



"Gitanjali Gems Q4 FY10 Earnings Conference Call"

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**MODERATORS: MR. MEHUL C. CHOKSI
MR. SUNIL VARMA
MR. NISHIT DAVE
MR. ABHISHEK GUPTA**

Moderator: Ladies and gentlemen, good evening and welcome to the fiscal year 2009-10 earnings conference call of Gitanjali Gems. We have with us here Mr. Mehul Choksi, CMD, Mr. Sunil Varma, CFO, Mr. Nishit Dave, Senior VP Investor Relations, and Mr. Abhishek Gupta, Head Corporate Strategy. As a reminder for the duration of this conference 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 any assistance during this conference call, please signal an operator by pressing "*" and "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Mehul Choksi. Thank you and over to you Sir.

Mehul C. Choksi: Good evening everyone. Thank you for participating in the conference call for the financial year 2009-10. We will take you through the key achievements this year and we will be open to your questions thereafter. The highlights of the financial year 2010 were in particular significant sales and profits growth in the line which have a vision to lit the branded and organized jewelry segment in the country and expand in other economies too. The key achievements were sales had grown by 28% to Rs.6527 Crores. Major drivers were being the jewelry segment growth by 35% to Rs.3636 Crores with India showing a 38% growth of Rs.2065 Crores. EBIT grew by 55% to Rs.396 Crores. PAT by 32% to Rs.200 Crores and EPS by 34% to 23.7 from 17.7 last fiscal year. Further to indicate the contributions were jewelry contributed to 56% of our total sales of Rs.3636 Crores. India contributed to **40%** of total sales to Rs.2605 Crores. Total EBIT was at 6% which is 396 Crores and jewelry EBIT was at 8% at Rs.272 Crores of Rs.3636 Crores. Overall the company has achieved a tremendous success in the branded jewelry market penetration. Over the last four years we have been expanding over retail network globally as measured and sustained pace. Today we have significant presence with over 3000 points of sales across the globe. India is our fastest and most attractive growth destination. Today the key brands like Gili, Nakshatra, Asmi and D'damas, have graduated from being product brands to integrated retail brand. In the current financial year our strategy remains to achieve mass for these brands by further domestic expansion in Tier II and Tier III towns. And by exploring model retail and franchise formats. The integrated business model has been

unique for the industry and we are confident to emerge as leading jewelry brand of the world. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question comes from the line of Percy Panthaki from HSBC. Please go ahead.

Percy Panthaki: My question is on the finance charges and working capital of the company. I note that your interest cost has gone up about 75% in FY'10 versus FY'09, but your inventories and your capital employed has remained almost flat. What would be the reason and I understand that your cash balance would have been depleted, but even so your net interest cost has shown being increased. So is it that your working capital was high throughout the year and it has somehow reduced at the end of the year?

Sunil Varma: I would like to answer your question. The last year the interest expense included some netting of the interest income, which we had on the fixed deposit line in various banks. So that was net of interest to the increase in the interest charged is not significant to 75% increase as you had suggested, because the last year's income included the interest income of...

Percy Panthaki: Can you give me your net interest charge for the year FY'09 and for the year FY'10?

Sunil Varma: FY'09 the total interest charge was about 130 Crores which is now 170 Crores for this year.

Percy Panthaki: So this is the net interest. That is interest expense minus...

Sunil Varma: It is not net interest. I am saying the gross interest.

Sunil Varma: So, basically if you see like-to-like figure 130 Crores has gone to 175 Crores.

Percy Panthaki: What is the reason that the reported numbers are different from this?

Sunil Varma: Because these were the interest income was eliminated from interest expense. So it was net interest while this year the net income was hardly there, because the GDR proceeds were almost utilized for the purpose last year itself.

Percy Panthaki: Earlier we were given to understand that the diamond business is a heavily working capital intensive business and the jewelry business not so much so; however, in your segment capital employed I notice that the working capital for diamond and jewelry is quite similar?

Mehul C. Choksi: I have to tell you that the diamond business this year has been very buoyant throughout the world. There was a great shortage of diamond through all over the world this year. You must have noticed because of lack of production last year by the mines Diamond has been very much in demand and we have been in this business for the last 40 years so whatever profitable business is there they have been expanding. We have been continuing to supply. As far as jewelry is concerned certainly we have increased the business by 35% through the year and despite that the margins what you are seeing in jewelry could have been more if the gold prices were stagnant, but gold prices have increased and you know we are organized retailer and we have most of our product on MRP basis and most of our jewelry has diamonds, but irrespective of that 35% of our product to 40% is gold content. So because of that the margins could have been better than what they have quoted today, but once the gold stabilizes we will be getting much more margins. The second thing you must note that diamond and gold both the prices have increased tremendously over the last one year, so this will certainly help increase the value. The volumes may go down in gold, but diamonds as far as there is a great spillover for diamond jewelry from gold jewelry in the coming year.

Percy Panthaki: My question was slightly different. If I look at your working capital as a percentage of sales it is not very much different for jewelry as compared to diamond which is different from my original impression that the working capital intensity in diamonds would be about five to six months and in jewelry only two to three months, but the figures are showing a different picture?

Mehul C. Choksi: The reason is that we have been expanding our retail very aggressively for the last six months of this year and that is why the inventory in most of the shops. We have expanded our retail by 350,000 square feet this year. We have added up 350,000 sq ft of retail, which the results of this will be seeing in the next six months' time. The direct retail environment was very conducive in the last one year because the real estate prices have gone down like anything and this is the

opportunity we took to expand our retail and that is the reason that in the beginning normally the inventory is higher at the retail points before it picks up.

Percy Panthaki: Thanks.

Moderator: Thank you. The next question comes from the line of Yash Jhaveri from Enam Securities. Please go ahead.

Yash Jhaveri: Couple of questions on the diamond business. Can you give us any idea as to how much of your business comes from cutting and polishing and how much from trading and how much of that business is on the smaller size and how much would be in say carat and above? What is the credit term in the diamond export business currently?

Mehul C. Choksi: The credit term for the diamond business is on an average of 180-days and the carat of business for us is about 20% of the total business. Our cutting and polishing is nearly 70% and trading is about 30%.

Yash Jhaveri: Thanks.

Moderator: Thank you. The next question comes from the line of Nitin Mathur from Edelweiss Capital. Please go ahead.

Nitin Mathur: My question is on the jewelry business and what is the trend that you are seeing this year especially around Akshaya Tritiya and the summer wedding season?

Mehul C. Choksi: As far as volumes in the gold jewelry are concerned they are down by about 30 to 35%. As far as diamond jewelry is concerned we have grown by about 40% to 45% through the year since January since the prices of gold has been very high. Overall the jewelry business in India has been expanding at 35% to 40% in value in the last year, because most of the prices in gold and diamond both have increased tremendously.

Nitin Mathur: My question was specifically for this quarter let us say Q1FY'11 the trend that you are seeing in terms of gold buying especially when the gold prices are so high.

Mehul C. Choksi: I am saying that we are seeing a 35% to 40% lesser volume in gold while diamond jewelry we are seeing 35% to 40% growth.

Nitin Mathur: Thanks a lot.

Moderator: Thank you, Mr. Mathur. The next question comes from the line of Naga Deepika from Capital Market. Please go ahead.

Naga Deepika: My question is regarding the retail business of the company. We have a significant presence in US, so how is the scenario there? How are the retail operations going on? Do you feel the expansion in US in the retail space is a right venture in this current state?

Mehul C. Choksi: In the last four months the US has shown a very positive trend compared to the last two years. The declining trend has been stopped already. The last month in particular the month of May was 15.5% growth. For the last four months on an average of 7% growth in sales. US retail business is very suitable for our company because despite that we lost some money in retail there because of the sales decline for the last two years, which was about 10% sales decline in the last two years which has resulted into some losses, but we are very sure that this year we will be making less losses, but more than this the entire supply chain 85% of the supply has been supplied by the group where we earn a handsome profit of manufacturing of diamonds and manufacturing of jewelry. So overall in the last three years since we started this business the net position is that we are at much more profit and this model is very interesting because this is 100% diamond jewelry outlet which is where the company very strong in manufacturing.

Naga Deepika: How many new stores are there in US now?

Mehul C. Choksi: We have cut down about 15 stores over last two years time and we are about 133 stores for now. As the new stores we are planning to add one or two stores every two or three months for this year. We are not planning to add many more stores in US in particular.

Naga Deepika: On the domestic front you said around 3000 stores, what was it last year?

Mehul C. Choksi: It was 2600 stores in totality we have 1 million square feet of the total area compared to 650,000 square feet last year, out of which we have about 500 of our own outlets like the shop within the departmental store or a standalone stores. Totally 485 stores of our own 185 as the franchise stores and 2000 retailers where we are shop in shop.

Naga Deepika: Now coming into the new retail expansion you are planning for this year, how is the franchise going to be because were these into the jewelry segment or full both diamond and jewelry and what kind of stores are you targeting franchise in particular?

Mehul C. Choksi: We do not have a single outlet for diamond. It is mostly diamond jewelry. All of our stores are diamond jewelry and the 4 of our brand, which are D'damas, Nakasthra and Gili and Asmi. These four brands have totally matured and we are expecting to reach 30 to 40 additional franchises this year. Apart from this we have multi branded stores like Gitanjali Jewels and Maya Jewels and we are expecting this brand to add another 20 to 25 stores of this, which are very popular. So overall we feel that we will be able to open at least 200 additional franchise stores to more than 200 additional franchise stores this year.

Naga Deepika: I heard news like we are trying to break out the Nakasthra, D'damas and other stores as separate entities. Can you please throw some colour on this?

Sunil Varma: They are already separate.

Mehul C. Choksi: What she is talking about is that they are planning to list this separately. We are just studying to enhance the value of shareholder. So these are everything on the card for us, but we are looking at every opportunity if there is any, because these brands are fully matured brands with having nearly 400 to 500 Crores turnover and with the net profit of nearly 20 to 25 Crores in each one.

Naga Deepika: Can we have the net sales and net profit break up of these brands for this FY'10?

Sunil Varma: The sale of Gili is 420 Crores. The sales of brightest circle which is holding the Nakasthra brand is 455 Crores. The other brand is D'damas brand is 290 Crores and Asmi brand is 490 Crores.

- Naga Deepika:** What are the profit margins?
- Sunil Varma:** EBIT margin ranges from 15% to 20%, it varies from different brand.
- Naga Deepika:** Thanks a lot.
- Moderator:** Thank you. The next question is a followup from Percy Panthaki from HSBC. Please go ahead.
- Percy Panthaki:** I just wanted to understand out of the 1 million square feet in retail that we have how much is for jewelry retail?
- Sunil Varma:** Nearly 900,000 square feet, 90% of it is for Jewel retail.
- Percy Panthaki:** I was just confused because if I look at the sales per square feet it is a bit lower or rather much lower than what I would have expected for a jewelry retail format?
- Mehul C. Choksi:** You must understand that you cannot compare us with the gold jewelers. We are completely diamond jewelry. Diamond jewelry dynamics and the gold jewelry dynamics are totally different. Gold gross margins vary between 9% and 11% in diamond jewelry at the retail points the gross margin goes up to 40% to 60%. So if typical 1000 square feet store of Tanishq can sell Rs.1 Crore while the diamond jewelry store can sell about Rs.15 to Rs.20 lakh. Of course we have many formats like Shuddhi stores, Damas stores which are in the country, which are selling gold jewelry but apart from these most of our entities are selling diamond jewelry and gold is just 10% to 15%.
- Percy Panthaki:** What was your expansion plan for the next year?
- Mehul C. Choksi:** The year next is more on consolidation except that you may see about another 200,000 to 300,000 square feet of retail space coming about, we are not putting in any money to it to expand this because as far as real estate is concerned it is mostly coming to us at a revenue share with a little CapEx or OpEx coming while we are planning to put in our present stock which is in wholesale to make it into reach for the retail store. This is the policy for the company. We want to go as much as retail as possible.

- Percy Panthaki:** Understood. And on the margins there was just a question a couple of minutes back where you said for these four brands the average margin would be about 15% to 20% at EBIT level whereas your overall jewelry margins is 8.5% around the corner?
- Mehul C. Choksi:** What we have mentioned is 15% to 20% is the gross profit. The EBIT side is about 8% to 9% and the reason being is that one of the company, which is carrying the Maya Gold Jewelry the EBIT margin, is much lower.
- Percy Panthaki:** Understood and lastly on the FCCB if I have to understand correctly the conversion price is at 220, but if it is not converted then the bond holders will get about 42% premium?
- Mehul C. Choksi:** Correct.
- Percy Panthaki:** So effectively it means that bondholders will be incentivized to convert at a price of around 300?
- Mehul C. Choksi:** That is correct.
- Percy Panthaki:** In case the conversion does not happen and you have to repay what will be your *sole premiums* for that?
- Mehul C. Choksi:** We are very well prepared for this. You will see cash built up over the next six months in the books. We are planning to build up the cash over the next six months over retail and wholesale business and reduce the inventory at the same time we are going to unlock the real estate which are couple of property being as you are aware we are at much advanced stage so this is very well planned and you will see the plan in the next six months itself the cash reserves building up for this.
- Percy Panthaki:** And inventory reduction if it happens will it be mainly through inventory or through debtors, the working capital reduction?
- Sunil Varma:** In both ways, inventories and debtors both.

Percy Panthaki: Any kind of estimate you can give us about the working capital percentage of sales and how much it will work out to be by the end of next year that is March 2011?

Sunil Varma: Can we note this question and come back to you?

Percy Panthaki: Okay Sir. Thanks very much.

Moderator: Thank you.

Mehul C. Choksi: Thank you very much. We appreciate your questions.

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