

Tribhovandas Bhimji Zaveri Limited
Results Conference Call”
August 6, 2014

This Transcript will be available at ([Analyst Kit for TBZ](#)) along with other relevant documents and Management Interviews.

Moderator: Ladies and gentlemen, good day and welcome to the Q1FY15 results conference call of Tribhovandas Bhimji Zaveri Limited hosted by Dickenson Seagull IR. As a remainder, all participants’ line will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Dalvi from Dickenson Seagull IR. Thank you and over to you Mr. Dalvi.

Nilesh Dalvi: Thank you Margaret. Good evening everyone. On behalf of Dickenson Seagull IR, let me welcome you all to the earnings call of Tribhovandas Bhimji Zaveri Limited for the first quarter FYT15. Today we have with us the management led by Mr. Shrikant Zaveri – Chairman and Managing Director, Mr. Prem Hinduja – Chief Executive Officer, Mr. Sourav Banerjee- Chief Finance Officer and Mr. Divyesh Shah – Head, Retail business. We will commence the call with opening remarks from the management, following which we will have the floor open for interactive question and answer session. I would now invite Mr. Zaveri to make his opening remarks. Thank you and over to you sir.

Shrikant Zaveri: Thank you Nilesh. Dear investors, I would like to thank everyone for taking time out and joining us for the first quarter FY15 results conference call.

We are pleased with the first quarter which witnessed major positive developments on the macroeconomic front in the form of stable new government at the center, however, current account deficit, marginal decline in June inflation and early signs of recovery in business earnings and investment cycle. The jewellery industry also witnessed some encouraging measures from the RBI on the regulatory front. Firstly, RBI allowed star trading houses and a few additional banks to import gold which helped in easing the gold supply resulting in lower premiums. Secondly, it reinstated the gold loan model on imported gold. These two changes helped the company in lowering its gold procurement and financing cost in the coming quarters.

Talking about the company’s performance during the quarter, we reported stable operating performance backed by the extended wedding season which lasted till the month of June. However with high base of an extraordinary first quarter of FY14, it was difficult to display topline growth. The gross margin was largely affected by the one-off impact of gold price volatility during the quarter. Further combination of lower sales and fixed operating costs led to contraction in the net profit margins. Going forward, the team is hopeful of stimulating consumer demand during the current financial year through innovative strategies as the industry is looking towards better times following improved economic environment. The company has taken a judicious decision to go slow on store expansion and focus more on improving the performance of the existing stores through better same store sales, custom footfalls and steady margins. We remain committed to investing in our future through calibrated expansion of our domestic market operations with a goodwill. Improved product offerings, innovative jewellery designs and a trained sales team which will help us replicate our strong performance benchmark in all stores across India. With this, I would now like to handover the call to Mr. Prem Hinduja, our CEO to brief you on the financial and operational highlights for the quarter. Thank you.

Prem Hinduja: Thank you Mr. Chairman and welcome friends. The company reported stable operating performance during the quarter. Notwithstanding a challenging business environment marked by high inflation, weak consumer sentiment and unfavorable regulatory environment leading to subdued jewellery demand during this period. The Gems and Jewellery sector is reeling under uncertainty in terms of regulatory headwinds impacting the operational performance. The stable union government at the center is yet to take policy decisions favorable to the sector particularly on import duty, restriction on gold, reducing the availability of gold. There is hope that there will be a change in the economy marked by slowdown and efforts will be made to tackle persistent high inflation, weak consumer sentiment and unfavorable regulatory environment. So we are hoping that this will strengthen jewellery demand in times to come. There were pressures on margin as the business volumes were lower on account of weak demand, volatile prices and also concerns on availability of bullion and bank credit. However,

we always take proactive initiatives through various marketing and other measures to keep our business profitable with better margins going forward.

We are aware of the latest development with regards to systematic deposit schemes and are taking measures to customize our deposit schemes to meet the regulatory norms. We are in constant touch with our legal and other experts to streamline the scheme if and when desired. Although we are yet to zero in on the exact number of stores, we are planning to open this year. Our store expansion policy would be a major strategic initiative to enhance business volume and growth. With this, I hand over the mike to my dear colleague Mr. Sourav Banerjee, the CFO to fill you on the numbers briefly.

Sourav Banerjee: Good evening all. I am Sourav Banerjee, the CFO of TBZ. Thank you sir. I will just touch up on the key numbers for this quarter.

Our revenue is at 432.4 crores vis-à-vis Q1FY14 of 533 crores. Cost of goods sold 375.2 crores vis-à-vis 445.9 crores for the previous quarter Q1FY14. GP 571 versus 871 for the previous quarter, a drop of 34.4%. GP margins stood at 13.2 blended vis-à-vis 16.3 blended for the previous quarter FY14. Some of the key expenses, personal expenses 13.6 crores vis-à-vis 16.7 crores for the Q1FY14, drop of 18.1%. Other major expenses 28.8 crores vis-à-vis 30 crores, a drop of 3.8% both on account of judicious spends and savings. EBITDA margin 147 versus 405 for the previous Q1FY14, a decline of 63.7%. EBITDA margin in percentage is 3.4 versus 7.6. Interest expenses 12.9 crores versus 7.8 for the previous Q1, an increment of 65.2%, due to higher utilization of limits. Profits before tax at 80 lakhs vis-à-vis 31.5 for the previous Q1, a drop of 97.5% and PAT at 52 lakhs vis-à-vis 20.8 crores for the previous Q1FY14. Profit margins 0.1%, earlier 3.9%. These are the key highlights of June 2014 results and I now hand over for further questions, welcome from your end.

Nilesh Dalvi: Thank you everybody. Now the floor is open for question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just had a few questions on first on the demand and more on the margins. If I look at the demand on the gold jewellery segment and because of obvious reason I am not comparing on a YoY basis but on a QoQ basis. The overall headline number has actually declined across both the gold as well as the diamond segment and this week this has come in the new stores is what it suggests because the same stores in the gold are flattish. Could you explain what is happening, is there any reason for that and specifically what has happened on demand per se. Could you give any guidance, are you seeing an improvement?

Divyesh Shah: Hi, This is Divyesh here. If you look at last year, last year the company has seen a growth of almost about 89% volume growth in the first quarter when the gold price was corrected and which was the exceptional quarter for the entire Gems and Jewellery industry and especially when we look at this year on the first quarter the April and May, the election was there and especially in some of the regions the cash carrying and jewellery transit both were completely on hold for certain regulation constraints. So what we have seen consumers have stayed away from jewellery purchases especially during April and May. So we have seen some of the new stores that could not able to generate the sales equivalent to the older and established stores.

Avi Mehta: Okay, so you are saying per se the weakness. Sorry if I may just clarify, what I was doing is I was just taking the gold jewellery sales headline number and subtracting the same storesales number and that what I am seeing is down from fourth quarter levels of about 57 crores to 8 crores. So I just wanted to clarify what was the reason for that. You are saying that the two months have been exceptional for the new stores?

Management: Correct.

Avi Mehta: How has it been for the last month and sir if you could give any guidance on how things are shaping forward for the second quarter and going forward?

Management: See if you look at especially in the month of June, we have seen post election and result and when the things have stabilized, we have seen in the June month positive trend in footfalls and demand side compared to the previous years. So we hope that the same trend continues in the second quarter, then we can see some good numbers on board.

Avi Mehta: And sir my last question is on the margins, if you could just explain the reasons for the weakness in margins across diamond and gold in this quarter and how do you expect them going forward?

Prem Hinduja: Avi, this is Hinduja here. Basically if I were to really break up the margin profile when we are talking about 13% on blended basis, the diamond margin profile has been about 32 and odd which is very nearer to what we had achieved earlier 33%. It is the gold more so which has seen quite a bit of a drop from 10% which was the margin on trailing quarter basis to about 8+ percentage during this quarter. Now the reasons are two-fold. To some extent, extent it is the discount element or the incentives which are given to the customer to drive them in as Divyesh just mentioned that the footfalls were pretty low and for various reasons the consumer sentiment remained negative and also there was a one-off element because of the higher volatility in the price of gold, the margins did get impacted and that was I think one of a thing and otherwise on an ongoing basis, that should not really happen. We have seen very sharp volatility in the price of gold during this quarter unlike the earlier quarters and which did impact the margin profile of the company.

Avi Mehta: Sir could you share that number, what would be the impact so we can get the adjusted margins, how much would it be and how?

Management: See, I would put it this way that the discount percentage like the earlier days it was about one point something and all that. So basically I think the balance drop of 2%-2.5% would be accounted by this sharp volatility in the price of gold which we would say is a one-off for this quarter and it is not to be happening on a recurring basis.

Management: I would just like to add to your question about new store, Rs.9 crores of the figure what you have spelt out, it is just one of the store sales because last year we have added Udaipur showroom which was not there. So 9 crores is only for the one store, otherwise rest all the stores are same, all the 26 stores which was there on the previous year is the same store has performed. So if you look at more or less out of 27, 26 stores are the same store sales growth what we are talking about and new store is only one store which was started on the October of the last year.

Avi Mehta: So you are saying that is the trend. That would reflect the trend of the Udaipur store only right?

Management: Correct.

Avi Mehta: And sir if you could just highlight the question on the margin trend going forward that helps.

Management: As I mentioned that going forward this particular 2.5% odd and all that was one-off of this thing because of the sharp volatility. Assuming with the caveat that other things remain equal and we do not foresee such sharp volatility going forward, then our margin profile will be nearer to what we have been achieving in the past quarters.

Moderator: Thank you. The next question is from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.

Prashant Kanuru: First of all my apologies. I could not go through the update of the presentation. So my questions would be requesting some sort of information. The first thing is like what were the gold volumes in tonnage terms this quarter?

Management: Jewellery and coins were together is about 1.1 tonnes.

Prashant Kanuru: Gold sir?

Management: Yes.

Prashant Kanuru: And diamond, how many carats?

Management: Diamond is about 9,600 carat, rounding off two, both the figures are there in the presentation.

Prashant Kanuru: Sir just wanted to understand what is the inventory on hand as of now because the cost of sales has gone up, so what is the inventory like on hand of gold and diamond?

Management: See basically the inventory is which is also there in the balance sheet which we have given in the presentation as an annexure. It is slightly less than 1,100 crores and basically nearer to 1,000 crores. So there is a drop in inventory of about 40 crores as compared to previous closing and roughly the ratio is normally about 60% is gold inventory in value and about 40% is diamond inventory.

Prashant Kanuru: Sir in volumes terms and tonnage terms for gold?

Management: The gold inventory will be about 1.8 tonnes approximately and the diamond inventory will be about 76,000 carats.

Prashant Kanuru: 76,000 carats?

Management: Yes.

Prashant Kanuru: Sir what is the reason for keeping such high diamond because we just get a credit of 60-90 days if I am not wrong. So why do we maybe to fillup the stores but how do we finance this?

Management: No, basically you see apart from that even when defer mark inventory, this is the ideal inventory or the inventory which is really required all the stores and this will also include some inventory which is there at the factory, the WIP which is in the production line. It takes about 3-4 weeks, number one. Number two, if you are talking about financing, yes, the financing is through credit because there is no other means and this theoretically yes, one gets about 90-120 days but one can extend it up to 150 days also. So that is not really an issue. See my prime concern will be that I should display the inventory. The second would be the main scheme whether I am getting finance for it or not because if I do not display the bare minimum inventory, I am going to attract customers to my stores.

Prashant Kanuru: So this is like, the sourcing of diamond is from Diamond Trading Corporation or other?

Management: It is from DTC site holders we buy only polished diamonds and then we get them manufactured at our own factory.

Prashant Kanuru: So sir what are the diamond prices looking, because if I am not wrong rough diamond prices are still in upward trend because the diamond mine productions are weak. So is it just still holding up, the rough diamond prices.

Management: More or less right now in India in domestic market, the prices are stable.

Prashant Kanuru: Okay sir, they are not going up.

Management: No.

Prashant Kanuru: So what is the usual price of cut and polished diamond, we used VVS right? VVS clarity?

Management: See there are various quality. We use again there are various combination of size and click. There are four Cs are there will define the price. So we are using, there are many mixtures of the different combination. So I think the price will vary from quality to quality.

Prashant Kanuru: Sir what is the usual blended caret cost for us?

Management: I think Prashant, you can take it offline because I do not think that this is the right platform to talk about all those things because it is a quite detailed exercise what you are asking.

Moderator: Thank you. The next question is from the line of Apurva Shah from Dimensional Securities. Please go ahead.

Apurva Shah: Sir my question is I appreciate your plan on strategy of going slow on store expansion and focusing on improving productivity. But still is there any rough guideline care, how much store or what kind of space addition you are looking for in FY15?

Management: See as we had mentioned in our previous calls also, in any case today we are about 88,000 square feet and we are planning, we have a target of about 100,000 square feet minimum in any case this year. Now again depending upon things going forward, how they look forward from the third quarter onwards if suddenly you will see that everything is blooming and all that then one would re-strategize and try and be a little more aggressive. But as of now in any case reaching a target of 100,000 square feet is **given**.

Apurva Shah: And sir most of the space addition will happen in second half of the year right?

Management: That is right.

Apurva Shah: And sir second thing what kind of steps you are taking for improving productivity, any prima facie or any concrete steps?

Management: Yes, I think one thing which you have seen over quarter-on-quarter, we are reducing the inventory. So trying to improve the inventory replacement cycle, so your working capital should not get blocked in the inventory. Second thing in the same store we are trying to retain our existing customers and trying to generate new customers by offering various new products like in June, we have launched the solitary collection and also we are trying to consolidate the whole purchase process so we get larger cost benefits which will help us to improve the margins further on the coming quarters.

Apurva Shah: And sir lastly can you tell me the current gold sourcing mix as on Q1?

Management: See the current sourcing mix is if you see as of now, 38% of my gold at present is gold on loan which is obviously from the banks. 29% today is what we are getting all gold, basically we exchange gold and the balance would be predominantly either from the banks or from the bullion dealers, a mix of both.

Apurva Shah: And what is your expectation of changing mix by end of the year. So I just wanted to know what can we save as interest by year end?

Management: See we are cautiously endeavoring to replace our gold with gold on loan. Now that it has been restarted but the constraint still remains because it works under the ambit of the broad 80:20 scheme. So the supply is not unlimited unlike the good old days. So within that quantity whatever we are getting, we are taking on gold on loan basis and that will be the endeavor. So depending upon by the year end how much we are able to procure and how much the banks are going to supply under the gold on loan and within this 80:20 scheme that will really basically guide as to how much will be our gold on loan portion out of the total inventory. Unless the government going down the line liberalizes altogether then it will be a different patch, then the whole process will get accelerated otherwise it will move depending upon the supply constraints under which we are working.

Apurva Shah: Okay and sir last question is on what kind of impact do you foresee because of this Kalpavrukhsascheme. So are we planning to change that scheme or have we stopped that scheme. So what is the situation?

Management: See as of now as we had also mentioned in our last call based on expert legal advice, we are continuing with the scheme. But we have tried to be a little more over cautious in the sense that we had stopped the gold deposit scheme in any case which we had mentioned earlier also. Now as far as under the KP scheme, for the time being and temporarily we are suspended taking any new applications. The old applications are continuing but we are having a re-look at the whole scheme and we will modify the scheme to meet the regulatory environment and the intention is to continue with the scheme even if it so be in a modified form.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: Just couple of questions. What is the grammage sold during the quarter for gold and diamond, I am not able to find that on the presentation.

Management: As I mentioned in my previous query that gold is about 1.1 tonnes. Diamond is again a combination of 18 carat gold and color stones and as well as diamonds. So diamond probably we will look at a value wise instead of just as a carat in isolation.

Hiren Dasani: Yes, but you have shown annual figures still FY14. So FY14 was about 43,808.

Management: If you look at, it is near about 9,600 carat, only the diamond portion of the diamond jewellery.

Hiren Dasani: 9,600 carats?

Management: Yes.

Hiren Dasani: Okay. So usually we keep about 6 months of diamond inventory right? But if you go by the numbers which you just told me then the diamond inventory looks pretty high.

Management: No, I think if you look at on the next quarter, the diamond inventory you will find that we are heading new store also in probably next 30 days. So new store we are adding in next 30 days. So probably some of the inventory of the new store is there. Second thing, we are going very aggressive on the second half to promote diamond. So some of the inventories we have started building up for the second half. So that is the reason why you find the diamond inventory a little higher but it will be adjusted in next two quarters.

Hiren Dasani: And the other thing is we had about 340 odd crores of gold sales during the quarter. What you are saying is that there is a 2%-2.5% drop in the gross margin because of the price volatility. So that is roughly about 7 crores odd loss in the inventory evaluation. Is that what I should understand?

Management: No basically, I will leave it your judgment the way you understand, but yes, the drop was about 2%-2.5%, that figure what you had mentioned yes, we would say about 7-8 crores was on account of the volatility in the price of gold, yes.

Hiren Dasani: That is essentially the inventory evaluation?

Management: Yes.

Hiren Dasani: Okay and that would impact you on the 33% of the inventory which is what you purchased on the spot?

Management: That is right.

Hiren Dasani: And gold loan lease is 38%.

Management: Yes and 39% is our present ratio of old jewellery which is coming in for exchange.

Hiren Dasani: Sorry 38 is gold loan lease, how much is exchange?

Management: Exchange at present it is 29%.

Hiren Dasani: And what do you think would be over the next 12 months in terms of limits and all, are we okay in terms of increasing the gold loan lease?

Management: We are certainly okay in terms of the limits availability as far as the gold on loan is concerned but as I mentioned in my previous question, it is basically the supply side constraint under the 80:20 scheme because the gold on loan at present is working under the overall ambit of 80:20 scheme. So to the extent of the availability, we are taking the full amount whatever is available under gold on loan.

Hiren Dasani: But on the purchases of spot gold, do not we hedge it on the exchange or something?

Management: Yes, we do hedge on the exchange.

Hiren Dasani: Sir in that case how can the volatility impact the gross margin?

Management: For the simple reason, you cannot always predict correctly as to what is going to happen? For example in the last quarter there was a speculation or there was a feeling all around that the customs duty is going to be reduced in the upcoming budget. So the sales were locked in at a higher price and unfortunately the price of gold did not correct because the duty did not reduce. So instead of becoming a perfect hedge, it became an imperfect hedge and which did not give the desired results.

Moderator: Thank you. The next question is from the line of AbhijeetKundu from Antique Stock Broking. Please go ahead.

AbhijeetKundu: Hi sir, when I look at your average ticket size during the quarter, year-on-year there has been a growth. How is that? What would be the reason for that?

Divyesh Shah: Hi Abhijeet, this is Divyesh here. I think because of the wedding season, normally in wedding season time you find that the people buy more bigger product for their weddings and second thing the gold coin sale has declined by about 56% and again gold coin what we sell is a lower ticket size product. So average bill value in gold coin is much lesser compared to the jewellery. So because gold coin has seen a degrowth of 56%. So consequently the average bill value has increased.

AbhijeetKundu: So gold coin sales for the industry as a whole is declining. So basically when people are interested in investments in gold, they invest a lot in gold coins. So currently just wanted to understand the mood of investors in a way?

Management: Abhijeet, I think people were waiting that after this election some of the relaxation will come in the duty side and then people will start looking at the gold coin as the ideal investment product, but nothing has come up. So more or less what we have seen in June, some improvement we have seen in the gold coin sales but April and May yes, gold coin was the biggest disaster for the entire Gems and Jewellery industry, I think so.

AbhijeetKundu: And secondly just wanted some clarity on your gold schemes, I know you have answered this but two things. One is you have stopped the gold deposit scheme, that is the buying of gold scheme right that whatever payment one makes, you book gold against that on the same day. So that scheme you have stopped and in the other scheme what you have done whether that is continuing?

Management: Under the other scheme, the Kalpavrukhascheme also, we have stopped temporarily for the time being taking any fresh applications. We have currently suspended taking fresh applications. We are awaiting some clarifications which will come very soon and based on those clarifications either we will restart or we will rework on the whole scheme and continue with the scheme.

AbhijeetKundu: So in that other scheme, essentially there were two conditions right that one is the scheme has to be for less than 365 days which you were anyways adhering and the second was there need not be any return and I believe you were giving discounts. So the clarification is on what, on the discounts being classified as a return or what it is?

Management: The clarification is on the whole scheme because we **(Inaudible) 32.50** want this not to come under the definition of deposit at all because this according to us this is a pure customer advance against future purchase of jewellery. So we want this whole word to be removed from the definition or rather to be clarified to us it does not form deposit. It does not come under the definition of deposit. So that is the clarification we are awaiting.

AbhijeetKundu: So before this discontinuation or suspension rather, had you seen any increase in the funds under the gold deposit scheme because there was a lag between other players like Titan stopping it and you suspending this scheme for about I believe for two months?

Management: No, it was continuing in the normal course.

Moderator: Thank you. The next question is from the line of Ketan Shah from Comgest. Please go ahead.

Ketan Shah: Sir you said that because of imperfect hedge, it led to a loss in our gold. Sir what is the situation now?

Management: See right now the situation is basically we cannot really predict as of today. Of course now there is no such calls that the price of gold is going to reduce as a result of the duty being reduced which was very much there at that point of time especially after the new government was formed and there was all round hope that when the first budget will be presented by the new Finance Minister, there will be a reduction in duty. But right now there is no such thing. I think the markets are continuing in the normal way. So today we do not see any abnormality as we had witnessed earlier.

AbhijeetKundu: So next quarter onwards, can we expect margins to normalize in this gold business?

Management: Which I mentioned earlier that this was a one-off quarter. So normally we are hopeful that all other things remaining equal, it will equalize.

AbhijeetKundu: And sir in your this deposit schemes, how much will be the amount?

Management: The amount is roughly around, we have two schemes under the KP scheme which is the **(Inaudible) 35.03** scheme which is about 2.5 crores and the other is about 147 crores. So total is about 150 crores, rounded off.

AbhijeetKundu: And sir funding this inventories going forward, can you tell us how you intend to fund your expansion plans, especially inventory.

Management: As I mentioned earlier that we will rework the scheme, we will re-modify the scheme based on the clarification we get and in addition to this, we are hopeful of continuing with the scheme may be in a modified form, number one. Number two, over a period of time our gold on loan will keep on increasing. We will be shifting more and most of that. There will be release of more cash flow into the system which will also help in funding the expansion. So these are the two measures we really look at which will help us our further expansion.

Moderator: Thank you. The next question is from the line of MayurGathani from OHM Group. Please go ahead.

MayurGathani: Sir I had one query is with these schemes, how much does it impact your topline or how much were these schemes contributing to the topline if we are unable to get a modified version, what do you think we can get impacted by?

Management: I can only indicate one thing that last year it contributed to about 8% of the topline.

MayurGathani: And sir regarding this old gold, I mean the exchange that you do from the consumers, sorry regarding one more scheme that you have is that consumers deposit gold at your end and after a period of one year or so, you return some extra gold. So that scheme also comes into this purview or it is different?

Management: That we have stopped. That definitely comes under the scheme which we stopped immediately after 1st of April.

MayurGathani: And sir regarding expansion you said you will go slow. You have around 80,000 square feet and you intend to buy FY15 and how much can we see this to grow?

Management: Which I had mentioned again in my earlier answer. We are today about 88,000 square feet. We are at least looking at 100,000 square feet.

Moderator: Thank you. The next question is from the line of Sarthak Malhotra from SAIF Partners. Please go ahead.

Sarthak Malhotra: Sir what is happening with the 150 crores of deposit in the current schemes. What are you doing with that?

Management: It is part of my working capital.

Sarthak Malhotra: So since you have stopped these schemes are not we suppose to refund them or something?

Management: Basically what we will do, of course the timelines are available assuming worst possible scenario the scheme had stopped which I really do not foresee because I see it would be reworked in a modified form. But even if that happens, one has time up to 31st March next year, not exactly to refund but to convert into sales. So our primary focus will be to convert the entire amount embedded into sales of offering various incentives whatever it is to the customer but make sure that the entire. So we really do not have to refund anything. On the contrary, we will have some sales generated.

Moderator: Thank you. The next question is from the line of PrashanthKanuru from Karvy Stock Broking. Please go ahead.

PrashanthKanuru: Sir just wanted to know what was the loss in the futures trade or this entire cost of goods sold?

Management: Which I have mentioned, that abnormal loss which was about 7-8 crores which one of the speakers mentioned, that was one-off a loss because of the imperfect hedge as a result of the huge volatility in the price of gold.

PrashanthKanuru: So we basically sell future contract usually to hedge ourselves against price drop?

Management: Yes, obviously.

PrashanthKanuru: And sir you were talking about very aggressive push towards diamond sales in the second half, so what do you foresee like how much sales mix can come from diamond for the full year such like just an internal target. So what is your aim like because it has been weakening out starting from FY13, last year it was at 21%. So do you see it going above 21% or staying below that?

Management: Of course we are hoping positive and we are looking forward to improve that ratio which is 21:89. That is the reason why we are finding that the second half we feel that some better improvement will come in the consumer sentiment and that will indirectly result into the better sales of diamond jewellery. So we are hoping that this issue will change and issue will change to the positive number.

PrashanthKanuru: But considering that the tough macroeconomic situation like people not have money to spend and diamond prices hopefully only if they come down that you can actually see that practically speaking or else you have to reduce your gross margins to do it.

Management: No, I do not think so because if you look at little bit of volatility whether in positive or negative really does not impact the overall retail prices of the retailers especially in the diamond jewellery. So more or less diamond price might remain stable, will indirectly motivate buyers to buy more diamond jewellery.

PrashanthKanuru: But actually it has been going up so that is why asked you. Sir just one more thing when you say retail store expansion, your competitor PC Jewellers has this 25% of the sales coming from exports which provides them with better supply security. So is TBZ also planning that? I am asking you this because what I have seen is more of new stores is what gets you higher volumes, so to get that you need supplies. So are you looking at any export markets by any chance just to increase your supply so that you can go with the faster retail store expansion, new stores?

Management: To correct you, basically the supply of gold per se is not a constraint. Only the supply of gold under the 80:20 scheme which gives you this gold on loan that is the constraint. Otherwise if I cannot get under 80:20 scheme, I can go and buy on spot as much gold as I need. So that is not really a restraining factor. So to get into exports, of course we did not have that intention neither do we have in the immediate future because we are more focused on to growing domestically and that is what we are going to do in quite a bit of time to come.

PrashanthKanuru: Okay sir, you are saying you can always go for the bullion market?

Management: Yes, it is possible as of today also except that I will not get it under the gold on lease scheme. I have to make spot payment.

PrashanthKanuru: But then why not expand your stores. You can always increase your store capacity that would also get you more volumes.

Management: See basically the prime driver to expand my store has to be the demand pattern. Other things always fall into place later on. When demand is there, then one can arrange the other variables without much of a difficulty to meet the demand. So today we are waiting for the demand, the negative sentiment to turn positive, and the economy to come on back on track. Once that happens and then we see those signs coming in and which is definitely reflected in the more number of walk-ins which will start flowing to our stores that will be first indicator for us to look at that expansion. The prime driver is demand, not the other factor. The others follow soon immediately. There is no issue on those.

PrashanthKanuru: Sir just one-two small questions. Sir what is the present premium per ounce sir, London rate in the market now?

Management: Now there is not much of a premium.

PrashanthKanuru: It will be around \$5 per ounce?

Management: It is around that.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: I did not really understand this imperfect hedge thing, so did it mean that we were expecting certain amount of sales....

Management: We were expecting a fall in price but the price rose at the MCX because the fall in price was factored in because everyone was expecting a duty cut, which did not happen. So we wanted to protect ourselves against the fall in price which did not happen. It went the other way round and that is why it was an imperfect hedge.

Hiren Dasani: And did we also underestimate the amount of sales for which we would have hedged?

Management: No, it has got nothing to do with that.

Hiren Dasani: So technically tomorrow if let us say there is a duty cut of 2% or 4% if hypothetically if there were to be a duty cut, would you have any loss on your inventory which is one-third which is not....

Management: No, because we are still hedging right now. So there is no issue on that.

Hiren Dasani: So just to make it clear if there were to be a duty cut tomorrow, then you will not have an inventory loss on the portion which is

Management: Basically duty cut resulting what we were expecting or everybody expecting that duty cut will result in the sharp fall in the price of gold, which did not happen.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir I had two questions. One which I wanted to clarify, you said 88,000 going to 100,000 by the end of this year, right sir?

Management: Yes.

Avi Mehta: And second sir the depreciation increase in the quarter, is there any one off in that or is that the runrate going forward?

Management: Depreciation increase in the quarter as a result of the change in the Companies Act. You see the new Companies Act has brought in the new schedule which is again one off of a hit and going forward it is on a normal basis.

Avi Mehta: Sir but I thought in the accounts it is written that there is no impact because of that, that is why I asked.

Management: That is marginal. Of course, we have had some additions to fixed assets also if you see in the quarter, mainly it is on account of the addition to the fixed assets and the addition to the fixed assets were primarily in the form of computers and this thing which attract a high rate of depreciation. So that is the reason you saw a greater hit on the depreciation front which in any case is a non cash expenditure because there cash profits remains the same.

Moderator: Thank you. The next question is a followup from the line of Sarthak Malhotra from SAIF Partners. Please go ahead.

Sarthak Malhotra: Sir sorry to come back on the gold deposit thing, but what is happening with the customers who are already enrolled into them. So are you taking deposits, are they supposed to pay deposit for rest of their tenure or not?

Management: As of now the ongoing customers, we are continuing with them.

Sarthak Malhotra: So no new customers but?

Management: Yes, only the new customers we are not taking. That also only temporarily. We are awaiting for clarification which hopefully we should get very soon.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question, I would now like to hand the floor over to Mr. Nilesh Dalvi for closing comments. Thank you.

NileshDalvi: Thank you everybody. Dickenson Seagull IR is managing investor relations for TBZ. Please feel free to reach me at nilesh.dalvi@dickensonir.com to seek more information about the company. I once again thank you all for joining the call. Thank you.

Moderator: Thank you. On behalf of Dickenson Seagull IR that concludes this conference. Thank you for joining us and you may now disconnect your lines.