Transcript

Conference Call of PC Jeweller Limited

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Presentation Session

Moderator: 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. Balram Garg.

Balram Garg: Good afternoon all. I welcome you all for the first conference call of PC Jeweller post its IPO. I have with me Mr. Sanjeev Bhatia, President – Finance, Mr. R. K. Sharma, Chief Operating Officer, as well as Shri Rajaram Sugla, Senior VP – Accounts and Taxation on the call. Since it is our first call, let me speak on our business model, followed by update on our financial by Shri Mr. Bhatia.

We started this company with a clear cut business strategy. PC Jeweller wants to be a leading player in the retail jewelry segment, with focus on diamond jewelry and wedding jewelry. We have been expanding our presence in the retail segment by opening a number of new stores every year. And currently we have thirty showrooms spread across 23 cities in North and Central area. The company opens only large format stores at high street locations. All our stores are owned, we do not have franchise model. We however do not purchase store building, but paid them on long term lease of nine years. The company is focusing in both domestic retail, as well as export segment. It has taken a conscious decision to focus more on its domestic business, while maintaining its export business at the level achieved in March 2012. This is reflected in the financial of nine months ending 31st December 2012. Export sales as a percentage of total sales stood at 26.84% for nine months ending 31st December 2012, as compared to 32.9% for twelve months ending 31st March 2012.

We believe that consumer demand for diamond jewelry in India has increased at relatively higher rate compared to demand for gold jewelry. And we expect this trend to continue in the future. The company is working actively to shift its jewelry sales mix towards diamond jewelry. The company has augmented its diamond jewelry manufacturing and designing capability and believe that these capabilities would lead to sustainable growth on volumes as well as margins. Though the percentage of diamond jewelry sales in overall domestic sales has reduced in quarter three, there is no decline in absolute amount of diamond jewelry sold. The percentage has gone down as customer always prefers to buy more of gold jewelry during festival days. The diamond jewelry sales are always greater in quarter four, as it coincides with the wedding season. The company has been procuring its gold requirement on lease basis in the past and will continue to do so. It has signed gold lease agreement with number nominated agencies and authorized bank, so that it continues to get uninterrupted supply of gold. The company procures loose cut and polished diamonds from a number of vendors in Surat and Mumbai.

We believe that PC Jeweller enjoys an exclusive brand image and top of mind recall among the customers. The company is spending approx 1% of its revenue on advertising and it has build a brand and consumer awareness for pan India expansion. The company has been associated with event like Filmfare Award for the past four years. This year it is also associated with Femina Miss India Pageant. The company's retail presence is spread across locations in metros, Tier-1 as well as Tier-2 towns and it will continue to open stores as per the existing pattern only.

Now, I would like to state my views on the recommendation given by the RBI working group, where it has stated that there is no strong case to exempt gold loan from the base rate stipulations. I would like to state that firstly, that this recommendation has complex operational issue and it will not be easy to implement. However, even if it gets implemented in the future, we are not likely to get impacted in a significant manner; this is because the company currently procures nearly 50% of its gold requirement through STC, where the concept of base rate lending does not apply. Keeping in view the gold turnover, the company feels that that in a position to increase its procurement level with STC to nearly 85% of its total requirement. Even if the company has to procure balance 15% on a higher lease rate in the future, it is confident of passing on higher cost to customer. Gold jewelry is a high value purchase and gold prices keep on fluctuating almost on a daily basis. So, any cost increase can be really loaded on sales prices. Now, I would ask our President – Finance, Shri Bhatia to give his take on the financials.

Sanjeev Bhatia: Good afternoon everybody. My name is Sanjeev Bhatia. I would ask everybody to excuse my bad throat. Our financials as presented are in front of everybody and I will just quickly run through them again. The company has achieved a top line of Rs.2874.33 crores, for the nine months ending December 31st. This consists of domestic turnover of 2102.83 crores and export turnover of Rs.771.40 crores. If you compare with the comparative figure for March 2012, we had a total turnover of Rs.3041.92 crores and domestic turnover of 2039.49 crores and an export turnover of Rs.1002.44 crores. During this quarter three, we have achieved a total turnover of more than 1000 crores, which is 1018.53 crores, and out of which the domestic turnover is Rs 852.34 and export is at 166.18 crores. Our net profit for Q3 stands at 66.90 crores and for the full nine months ending December, we have achieved a level of 208.20 crores. Our EBITDA for Q3 is to the tune of Rs 113.39 and nine months is Rs 349.82. These results can be very well compared with our full year's performance of Rs 343.19 for the fiscal 2011-12. As I am sure that you would have all noticed that the turnover and profitability achieved by the company in the first nine months of this fiscal compared very favorably with the entire twelve months performance of the last year. I would also like to point out another thing, keeping in view the approved accounting practices, our auditors have recommended for making some provision for the discount payable on the amount received by the company under its Jewels for less scheme. The company has agreed with auditor's recommendations and our PAT for Q3 stands adjusted for these provisions, which amount to Rs.4 crores. I now leave the field open for questions from audience.

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. Ankit Babel from Subhkam. Please go ahead.

Ankit Babel: Good evening sir, and congrats for good set of numbers. Sir, my first question is how many stores we have opened in the last three quarters?

Sanjeev Bhatia: We have opened six new stores in the first six months of this calendar year, this fiscal.

Ankit Babel: Okay. And any store in the third quarter?

Balram Garg: No store in the third quarter, but in a couple of months we are opening six-seven stores.

Ankit Babel: Okay. Then the fourth quarter you are planning to open around six-seven more stores?

Balram Garg: I think I cannot say in the fourth quarter, but definitely next two months we will open, in March or April.

Ankit Babel: Six-seven more stores?

Balram Garg: Yeah, six to seven more stores.

Ankit Babel: Okay. And sir, your tax rate has increased I believe, from 12% to around 20%, so we will be continuing to pay at around 20% going forward?

Balram Garg: I think, right from I think next two years the tax rate will remain around 20%.

Ankit Babel: Okay. So, FY14 it will remain at 20%.

Balram Garg: FY14 and FY15.

Ankit Babel: FY15 also it will be at 20%?

Balram Garg: Yeah, hopefully.

Sanjeev Bhatia: Yeah. It is expected to remain at the same levels for another two years.

Ankit Babel: Okay. Sir, my last question is on the margins in the export business. They are pretty high; could you just give some reason for that at the EBIT level?

Sanjeev Bhatia: Actually we have got, number one, we have deliberately restricted our exports to items where we are getting higher margins. You would have noticed that we had taken a decision to restrict our export turnover, so that we are not spreading ourselves. We are selling and exporting only those items where we are getting higher margins. And number two, this year we have also benefited from the rise in the dollar rate, which has given us an enhancement of nearly 15% in our margins.

Ankit Babel: Okay, depreciation in currency has benefited for you?

Sanjeev Bhatia: Yeah, sure.

Ankit Babel: Any guidance for long term sustainable margins in this business sir at the EBIT level?

Balram Garg: I think in export business what I feel is that on the EBIT level, 10%, 9% to 10% margins are (not sure)

Ankit Babel: Which is at present around 14% I believe?

Balram Garg: This year it's 14%. Last year the (audio break).

Ankit Babel: Last year was?

Balram Garg: Last year around 10.5%.

Ankit Babel: Okay, 9% to 10% is what we should assume?

Balram Garg: Yeah.

Ankit Babel: Okay. And sir, there is a statement mentioned in your press release that the company expects the diamond jewelry percentage to grow to 35% by the end of this year, that is March 2013. So, in the first nine months, the share of diamond jewelry is around 30%. So, you believe for the whole year it would be 35% or only for the fourth quarter it will be 35%?

Balram Garg: For the first six months, the diamond share was 32.5%. And we are expecting, this year we are expecting to reach the level around between 32%-33%. Third quarter always, in third quarter diamond sales always is a bit lower and fourth quarter for the diamond jewelry sales always better.

Ankit Babel: So, you believe that for the year as a whole, the share of diamond jewelry would be around 32% to 33%.

Balram Garg: Yeah, 32% to 33%.

Ankit Babel: Which translates into how much for the fourth quarter, means what I am asking is will it be more than 35%?

Balram Garg: Yeah, yeah, you are right. For third quarter we are expecting diamond jewelry share is around 34% to 35%.

Ankit Babel: Okay. And lastly sir, you had given an idea that this year you will end up doing 300 crores PAT. So, do you still maintain that?

Balram Garg: Actually I cannot give you any guidance, but definitely the fourth quarter is always better in sales wise export, export sales as well as domestic sales. And because our diamond jewelry mix will change in fourth quarter, so definitely the margins will go up.

Ankit Babel: Okay. And lastly, what are the debtors as on date in the receivables?

Balram Garg: We cannot discuss the balance sheet items,

Ankit Babel: Okay, thank you so much sir and all the best.

Sanjeev Bhatia: Thanks.

Moderator: Thank you sir. The next question is from Mr. Amit Agarwal, who is an individual investor. Please go ahead.

Amit Agarwal: Thank you for giving this opportunity. Sir,I just wanted to ask couple of questions sir. One was how much percentage of sales has come from the Delhi NCR region as a whole? And second would be, can you throw some light on the sale to sale growth in terms of both value as well as volume?

Balram Garg: The Delhi NCR contributes almost 55% of the total sales. We have thirty stores and 40% stores are in Delhi NCR region. So, about 40%, this Delhi NCR store contributes almost 55%. And balance sale is coming from the other regions. And the same sale store growth, volume wise is around 10% and the value wise is around 20%.

Amit Agarwal: Okay sir, thank you.

Moderator: Thank you sir. The next question is from Mr. Amit Bhandari from G I M Financial Solutions. Please go ahead.

Amit Bhandari: Hi, one of my questions was already discussed earlier. What I wanted to know is, in rate terms what has been the increase in gold and diamond jewelry sales separately, because the prices of the two commodity has changed over the last one year?

Balram Garg: You want to ask the total value wise?

Amit Bhandari: Basically volume wise, in volume terms what has been the change in gold jewelry sales versus the last year and the diamond jewelry sales versus the last year?

Balram Garg: Volume wise gold sale will be around 10% and in terms of value wise around 20%.

Amit Bhandari: Okay. And what about diamonds?

Balram Garg: Diamond jewelry sale, we don't have the volume numbers. We will check and we will revert. But, right now we don't have the volume number of diamond.

Amit Bhandari: Okay, fair enough. That is all for now from my side.

Next question is from Mr. Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Thank you sir. Congratulations on a good set of numbers. One question was on the other expenditure side. For the nine months, it is 103 crores, but for the quarter it is almost 52 crores. So, are there any one off there?

Sanjeev Bhatia: If you look at our other expenses even for the entire year, previous March, it was to the tune of 168.43 crores. And during the current year, for nine months we have reached 102 crores only. So, we are on line, it is not, if you see quarter to quarter there seems to be some sort of variation. But, if you see the overall yearly trend, we are very much on track.

Hiren Dasani: But, six months you spend 52 crores and one quarter it has gone to like 52 crores, I just want to know whether any IPO related expenses etc. we have booked there?

Sanjeev Bhatia: No, no. We have booked lot of advertisement, our advertisement spends suddenly shoots up during this quarter because of Diwali and other festival season,. That is one of the major reasons.

Balram Garg: But, if you compare it year to year, that we are on the line.

Hiren Dasani: Yeah, unfortunately we don't have the last nine months comparison.

Balram Garg: From the next quarter, you will get every quarter results, then you can compare.

Hiren Dasani: Sure. And also one suggestion, if you can also disclose on the quarterly basis the balance sheet as some of your other peers are disclosing, although it is not mandatorily required, it would be helpful from the investor's point of view.

Balram Garg: We will think about it.

Sanjeev Bhatia: Surely, we will consider.

Hiren Dasani: And what is the outstanding gold on lease which you would have today?

Balram Garg: We don't have the number right now. And we cannot talk on the balance sheet items right now.

Hiren Dasani: Okay, no problem. Thank you.

Moderator: Thank you sir. The next question is from Mr. Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Hello. Good afternoon sir. Congratulations on good results. Sir, firstly I would like to understand, what would have been our store count at the start of the year, have we added any store in the first nine months?

Balram Garg: Yeah, we have added six stores in these nine months.

Riken Gopani: Okay. And this volume growth you said of 10% is on a like to like basis or including the new stores that have got added?

Balram Garg: No, no, it is the same store growth.

Riken Gopani: The 10% volume is the same store volume growth?

Balram Garg: Yeah.

Riken Gopani: What would be the overall gold volume growth?

Balram Garg: That figure we don't have right now, because same store growth, volume is 10% and the amount wise is 40%. But, amount wise we have the number, we have the total growth in amount wise is 40%, if you add the new stores.

Riken Gopani: Okay. So, you are saying the domestic revenue, which is 850 crores for the quarter is about 40% growth on a YoY basis, is that correct?

Balram Garg: Yeah, yeah. Because, we have opened six new stores, the sales are coming from six stores plus the 20% growth is coming from the old stores.

Riken Gopani: Okay. And what is the overall, this quarter though you have seen a reduction in the diamond jewelry sales, but overall is there a, given that a lot of players are talking about slower discretionary spends, is there any concerns that you see into the next year about the diamond jewelry?

Balram Garg: No, we don't see any decline even in the next quarter. Because, if you see the trend year to year, this quarter is always lower sales in diamond jewelry, because the festival seasons like Diwali, one month people prefer to buy more gold jewelry, every year this trend is there.

Riken Gopani: But, comparing it to the same quarter last year, would that trend have still improved? This 27% is better than what it was last year?

Balram Garg: Yeah, definitely it is better. Last full year we did 29% and third quarter was very, if you compare to the third quarter last year and this quarter, it certainly is better.

Riken Gopani: Okay. And sir, broadly on the gold business margins, given that there has been some correction in the gold prices, does the making charge also get adjusted since it is a percentage or do you think there should not be any reduction in margins?

Balram Garg: Definitely according to the gold price, we always change our making charge. So, right now the price is in the tune of 30,000 approximately, so margins will remain same. If it will come down to 27,000 or 26,000, then we will adjust our making charge.

Riken Gopani: Okay, so it is on slab to slab, it is not that with every change that you will raise your….

Balram Garg: Yeah, every change we adjust our making charge.

Sanjeev Bhatia: No, no, it is not on a day to day basis, you change it only some change in gold price.

Balram Garg: If only some change in gold price.

Riken Gopani: Okay. Sir, one thing I wanted to understand, on the diamond jewelry side, do we offer a caratometer in every store and also a return scheme for our customers or generally it is not considered as an option for anybody right now?

Balram Garg: No, no, return schemes are there. We have schemes for diamond jewelry return and gold jewelry both. And caratometer for gold is in every showroom and for the diamond we are giving the certified certificate with diamond jewelry.

Riken Gopani: Okay. So, you would take it at market rate or you would then only take it at discounted rate 80% to your certificate value, is how you look at it?

Balram Garg: Actually we give almost; we deduct 10% on the diamond side, depending on the price.

Riken Gopani: But, if a customer comes to you that value return, so give me market price, you would not do that right now?

Balram Garg: No, no, we also give the market price. If the diamond rate is increasing, then we have to increase the price and if the diamond price is decreasing, we have to decrease price.

Riken Gopani: Okay. One thing on the store opening side, so given that you are opening six to seven stores in the next two quarters, how is that regional spread going to be in terms of launches?

Balram Garg: We are opening six-seven stores in two months, in the next two months. And every quarter we will add almost 30,000 square feet. Right now we have 1,65,000 square feet area and we are adding this year 1,37,000 square feet area. Region wise, right now we are in North and Center, going forward we are opening stores in Gujarat, Maharashtra, South, we are going everywhere.

Riken Gopani: Okay. Is it right to say that your next six stores which are coming in the next two months, are in totally different geographies from where you are?

Balram Garg: Yeah, different geographies.

Riken Gopani: So, initially would that have a lower margin or a lower contribution you anticipate from the newer stores, higher expenditure?

Balram Garg: No, no, we have actually a very strong business model. We open large format stores. And large format stores I think we will see the breakeven within three to six months.

Riken Gopani: And that is in line with what happens in your Delhi NCR stores.

Balram Garg: Three months to six months, so we are expecting three to six months to achieve the breakeven.

Riken Gopani: Okay, okay. Thanks a lot sir. I will come back later if I have questions. Thank you.

Moderator: Thank you sir. The next question is from Mr. Nimit Shah from ICICI. Please go ahead.

Nimit Shah: Hello sir. I had two or three questions primarily on the export side. Firstly, I wanted to know the gross margins on your diamond jewelry as well as on your gold jewelry on the export side and the same breakup for domestic business.

Balram Garg: Domestic we have around 30% gross margins in diamond jewelry and 9% in gold jewelry. And in exports we have around 18% margins in diamond jewelry, gross margins and around 15% in gold jewelry.

Nimit Shah: Okay. Sir, can you just explain like what do you do in your exports, like what are the kind of jewelry and what is the mix of diamond to gold in your exports, where we enjoy such high margins in our export business?

Balram Garg: We are doing, we are exporting only the handmade jewelry item. So, these are the few items and these are the handmade jewelry items, designer items we are doing, only the designer. We export only the designer items.

Nimit Shah: Okay. So, which is why the margins for you are quite high?

Balram Garg: Yeah.

Nimit Shah: And what would be the diamond versus gold jewelry mix for the export business?

Balram Garg: Export business, almost 35% diamond jewelry and balance is gold jewelry. One minute. The margin in diamond jewelry is 18% and the gold jewelry is 12% in export business.

Nimit Shah: Okay. And the similar number in domestic is 30% and 9%.

Balram Garg: Yeah.

Nimit Shah: Okay. And mix is 35-65, 35% diamond.

Balram Garg: 35-65.

Nimit Shah: So, it is almost similar to what your domestic business does?

Balram Garg: Yeah, yeah.

Nimit Shah: And you sell it under the PC Jeweller brand abroad?

Balram Garg: No, we don't sell in our brand.

Nimit Shah: Okay. And then still we are able to get such high margins and that is because of the designs.

Balram Garg: Yeah, designs.

Nimit Shah: Okay. And secondly the employee cost as a percentage of sales, compared to your competitor it is slightly low. So, if you can elaborate on what can happen in the next one or two years, would it catch up or would we have the advantage of having it lower than?

Balram Garg: Right now we have a different business model; we are opening stores in Tier-2 and Tier-1 also. Our 33% store is in Tier-2 and 33% Tier-1 and 33% metro. So, in Tier-2 and Tier-1 cities, salaries are very less and that is why our salary cost is low.

Nimit Shah: So, you expect that this will be the case.

Balram Garg: Definitely, this will go on, in the future also we are opening this; we are following this model only. We are growing Tier-1, Tier-2 and metro, 33, 33, 33.

Nimit Shah: Okay. Sir, just one more thing, I am not sure if these calculations that I am doing are correct, but I have done some primary research wherein your gold rate is slightly lower than most of the other peers, on the gold rate per gram. And the returns that you give on your gold harvest scheme that is probably one of the highest returns if we compare it in the organized segment. Giving such high returns and charging such lower rates on gold, even then we are able to maintain such kind of margins. And the reason which I feel is good EBITDA margin is largely employee cost, because our gross margins also are not significantly higher than our competitors.

Balram Garg: Actually this scheme is not very simple, because we are running this scheme not for the, only for the sales, because we add in this scheme

Sanjeev Bhatia: It is more of a customer retention tool and more of a marketing tool, rather than a pure sale procedure. When a customer joins this scheme, then she starts, then the lady would start visiting our showroom every month. She holds small kitty parties or functions etc. every month, they even manage to bring their, we also encourage them to bring their friends, relatives etc.

Balram Garg: And even without the scheme, they buy from us.

Sanjeev Bhatia: Yes.

Balram Garg: And when they come to buy jewelry after the scheme, they don't buy only for that amount, they buy more than that.

Sanjeev Bhatia: What we are seeing in the recent past, the average sale at the time of the maturity, at the time of the redemption of the scheme is nearly 2½ times the maturity value. It is not that somebody's maturity value is 14,000, 12 plus 2; they will buy jewelry for only 14,000. What we are seeing is, the sale amount goes up; the sale amount goes up very substantially. If somebody is buying diamond jewelry within that amount, then you get higher margins also. So, overall it is not so simple scheme but you can just calculate the returns on the basis of 12 plus 2 only.

Nimit Shah: Fine sir. And sir lastly, how has been your experience in the Tier-1 and Tier-2 cities, especially the non-NCR regions, because for you the most lucrative region, you are very strong. So, the next leg of growth comes from regions which are not as lucrative as Delhi and the NCR is. So, would the return ratio or the returns that you expect in that region, will they be significantly lower than the Delhi NCR or you see the other regions also have a similar scope in the long term?

Sanjeev Bhatia: Tier-1 and Tier-2 what we are looking is now the aspirations of the customer, their buying patterns and their habits are almost similar to those that we see in the metros. Because, now with internet, TV, newspaper, magazines, buying pattern of the consumers are now actually changing everywhere, irrespective of the location. So, one cannot say that Tier-2 customers would, in the short run it is possible that somebody will go for more gold jewelry vis-à-vis the diamond jewelry. But, the habits of the consumers are changing everywhere. And before opening also any store, we do undertake a deep study to see that what is the buying pattern of the customers here. We open after doing a study of the existing buying pattern, catchment area, the potential, whether the area is growing or not. So, we don't feel that going to different area would give us lower margins vis-à-vis what we are getting in the Delhi or NCR.

Nimit Shah: Fine, thanks sir. That is it from my side and all the best.

Sanjeev Bhatia: Thank you.

Moderator: Thank you sir. The next question is from Mr. Dhruvesh Sanghvi from Samruddhi. Please go ahead.

Dhruvesh Sanghvi: My basic question is again on the gross margins and its relation to EBITDA margins. Sir, even your ad expenses are at a very low range. Your employee cost as someone mentioned before are low. And there is gold harvest and on the gold harvest side, that you explained that you get almost 2 to 2.5 times of maturing, I mean on the mature value you get 2 to 2.5 times of sale. But, as expenses are extremely low, the employee expense you have explained is more because of Tier-1 and Tier-2, but almost all the other players are also expanding in Tier-1 and Tier-2, but they have been facing much higher employee cost. So, it does not fit what you are saying probably.

Sanjeev Bhatia: Frankly, we wouldn't be able to comment why the employee cost of other companies are much higher than ours. Because, anyway you are very right, even in Tier-2, even with the overall salary, we cannot pay less than the market price rate present there and hope to get good employees.

Balram Garg: Our sales are increasing, that's why we have 1% (not clear) **__07:30__**. And every year we are, suppose last year our sales was, domestic sales is 2000 crores, this year our domestic sales around 3000 crores. So, definitely the budget of having almost 50% increases than last year.

Dhruvesh Sanghvi: Great. So, what you are saying is, PC Jeweller has a much higher ability to get customers and who are paying you in such a way that your margins are remaining so high.

Balram Garg: We have a good diamond jewelry mix. And we are focusing, because in our every showroom we are focusing on more diamond jewelry. And our diamond jewelry mix is better than the other companies.

Dhruvesh Sanghvi: Right. Thanks, that's it.

Moderator: Thank you sir. The next question is from Mr. Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: Hello, good evening everybody. I just wanted to have an idea about the CAPEX plan for next year so since you plan to open…

Balram Garg: Puneet, can you speak up a bit louder?

Puneet Jain: Yes. I just wanted an idea about your CAPEX plan for next year, capital expenditure plans. Given the fact that if you plan to open lot many stores in FY14, what is the typical CAPEX you incur per store and what could be your total CAPEX for FY14?

Sanjeev Bhatia: Yeah. We do not buy property; we take it on long term lease. And on average what we spend is about 4500 per square feet to build up that building as per our specifications. So, if you are having an average store size of 5000 square feet, you can multiply it with 4500 and we would be spending a little more than 2 crores per store.

Balram Garg: Actually next year, by March 2014 we are adding almost 1,65,000 square feet area, 1,30,000 per square feet area. And our spend is almost 4500 per square feet. So, it is around 50 to 60 crores.

Puneet Jain: And typically this will translate into how many stores?

Balram Garg: 20. We are opening twenty stores in this year.

Puneet Jain: And as you have explained, you moved onto smaller cities, does the store size vary or not?

Balram Garg: Yeah, definitely. Because, some places we, in Tier-2 cities we open almost 3000 to 5000 square feet area, Tier-1 we open 5000 to 7000 square feet area and metro more than 8000 to 10,000 square feet area.

Puneet Jain: Okay. And typically, is the consumption of diamond versus gold different between Tier-1 and Tier-2 cities?

Balram Garg: Yeah, definitely it is different, but not very less. In Tier-2 cities, diamond jewelry demand is picking up and metros and Tier-1 diamond jewelry demand is better than Tier-2 cities.

Puneet Jain: Okay. And about the tax rate, just a broad idea as to what tax advantages you enjoy?

Sanjeev Bhatia: Regarding the tax advantages, we have already given the details in our presentation, we enjoy…

Balram Garg: We enjoy the IT exemption we have units in some exempted areas for the domestic. So, we are enjoying that benefit.

Puneet Jain: And for how long do you think it will last?

Balram Garg: I think the 20% rate will remain for the next two years and after that it will increase. And within next I think five-six years, the tax rate will reach to 30%.

Puneet Jain: Okay. And what will be your average cost of borrowing right now?

Balram Garg: Average cost is, originally is around 3% to 3.25%.

Puneet Jain: 3% to 3.25% per annum?

Balram Garg: Yeah, per annum.

Puneet Jain: Okay, thanks a lot.

Moderator: Thank you sir. The next question is from Mr. Amit Bhandari from G I M Financial Solutions. Please go ahead.

Amit Bhandari: Hi. One more question I wanted to ask you, in the last few weeks we have been hearing a lot of things from the Government about cutting back the imports of gold. There was also recently a hike in the import duties on the gold as well and because of which apparently the imports in January were higher than usual. So, do you see any impact of the higher taxes happening, higher taxes on the sales over the next few months?

Balram Garg: I think the Government will increase the duty. I think duty we don't have any problem, because there are two types of demand in India. One is jewelry and the other one is investment demand. So, Government wants to stop the investment demand. So jewelry, first the 40% imported gold is going to the investment demand and 60% for the jewelry. So, even we want to stop that investment demand. So, if any increase in that duty, it is I think we will simply pass to the customer.

Amit Bhandari: Okay and you don't see an impact of this 2% or 6% duty on the jewelry sales in India?

Balram Garg: Because the gold price is fluctuating daily and though the gold price rises in India from three things. One is the impact of the gold price, second is duty and the third dollar versus rupee rate. So, that's why I don't see any problem, because the rate earlier was 32,000 when the duty was 4%, now the duty is 6% and the rate is almost 30,000. So, customer is confused whether the gold price is going up or going down.

Amit Bhandari: Okay. Because, we have heard it from some of the other people like World Gold Council and others that usually when fluctuations and changes are there, there are more fluctuations, people tend to put off their gold purchase decision?

Balram Garg: Definitely you are right. People don't stop to buy jewelry, but they postpone their decision, they prepone or postpone. Definitely the gold price will remain fluctuating and people will definitely prepone or postpone the demand.

Amit Bhandari: So, have you seen any preponement of this jewelry purchase this year, because in the last few weeks we have seen a lot of traffic at the jewelry store in many of your locations.

Balram Garg: Actually right now 15th December to 15th January is always slow. But, after 15th January the demand is good.

Amit Bhandari: Okay, but no additional flow of people trying to prepone their purchase or anything like that.

Balram Garg: No, no, we are not seeing any preponement in the purchase.

Amit Bhandari: Okay, fair enough. Thanks again.

Moderator: Thank you sir. The next question is from Mr. Amit Agarwal, who is an individual investor. Please go ahead.

Amit Agarwal: Sir, wanted to know what is the average inventory in value terms for a typical store of yours in gold term as well as in diamond term?

Sanjeev Bhatia: Mr. Agarwal, at this point of time we wouldn't be able to provide any balance sheet details.

Balram Garg: But, definitely we keep, generally we keep the four month inventory, four month inventory of the sales.

Amit Agarwal: Okay. Sir, also wanted to understand, from whatever I have understood was the gross margins for gold in domestic retail business is around 9% and in export it is around 12%. Sir, any particular reason for this, why our margins of domestic retail business are less as compared to the export business?

Sanjeev Bhatia: India is the only country in the world which is exporting handmade jewelry. We export only handmade niche jewelry. And this segment obviously and we have got certain specific designs, we have got a niche area in which we operate. So, we have some items for which the customers come back to us only, again and again.

Balram Garg: Actually the margins this year is better, but last year the gross margins were less. But, this year because of the dollar, rupee depreciation, the margin has increased by 2% to 3%. But, actually the gross margin in export business is also 9% to 10% in gold jewelry.

Amit Agarwal: And typically the customers in our export business are basically wholesalers are some end users?

Balram Garg: Both. We are exporting to both.

Amit Agarwal: Okay sir. And sir, one last question was what would be our total collection under the gold harvest scheme?

Balram Garg: Right now we cannot, this is a balance sheet item. Right now we cannot, we don't have the number.

Amit Agarwal: Okay sir. Thank you.

Moderator: Thank you sir. The next question is from Mr. Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Hello. Sir, just a follow up, one is on the gross margin side, this quarter we had both exports and diamonds being lower than the first half, in terms of the mix. Despite that we saw a gross margin improvement. If you could explain, on the first half Q3, what would have been the reason for that, despite gold being a higher proportion?

Balram Garg: Q3 the gross margins, you are talking about Q3?

Riken Gopani: Yeah, Q3 we had a gross margin of about 17%.

Balram Garg: Gross margin you are saying 17%.

Riken Gopani: Yeah. Would your first half gross margin be, so basically is your Q3 gross margin higher than your first half gross margin?

Sanjeev Bhatia: No, the gross margins would have jumped up in this Q3.

Riken Gopani: Would have?

Sanjeev Bhatia: No, they wouldn't have jumped up in this quarter, there is no such….

Riken Gopani: Okay. Because, you had a material cost of about 1550 crores and on a net sales of 1855 crores in first half, are those figures correct?

Sanjeev Bhatia: You must have seen those figures from our…

Riken Gopani: RSP.

Sanjeev Bhatia: RSP.

Balram Garg: We don't have the figures, but we will get back to you for this.

Riken Gopani: Because, it is looking as if the gross margins have improved to the first half.

Balram Garg: I think any foreign currency fluctuation maybe, but we will explain to you, but right now we don't have the first quarter number, but we will explain to you.

Riken Gopani: Okay sir. I will take it offline later. Sir, second thing is on this gold scheme, the gold harvest scheme kind of thing, what proportion of our overall revenue comes from this scheme?

Balram Garg: Right now it is very less, because we started this scheme last year only; so no significant turnover from this scheme.

Riken Gopani: Okay. So, but it would mean that on the balance sheet still that would, what I am trying to say is that when they would come at the time of redemption and you will utilize this scheme, would it become a significant portion from next year onwards?

Balram Garg: Yeah, definitely, definitely, that is why this scheme is picking up and in future, definitely a significant thing will come from this.

Riken Gopani: Sir, generally this number is at least shared, if you could share as to what is your total amount lying into that scheme?

Balram Garg: Right now around 90 crores.

Riken Gopani: 90?

Balram Garg: Yeah, 90 crores, approximately 90.

Riken Gopani: And this 4 crores provision that you mentioned that you are making on that account, that is for the prior period or this is for this quarter? You said some provision that you have made for the jewel for depositing…

Sanjeev Bhatia: We have 4 crores provision.

Riken Gopani: That is for the prior period or this is?

Balram Garg: For the future only.

Riken Gopani: Okay, this is basically on account of whatever is the…

Sanjeev Bhatia: This is for the future. This is for the future, discount which we may have to give in the future.

Riken Gopani: Okay, for whenever the redemption happens and whatever that…

Sanjeev Bhatia: Yeah.

Riken Gopani: Okay, thanks sir. And even on advertising, we follow a normal amortization methodology or every quarter or is there clubbing?

Balram Garg: Every quarter is different. It depends on the festive season or depends on the demand.

Sanjeev Bhatia: There is no amortization, it is direct debit.

Riken Gopani: Okay, it is a direct debit, because some companies do follow different, so there is no such in our case. Sir, one update on the, there was this case pending if I remember with the DRDO or something. Have we solved, DRI sorry, has it got resolved? What is the update on that?

Balram Garg: At that time we gave, we have already disclosed that we gave around duty difference under protest 8.5 crores. But, after that because they have taken that draft wrongly, so they have returned back that draft of 8.5 crores.

Riken Gopani: Okay, they have returned.

Balram Garg: Yeah, they have returned back and they took around 2.16 crores draft, new draft under protest. So, whenever the matter will decide, if the matter is decided in the favor of the company, because this is an industry issue, not specific to PC Jewellers. The case will decide in the favor of the industry, then definitely we will get the refund of that draft. If the case is decided in the favor of the department, then that is the maximum demand they have already taken.

Riken Gopani: But, at least one positive which has come out is that they themselves have reduced the protest amount.

Balram Garg: Yeah, they themselves have reduced. And 2.16 they have taken under protest.

Riken Gopani: Correct, great sir. Thanks a lot for that.

Balram Garg: Thank you.

Moderator: Thank you sir. The next question is from Mr. Amit Jain from Samsung Asset Management. Please go ahead.

Amit Jain: Hello sir.

Balram Garg: Hello.

Amit Jain: Yeah hi, I just wanted to ask on this gold loan flexibility RBI policy that are trying to sort of curb the base rate, loan that you get at lower than base rate, if that was, when you talked about the fact that you could raise your gross margin that you charge the customer, so for example, today you are charging 9% on gold loans, could you take that to 12%, because that would roughly be the impact, right?

Balram Garg: No, the impact will be even (audio break) __**22:58**__, because right now 50% gold we are importing through STC and this rate is not applied in the STC and on the banks. And we can also procure more; we can procure almost 85% from the STC. So, in fact it will be only 15% gold which we will procure from the bank. And the impact will be, we don't see any major impact. I think even little bit making charge increase we can pass it on to the customer.

Amit Jain: So, wouldn't the STC follow the same rate at which the banks have effected, because that is the Government's wish right…that they want to charge a higher rate?

Balram Garg: Not the Government's wish, because the RBI regulation lies only the banks only.

Amit Jain: So, you don't think STC will raise it?

Balram Garg: Yeah. And we have applied for direct license also. Hopefully we will get the direct license. So, we can import directly.

Amit Jain: So, right now directly, you have ninety days, your inventory is typically about 120-130 days.

Balram Garg: That is what I am saying; I require only 15%-20% for 180 days. And balance we will reserve from the 90 days, no problem.

Amit Jain: Okay. So, the margin increase that you would see would not be more than a percent hopefully, even if that was to go through.

Balram Garg: Even we are, our company is more focusing on diamond jewelry. So, our mix is right now almost 32%. So, going forward we are focusing more on diamond jewelry. So, we don't and diamond jewelry margins are higher. So, we don't see any impact on our margins.

Amit Jain: Alright sir thanks.

Moderator: Thank you sir. The next question is from Mr. Ankit Babel from Subhkam. Please go ahead.

Ankit Babel: Just two follow up questions. One is, was there any foreign exchange gain or loss in this quarter or nine months?

Balram Garg: Forex gain or loss?

Ankit Babel: Yeah, M to M, realized, unrealized whatever it is?

Balram Garg: We don't have right now numbers for this. But, even we are exporting gold; we are doing business on lease model. So, any foreign gain or loss, whatever I think is not effective, it is notional and it does not impact our company.

Ankit Babel: Yeah, I agree for domestic business it won't be there, but for export business there could be some gain or loss possibly, because in previous years there have been instances of foreign exchange gain or loss.

Balram Garg: Right now we don't have any numbers, balance sheet numbers. But, definitely we will share later offline.

Sanjeev Bhatia: Offline you can discuss.

Ankit Babel: Okay. And sir in the first nine months, the share of diamond jewelry was around 30.3%. Could you just give me the share in the previous year's nine months, nine months…?

Balram Garg: We don't have numbers for the last year nine months. Last year, full year the number, full year number we can say.

Ankit Babel: Yeah, full year is 26.67.

Balram Garg: 26.67.

Ankit Babel: I need nine months, so that we can have a comparison.

Balram Garg: Definitely lower than that.

Ankit Babel: Lower than that?

Balram Garg: We don't have right now the last year nine month numbers.

Ankit Babel: Okay. So, last year fourth quarter you have sir?

Balram Garg: No, last year, full year number is there only.

Ankit Babel: Okay. Okay fine, thank you sir.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The last question is from Ms. Rishi Chopra from Indian Capital Fund Research. Please go ahead.

Rishi Chopra: Hello. Hello.

Balram Garg: Hello.

Rishi Chopra: Hello, yeah hi. I just wanted to know the share of gold and diamond jewelry in the current revenue; could you please give me the ratio about that?

Balram Garg: Current revenue, diamond jewelry mix is, nine months is 30.3% diamond jewelry and the balance is gold jewelry. And this quarter, third quarter the diamond jewelry is 26.85% and the balance is gold jewelry.

Rishi Chopra: Okay. And for the next quarter how much increase in EBITDA you are seeing?

Balram Garg: Definitely EBITDA will improve. EBITDA will improve, because next quarter the diamond jewelry mix we are expecting more.

Rishi Chopra: Okay, thank you so much sir.

Moderator: Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

There is no further questions sir. Now, I hand over the floor to Mr. Sanjeev Bhatia for closing comments:

Sanjeev Bhatia: I thank all the participants for joining us, looking to us and sharing their viewpoints with us. We are always available for any clarification, any queries resolution. And I thank you all again for joining us at this occasion. 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 pleasant evening.

Note:

1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.