

Transcript

Conference Call of Gitanjali Gems Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Vignesh, moderator for this conference. Welcome to the conference call of Q3 FY13 analyst discussion of Gitanjali Gems Limited. We have with us joining today, Mr. Mehul Choksi, Chairman and Managing Director, Mr. Abhishek Gupta, Group President and Mr. R. Ravi, Vice President – Investor Relations from the management side. I would like to welcome the management of Gitanjali Gems Limited. Also I welcome all the analysts present here with us on the call today. At this moment, all participants are in a 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 key pad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Abhishek Gupta of Gitanjali Gems to give more insight on their financial performance in Q3 FY 2013. Sir, over to you.

Abhishek Gupta: Thank you. Good evening ladies and gentlemen. A warm welcome to the financial results of Gitanjali Gems for the quarter ended 31st December 2012. In the third quarter, in India the focus has been traditionally on the retail sales of jewellery, driven by the festive and wedding season, which have been making a significantly increasing contribution every year. During the quarter our overseas market also registered strong sales on the occasions of Thanksgiving, Christmas and New Year. We capitalized on the opportunities in the environment with our multi brand presence addressing a gamut of fashion and tradition sensitivities across multiple points of sale, price points and diverse retail formats.

For the nine months ended December 31st, 2012, the company achieved consolidated Net Sales of Rs. 11,667 Crores Vs Rs. 8,966 Crores in the corresponding period last year registering a growth of 30%. The consolidated net profit increased to Rs. 473 Crores, as against Rs. 384 Crores in the nine months of FY13 achieving a growth of 23%, the net profit margin stood at 4.1%, the EBIT was Rs. 825 Crores, a growth of 27% over the corresponding period last year.

The Earnings per Share for 9MFY13 stood at Rs. 51.6 as compared to Rs. 44.3 per share for the corresponding period in the last fiscal, achieving a growth of 16%.

For the 3rd quarter of FY 2013, the Group achieved consolidated sales of Rs. 4,355 Crores a growth of 27% from the corresponding quarter last year. While the EBIT for the quarter was at Rs. 293 Crores up by 33% and the PAT for the quarter was at Rs. 173 Crores up by 34%.

This quarter we also acquired two brands Nirvana and Viola. The brands come with their own state-of-the-art manufacturing facilities. Nirvana derives 70% of its revenues from the South and the West of India especially in Tier I and Tier II cities. Viola is prevalent

across Northern and Western metros and is a premium category brand. These brands have enhanced our offerings and reinforced our retail presence.

We continue our downstream expansion and enhance the returns on capital employed along with high growth in margins through a shift to a franchisee-led retail model. We are one of the world's largest integrated jewellery companies with greatest number of jewellery brands under the one roof. With a well-diversified global geographic spread, we are well positioned to capture further market share.

It is a part of our strategy overall, to be present in the largest and the fastest growing global jewellery markets. Our portfolio is well-balanced across regions and the blend of gold and diamond jewellery in our product portfolio has allowed us to address different geographies and jewellery demand globally.

In India we are present in 300 cities and towns through over 4,000 points of sale across retailers, shop-in-shops, franchisees and own stores. Further, we have identified 600 cities and towns in the country where our branded jewellery can be sold. This presents us with a huge opportunity to virtually double our presence and address distinctive consumer needs in the Indian jewellery space.

We have been expanding aggressively and strategically reducing the capital engaged to maximize our returns. The asset-light franchisee model allows for uncapped growth within a massive Indian market. We have opened 64 franchisees in the 9 months of FY13 and 21 own stores and 60 SIS.

Gitanjali has also introduced additional collections and categories in order to capture incremental demand. Alternative metals such as platinum, silver and stones like emeralds, rubies and other coloured stones now complement our traditional offerings of gold and diamond jewellery.

This quarter was also significant for geographies like USA where revenues grew by 9%, Japan where we witnessed a 15% revenue growth and the Middle East which witnessed 40% revenue growth. Our international portfolio provides for economies of scale in production and adds diversity to jewellery buying occasions. Our international operations allow us to leverage our diamond and jewellery supply chain and management bandwidth.

With FDI in retail now permissible, we see a surge in opportunities in organized jewellery retail. As branded jewellery and certified jewellery assume greater importance and with contemporary consumers preferring to buy jewellery through modern retail formats, we will enjoy a compounding growth on the retail front.

We have also been aggressive in expanding our retail portfolio by introducing concepts such as e-franchising, e-commerce and e-tailing with multi-channel partners in India.

Gitanjali also recognizes the importance of social media as a potent marketing tool. Digital media campaigns undertaken during the quarter and in the 9 months of this fiscal resulted in increased footfalls and conversions.

Gitanjali is in step with present market trends. With the share of organized players in the Indian jewellery space, increasing, it is our unique, fully integrated business model and alignment with customer desires that allows us to retain our dominance.

Thank You!!!! We will be taking questions now.

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 comes from Mr. Abneesh Roy from Edelweiss.

Abneesh Roy: Sir thanks and congrats for the good set of numbers. My first question is how you are seeing the demand in Q4 and how do you see the modern retail which as you have said, the organized retailing helping you, wanted to understand organized retailing. Currently, how many stores in India we have in the organized retailing and do you expect some incremental competition because of this other and single brand or multi brand new set of jewelers coming internationally?

Mehul Choksi: The Q4 demand seems to be very strong, a lot of gold imports took place before January. So, people are selling their gold and diamond jewellery in this particular quarter. So, value wise we are seeing a lot of increase. Volume-wise, I cannot ascertain at this moment, but we will have the results at the end of the month. As far as organized retail is concerned, not even 5% of India's jewellery business of nearly 4,50,000 crores is organized for now. There are regional chains coming up, particularly from the South of India and one in North India and one in Western India. These are of course getting a momentum because there is a preference for organized retail. Even Gitanjali is spreading all these brands into multi retail chain formats. We have nearly twenty different formats which are going all over India, out of which Gitanjali Jewels has a hundred stores already, while Gilihas about forty stores. So, on all the other formats are increasing, like Maya has nearly thirty stores today, Jewelsouk has twenty stores. So, they are increasing their footprint all across the country. And organized retail we see that in the next five years that, any organized market and mature market, 40% to 45% of the sales comes through the organized. And even in India, in the next ten years time we should reach to about 40% of our jewellery sales through the organized sector only, because of the product guarantee and the unique shopping experience. Thank you.

Abneesh Roy: Sir, in Q3, if I see the results of other jewellery companies, one trend which is emerging is diamond sales have slowed down versus the earlier growth rate and diamond sales for most jewellery company has come down as a percentage of sales both YoY and quarter on quarter. So, what is your comment on that and how we are seeing these numbers in our sales?

Mehul Choksi: Like to like stores, of course we also haven't seen a great jump, maybe 5% or 7% jump, but because we are opening more more stores constantly,, our sales have seen nearly 35% growth even in diamond jewellery.

Abhishek Gupta: Abneesh, to add to this point of Mr. Choksi, we are already a proven diamond player. We have proven ourselves in shop-in-shop by 100% diamond jewellery sold. We have proven ourselves in modern retail formats, where nearly 60%-70% of the diamond jewellery is sold. Now, when we are opening in Tier-2, Tier-3 towns, we are increasing our mix of gold jewellery. And as an overall shift, transformation from product brand to retail brand, we have collections of gold jewellery coming into play. But, our diamond jewellery is intact and it will remain our major focus.

Abneesh Roy: And lastly on the regulations if you see, RBI is getting very aggressive on curtailing gold physical demand. So, what is your comment on how the sector and your company will get impacted because of this?

Mehul Choksi: Basically we are looking at this as an advantage for us, because diamond jewellery is where we make more profits and gold jewellery is complementary. So, the tougher the environment gets, it is better for the company. , We have worked tremendously on the diamond jewellery in a number of different varieties. We personally feel that diamond is the next preference. And of course in the last couple of years, the trends in diamond jewellery has seen much more growth as compared to gold jewellery . Because, the gold jewellery is 90% of India's sales, but diamond jewellery is only 10%. As far as Gitanjali is concerned, 45% of our sales are from diamond jewellery and 55% sales are from gold jewellery. So, we have much more chances...

Abneesh Roy: But, what is your comment on that 55% of sales, because that is a very large component of sales?

Mehul Choksi: That is correct, but our profit earners are diamond jewellery, even a few percentage sales up in diamond jewellery will help us in general.

Abneesh Roy: Okay sir, thanks and all the best sir.

Abhishek Gupta: Thanks Abneesh.

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

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The next question is from Ms. Odile Broussy from Lombard.

Odile Broussy: Good afternoon. We heard some talk of doing some separation of strategy business as part of your business in the Indian jewellery business, as a separate listed entity. Could you shed some light on what exactly your intention is and what kind of timeline we are looking at?

Abhishek Gupta: Odile hi, this is Abhishek here. We have since the last one and a half years been working on aligning our business in geographic and category verticals. The India piece is already under a structured subsidiary called Gitanjali Brands Limited, which owns the entire India business. We are taking the advice of our bankers and other stakeholders as well for this re-alignment..

Mehul Choksi: Basically this particular area should command much higher premium compared to the diamond business. So, basically we are trying to unlock the value for the shareholders and to increase the shareholders wealth as much as possible. We have multiple brands under this particular company and , three or four of our brands are doing extremely well there. They have clocked nearly 20 million dollars of sale already.

Odile Broussy: Okay, thank you.

Abhishek Gupta: Thank you Odile.

Moderator: Thank you ma'am. The next question is from Mr. Prashant Kutty from Emkay Global.

Prashant Kutty: Thanks for taking my question. Sir just wanted to know what is the branded, what is the growth in the branded jewellery segment for the quarter and for the nine month period?

Abhishek Gupta: The India piece is the entire product brand, so that was close to 48% in terms of growth.

Prashant Kutty: This is for the nine month period or for the quarter?

Abhishek Gupta: For the nine month period it is close to 40% and quarter is about 48%.

Prashant Kutty: Sir, as far as our franchisee network is concerned, , we have been focusing a lot on the franchisee network and increasing that network, what is the target as far as the franchisee investment is concerned?

Abhishek Gupta: So today, with this year we opened close to 64 franchisees, Prashant. And we have a target of close to 70 franchisees next year. So, that is that remains. We would, we assume that we can achieve about 500 franchises in the next three years.

Prashant Kutty: 500 franchises in the next three years. And just one more thing, just also wanted to ask you, is it possible for you to give us probably the brand wise sales growth, if probably not the sales number?

Abhishek Gupta: Our top three brands Gili, Nakshatra and Asmi have grown approximately by 50% and the emerging brands like Sangini and Gitanjali Jewels have grown almost by 70%. Some of the new brands, some of the retail brands like Gitanjali Lifestyle have also had a significant growth. So, these are the major growth brands we have.

Prashant Kutty: And we believe that this growth should be sustainable as well?

Abhishek Gupta: Yes, yes, absolutely.

Prashant Kutty: So, could you also just probably throw some light, I guess there was a question regarding the RBI policy. So, if you could just throw some light as far as that is concerned or probably give us some clarity as to what would be the impact of the same on Gitanjali Gems?

Abhishek Gupta: So, the RBI policy is for the , customs duty on gold. And there are three types of jewellery demand, one is the investment demand, the second is the necessity demand that is you buy for your marriages and necessities in the house and the third is the luxury demand, which is you are rewarding yourself or buying jewellery for making a statement. So, on the first portion of demand which is about 25% of the total demand it may have an impact, because that portion is pending with the banking sector. So, people investing in coins and bars have an option to invest in other

categories like mutual funds and fixed deposits. We are strong in the other two demand categories demand, the jewellery as well as the luxury segment, where a 2% rise in prices will be taken as commodity price rise that will be accepted. .

Prashant Kutty: Okay, fine. Thank you sir.

Abhishek Gupta: Thank you Prashant.

Moderator: Thank you sir. The next question is from Mr. Arijit Malakar from Ashika Stock Broking.

Arijit Malakar: Thanks sir. Sir, could you tell me your Q3 sales figures and growth for diamond, diamond jewellery and gold jewellery segment sir?

Abhishek Gupta: The Q3 sale of total jewellery is about 28%.

Arijit Malakar: Okay sir. And diamond jewellery that is for the diamond jewellery?

Abhishek Gupta: Diamond jewellery is about 35%, gold jewellery is about 25%.

Arijit Malakar: Thanks sir. And another question is, sir do you open any new franchisees or shop-in-shop or own stores in last quarter?

Abhishek Gupta: So, we opened nearly thirty franchisees in the last quarter.

Arijit Malakar: Thirty franchisees, and any other shop-in-shop or other own stores?

Abhishek Gupta: Shop-in-shop was 24 and own store was 7.

Arijit Malakar: And the next question is sir, what is your average net working capital for the last quarter sir?

Abhishek Gupta: It is tough to estimate this on a quarterly basis, but if you analyze it, it will be somewhere around 40% to sales.

Arijit Malakar: 40% of the sales?

Abhishek Gupta: Yes.

Arijit Malakar: Okay sir. Sir, the next question is sir, what is your current jewellery mix that is gold is to diamond jewellery mix of your gold and diamond in your revenue?

Abhishek Gupta: 50-50.

Arijit Malakar: 50-50, it is the overall or in domestic?

Abhishek Gupta: No, if you are asking gold and diamond jewellery mix in overall, it is about 50-50, in domestic it is 55-45.

Arijit Malakar: Okay sir. Sir, what would be your free cash flow during FY13, this current fiscal?

Abhishek Gupta: FY12 it was close to 200 crores and FY13 I am yet to obtain the numbers.

Arijit Malakar: Okay. Sir, the last question is, probably January and February are wedding seasons, do you think that sales growth would be able to surpass 30% growth level?

Mehul Choksi: There is a very strong wedding season again coming starting from April to July. So, of course the sales are going to score up and also we have Akshaya Tritiya coming up. This year has a much longer season of up to four months in full. So, we are hoping for great sales during that period.

Arijit Malakar: So, we can expect that Q4 sales will register a growth of 30% sir?

Mehul Choksi: That is correct. And the second reason why sales are increasing for jewellery for us, it is because the markets are transforming from buying jewellery from traditional formats jewellery to purchases from modern jewellery outlets. So, the whole country is transforming and probably this year there will be growth in organized jewellery market for over 60% to 70%, compared to a general growth of about 10% to 15%.

Arijit Malakar: Okay sir. Thank you.

Abhishek Gupta: Thank you.

Moderator: Next question is from Mr. Vinay Agarwal from CRISIL.

Vinay Agarwal: Hello.

Abhishek Gupta: Yeah Vinay.

Vinay Agarwal: Yeah, hi Abhishek. Abhishek, I just wanted to know the inventory receivables number for the quarter, for the nine months ended FY13.

Abhishek Gupta: It is around same as six months. It is roughly about three months of sales. . And receivable will be roughly about 5½ months of sales..

Vinay Agarwal: Okay. On the jewellery segment, you said that in the domestic market what will be the breakup between gold and diamond jewellery?

Abhishek Gupta: On domestic market it is about 58 gold jewellery and 42 is diamond jewellery.

Vinay Agarwal: 42 is diamond. So, when you say 42% is diamond jewellery, so it is only the diamond portion or the gold component is also added into this 42%?

Abhishek Gupta: Gold component is also added.

Vinay Agarwal: So, overall gold proportion will be higher?

Mehul Choksi: Yeah, you can say that.

Abhishek Gupta: You can say that.

Vinay Agarwal: Okay. So, what is the current hedging policy that the company is following, given the gold prices are softening for the last let's say one month?

Abhishek Gupta: As far as the diamond jewellery is concerned, gold component is less than 35%. So, there we fix the price once and we keep on rotating it. And just with the three months of inventory and we will recover our money in three months time. But, we fix the price. And as far as the gold jewellery is concerned, the prices remain open, so consumer is buying more volume as the price goes down.

Vinay Agarwal: Okay. But, what is the hedging policy? Let's say if you procure gold two months back and now you are selling it, and if the prices have fallen by around 5% to 10%.

Abhishek Gupta: For the gold jewellery, prices remain open. So, the consumer pays the today's price and we book the same price at the bank.

Vinay Agarwal: Okay, so 100% of the inventory is open.

Abhishek Gupta: Absolutely. It is a natural hedge.

Vinay Agarwal: Okay. That is all from my side.

Abhishek Gupta: Thanks Vinay.

Moderator: Thank you sir. The next question is again from Mr. Prashant Kutty from Emkay Global.

Prashant Kutty: Sorry, just forgot one question. What is the same store sales growth for your India business, India branded business?

Abhishek Gupta: India branded business growth was roughly about 8% to 9% in volumes and about 20% in value and volume combined.

Prashant Kutty: 20% volume?

Abhishek Gupta: Yeah.

Prashant Kutty: Thank you very much.

- Abhishek Gupta:** Thanks Prashant.
- Moderator:** Thank you sir. The next question is from Mr. Vicky Punjabi from JM Financial.
- Vicky Punjabi:** Sir, thanks for taking my question.
- Abhishek Gupta:** Hi Vicky.
- Vicky Punjabi:** I just wanted to know what, the recent RBI regulation on the metal gold loans being subject to base rate, I just wanted to know about your sourcing of gold, as well as what impact would we have on our balance sheet and P&L?
- Abhishek Gupta:** So, as far as gold in inventory is concerned, it remains at open price Vicky. We borrow gold from banks, we don't buy. And we are rotating it in three months time. So, the price i risk is not taken by us for gold.
- Vicky Punjabi:** But sir, the impact of base rate increase will still hit us, right?
- Mehul Choksi:** Yes, the base rate has increased, but not for the export purpose, because export purpose loans will not be increased as far as the base rate is concerned. For domestic purpose, whatever is our 20% of our total sales it could be, that particular loan would be impacted. Because, in diamond jewellery, the gold what we consume, that is normally is taken as a product.
- Vicky Punjabi:** Okay. Alright, thanks a lot sir.
- Moderator:** Thank you sir. The next question is from Mr. Arijit Malakar from Ashika Stock Broking.
- Arijit Malakar:** Sir, my question is that on quarter basis, your raw material as a percentage of sales has decreased considerably, so what is the probable the reason behind this sir?
- Abhishek Gupta:** Raw material as a percentage of sales?
- Arijit Malakar:** Yeah sir.
- Abhishek Gupta:** So, that is our gross margin you mean to say has improved?
- Arijit Malakar:** Yeah sir. Margin has improved, but your raw material consumed as a percentage of sales has decreased considerably, so probably the reason behind this sir?
- Abhishek Gupta:** We are continuously transforming from a B2B to a B2C model. And the shift to a franchisee and retail outlet, you will see COGS going down and gross profits going up.
- Arijit Malakar:** Okay sir, okay. Thank you sir.

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

There are no further questions. Now, I hand over to Mr. Abhishek Gupta for closing comments.

Abhishek Gupta: Thank you everyone for coming to the conference this quarter. We will see you in the next quarter. For answers to any questions, or for any clarifications you may need, please feel free to connect to the company. Thank you so much and have a nice day.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may now disconnect your lines. Thank you and have a pleasant day.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.