was the entire purpose. Otherwise we were, in any case, opening from internal sources. So, now we have got adequate bandwidth, we have got execution teams with us with reliable source of funding.

Anand Shah: Okay. Lastly, again, coming to that inventory piece, what would the average inventory per store be?

Sanjeev Bhatia: Will be impossible because at various locations the stores, but average inventory should be about 20-25.

Anand Shah: But again, I mean, this year you added example 10 stores and amount of inventory that has gone up is more like 650 odd Crores.

Sanjeev Bhatia: See, because, as I said there is always an inventory. This is not a just in time inventory, Anand, which you can just bring in and produce jewelry. Jewelry, etc., takes time to manufacture especially in the case of diamond jewelry, you have to have a big stock of loose diamonds, because gold is 24 carats, but diamonds you have got thousands of permutations of color, cut, clarity, category, price and in various areas, consumers have different demands, they have demands for different type of, even within the same, what we say, category, people in one area would demand a different color. So, in diamonds this is actually a negative point. Diamonds do take up a huge lot of your working capital and I think this is an international trend also, I mean, you would be more aware of this thing rather than me even internationally, that working capital of diamond goes up for more than a year.

Anand Shah: Yes, that I am aware. But have you increased like the number of designs or something that is there?

Sanjeev Bhatia: Yeah, yeah, that is what. We have been infusing new ranges, new, that was this thing.

Anand Shah: Okay. Lastly, any numbers you can share on WearYourShine.

Nitin Jain: We moved the business to the new entity sometime mid of July and in the last 8 months we have clocked roughly around 11 Crores of revenue. So, from our perspective, it is a steady growth. Unlike many other players, we are not burning money, so we have a very clear path to profitability. We strongly believe is that jewelry is one space in e-commerce which can definitely become profitable. From a unit economic perspective, we are very healthy. So, if you tell us that our pace of growth for the online is slow, that is because we are being cautious in terms of ad spends, and the idea is to build a business which is scalable, and it can grow profitably.

Anand Shah: At EBITDA level what would be the loss?



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- Nitin Jain:** At PAT level the loss is very nominal. it would be less than 2 Crores.
- Anand Shah:** Okay. Then, transaction sizes on average would be 20,000-25,000 or so?
- Nitin Jain:** The transaction size is roughly around Rs.15,000-18,000. It depends on seasons, so for example, during Valentine, our transaction was roughly in the range of Rs.5,000-6,000. During Diwali, our average transaction size went up to Rs.25,000 also. Idea is that keep focusing on Unit Economics and try to get more repeat conversions, because repeat is where you make good margins. The customer comes again, you do not spend anything on customer acquisition, and all margins directly go to the bottom line.
- Moderator:** Thank you. Reminder to the participants who wish to ask a question, please press '*' and '1'. Ladies and gentlemen, as there are no further questions, I would now like to hand the floor back to Mr. Prashant Kutty for closing comments. Thank you and over to you, sir.
- Prashant Kutty:** Yeah, I would like to thank the management of PC Jewelers and the participants on the call. Mr. Bhatia, if you could have any closing comments.
- Sanjeev Bhatia:** No, I would like to thank everyone for joining us and spending the time for listening to us. For any further query or this thing, please feel free to contact us. We would always be available. Thank you.
- Moderator:** Thank you very much. Ladies and gentleman, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.