

Transcript of
3QF14 Post Results Conference Call of

“PC Jeweller Limited”



PC Jeweller Limited

Event Date / Time : 10th February 2014, 04:00 PM IST
Event Duration : 48 min 06 secs

Presentation Session

Participants: Mr. Sanjeev Bhatia, CFO and Mr. Rajaram, Senior Vice President –
Accounts and Taxation
JATIN DAMANIA –SBICAP SECURITIES LTD.

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the Q3 FY13 earnings conference call of PC Jeweller Limited hosted SBICAP Securities. At this moment, all participants' lines are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Jatin Damania, Research Analyst from SBICAP Securities. Thank you and over to you sir.

Jatin Damania: Thank you Moumita. Good evening everybody. Welcome to the Q3 FY14 results conference call of PC Jeweller. We have today with us from the management, Mr. Sanjeev Bhatia, CFO and Mr. Rajaram, Senior Vice President – Accounts and Taxation. I thank the management for giving us the opportunity to host this call. We start the call by some initial remarks by Mr. Sanjeev Bhatia and then proceed to the question and answers. Over to you sir.

Sanjeev Bhatia: Thank you Jatin. Good evening everybody and welcome to this conference call. We are pleased to declare the results for the third quarter of the year 2014. Today rather than repeating the financial figures already in front of you, I would like to share my thoughts on the events of the past one year and the way forward. Thereafter we both would be most willing to answer all of your queries and questions to the best of our ability.

I am happy to say that PC Jeweller Limited has completed one full year as a listed company and I have to admit that it was baptism by fire. The calendar year 2013 has been full of twists and turns, highs and lows for the Indian jewelry industry. This sector came under the regulatory purview right in January 2013. And the Government has been increasing the import duty. It was raised to as high as 10% in March 2013. On the other hand, quarter one FY14 witnessed a never before phenomena. A steep correction in gold prices was there. There was a mad rush of customers at all the jewelry stores and the sales volume just shot through the roof. This deluge was followed by a drought in Q2, when the Government and the RBI clamped down on gold imports. The decade old rules were changed overnight and new gold import policies were brought in, which finally culminated in the current 20-80 rule. This practically dried up the imports and resulted in acute scarcity of gold

for the industry. Q2 also saw an extreme volatility in the rupee-dollar exchange rates. Both of our principal raw materials, gold and dollar are dollar denominated, gold and diamond, sorry, are dollar denominated and volatility in the exchange rates, therefore affects our day to day operations. We had to continuously adapt to the new regulatory regime and I am glad to say that we have been successful in the same. Our time tested rigorous business model, our capable staff and our established exports as well as domestic operations have stood us in good stead and we have been able to overcome most of the regulatory hurdles.

Q3 is a very important quarter for the jewelry, which has the festival of Diwali as well as start of the marriage season. We generally achieve a very good score in this quarter. However, I must admit that the consumer demand has been subdued in this quarter. Though our stores which opened in 2012 and 2013 have shown growth, the same store growth for our mature stores is practically nil. We have therefore launched attractive schemes etc., customer schemes to attract more customers and give them additional incentive to buy jewelry.

I, therefore request you all, to kindly analyze our results in the light of all the factors, which have occurred in the last one year. However, as the old saying goes, when the going gets tough, the tough gets going. We strongly believe in the long term sustainability of this sector and especially of our core competency, which consists of jewelry focused on wedding segment. We continue to focus on our competence and our strengths. We as a mark of our confidence in our business have continued to open new stores, six in Q1 and four in Q3. All of them are large format stores and are getting good response from the customers. We continue to strengthen our manufacturing capability and invest in our brand, launch new collections and bring out innovative customers and fixed schemes, like special discount days to attract more footfalls in our stores. We also continue to strengthen our systems and procedures to take care of our expanding network.

In conclusion, I would like to reiterate our commitment to censoring PCJ and would continue to demonstrate our commitment towards enhancing shareholder value. We have declared dividend last year within three months of our listing. This year we have already declared interim dividend as well. We remain committed to corporate governance and transparency. We have further strengthened our board by inducting a new Independent Director Mr. M.R. Nayak, who has vast banking experience and who was the Executive Director at Allahabad Bank in his last stint. We have also promoted our Chief Operating Officer Mr. Ramesh Kumar Sharma to the board as a Whole Time Director. The Board now constitutes personalities with strong domain experience across core jewelry industry, banking, strategy as well as law.

In the end, I would like to express my thanks towards the stakeholders, who have shown their faith in us in these turbulent times. Thanks to all of you for listening to me with such patience. We would now like to take any questions. Thank you.

Question and Answer Session

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question is from Mr. Adhivde Chattopadhyay from HDFC Securities. Please go ahead.

Adhidve Chattopadhyay:

Yes sir. Thanks for taking my questions. I have got few questions. First, would you just tell us on the margins for the quarter, I don't have the presentation, but why would the margins have been lower this quarter and with all the other schemes you mentioned which you have put in to enhance your sales, how do you see margins going forward in the next couple of quarters?

Sanjeev Bhatia:

Our gross margins in Q3 were of this year was 15.40% and if you compare it with the same year on year, then they were 14.61% in the previous year. So, GP has increased. Our EBITDA is also increased from 11.39 in Q3 FY13 to 12% in this quarter. So, if we compare quarter to quarter, I think we are okay. Do you have any specific timeframe in mind or which quarter you are asking margins...?

Adhidve Chattopadhyay:

No sir, I just wanted to understand more or less the breakup, why it would have been higher or low, any specific segment has done lower margins or is it because of some extended fluctuation, why the margins, just wanted to understand that.

Sanjeev Bhatia:

Our margins are highly dependent on, there is one steady state margin and then there is variable, two variables, which constitute or which force fluctuation in the same. Number one is our realization on export proceeds, like in Q2 the margins shot up suddenly because the rupee saw a very heavy depreciation, so whatever our realization on exports improved. And number two, margins also depend on the proportion of diamond jewelry mix in the overall this thing. So, in the Q2 of just the preceding quarter, diamond jewelry though there was an overall decline in the turnover, the percentage of diamond jewelry crossed 30%. So, there were improvements in margins. But if you consider year on year, then we are... then there is not much of fluctuation.

Adhidve Chattopadhyay:

Okay fine, and then sir, the second part of my question was with all the other schemes you said you have introduced to enhance your sales, how do you see your margins going forward? Would you expect the margins to be lower or maybe in the current levels considering the schemes you are having to put out?

Sanjeev Bhatia:

These are not continuation scheme. It is not that these are special days in which you say, okay you open a new showroom, anybody coming in for first seven days of purchases would be entitled to this special discount or on Diwali or on Navratri you say, these two days are special days and anybody walking in would be getting this thing. So, I think this is like any other retail business. But, this is not an ongoing scheme, okay I am giving, I have reduced my sale price or margins continuously.

Adhidve Chattopadhyay:

Okay. And sir, with the wedding season having commenced in December, so how have you seen the demand panning out on a Y-on-Y basis? If you could give us some sense as in, is it high or lower or is it flattish?

Sanjeev Bhatia:

No, as I said that we opened six in 2012, which are seeing the first full year of operations only now. And we also opened six new stores in quarter one of this year. So, these stores since they have started with the lower base, they are showing much higher growth rate. But our mature stores are showing practically flattish growth rate.

Adhidve Chattopadhyay:

Okay. And sir my last question is, going forward what is our store expansion plan like...has it been like recalibrated considering the current environment or do you want to go ahead with like what we had originally planned?

Sanjeev Bhatia:

Our store expansion has been delayed slightly, because we couldn't open in Q2 due to the certain supply constraints. But, we have opened four stores in Q3 and in Q4 we have already opened one in January and going forward we are working on about three to four stores. So hopefully, ultimately I must, hello?

Adhidve Chattopadhyay:

Hello, yeah, I am there.

Sanjeev Bhatia:

I must stress a bit, ultimately what is happening, the jewelry factor is not that (audio break) opening stores, you would have seen Kalyan is opening stores, TBZ is opening stores, Joyalukkas is opening stores. The market itself is shifting from unorganized families and jewelers to branded corporate players. So, store opening is an imperative for, until or unless if you don't open store in a virgin territory, Joyalukkas would go and have the first mover advantage. So, we would continue to open stores.

Adhidve Chattopadhyay:

Okay, thanks for taking my questions.

Moderator:

Thank you. The next question comes from Mr. Rory Pike from Schrodgers. Please go ahead.

Rory Pike:

Hi. My first question that I had was just with regards to, you mentioned that your mature stores showed flat sort of store sales growth, whereas when you listen to the conference calls from Titan or TBZ, they both said that they saw sort of negative same store sales between 2% and 5% even if you sort of take out the coins and bullion business and everything (not clear) __13:16__. So, I was just wondering why do you think your mature stores have been able to outperform the competition.

Sanjeev Bhatia:

Rory, I frankly wouldn't be able to comment, because we have been concentrating on our core strength and it is possible that customer was going on to these stores only to buy gold coins and not for jewelry and when he didn't get, he didn't go there for jewelry as well. It is just a fair guess. I really wouldn't be really in a position to exactly identify causes which would happen, but overall one wouldn't, one hasn't seen as such an exuberant jump in this thing. The sales have been subdued for us also. It is possible that amongst and in many possible, but I really can't comment why it should show a negative this thing, because it really hasn't, not that something has totally gone, people are still getting married and when they get married in India, at least they are buying jewelry. Not that that market has dried up, so that the growth start turning into negative. But, I can only say people are still buying jewelry.

Rory Pike:

Thank you. That was helpful. My second question was just on the export side, obviously there was a very big jump in Q2 versus Q1 and then in Q3 it has gone back down to sort of a similar level of what Q1 was and then Q4 2012. I was just wondering what is the reason that there has been such a big volatility in the revenue from the export side and what can we expect from there going forward?

- Sanjeev Bhatia:** Number one, if I talk about the revenue from exports, we have got our target in mind that our exports would remain at more or less the level which they were in the last year, that was about 1000 to 1100 crores. So, there may be a variation from quarter to quarter, but if you look at our overall annual figure, they would be more or less on the same lines. I admit there can be variation from quarter to quarter depending on the orders which we receive from overseas buyers and all that. But overall this thing would be around 1200, 1100-1200, practically the same level which was there two years back.
- Rory Pike:** Okay, I guess the question is, just the variation was very large between Q1, Q2 and then Q3.
- Sanjeev Bhatia:** Yeah, this year what happened, in Q1 there was such a huge domestic demand, so that we practically didn't pay attention to our export orders and we pushed them. The opposite happened in Q2. There was hardly any supply of gold. The customers who had purchased in Q1 stayed away, so in Q2 we concentrated on our export operations and this jumped up vis-à-vis the Q1. Actually this year has been a very, very volatile year. Q1 was an exception, Q2 was an exception, Q3 okay and we are coming back to the normal state. I think this is one of the very important reasons. In Q1 frankly there was such a huge domestic upsurge; we couldn't pay attention to the export at all.
- Rory Pike:** Okay. I guess the final two quick questions. One is that the tax rate seems very high in Q3, sort of 29% versus 18% to 22% the previous quarter, so I was just wondering is there any sort of reason why the tax rate has jumped so much and should we expect that to be at permanent high levels going forward?
- Sanjeev Bhatia:** We used to, our tax assumptions which were available to us in our export operation and we were also in our domestic operations, we were having tax exemptions, because one of our manufacturing units located at tax exempt zone in Dehradun and now those exemptions are being withdrawn gradually and our tax rate is also going up. From 19, it went up to 25 and this year it has gone up to 28-29. And I think by March 2015 or 2016 maximum, we should be at 33%.
- Rory Pike:** Okay, perfect. And then the final question was, when all your EPS numbers for Q3 2012, you have 4.82, just that I don't understand how that was calculated, because it doesn't seem to add to match, these earnings, the net income or the number shared, it doesn't seem to add up. When I calculated it comes to 3.74. So, just wondering, was I missing something in terms of why the EPS was 4.82 for Q3 2012?
- Sanjeev Bhatia:** Rory, I wouldn't be able to frankly reply to this question immediately. But, I have noted down the question and I think we should be replying back to you very soon.
- Rory Pike:** Okay. That's fine. That is all the questions I had. Thank you very much for taking them.
- Sanjeev Bhatia:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Deepak Agarwal from Impetus Advisors. Please go ahead.
- Deepak Agarwal:** You were mentioning that the consumer demand was subdued during the quarter. So, was it subdued in all the months of the quarter or was it in a particular month?
- Sanjeev Bhatia:** No, overall what we expect in Q3 is a sudden jump up. So, vis-à-vis our expectations we have not been able to get that much footfall or sales which we would have wanted. But Diwali, I think in October it was a bit subdued then it went up, because Diwali was in 3rd November. When Diwali and Dhanteras were in November, so Diwali....not jumped up really, but it went up. And then December it

- has been okay. But, October within this quarter I think, yeah October was slightly....
- Deepak Agarwal:** Okay. And you mentioned about the proportion of diamond jewelry has gone down this quarter. So, was that again throughout the quarter or specific months?
- Sanjeev Bhatia:** I really wouldn't be able to answer which month to month. We compile over quarter level figures. But, overall diamond jewelry sales have gone down. I wouldn't be able to frankly....
- Deepak Agarwal:** My question is because, on 1st of November, Mr. R.K. Sharma of CNBC and he said that diamond jewelry proportion is rising and that is why our margin will not be hurt. But, your margin has been hurt and now you are saying that the diamond jewelry proportion is lower.
- Sanjeev Bhatia:** Because overall, Mr. Sharma may have been right, because at that point of time, we were just beginning this thing and the marriage season was yet to start. Because, marriage season starts after Diwali around 15th of November or so, when the actual sales starts coming in. And we have been preparing well. I think one of the reasons for lower diamond jewelry proportion was because of stores in South we have opened. We have opened in Hyderabad, Bangalore, Mangalore. South still remains a predominantly gold consuming sector. So, this also would have made our margins, sorry not margins, but proportion lower.
- Deepak Agarwal:** How many stores you have opened in South in the quarter?
- Sanjeev Bhatia:** Actually we have opened three large format stores in South, Hyderabad, Bangalore and Mangalore. So, there the gold jewelry sales are much higher than diamond.
- Deepak Agarwal:** Okay. And you were also on, in the sense 6th of December when you said that the fall in the demand is only in the coins and bullions and not in the jewelry and you are not affected therefore.
- Sanjeev Bhatia:** Yeah, to be very frank....
- Deepak Agarwal:** That was like three weeks and after that there have been only three weeks of results...
- Sanjeev Bhatia:** Why should I, 6th of December? Now also what I am saying is not that we have shown any decline like Titan or TBZ. What I saying is that our new stores have shown growth. Overall company wise if you see, we have shown growth, we have not gone into negative this thing. But, I am just specifying that within this overall company, our mature stores have not shown, if you say same stores growth to the extent with practically same level of growth. But, other stores have shown growth.
- Deepak Agarwal:** Okay sir, fine. You made another statement that 80 crores is your steady state profit level. Can you please elaborate what you mean by that?
- Sanjeev Bhatia:** What happens is that as I said before, in exports, even though the export proportion is going down as our domestic sales goes up, in export the sales can vary very widely depending on the exchange rate. So, in Q2 because the rupee depreciated from, straightaway from 55 to almost 68, what happens is that our charges, whatever benefit in export...
- Deepak Agarwal:** Yeah, understood. You had a high margin that quarter, yeah.
- Sanjeev Bhatia:** Yeah, yeah, otherwise I think, but going forward as our base grows and this thing, I would surely like to break this 80 crores barrier and why not?
- Deepak Agarwal:** Okay, I am through. Thanks.

- Sanjeev Bhatia:** Thanks.
- Moderator:** Thank you sir. The next question comes from Mr. Puneet Jain from Goldman Sachs. Please go ahead.
- Puneet Jain:** Hello, can you hear me now?
- Sanjeev Bhatia:** Yeah, yeah. I can hear you.
- Puneet Jain:** So, couple of questions I have. First is with respect to the gold availability. Would you like to throw some light on that and what is happening on that front right now? Second is with respect to your hedging strategy. What is the hedging strategy you are adopting? Has there been any increase in debt level on a Q-on-Q basis, like at the end of 2Q you were a net cash company, does that status still remain or has there been any change in that?
- Sanjeev Bhatia:** I will start from the last one first. If you would have noticed our results, in the last Clause 41 shows that company holds about 200 crores of mutual funds and 194 crores of fixed deposits. So, the company does still have cash on its books. So, this is number one, but having said that I must admit that debt levels have gone up. So, I cannot tell the exact, because balance sheet this thing, but debt levels have been, it is a natural thing, obviously when the lease stands withdrawn, the debt has no option but to go up.
- Puneet Jain:** But, will you be net cash still or it is going to be marginally into net debt?
- Sanjeev Bhatia:** Actually it is both sides. On assets we have cash and on the liability side we have debt. So, it is both things. Obviously that debt would be higher, but having said that I must say that our net worth is also growing and in spite of the debt on books, our leverage ratio still remains very, very comfortable. So, I can assure you on that. So number two, if we come on the hedging strategy, we used to pride ourselves as the company which is fully hedged. But, this is not the position today, I must admit. Exports, we are still able to get on lease, so yes, that is our old model of procurement still remains. But, in the domestic, since the entire procurement model has changed, we could in Q2 get some gold from SBI, which they have managed to...., which they still give on lease basis, because that is the domestic gold. But, that is very, very negligible. And the gold which we are able to, which we have procured today is on cash basis only. Now, if you think of the hedging strategy, we are still working out on the same. We are exploring various options. We are talking as to how to go on the exchanges, because frankly we have never done that before. So, we are exploring. We are trying to learn. We have been contacting a few brokers and just learning the ropes as to how we can start. I think in the next, if the lease scheme doesn't come back, then obviously in a month or so we would also be moving on to the exchanges. Now, if I come to your first question regarding gold availability, what happens is that the new rules hit everybody very suddenly, including the bullion banks. So, there was a drought in Q2 when nobody knew what to do. But, Scotia was the first of the block, it got the necessary permission and everything and it started supply in there. Now, other banks are also getting permission. I have also got permission and supply channels are opening up. We are confident, as other banks have also applied to RBI and get this thing in next one or two months, more and more banks would start coming in the market. So, even if the 20-80 rule remains, in the next one or two months the situation should be an improved one.
- Puneet Jain:** So, right now will you be running lower inventory at your corporate level as well as at your store level?
- Sanjeev Bhatia:** Inventory, Puneet we cannot compromise on inventory, because that is our core business. Because, if we start depleting our stores of inventory, then our sales would get hit very, very badly, we cannot compromise on inventory. And we have been getting gold regularly from banks. Because of our export operations, banks

have been coming after us and we are in sort of in a preferred list. I wouldn't be naming the banks. But, one bank which has again come back into business in Delhi, it has sort of first time given its entire Delhi quote to us, since you are an established exporter, you take so much of export gold as well as so much of domestic gold, let me start business from you. So, this was just one example, but we have been getting gold. And there is also an element of recycled gold which has come up, though that is not important. But, that is also there. But, we cannot compromise on inventory levels, to be very frank.

Puneet Jain: Okay and just one final question. You have declared interim dividend. That is very great. Do you have any, do you plan to have any particular dividend payout policy, given the fact that you are not (not clear) listing and you have already declared one final dividend and one interim dividend? In terms of how much proportion of profits you would like to distribute?

Sanjeev Bhatia: I think we have brought out a dividend policy way back in July results, where we had said we will try to maintain the dividend payout of 15%. So, that policy remains as on date. And I should not; I do not see any reason why we shouldn't be able to maintain our policy.

Puneet Jain: Okay, thanks a lot. Thanks.

Moderator: Thank you sir. The next question comes from Ms. Pooja Bandekar from Crisil. Please go ahead.

Pooja Bandekar: Good evening sir.

Sanjeev Bhatia: Good evening.

Pooja Bandekar: Sir, basically my question is regarding the procurement of gold. So, I wanted to know like lot of companies are also going to recycled gold, which forms a chunk of the portion. So, what about your company? So, if you divide the 80% of the gold requirement from domestic, how will you segregate those, in the sense how much from recycled gold, how much from upfront cash payment and if it is still some gold which you are able to get? Like in last quarter you got through metal loans, in that regard.

Sanjeev Bhatia: This quarter if we say that we have not been able to get gold loan, metal loan again, because SBI has exhausted its quota as it told us, I don't know. We may again something in March from SBI. If it happens, it will be very good. The proportion of recycled was always very, very limited. Recycled is very, very limited. It is not more than 4% to 5% in any case.

Pooja Bandekar: Okay, not more than that.

Sanjeev Bhatia: It is also not a stable source. If you have to build up this thing, you can't wait for some...so, bullion banks only remain our principal source.

Pooja Bandekar: So for even for quarter three, the domestic, the metal loans were not much available?

Sanjeev Bhatia: No, not at all available. Not much available, not at all available.

Pooja Bandekar: So sir, for hedging purpose in quarter three how are they done like, since we see the bullion players charging more of premium if you saw the other players, they had a hit on their gross margins due to that.

- Sanjeev Bhatia:** No, I don't know why should they get a hit on this thing, because whatever the premiums you have to pay, you are passing it on to the customer. It is not that you are taking a hit on your own books. If you are getting gold at X price, if it is inclusive of premium, you pass it on to the customers. So, gold prices in that way on the shop would include the premium element also paid.
- Pooja Bandekar:** Okay. So, there won't be any issue of your old unsold inventory, which is taken at a high price and now the gold rates have fallen?
- Sanjeev Bhatia:** No, no, frankly no, gold rates have frankly not fallen. Gold rates are actually going up. What happens is that gold keeps on coming in and gold keeps on getting sold. So, as such one cannot say that we are holding, if there is a correction in prices, you would straightaway take a hit, because you would have purchased the gold at various price points. So, that is always there. But, having said that we took pride in ourselves as almost completely hedged company, which unfortunately is not a position nowadays. But, we are exploring various options and looking at various mechanisms as to how do we do that. So, hopefully if these doesn't come back, which I sincerely wish it does come back, we will have to, we should move on to other options.
- Pooja Bandekar:** So, currently there was no hedging through MCX or anything for the previous quarter?
- Sanjeev Bhatia:** No, not there. Some hedging through banks frankly, where we have the facility of forward, but not through exchanges.
- Pooja Bandekar:** Okay. Okay sir, thank you. That is all.
- Moderator:** Thank you sir. Our next question comes from Mr. Vivek Veda from Espirito Santo. Please go ahead.
- Vivek Veda:** Good evening sir. Thanks a lot for taking my questions. Sir, I have couple of questions. Sir, as of now how much gold we are getting on lease and how much by making down payment?
- Sanjeev Bhatia:** As I just told Pooja that currently there is no gold, only export gold is available on lease for us. Domestic gold, if SBI gets some stock tomorrow, then it has promised us. But, currently nothing, it is all on cash basis.
- Vivek Veda:** And sir, on the hedging policy sir, I am sure we are hedging some of our gold loan cash payments. So, what is the average hedging cost we are paying, some color on that?
- Sanjeev Bhatia:** That hedging cost, because number one, the volumes are very, very low. But, on an average if you see this thing, the hedging cost would be 0.25% or 0.3%, nothing very significant frankly.
- Vivek Veda:** Okay, okay. Sir, last question is, lot of news that Government will ease out some of the regulations, so what is your view on that and what we can expect first from the Government side, in which front easing can come?
- Sanjeev Bhatia:** We are all hoping for the best. But, to be very frank, to be very frank it is not that if you ask me personally that what immediate this thing to demand from the Government, it will be coming back on the leasing policy. Because, otherwise if you see in the 20-80 scheme also, the banks are getting their systems back, so they are getting their (not clear) back and import duty, okay, but import duty is always very, very negligible, minor component of the street price of the gold. So, my personal wish list would place the revival of leasing policy again. But, let's hope, we can only wait and see what the Government does bring in or doesn't.
- Vivek Veda:** Okay sir, thanks a lot sir. Thanks from my side.

- Sanjeev Bhatia:** Thank you.
- Moderator:** Thank you. The next question comes from Mr. Vishal Gutka from IndiaInfoline. Please go ahead.
- Vishal Gutka:** Hello. The gross margin in 3Q FY13 is 17.1 and in 3Q FY14 is 14.8. So, there is a decline of 230 basis points. Can you explain that?
- Sanjeev Bhatia:** Gross margins you are saying?
- Vishal Gutka:** In 3Q FY13 it is 17.1 and in 3Q FY14 it is 14.8, so there is a decline of 230 basis points.
- Sanjeev Bhatia:** You are talking about Q2 and Q3 differential?
- Vishal Gutka:** No, no, I am talking YoY 3Q FY13 and 3Q FY14.
- Sanjeev Bhatia:** Gross margin was 14.61.
- Vishal Gutka:** Okay, in?
- Sanjeev Bhatia:** FY13, Q3 last year and it is now 15.4.
- Vishal Gutka:** Basically the cost of sales for me it is, the figure is for 3Q FY13 is 82.9 and for 3Q FY14 it is 85.2. So, there I am coming about decline of 280 basis points.
- Sanjeev Bhatia:** Again what I say is that this is actually frankly a method of calculation. Some figures which you see on the call, going into this calculation, they wouldn't be exact, but we would be glad to help you with a mail on this thing and we will surely reply back giving you an exact calculation on how do we do. Because, these expenses are there are not, because there are some, if you go purely by Clause 41, it wouldn't be so clear.
- Vishal Gutka:** Okay, okay. Are you continuing in this schemes like gold harvest scheme like Titan has, so are you continuing in that or there is some restriction from RBI on that side?
- Sanjeev Bhatia:** There is no restriction from the RBI. We have our dual (not clear) scheme. But, what we have been hearing that the new company that proposes to cover these schemes under the deposit rules and they would be different, the new rule governing this sort of scheme. So, frankly if something comes we will act accordingly, but having said that our, we are comfortable, in any case if the law says you have to discontinue or you modify the scheme, then we will perhaps modify it. Let's see what exactly the rule comes.
- Vishal Gutka:** Okay, thanks. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.
- Our next question comes from Mr. Rahul Agarwal from VEC Investment. Please go ahead.
- Rahul Agarwal:** Hello?
- Sanjeev Bhatia:** Yeah, good evening.
- Rahul Agarwal:** Hi Sanjeev, good evening. Just one question, on this other income part, this is about 30 crores for the quarter, right?
- Sanjeev Bhatia:** Yeah.

- Rahul Agarwal:** What is that?
- Sanjeev Bhatia:** On the other income includes interest on our investments and this thing as well as, I think the second thing is our forex MTM.
- Rahul Agarwal:** Could you give me the breakup please?
- Sanjeev Bhatia:** Exact figure wise breakup, again as I have requested earlier this thing, why don't you mail me the exact this thing and we will surely get back to you. (Not clear) exact figure wise.
- Rahul Agarwal:** Fair point, fair point. Point taken sir, I will email it to you. Another question was will this number be recurring for the fourth quarter, assuming that your liquid balances would have gone down?
- Sanjeev Bhatia:** What happens is, if you take the steady state, it will be again something around 12 or something, to be very frank. The differentiating thing, factor, is the forex benefit or loss which goes on that; but, so that I cannot predict right now, but it has to be at least 10 to 12.
- Rahul Agarwal:** Got it. And what is the nature of this forex gain, essentially this is booked on what?
- Sanjeev Bhatia:** What I think...I don't have a ready reckoner answer sir, I have to this thing. Whatever our, as per AS 11, the auditors have booked some income on our export, sorry, not export, but on our forex exposure, because we have got debtors as well as creditors. So, it is somehow related to that, so that is why I was requesting that I will give you the exact this thing.
- Rahul Agarwal:** Alright, got it. Thank you very much. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.
- The next question comes from Mr. Vishal Gutka from IndiaInfoline. Please go ahead.
- Vishal Gutka:** Hello.
- Sanjeev Bhatia:** Yeah Vishal.
- Vishal Gutka:** What is the outlook on 4Q going forward? Has the demand improved?
- Sanjeev Bhatia:** We sincerely hope, because Q4 is also a marriage season and we sincerely hope that. Actually what happens is, it is a very difficult question to answer in the sense that because people are buying jewelry. People are buying jewelry, but we have got some internal targets and this is something I expect that I would be having a sale of say, 10 in this month and if it is possible, I may be having sale of 8. So, it is not that it is something has not happened, but I have got more rational basis of calculating 10 also. So, this is something internal target setting done by me. But, the demand does remain. Basic point is demand does remain but I really have no benchmark to measure it that okay, it should have been this much or it should have been this much.
- Vishal Gutka:** Okay. Now what is your store addition for FY15?
- Sanjeev Bhatia:** In Q4 of this year, we should be, as we have already added one and should be adding three more. First we have to complete our target of achieving fifty stores.
- Vishal Gutka:** Okay, on overall basis?

- Sanjeev Bhatia:** On overall basis. So, I think by quarter Q1 FY15 we should be able to achieve that target, touch wood. And thereafter we will have to sit down and then take a call that which are the potential areas and how do you go for store size and all that.
- Vishal Gutka:** Okay, thanks. Thanks a lot.
- Moderator:** Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.
- The next question comes from Mr. Deepak Agarwal from Impetus Advisors. Please go ahead.
- Deepak Agarwal:** We are halfway through the current quarter, so how this quarter is shaping up in terms of margins?
- Sanjeev Bhatia:** Deepak, it is actually too premature to answer this thing, because your margins would frankly depend a lot on what are the rates, exchange rate, gold rate etc. on the balance sheet date. So, but the diamond jewelry sale we have seen an uptake. So, if we are able to get a better jewelry, diamond jewelry mix in this quarter, our margins should be better. But, at this point of time frankly it is not possible to exactly predict how much better it would be or..... But, I sincerely hope that they should be better than the previous quarter.
- Deepak Agarwal:** Fine, thanks.
- Moderator:** Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.
- There are no further questions sir. Now, I hand over the floor to Mr. Jatin Damania for closing comment. Please go ahead sir.
- Jatin Damania:** Thank you everybody for participating in this conference call. Mr. Bhatia would you like to give the closing remarks?
- Sanjeev Bhatia:** Yeah. I would again, what I have said earlier that this has been a very, very volatile year especially for the jewelry industry. And I personally believe that we have been able to sail through it much, we may not have achieved to the full expectation of everybody, but we have done okay. And going forward I only hope and feel that things should start getting much better from here and it cannot get any worse than they were in 2013. So, we expect much, much better days ahead. Thank you.
- Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may go disconnect your lines now. Thank you and have a good evening everyone.

-
- Note:
- 1.This document has been edited to improve readability.
 2. Blanks in this transcript represent inaudible or incomprehensible words.