



“PC Jewellers Ltd Q4FY13 Earnings Conference Call”

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TAXATION

Moderator

Ladies and gentlemen, good day and welcome to the Q4FY13 Earnings Conference Call of PC Jewellers Ltd. We have today with us from the management Mr. Balram Garg – MD, Mr. Sanjeev Bhatia – President Finance, Mr. Rajaram Sugla – Senior VP Accounts & Taxation. As a reminder for the duration of the conference all participant lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would like to hand over the conference over to Mr. Balram Garg. Thank you and over to you sir.

Balram Garg

Good afternoon and thank you for joining us on our Q4 and FY2013 results call. Q4 has been a very good quarter for us. Our revenue from operations in Q4 crossed Rs. 1144 crores. Out of this our 77%, Rs. 885 crores is from our domestic retail business. On a full year basis our revenue from operations for FY13 has been Rs. 4018 crores. Our 74% of this was contributed by our domestic retail business. As we have mentioned in the past jewelry retail is our focus area and the same is clearly getting reflected in the company's performance. Our gross margins have shown consistent improvement at overall company level as well as the domestic retail level. Gross margin at company level have improved to 15.57% in FY13 from 13.86% in FY12. Gross margins for Quarter 4 FY13 were 15.85% as compared to 14.64% in Q3 FY13. On the domestic retail front our gross margins improved to 15.95% in FY13 from 15.42% in FY12. Gross margins for Q4 FY13 were 17.21% as compared to 14.89% in Q3 FY13. This is basically due to increasing share of diamond jewelry in the overall jewelry mix. Our PAT for FY13 has been Rs. 290.74 crores up from Rs. 231.29 crores in FY12. PAT margins have been steadily at 7.25% for the complete year. PAT for Q4 FY2013 has improved to Rs. 82.45 crores, percentage around 7.21% from Rs. 66.90 crores in Q3 the percentage PAT is 6.57%. I would also like to state that keeping in view the prudent accounting practice, our auditors had recommended for making some provisions for the discount prevail on the amount received by company under its Jewel **for less scheme**. The company has agreed with the auditors' recommendation and our PAT for Q3 was adjusted for those provisions which amount to Rs. 4 crores. We have now increased these provisions to Rs. 11 crores and our PAT for Rs. 291 crores is after this adjustment. As per our best knowledge and belief no other jewelry company in the country is making provisions for similar kind and I am sure that we would be appreciated for the same. Keeping in the view the cash positive position of the company, the board of directors has recommended for 10% dividend and we feel that this is our small way of saying thanks to our investors. Our focus expansion is continuing at a strong pace and we have opened six showrooms after IPO taking the count of showrooms to 36. We strongly follow the philosophy of setting up strategically located large format showrooms targeting wedding jewelry and our growing retail sales are testimony to our belief. Gold price, as you are aware, after remaining high for a long time has corrected in recent month. This correction has led to improvement in gold jewelry volumes at industry level. We believe that our conservative policy of obtaining on gold lease basis has been vindicated by the recent fall in gold prices. The company has not suffered any ill effects or inventory loss due to fall in gold price. Although the latest RBI instruction on regulating the gold imports have not touched the

adjusting lease model at all. On the overall basis we are quite happy with our Q4 and FY13 performance. I think we should be open to questions now.

Moderator Thank you very much sir. We will now begin the question and answer session. We are going to take our first question is from the line of Nikunj Doshi from Bay Capital, please go ahead.

Nikunj Doshi Just wanted to understand what will be the impact of the LBT on the Q1 performance in Maharashtra?

Balram Garg We do not have any store in Maharashtra right now so we do not know what will be the impact of LBT. Right now we are into north and central and we have already a Gujarat this year.

Nikunj Doshi Any indirect sales into Maharashtra?

Balram Garg No, nothing.

Moderator We are going to take our next question from the line of Atul Mehra from Edelweiss, please go ahead.

Atul Mehra My question is in terms of growth for this quarter, so the growth I believe is on the topline side is around 12%. So I just wanted to get an overall breakup in terms of export as well as domestic growth that we have clogged this particular quarter?

Balram Garg The fourth quarter revenue growth in exports has been the tune of 22% and the domestic is nearly 4%.

Atul Mehra And what would be the kind of may be like to like growth that we witnessed this particular store of the same store or -

Balram Garg Right now we cannot compare the quarter but if you talk of the year to year comparison, because always our second half is better than the first half and the third quarter and the fourth quarter sales are almost the same in the domestic sides but export is better in fourth quarter always. So if you compare the year to year growth our same sales growth is in value wise around 22% and volume wise around 11%.

Atul Mehra Sir I was specifically talking about Q4 in terms of how has the performance been?

Balram Garg Q4 I think the same store sales growth is not there in Q3 and if you compare it to Q3 and Q4 think the same store sales is almost same.

Atul Mehra So Q4 has seen a market slowdown in terms of activity for you with the overall growth adjusting 4% we have seen large amount of major slowdown in this particular quarter.

- Balram Garg** Actually the third quarter is the wedding season or Diwali season and fourth quarter January, February is wedding season and March is always slow. And you will see the margin growth because third quarter our growth is mainly in gold jewelry and fourth quarter our diamond jewelry share is around 32% compared to third quarter is around 25-26%. So margin growth is there and profitable growth is there but sales wise because third quarter is always good and wedding season and Diwali season is there, so if you compare it to the last year also the fourth and third quarter is almost the same and we have not opened any new store in third and fourth quarter.
- Atul Mehra** Right. And just coming to new stores part, so when are we now scheduled to open new stores as per may be our IPO?
- Balram Garg** April and May we have already opened six stores and next quarter we are opening five stores and the third quarter we are opening four stores and fourth quarter we are opening five stores. So six stores we have already opened and 14 stores are in pipeline.
- Atul Mehra** And where are these specifically? How are we going in terms of geography?
- Balram Garg** This first quarter we have already added Gujarat and next quarter we are adding Bihar, Odisha and Maharashtra and the third quarter we are adding from the south part and I think within the year end our presence will be PAN India presence. We will be all over India.
- Moderator** We are going to take our next question from the line of Avi Mehta from IIFL, please go ahead.
- Avi Mehta** I had a specific question on, first is if you could give me the share of diamond sales in this quarter versus third quarter, could you give me that number?
- Balram Garg** In third quarter our diamond jewelry mix was around 26.85% and the fourth quarter the diamond jewelry mix is 32.15%.
- Avi Mehta** Okay, so 26 has become 32, right? That is how it is?
- Balram Garg** 27 has become 32.
- Avi Mehta** Yes. Now if I look at the gross margin or the material cost which is basically the line item on a QoQ basis, we can take the share of revenues I am seeing that actually increasing so basically your gross margins are declining on a QoQ basis.
- Balram Garg** No, if you compare the QoQ basis our gross margins for the fourth quarter is 17.21%.
- Avi Mehta** Sorry sir, if I may, I am basically taking cost of material consumed and adding the purchase of traded goods and changes in entries, all the three lines. And not just taking cost of materials consumed. That is what I am trying to do because if your diamond sales have improved

logically your gross margin including these three should also improve, or if it is not improving and if it is only the cost of goods that is improving, what is the reason why this is happening?

Sanjiv Bhatia

We can sit down and discuss these exact calculations at a later stage. As per our internal calculations our gross margins in domestic which were 14.89 in Q3 have jumped up to 17.21% because of diamond jewelry mix.

Avi Mehta

Okay I will take it offline. Secondly, on the other expenditure if you could just classify what is the reason for the QoQ drop? Is there some specific ad event that happens in third quarter which has not come in fourth quarter?

Balram Garg

Talking about the other expense, that expense is including -

Management

The major item in which it creates a variance in our other item expenditure is what the auditors classify as net loss in foreign currency translation. And which we take it in our purchases. These are the effect of restatement of our foreign currency exposure as on the balance sheet date.

Avi Mehta

Sir is this is the export part?

Balram Garg

No, no it is not export only, it is domestic also. So that is what I was saying, since your calculation and our calculations do not match because of this particular item also. So we will take it offline.

Management

While calculating the gross margins we add this figure in the purchase. This is a part of our purchase that is why this figure will not match. So if we take this amount from this head and we include this thing on purchase, because this is a notional figure. We add while calculating the margins we add this figure in the purchase.

Avi Mehta

Sir what is this result of if you could explain that would be helpful sir.

Balram Garg

At the time of balance sheet after 31st March because we are importing gold from various banks so everything is open because we are a total hedge company so we seek the open currency also. So whatever rate on the date of 31st March, they restate the figure and this figure will be included in the purchases.

Avi Mehta

Sir but then would the creditors also, so what you are -

Balram Garg

Yes, they also restate the creditors also.

Avi Mehta

So you are saying there is a difference in the restatement of the creditors, the amount the creditors restate and the amount by which the inventories restate.

Balram Garg

Not inventory.

- Management** It is part of purchase. They restate the creditors and purchase. Suppose our creditors at the day of balance sheet at the rate of 54 we are importing gold and at the time of balance sheet the rate is 55. So Re. 1 what they do is they increasing the creditors for Re. 1 and for Re. 1 they will give the purchase also.
- Avi Mehta** I am still not able to understand that but before I get into that I have one last question, I see that on a yearly basis the growth in the exports has slowed down as you had rightly indicated in the IPO document. That revenue we will refocus on the exports bit but on the EBIT growth rate I still see that the export continues to grow higher. If you could explain why is that happening and why are we still getting such margins?
- Balram Garg** Actually we are more focusing on the profitable growth not the volume growth in this business because now we are exporting the designer jewelry and this year because the dollar price is in terms of rupee depreciation so our margins are increasing in exports also and we are not focusing the regular items, we are more focusing in the DNR items. So that is we are not able to increase the turnover. We are focusing more on profitable growth.
- Moderator** We are going to take our next question from the line of Ankit Babel from Subhkam Ventures, please go ahead.
- Ankit Babel** Sir my first question is if you could just give a brief on the impact of this RBI's curb on gold and consignment basis on the industry percent, I agree that it is not impacting you as an organized player but what could be the impact of it on the industry as a whole and specially on the unorganized sector?
- Balram Garg** Actually earlier RBI permitted to import gold on consignment basis. So banks were doing gold import on consignment basis. What they were doing, they are paying only duty amount to the customs and they can import while paying Rs. 5 or Rs. 6 duty they can import any amount of gold for the traders only. So everyday traders were buying gold or small jewelers were buying gold from the banks. What they were doing, they were paying the amount to the banks and they were buying the same day. They were taking the delivery same day. Now what has happened is RBI has stopped this consignment basis. The impact is first they have to pay the full amount to the banks and after 3-4 days or 7 days they will get the gold. So it will I think increase the working capital requirement for the traders.
- Ankit Babel** So traders you mean to say it will increase the cost for the unorganized players?
- Balram Garg** Unorganized players and actually RBI wants to curb the import of Bullion trade, the want to stop the investment demand.
- Ankit Babel** How will it impact, I mean it is just that earlier they were getting it on the same day, now they will get in four days. So how it will impact the demand?

- Balram Garg** Rate fluctuation is there so nobody wants to invest and these are people who are buying gold and selling gold. They were doing the trading only. Now they cannot do the trading.
- Ankit Babel** How come? You mean to say they are open with the price list for four days?
- Balram Garg** No, they are open with price list. They have to pick the price also.
- Ankit Babel** Then where is the loss?
- Balram Garg** When they are getting the gold after 7 days or 4-5 days the price may change and right now what they are doing, they are taking gold, same day they are taking delivery and they are selling same day to the customer also.
- Ankit Babel** Okay, so at that point of time they were not having any price risk.
- Balram Garg** Now with the price risk and the working capital requirement I think they have to invest the full amount.
- Ankit Babel** If I just wanted to know that out of total gold import in India how big could this be on consignment basis?
- Balram Garg** I think more than 50%.
- Ankit Babel** So there is one more route of that buying on unfixed price basis.
- Balram Garg** That is for short period only. If you taking gold on consignment basis you have to fix the price in 3-4 days.
- Ankit Babel** Do you foresee anything that if this goes as per what RBI wants, so the standard demand this 50% demand get impacted severely?
- Balram Garg** Not 50% but definitely they want to curb the investment demand and I think it will -
- Ankit Babel** Yes but this could impact even the local jewelers; I mean it is not only the coins or the bars but even the unorganized jewelers -
- Balram Garg** Yes, you are right, those jewelers also.
- Ankit Babel** So even if we believe that in worst case there is no growth in the industry people like you who are present in organized sector can grow by increasing your market share significantly means earlier also you were gaining market share -
- Balram Garg** It is difficult to say right now.
- Ankit Babel** Why there is no clarity?

- Balram Garg** We have to see the impact of this consignment basis first, that how it will affect the industry or sector. So I think the fund cost with a working capital requirement it will increase the working capital requirement only and it will curb the investment demand because intention of RBI is only to stop the investment demand not jewelry.
- Ankit Babel** Yes that is fine, that I agree but indirectly this will be impacting the unorganized jewelers by increasing their cost of procurement, so companies like you who are present in organized segment you have a higher making charges and you charge higher rates as compared to the local jewelers. So now if the local jewelers cost will increase, so do you feel that the gap will narrow down and the chances of a customer approaching an organized player would be higher as compared to what it was before?
- Balram Garg** Yes, you are right but right now I want to correct you that we are not charging higher because unorganized sector most of the small jewelers face a quality problem there. That is why they are charging less making charge means they sell the quality goods it will be very difficult for them to charge less making charges.
- Ankit Babel** Okay. Sir my second question is that we were supposed to demerge our export business into subsidiary, any breakthrough on that?
- Balram Garg** Right now we are a subsidiary company but right now we do not have any plan to merge this business. There is no plan to demerge right now.
- Ankit Babel** And lastly sir, are the margins in the export business at this level sustainable?
- Balram Garg** We are right now the gross margins threshold is around 14% and what we feel is that depending on the rupee appreciation or depreciation 1% impact is there but definitely if our rupee will appreciate then 13% margin are sustainable and if rupee will further depreciate it will increase our margins also.
- Moderator** We can take our next question from the line of Vivek Veda from Espirito Santo, please go ahead.
- Vivek Veda** Sir just two questions – one on the leasing front the latest regulation says that the leasing rate should be linked to the banking rate, so we do any drastic change in the procurement of gold and second is yesterday also there was a statement to take some new measures, it may be to curb the gold consumption. So what is the move expectation? How it will impact our business?
- Balram Garg** Actually the RBI intention to curb the investment demand only and that is why they are taking steps to stop the investment demands and they have already banned the coins, they have already banned the banks to advertise for the coins and this suggestion, we have given the suggestion to the ministry. So they have implemented this suggestion. There is no intention to stop the jewelry demand and because our jewelry industry is growing at the rate of almost 12% to 15%, the main growth is coming from the investment demand. Three years back India was

importing 600 ton of gold, right now India is importing 1000 ton of gold. So no jewelry demand is there, 40-50% demand is there. So government intends to curb the investment demand and that is why they are taking this step and the lease rate linked to the banking rate there is no proposal right now. They have already restricted the consignment basis, so they have not touched the lease model yet.

- Moderator** We are going to take our next question from the line of Riken Gopani from Infina Finance, please go ahead.
- Riken Gopani** Sir just wanted to understand one thing, if I am looking at your export margins on a sequential basis there has been a significant decline over there. So can you explain what would be the reason for that?
- Balram Garg** There is no decline in the export margins. Export margins are better than the last year. Last year our gross margin is around 11% and right now the gross margins are around 14%.
- Riken Gopani** So is there a change in terms of the mix on a sequential basis compared to the third quarter?
- Balram Garg** No, there is no change in the mix but definitely we are exporting more designer jewelry, not the regular jewelry. So our focus is the profitable growth not the quantum growth.
- Riken Gopani** Sir just to understand this better, I am basically trying to compare the quarter 3 numbers this year.
- Balram Garg** So you are talking about the quarter 3 to quarter 4.
- Riken Gopani** Yes, so there has been the 300 basis points decline if we were to compare that because Q4 to Q4 any which ways you would have a large dollar rupee benefit to your margins as well but your sequential margins declining but 300 basis points, any specific reasons for that?
- Balram Garg** In Q3 our margins is at 13.36%.
- Riken Gopani** Yes, so that is 11.3% for the quarter. So any specific reason for the decline here? Is the mix changing too much?
- Balram Garg** Yes, there is a big change because fourth quarter there is no diamond jewelry sales export business. There is no demand for the diamond jewelry in the fourth quarter. So because of gold jewelry, Yes because of the mix the margins are lower.
- Riken Gopani** Okay. So this percentage would be almost entirely gold in Q4?
- Balram Garg** Yes.

- Riken Gopani** Okay, otherwise the margins have not come down on this business. Sir I basically missed out on the points regarding, did you talk about what was the same store growth or something that kind of a trend, what would have been for our store?
- Balram Garg** Yes, volume wise it is 11% and the rupee terms value wise it is around 22%.
- Riken Gopani** This is for fourth quarter you are saying or is it for the full year?
- Balram Garg** No, it is for the year to year comparison.
- Riken Gopani** Okay and for the fourth quarter?
- Balram Garg** Actually third quarter and fourth quarter for the retail sales always remains same because third quarter Diwali season and wedding season is there and fourth quarter January-February two months for the season, and March is slow. So if you see the past trend see if we do not open the new stores so the same sales store growth is always same. For third and fourth quarter the growth is around 3-4% only.
- Riken Gopani** Okay so what you are saying is that on a YoY basis volumes have remained more or less -
- Balram Garg** Volume growth is 10% and in the rupee terms the growth is 22%.
- Riken Gopani** Sir one understanding that I wanted is on the making charges broadly how do you maintain your making charges, is it revision on a very frequent basis? How does it work if you could help me?
- Balram Garg** Our making charges are on per gram basis, not percentage basis. So we are not changing our making charge. Right now the gold price is coming down but our making charges are same.
- Riken Gopani** But the entire industry, at least the organized space had moved to a percentage method, so what you are saying is that we were always in the absolute making charges?
- Balram Garg** Yes, our making charges is in rupee basis, per gram basis always.
- Riken Gopani** And how often would you revise that?
- Balram Garg** Depends on if the gold price fluctuate more than 15-20%, only they we would rise.
- Riken Gopani** So with this current fall that has happened.
- Balram Garg** We are not revising right now. If gold price will further fall then we will decide.
- Riken Gopani** So right now it is right to assume that your margins will not get impacted with your rise in gold?

- Balram Garg** No, this quarter sale is very fantastic because if the gold price is coming down, sales are going up but we are setting the target for this year, if the gold price will come down further we will revise our target for this year. I think this quarter is very fantastic for the gold jewelry sales.
- Riken Gopani** To that extent but the diamond jewelry would be quite low, right?
- Balram Garg** Definitely but our PAT margin will not get impact. There is no impact in the PAT margin because if the gold price will come down we are selling higher gold jewelry, less diamond jewelry. But our sales will increase so there will be no impact on the PAT margins. So right now suppose our PAT margin is more than 7%, so may be the PAT margin will below 7% if the gold price may further fall but if you see the total PAT amount there will be no difference in the PAT amount.
- Riken Gopani** That will still grow as the same way it would have grown. Sir one more clarification is on the impact the gold price would have on your overall balance sheet, would it reduce the inventory requirement for you or rather the total amount that you would have on hedge and hence any impact on the interest cost.
- Balram Garg** Yes if the gold price will fall further definitely our working capital requirement will be less in this year.
- Riken Gopani** Even at these levels there would be a reduction in your working capital?
- Balram Garg** Yes definitely because earlier the gold price was more than 30,000, now the gold price is around 26,000-27,000. So our working capital wise it is less right now.
- Riken Gopani** So that would have an impact on a positive side -
- Balram Garg** Yes, a positive side. We have a very positive cash flow and very good sales also and interest cost also reduces.
- Moderator** We are going to take our next question from the line of Mayur Gathani from OHM Group, please go ahead.
- Mayur Gathani** Sir in the starting note you mentioned about some provision of 4 crore and 11 crore. Can you just throw some light on that please?
- Balram Garg** In the Q3 we had made a provision of 4 crores, based on our total JFL outstanding as on 31st December. Now for Q4, we have increased our provision and now that stands at 11 crores, to our PAT amount which we are declaring is adjusted for this provision of 11 crores.
- Mayur Gathani** I am sorry what is this provision for?

- Balram Garg** See we are taking advances from the customer with a scheme for jewel for less, where customer have to pay every month. On a year we give discount to the customer when the customer buys jewelry. So we are adjusting that discount before.
- Mayur Gathani** Okay sir like 12+2 or 12+1 months scheme that you have, that one month you are giving for provision? Is that understanding correct?
- Balram Garg** Yes, right.
- Mayur Gathani** And sir what is the growth guidance that you are looking in for this year and can we sustain the margins?
- Balram Garg** Yes, margins are sustainable and more than 7% margins are sustainable and growth because we are opening 20 stores so definitely last year our sales was around 3000 crores and this year it is 4000 crores, so definitely in future also we will grow like this.
- Mayur Gathani** Okay, so 20-25% growth is feasible?
- Balram Garg** Yes, much more.
- Moderator** We are going to take our last question from the line of Nitin Khandekar from Beyond Quant Equity Research, please go ahead.
- Nitin Khandekar** I have a couple of questions. How much retail space in square feet do we have as of March 31st?
- Balram Garg** We have an area around 1,65,000 square feet and this year first quarter we have already had 37,000 square feet And going ahead we are adding 1 lakh square feet area in this year.
- Nitin Khandekar** Normally how long does it take for a new store to mature, I mean if we were to open a store in say April, which is not the wedding season or not the strong season, how long will it take to mature?
- Balram Garg** Actually we open the large format store. And typically the large format stores do not take much time to mature and I think within six months our store will get mature.
- Nitin Khandekar** Okay. Sir are we capturing sales per square feet?
- Balram Garg** No, we are not capturing because we are a large format model and this large format model is not successful, we do not measure it square feet wise because we are a wedding jeweler and 80% in sales in India is from the wedding side. So now the other companies are also following this model.

- Nitin Khandekar** So the next question is about your exports, you have mentioned in the IPO RHP that the focus will not be so much on exports going forward, but we still have sizeable amount of exports on the books. So my question is what are the definitions of exports and whether the problems in US and European economy like Greece and Spain would they impact us in anyway on the export side?
- Balram Garg** Actually last year the export was around 1000 crores, and our total sale was around 3000 crores. And this year our total sale is around 4000 crores and our export is almost 1000 crores. So we are maintaining that turnover. Last to last year the percentage of export was 33%, now the percentage is 25%. Going ahead we are not focusing on the export market because what we feel that the domestic market is very good and margins are sustainable in domestic market and that is why we are focusing on domestic business and because hand made jewelry so there is no impact in Spain or America, we are not selling jewelry to the American customer or Spanish customer. We are selling jewelers to the Mohammedan and Indians outside India. So there is no impact of that.
- Nitin Khandekar** Sir could you quickly capture the key risks and threats at this point in time for the business?
- Balram Garg** Yes, so the main risk in this business is inventory risk that we have already covered and design risk because the making charge cost is almost 3-4% so whatever stock we are not able to sell we have to melt, so that is a little bit risk but not major risk in this business. And we are a 100% insured company, the gold, karigar, and store everything is insured. So we have taken all the policies, so major risk we have already covered. Small-small risks are there.
- Nitin Khandekar** Any concern on the increasing rentals across the country?
- Balram Garg** No because if you see our rental cost is around less than 1%. So in this business rental is not major thing. The major is inventory, so that is why we are opening the big stores or large format stores. In large format stores that is why within six months our store will get mature.
- Nitin Khandekar** Alright. And sir this IPO was aimed at funding the expansion to 50 stores, am I right?
- Balram Garg** Yes.
- Nitin Khandekar** So what are we thinking in terms of growth beyond these 50 stores in the let us say next two years.
- Balram Garg** We have internal accruals. We are cash positive company and the profit we are ploughing back to the business only, so we will keep growing and we will open because there is a huge potential in India to open more and more stores. So we will keep growing, we will open more stores after that also.
- Moderator** We are going to take the next question from the line of Vicky Punjabi from JM Financial, please go ahead.

- Vicky Punjabi** Sir one of my questions was on your making charges again – I just wanted to understand if we are charging fixed making charges versus few of the competitors that are charging based on a percentage terms would we get less attractive for the customers? Would the attractiveness reduce, because as the gold price fall their making charges also fall generally.
- Balram Garg** Actually right now they can compare the making charges for those items which are comparable only, because right now the making charge is secondary thing for the customer, the customer who is buying jewelry from the organized sector they want design and quality. Now quality if you compare the other competitor the quality is same. The difference is only design. So our main focus is design only and if in jewelry business only 25% items which are comparable and we are very competitive on those items. For design items we charge according to the design. So these are not comparable and customers do not compare when they want design. So they compare the making charges for only 20-25% items. In those items definitely our making charges are very competitive and every time we keep changing those making charges.
- Vicky Punjabi** And sir secondly I just wanted to know, see if we compare our gross margins they seem to be below those few of the district players but our operating margins are quite comparable, so where are we kind of saving on the cost front in terms of overheads or anywhere else?
- Balram Garg** Actually if you compare our gross margins to some companies our margins are better than that. If you compare some companies our margins are less because companies that are not following this hedging model they are getting margin from the commodity also. That is why their gross margins are high and second thing because we are into the large corner stores. We open only the big size stores, so if you compare some companies who are opening small-small stores our operating cost is less than those companies. When we open a store in the city our sales target is more than 100 crores and if we open smaller stores, our operating cost increases. We have to keep the 2 managers for one store, every three stores 1 regional manager so our operating cost is less than some other companies. And we are into the large format store and our main focus is wedding jewelry. So that is why if we see our per bill is around 1.25 lakhs and the small companies' per bill is around 25,000 to 30,000.
- Vicky Punjabi** And sir just on a year-on-year basis, one small question was that there was a 65% increase in this interest cost. Could you throw some light as to what led to this, I mean such a steep increase?
- Balram Garg** Yes, we are taking gold from the lease basis, so the interest cost is around 3-3.5%. So we are building the inventory for the new stores and that is why the interest cost is higher.
- Vicky Punjabi** Okay but there was no increase in rates or -
- Balram Garg** No, increase in rate. Our finance cost is around 3%.
- Vicky Punjabi** Okay, continues to remain flattish on a YoY comparison.

- Moderator** We are going to take our next question from the line of Alok Agarwal from Striver Capital, please go ahead.
- Alok Agarwal** My question is regarding the new stores, how are they shaping up for you? How has been the initial response since that has been new areas for you, you have never been in Gujarat before I mean how has been the initial response to that?
- Balram Garg** Actually I want to give you the answer in two lines that in Ahmedabad we are already planning of opening another store. So this means that the response is fantastic. Earlier we were planning to open four stores in Gujarat, now we are planning to open two more stores in Gujarat – one in Ahmedabad and one in Vadodara. We have showroom in Vadodara and Ahmedabad and Surat and Rajkot in pipeline so we are adding two more stores in this year in Ahmedabad and Vadodara because the response is very good.
- Alok Agarwal** How much is this on a steady state? I would not ask for this year, in the next financial year these 20 stores how much kind of revenue you are expecting from them?
- Balram Garg** Actually every quarter we are opening stores, so it is very difficult to....
- Alok Agarwal** No, I am asking for the next financial year, not for the current financial year.
- Balram Garg** We do not give the future guidelines but definitely our growth is more than 30% and we are opening 20 stores this year and we are expecting the same line of growth.
- Alok Agarwal** This sudden drop in gold price, which has fallen to the extent of almost like 14-15% or even less than that as an average of 12-13% for a quarter. I am sure the volumes would have gone up but on a turnover basis do you see still a growth or just a steady state?
- Balram Garg** Very good growth. You will see in this quarter in terms of quantity wise, in grammage growth and the amount growth both are there and we are praying god that gold prices will further come down. Because our working capital requirement will also reduce when the gold prices are coming down and because we are a hedge company so right now we are sitting on cash.
- Alok Agarwal** I mean this inventory buildup if I go in the balance sheet item, this is for the new stores or this is for existing stores?
- Balram Garg** No, we are building the inventory only for the new stores. Some old stores only where we feel that there is a scope for further good sales, there only but mainly the inventory build up is for the new stores.
- Alok Agarwal** In terms of if I look at since we have the cash and the books as well, if I exclude that finance part which is because of the lease interest, do you see your finance or your interest expenditure going up, how much you think you will get apart from the lease interest how much could be the interest expenditure for you for current year?

- Balram Garg** Actually you see our debt is around Rs. 230 crores only. If you compare to the last year the debt is around Rs. 575 crores. From Rs. 575 crores the debt is now Rs. 230 only. So going ahead our interest costs will surely come down. The interest is increasing because of the lease model only. We are paying interest for the gold.
- Alok Agarwal** If I take let us say of this quarter of 39 crores, how much would be the lease interest and how much would be the other interest?
- Balram Garg** Right now we do not have the figure but definitely we will provide you.
- Alok Agarwal** But roughly like what would be the split?
- Balram Garg** Mainly I think 75% is for the leasing. More than 75% is for leasing.
- Moderator** We are going to take the next question from the line of Deepak Agarwal from Impetus Advisors, please go ahead.
- Deepak Agarwal** My question is on the export realizations, so your export receivables are from 8 months outstanding, so what is the risk they are given that the gold prices has fallen and when we exported the gold prices were much higher and now the gold prices are much lower, so what is the risk on the receivables?
- Balram Garg** Actually these receivables if we compare it to the last year receivable is less because in 3000 crores total sales our receivables for the last year was around 589 crores.
- Deepak Agarwal** In terms of your exports remain the same and your receivables are also same. Your receivables are entirely for exports.
- Balram Garg** And these receivables are 85% for the export and 15% short term receivables, they are like credit card, cheques and some small balances from the customer, so 85% for the export and if you compare to the last year export receivables for this year, the number of days we are reducing and now these are less than 180 days. And going forward also why we are focusing more on domestic basis, that is why because of receivables and margins are not so sustainable in export business. So we are focusing on more domestic basis but receivables if you compare to the last year our number of days are very less.
- Deepak Agarwal** Yes, but what is the risk given that the gold prices have fallen so much, when we have exported the gold prices they were much higher.
- Balram Garg** We have exported jewelry on umpteenth basis, the prices are not fixed. When the buyer makes the payment at the time of debt we fix the price.
- Deepak Agarwal** And so the corresponding gold also you fix on your gold lease model?

- Balram Garg** Yes, only gold lease model. Against that debtors the creditors are there.
- Deepak Agarwal** Now in this gold lease, when you take the gold lease of the metal loan, is that different from the consignment model?
- Balram Garg** Yes, it is different from the consignment model because what we are doing, we are opening LC to banks to the MMTS or HTC against that back to back LC they open for the foreign supplier. After that we are getting gold from them. So the model will remain the same. This consignment model is different from the lease model.
- Deepak Agarwal** So in the lease model we make what 100% payment upfront?
- Balram Garg** Lease model we give LC 100% yes. We are doing this from last several years.
- Moderator** We are going to take our next question from the line of Rohit Anand from Horizon Research, please go ahead.
- Rohit Anand** Sir I just wanted to know some questions like what is the revenue mix for diamonds and gold for FY13 overall?
- Balram Garg** The revenue mix for FY13 is 31% diamond jewelry and 69% gold jewelry.
- Rohit Anand** And sir out of the total 40% revenue growth which we have seen in FY13, so how much will be the grammage growth and what is the growth in terms of volumes and prices?
- Balram Garg** Actually I have a data for same store sales growth that is 11% grammage growth and 22% value.
- Rohit Anand** And this is based on the 24 stores you were saying.
- Balram Garg** Yes.
- Rohit Anand** What will be the tax rate going forward we expect from the company?
- Balram Garg** This year we are expecting that tax rate is around 22%.
- Rohit Anand** And sir due to this jurisdiction change and on consignment we do not expect anything related to impacting to us and basically it is beneficial for the organized sector which we can count.
- Balram Garg** Yes, it is very beneficial to the organized sector and we are not inducted by this only.
- Rohit Anand** And sir as we charge a fixed charge method, can we assume a same type of margin going forward, in terms of EBITDA margin?

- Balram Garg** Actually now jewelry business is very different from the earlier jewelry business. Right now people do not think about the making charge because almost the gold price is so fluctuating everyday. So when people buy jewelry they wanted to buy it from the organized sector because of design and the quality. So what we are telling right now that there is some making charge, in future we do not think of any impact in the margins because there is a scope to increase the making charge right now.
- Rohit Anand** And what is the current margin we are maintaining for the diamond and the gold for FY13?
- Balram Garg** The gross margins for both is around 16% and diamond is around 30% and the gold is around 10-11%.
- Moderator** We will take a next question from the line of Saurabh Lohariwala from JM Financial, please go ahead.
- Saurabh Lohariwala** Couple of questions from my side. One is can you just again update me on the number of your square feet space as it exists today and the total number of stores that you have? And my second question is regarding the money laundering act and the KYC norms, which is being suggested that it will come up at Rs. 50,000 ticket size. So what is your take on that? Do you expect that number to come in at 50 only and how will it impact you?
- Balram Garg** We have 30 stores and the area is around 1,65,000 square feet and this year we have already opened six stores around the area of 37,000 square feet And going ahead we are opening 14 stores, the area is around 1 lakh square feet And the second question, we do not think any impact on the jewelry business. But you have to understand the government intention is not to curb jewelry business, they want to curb the investment. They want to serve the investment demand for coins and the bars and I do not know where is the 50,000 limit because they are framing the rules. Right now they are framing the rules and our industry is in discussion with them. So whatever rules they are framing definitely it will not impact the jewelry demand because right now the organized sector growth is good and government understands they are getting taxes from the organized sector. So we do not think that anything is coming like 50,000 or 1 lakh or 2 lakh. So right now 5 lakh limit is there so what our understanding is any rule they want to stop these coins and bars. So they will impose the rules on bars and coins not jewelry. But we have to wait because it will take some time to frame the rules. I think it will take another three to six months.
- Saurabh Lohariwala** Just one more question from my side, your gold lease currently do you treat the loan as a trade payable or do you treat it as a short term borrowing in your account?
- Balram Garg** These are trade payables.
- Saurabh Lohariwala** One last question, which region right now are you seeing as the highest growth region within India as in the region where you are seeing the fastest growth?

- Balram Garg** Right now, I think growth is coming from every region but definitely Gujarat and MP and Chhattisgarh, they are fastest growing areas and growth is coming from these areas.
- Moderator** We are going to take the next question from the line of Vishal Sinha, an independent investor, please go ahead.
- Vishal Sinha** Can you just give me a list of few of your clients in your export segment?
- Balram Garg** See actually we do not disclose the client name.
- Vishal Sinha** Okay. And sir regarding the retail segment, can we know the kind of inventory levels that you keep at per store?
- Balram Garg** The inventory level is dependent on the sale. In some store the inventory starts from 12 to 15 crores and it goes up to 70-80 crores depends on the sales. Because we keep the gold inventory of 90 days and the diamond inventory of around 180 days, so it depends on the store size and the sales we keep the inventory.
- Moderator** Ladies and gentlemen that was the last question. I would now like to hand over the conference over to Mr. Sanjeev Bhatia for closing comments. Thank you.
- Sanjeev Bhatia** I would like to thank everybody for joining us on this call and encouraging us and also clarifying their doubts if any. We hope to meet next quarter soon. Good bye.
- Moderator** Thank you. On behalf of PC Jeweller, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.