Tribhovandas Bhimji Zaveri Limited
First Quarter FY16 Results Conference Call"
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Moderator: Good afternoon, ladies and gentlemen. I am Lizanne, the moderator for this conference. Welcome to First Quarter FY16 Results Conference Call of Tribhovandas Bhimji Zaveri Limited organized by Dickenson Seagull IR. At this moment all participants' lines are in the 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 that this conference is being recorded. I would now like to hand the floor over to Mr. Nilesh Dalvi. Thank you and over to you, sir.

Nilesh Dalvi: Thank you Lizanne. Good evening everyone. On behalf of Dickenson Seagull IR let me welcome you all to the Earnings Call of Tribhovandas Bhimji Zaveri Limited for the First Quarter of Financial Year 2015-2016. Today we have with us the management led by Mr. Shrikant Zaveri – Chairman & Managing Director; Ms. Raashi Zaveri, Whole Time Director, Mr. Prem Hinduja – Chief Executive Officer and Mr. Saurav Banerjee – Chief Finance Officer. Before we get started I would like to remind you that our remarks today might include forward-looking statements and actual results may differ materially from those contemplated by these forward looking statements. Any statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events. I would now invite Mr. Zaveri to make his opening remarks. Thank you and over to you, sir.

Shrikant Zaveri: Good afternoon everyone. Greetings and a very warm welcome to everyone present here for the earnings call of Tribhovandas Bhimji Zaveri Limited for the first quarter of the financial year 2015-2016. While the gold jewellery sales saw a decline, diamond jewellery sales witnessed growth as the company continued its focus on increasing the share of diamond jewellery by offering innovative diamond jewellery designs. Higher share of diamond jewellery and lower levels of discounts on sales helped the company to improve its blended gross margins. We expect to see improvement in customer footfalls over coming quarters driven by an improvement in economic scenario and lower gold prices. We have witnessed healthy footfalls in the month of July driven by sharp fall in gold prices. Further, the regulatory environment has also been stable; we expect to see strong demand traction during the upcoming festival and wedding season. We shall continue to focus on store expansion in a calibrated manner commensurate it by an improvement in customer footfalls. We are actively exploring the franchise model for store expansion and have been evaluating prospective franchisees. Expansion through the franchisee model will help us grow in an asset-light manner and will assist the increasing of TBZ footprint pan India.

With this I would now hand over the call to Mr. Prem Hinduja, our CEO to brief you on the financials and operational highlights for this quarter. Thank you.

Prem Hinduja: Thank you and good afternoon everyone. I will just briefly run you through the numbers which are already present with you. For the quarter under consideration, the total income from operations was 415.93 crores as compared to 432.36 crores for the corresponding quarter last year. There has been a decrease of about 4% on YoY basis in the top-line. The profit and loss before operations and other income, etc., was 14.29 crores as compared to 11.13 crores. The EBITDA without any adjustment is around 4% of the top-line for the current quarter as compared to 3% of the top-line during the corresponding quarter last year. The Profit after tax is 2.71 crores as compared to 52 lakhs in the corresponding quarter last year which just shows that in spite of a decline of 4% in top-line the Profit After Tax has grown by almost about 5 times during this period. This is mainly driven by the higher gross margin and consequently the higher EBITDA margins which the company has earned during this quarter.

Now I hand over the floor to you gentlemen, to put forth your questions for which we will answer then accordingly. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rahul Koshy from Florintree Advisors.

Rahul Koshy: We were just wondering when your expansion plan actually going to roll out. As we recall from the last call you had said that you were in advanced stages of discussion with the franchisees, etc., but we haven't seen any progress since then. Could you update us of those plans?

Prem Hinduja: Basically I will take you back to the earlier expansion plan when we had mentioned about a three year plan and the three year plan was basically to take the company from 91,000 of square feet of retail space at that point of time, today it is 93,000 square feet, to 150,000 square feet in the next three years, that is by FY18. As far as the franchisee is concerned we had also mentioned that the incremental expansion which is going to take place is going to be more focused and primarily it is to be driven by leveraging the franchisee model. We have been doing a lot of backend work on it, in fact we have reached quite an advance stage and probably in this quarter, if not this quarter, by the next quarter at least you will see the first franchisee on the ground and as and when we do that we will make an appropriate announcement. So rest assured that enough backend has been done because this is the process which has to be gone through carefully, diligently so there is lot of checking, background checking, face-to-face interviews, there are lot of legal calls which has to be taken because agreements have to be signed, the background of the potential franchisee, their net worth, their interest in the business, all that has to be taken care of and that has been done very seriously at this end.

Rahul Koshy: Are there any owned stores being opened at all or they are not doing to be any owned stores?

Prem Hinduja: There will also be owned stores. With regards to the incremental expansion roughly three-fourth of the incremental expansion in the next three years will come through the franchisee route and the balance will come from the company owned and managed stores.

Rahul Koshy: So we haven't seen much progress on that either because that should take much lesser operational work as compared to franchisees what we thought.

Prem Hinduja: Even work on that front is going on simultaneously so as and when we open our first company- owned store for this year, we will make an announcement and that is also going to happen quite soon. So at the appropriate moment we will make the announcement.

Rahul Koshy: The second question is your gold on loan has actually gone down this quarter. Why is that? I thought it was going to be a sequential improvement in the amount of gold loan.

Prem Hinduja: Let me first start with the fact that basically on an average about 55% of our inventory is on gold on loan. We closed some transactions before the balance sheet date, so the gold on lease reflected a lower number as on 30th June, however we renewed the transactions in the following month, so currently about 54% of our inventory is on gold on lease.

Rahul Koshy: We also noticed that the actual margins in gold have improved quite substantially at the gross margin level. What's been the driver behind that?

Prem Hinduja: Basically the driver behind that has been that as we saw the demand improving we have reduced discounting and this has resulted in better margins.

Moderator: The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: The first question is with respect to your own gold. So you currently 50% is own gold and as you have indicated that your gross margin on the gold business is around 11% so could there be a scenario that your gross margins on own gold maybe close to zero?

Prem Hinduja: Not really because let me put it this way, we are doing a hedge and which is a combination of various methods. One is of course through the gold loan model, at present it's about 54% and the balance inventory we hedge on the MCX. So basically it's a combination of both. And we don't really believe in any non-operating gain or loss on account of price volatility in gold. So if there is any fall in the price of gold; that is taken care of by hedging, either through gold on loan or through a hedging on MCX, so there is no question of having a zero margin on our own gold.

Puneet Jain: If I look at your growth in the recent past over the last four years there has been high correlation between gold sales and diamond sales that is clearly visible while in this quarter that correlation seems to be breaking. So if I go to slide number 19, there seems to be a reasonable amount of direct relationship between gold and diamond volumes. So while if you look at Q1, value of your gold sales have fallen, your diamond volumes have increased.

Prem Hinduja: It has always been the endeavour of the company to increase the diamond sales. Yes, there have been some quarters, for example, if I refer to the first quarter of previous year, when there was a huge price correction in gold at that point of time in the month of April the demand for gold was so much that we had 80% of our sales coming from gold jewellery and 20% from diamond jewellery, but always the endeavour has been to increase the diamond sales for which the company has been taking steps.

Puneet Jain: I will move on towards the franchisee model, do you think that the franchisee mix can be very different vis-a-vis the current operating model of the company given the fact that franchisee may actually open in maybe non-metros?

Prem Hinduja: No, it will not be very different because the model will be more or less the same, in terms of the store size, the store ambience and the jewellery which we put in the store, so from day one we will be guiding the franchisee as to what type of inventories they should be keeping and what is the mix of the inventory they should be keeping, but of course, taking into account the market forces and the customer demand in that particular region, maybe one particular region or may vary from another particular region slightly but on an overall basis the endeavour will be to try and maintain the ratio we are having in our own company owned and managed stores between gold and diamond.

Puneet Jain: Over the years your proportion of gold jewellery seems to have already increased, so like you said that you have a continuous endeavour to increase your diamond share, that doesn't seem to be playing out over the last 3-4 years.

Prem Hinduja: Let me put in this way, diamond is more of a discreet buy and gold is more of a compulsion buy as it is mainly used in weddings and such other occasions, that is one factor. Although the endeavour of the company has been to increase the proportion of the diamond but it is a gradual process and then there are certain aberrations, as I mentioned to you about first quarter of last year when we had the situation when the gold price corrected and there was certainly increase in demand for gold and even some of the diamond buyers may probably have opted for gold jewellery. So these things keep on happening and even over a period of time if you see like even in the good old days we used to be 80% or nearer to 80% for a very long time on gold and 20% on diamond jewellery. But again let me add one more thing that when we are talking about gold jewellery that also contains a mix of studded gold jewellery and plain gold jewellery. Now if I were to segregate the studded portion quite a lot of gold jewellery will also account for studded which would really strictly be studded jewellery where the margins are slightly higher than what you get on plain gold jewellery. But yes, this process is a little slow, it takes its own time and there are several other factors which come into play;

however the various new collections and design changes being introduced in the company on a regular basis are more focused on diamond jewellery right now.

Puneet Jain: Gold prices did fall a lot this month. So are you seeing any change in demand patterns given the fact that gold prices are at sub-25,000 levels?

Prem Hinduja: In July we had a huge surge of demand because of the gold price correction. The footfalls increased and consequently the sales also have increased tremendously.

Puneet Jain: Has it sustained given the fact that gold prices have remained constant and have not moved at all in the last two weeks?

Prem Hinduja: It's too early to say because we have just entered the month August right now, so we will be waiting and watching.

Moderator: The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Could you throw some light on the competitive activity in the jewellery segment, are you seeing more intensity over these few months or is this being more rational?

Prem Hinduja: There has not been much change in the competitive intensity; existing players such as Kalyan, Joyalukkas, etc have been there since quite some time. We have not really seen any new players really entering the market in recent times. Some of the existing players who were already there have started entering into other territories or expanding but other than that I think the competitive environment remains more or less the same. But right now what is really playing on the mind of the consumer is the price and that's precisely the reason we saw a big jump in demand in the month of July due to gold price correction. When you are talking about competitive edge, of course, each region has its own regional players who are pretty strong in that area. We carefully analyse and strategize as to how to counter the strategies of that particular strong regional player.

Latika Chopra: Regarding demand, gold jewellery sales seems to have dropped 4% in the quarter, so besides gold prices being down 10% anything more to read or is it just weak consumer sentiment which led to that drop?

Prem Hinduja: It's just weak consumer sentiment.

Latika Chopra: You have mentioned the PAN card requirement has not yet been enforced, so any further thoughts there, is it completely out of the way or there is a probability that this can come back?

Prem Hinduja: It's very difficult to answer this question because this is in the hands of the government. The government has not taken any action on the same although it was announced in the budget months behind, however when the final budget copy came out which was assented by the President, there was no mention about it & neither has the Hon. Finance Minister or any official mentioned thereafter in Parliament or otherwise about the PAN card. So I think to this extent our knowledge is as limited as yours and we really don't know, government being government they may bring it out even tomorrow or they may defer it forever. One doesn't know.

Moderator: The next question is from the line of Anirudh Joshi from ICICI Securities. Please go ahead.

Anirudh Joshi: Where do we expect to see the gold on lease by end of FY16 and what is the interest or the financial charges here paying on gold on loan scheme?

Prem Hinduja: I will answer both the questions separately. I will answer second part of the question first. Basically there is a gold on lease mechanism whereby there are certain interest charges to be given to the bank from whom we take the gold on lease which is roughly around 3.5% at present and then there are bank guarantee charges which is offered as a collateral to the bank which gives us gold on lease and that is in the range of 1-1.5%. So I would say that total cost is about 5% but again because this collateral in the form of bank guarantee has to be given at 110% of the value taken on gold on loan, so I would say that roughly between 5-5.5% on an average is the cost per annum and depending upon the utilization it is charged pro rata. Now the first part of your question that where do we see at the end of FY16 our gold on lease moving to? It will be an endeavour of the company all the time to move forward and bring it as much as closer to the near perfection. But there are certain challenges in the sense that as I mentioned there is an element of bank guarantee which is separately carved out by the working capital bankers which has got nothing to do from the bank from whom you are taking gold on lease. This is again depending upon the working capital assessment of the banks which is done annually where they carve out working capital facility and they divide it between fund based and non-fund based. Non-fund based being the bank guarantee limit which, of course, no bank will give you 100% to the extent of the working capital facility because certain element of over draft of cash credit facility is required, so that becomes a limitation, depending upon the availability of that is where maximum we can go to. Whenever there is an annual renewal we do take it up with our banks to increase this portion of the bank guarantee limit so that we can get and enjoy more and more gold on lease.

Moderator: The next question is from the line of Manish Podar from Motilal Oswal Securities. Please go ahead.

Manish Podar: Is it possible you could map your market share in west India and if that is possible how would that be, let's say today versus a couple of years back?

Prem Hinduja: Very difficult because even as of now

Manish Podar: Primarily in the organized segment, you can skip the unorganized segment, so primarily in the organized segment how would our standing be?

Prem Hinduja: Even in the organized segment it is very difficult to tell you that what our market share is for the simple reason, unless the organized player is a listed player for which the figures are available, it will be difficult because there are lot of organized players who are not listed as of today, who are claiming to have huge turnovers but, of course, we have no way to comment upon the same. So for this particular reason it will be very difficult because you have the organized sector, you have the unorganized sector, again within the organized sector you have listed entities and you have non-listed entities. And this has been the case with this industry historically and even as of today and, of course, what we are seeing from the various reports as the organized sector is keeping on growing and grabbing a share of the unorganized sector, all the same, there is no authentic data available whereby we can claim that we have so much share of the market with us.

Manish Podar: If you divide by north, east, west, south how is the growth rate across regions if you could give us some colour on that?

Prem Hinduja: We are not present so much in the north.

Manish Podar: Right, I understand that.

Prem Hinduja: East we are present in very limited way in Bengal. Traditionally we have been in west and south. So, of course, our growth has been pretty good all round and you will be surprised our store in Calcutta which is in the east is doing fantastic. So all-round there has been decent growth and the company takes care wherever it finds any aberrations, on how to push up the demand but otherwise all around the performance has more or less been equal.

Moderator: The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to understand, you have actually grown ahead of the other peers that have reported as of now, so wanted to understand that there has been a comment made in the Annual Report of one of your peers suggesting that the gold prices for the competition in some cases is lower than what they have been charging. Have you faced any such situation also and could you give us a sense on that? Are we or is the organized segment being able to compete at a lower cost; is that something that is happening because of the custom duty, if you could throw any light on that?

Prem Hinduja: I do not think it is happening because of custom duty but if you are referring to the unorganized sector and if the unorganized sector is having access to gold through some other means on which again it will be very difficult for us comment, but primarily as I understand I think it's more to do with the premium which is charged by certain organized players which is nothing but a brand premium, which is slightly over and above the ruling price of gold in the market. So that could make a difference. Probably the unorganized players or the non-branded players may not be charging that premium and the organized players do charge the premium. We know all very well that Titan charges some element of premium; we also do charge some element of premium, so that could be as I guess and I hope my guess is right that could be the reason for the gold price differential.

Abhi Mehta: Actually they referred primarily to the custom duty, that's why I had asked.

Prem Hinduja: Basically as I said, we really don't know and it would not be proper on our part to comment upon the unorganized players and as to the sourcing they have.

Abhi Mehta: The second question was on the making charges, so Titan as you correctly mentioned had cut making charges, wanted to understand has there been a change in consumer behaviour that you have seen across our customers and has that kind of played out on demand in any manner or how is the situation in the ground basically if you could give some comment for us?

Prem Hinduja: Basically looking at the situation on the ground, I think it has got to do more with gold price correction rather than the discount on the making charges because discount on the making charges is tactical which every company does from time to time.

Abhi Mehta: But have we had to follow suit because of what has been done by the competition?

Prem Hinduja: One of the reasons why our margins improved in Q1 is because we went less on discounting, so it was actually the other way round, this in spite of that fact that in gold we had some challenges in terms of consumer demand. It's the diamond portion which improved substantially. So that was not the real factor but I am just talking about the month of July again coming to that because there was a substantial gold price correction and we have seen a huge surge in demand and which I am sure would have been practically for everybody based on the press reports which we keep on reading from time to time.

Moderator: The next question is from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: I had a question on the ad expenditure. Based on the spending done in first quarter of this year, could you help me understand what is plan for fiscal '16? There has been a new store in the first quarter and you will be opening maybe about two stores for the entire year, will that mean that the new store will entail more expenditure and we could budget a higher number for the full year. Based on your past number I think you spend about 45-50 crores a year, so if you could help me understand fiscal '16 advertising plan?

Prem Hinduja: Let me correct you slightly, there was no store opening in the first quarter, number one. And the ad expenditure which has increased is mainly because of television advertising which is a fantastic medium and which we keep on doing from time to time to show case our new jewellery collections and all those sort of things. Again when you mentioned in absolute numbers about 45-50 crores we really don't go by that, we go more by percentage, advertising cost being a percentage of the top-line which varies in our case between 2.5-3% on an annual basis. But again if this you were to break down on a quarterly basis it may not necessarily mean that it will be the same or uniform throughout. In one particular quarter it maybe 3.5% of the top-line and another particular quarter it will be 2% of the top-line. To give you an example, the third quarter which is usually a strong quarter for this industry and also for us because of the festive season which is again followed by the wedding season, the percentage spend on ad goes up substantially but it evens out on a full year basis and that is basically what we are trying to. The second part of the question which you asked regarding any incremental ad expenditure due to new stores coming up, yes, there would be an increase depending upon the number of stores which are put up, however the total advertising outlay will fall within this 2.5-3% of the total revenue.

Rahul Agarwal: For the full year we have to move in that range?

Prem Hinduja: Yeah, we maintain that ratio.

Moderator: We have a follow-up question from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: If you look at the ticket size which is mentioned on slide number 5, kind of remained constant for gold jewellery while for diamond jewellery it actually increased in this quarter compared to last year. This is despite the fact that gold prices decreased by close to 10% on a YoY basis. So does it mean that customer automatically switches to higher gold volumes as and when gold prices fall or how do we read into this?

Prem Hinduja: This will not be a correct indication just to say that. As we have also mentioned and we know that there has been a slight dip in the volume factually as compared on YoY basis in case of gold and there has been a jump in the case of diamond. The ticket size again depends upon the items which they are buying and it also depends upon the effectiveness of the sales person, how to convert these sales into higher ticket size items. We also mentioned that in the first quarter the consumer demand was slightly weak as far as the gold portion was concerned so we did see a dip both in the volumes and slightly in the ticket size. However, the dip in the ticket prices was of course not to the extent of the dip in the volume because of the gold price correction which has happened over last year. So one cannot really read much into it and link the volume drop and the ticket size.

Puneet Jain: What I am saying is that when the gold prices fall so does the customer buy more

Prem Hinduja: Yeah typically it happens. When the gold price falls sharply, as it had happened in the last year in the first quarter the gold demand had jumped up tremendously and where even some of the diamond buyers could have possibly shifted to gold buying. That is in case of a sharp fall, not if there is a gradual fall.

Puneet Jain: I am not referring to overall gold volumes; I am just looking at the ticket size. So like what I was mentioning is that there has been say 11% fall in gold price on a YoY basis while the ticket size is roughly constant. Does it mean that customer typically upgrades himself to higher gold volumes so that the ticket size remains constant? Will that be the typical consumer psychology?

Prem Hinduja: You are right.

Puneet Jain: So a customer typically comes with a value in mind and not a particular volume in mind, will that be a correct assessment to make?

Prem Hinduja: This happens typically in the wedding season because we have always been maintaining that during wedding season what the customer has in mind, whether the price of gold goes up or down, what they have in mind is a budget in Rupees and they do tend to spend that much amount of money irrespective of the volume they get thereof.

Puneet Jain: What is happening to diamond prices?

Prem Hinduja: The diamond prices on a YoY basis have moved up marginally in the type of diamonds we deal in. However, for us the diamond sales has gone up typically because of the increase in the volumes.

Moderator: The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: Can you give a sense of the footfall growth this quarter and also if you can give a sense of the gold deposit scheme that you used to run, the Kalpavruksha scheme, so is that still running, what's the status of that? Any amounts you have still pending on that account?

Prem Hinduja: As far as the footfall is concerned in the first quarter, the footfalls had declined but during the month of July we have seen a huge increase in the footfalls because of the sharp gold price correction. As we have just entered the month of August it is really very difficult to predict the trend, but we are hopeful of the improvement in demand. Now as far as the Kalpavruksha scheme which you were referring to, the earlier scheme which we used to run is more or less closed now. We have started a new scheme in a new avatar, somewhere in April end or beginning of May. It is yet to gather traction so we have started collecting money and we are seeing fairly good response from the consumer and we are hopeful of this response increasing further. However since we have just started and also we have squared off the old transactions, the amount is not really much to talk about but over a period of time we are hopeful that will gather momentum.

Aman Batra: And more on the maintenance part, the gold on lease that gets classified under loans for you?

Prem Hinduja: Yeah. We show it as under our bank borrowings and which we have been doing typically right from day one. This is again conservative accounting policy. So even when you talk about our debt to equity which is about 1.2 or 1.3:1, now typically if you were to minus out this 54% which as of today is gold on lease or 55% which we maintain on an average, the effective debt would be just 0.6:1.

Aman Batra: The interest charged on the gold on lease, is that shown in the interest cost?

Prem Hinduja: That is show in the interest cost, right.

Moderator: The next question is the question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: If gold prices were to keep declining, would you take a look at your making charge profile actually just to ensure that your overall margins remain protected? Any thoughts?

Prem Hinduja: We always do that because we have a stop loss situation in place whereby if in a particular quarter the gold price declines by more than 10% then the making charges are converted from variable to fixed and this is reviewed on a quarter-on-quarter basis and this policy is already in place.

Latika Chopra: So to that extent there is not much downside risk on your margin profile because you are going to move between variable and fixed.

Prem Hinduja: Absolutely.

Latika Chopra: So basically at any given point, your portfolio will have a mix of variable and fixed charges?

Prem Hinduja: Yeah, it will have. Again depending upon the extent of the gold price fall, supposing it doesn't fall then there is no question but if it falls, as I mentioned below if it reaches a level of 10%, to give you an example, if the price of gold is say 3000 and my making charge is say 10%, so 300 and at 2700 it will be 270, at 2600 it will still be at 270, and if it goes to 2500 still it will be at 270.

Latika Chopra: So is there a threshold margin that you have in mind below which you won't like to go, but that would be a function of mix everything, right?

Prem Hinduja: Yeah that is a function of mix and everything; it is very difficult to really see zero in on it.

Latika Chopra: So it will be difficult to sort of look at or any sense on your full year margins, how would you expect that would trend up considering that you are going for an expansion plan also, any sense there?

Prem Hinduja: One can look at it in this way, theoretically if you have overall more of diamond sales than gold, your overall blended margins are going to be better and again within the gold segment if you have more of the studded gold jewellery rather than the plain gold jewellery again your overall margin in the gold profile are going to be better and also the overall blended margins are going to be better. So it is a mix of all these factors.

Moderator: Thank you. The next question is from the line of Mr. Abhinash Matha from Aditya Birla Money. Please go ahead.

Abhinash Matha: What is the flexibility we get by keeping 55% of our procurement of gold on gold on lease and rest on carried over books wherein we hedge on intake, so just require a further clarity on that.

Prem Hinduja: Basically we do not get any flexibility and it's not that it is our thought process that we have kept it at 55% and as I mentioned in my earlier conversation the endeavor of the company is always to move this percentage of gold on lease upwards, but then we have to operate within certain limitations of the availability of the bank guarantee limit from the banks. So the endeavor will be to utilize the bank guarantee limits to the hilt completely so that we can have maximum of gold on lease.

Abhinash Matha: So the gold that which is on our books which we hedge on intake, what is the additional cost we incur for hedging and other charges?

Prem Hinduja: It varies from time to time, it again depends upon whether there is a premium at any particular point of time or there is not, but otherwise if you were to remove all that, the cost is very minimal.

Abhinash Matha: When we say very minimal, is it safe to assume its 1-2%?

Prem Hinduja: Yeah you are right.

Abhinash Matha: My next question pertains to our online initiative, what we have seen is that many online players are doing phenomenally well in terms of fine jewellery or probably gift as a segment, so what is our strategy over there?

Prem Hinduja: We are also exploring that. Just like the franchisee we are also exploring this and, of course, there also some work is going on so as and when something culminates & is there on the ground we will definitely announce it.

Moderator: The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.

Arnav Mitra: I am going back to the making charge cut taken by Titan and they specifically had said that they were facing pressure from guys like Kalyan, so now I am just trying to wonder why it is not impacting you, is it that your consumers set is slightly different where it doesn't matter that much or are you also facing pressure at least on the lower end of let's say plain gold jewellery where making charges probably make a difference?

Prem Hinduja: One of the reasons could be that our consumer profile is quite different and as we have always been maintaining that we are more wedding focused and maximum number of our consumers our wedding related buyers, which are compulsion buyers so obviously for them this does not really make much of a difference and as I mentioned a little earlier that during wedding season they really come up with a fixed budget in terms of Rupees and they have to make that purchase come what may so they do that. So to that extent, yes you are right, you know the depending upon the consumer profile it could make a difference, however in our case it would not make much of a difference as to what making charges the consumer is paying. Secondly, of course, it also depends upon the design, the product you are offering to the consumer. So at the end of the day if the consumer is satisfied with the design then he will not bargain so much for the discount on the making charges. You are also right that there may be some value seekers but they are a different lot altogether who only believe in discounts and other than discount they do want to buy but fortunately for us we do not face that problem much, but we do take a view of the consumer sentiment and their requirement from quarter-to-quarter and we act accordingly. If the need arises and we do feel the compulsion that we cannot move forward but otherwise then by discounting, for example, you may land up in a quarter when there are no weddings at all, in that particular quarter one has to push up the sales and if the demand is really low then one would be forced to offer discounts or go tactical to attract customers and attract footfalls. So it is a call which is taken from time to time depending upon the situation or the reality on the ground.

Arnav Mitra: I wanted to know on studded demand because gold as you said there has been some pickup in July, is studded broadly the trend still weak or are you seeing some recovery in studded overall in terms of demand in that category?

Prem Hinduja: In the month of July demand for non-studded portion really picked up, because what happens typically when there is a gold price correction it is the non-studded portion of gold where the demand really moves up dramatically, not so much for the studded.

Arnav Mitra: Does studded growth actually go down in periods of gold demand surge because that's what happened last year when the gold prices went down, is it similar that actually studded demand goes down a bit when gold volumes pick up?

Prem Hinduja: Overall percentage obviously it will show a lesser percentage because if my sales are 100 and earlier if I was doing hypothetically 50 studded gold and 50 non-studded gold and if my non-studded gold goes up to 60 so obviously my studded gold has gone down to 40 percentage.

Arnav Mitra: But in absolute terms you are saying it doesn't make a difference, I mean the same consumer doesn't actually shift buy less of studded, the ratio I can understand but in absolute terms does studded growth go down because people are more interested in buying gold in this period?

Prem Hinduja: What has happened is again in the price correction as we understand from the various reports also which we have been reading that possibly some element of advance purchasing has also come into place where people have waited for say a month more before they start making their purchase for the incoming festive season which will be followed by the wedding season, so maybe some of them have started buying for that also. Now there, of course, it is not only the plain but even the studded portion will be required.

Arnav Mitra: Just lastly on gold on lease, what are the kind of rates that are now there and has it been coming down last few quarters, the financing cost of the gold on lease?

Prem Hinduja: Basically when the gold on lease was restarted last year without doing away with the 80-20 scheme the total cost was as high as 7% which I am saying including the cost which was paid on bank guarantee charges and also what we obtain to the lending bank. That 7% has now come down to 5% after the 80-20 was removed.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Nilesh Dalvi for closing comments.

Nilesh Dalvi: Thank you everyone for attending today's call. In case of any further questions you can reach us at nilesh.dalvi@dickensonir.com. Have a good day. Thank you.

Moderator: Thank you. Ladies and gentlemen that concludes this conference call. Thank you for joining us and you may now disconnect your lines.