“Gitanjali Gems Limited”

May 22, 2012

MODERATORS: **MR. MEHUL CHOKSI**
MR. SUNIL VARMA
MR. ABHISHEK GUPTA

Moderator : Ladies and Gentlemen Good day and welcome to the Q4FY12 Earnings Conference Call of Gitanjali Gems Limited. We have with us today Mr. Mehul Choksi – Chairman & MD, Gitanjali Group; Mr. Sunil Varma, Wholetime Director, Gitanjali Group; and Mr. Abhishek Gupta, Head of Strategy and Investor Relations, Gitanjali Group. As a reminder all participants' 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 any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchstone 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 gentleman.

Welcome to the financial results of Gitanjali Gems Ltd. for the year ended 31st March, 2012.

With a balanced portfolio between India and overseas as well as between diamond jewellery and gold jewellery the annual performance has accelerated. Gitanjali today is one of the largest integrated jewellery companies in the world and it will continue to access largest and fastest growing jewellery markets. With continuous focus on downstream, the Group's jewellery business has grown rapidly.

For the financial year ended March 31, 2012, the company achieved consolidated Net Sales of Rs. 12,498 Crore Vs Rs. 9,377 Crore last year registering a growth of 33%. The consolidated net profit increased to Rs. 487 Crore, as against Rs. 355 Crore last year achieving a growth of 37%, the net profit margin stood at 3.9% for FY12.

EBIT for the financial year 2012, was Rs. 926 Crore, a growth of 58% over last year. Despite incremental sales from gold jewellery, Gitanjali could sustain the EBIT Margin at 7.4%.

The diluted Earnings per Share for the financial year 2012 stood at Rs. 55.4 as compared to Rs. 35.95 per share for the last fiscal achieving a growth of 54%.

For the 4th quarter of FY 2012, the Group achieved sales of Rs. 3,532 Crores a growth of 46% from the corresponding quarter last year. While the EBIT for the quarter was at Rs. 224 Crore having grown by 72% compared to the similar quarter last year.

We are strategically focused on growing through the franchisee route. This has allowed us to rapidly penetrate into smaller towns and cities across India. Improved store economics coupled with scale has driven profits which have grown at a faster rate than the sales.

The Group's brands have been at the forefront of our growth and expansion. Six of its major brands: Nakshatra, Gili, Asmi, D'damas, Sangini and Maya 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 Jewels and the "Jewel Souk", now span over 140 outlets across the country.

On the Indian retail business front, we have witnessed the transformation of our major product brands into national chain stores. The Group's gold jewellery collections within each of the key brands have been introduced specifically to link traditional and modern retailing.

North and West India are our largest jewellery retail markets. We have been targeting these markets and have also developed retail formats targeted at consumers in South India.

We have been supporting our expansion and growth with innovative concepts and initiatives. We launched the world's first Jewellery ATM in Mumbai. We launched the Jewel Souk which houses the Group's leading brands. This is a 6000 sq ft store at the international airport in Mumbai. The Group has also undertaken digital marketing campaigns primarily targeted at the youth through online social networks and through the use of tools such as Quick Response Codes and the use of the E-Commerce platform extending to E-franchising as well

The Group's retail chain in the US was net positive by 4% in the last fiscal year. Samuels witnessed a turnaround in the last 3 years, complemented by our supply chain synergies to deliver healthy returns.

Our similar strategic acquisitions have extended our global footprint. These form a part of our strategy of being present in the largest and in the fastest growing markets globally. Another recent acquisition, in addition to the Italian brands includes the acquisition of Crown Aim in Hong Kong. We have also taken a significant stake in Gems TV which sells jewellery through TV channels in Japan. This is promising superior returns in near future. The company has also opened new retail stores in Dubai and Singapore.

The re-aligning of our legal entities is also complete with the Indian Branded bucket being under the holding cum operating entity "Gitanjali Brands Limited". The international operations are being consolidated under "Aston Luxury" in Hong Kong.

Summing up: Our strong performance reflects our efforts of staying close to our customers, thereby, obtaining a keen insight into contemporary and emerging trends and aspirations. The trust that customers have in our products together with our innovativeness and an insatiable appetite for excellence within the Group have helped us deliver excellent results again in the financial year 2012. Thank You

Moderator : Ladies and Gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchstone telephone. Participants are also requested to use only handsets while asking a question. Anyone who wishes to ask a question at this time may press "*" and "1". We have our first question from Rohit Sanghavi from Prime Securities. Please, go ahead.

Rohit Sanghavi : Hi, congratulations on the good set of results, first question is what is your guidance next in terms of revenue margins?

Abhishek Gupta : At the moment Rohit it's too early to give the full year's guidance, but we have been growing at over 33% over the last three years, so we can expect similar or better growth rates.

Rohit Sanghavi : Raw material cost as a percentage of net sales this quarter is around 84.5% compared to 85.5% last quarter previous year, sequentially also it has come down quite a bit obviously our EBITDA margins have gone up. I just wanted to understand the reason for that?

Abhishek Gupta : Rohit we have introduced gold collections two years back and gold jewellery enjoys better turns as against profitability. So on a return on capital basis it's attractive but on a gross profit basis this tends to pull down the weighted gross margin. This is the impact which can be seen as 0.2% lower gross profit this year.

Rohit Sanghavi : Okay Thanks.

Moderator : Thank you very much. Our next question is from Deepika Naga from Capital Markets. Please, go ahead.

Deepika Naga : Good Evening Sir, there seems to be a robust jump in the revenue from domestic operations, one of the points you spoke of was extensive reach through retail outlets can you throw some more light on the sharp jump in domestic revenues and how are you trying to improve your retail presence?

Abhishek Gupta : Yeah thanks Deepika. For us the focus is on domestic business and India is a market where we're growing maximum, and if you see the growth historically, the India business has been growing over 50 to 55%. This year as well it has been in line with the same trend. We have valuable increase from the Indian business which has helped us achieve this kind of domestic growth.

Deepika Naga : Do you think we will be able to maintain the 50 to 55% revenues from the domestic operations?

Mehul Choksi : We think that it will be growing as India has doubled as far as value is concerned in the last 2.5 to 3 years. And we are one of the few organized players in the market hence our growth rate is higher than a normal Jeweler. Also, due to the increase in prices of gold and diamonds both, the market has nearly doubled in the last two years. Our growth as a modern retailer is always going to be higher because we hold brands whose presence has already spread widely across the country.

Deepika Naga : Sir can you specify the volume and the value growth in the top line growth for the quarter?

Abhishek Gupta : For the quarter per se the overall growth was 47% of which the volume component was nearly 27% and the value growth was around 20% as compared to the similar quarter last year.

Deepika Naga : And for the full year sir?

Abhishek Gupta : For the full year the growth was 33% of which nearly 21% came from volumes and around 15% came from value.

Deepika Naga : And these volumes were contributed more by the gold jewellery business right?

Abhishek Gupta : Also incremental stores, we have increased almost 404 points this year and that has given us this incremental volume.

Deepika Naga : Sir, just to get an idea on the retail presence, can you please share with us what is the like to like growth in your stores and particularly how many stores you are trying to plan for this year?

Abhishek Gupta : The like to like growth last year was roughly in the range of 18% - value and volume and in the coming year we are expecting a like to like growth of ~20%. The incremental growth will come from own and franchisee stores that we will be opening. This year the total number of points added were 404 and next year we are expecting around 350 to 360 additional points through all our sales channels combined.

Deepika Naga : Apart from the franchisee and the own outlets what are the other channels we are planning?

Abhishek Gupta : We also sell through the distribution channel through other retailers. We also have shop-in-shops in departmental stores like shoppers stop, pantaloons, etc.

Deepika Naga : Okay but can you please categorize what would be the franchisee and own stores of the total 404 outlets we have currently?

Abhishek Gupta : 404 is the increase this year, of which franchisees increased by 64, own store increased by 23, shop-in-shops increased by 57 and retail points increased by 260. Next year we are expecting franchisees to grow by ~20%, own stores and shop-in-shops to grow by ~10% in number and retailers to grow by ~10%.

Deepika Naga : What is the current number of outlets we have?

Abhishek Gupta : We currently have ~3600 outlets across different formats in India.

Deepika Naga : Particularly franchisee and own stores?

Abhishek Gupta : We have 319 franchisees, 233 own stores and 577 shop-in-shop.

Deepika Naga : The skew in interest expenditure, do you think the same trend would continue considering increase in working capital requirements?

Abhishek Gupta : Deepika, interest in this year has been reclassified. Our actual interest outflow has increased from 210 Cr. to roughly 280 Cr., so that is in line with the percentage of total borrowings that we have. The other component that you see under the Finance cost is the FOREX gain/loss. Since that is not immediately under our control that is where we got an additional hit on the finance costs.

Deepika Naga : Okay, and how will they hedge the book Sir?

Abhishek Gupta : We enjoy a natural hedge as far as gold is concerned and we are net exporters in most of the quarters which is why we get our currency hedged. We do have an active hedging desk that hedges for both, gold and currency.

Deepika Naga : Okay and after the sharp fall in the rupee, there was news that demand for gold and diamond jewellery would come down. What do you sense, two months into the new year, w.r.t demand for gold and diamond jewellery in India when you are trying to focus more on domestic operations?

Abhishek Gupta : We have seen a difficult month of March where for about 15 days the industry observed a strike. Since we also sell through a lot of these retailers we were impacted. This was a short term phenomenon and we expect this to correct by this Diwali.

Mehul Choksi : Also, Akshaya Tritiya was very successful in the month of April. So from March 15 till April 10 our sales did suffer to some extent, however they have revived now. Also, the wedding ongoing wedding season will boost the sales.

Deepika Naga : Okay but will we be able to maintain margins of around 6.5% to 6.7% levels in FY13?

Abhishek Gupta : Yes certainly because we are shifting from upstream to downstream so the more we go into retail the better margins we get.

Deepika Naga : Okay Sir. Thanks a lot. I'll come back to ask more questions.

Abhishek Gupta : Thanks Deepika

Moderator Thank you very much. Our next question is from Jaibir Sethi from CLSA. Please, go ahead.

Jaibir Sethi : Good Afternoon Sir, thanks for taking my question. Two things which I wanted to understand from you, first is that there has been a removal of excise duty on branded jewellery which was imposed in the FY12 budget, so just wanted to understand what impact, if any, will that have on you? And second you mentioned a sharp increase in the retail footprint in this year, just wanted to understand what is the amount of sale which has come from first the inventory sell in franchise stores?

Mehul Choksi : The excise effect is minimal, reason being that the excise on branded jewellery was classified as such that unless the name is printed on the shank of the jewellery, it was not considered as branded jewellery and normally in the case of our jewellery there is no mark on the shank, it is mainly supported by a laboratory certificate. So we had a clarification from the government, that this is not excisable. Hence there was no impact before or after the excise. Okay but basically there would have been an excise introduced for both the sectors as declared by the government in the budget wherein they removed tax, however, since currently the excise is not applicable, we are in a better position there.

Abhishek Gupta : Further to answer your second question on the franchisees, this year we have roughly about 988 Crore total franchisee sale of which Rs. 256 Cr. came from primary sales of the 64 stores that we added this year, so on an average that would be sales of around Rs. 4 Crore per point. Incremental sales came from like-to-like as well as from these 64 stores.

Mehul Choksi : And just for your information that every month this year we have been opening up a franchisee - a mega franchise store worth nearly 20 to 25 Crore of investment. This is new as we have introduced every kind of jewellery - diamond and rose-cut. There are large franchisees being enrolled this year.

Jaibir Sethi All right Sir. That's all from my side.

Abhishek Gupta : Thanks Jaibir.

Moderator : Thank you very much. Our next question is from Pritesh Chheda : from Emkay Global. Please, go ahead**.**

Pritesh Chheda: Yeah hi, just wanted to understand your core strategy which you are trying to implement for the last one year and how you have progressed there? So one on the distribution model and it's rejig, and second is the revenue mix and it's change towards jewellery. Obviously both then redirect to how the working capital, balance sheet, and the return ratios have improved. So, if you could update us on how the strategy is panning out and if there is any change here?

Abhishek Gupta : Yeah on the first question of yours Pritesh we have continued shifting towards the retail side of the business. Our last year's retail sales of nearly Rs. 1,210 crores have jumped to Rs. 2,092 crores this year an increase of nearly 73% and primarily coming from franchisees especially from the primary sales to these franchisees. The balance between distribution and retail is now getting equal, the 60:40 ratio is now getting at 55:45. And our overall plan to reduce the working capital is also on track. Net working capital ratios have slightly decreased this year but as pointed out the month of March particularly was little challenging so we could not achieve the complete working capital reduction due to the strike. Else we would have brought the working capital ratio also in the range of 44-45% as planned. I would say we are about a couple of hundreds short as far as working capital reduction is concerned but apart from that on the profitability side, the retail side and on the shift from diamond to jewellery side, we are on track. You will be happy to know that the diamond portion of the sale has dropped to 42% in fact and jewellery is now 58%. So it is a visible shift from 53% last year to 58% of total sales this year. Are efforts are focused on shifting towards jewellery as much as possible.

Pritesh Chheda: In Jewelry, what would be gold and diamond now?

Abhishek Gupta : In total jewellery is about 7000 odd crores and its 50% gold and 50% diamond.

Pritesh Chheda: Is there a scope to reduce the price changes on gold now in the model?

Mehul Choksi Absolutely, it monitors on the daily basis.

Pritesh Chheda: Can we then use the gold lease model more effectively?

Abhishek Gupta : We are shifting towards the gold lease model as much as possible. And just to elaborate on this gold is completely hedged by us. As far as gold jewellery is concerned it is sold on the basis of daily prices of gold and whatever the customer pays, is paid to the bank by us. So we only earn the margins in between as a branded jeweler. Hence we don't carry the risk of gold prices as far as the gold jewellery is concerned.

Pritesh Chheda: Okay and lastly just a broader strategy question. We have further seen introduction of brands now in the retail jewellery segment. One, I wanted to understand the profitability and status of these brands if you could run us through, second what is the broader idea behind having multiple brands in the gold and diamond jewellery segment?

Mehul Choksi : See, the reason for having multiple brands is simply because we are one of the largest modern players in the country and we market our products via modern retail formats. So in one mall, there is one shop of one of our brands, second shop we cannot have the same brand so normally the franchisee would desire to have our second brand. Gitanjali’s brands are extremely popular across the country and they help us gain a major share of the modern retail market and a lot of the new brands introduced are support brands. When a particular category is doing well in a country, we capitalize on that and introduce a brand in that category so that we don’t miss out on any growth opportunity that comes our way. We may or may not have these support brands independently in our stores, however, they majorly complement our 7 major brands - Gili, Nakshatra, D’damas, Asmi, Sangini, Diya, and Maya.

Abhishek Gupta : To further elaborate, Mr. Choksi’s point is that a new brand takes about a year or a year and a half to fully mature and have a good profitability. So initially they gain market access and they support the main stream brands – this is their primary goal and as and when they graduate to the next level they transform themselves into full-fledged brands so at the moment it would be difficult to give you a break-up of the profitability of new brands that we launched this year, but in due course you will see these brands having their own P&L.

Mehul Choksi : And also amongst the brands, in modern retail formats there are different strategies in that, that some brands are very strong in departmental stores, while some others are strong in malls. Brands like Nakshatra and

Maya are more street brands. This is also why we have a classification of so many brands.

Pritesh Chheda : Have we consolidated all of the brands in the single holding company Gitanjali Brands?

Abhishek Gupta : Gitanjali Brands now owns all of the Indian business.

Pritesh Chheda : Okay can you give us some numbers there, what would be the revenue, EBITDA, PAT and capital employed?

Abhishek Gupta : In Gitanjali brands we have revenues of ~ Rs. 4,700 crores on a gross level and we have an EBITDA in the range of about 8% and net profit in the range of about 4%.

Pritesh Chheda : So this goes for all the main 8 brands plus the supporting brands of the India operations?

Abhishek Gupta : Absolutely.

Pritesh Chheda : And what is the capital employed in this business?

Abhishek Gupta : This part of the business has capital employed of nearly three to three and a half months of its sales.

Pritesh Chheda : Okay, so that should be closer to about 1000 odd crores which is invested there?

Abhishek Gupta : That is correct.

Pritesh Chheda : Okay and this is the company which then would have 233 own stores?

Abhishek Gupta : Yes that's correct.

Pritesh Chheda : And how about these numbers last year if you could tell us?

Abhishek Gupta : Last year total sales were Rs. 3,081 Cr. as far as India was concerned. The EBITDA was in the range of 7% and PAT was in the range of 3.5%.

Pritesh Chheda : And when you say gross value what does it mean?

Abhishek Gupta : It means that the inter company revenues are yet to be knocked off. It would be very minimum.

Pritesh Chheda : Okay, many thanks to you and the all the very best Sir.

Moderator : Thank you very much. Our next question is from Punit Jain of Goldman Sachs. Please, go ahead.

Punit Jain : Hi, good evening everybody. My question is with respect to trade receivables so like you mentioned that the proportion of jewellery went up in this year but the growth in receivables is almost in line with the growth in revenue for FY12, so to that extent could you throw some light on what is the receivables cycle for the various formats?

Abhishek Gupta : The overall receivables for the group is around 4 months and this was consistent compared to the previous year which was around 4.1 months, and if you further break this down to the channels, the diamond part of the business has nearly 5.5 to 6 months of receivables, the jewellery part of the business has about 3.5 months of receivables. And if you break it down geography wise the receivables for the India business is about 4 months and that for the international business is about 2.5 months which is largely for the exports that we do.

Punit Jain : You mentioned that the franchisee sales is Rs. 988 crores and typically how does the receivable cycle work in that?

Abhishek Gupta : We take 50% in advance and 50% in equal installments over 6 months, hence the effective receivables is about 1.5 to 2 months.

Punit Jain : Okay and then what is the receivables cycle through the distributors?

Abhishek Gupta : The receivables cycle for a distributor is about 4-4.5 months. In own stores there are no receivables. While in Shop-in-shops there is a lag of about a month because the departmental stores generally make the payment on the following 15^{th}.

Punit Jain : Okay and also your growth in revenue is in line with the growth in receivables, so do you think that they were certain?

Abhishek Gupta : We could have reduced that comparatively but as I indicated earlier the March ending where the collection was supposed to come from 15^{th} to 30^{th} witnessed a slowdown since many of the stores that we distribute to were on strike, which impacted the collections. We could have done a couple of 100s better in terms of collections, receivables, but that was elongated because of this strike.

Punit Jain Also when do you think would Gitanjali Brands become free cash flow positive?

Abhishek Gupta : Gitanjali brands will be free cash flow positive 2013 onwards and the overall company also is looking to be free cash flow positive 2013 onwards.

Punit Jain : Okay thanks a lot.

Abhishek Gupta : Thanks Punit.

Moderator : Thank you very much. Our next question is from Dilip Nag of Rappaport. Please, go ahead.

Dilip Nag : Hi, thanks for taking my question. This is for Mr. Choksi. I would like to know what kind of impact this recent import tax on polished diamonds as well as the currency issues are having on the diamond industry?

Mehul Choksi : Generally this kind of a fluctuation slows down the business a bit for a while. However, in India if you see the first quarter results that World Gold Council declared, there was a 90% decline in the volume which would still mean a 13% rise in value because the value of the product has gone up a lot in one year's time. Diamond industry experiences similar patterns like those of gold and when there are more fluctuations in gold the diamonds normally sell a bit more. So in India we are seeing advancement as far as the growth of diamonds in terms of value is concerned for the last couple of years. As far as volumes go, I don't see more than a 10 to 15% growth.

Dilip Nag : Hi, okay what are the implications of diamond prices which you foresee?

Mehul Choksi : Well I personally feel that there is more demand than supply continuously for the last couple of years. Last year the prices went up sharply, they went up by nearly 50% through the year and then also slowed down a little. So it's more of a value increase/decrease, but as far as volumes are concerned, the volumes are in short.

Dilip Nag : Okay and how is it going to impact the ability of Diamond firms to continue manufacturing especially with these currency fluctuations and what it means to the world market who is buying from India?

Mehul Choksi : All the value addition is positive and it's going to be positive for the country. Because whatever the value addition whether it's 15%, 10% in the gross labor plus profit and everything it is going to be foreign exchange earner further.

Dilip Nag : Okay and just one more last question. How do you see the tax issue impacting India which projects as a trading hub for diamonds in the world market?

Mehul Choksi : Well there is a minus point, but if you see the foreign exchange situation in the country and the duties that we have had in the country are much lesser compared to any other part of the world. So it is very fair that they have put in, this kind of a situation in the country. I don't think India has been a very simple turf for the last 20 years of retails that we are doing in the country we have only 1% VAT and very negligible duties on gold and diamond of course this year they have increased a little bit but it is very negligible compared to any other part of the world it's a wonderful turf as far as retail is concerned and I think it's fair from the government side.

Dilip Nag : Thank you so much.

Abhishek Gupta : Thanks Dilip.

Moderator : Thank you very much. Our next question is from Pritesh Chheda from Emkay Global. Please, go ahead.

Pritesh Chheda : Sir just a follow up - just wanted to know what was the operating cash flow and CAPEX at a consolidated level for Gitanjali Brands?

Abhishek Gupta : The CAPEX was minimum Pritesh, it was in the range of Rs. 20-25 crores and the operating cash flow was not positive this year it was about Rs. 50-60 crores negative, which was primarily because of an increase in receivables in the last 15 days of March. This is a very small as compared to the growth that we have achieved.

Pritesh Chheda : Okay so can you highlight the main reason for this skewness in the working capital towards the last quarter in the last 15 days?

Abhishek Gupta : In India we have 60% of the sales through distribution. And the retailers that are supplied through them were shut from 15th of March.

Mehul Choksi : Also, we were preparing our factories and outputs for the excise - which is a very lengthy procedure. Hence we could not roll out much merchandise in the market in those 15 days'.

Abhishek Gupta : So 15 days is roughly 5% of total sales and 5% of our receivables which would have been a good increment of couple of 100 crores in the cash flow.

Pritesh Chheda : And what makes you believe that next year you could land up being FCF positive and the quantum of FCF positive?

Abhishek Gupta : We were FCF positive in FY11 and this year it's slightly on the border. Next year we are working hard from now to reduce the working capital and bring down the cash requirement.

Pritesh Chheda : So lot of the swing is working capital based?

Abhishek Gupta : It is working capital based.

Pritesh Chheda : Okay, in your assessment of that 33% type growth which probably one should look at incrementally could you break it up into value and volume?

Abhishek Gupta : See volume is in the range of about 18-19% and the remaining 15-16% is value.

Pritesh Chheda : Okay thank you and all the best.

Abhishek Gupta : Thanks Pritesh.

Moderator : Thank you very much. That was the last question. I would now like to hand the floor back to Mr. Varma for the final remarks. Over to you Sir.

Sunil Varma : We thank all the participants who participated in this call. Have a very nice day. If you have any specific questions, please feel free to connect with us. See you next quarter, thank you.

Moderator Thank you very much. On behalf of Gitanjali Gems that concludes this conference call. Thank you for joining us and you may now disconnect your lines.