



“Gitanjali Gems Q1 FY13 Earnings Conference Call”

August 13, 2012



MANAGEMENT: **MR. MEHUL CHOKSI – CHAIRMAN & MANAGING DIRECTOR**
MR. SUNIL VARMA – WHOLETIME DIRECTOR
MR. ABHISHEK GUPTA – HEAD, STRATEGY & INVESTOR RELATIONS



*Gitanjali Gems
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Moderator

Ladies and gentlemen, good day and welcome to the Q1 FY13 earnings conference call of Gitanjali Gems. We have with us today Mr. Mehul Choksi – Chairman and Managing Director, Mr. Sunil Varma – Whole-time Director and Mr. Abhishek Gupta – Head of Strategy & Investor Relations, Gitanjali Gems. As a reminder, for the duration of this call all participant lines will be in the 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, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sunil Varma. Thank you and over to you sir.

Sunil Varma

Good evening Ladies and Gentlemen. We appreciate your joining us today for the financial results of Gitanjali Gems for the quarter ended 30th June, 2012. Our integrated business model, diverse geographic portfolio and multi-brand and multi-channel strategy have helped mitigate the impact of challenges in the macroeconomic environment on account of a weak rupee, global uncertainties and volatile commodity prices. We were, as a result, able to enhance consumer confidence.

We have been proactive in our initiatives and have been rewarded for our efforts. The new stores added this quarter and stores opened in the two preceding quarters have contributed to this quarter’s high growth.

For the quarter ended June 30, 2012, the company achieved consolidated Net Sales of Rs. 3,384.7 Crore Vs Rs. 2,576.3 Crore in the corresponding period last year, registering a growth of 31%. The consolidated net profit increased to Rs. 148.9 Crore, as against Rs. 123.2 Crore in the first quarter of FY12 achieving a growth of 21%, the net profit margin stood at 4.4% for Q1FY13.

EBIT for Q1 FY13, was Rs. 348.6 Crore, a growth of 61% over the corresponding quarter last year. The diluted earnings per share for Q1FY13

stood at Rs. 16.18 as compared to Rs. 12.47 per share for the corresponding quarter in the last fiscal achieving a growth of 30%.

Gold collections and additional categories in coloured stones, polki, kundan and jadau have been introduced within each brand to supplement existing brand offerings. These collections have served to attract gold buyers to our stores and have provided existing customers with additional choices. The gold collections have thus, linked traditional jewellery demand to modern jewellery preferences.

The Gitanjali Group has retained its thrust on expanding its international retail presence strategically. This is reflected in its launching of three retail stores in Dubai and one store in Singapore.

Our efforts have also been geared towards establishing our product brands as retail brands. This requires recognition of regional diversities and segment-wise consumer preferences.

Rapid retail expansion in India is our strategic focus. We have been benefiting from our concentrated expansion through franchisees. This has allowed our products to rapidly reach markets in smaller towns and cities. We have been thus, taking advantage of the growing and marked preference for branded jewellery across the country.

One of our most potent attributes is the ability to rapidly identify new and profitable avenues for our business. There has therefore, been a special emphasis on the E-Commerce channel in terms of launching e-commerce platforms for each brand together with the launch of a consolidated portal that houses all our brands.

We aim to facilitate the expansion of our group's overseas business through the creation of international jewellery hubs in the USA, Middle-East and

Hong Kong. We want to reach deeper into global jewellery markets and we want these hubs to play a major role in this effort.

To sum up: We are confident that our model of integrated play, global presence, a diverse portfolio of brands and channels will allow us to thrust deeper into the branded jewellery space and scale up across geographies, categories, channels and brands.

Thank You! The floor is now open for questions.

Moderator We will now begin the question and answer session. The first question is from Rohit Sanghavi, Prime Securities. Please go ahead.

Rohit Sanghavi My question is relating the turnaround that we saw in the US market last year and I just wanted to get a sense of how things are progressing in that market for you?

Abhishek Gupta In the US market last year, the Christmas season was particularly well received and we saw a net profit of nearly 5%. This year too we are on track. The 1st Quarter is flat I would say, but for the full year we expect a better season during Quarters 3 and 4.

Rohit Sanghavi I wanted a guidance from you for your revenues and EBITDA margin for this year?

Abhishek Gupta It would be difficult to give you a guidance but the last three years have witnessed a growth of 36% CAGR and we can see a similar trend going forward as well.

Moderator The next question is from Vinay Agarwal, Crisil. Please go ahead.

Vinay Agarwal Just wanted to check with you there is a significant other income in the consolidated results.

- Abhishek Gupta** That is correct.
- Vinay Agarwal** So can you throw some light on that?
- Abhishek Gupta** FOREX gains have been classified majorly in the other income. As per the new IFRS format we have to present forex gains under “other income” which is why you see a significant other income.
- Vinay Agarwal** You were talking about the store additions, so can you tell me during the quarter how many stores were added under each format?
- Abhishek Gupta** This quarter, we have added four own stores 14 franchisees and 12 shop-in-shops.
- Vinay Agarwal** How is the performance at Samuels in US?
- Abhishek Gupta** In this quarter, profits for Samuels have been rather flat, but we are expecting a good season during the 3rd and fourth quarters for Christmas and Valentines.
- Vinay Agarwal** And by profit you mean EBITDA or PAT?
- Abhishek Gupta** PAT.
- Vinay Agarwal** It has been flat, that means zero.
- Abhishek Gupta** Yes
- Moderator** The next question is from K. C. Suri, Span Capital. Please go ahead.
- K.C. Suri** Just wanted to understand what in your assessment would be the resultant impact of the deficient months leading to deficient incomes and subsequent curtailed spending during the upcoming festival and marriage season?

- Mehul Choksi** We think that the market will certainly shrink as far as the gold consumption for investment purpose is concerned. This may not be necessary for jewellery. So the overall market maybe contracting however, because of our brands we have been able to expand further and we are constantly introducing new categories and you will see we are now in categories in which we were not present earlier. Hence we are seeing a good growth for ourselves and because we are the real brands in the country, we are growing at a very fast pace.
- K.C. Suri** What is your footprint expansion plan for this year and the next year?
- Abhishek Gupta** The entire year we are looking to have a total network of nearly 3000 retailers, 247 own stores, 363 franchisees and 616 shop-n-shops. So the total touch points for consumers will be ~4200 which will be an increase of roughly 300 from last year.
- K.C. Suri** What would this incremental footprint cost you?
- Abhishek Gupta** In the case of distribution and retail, there is no Capex involved as such since the same is borne by the distributor and the retailers. In case of franchising the CAPEX is taken care of by the franchise itself and a minimal capex is incurred in case of Shop-in-shops. So from CAPEX point of view we would estimate the same at around 20-25 crores and it would largely be on account of inventory requirements for this expansion.
- K.C. Suri** Today's newspaper carried an advert about you opening the largest store in Hyderabad, could you throw some more light on that?
- Mehul Choksi** Gitanjali Jewels, Maya Jewels and Jewel Souk are the three major branded stores for which we are appointing franchisees who would invest around Rs. 10-20 crores. This was one of the largest franchisees with an investment of ~Rs. 13 crores. It is a two storey store spread over 6000-7000 square feet

and is one of the largest in Hyderabad. It had a good start with the sales of the first day itself exceeding Rs. 2 crores.

Moderator Thank you. The next question is from Saritesh Gupta, JP Morgan. Please go ahead.

Saritesh Gupta Any color on how are diamond prices fairing right now?

Mehul Choksi Diamond prices in retail are the same as last year. As far as the wholesale diamond prices are concerned, they have gone down by nearly 8-10% during this season. Last year the prices of diamonds went up by more than 40% and that has now undergone a slight correction in this season. In the last three months the wholesale prices have gone down by ~ 10% but retail prices are still the same.

Saritesh Gupta And secondly how is the domestic demand fairing for you- just the volume part of it. In terms of value definitely it would be pretty much there but in terms of volume how are you witnessing the trends?

Mehul Choksi Volume is more or less flat. One month we go up, the other month we go down but there is a lot of re-merchandizing required so we are in the process of re-merchandizing. Once the entire re-merchandizing has taken place, we would probably see volumes going up. Last year the prices of both, diamond and gold had increased by nearly 40-50% and this requires re-merchandizing at store level. And I think that is one of the reasons that the volumes are not increasing while the value is of course increasing.

Saritesh Gupta Have you seen any slowdown in the last one to two months on an incremental level and how do you see the festive demand coming for the next quarter?

Mehul Choksi We are seeing growth in diamond jewellery as compared to gold jewellery. For us, gold jewellery as a category is doing very well because we are new entrants in it. Its been just one year that we have started in gold, but yes in

the market, diamonds are expanding while gold is contracting particularly on the investment side. Gold is experiencing a poor demand mainly because the duty has increased from 2 to 4%. This drop in demand is mainly seen on the investment side.

Saritesh Gupta What would be the mix that you have right now for gold versus diamond?

Mehul Choksi We have 32% of diamond and 68% of gold.

Saritesh Gupta This would have been pretty much flat over the last one to two years?

Mehul Choksi Gold has increased a lot because we have introduced more categories in gold only last year. We had about 40% gold about a year and a half to two years ago. Now we have reached to nearly 65-68% gold. Typical chains in the country usually have around 80% gold and 20% diamond.

Moderator Thank you. The next question is from Pankhuri Shah, KBS India. Please go ahead.

Pankhuri Shah I just wanted to know your debt-equity ratio currently.

Abhishek Gupta Debt-equity is 1:1.

Pankhuri Shah Going forward it would be at same levels?

Abhishek Gupta We would like to maintain it at that level.

Moderator Thank you. The next question is from Nilesh Gandhi, Destimoney Securities. Please go ahead.

Nilesh Gandhi I just wanted to know your view on the diamond prices as you are saying that demand for diamond jewellery is increasing. So in the current scenario how do you see diamond prices shaping up?

- Mehul Choksi** The demand worldwide is steady. So at the retail level we see the prices to be maintained. At the wholesale level however, there has been a slight dip over the last few months because the dollar has increased a lot and people have been able to sell their products cheaper.
- Nilesh Gandhi** This is for gold?
- Mehul Choksi** It is for diamond.
- Moderator** Thank you. The next question is from Sreekanth P.V.S, Motilal Oswal Securities Limited. Please go ahead.
- Sreekanth P.V.S** I just wanted to know that there is a 36% increase in your jewellery segment sales, so that is gold?
- Abhishek Gupta** No it is a mix of gold and diamond jewellery.
- Sreekanth P.V.S** The diamond segment is?
- Abhishek Gupta** The pure loose diamond, that is the cut and polished diamond.
- Sreekanth P.V.S** Can you just give a guidance on how is the overall gold jewellery demand?
- Abhishek Gupta** With respect to gold jewellery, we have been very active in terms of introducing new collections and new designs under each of our brands Gili, Nakshatra, Asmi, D'Damas and this has been very well received by the consumer. There was an appetite for branded gold in the country and that has gave us the space we needed to introduce these collections. In India we are currently almost 65% into gold jewellery and 35% into diamond jewellery. On the international side we are 50% into gold and 50% into diamond jewellery. Going forward, we expect our major growth to come from jewellery.
- Sreekanth P.V.S** Both gold and diamond?

- Abhishek Gupta** That is correct.
- Sreekanth P.V.S** And what would have been the volume growth in gold jewellery?
- Abhishek Gupta** The volumes have come up almost 25-27%.
- Sreekanth P.V.S** As in both gold and diamond.
- Abhishek Gupta** That is correct.
- Moderator** Thank you. The next question is from Saritesh Gupta, JP Morgan. Please go ahead.
- Saritesh Gupta** What would be the like-to-like sales growth number for you?
- Abhishek Gupta** Like-to-like growth is roughly 18%.
- Saritesh Gupta** That is for domestic or overall business?
- Abhishek Gupta** Domestic.
- Saritesh Gupta** Out of which your diamond jewellery would be flat and gold volume growth is 27-28%.
- Abhishek Gupta** That is correct.
- Moderator** Thank you. The next question is from Vinay Agarwal, Crisil. Please go ahead.
- Vinay Agarwal** Just wanted to know the inventory and debtors' number for the quarter?
- Abhishek Gupta** We have a total inventory of roughly Rs. 3,700 crores. The total debtors were about Rs. 6,200 crores.
- Vinay Agarwal** These are the consolidated numbers?
- Abhishek Gupta** Yes.

- Moderator** Thank you. The next question is from Riken Gopani, Infina Finance. Please go ahead.
- Riken Gopani** Just wanted to understand how large is the gold jewellery revenue today for us?
- Abhishek Gupta** For Gitanjali last year the total jewellery sales was roughly Rs. 7,000 crores and this year we are targeting a growth of nearly 40% so out of the Rs. 10,000 crores, gold jewellery would be nearly 55-60% if you combine India and international.
- Riken Gopani** 60% would be gold.
- Abhishek Gupta** Gold jewellery.
- Riken Gopani** And out of this India would have a larger concentration?
- Mehul Choksi** 70-80% of this would be India and the rest would be Middle East.
- Riken Gopani** And just wanted to understand how are we sourcing our gold? Since one of our competitors has got a license to directly import?
- Mehul Choksi** We too have permission and license for the last four years and have been importing directly from the large bankers.
- Riken Gopani** So it does not impact.
- Mehul Choksi** We have been importing for the last three years already.
- Riken Gopani** So in terms of pricing were you already getting better margins than competition?
- Mehul Choksi** For the last three years we have had direct arrangements with the international suppliers as we are a nominated agency to import directly.



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Moderator Thank you. As there are no further questions, I would now like to handover the floor to the management for closing comments.

Abhishek Gupta Thank you for your participation. We will see you in the next conference call. Thank you from Gitanjali.

Moderator Thank you. On behalf of Gitanjali Gems that concludes this conference. Thank you for joining us.