



"Gitanjali Gems Limited  
Q2&H1 FY13 Earnings Conference Call"

November 09, 2012



**Analyst:** Mr. Suresh Guruprasad

**Management:** Mr. Mehul Choksi  
Mr. Abhishek Gupta  
Mr. Kapil Khandelwal

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2&H1 FY13 Earnings Conference Call of Gitanjali Gems Limited hosted by CRISIL Equity Research. As a reminder, all participants' line 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 call, please signal an operator by press "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Suresh Guruprasad, Associate Director, Equity Research at CRISIL Research. Thank you and over to you Mr. Suresh.

**Suresh Guruprasad:** Thank you. Good evening everyone. On behalf of CRISIL Equity Research, I welcome you to the Q2&H1 FY13 Results Conference Call of Gitanjali Gems Limited. It is a pleasure to have with us the senior management of Gitanjali Gems represented by Mr. Mehul Choksi, CMD, Mr. Abhishek Gupta, Group President and Mr. Kapil Khandelwal, Group CFO. During the call they will discuss the main factors that drove the operational and financial performance during the quarter and also provide insight on the overall business scenario. This will be followed by the question and answer session. I would now like to hand over the call to Mr. Abhishek Gupta. Over to you sir.

**Abhishek Gupta:** Thank you Suresh. Ladies and gentlemen, a very good evening to you all and welcome to the financial results of Gitanjali Gems for the half-year ended September 30, 2012. Gitanjali was able to capitalize on opportunities this quarter through the balance of its portfolio in India and other significant jewelry markets globally. Gitanjali also gives strength from the strategic mix of diamond and gold jewelry within its product categories. We are one of the world's largest integrated jewelry companies. Our integration expands the value chain from sourcing of diamonds to retail of jewelry through the most modernized blend retail formats, which comprises a judicious combination of own stores, shopping shops and franchises.

Our sustained strategic focus on the downstream has resulted in rapid growth of our jewelry business. For the first-half year ended September 30, 2012, the Company achieved consolidated net sales of Rs.7313 Crores versus Rs.5548 Crores, corresponding period, registering a growth of 32%. The consolidated net profit increased to Rs.301 Crores against Rs.256 Crores on the first-half, achieving a growth of 18%. The EBIT was at Rs.532 Crores at a growth of 24% over the corresponding first-half last year. Diluted earnings per share for the first-half stood at Rs.33 as compared to Rs.26 for the last period, achieving a growth of almost 26%. For the second quarter

of financial year 2013, the group achieved sales of Rs.3928 Crores while the EBIT for the quarter was at Rs.263 Crores up by 19%. The increase in sales volume this quarter can be partly attributed to the stable gold prices resulting an increase consumer spend on jewelry ahead of the festival and married season.

Major drivers for sales in India include the opening of new stores, introduction of new brands such as Envi, Moira, Karina, and True Platinum. These brands and collections are positioned so as to be attractive to a diverse range of consumers. We have thus aligned ourselves to contemporary jewelry buying patterns and trends observed on the part of the Indian jewelry consumers. These include a market a marked and growing preference for branded jewelry and a similar preference for organized retail for a complete retail experience.

Growth in India through the franchise route is preferred route for Gitanjali group. We are present in nearly 300 towns and cities in the country and we have recognized a potential of almost 600 towns and cities where branded jewelry can be sold. This has been the basis of our focus on our asset-like franchise model that allows us to expand in hinterlands of the country. Gold jewelry collections have added to the offerings across Gitanjali's leading brands such as Nakshatra, Gili, Asmi, D'damas, which are at the helm of our growth and expansion efforts. Product brands have thus been converted into retail chains that offer a full range of products in store to consumers.

Gold collections also cater to both traditional as well as those who want to have the modern retaining experience. Gitanjali has always embraced innovations. Our initiatives in this regard have been immensely successful and lend support and another dimension to our expansion and growth efforts. Inspired by the popularity of world's first jewelry welding machine that we had launched last financial year, we launched another vending machine this quarter at the Ganesh Utsav in Mumbai. Gitanjali also has been harnessing the power of technology and has contested at context undertaken digital marketing campaigns through online social media to attract the large youth population in India. We have been developing our E-commerce platform in response to encouraging signs that indicate enormous scope for sales of branded jewelry online. We have also entered into alliances with leading online players in India to sell our branded products and thus further penetrate into exciting and rapidly growing markets.

Gitanjali has also undertaken initiatives such as E-franchise concepts, which has low investments and higher returns across formats. With regard to international markets, we have opened a third front in form of Japan, after the US and the Middle East. Japan being amongst the top four jewelry markets globally offers higher margin and excellent returns. In the Asian sub-continent geographies such as Nepal and Bangladesh are catering to our growth needs in international markets. On the road ahead Gitanjali's sustained efforts together with contemporary and emerging market trends presents the company with further scope for continued growth and profitability. The company's ability to identify and exploit profitable channels through innovation and focused initiatives has led to our dominance of branded jewelry space.

Thank you very much. We are open to questions from you.

**Moderator:** Thank you Sir. We have the first question from the line of Rishi Maheshwari from Enam. Please go ahead.

**Rishi Maheshwari:** Congratulations once again. Good set of numbers. If you can give some details on what is the competitive scenario that there are others that are also coming into the foray as aggressively though I understand that the market is huge and it obviously is scalable but are you seeing increasing competitive pressures in terms of the offers that are going across. Secondly, if you can also help me understand what is your scalability target for this year as well as next year?

**Mehul Choksi:** Rishi let me just tell you that this was missing in the marketplace. The modern retail is taking over the traditional retail in jewelry. You know that in India we have nearly 9 Lakh shops all across the country. They're all single shops. They cannot survive. To be very honest it is going to be a long-term play. We were the first one to modernize the whole business and luckily we are very different from our competitors as such because we have maybe more retail formats. Each of our brands is becoming a huge retail format so we have a multi-retail format. You can witness the Kalyan, Malabar, PC Jeweler there are many modern retailers are coming up in a particular area in that geography as such. Some of them are going of course off board, like Tanishq was very successful. So, basically there is the consumer has a preference for a modern retail experience for the guarantee of a product. So, Gitanjali has a much larger scope here because we are in nationwide and our brands are extremely powerful. So, very swiftly we have also gone into a major expansion to as far as the franchise route to expand our brands into retail formats.

- Rishi Maheshwari:** How has TBZ come up with an offer of 50% off on diamond making charges and 100% off on gold making charges?
- Mehul Choksi:** Rishi, first of all the diamond making charges they are giving discount and they are not giving discount on the diamond so making charges is maybe at the retail level Rs.1000 so they are give you Rs.500 per gram so it is all gimmicks basically.
- Abhishek Gupta:** Rishi, to further add to Mr. Choksi's point. If you look at the demand side of the industry, it is close to \$100 billion and they are just a handful of organized players. So, there is enough headroom for all of us to expand. At a national level it just two proven companies I would say and there are a lot of entry barriers for a regional player to grow national. With our first mover advantage we will always lead this compounding growth in the organized pace.
- Mehul Choksi:** Like one of our formats like Gitanjali Jewels is going to reach 100 stores by December month. They are now at 85 stores. This month itself we must have open nearly 26 – 27 stores all across the country through our various brands. The brand recall of our brands nation-wide is much stronger than any of these regional brands.
- Rishi Maheshwari:** Absolutely. Thank you so much and wish you good luck for future.
- Moderator:** Thank you. Mr. Suresh, you may go ahead with your question.
- Vinay Agarwal:** This is Vinay from CRISIL. Sir my question is regarding the performance of retail chain in the US Rogers Chain?
- Abhishek Gupta:** This year we are up by about 7% to 8%. It is consistently growing. We are very happy with our performance of US. It is a more preferred market than any of other markets at this moment.
- Vinay Agarwal:** Sir in the last couple of quarters the profited EBITDA level was not so great. So, has it turned healthier in margin terms for the current quarter?
- Abhishek Gupta:** Vinay, for EBITDA it is a mix of categories, there are mix of jewelry and diamonds so we are cautiously shifting towards a better return model and last couple of quarters had their own challenges. You will see the scenario has picked up and EBIDTA as jewelry improves, as India improves, will pickup but we are also working to get more

return on our capital employed and that is where the improvement is happening significantly.

**Mehul Choksi:** Let me just tell it is more of category sales because most of our brands are now becoming a jewelry chain and we are introducing gold in every of our brands and that is the reason that percentagewise our profit may go down but overall EBIT is expanding.

**Vinay Agarwal:** Sir, I was just going through the numbers, so the diamond proportion is overall declining from in this quarter it is around 1679 Crores, last quarter was also 1667 Crores. So, overall what is the strategy will this proportion of diamond revenues will remain same and more expansion will come from the jewelry business?

**Mehul Choksi:** That was the target our intention is to reach 25% of our business in the diamond, the rest for the jewelry.

**Vinay Agarwal:** Sir when I say diamond this is only the cut and polished diamond or it is jewelry?

**Mehul Choksi:** That is correct that is what the traditional business of Gitanjali for last 40 years and we have been serving to large manufacturers all across the globe and the large retailers and that helps us for a selective buying for our own manufacturing too, our own jewelry too. So basically that is how Gitanjali started with manufacturing of diamond and we have a customer base for the last 40 years.

**Vinay Agarwal:** Right, so Sir in the jewelry business can you give me breakup of how much is gold and how much is diamond?

**Abhishek Gupta:** Overall jewelry has about 55% of gold now and about 45% of diamond jewelry and diamond jewelry is about 40% of gold and 60% diamonds.

**Vinay Agarwal:** In the diamond jewelry.

**Abhishek Gupta:** That is correct.

**Vinay Agarwal:** So, overall the proportion of diamond jewelry is also coming down earlier it was around 60% - 70% and now it is?

- Mehul Choksi:** The major expansion is happening in gold because we introduced gold very recently for the last two years or 1.5 years, and all of our branches are coming up as retail chains. That is where we need to introduce gold.
- Vinay Agarwal:** Sir, but do not you see the competition is also intensifying if you see players like Tribhovandas Bhimji, Joy Alukkas, Thangamayil, PC Jewelry.
- Mehul Choksi:** It is a 500,000 Crores business. Luckily Gitanjali expanded in diamond jewelry first. We have reached very good numbers already. Second customer wants to see other jewelries gold is attractions too. So, this is the reason that why we expanding into gold you know. Our major expansion is happening from second, third, fourth cities where the gold is also very important to serve.
- Vinay Agarwal:** Sir, what is the outlook for Q3 because I think the Q2 numbers are quite robust so will Q3 also see a robust growth because of the delay in Diwali and also the wedding season has been postponed?
- Mehul Choksi:** Q3 seems to be very strong at this moment. It is a combination of wedding and Diwali together and we got advantage of two months because half of Diwali was in October and half is in November so somehow we feel that this year we are going to have an advantage of two months . Because probably the customer has been buy too much in the beginning of the year there is the good demand at this moment.
- Vinay Agarwal:** Sir, in the previous question you just mentioned about the 26 to 27 stores which are open pan India so can you give me the breakup in franchise, the shopping shops and the own stores of this total stores?
- Abhishek Gupta:** In the H1 we opened almost 31 franchises, 14 own stores and 36 shopping shops and Q2 alone we had 17 franchises and 8 own stores, so a combination of about 25 stores as a store format, and 22 shop-in- shops.
- Mehul Choksi:** 22 additions.
- Abhishek Gupta:** In Q2 alone.
- Vinay Agarwal:** Okay, and any occurrence of closure of stores?
- Mehul Choksi:** In this year may probably close one or two .

- Vinay Agarwal:** That is all from my side.
- Moderator:** Thank you. We have the next question from the line of Vikas Murarka from Nomura Securities. Please go ahead.
- Vikas Murarka:** Thanks for taking my question. I would like to understand in your retail business given that you would be carrying large inventories of gold and jewelries and of course diamond in your factory. How would you manage the volatility and the price in both? Thanks.
- Abhishek Gupta:** Vikas, we have three moving parts. One is the gold is used for gold jewelry. One is the gold used for diamond jewelry and one the diamond used for diamond jewelry. So, as far as gold used for gold jewelry is concerned it is open-ended. The price is not fixed with the bank so as soon as the consumer pays today's gold price plus making charges we fix the price with the bank. So, that has got a natural hedge because we get about six months from the bank to fix the price and the turnaround in gold jewelry is nearly two to three months.
- Vikas Murarka:** So, these are the gold loan schemes from the bank?
- Abhishek Gupta:** Gold loan scheme that we take for gold used in gold jewelry. The second two commodities are diamonds and gold. So, diamond we buy upfront and gold we buy upfront for the diamond usage and we fix the MRP based on the cost of diamond and gold that we procure and the MRP is revised every quarter. Being a brand any fluctuation on the downside is absorbed and we get a revision every quarter so any upside that is available comes for the branded jewelry.
- Mehul Choksi:** There is one more thing that some set of franchisees prefer to take the risk of the price of gold on themselves. So, there is a little differentiation. Some particular customers want to take the risk when they book the gold when they buy the jewelry itself.
- Vikas Murarka:** Thanks.
- Moderator:** Thank you. We will take the next follow-up question from the line of Mr. Suresh.
- Suresh Guruprasad:** Actually, I have one question regarding the receivables. So, if you see the revenue growth for the first-half, the receivable growth has been much higher. It has grown



from around 5400 Crores to around 6100 Crores. So, is the company seeing some pressure on the receivables?

**Abhishek Gupta:** Suresh, this is not the season, the end of Q2 actually speaks for working -capital because we are building ourselves for Q3 and Q4 whatever the same sales that we book come with a set of receivables. So, actually this is a peak for working capital by the end of Q2 and if you look at the net working capital cycle it has in fact reduced from 46% of sales to 45% of sales if you analyze the number today. We are on an improvement as far as net working capital cycle is concerned.

**Suresh Guruprasad:** Because inventory is more or less in line it is from 3700 Crores to 3900 Crores.

**Abhishek Gupta:** The growth of receivables has gone up by 10% while sales have gone up much more than that, so receivables if you ask you just see the receivables it is a better performance, 15% up while the sale has gone 30% up. So, in fact in comparison to sales it has grown lesser.

**Suresh Guruprasad:** Okay and any update on the manufacturing facility that you are planning to put up in Hyderabad?

**Mehul Choksi:** Hyderabad has been running for the last three years already. We have nearly 3000 workers there and they are producing diamonds and jewelry, diamonds, jewelry, fashion jewelry everything there. It has a successful operation and apart from this we have very recently opened a factory in Jaipur for Jadau Jewelry. The particular reason for opening that factory was that we need to guarantee the product and if we outsource the manufacture, we are not very sure about the product.

**Suresh Guruprasad:** Thank you Sir.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the floor back to the management for closing comments. Over to you Sir.

**Abhishek Gupta:** Thank you for your participation today and wish you a very Happy Diwali in advance.

**Moderator:** Thank you Sir. Ladies and gentlemen on behalf of CRISIL Equity Research that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.