"Gitanjali Gems Limited"

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MODERATORS: **MR. MEHUL CHOKSI**
MR. SUNIL VARMA
MR. ABHISHEK GUPTA
MR. V.L. GANESH

Moderator: Ladies and Gentlemen good day and welcome to the Gitanjali Gems Q3FY12 results conference call. As a reminder, for the duration of this conference call, all participants' lines will be in the listen only mode. 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. At this time I would like to hand this conference over to Mr. Sunil Varma, Group CFO. Thank you. Over to you sir.

Sunil Varma: Good evening ladies and gentleman. Welcome to the financial results of Gitanjali Gems for the quarter ended 31st December, 2011. We are extremely delighted with the significant growth that has been achieved from our expansion and focus on the jewellery business. We have responded swiftly to opportunities emerging from changing consumer preferences, improved lifestyles and modern retail formats.

We continue to innovate and expand. Our structure allows us to adapt rapidly to diverse and dynamic consumer requirements across regions in India and also internationally. Our customers continue to trust us to develop products in keeping with their aspirations.

On a consolidated basis, for the 9 Months' ended December 31, 2011, Gitanjali achieved net sales of Rs. 9,289.2 Cr up by 32%. The total EBIT for the period was Rs. 604.9 Cr, up by 36% from the corresponding period of the last fiscal. The company reported PAT of Rs. 384.3 Cr, up by over 48%, from the 9 months' ended December 31, 2010. The group achieved an EPS of Rs. 44.3 for the period.

For the quarter ended December 31, 2011, the group achieved sales of Rs. 3,526.3 Cr up by 33% from the corresponding quarter last year. The total EBIT for the quarter was Rs. 193.2 Cr and the PAT for the quarter was Rs. 128.9 Cr.

Gitanjali has attained high growth in sales, mainly due to expansion into Tier 2 and Tier 3 towns via the franchising route. Profits have grown faster than sales on account of economies of scale in operations and a shift towards jewellery retailing via own and franchisee stores.

The quarter has also been significant for our US business profitability primarily on account of supply chain synergies from India and China.

The Indian retail business made rapid advancements this year with our major product brands converting into national chain stores. Our brands have, as always been our pillars. Our top 4 brands: Nakshatra, Gili, Asmi and D'damas have reached into over 60 stores each through a combination of franchisee and own stores. Multi brand retail outlets of Gitanjali Jewels, Gitanjali Lifestyle, Maya and the "Jewel Souk", now span over 140 outlets across the country.

Further, we have introduced gold jewellery collections within our key brands. This will act as a connect between traditional and modern jewellery retailing.

In addition to targeting the key retail markets of North and West India, we have opened specific retail formats to target consumers in South India. The franchisee route has allowed for the generation of better store economics and greater flexibility in geographical penetration. Retail will continue to be the driving force for our growth in India.

Our strategic acquisitions have further strengthened our base and allowed us to enter markets in China, the UK, Italy and other parts of Europe.

Our global strategy targets to have dual jewellery branding and retailing themes;

1) The availability of Indian jewellery categories and brands in the Asian sub-continents, and,

2) Targeting international consumers with a bouquet of offerings from Italy and the USA.

The restructuring of our legal entities is complete. We have structured our business into three focused verticals –

The first being the traditional business of diamond and jewellery manufacturing,

The second- focusing on Indian branded jewellery and retailing business and

The third- focusing on consolidating International branded jewellery and retailing under our Hong Kong registered subsidiary – "Aston Luxury".

Gitanjali will continue to build on its strong and integrated model. This will enable us to penetrate further into the global branded jewellery space.

Thank you!!

Moderator: Our first question is from Vinay Agarwal from Crisil. Please go ahead.

Vinay Agarwal: Congratulations on a good set of numbers. Can you take me through a segment wise breakup of the consolidated business in diamond and jewellery? How are the Indian and International markets doing, particularly in jewellery?

Abhishek Gupta: The consolidated diamond business for nine months was roughly about Rs.4,500 Crores and jewellery was about 5000 Crores. The jewellery split was 60% India and 40% overseas.

Vinay Agarwal: What is the reason for the decline in the diamond revenues for the current quarter as compared to the previous quarter?

Mehul Choksi: It is primarily because of the fluctuation in diamond prices. It was a slow period for the last three months for diamonds in general. The previous six months were good for diamonds, so the sales were higher. We have been focusing on jewellery and will continue to do so.

Vinay Agarwal: So would the focus now be mainly on jewellery retail?

Mehul Choksi: Focus for the past 4 to 5 years has always been on jewellery. We will be focusing on increasing share of jewellery in our portfolio

Vinay Agarwal: On the international front how are the Samuels' Retail Stores doing?

Mehul Choksi: Samuels has done extremely well. The growth for the last year has been nearly nearly 7.5 to 8%. Seasonal sales in particular have been very good reaching a double digit growth. The margins have increased by 4%. The EBITDA is at a positive of ~ 6-6.5%. What we earn by way of supply chain profits in the US, is in addition to the EBITDA there.

Vinay Agarwal: One last question regarding the Indian Jewellery business, what kind of same-store sales is the company getting in terms of both volume and value?

Abhishek Gupta: Like-to-like volume increased by 11% while the value increased by 20%. The total increase in same stores was about 30%.

Mehul Choksi: There is an additional 15 to 20% sale when the new stores in the picture.

Vinay Agarwal: Are these figures also on a year-on-year basis?

Abhishek Gupta: That is correct.

Moderator: The next question is from Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Good evening sir. Congratulations on a good set of numbers. I would like to know what the volume growth is in the jewellery segment?

Abhishek Gupta: The volume has grown by about 25%; including growth on account of new store opening

Prashant Kutty: This is not the SSG growth you are talking about?

Abhishek Gupta: No. The same store growth is about 11%.

Prashant Kutty: Are you talking about the company as a whole or just the jewellery segment?

Abhishek Gupta: The company as a whole

Prashant Kutty: Could we have the segment-wise break up for diamond and jewellery?

Mehul Choksi: The volumes increased by about 20% and 25% in the diamond and jewellery segments, respectively. This was largely a result of the new stores that were opened during this period.

Prashant Kutty: And how many franchisees were added this quarter?

Abhishek Gupta: We have added about 21 franchisees.

Prashant Kutty: What would the number be for shop-in-shops and own stores added?

Abhishek Gupta: This particular quarter we have added around 21 franchises, 16 own stores and approximately 41 Shop –in – shops.

Prashant Kutty: Are we on target as far as franchise network expansion is concerned?

Abhishek Gupta: Absolutely, Prashant! Let me elaborate. Each and every brand has specific franchisee targets. For example, Asmi is targeting opening 50 franchisee stores this year. Nakshatra and Gili, similarly, have their own targets. We are therefore on track as far as expanding this network is concerned.

Prashant Kutty: Okay just another question as far as brands are concerned. What was the growth for the top brands like Nakshatra, Gili and Asmi in this particular quarter?

Mehul Choksi: This particular quarter was roughly about 43%, largely because they have opened new stores - own stores, franchisee store, shop in shops. These brands have also entered into new categories of gold jewellery, jadau jewellery and many other categories which they were not present in till a year ago. We can now expect an even faster rate of growth. All these brands are now positioned as complete jewelers.

Prashant Kutty: This is if you include new stores also, but what if I wanted the like to like growth, what would that be?

Abhishek Gupta: The Like to like volume is up by 11%.

Prashant Kutty: What would that be in terms of the top four brands?

Abhishek Gupta: The top four brands have been slightly above average, with a growth of around 15%-16% in volumes and about 25% in value.

Moderator: The next on the line is Saurabh Jain from Aries Stock Trade. Please go ahead.

Saurabh Jain: Good evening Sir. Just wanted the consolidated debt figure as on December 31, 2011.

Abhishek Gupta: The net debt is around Rs. 2,900 Crores. Please note that even with this Rs. 2,900 Crores figure, the debt equity ratio has been much better than before at about 0.8 : 1.

Saurabh Jain: Any plan to reduce this debt?

Abhishek Gupta: We have planned to reduce the debt from the excess operating cash flows next year onwards.

Saurabh Jain: What about having private equity investors on board? There were plans on that front, weren't there?

Abhishek Gupta: Yes, the plans are still on and it depends, on what opportunity to expand they provide.

Saurabh Jain: If I could also have the figures for the working capital cycle- the inventory days and debtor days?

Abhishek Gupta: The net working capital ratio is now about 40% to annualized sales.

Saurabh Jain: How much would it have been maybe one or two years back?

Abhishek Gupta: Two years back it was 60%, last year it was 47%.

Saurabh Jain: A question on the vision of the management. Over the next three to five years are we very clear that we want to have a company which is focused on India with a network all over the world. Are we looking to build a global company?

Mehul Choksi: We are looking to be one of the world's largest jewellers and with our core competency of sourcing, cutting and polishing diamonds and manufacturing jewellery, we want to expand our presence further global markets. We target the best markets constantly. For instance, with the American market having improved this year, we are penetrating further therein. We are not opening new stores but trying to sell more through our existing stores. Apart from this, we are targeting China where we already have a foothold. We are also looking at markets in the Indian Sub-continent – where we have a strong brand image. We are selective regarding which markets to enter or expand in. In being an integrated jeweler, there are additional profits to be derived from the supply chain. This is the reason for targeting markets globally.

Saurabh Jain: For brands outside India would we be looking at acquisition or would we be looking at taking brands from India global?

Abhishek Gupta: We are not really buyers of brands. We are brand creators and brand builders. Our Italian acquisition was specifically to focus on certain parts of the world, where Indian brands would not reach. In acquiring a brand, we are always careful to acquire at buy much less than the net asset value of the brand.

Saurabh Jain: Don't you think there is enough opportunity within India itself? Why is there a need to actually go out?

Abhishek Gupta: Being a mature player, we cannot depend on just one market but have to be present across markets. E.g. The Indian market slowed down this year while America did very well.

Moderator: The next question is from Laxmi Deepak from Mape Securities, please go ahead.

L. Deepak: Good evening. I have a question on the gross margin. There has been a significant deterioration from the first half, is there any particular reason for that?

Mehul Choksi: We have been expanding very strongly into gold jewellery where the margins are lower. The company's performance in this segment has improved significantly. Our product mix is now nearly 50% gold jewellery and 50% diamond jewellery resulting in high growth in sales but a reduction in margins.

Abhishek Gupta: Deepak further to elaborate on Mr. Choksi's point the gross margin for the nine months is about 13% which is in line with the nine months from last year. The gross margins have dipped a bit only in this particular quarter and that is because of a greater proportion of gold jewellery sales in this quarter.

L. Deepak: That is my understanding. Are you seeing a shift from diamond jewellery to gold jewellery or you think it is just a one-off quarter occurrence?

Mehul Choksi: We are of course emphasizing on diamond jewellery. However, to expand further, a good product mix is required. Franchisees and end consumers are more keen if there is a good mix across both categories available.

L. Deepak: Where do you see this mix in the long term?

Mehul Choksi: Most of the jewellers in the country have a mix of 80% gold and 20% diamond jewellery. We plan to maintain the ratio of 50:50 because we are essentially a diamond jeweler and also because our diamond category is popular.

L. Deepak: So you do not really see a higher impact on margins from this mix then?

Abhishek Gupta: For the entire year we will enjoy healthy margins. As Mr. Choksi pointed out when we convert our product brands into chain stores we would have a mix of diamond and gold jewellery, wherein the margins would complement each other.

L. Deepak: My next question was just in terms of employee expenses, it seems to have grown substantially more than the first half, so just wanted to understand why?

Sunil Varma: Are you comparing it with the first half?

L. Deepak: First half, your employee expenses grew by around 1.5% whereas, in this quarter I am seeing an increase of around 28% compared to the last year.

Abhishek Gupta: Compared to last year yes. This year we have international expenses on account of employee costs being added onto us from companies acquired in Italy and in China.

Mehul Choksi: Also due to our retail expansion, retail staff expenses would be added on.

Moderator: The next question is a follow up question from Prashant Kutty from Emkay Global; please go ahead?

Prashant Kutty: Thanks for taking my question again. A question on the other expenses - the other expenses as a percentage of our sales has reduced. It has actually gone down to almost about 3.6% versus 4.6 on a year-on-year basis. Has this been due to the ad costs being lower? Last quarter you had mentioned that the ad costs will probably be lower going forward.

Abhishek Gupta: Other expenses for the quarter or the nine months?

Prashant Kutty: Quarter.

Abhishek Gupta: The quarter other expenses are in line, it is largely exchange fluctuations combination of the FCCB was redeemed in this quarter those expenses have come for this particular quarter.

Prashant Kutty: What is the ad spend for the quarter?

Abhishek Gupta: For the quarter it is about 25 Crores.

Prashant Kutty: Is this expected to be maintained going forward as well?

Mehul Choksi: The ad spend would be higher for the coming months as we are trying to increase our brand portfolio and with new stores opening we expect nearly 20 to 30% additional marketing expenses next year.

Prashant Kutty: What is your current CapEx for the nine-month period and what is your target for the next year?

Abhishek Gupta: The CapEx for the nine months was about 30 odd Crores. We are targeting around 25 Crores for the next year.

Prashant Kutty: Sir on the same store sales growth last quarter I believe we saw relatively higher growth as far as the like-to-like growth is concerned and this quarter we have probably seen a relative reduction?

Mehul Choksi: This quarter was one of the slowest quarters over the last 15 months with regard to India. The last quarter was slow compared to last year. In January same store sales picked up. Also, the Valentine has done pretty well again, resulting in high growth.

Prashant Kutty: But has there been any demand moderation in the last quarter? Since the growth was low.

Abhishek Gupta: The last quarter has experienced demand moderation; however, it has been recovering. January and then Valentine were very good for us.

Moderator: The next question is a follow up question from Vinay Agarwal from CRISIL. Please go ahead.

Vinay Agarwal: Thanks for taking my question. I have two questions. One is regarding the macro demand. How is the demand shaping up? I was looking at some of the consumer driven companies in garment imports where there is some slowdown in demand. In Gitanjali's case given the sharp increase of 20% in value despite which I see a volume growth of 11%. Can you throw some light on which tier 2, tier 3 cities you are targeting and is there an appetite for products in the range of 20,000-25,000. I assume this is average ticket price for most of your brands?

Mehul Choksi: This category has been doing pretty well. Over the last three years this business has nearly doubled in value. As far as the market in India is concerned it is nearly Rs. 4,50,000 Cr in size, which is almost double from what it was three years ago. the expansion on a year-on-year basis was about 25 to 30%. The last quarter in particular was little slow. The gold import trends and even the diamond imports were huge over the last 12 months – Up by nearly 50%. It was a cyclic slowdown for the past three months but it has rebounded in January and February. As far as expansion in Tier 2 & 3 cities is concerned, it is an ongoing process. For e.g., towns like Gorakhpur or Kanti. Our brands are considered national brands particularly due to visibility through television. Also in small towns have very few reliable diamond jewelers which is why consumers prefer to buy the brands they know.

Vinay Agarwal: **How are inventory turns** In towns like Gorakhpur as you mentioned ? Since inventory management is key in this business.

Mehul Choksi: In fact, these cities experience better inventory turns as compared to the bigger cities. Bigger cities are characterized by higher competition. In smaller cities there is not much diamond jewellery, hence the instances of "first-time purchase" are higher, whereas in metros people already possess diamond jewellery, hence, chances of a slowdown are higher.

Vinay Agarwal: But again in the metros the brand awareness and the literacy levels are high.

Mehul Choksi: Our brands enjoy awareness all over the country because we advertise through vernacular newspapers as well as national television, so the brand awareness is very strong at a Pan India level as well as in other countries where Indian Television is present.

Vinay Agarwal: For the last two weeks I have been seeing full page ads of your company regarding a 20% discount on diamond jewellery, how is this working out because at one point we are saying that the demand is good and on the other side we are saying that there is a discount of 20%?

Mehul Choksi: These are marketing ideas; therefore we cannot divulge more as you could be our consumer. Whenever there is high demand on occasions such as Valentine's and the like, we always introduce promotional schemes to attract consumers.

Moderator: We have a follow-up question from Prashant Kutty from Emkay Global; please go ahead.

Prashant Kutty: What has been the volume growth for the international business?

Abhishek Gupta: The international business is divided into US and non US. Within US we have had flat volumes. However, value has increased by about 10 to 11%. As part of the non US business, we have increased geographies to include China, Hong Kong and Far East, hence in this segment we have seen about 20% volume increase. We do not have a significant like-to-like base, so we really cannot compare the volumes.

Moderator: As there are no further questions I would now like to hand the floor back to Mr. Varma for final remarks. Thank you. Over to you Sir.

Sunil Varma: Thank you very much for your participation. We look forward to seeing you in the next conference call.

Moderator: Thank you Sir, thank you members of the management. On behalf of Gitanjali Gems that concludes this conference. Thank you for joining us and you may now disconnect your lines.