



PC Jeweller Limited
Q2 & H1 FY2019 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the PC Jewellers Limited Q2 and H1 FY2019 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks 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. Thank you and over to you Sir!

Sanjeev Bhatia: Good evening, ladies and gentlemen, and a very warm welcome to this Q2 earning call of PC Jeweller Limited. I am Sanjeev Bhatia, CFO of the company; and I have with me, Mr. Balram Garg, MD of the company; and Mr. R. K. Sharma, who is ED and COO; as well as Mr. Nikhilesh Govil, who is President Online & New Initiative of the company.

I will start now. This Q2 FY2019 was a period of consolidation for the company amidst a subdued market environment in the jewelry sector. PCJ utilized this quarter to rationalize its inventory as well as export business and reduce overall bank exposure on the balance sheet. Our overall sales in Q2 witnessed degrowth of 38%. The PAT during this period declined by similar amount, nearly 38%. However, the gross margins have improved from 12.9% to 16.7% on the back of higher contribution of domestic business to overall sales as well as improvement in domestic gross margins.

Coming to domestic sales. The company did not offer any promotional schemes during this quarter and instead concentrated on margins. Our domestic gross margins have improved from 14.7% to 17.2%. During this quarter, the domestic sales have contributed 95% of overall business. At the same time, they have witnessed degrowth of 16% over the previous quarter. I would also like to advise that as a part of the continuing process of rationalization, our Bengaluru and Kolkata stores were closed during this quarter.

Coming to export sales. Export business is a credit-based business and the company wants to rationalize the same. As the credit availability is getting squeezed in the markets, so consequently, exports have contributed to only 5% of our overall sales during this quarter, and we have been able to bring down the same by 89% in Q2 FY2019. Company is targeting to limit export sales to Rs.2000 Crores in FY2019 as against Rs.2690 Crores in FY2018.

Bank exposure and cash position. As committed, the company has reduced its overall banking exposure, which includes MGL as well, by Rs.805 Crores in the first six months of FY2019. This figure was Rs.4490 Crores as on March 31, 2018, and is Rs.3685 Crores as on September 30, 2018. The total cash on books as on September 30, 2018 was Rs.804 Crores, and the company proposes to utilize approximately Rs. 500 crores out of the same as well as internal accruals for further deduction

of bank exposure in H2 FY2019. The company has also carried out some other initiatives like augmented reality and online, offline integration, for which we have given detail in our presentation. I now leave the session open for Q&A. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of our Ayush T from AZB. Please go ahead.

Ayush T: My question is for Mr. Balram Garg. So I want to understand what led to the drastic step of almost winding down the entire export segment, one whole segment of your business? And can you elaborate on that? And you did not give any such guidance in the previous quarter, so what specifically happened in this quarter that you took such a drastic step?

Balram Garg: Earlier also, we have mentioned that we want to reduce the export business and want to focus more on the domestic business. Since this is a credit-based business, we want to reduce it. Because now the time is that the credit businesses needs to be reduced. Hence, we have decided to focus more on the domestic business. And we are not immediately winding up the export business. In this quarter, the sales are very less, but we have set the export business target for this year.. We have set the target of Rs.2000 Crores for this year against last year sales of around Rs.2700 Crores. And we want to reduce the receivables also. That is why we have taken this step.

Ayush T: Okay.

Moderator: Thank you. The next question is from the line of Raju Basani from DLL. Please go ahead.

Raju Basani: Thank you all for giving me the opportunity. My only question is why this inventory level as well as the export debtors as you mentioned in the presentation that are quite high when compared with the sales? Just want to know if it can be reduced? because the inventory can be reduce little bit as per my opinion. At the same time, export debtors is an issue which is quoting very high at around Rs.1700-1900 Crore. Can it come down going forward? That is one question from my side. Second, how the situation would be going forward in the next one year per se? How are you looking for the future growth? Because in the last con call that I attended, you have mentioned about the new store additions & the debt reduction. For debt, you have mentioned of Rs.1000 Crores debt reduction by September?

Balram Garg: First on the inventory level, the inventory level is a little less compare to the March. September is a high inventory level period because our seasons start in the October. Even then, we have reduced some inventory when compare to the March. Company is more focusing on reducing the inventory level. On the debtor level, if you look at dollar rate, it has increased from Rs.65 to Rs.73. So there is a readjustment of both creditor side and the debtor side. There is no impact on the P&L but definitely on MTM. So that is why the debtor level has increased. In October, we have received nearly Rs.200 Crores of payment and we have set a target of Rs.1000 Crores debtor level in the March. Definitely,

company is focusing on reducing both the inventory level & the debtor level. Hence, the company is moving in that direction. Secondly on the debt level, if you look from the March to September period, we have already reduced almost Rs.800 Crores and still have cash around Rs.800 Crores. We have already given a target to reduce by another Rs.500 Crores in next two quarters. So whatever we are saying, we are working on it. Out of the Rs.1000 Crore debt reduction, we have already reduced Rs.800 Crore. We opened two stores first quarter, two in second quarter and one in last month. So we are opening stores on a regular basis. We are opening right now mainly on the franchise stores, which is less capital-incentive business. Hence, we will keep opening the stores on regular basis, but aggressively. Once we control everything like the debtor level and inventory level in next quarters, we will open the stores aggressively.

Raju Basani: Okay. Great. One more question Sir, we do not find any stress in this huge debtor level, right? We are confident of taking all the receivables, right?

Balram Garg: Everyone has their own business cycle. Like we have, our buyers also have the cycle. When business model change, it will take some time to adjust in that regime. So everybody is changing their cycle and our buyers are also changing the cycle. We have stated earlier that we have received Rs.200 Crore in October. So they are also adjusting in the new regime, and it will take some time. And despite that, we have given the target to reduce this to Rs.1000 Crores by March.

Raju Basani: But one more question, When we compare with our competitors like Titan, why they have reported good revenue & profit growth ?

Balram Garg: I cannot talk about any other company, but whole industry in this last quarter, the atmosphere was quiet and sales were down. Even imports were down. In the first quarter, we did good. This quarter, our margins has improved by 2% - 3%. So, We are focusing not only on the topline but also on the bottom-line. If you look at the industry, there is a degrowth. Hence, our company also de-grew by 15% in domestic market but improved our margins with debt reduction.

Raju Basani: Okay. Great Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: So I was looking at your press release, I had a couple of questions. You have reduced the bank borrowings but when I look at the net debt number, it is still the same. So what has happened in the process, you have utilized your cash in the balance sheet to repay the debt. Ideally, it should also be a case where you should have shrunk your receivables, right, because your exports have come down by half, but your receivables goes up. And you do not release the capital from receivable to repay the debt. So just wanted to understand that?

- Balram Garg:** Yes, it is a very good question. We are reducing the debt from cash and free cash flow also. Our next target to reduce more than Rs.500 Crores debt will be from the debtor's level. Hence, we will target the debtor level at Rs.1000 Crores. The additional cash which we receive in the company, we will reduce the debt from it.
- Pritesh Chheda:** So, but this half year's cash flow, you would have about Rs.200 Crores to Rs.250 Crores of cash flow has actually not translated to cash flow because despite shrinking exports, your receivables have gone up.
- Balram Garg:** Adjustment of MTM because the dollar price in the market was Rs.65 and now it is Rs.73. Hence, the debtors and the creditors have increased.
- Nikhilesh Govil:** This is Nikhilesh. So your analysis is right. So, we are going through a phased sort of rationalization in the business. So when we go through the phased rationalization, the first thing is to first dip into our cash reserves.
- Pritesh Chheda:** If you have shrunk your topline by half, there has to be some money, which the receivables should reduce? You are telling me that your revenue can shrink half overnight but your receivables cannot shrink?
- Nikhilesh Govil:** So it is not an overnight thing. And that is what I am coming to, just bear with me for two minutes and I will explain the whole thing to you. So the first thing we have done is, whatever FDs we had, we dipped into them and reduced our debt first. Secondly, to bring down our debtor levels, we first have to sort of bringing down our sales to these exporters. In this quarter, if you see the sales have come down by almost 90% to roughly Rs.80 Crores in export. Now what is happening, the previous bills which are getting due, are getting settled now. So even if I talk for the month of October, we have realized Rs.200 Crores of those outstanding debtors already. So you will see this play out in the next one to two quarters. That is one thing. The other thing is, even on the inventory level, you will see a same thing playing out because H2 is always one and a half times of H1 in terms of sales. So rather than drastically reducing our inventory overnight, we just wanted to reduce our inventory through actual sales to the customers. And therefore, by the end of March, we will reach to a level where you will see both, on an annualized basis, the sales, the debtor and the inventory in line. These intermediate quarters are period of readjustment for us. And you will not see these things move in tandem. By the end of March, you will see everything get realigned and you will be able to make sense of both the reduction in sales and the reduction in debtors & inventory levels.
- Pritesh Chheda:** So again, going back to your press release, somewhere in press release, you mentioned that my comfortable sale of exports would be Rs.2000 Cores, right?
- Nikhilesh Govil:** Correct.

- Pritesh Chheda:** Versus Rs. 2,700 crores, last year?
- Nikhilesh Govil:** Correct.
- Balram Garg:** It was Rs.2700 Crores last year.
- Pritesh Chheda:** Perfect. I am just taking the numbers from the press release, sir. So what does it mean? Does it mean that you will release nearly Rs.700 Crores from receivables?
- Nikhilesh Govil:** Yes. That is the target. We are already at Rs.1750 Crores levels. So over the next two quarters, Rs.750 crores will get released into the system and we will be at Rs.1000 Crores levels. That is the maths.
- Pritesh Chheda:** That is want you want to put it? That is how you want to put it?
- Nikhilesh Govil:** Yes. Absolutely.
- Pritesh Chheda:** Okay. Now you mentioned that this Rs.200 Crores increases because of the FX. That is what you want to put it, the Rs.1976 Crores to Rs.1761 crores?
- Nikhilesh Govil:** Yes.
- Pritesh Chheda:** Again coming back to a question that if you shrink your sale by half in H1, so it is a six-month period from where did I shrink from Rs.1500 Crores to Rs.900 Crores, right? And in this three-month period, did I shrink from Rs.770 Crores to Rs.85 Crores, right? There would be some release of cash flow in the system or it does not mean that will be any release of cash flow in the system?
- Nikhilesh Govil:** You think, going forward?
- Pritesh Chheda:** Even now at this juncture?
- Nikhilesh Govil:** At this juncture, our debtor levels are already in the balance sheet that we have put out. There has been no major sort of reduction that we can sort of speak of as of now. But starting October, as I told you, we have already seen Rs.200 Crores of that come out already, right? So our cash flow and the cash position as of October has gone up, right? And that will play out.
- Pritesh Chheda:** And have you done this all on the September last week?
- Nikhilesh Govil:** In terms of?
- Pritesh Chheda:** In terms of reducing the debt, reducing the borrowing limits. Is it done all on the last week of September? It was throughout the quarter?

- Balram Garg:** No.
- Pritesh Chheda:** It was throughout the quarter.
- Nikhilesh Govil:** Yes, throughout the quarter.
- Pritesh Chheda:** Then why did the interest expense rise from Rs.100 Crores versus Rs.80 Crores?
- Nikhilesh Govil:** I will come to that. So you have to understand our business. Our business, on the liability side, we get bank limits, okay? Now that bank limit can be fund-based or it can be a SBLC, which you use for gold loan. Now what is happening in the market is, the banks are not giving too much gold on gold loan. So our limit utilization, SBLC limit utilization is going down. Our fund-based utilization is going up.
- Balram Garg:** Because so many banks LCs are not acceptable in the foreign market where we import gold, so they have refused to accept some bank LCs. Hence, we are using more fund-based versus non-fund-based. We have given more the details in the presentation on why the interest expense has gone up. But it has not gone up substantially because of Rs.13 Crores, there is some interest income. So net interest, finance cost increase only Rs.6 Crores. But because we have utilized more fund-based, that is why it has increased.
- Pritesh Chheda:** But then there should be some benefit on not utilizing non-fund, right? Because if you shrink your revenue from Rs.2600 Crores to Rs.1635 Crores in which you have reduced exports, which is a non-fund-based limit, right? So you have reduced Rs.700 Crores to Rs.800 Crores of non-fund, still there still how can the interest?
- Balram Garg:** Yes, there is a lot of difference in fund-based versus non-fund because non-fund-based the interest component is very less. And fund-based, the interest component is almost three times of that.
- Pritesh Chheda:** But sir, on the net basis also you have reduced your borrowing, right? So there should not, so you have reduced Rs.700 Crores to Rs.800 Crores of borrowing from the balance sheet on net basis. And you have reduced Rs. 700 Crores from export, which is a non-fund. You have both those cases happening, yet your interest cost rises?
- Balram Garg:** So it is there. Thank you.
- Pritesh Chheda:** Okay. No problem. Thank you very much
- Moderator:** Thank you. The next question is from the line of Nilesh Kalaria from DGFI. Please go ahead.

Nilesh Kalaria: I am more concerned about what you had said was earlier that borrowings would be reduced by Rs.1000 Crores, now you are able to only do it by Rs.800 Crores. Going forward, you say that you will again reduce it by Rs.500 Crores. Your sales are not growing. You are opening new stores in this year but your sales are not increasing and you are also shutting down some stores. So there is no growth component what I am able to see. Otherwise, we should have seen growth in our domestic market?

Balram Garg: In the first quarter, Our growth were almost more than 15%. The industry growth were down in this quarter, hence there is a decline by 15%. If you look at the industry, there is degrowth in the industry in last six months. And if you look at our sales, our sales are the same as we did last year. And in last year, we did 30% growth in second quarter. So, our base was very high because of the GST. So two reasons are, our base was very high and the sentiments are very low in the quarter. So that is why there is a decline of 15%. But if you look at the first quarter, our growth was there, it is not that our sales are not growing. And on debt level, we have committed Rs.1000 Crores and Rs.800 Crores are already done. Henceforth, we are going to reduce the debt.

Nilesh Kalaria: Sir, one more question. In the receivables cycle, you must have given some period to recover your amount. So what period and what bifurcation, like Rs. 500 crores within the next three months or Rs.1000 Crores within next half quarter, meaning half yearly. I want to know the detail of the breakup of receivables?

Balram Garg: Actually, right now, we can only say that before March, our target is to reach the Rs.1000 Crores. So, everything won't happen only in March. From this month, it has already started and before March, we will be achieving it.

Nilesh Kalaria: Okay, sir. And what about the new franchises that are opened every month?

Balram Garg: Yes. In last quarter, we had opened two stores. This month, we have already opened one store. So franchise stores are not a very large format store, and it will take some time to convert into the good sales.

Moderator: Thank you. The next question is from the line of Rishabh Gulati from Jagson Pal Pharma. Please go ahead.

Rishabh Gulati: Sir, my question is, I have two questions, one with respect to revenue, and the second is with respect to the commitment, which you have made in the conference call after this drastically erosion of your market cap. One, the revenue has gone by 17% in the domestic sales. But at the same time, your competitor, the Titan name to be specified, has reported having of around 23% growth while on a basis, the Gitanjali Gems, I think it was also in the competition. As per my understanding, the Gitanjali Gems' market share should also be acquired between the big players. But see that most of

the revenues & the opportunity being collected by the Titan. And one more question. After so much of erosion in the market cap, you have made a commitment that the debt will further reduce by Rs.1000 Crores. And on a net basis, you have only reduce Rs.800 Crores in last six months. Of which you have already paid Rs.475 Crores in the first quarter. So if see on a net basis, there is around Rs.375 Crores or Rs.400 Crores you have paid in this quarter. Why is the management not on the commitment? If you are committing something, you must make some calculation behind that.

Balram Garg: If we had committed Rs.1000 Crores, and have paid Rs.800 Crores, we are still committed. We have cash on the balance sheet because as the FDR maturity dues, we prepay to the bank. It is not as simple as that. That money is on the balance sheet. Second thing is we cannot comment on other company because there are so many different parameters. In first quarter, our growth was there and the growth was not there for the company you mentioned. Second, our margins have increased in this quarter. Some companies' margins have declined in this quarter. So it is not comparable. You have to see the whole industry and every company has their different business model. In this quarter, we have focused on the margins. In last quarter, we ran some schemes and we did 15%, 18% growth versus some companies whose the growth was not there. So this quarter, we focused more on the margin side, and does not wanted to give more discounts. So our margins have increased. So you have to compare in all the parameters with industry growth.

Rishabh Gulati: Sir, one more thing. If you are coming in the public domain and specifying that company is going to reduce the debt by Rs.1000 Crores. Because the bank has refused for the buyback and will repay the debt by another Rs.1000 Crores. And after saying it ...

Balram Garg: Again, we are saying that there is a cash in the balance sheets. That is why we have committed for the buyback. Because Banks has refused that, cash is still on the balance sheet. Therefore, We have committed this Rs.1000 Crores repayment because we have this cash and committing out of that only.

Rishabh Gulati: One more question.

Moderator: Mr. Gulati, may we request you to come back in the queue for a follow-up, please? Thank you. The next question is from the line of Chetan Dhruv from Blue Banyan Investment Advisors. Please go ahead.

Chetan Dhruv: Thank you. So I have two questions to the management. One is what component of the receivables is from the franchisees? And what component of the revenue is from the franchisees in H1?

Balram Garg: In receivables, the franchisees are almost negligible. Most of our receivables are from the exporters only. In domestic side, I think only Rs.15 Crores to Rs.20 Crores altogether will be there. Otherwise, everything is from the export side only.

- Chetan Dhruv:** This is the receivable side, right?
- Balram Garg:** Yes.
- Chetan Dhruv:** What about the revenue? How much of the revenue is coming from the franchisee stores?
- Balram Garg:** At present, we do not have this detail of franchisee versus owned. Definitely, as our franchise model grow, we will disclose that separately also.
- Chetan Dhruv:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shekhar Singh from Excelsyor Capital. Please go ahead.
- Shekhar Singh:** Hello Sir. Can you give me the trade receivables, inventory and net debt target for, say, March 31, 2019?
- Balram Garg:** Our trade receivables target is to reach Rs.1000 Crores. We cannot give the target of inventory level as we are opening few stores but we will be reducing it.
- Shekhar Singh:** And can you also just mention why was the interest cost so high? You were giving that reasoning, but I did not understand that.
- Nikhilesh Govil:** Yes. Let me just take this. See we get allocated bank limits. Now as I told you, either we can draw down cash from the bank or use in working capital and for buying raw material or we could take limits. Now the limit used to come at a lower cost, which was around 4%. And the fund-based utilization, if you do, is somewhere around 12%. Now what is happening is the limits were used to take gold on loan. Now that gold on loan availability in the market has gone down. So we have to now basically take gold by giving an upfront fund. Therefore, I draw down the loan amount from the bank and give it to the canalizing agency from wherever I buy. Therefore, there is between a 12% and 4%, there is an 8% additional cost, which is what is partly reflecting in the finance charges for this quarter.
- Shekhar Singh:** Lastly, Sir, if I was to look at inventory in terms of tonnes of gold because there has been a sharp fluctuation in terms of rupee-dollar. See compared to March 31, 2018, how much has inventory gone up in terms of tonnes of gold or gone down?
- Balram Garg:** Because we manage our inventory like that with no loss or profit on account of gold fluctuation.
- Shekhar Singh:** So there is no loss or gain on that?

- Balram Garg:** Yes. No loss and profit on that account.
- Shekhar Singh:** Okay. But just to measure inventory in terms of tonnes, has the quantity gone up in terms of inventory in the last six months?
- Balram Garg:** Because in the last six months, the inventory has come down. Because you look at if compared to March, the Rs.30 Crores to Rs.40 Crores inventory has come down.
- Shekhar Singh:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sujan Sinha from Future Generali. Please go ahead.
- Sujan Sinha:** Sir, just wanted to check what is management's take on doing in open market purchase? I mean, your stock has corrected by nearly 90%. So why you are not interested in the open market purchase?
- Balram Garg:** We cannot comment on this.
- Sujan Sinha:** Okay. Fair enough. Thanks.
- Moderator:** Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.
- Ankit Shah:** Sir, can you please clarify the receivables recovered of Rs.185 Crores in October? Is that the net recovery or is that the amount recovered?
- Balram Garg:** Net recovery means, sorry?
- Ankit Shah:** Meaning is this net of the addition in receivables?
- Balram Garg:** Yes. Net, this amount is...
- Sanjeev Bhatia:** Overall.
- Balram Garg:** The total amount recovered, Rs.185 Crores.
- Ankit Shah:** Okay. Sir there will be some increase also in receivables?
- Balram Garg:** No. Negligible, very negligible.
- Ankit Shah:** Sir, can you please help us understand what portion of the corporate receivables is overdue as of September 30, 2018?

- Balram Garg:** We do not have the exact figure. But definitely, there is some delay because of when you change your business model. But recovery has start fast now, and we are very hopeful that we will achieve what we have set the target.
- Ankit Shah:** Sir, one more question is post your December quarter results. Would you be disclosing the receivables number?
- Balram Garg:** We have increased our disclosure every quarter. You try to look at every quarter, we have increased it. Look at the last quarter, we have published some numbers of balance sheet. Definitely, we will increase our disclosures in the next quarter.
- Ankit Shah:** Yes. So just to clarify, you have disclosed things related to debt. But for the receivables piece, you did not disclose the last quarter. That is precisely the reason I am asking?
- Balram Garg:** Every quarter, we are increasing the disclosures. Last quarter, we have started something and we will try to disclose as and when possible this debtor number also.
- Ankit Shah:** Okay. Sir, just last question from my end is, sir, you have given a target export number for the year at Rs.2000 Crores. And so far, I think we have done roughly around Rs. 800-odd Crores. So does it mean we plan to do Rs.1200 Crores of exports in the next two quarters?
- Balram Garg:** Yes. when we see this receivables numbers decline, definitely, we will do that.
- Ankit Shah:** When this one mismatch that comes here is if we target Rs.1000 Crores of receivables by, let us say, March 2019, and if we are doing Rs.1200 Crores of export sales in the last two quarters, understanding that exports would be a long tail, would you really be able to achieve Rs.1000 Crores? And what is the logic?
- Balram Garg:** Actually. The logic is now we have tell our buyers that this is the position and we want to do that. So they are also realigning in the new regime. And now they are also tightening this credit squeeze from their customers. We are very hopeful because now payments have started coming quickly from this month. And as we think that now this level is okay. So it is not that in future what we will export, it is the high current debt. We will allow the buyers with lesser credit days. So we have aligned our business like Rs.2000 Crores of sales and Rs.1000 Crores of debtors.
- Ankit Shah:** Okay. Yes. So could you also share what is the approximate receivable days that you allow or the credit period that you would be allowing now?
- Balram Garg:** So, it will depend on buyer-to-buyer. For some buyers, we will give be 30 days, 60 days and 90 days for some buyers. So in the future, we are setting the target that we will not allow beyond 180 days.

Ankit Shah: Okay. So maximum is still 180 days?

Balram Garg: Yes.

Ankit Shah: That is it from my end. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ayush T from AZB. Please go ahead.

Ayush T: I am just reading on the transcript from the previous call. You had clarified that there will be a Rs.1000 Crores reduction in debt in this particular quarter, which will bring down the overall debt from Rs.4500 Crores to Rs.3000 Crores on September 30, 2018. So can you just clarify whether that was a misprint? Or what was it?

Balram Garg: Actually, we have committed debt from Rs.4400 Crores to Rs.3400 Crores. So now it is Rs.3600 Crores. We have reduced Rs.800 Crores. And we have given that, further, we are reducing. So we said Rs.1000 crores, but we were able to reduce Rs.800 Crores. And further, we are reducing. We have cash on the balance sheet.

Ayush T: Yes. But in the previous transcript, you had said Rs.1000 Crores in this quarter, not in the entire half. And now what we are seeing is Rs.400 Crores in this quarter.

Balram Garg: No. The Balance sheet comes only in September. The last balance sheet was in the March.

Ayush T: I will just leave it at that. I am just saying that in the last transcript, specifically, it says that is Rs.3000 Crores on September 30, 2018.

Balram Garg: We will see that transcript, because there may be a misprint. But Rs.4400 Crores debt stood in the March only, not in the June.

Ayush T: Could be a misprint, but that what I was expecting?

Balram Garg: Yes. Rs.4400 Crores in the March only, and now it is Rs.3600 Crores. So we have already reduced by Rs.800 Crores.

Moderator: Sir, shall we take the next question?

Ayush T: Yes. I mean, I would suggest that you should once again go back and check the transcript because it says Rs.3000 on September 30, 2018, that the projection was that the debt will be Rs.3000 Crores on September 30, 2018.

Balram Garg: Okay.

- Ayush T:** Thanks.
- Moderator:** Thank you. The next question is from the line of Vinay Jaising from Enam Asset Management. Please go ahead.
- Jiten H. Doshi:** This is Jiten on Vinay's line. Hello, Balram Ji, how are you? Now my question is that I think your intent is very clear. Whether you have reduced Rs.1000 Crores or Rs.800 Crores does not make a difference. The fact is you are reducing the debt. Can you give us a roadmap of long-term? Let us say what would you see this in two years or three years? Let us say, two years by March 2021, where do you see all your debt levels if your export business becomes zero? Where do you see your debtors and debt level probably in 24 months from today?
- Balram Garg:** We can only say that we have the debt target of Rs.3000 Crores to Rs.3200 Crores for the March 18. Whatever cash we generate in the business, we will infuse in opening stores after that. We are opening stores for franchisees which is less capital-intensive. The company's future plan is to further reduce the export, depending on the situation. We want to reduce our export. We want to grow more on the franchise model versus our model, so that there is no investment from the company side in inventory or the store level. So this is our plan for this March. our export is Rs.2000 Crores and debtor receivable Rs.1000 Crores. In future also, we want to reduce the credit business further, but cannot give the target. But, this company wants to reduce that credit-based business in the future.
- Jiten H. Doshi:** But Balram, the best thing would be if you are not going to kind of make the business zero, which is your export business, would you be looking at demerging this into another company, because this is not something that is helping the balance sheet here at PC. So what you look at it from another perspective where basically the overall return on capital numbers are not very good. So let us say your export is about going to be Rs.2000 Crores this year, but not fetching too much of EBITDA right. It is fetching you 5% or so in the margin, which is about close to Rs.100-odd Crores and if you bring it down to zero and if you see your capital employed, I think it will make your ratios look much better. What is your view on that?
- Nikhilesh Govil:** Yes. See it is a fair observation. See, you have to understand that this year is a year of too much activity for us. So there is the liability side that we are managing and also managing the asset side, whether it is inventory or debtor levels. At that right time, we are open to evaluating all the options. But the way we think about the business for the next two quarters, we have to do a lot of things on the operational side, and that is where our effort is going to be. Once those stabilize, and we have a more stable environment, both externally and internally in the company, then these larger calls of the kind of a demerger or a separation of the business can be taken at that point of time. But to do it in this environment, in the current environment would be slightly premature.

- Balram Garg:** Definitely, first, we want to achieve in March what we said right now. Definitely, we will evaluate the situation at that time.
- Jiten H. Doshi:** So Balram, you said that your export receivables are about Rs.700 Crores, right?
- Balram Garg:** Actually, we want to bring down to Rs.1000 Crores. It is now Rs.1700 Crores.
- Jiten H. Doshi:** That is export receivables?
- Balram Garg:** Yes.
- Jiten H. Doshi:** So if you look at your export turnover, it will be Rs.2000 Crores this year, and your receivables is about Rs.1700 Crores? Am I correct?
- Balram Garg:** No. Till March that export turnover will be Rs.2000 Crores, and receivable will be less than Rs.1000 Crores.
- Jiten H. Doshi:** Right. But all will be virtually export. That is what you are saying, right?
- Balram Garg:** Yes. Domestic, we do not have debtors in the domestic.
- Jiten H. Doshi:** As what I am saying, Balram, what kind of a business is this, six months of receivable. Why do not you shut this business or why do not you demerge it? Because you are not getting value in your main company only because of this, the minute you shut this Rs.1000 Crores further, your volume will go to Rs.2200 Crores.
- Balram Garg:** So actually, shutting down the business and shifting is not possible right now. But definitely, we will see this idea and discuss it.
- Jiten H. Doshi:** Right. It is so common sense that on Rs.2000 Crores sales, one side of an Rs.8000 Crores sales you have no receivable. One on Rs.2000 Crores, you have Rs.1000 Crores receivable. Might as well shut this and improve your market cap.
- Balram Garg:** You are right. Actually, earlier, that is why the company have decided to reduce it because earlier the credit fund was easily available at a very cheaper rate. And we were doing this business, and we were making profit also. So now because credit squeeze is there, definitely, that way company is thinking on this line. And instead of demerge this business it is good that you reduce the business first. Then you plan for anything.

Jiten H. Doshi: Definitely, Titan is talking about turnover of Rs.50000 Crores. I am sure your Rs.8000 Crores can become Rs.24000 Crores domestically, and you can do much better. And ultimately, management, bandwidth will get released also from.

Balram Garg: You are right. Definitely, we will discuss these things and think on these.

Jiten H. Doshi: Where do you think ultimately you are now targeting your balance sheet return on capital employed?

Balram Garg: That is why, Jiten, I cannot give you the number. The company is more focusing on the franchise model, definitely, in future, when this model is stabilized, definitely, the ROE will increase.

Jiten H. Doshi: So I just want to remind you at one time it was 35% in your case. So if you get back to your old model and focused way, your ROI can hit 35%, and I think that will be very, very solid.

Balram Garg: You are right, actually. That time, our base was four, five store only. So definitely, we opened from four, five store to around more than 90 stores. So every year, we were opening more stores. And that is why our ROE definitely is impacted. But now, we have shifted to the franchise model. Again, we think that our ROE will improve.

Jiten H. Doshi: My last question to you is, what is your blue-sky scenario because Titan is talking of Rs.50000 Crores. PC is the number two player; it is a very solid company. It is not like Gitanjali or something. We respect you more than Gitanjali. So exactly what is your vision? Like we are saying Rs.50000 Crores can happen in five years. What is your vision? Are you bullish? Or you are seeing that it will remain tepid?

Balram Garg: No. Definitely, we are very bullish because market is shifting definitely from unorganized to organized. And if you look at till March 2018, we were growing annual compounding growth of 15%, 20%. And even first quarter, our growth was more than 15%. Only this quarter, there is degrowth. But definitely, we think that jewelry industry market is shifting from unorganized to organized. And there is a huge potential to grow in the jewelry segment, because only 30% market is organized and the 65% market is still unorganized. So we are very hopeful that business is shifting. Only quarter-to-quarter impact is there, but long term, we are very bullish. But definitely, in long term, the business is shifting from unorganized to organized. Until March 2018, every year our annual compounding growth is more than 15%, 20%. So growth is there.

Jiten H. Doshi: So Balram Ji, please, I would request you to close down this export thing. I think it is causing too much a problem to you, to shareholders, to all of us. Just make the receivable zero, make the export zero. It does not make a difference. You are not getting any PE anyway for that. On the contrary, if you see, when you shut down all the export, you will reduce another Rs.1000 Crores of borrowing because all these debtors will go away. On Rs.2000 Crores and plus, whatever you are generating,

you will do much better. On the contrary, all your borrowings will come down. You will be a focused, branded retail jewelry business on domestic side. Your PE today is some five, six, maybe that will become 15, 20 times. You will do much better. Why do not you look at it, PE?

Balram Garg: Look at this quarter, our 95% sale's from the domestic only.

Jiten H. Doshi: I want 101% from domestic from you.

Balram Garg: No, you are right. But definitely, we have, the company is on the same path. And definitely, we will think over it.

Jiten H. Doshi: One last question what is your management promoter shareholding now in the company, all this put together?

Balram Garg: It is around - 58% around.

Jiten H. Doshi: 58%? So over a period of time, do you believe that there is no plan to dilute that, right?

Balram Garg: No. There is no plan to dilute. Definitely there is no plan.

Jiten H. Doshi: We can imagine that this would remain static for a while?

Balram Garg: Yes. Definitely, there is no plan to dilute.

Jiten H. Doshi: Very good. So we hope that by the end of March, when you come back and report your results on May 31, basically, you will come back and you will also guide us on this whole export business, please?

Balram Garg: We will definitely give that complete - even we have given the guidance till March. And in the May, when we announce the result of March, definitely we will give the complete guidance.

Jiten H. Doshi: Right. Please consult all your other members, board, family members or your brothers, etc., and just shut this business down. My real advice is you to very, very well if this goes away. All the best for the next two quarters and for the future.

Balram Garg: Definitely. Thank you. We will discuss this definitely.

Jiten H. Doshi: Thank you.

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

Sanjeev Bhatia: I thank everyone for taking out their valuable time and participating in this call, and a very good evening to all of you. Thank you very much.

Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of PC Jeweller Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.