# PC Jeweller Limited Q2 FY 2018 Earnings Conference Call

November 13, 2017

**MANAGEMENT: MR. BALRAM GARG – MANAGING DIRECTOR - PC JEWELLER LIMITED**
**MR. SANJEEV BHATIA – CHIEF FINANCIAL OFFICER - PC JEWELLER LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Q2 and H1 FY2018 earnings conference call of PC Jewellers Limited. This conference call may contain forward looking statements about the company which are based on the belief, opinions, and expectation of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call 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. Sanjeev Bhatia – CFO, PC Jewellers Limited. Thank you and over to you Mr. Bhatia!

**Sanjeev Bhatia:** Thank you. Good evening ladies and gentlemen. A very warm welcome to this earning call of Q2 FY2018. I have with me along on this call Mr. Balram Garg – Managing Director of the company. The company has managed to maintain the momentum gained in the first quarter and has achieved a topline domestic growth of 30% in the second quarter as well. Along with the increase in the topline, the company has achieved a growth of 50% in Q2 domestic retail profits. The PAT for Q2 FY2018 of the company stands at Rs.151 Crores, which represents an increase of 41% over the PAT of Rs.107 Crores for Q2 FY2017.

This growth has been achieved both through SSG as well as through new stores opening. We are happy to note that our first half figure reinforces our confidence in achieving a Y-o-Y growth of 30% in the domestic segment. Our export business has remained almost stable over the quarter; however on an annual basis, we are expecting an approximate growth rate of 10% to 15%. The increasing formalization of our economy is bringing on significant structural changes and giving place like us a huge opportunity for growth and increasing market share. And we are finally in the GST regime, we are very happy with the same as it assures of a new era of transparency and compliance in this country.

Also for the jewellery industry, the tax rate remains more or less in line with the rates prevailing earlier. Hence we have not seen any consumer resistance operationally also, we have put all the required system in place and are fully compliant with all the rules and regulations. We have continued to expand our physical footprint across locations and entered our 20th state which is Maharashtra in the month of September. Our online Azva verticals continued to perform well. We have re-launched and re-branded our online vertical this quarter by giving it a new and contemporary look. We also continue to strengthen the manufacturing and designing capabilities of Azva.

The company has opened nine stores in the first six months of the year and out of which four are franchise. Going forward we are aiming to open around 15 new stores which will be a mixture of company owned and franchise store. We are confident of crossing the 100 store mark by March end.

I now leave the forum open for question and answer.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Vivek Tulshyan from Creador Advisors. Please go ahead.

**Vivek Tulshyan:** Good evening Mr. Garg, good evening Mr. Bhatia. Sir historically our advetising spend has always been on the lower side but I saw in the current presentation that we have added brand ambassador for increasing our marketing strength so what is the thought process of doing that and why have you chosen Akshay Kumar and Twinkle Khanna for the same?

**Balram Garg:** If you see three years back we were doing a lot of advertisement on the TV but last few years company decided to do advertisement only in the regional areas where our store exists. So now again company have decided to go on TV because we are opening so many stores in even tier 2, tier 3, and tier 1 also. The core values of PC Jewellers are trust, quality, integrity, passion to serve and progressive. We have chosen Akshay Kumar and Twinkle Khanna as our brand ambassador as they truly represent our core values and what PC Jewellers stand for. You know that Akshay is renowned in the industry for his work ethics and integrity. He is well known for the quality of work he does both in movies and otherwise, as a couple people look upon them as a symbol of trust and everlasting bond. Akshay is involved in various social service-related activities, Twinkle is well known as a progressive thinker and writer and for presenting a very modern and independent outlook. Hence, we have chosen Akshay and Twinkle as brand ambassador.

**Vivek Tulshyan:** Okay understood. The second question is on our retail growth, can you break it up between what has been the SSG and how much growth had come from the new stores?

**Balram Garg:** Actually same store sale growth for this quarter is around 17% and 13% growth is coming from the new stores.

**Vivek Tulshyan:** Okay and what was the diamond mix for this quarter?

**Balram Garg:** Diamond mix is more than 30% for this quarter.

**Vivek Tulshyan:** Okay thank you so much. In case there are more questions, I will come back in the queue.

**Moderator:** Thank you Sir. We have a next question from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

**Anil Tulsiram:** Thanks for the opportunity. Sir my first question is our employee expenses for domestic business as a percentage of sales is around 1.5% and this is including the labour charges and if I compare the same expenses with our listed and unlisted peers, it is around 3% to 4% so I want to understand what is that we are doing that our employee expenses as so less?

**Balram Garg:** Actually this labour charges is not included in the employee expenses, that is part of the purchase, so labour charge is different and our employee cost as always, has been around 1% to 1.5% only and because we have our 70% operations in tier 2 and tier 1 cities, hence our employee cost is less and labour charges are something different. If you include the labour charges our employee cost is more than 2.5% or 3%.

**Anil Tulsiram:** What exactly labour charge is Sir?

**Sanjeev Bhatia:** Labour charges is manufacturing charges.

**Anil Tulsiram:** Okay. Sir and the next question is, in the earlier conference call, you had mentioned that we generally hedge our inventory and we do not take any direction calls. So, I wanted to understand in the case of the volatility of the gold price will there be any cash losses or there will be only accounting losses?

**Balram Garg:** No actually we procure our gold on lease. We take gold from the banks without fixing the price, at the time of sale we fix the price, so there is no loss or profit on account of inventory gain or loss.

**Anil Tulsiram:** Okay Sir but you will convert the bullion into jewellery right, so the price is determined at the time of sale of jewellery or at the time of conversion of bullion into jewellery?

**Balram Garg:** Suppose today I am buying a 100kg of gold and that gold is for 180 days, so I convert the jewellery and when I sell that jewellery that time I fix the price to the bank so whatever rate is there at the time of sale which is the same price, so there is no loss or profit on account of inventory.

**Anil Tulsiram:** Got it. And Sir my last question is on exports, I understand on exports you do not obtain any letter of credit, right?

**Balram Garg:** Yes.

**Anil Tulsiram:** That is why I want to understand.

**Balram Garg:** The export is through banks only but there is no LC or something in the jewellery business.

**Anil Tulsiram:** Yes, so I wanted to understand in the case of default, what are that we are doing that, the impact of the default on our balance sheet is minimal so is it a very diversified set of customers or how are we reducing the risk?

**Balram Garg:** We serve a diversified set of customers and secondly, there has not been a single rupee default till date and we are selling this jewellery through all the banks only and we take every precaution and every report before exporting.

**Anil Tulsiram:** Okay, thank you Sir. That is it from my side.

**Moderator:** Thank you Sir. We have a next question from the line of Anand Shah from Kotak Securities. Please go ahead.

**Anand Shah:** Hi Sir, just a few questions. One, can you give me this square feet space for the number of stores at the end of Q2?

**Sanjeev Bhatia:** Total square feet area is not available but it would be around 4 lakh square feet.

**Anand Shah:** Around 4 lakhs. So that new store that you would have opened, about the six stores what would be the average size of those stores?

**Sanjeev Bhatia** Average size is around 2500 to 3000 square feet.

**Anand Shah:** 2500 to 3000, okay and second you did indicate that the diamond jewellery is about 30% this time right?

**Sanjeev Bhatia:** Yes.

**Anand Shah:** So I was looking at the domestic gross margins I mean they have just gone up only marginally Y-o-Y whereas if I look at the mix in Q2 last year, started was just about 22%, so should not your overall gross margin in domestic business would have improved much more than this?

**Balram Garg:** No actually last year Q2 season started in Q3 only every time we have only studded schemes in September month only,wherein we give discount on the diamond jewellery, hence there is a marginal increase in the margins.

**Anand Shah:** So you are saying that the studded went up but the discounts also essentially went up along with that and hence there is some diluation **Balram Garg:** Yes.

**Anand Shah:** But what would be your guidance in general for the domestic margin let us say for full year on gross level?

**Balram Garg:** We will definitely maintain the margins and because there is a growth in the same store growth we are able to control the cost and cost are less if you compare to the last year and our growth is more than 30%, so definitely there is an improvement in the margins in the EBITDA level also and we are controlling the interest cost also and that is on reducing side so you will see the improvement in the PBT level and PAT margins.

**Anand Shah:** And just lastly I mean this on the interest also you highlighted but Q-o-Q if I look at your interest expense so that has gone up from Rs. 60 Crores to Rs. 76 Crores. What would be the reason you just increased topline and higher gold sales?

**Balram garg:** Yes, higher gold sale and topline because we are procuring more gold on lease.

**Anand Shah:** Gold on lease, right. So it is just that effect and nothing else.

**Balram Garg:** Yes, yes, nothing.

**Anand Shah:** Okay. On the exports your guidance remains about 10% to 15% topline growth.

**Balram Garg:** Yes.

**Anand Shah:** Okay, thanks a lot. I will come back for more questions.

**Moderator:** Thank you Sir. We have a next question from the line of Sameep Kasbekar from Emkay Global. Please go ahead.

**Sameep Kasbekar:** Good evening Sir. Thank you for taking my question, just wanted to know if all the convertibles have been converted once we issued to the funds.

**Balram Garg:** Yes, everything is converted.

**Sameep Kasbekar:** Okay Sir. Secondly regarding your export strategy you had mentioned few quarters back that you are planning to open shop in shop largely to cater to our Azva and Flexia brands is that still on the cards?

**Balram Garg:** Yes, still on the cards and we are working on that and I think hopefully within next six months or eight months, we will be able to start that.

**Sameep Kasbekar:** So are we tying up with any local jewelers I am guessing largely in the Middle East?

**Balram Garg:** Yes.

**Sameep Kasbekar:** Any names that you can mention?

**Balram Garg:** No, right now I cannot mention because the discussion is under progress.

**Sameep Kasbekar:** Alright Sir. Thank you so much.

**Moderator:** Thank you Sir. We have a next question from the line of Aditya Joshi from Anand Rathi Securities. Please go ahead.

**Aditya Joshi:** Yes, good evening Sir, my question is pertains to gross margin on export and domestic business. So can we get that number please if possible?

**Sanjeev Bhatia:** Gross margins for the export is around 8% and for the domestic the gross margin is around 14.65%

**Aditya Joshi:** Sir if you see the gross margin sequentially that has improved from around 5.3%-5.5% to 8% any particular reason for that?

**Balram Garg:** In export business we always say our margins are 6% to 8% depends on the price fluctuation and dollar fluctuation so this time we have some gain and in the currency also so that is why little bit margins have improved.

**Aditya Joshi:** Okay, thanks a lot Sir. That is it from my side.

**Moderator:** Thank you Sir. We have a next question from the line of Harsh Vijayshah from SilverArch Investments. Please go ahead.

**Harsh Vijayshah:** Yes, good evening Sir, my question is basically currently on the market share, so what currently market share do we have and going forward with the current strategies that we have on our card right now, what kind of market shares can we have in one or two years?

**Balram Garg:** So actually right now the total market share for the organized sector is around 32% so what market share we have I do not know, we do not have the figure but definitely the market share of organized sector is increasing every year. So there is a clear shift from unorganized to organized and definitely because when we say that we are growing at the rate of 30% but industry is not growing at that pace and even if you see last two quarter figure, industry is not growing at this pace. Maybe in Q2 industry sale is stable and Q1 is around 5% to 10% only. So definitely we are gaining the market share and we are opening the stores everywhere and every quarter we are opening more and more stores to gain the more market share. So definitely there are a few chains who are opening stores. So definitely PCJ will definitely gain market share in next two, three years and we are opening store in tier 2 and tier 3, we are opening store through franchise model, we are opening our own store, so definitely we will be able to gain the market share in next two, three years.

**Harsh Vijayshah:** In the 32% can you just quantify the amount?

**Balram Garg:** you can say about Rs. 3 Lakh Crores to Rs. 3.5 Lakh Crores and organized segment is around 32%.

**Harsh Vijayshah:** And my second question is on the growth strategy that you just said, so from that growth especially from the domestic front how much of the growth are we eyeing from the same store, basically from the own and how much we are eyeing from the franchise?

**Balram Garg:** So right now we have only 10 franchise and before March or the second half year, opening another 10 franchise definitely in next five year growth we are opening 75% franchise store and 25% own stores. So definitely franchise stores I cannot quantify how much growth will come from franchise but in our next five years opening, we will open 75% stores in franchise stores and same store sale growth right now for this year we are expecting from between 15% to 20%.

**Harsh Vijayshah:** Okay from same. Can you just say you said 70 stores franchise next year right?

**Balram Garg:** No ,whatever store we are opening our 75% will be through franchise and the rest will be own.

**Harsh Vijayshah:** Okay thank you very much.

**Moderator:** Thank you Sir. We have a next question from the line of Sudipto Dutta Individual Investor. Please go ahead.

**Sudipto Dutta:** Hi congratulations for a great result of this quarter. Now I have two questions, one is on your Azva brand, I see that there are quite a lot of input you have given in that presentation. Can you just put some light on it in terms of how your present campaign actually is helping this brand and second, you also talked about acquisition of LoveGold which is seems to be a global brand there, so can you also put some light on this acquisition and how it is going to help?

**Balram Garg:** Azva brand is of course a wedding brand and that is high-end brand right now through our subsidiary, we are selling that brand through almost 30 retailers all over India and that brand is doing very good and we are opening our first Azva store in Mumbai first store in next couple of months in Taj Hotel. So Azva is a very high-end brand and making charge starts from 25%. So right now as I said we are selling that brand through 30 retail stores and we are marketing the Azva brand through the high-end magazine only right now. And LoveGold is also earlier owned by the World Gold Council and we purchased that brand recently and that LoveGold jewellery is the light weight jewellery and we just acquired that brand and whole strategy, we will present maybe in the next quarter.

**Sudipto Dutta:** Okay Sir, is it something more on the OF side of the strategy like as this have moved into us and is it something like similar……

**Balram Garg:** We had planned to sell that through Shop in Shop and through online.

**Sudipto Dutta:** Okay thank you very much.

**Moderator:** Thank you Sir. We have a next question from the line of Amneesh Agarwal from Prabhudas Liladhar. Please go ahead.

**Amneesh Agarwal:** Hi Sir, I have question on your franchise model. Can you take us through the terms of trade of the franchise that what is the average store size, how much is the capex, what are the inventory terms, how is the margin sharing etc?

**Balram Garg:** So a few of things I can share, one is that if you talk about the size it depends on the city and typically the size for the franchise model depends on the catchement area. we are opening at tier 3, tier 4, it requires 1000 sq.ft. and tier 2 is around 2000 sq.ft. if it is tier 1 it is more than 3000 sq.ft. and the inventory required from Rs. 8 Crores to Rs. 15 Crores for the franchise model, depend on the store size. We cannot share the profit sharing term as per agreement but definitely as in company perspective, there is no impact on the PAT level margins. Definitely there is impact on the gross level but there is no impact on the PAT level margin.

**Amneesh Agarwal:** So who holds the inventory, does the franchise holds…?

**Balram Garg:** Franchise holds the inventory.

**Amneesh Agarwal:** So they outrightly buy it from you?

**Balram Garg:** YesAs I have told everything is controlled by us but whatever expense in the store level borne by the franchise, inventory bought by the franchise but we control those stores like we are running our own store. The customer will not know whether this is franchise or own store.

**Amneesh Agarwal:** Okay and Sir whatever gross margins in the domestic business?

**Balram Garg:** The gross margin for the domestic business actually it fluctuates quarter to quarter and for this quarter, it is around 14.65. It will depend on the quarter-to-quarter, the margins vary from 15% to 17%.

**Amneesh Agarwal:** Okay and Sir what sort of inventory turns we are targeting for our franchises?

**Balram Garg:** Maybe the inventory turns should be more than 3.

**Amneesh Agarwal:** Okay Sir thanks a lot.

**Moderator:** Thank you Sir. We have a next question from the line of Roshini Devi from Cogencies. Please go ahead.

**Roshini Devi:** In the report, you have mentioned that export growth is seen relatively moderate so why is this seen relatively moderate?

**Balram Garg:** In Gulf, there is a duty imposition of 5% so that is why there is an impact on the sales in Gulf areas that is why there is no growth in the export market right now.

**Roshini Devi:** Okay but this tax that you said is the one that they are coming up with next year or one that is already in Dubai?

**Balram Garg:** Already imposed there.

**Roshini Devi:** Okay .but is there any way of getting around this or is it going to impact sales?

**Balram Garg:** No actually this quarter to quarter depends because we do not see there is a much impact on the export sales, that is why we have given a guidance, we will able to achieve 10% to 15% for the whole year.

**Roshini Devi:** For the whole year? Okay growth in exports?

**Balram Garg:** Yes.

**Roshini Devi:** And how much is your franchise stores are you opening in H2?

**Balram Garg:** H2 we are opening 10 franchise stores.

**Roshini Devi:** And own stores?

**Balram Garg:** Around five.

**Rohsini Devi:** Okay thank you.

**Moderator:** Thank you. We have a next question from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

**Anil Tulsiram:** Thanks for this. Sir this is regarding the branch which we acquired from the World Gold Council. Sir, just want to understand are these very popular brands in India or we get any designing or what is the advantage and logic behind acquisition of this brand?

**Balram Garg:** Actually that brand is registered almost in 36 countries and the value of the acquisition is very less amount. So that is almost negligible and because in that brand the jewelry is very light, it is not very famous in India because they were selling earlier that jewelry through online only and we find a good value in that brand and that is why we acquired that so that jewelry is very light and for the youth only and because we are a wedding jewelry brand and we are targeting that customer youth and working women through our online segment, so that is why we acquired that brand.

**Anil Tulsiram:** So do you get any designing support also from them?

**Balram Garg:** No we have already acquired with all the designs everything.

**Anil Tulsiram:** And Sir the next question is what is the contribution of top five customers in exports?

**Balram Garg:** Actually the write now, we do not have that because we have lot of customer. This business is B2B and the end customer is around more than 200 customers, so we do not have the figure customer wise.

**Anil Tulsiram:** So is it fair to say that no single customer contributes more than 10% to export sales?

**Balram Garg:** Yes.

**Anil Tulsiram:** And Sir last question is on the labour charges. In the annual report, is it included in the cost of goods sold or which one separately?

**Balram Garg:** Labour charges is including the cost of goods .

**Anil Tulsiram:** So it is not shown separately right?

**Balram Garg:** Yes.

**Anil Tulsiram:** Okay. Thank you Sir. That is it from my side.

**Moderator:** Thank you. We have a next question from the line of Roshini Devi from Cogencis. Please go ahead.

**Roshini Devi:** Do you have any 24 carat jewelry?

**Sanjeev Bhatia:** No we do not have anything.

**Roshini Devi:** Okay.

**Moderator:** Mr.Ritesh Bafna your line is unmuted. Please go ahead and ask your question.

**Ritesh Bafna:** Yes, thank you for giving me this opportunity. I have a few questions, one of them is that what are our capex plans for the next three years?

**Balram Garg:** Actually there are two types of capex, one is of course definitely I can share the capex numbers are for the factory, so we are investing around Rs. 300 Crores in next three years to expand our manufacturing and if you talk about the store definitely then we are opening only 75% store franchise, so there is no capex involved in the franchise stores. Only the store which we are opening 25% own store that requires not much capex.

**Ritesh Bafna:** Okay so Rs. 300 Crore is the planned capex for the next three years.

**Balram Garg:** Yes.

**Ritesh Bafna:** And similarly any growth guidance for next three years?

**Balram Garg:** So next three years we cannot give the guidance but for this year definitely we already said that we are very much hopeful that to achieve a 30% growth in the domestic

**Ritesh Bafna:** So will it be safe to assume that the same rate will be maintained for the years going ahead?

**Balram Garg:** As the year goes on we will definitely let you know because it depends but right now this year looks like that we will be achieving this growth.

**Ritesh Bafna:** Okay that is wonderful. And one last question Sir, when do we plan to start the manufacturing facilities?

**Balram Garg:** So one factory we have already acquired this quarter in Jaipur and one more to be acquired in coing quarters

**Ritesh Bafna:** So when will this be operational?

**Balram Garg:** In next six months, this factory will be operational and other one we are looking in NCR area so that before this financial year we will be able to acquire that also.

**Ritesh Bafna:** Okay all the best Sir. Thank you so much.

**Moderator:** Thank you Sir. We have a next question from the line of Sudipto Dutta individual investor. Please go ahead.

**Sudipto Dutta:** Thanks for this opportunity again. So one question what I is coming in my mind is, already in the domestic market you are growing by 30% and above and H2 last year was bad because of demonetization and we had lot of problems in terms of growth so do not you think that the growth will actually accelerate and it will become more than that how is your guidance on that because last year we had really bad H2?

**Balram Garg:** This is because last year because of demonetization also the base is low so this year…

**Balram Garg:** Yes, actually in one quarter, Q3, the base was low because of the demonetization but Q3 our growth for the last year was more than 30% so because definitely we are hopeful that we will achieve 30% maybe we can achieve more but as caution I will say that 30% is easily achievable. So only one quarter was bad in last year, the Q3, because of the demonetization but Q4 was good and the growth in the Q4 was more than 30%.

**Sudipto Dutta:** Okay thank you. And one more question is for your manufacturing facility, how do you want to use that the manufacturing facility in terms of what is your strategy for sourcing and in-house manufacturing how do you differentiate that.

**Balram Garg:** Actually that will be for the in-house manufacturing and right now, we have four factories but because we are opening so many stores and our growth is very good in the business so we require more factories and even we are doing right now almost 30%-35% outsource and even we want to shift that outsource in our own factory also. So we have a plan for next three, four years 100% manufacturing in-house only.

**Sudipto Dutta:** Will it help your gross margin because of the GST or other incidences to integrate your complete operation?

**Balram Garg:** Definitely it will help us to increase the gross margin also and it will help us to compete because you design yourself you are making the jewelry yourself. Then you can definitely compete with your competitor.

**Sudipto Dutta:** Okay thank you.

**Moderator:** Thank you Sir. We have a next question from the line of Priya Alag from KS Securities. Please go ahead.

**Priya Alag:** Good evening Sir. I just have few questions if you could explain the franchise model a bit?

**Balram Garg:** Franchise model as I have said earlier that we require if anybody wants our franchise suppose we require 2000 sq.ft. first if you have a 2000 sq.ft. area then we can give you the franchise. Second is suppose we require a Rs. 10 Crore inventory in that store so you have to invest that 10 Crores plus the capex for the store. Like if the capex for the store is 5000 per sq.ft. so you have to invest Rs. 1 Crore for that and 10 Crore for the inventory. So you have to invest Rs. 11 Crores and you can take our franchise and we will share the profit with the franchise.

**Priya Alag:** Okay. Sir just few more, how many store do you see by 2020 and by 2020 how many do you expect it to come through our franchise model?

**Balram Garg:** So actually like this year in next second half, first half we opened nine stores and out of nine store five store is franchise stores, second quarter we are opening around 15 – 16 stores, out of 15-16 store 10 stores are franchise store so as I said earlier that suppose next year we have a plan to open more stores like 40 to 50 stores so definitely whatever plan we set for the next year that 75% store will be franchise and 25% own stores. This year before the end of the year we will make plans to how many stores we want to open, whatever store we will open next year 75% franchise store every year.

**Priya Alag:** Okay thank you so much Sir.

**Moderator:** Thank you. We have a next question from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

**Anil Tulsiram:** Sir this is regarding your earlier comment on outsourcing so is the gold and diamond both 30% to 35% is outsourced?

**Balram Garg:** Yes.

**Anil Tulsiram:** And Sir what is our long-term strategy we want to do in-house or we want to do more and more outsource what is your strategy there?

**Balram Garg:** No we do not want to outsource we want to do in-house, so if you are doing in-house production that may be you can produce better designs because in next five, seven years when this industry is more organized then customer have a choice to go to 10 organized players. If you have a better design and your rates are reasonable only then customer will buy from you, right now because there is a problem in the quality and unorganized segment is 70% or 68%, so customer is shifting but when the organized segment is other way round like 70% organized and 30% unorganized, then customer have a choice to go everywhere anywhere you cannot say that other player is selling less quality of jewelry or bad quality of jewelry, so that time customer will compare only the design and the price so the items which are comparable, so if your price is good only then customer will buy. If you have own manufacturing definitely you can pass some benefit to the customer and if you are producing the better design definitely only then the customer will buy. So this is our long-term strategy and we want to be the 100% own manufacturing also.

**Anil Tulsiram;** Okay and Sir in the presentation you have mentioned that we are a wedding jeweler and going forward we also want to go more and more daily use items so that is only online or also through the store?

**Balram Garg:** Mainly, we wanted to be remain in the wedding segment because 70% business comes from the wedding only and so now from this aspect, we have entered already in the working women segment and the daily wear items so this we are selling through our own store also and through online also and we are launching some collection for them also, so mainly we are marketing those product through online.

**Anil Tulsiram:** Okay and Sir lastly can you give some performance of the franchises is doing, what is the response to them?

**Balram Garg:** Actually the response is very good and even our present franchise, they are demanding for the another franchise also. So the response is very good and the inventory turn is better in the franchise stores and that is why we have decided to open 75% franchise store in the next five years.

**Anil Tulsiram:** Okay and Sir one last question if I can, one of your listed peer have adopted the strategy of not giving franchise to the existing jewelry stores and you are I think you are also giving the franchise to existing jewelry store so what is the process, do you think if you should restrict giving the franchise to the existing jewelry store?

**Balram Garg:** So whether you are giving to the jeweler or other person there is no difference because right now if you know the old jeweler they are not able to comply with the GST or demonetization so they are closing their stores. They have a good place. They have a capital. So there is nothing wrong to give. We are giving the franchise to even the jewelers and others also. Because control is same. If you are controlling the stores so definitely there is no problem to give franchise to anyone.

**Anil Tulsiram:** Okay thank you Sir. That is it from my side.

**Moderator:** Thank you Sir. We have a next question from the line of Roshini Devi from Cogencis. Please go ahead.

**Roshini Devi:** In one of your earlier con calls you had said that you plan to increase your expenditure in advertising to 2%, but it is still only like 0.2. So any plans to increase it from here or are you trying to…?

**Balram Garg:** Yes, definitely we have just signed Akshay Kumar and Twinkle Khanna and because season has started from this current quarter only, so definitely we are increasing the spend and we are doing a lot of advertisement on all national channels. You will find our ad everywhere. So we are spending heavily on the marketing and as our sales are growing, we have our marketing expenses also growing.

**Roshini Devi:** Are you planning to still achieve the 2% target of advertising or will it be slightly lesser?

**Balram Garg:** So percentage wise because our sales is also growing at the rate of 30% so it will not maybe two percent but definitely it will not be less than 1.5%.

**Roshini Devi:** Okay thanks.

**Moderator:** Thank you. We have a next question from the line of Himanshu Shah from HDFC Securities. Please go ahead.

**Himanshu Shah:** Sir thanks for the opportunity. Sir one, there is a significant amount of cash and cash equivalent and bank balance on our balance sheet. So I just trying to understand why we are having basically gross debt that to the tune of almost Rs 600s Crore and then also cash equivalent of Rs. 1400 Crores…?

**Balram Garg:** So yes, there is a cash in the balance sheet but cash is around Rs. 1000 Crores if you net off the figures. Definitely we are generating so much cash right now and the cash is there in the balance sheet, yes, and there are FDs and cash also and because we are investing in factory also, so some amount of cash we will invest in the factory and balance, we will decide later what to do

**Himanshu Shah:** Okay Sir and one more thing just on the new campaign that we are planning with the Akshay Kumar so basically are we seeing that we would spend now, currently we are like spending anywhere between Rs. 5 Crores to Rs. 10 Crores per quarter on advertising so that would jump to almost like Rs. 40 Crores to Rs. 50 Crores per quarter, because we are like guiding at one percent of sales so if I just go by our numbers

**Balram Garg:** If you go by the number last year our sales around Rs. 6000 Crores, so this year actually you see the 30% growth so you can divide because it is some quarter this quarter is heavily we are spending because the main advertisement expense comes from the next two quarters only and earlier we were spending around one percent, because 30% growth is also there so it is not 2% it is around 1.5% of the sales.

**Himanshu Shah:** Okay so it should be on a run rate basis is it fair to assume so that it would be in the vicinity of around Rs. 20 Crores plus minus couple of Crores going forward?

**Balram Garg:** Yes, you can assume, we will spend around Rs. 100 Crores on the marketing this year, Rs. 80 Crores to 100 Crores. Earlier we spend around Rs. 50 Crores to Rs. 60 Crores.

**Himanshu Shah:** And Sir just a question again on the cash and equivalent so basically do we at any point of time in the near future plan to return back cash to the shareholders?

**Balram Garg:** So right now I cannot say. We are generating good amount of cash and it depends maybe some opportunity to acquire some chain store or something whatever. So right now there is no plan but definitely as this will be decided at board level but right now there is no plan and even we have some short-term working capital, maybe we can return that also. Right now there is not a confirmed plan what to do.

**Himanshu Shah:** Okay no issues Sir, thanks a lot , that is it from my side.

**Moderator:** Thank you Mr. Shah. We have a next question from the line of Sameep Kasbekar from Emkay Global. Please go ahead.

**Sameep Kasbekar:** Thank you Sir. You mentioned that you acquired a factory this quarter, what is the outlay for this?

**Balram Garg:** We have acquired the factory and we will spend around Rs. 50 Crores on that factory before March, so that is under construction.

**Sameep Kasbekar:** Okay Sir and you mentioned that there is another factory that we are looking at so any estimate of how much second factory would cost us?

**Balram Garg:** Almost both the factories we will invest around Rs. 300 Crores in three years.

**Sameep Kasbekar:** Okay so it is between these two factories only that Rs. 300 Crores.

**Balram Garg:** Yes it will be between these two factories.

**Sameep Kasbekar:** Okay Sir, thank you so much.

**Moderator:** Thank you. We have a next question from the line of Vaibhav Goyal from SBI Life Insurance. Please go ahead.

**Vaibhav Goyal:** Sir sorry, pardon me for if I am repeating I joined late, what is the exchange gold percentage in your total procurement?

**Balram Garg:** overall it is around 20% to 25%.

**Vaibhav Goyal:** And Sir looking at the competition, so I wanted to understand the impact of this increase in this proportion or with reduction in this how do you see whether this is margin accretive or decretive, how does this work?

**Balram Garg:** Actually quarter-to-quarter it is impacted sometime like that when the demonetization announced by the government that time, the exchange sales suddenly go up to more than 50% because that time there is no cash available on that time and even the fourth quarter also the exchange sale was better than if you compare to the other years, so now it is back to normal and if you talk about first six months it is around 20% to 25%. But sometime when the price goes up suddenly then that quarter customer prefer buy to in exchange.

**Vaibhav Goyal:** Does it have any impact on margin as such or its beneficial?

**Balram Garg:** Margins are always same we do not see any because that is raw material. If you are giving by credit card or cash or by exchange of gold for us the margins are absolutely same, there is no problem. And so whether the customer is giving by gold or we do not see any incremental margins or decrease in the margins.

**Vaibhav Goyal:** Whatever is the procurement rate from the global markets or from the bank, the same rate we provide to the customer or?

**Balram Garg:** Yes, same rate, if you are buying or you are exchanging jewelry the same rate we give you. There is no deduction on the rate side. So we give the same rate to the customer whatever gold rate we are procuring from the bank suppose the gold rate rise the dollar exchange rate plus gold rate in dollar and plus duty the same rate we give to the customer also .

**Vaibhav Goyal:** Okay and Sir on the rental side if I seeing the last quarter presentation versus this, so there is a significant reduction in the percentage term, so is there some change in reporting or …?

**Balram Garg:** There is no change in the reporting because our sales growth is almost 30% so if you compare the growth is 30% and we are opening some franchise stores also that cost is not included in expense, so that is why there is a little bit change in the cost otherwise this figure is same.

**Vaibhav Goyal:** Okay thanks.

**Moderator:** Thank you Sir. We have a next question from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

**Anil Tulsiram:** Sir just wanted some clarification whatever expenses have been incurred on the signing of the brand ambassador has it been already charged off to P&L or is it be amortized to certain period?

**Balram Garg:** We just signed in September only and we released our Ad in October so we have not, so proportionately booked in Q2. Hence proportionally we will book in every quarter.

**Anil Tulsiram:** Okay so over how many years or quarters these expenses will be deferred?

**Balram Garg:** Another three quarters.

**Anil Tulsiram;** Okay thank you Sir.

**Moderator:** Thank you very much Sir. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Sanjeev Bhatia for closing comments. Over to you Sir.

**Sanjeev Bhatia:** I thank all the participants for coming here and joining the call and listening to us as well as other questions very patiently. In case of any further query or any further clarification you are most welcome to contact our IR SGA in Mumbai and I am sure that all your queries and questions will be answered to your satisfaction. Thank you.

**Moderator:** Ladies and gentleman, on behalf of PC Jewellers Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.