Transcript

Conference Call of Tribhovandas Bhimji Zaveri Limited

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Presentation Session

Nilesh Dalvi: Today we have with us the management led by Mr. Shrikant Zaveri, Chairman and Managing Director, Mr. Prem Hinduja, Chief Executive Officer and Mr. Divyesh Shah, Head Retail Business. I hope that all of you have received the results presentation. In case not, the results presentation has been uploaded on the website. With this, I would now like to hand over the call to Mr. Shrikant Zaveri. Over to you sir.

Shrikant Zaveri: Thank you. Dear investors, I would like to thank everyone for taking time out and joining us for the first half and second quarter FY14 results conference call. We are all aware that the business performance of corporate India has been impacted more by the overall macroeconomic conditions than by the micro economic factors. The first half of FY14 was a challenging period for the gem and jewelry industry. On one hand the continued overhang of difficult economic conditions in the form of slow GDP growth, high fiscal and current account deficit, high inflationary pressure and high interest rates, restrained discretionary demand and weakened overall consumer sentiment. On the other hand the industry faced unfavorable regulatory conditions in the form of customs duty hike, ban on import of gold coins and bars, dis-allowance of gold lease model for gold imports and the 80:20 gold import rule restricting the total gold imports in India.

We have come up with several measures to secure our gold sourcing requirements, given that around 26% of our sales constitute exchange of old jewelry. We are trying to incentivize our customers to bring their old jewelry for exchange. TBZ shall continue to focus on growth in sales, while at the time keeping the cost under control. A good monsoon season and a strong upcoming wedding season should help stimulate the consumer sentiments. Further, the higher number of wedding days and launch of new collections and designs should further help drive the volumes and margins. TBZ shall continue to remain focused on its expansion plans, where 27th store was recently opened on 9th October in Udaipur. The overall goal of opening 57 stores remains intact. Only there might be some change in the timeline, given the current conditions. With this, I would now like to hand over the call to Mr. Prem Hinduja, our CEO to brief you on the financial and operational highlights for the half year and quarter. Thank you.

Prem Hinduja: Thank you and good evening friends. As you are all aware, TBZ is the oldest jeweler of repute with around 150 years of legacy built on strong pillars of trust, quality and transparency. It will be better for me to take you through our half yearly perspective of our results, because Q2 has traditionally been a lean period for domestic jewelry, more so in this fiscal, because of the existing scenario in the gems and jewelry sector.

First of all, TBZ, a well known and trusted jewelry retail in India has posted a total income of 859 crores, up by 35% as compared to H1, in H1 FY14. The EBITDA for H1

FY14 stood at 57 crores and EBITDA margin was 6.62% as a percentage of total income. Coming to the quarter under reference, Q2 FY14, low customer sentiment due to gold rate volatility and sluggish economic conditions resulted in total income of 324 crores minus 7.65%, a net profit of 3.51 crores minus 81% on YoY basis. The EBITDA for Q2 FY14 stood at 17 crores and EBITDA margin was 5.14% as a percentage of total income, even though the industry faced several challenges. Market conditions (audio break).

Moderator: Ladies and gentlemen, please stay connected while we connect the management team back in the call. Please stay connected everyone.

Ladies and gentlemen, we welcome the management team back. Go ahead sir.

Prem Hinduja: Yeah. Sorry, what I will do, I think there was a disruption in the call. So, permit me to start all over again. Good evening friends. As you are all aware, TBZ is the oldest jeweler of repute with around 150 years of legacy built on strong pillars of trust, quality and transparency. It will be better for me to take you through our half yearly perspective of our results, because Q2 has traditionally been a lean period for domestic jewelry, more so in the current fiscal, because of the existing scenario in the gems and jewelry sector.

First of all, TBZ, a well known and trusted jewelry retailer in India has posted a total sales of 859 crores, up by 35% in H1 FY14 on YoY basis. The EBITDA for H1 FY14 stood at 57 crores and EBITDA margin was 6.62% as a percentage of total income. In Q2 FY14, low customer sentiment due to gold rate volatility and sluggish economic conditions resulted in total top line of 324 crores, which is minus 7.65%, a net profit of 3.51 crores, which is minus 81% on YoY basis. The EBITDA for Q2 FY14 stood at 17 crores and EBITDA margin was 5.14% as a percentage of total income, even though the industry faced several challenges. Market conditions in Q2 FY14 were quite tough. Your company posted growth in total income of the first half of the fiscal despite tough socioeconomic conditions prevailing in the country, including muted demand, double digit decline by consumers during festive season 2013. The slowdown in the import of gold resulted in the scarcity of yellow metal, with gold being sold at a premium leading to higher prices. The higher cost of imported gold and soaring gold prices affected consumer demand negatively. Incidentally, the demand for gold coin also declined, as they became a less attractive investment option. All in all, Q2 FY14 was a very challenging period for the jewelry industry. However, your company's management constant endeavor will be to achieve growth in sales on one hand and control cost on the other hand.

TBZ is one of the leading wedding jewelry retailers in India and a very strong player. We are expecting the wedding segment to show improved performance in FY14, driven by higher number of wedding days as compared to FY13 and auspicious days, which will last till June 2014, the highest in the last decade. The other endeavor by your company include launch of new collections and designs, which would we are sure further drive volumes and margins expansion. Good monsoon and hence a good harvest can also improve the mind sentiments with added cash available with the consumer.

Your company undertook several proactive measures to sail through the market challenges, including appealing new collections, attractive consumer offers and customer centric schemes. Simply the best gifting solutions, TBZ-The Original Gift

Cards, which were launched just before festival season, are ideal for all givers of gifts and gave the freedom to get what they like, choose and use. Your company also introduced the Suvarna Shrishti scheme, which is a gold accumulation and savings and accumulation plan that protects consumers from rising gold prices. Your company also focused aggressively on increasing diamond sales. All India Gems and Jewellery Trade Federation, GJF, said that during Navaratri this year, there wasn't much enthusiasm among people to buy gold. Though some buying did happen during Dhanteras, jewelry sales were still down by about 30%. At the same time there was an 80% reduction in demand for bars and coins.

With this note, thank you all friends for bearing with me patiently and now I leave the floor open for further questions and answers. Thank you very much.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Prashant Kutty from Emkay Global. Please go ahead sir.

Prashant Kutty: Thank you for taking my question sir. Sir, firstly if we could know what are the avenues of gold sourcing that has been adopted by the company right now?

Prem Hinduja: The various avenues of gold sourcing which have been adopted by the company are basically traditionally we have a method of exchange of old jewelry. So, what we have done, which used to be about 25% to 26% of our sales, we have incentivized on the same to increase the percentage. Number two; we have introduced a gold deposit plan, whereby we accept gold in the form of coins and bars from the potential depositor, for a fixed maturity period and with a return in kind at the end of the period. Thirdly, we have also tied up with one of the leading PSU banks in India, which is offering gold lease from the gold domestically collected from them, because there is no restriction on offering gold lease on this type of gold, domestically collected gold. And this is basically on the same terms and conditions, which we used to earlier procure from imported gold from Bank of Nova Scotia and such other banks. And fourthly, last but not the least, we have our other avenues like the bullion dealers, like the local bullion dealers and the banks who supply us the rest of the gold which we need. So, so far we have not faced any problems and going forward also we don't see, foresee any challenge in procuring from these sources.

Prashant Kutty: So, as of now our gold sourcing would be to what extent, till what period we are probably covered?

Prem Hinduja: Basically you see, our inventory levels are covered. We have a standard level of inventory. At the time of festivals generally we up the inventory, which happened only recently and we faced no challenge and then we go back to our standard level of inventory. So, it is an ongoing replacement basis. One makes the sales and replaces it, replaces with the fresh supply and that goes on without any problem.

Prashant Kutty: Sir, my question was that as far as my gold sourcing is concerned, till what time period are we comfortable?

Prem Hinduja: Basically I would say that we would be comfortable going forward to meet all our requirements as and when the demand arises on an ongoing basis. We don't foresee any challenge.

Prashant Kutty: Okay. And secondly, as far as this new regulation of the 80:20 rule is concerned in import-export, when do we see this stabilizing or when do we see this actually coming into force completely?

Prem Hinduja: Actually we are not really aware, because there were certain clarifications issued recently whereby the customs started delivering gold. But, there are lot of hiccups probably happening at the ground level, which has also reflected in the imports figures which has been released for the last month. And in fact basis this there is an estimate in some of the write ups that one would have read; that this year the gold, going forward there is going to be minus 71% decline in gold imports coming into the system as compared to last year. So, all the same we are not really looking at that avenue. We have these other avenues open to us and we are pretty confident in meeting our requirement from all these balance avenues.

Prashant Kutty: Okay. And as far as the demand side is concerned, given the upcoming wedding season, do we expect that the growth would be abnormally higher as compared to the last year?

Prem Hinduja: Looking at the current market conditions and the consumer sentiments, we believe that of course the wedding jewelry demand will increase. However, what we have seen, the gold coin demand is still muted and negative. So, we might compensate the gold coin demand, replace the gold coins sales with the jewelry, but we are not optimistic that it will show exuberant growth in this quarter.

Prashant Kutty: Okay. So, what is the extent of gold coins in the overall revenue?

Prem Hinduja: If you compare last year to this year, last year the gold coin sale was about 15% of the sales. This year it is about 7% of the sales. But, in 7% you need to understand one thing, the entire gems and jewelry industry has called off the selling of the gold coins for couple of months and now recently they have allowed. During festivals everybody had started selling it. So, we have also not sold gold during those periods. So, maybe because of that reason the gold coin sales as a share of the total sale has gone down.

Prashant Kutty: Okay fine, thank you sir. I will come back if I have any questions.

Prem Hinduja: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Pranav Mehta from Value Quest. Please go ahead.

Pranav Mehta: Hello, good evening. Sir, two questions from my side. One is, on the inventories per store has been consistently going up. So if I see this September number, with 27 stores, it is coming to about 41 crores per store. Even if we take say, 6 work in progress stores, it comes to 34, 33½-34. So, that is above average. So, why is that inventory per store is going up?

Prem Hinduja: First of all, I want to put it in the proper perspective that the inventory per store in volume terms is not going up. It is only a function of the price, with price variation, which will see the distortion in the value. Now, we have always been maintaining, more or less we have been maintaining that our average inventory per store is about 30 crores on an average (not clear) investment. Now, if that 30 goes up on an average to about 34 crores, that could be possibly because of the price impact. Another reason is, this inventory levels are at any reporting date, so there are other factors which come into play. Like you may have a festival, like in this case there was Dasara coming immediately after the close of this period. So, one has to build up inventory. So, you may see a spike during that particular period. But, in the normal course, in volume terms we maintain our levels of inventory and we try and endeavor in fact to rationalize the same to the maximum extent possible.

Pranav Mehta: And on the store expansion, for the current year FY14 what is the, how many stores do you plan to open in FY14?

Prem Hinduja: I will put it this way that expansion plans which we had envisaged going up to 150000 square feet and 57 stores, that remains. That horizon still remains. But, only there is tweaking of the timeline, depending upon the scenario and the current prevailing situation. So, what the management is doing is, constantly monitoring the situation and it is constantly reviewing the situation. Now, today there are several challenges which we all know which are being faced in terms of economic scenario, in terms of de-growth in the GDP number, in terms of the consumer sentiment, in terms of the supply chain and the inflationary impact, so many other measures. So, what we will do is, we keep all this on our radar all the time and we have taken an appropriate decision at an appropriate time as to when to open and how to open. But, all the same let me assure you, we are committed to expansion and if we have to do that, I said that there will be tweaking of the timeline.

Pranav Mehta: How many would be committed, because we would have some stores which would be, where the lease is committed or we have taken the premises or people. How many would that be?

Prem Hinduja: Basically at present if you ask me, there are three to four stores where we have already, the way you are describing it, that is how the things will turnaround.

Pranav Mehta: Okay, so those we would definitely have to, that would be, work would be on, right?

Prem Hinduja: Yeah, the work is going on.

Pranav Mehta: Alright. And the gold leasing, we will stop except for whatever we are able to source from the PSUs. The other gold leasing, we have this, we would have six months leasing. So, by end of December that leasing will move to working capital debt, is that the understanding correct?

Prem Hinduja: No, basically what will happen I will tell you. Of course you are right, the gold leasing will completely faze our by December end, because we were about 50% on lease when we began this (not clear) 40%. At present we are still on 25% lease. But, at the same time, simultaneously we are also starting on this PSU bank gold lease model on the same terms, so it will start replacing this particular scheme. But, of course it will not be a complete replacement. And so, as far as getting any further debt and all that, what we are trying to do, as I mentioned in the beginning in my speech that we are rationalizing our inventory at the same time. So, to the maximum extent possible, we will try and use our internal resources, rationalizing our inventory all across all the stores. So, that we incur minimum possible debt and we will try to keep that on the wrap up to the maximum extent possible through a period of very reduced level.

Pranav Mehta: Alright sir, got it. Thanks.

Moderator: Thank you sir. The next question comes from Mr. Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, thanks for the opportunity. My question is on the PSU lease model which you mentioned. You mentioned you are trying to replace it, but you also mentioned it is not going to be for the entire thing. So, if you could explain this in more detail as to how the dynamics works there and why it will not be for the complete requirement?

Prem Hinduja: Basically the way this scheme works, because this particular PSU bank lease model was, that it is given only to existing customers who are already enjoying credit facility with this bank. And this particular facility will be given, will be restricted to the extent of the overdraft facility or the cash facility, which the company enjoys with the bank. And this is totally interchangeable with that particular facility, like it will be a sub-limit of the existing facility. So, either you use a cash credit or you use this facility. Now the outer boundaries are of course to the extent of the overdraft facility which we are enjoying with this particular bank. And that is the reason I am saying that it will not meet our entire requirement. But, all the same at today's current prices, at least I would say approximately about 25% of my inventory requirement can come through this source.

Abneesh Roy: Sir, could you increase that overdraft and in terms of cost, if you see earlier…

Prem Hinduja: As I said I cannot arbitrarily go and ask the bank to increase my overdraft, because that is an annual exercise they do, when they do your working capital assessment, which is based on CMA data and further projections and how you have fared in the past and what you propose to do in the future. So, it is a result of several factors and all that. One cannot just go and ask them to increase the facility and they will not do it just for the sake of doing it. It is based on company's assessment.

Abneesh Roy: If you see cost wise, earlier lease was working out around 3½%-4% cost. How much will this work out for that 25%?

Prem Hinduja: It was working out 5%, because 3½%-4% is what we were paying to Bank of Nova Scotia and 1½% we were paying by way of guarantee commission, which was being offered as way of collateral. Now, since this facility is a sub-limit of my existing facility, there will be no separate bank guarantee commission, which I will be paying, which I will not be required to give any bank guarantee. But, on this facility I will be paying 5%. So, my cost remains the same at 5%.

Abneesh Roy: Right. And could you speak on the hedging part? MCX is not enough.

Prem Hinduja: As far as the hedging part is concerned, yes, we were about to, after this gold leasing model is over and even otherwise we were exploring the avenue of hedging on MCX, but we all know, everybody knows about what is happening there. But, we are looking at alternate sources or alternate commodity exchange, which have also recently got into the act of allowing hedging. And we are exploring that very seriously. And once that it is done, we will let you all know.

Abneesh Roy: That is domestic?

Prem Hinduja: Yes, it is domestic, very much domestic.

Abneesh Roy: And sir, going back to PSU, follow up, you don't expect any regulatory issue on this?

Prem Hinduja: Certainly not. There is no restriction. If Itell you about the PSU bank, without naming it, it is one of the leading PSUs of the country, so obviously they wouldn't do anything which is a challenge from RBI and any of the regulators. So, one can understand from that. They have taken, they must have done their own due diligence, they must have checked up with the Reserve Bank. They must have taken all those cautions and then probably they have agreed and we have signed up with them for this particular facility.

Abneesh Roy: Sir, my next question is on the gold coins. If you see currently, there is a shortage of gold supply. So, some of the larger retailers what they are saying is, unless gold supply improves, they would not like to start gold coin sales, because that is a low margin business. It is better to divert that to jewelry. In your case, I do not find the same thinking. So, if you could elaborate?

Divyesh Shah: Yeah, I believe, Abneesh hi. This is Divyesh here. Even we have clarified the same that we have stopped selling gold coins during the second quarter. When in the July end moreover the association gem, GJF and all the other jewels have taken a call that we will not sell the gold coin, unless this entire situation is cooling down. But, however during the festivals because of the consumer sentiments we have sold the gold coins. But, it was not in very large percentage. And still we are not promoting gold coins at across all our stores. So, even we are on the same page with how industry is thinking. We are not thinking anything differently.

Abneesh Roy: Sir, currently are you doing or you are not doing?

Divyesh Shah: Only during Dhanteras and Pushya Nakshatra, we have sold the gold coins. And only few of the stocks have been left in the stores, that is lying in the stores.

Abneesh Roy: Sir, my next question is routine one. If you see salary cost has declined quarter on quarter, in spite of expansion, I couldn't understand how it has declined?

Prem Hinduja: Basically the salary, employee cost has declined very marginally on quarter on quarter if you see. If you are talking about the trailing quarter, from 16.96 crores, it has gone up to 16.09 crores. But, let me put it in the proper perspective. What happens, our salary is stable to our sales staff, also there is an element of incentive which is based on the sales. Now, if the sales are down in this quarter as compared to the previous quarter, because that is totally a variable portion. So, you will find a decline in the salaries which is payable to them, to the extent of the incentives which they enjoy and that impact will be shown overall in the overall employee cost. So, that is the reason.

Abneesh Roy: Sir, my last two questions are, one is on the gold deposit scheme, how that is doing? And again, do you expect any regulatory issue there? And last one is, on the smuggled gold if you see; obviously the unorganized jewelry players will be having an upper hand here. So, any data point you can share as to how much of an impact this is having? Because, your class of customers may not go to unorganized, but in the last two months, the way things are, are you seeing that kind of customer now they are trying the unorganized retailer also?

Prem Hinduja: I would not really like to comment about, it will be difficult for us to comment upon how those people are faring and what amount of smuggled gold is coming to the country and all that. It is only that generally the rumors float around and all that obviously. If there was so much demand and if there is the imports which is coming in, so how is the balance being met and all that, in spite of the fact overall the demand has got muted by about 30%. But, still you see some sort of gap, but very, very difficult to really answer that type of a question.

Abneesh Roy: Gold deposit?

Prem Hinduja: On the gold deposit, let me put it this way. We started this scheme very recently, the Gold Deposit Plan; we have started about two months back. We are getting satisfactory response to the same. And going forward we are seeing that this response is keeping on increasing, as more and more people are becoming aware about it. And to answer the second part of the question about the regulatory challenges, before we went into this scheme, we had done a thorough study for almost; it was like a six months exercise we did, where we got in touch with top lawyers, legal people, the top accountants. So, it has got a due diligence being done by the top legal fraternity and the accounting fraternity before we have put this plan into operation. And so far last two months we are not facing any hurdles or any issues with this. And we are pretty confident that going forward also we don't foresee any of the challenges coming from the regulator on this front.

Abneesh Roy: Right sir. Thanks and all the best sir.

Prem Hinduja: Thank you. Thank you.

Moderator: Thank you sir. The next question comes from Ms. Sanjana Jogani from HDFC Securities. Please go ahead.

Sanjana Jogani: Hello. Hello sir. Okay, good evening. Like you mentioned earlier that now that the import of gold has reduced, so due to that there is scarcity of it and it is being sold at a premium in the market. So, could you tell me the percentage of premium rate being applied?

Divyesh Shah: The premium is changing every day. Like, it will depend on what kind of demand it is. Typically what we have seen in the premium, which was earlier used to be 5 to 15 dollars has gone up as high as 35 to 40 dollars per ounce. But, now it has come down and it is about 15 dollars per ounce.

Sanjana Jogani: Okay, fine. Also you said your gold sourcing is coming from like three ways, like exchange of jewelry with the Gold Deposit Scheme in PSU. First, I would like to know your annual requirement in tons, how much would that be?

Moderator: Ladies and gentlemen, please stay connected while we connect the management team back on the call. Please stay connected everyone.

Ladies and gentlemen, we welcome the management team back. Please go ahead sir.

Prem Hinduja: Hello. Sorry, for the interruption. I will repeat my answer again. Since you were asking what would be the requirement of gold for this particular year, I think the best data would be to look at our last year figures, where we sold about 4 tons. And since we go on replacing our gold sales on a daily basis, so if this were to be any indication and of course taking in, factoring into account the muted demand, which is there this year compared to last year, it could be anywhere between 4 tons to 5 tons of requirement for the full year.

Sanjana Jogani: Okay fine, thank you.

Prem Hinduja: Thank you.

Moderator: Thank you. The next question comes from Mr. Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: Thanks for the opportunity. Firstly, my question was on, how has been the festive demand? You said that, if I got it right, you said that there was a 30% decline in sales during Dhanteras and even Navaratri was not to the mark. So, one question was that, how was the festive demand? And secondly, if we have to look at the third quarter, which is a very important quarter, how much of that quarter would be coming from wedding jewelry generally? So, these were the two questions.

Divyesh Shah: Hi Abhijeet, what Mr. Hinduja said is the statement which was made by Gems and Jewellery Trade Federation, what he said that overall industry has seen about 30% de-growth in jewelry and 80% de-growth in gold coins. But, if you look at traditionally, the third quarter is very important for entire gems and jewelry industry, specially because of the larger number of weddings which is taking place in the third and fourth quarter. And we believe that TBZ, total share of wedding jewelry sales in the first quarter is about 80% to 85% out of total sales of gold and diamond jewelry. However, coin always remains about 16% to 17%, because of the more number of festival days. But this year what we have seen initially that yes, coin demand is still muted, but overall sentiment has improved and there is a lot of footfall has been started for wedding jewelry especially. So, we don't see that much negative in gems and jewelry industry has been indicated for the overall industry.

Abhijeet Kundu: Okay. And secondly was after all the arrangements that you would be doing for sourcing of gold, net-net what would be the ballpark increase in interest cost for you, going ahead in the next two quarters, because that will make a significant difference going ahead? So, wanted some color on that.

Prem Hinduja: Basically as I mentioned in the beginning, yes, no doubt the interest cost is going to increase, because we are replacing (not clear) for the 5% which we were paying on the 50% (not clear). But then again, let me put it this way that 50% will become 25%, because that will be sourced from the PSU bank at the same rate of 5%. Even if you see our figures, the figures which we have published, you will find that the interest cost increase is already showing, which was 10 crores as compared to 8 crores in the trailing quarter. But, as I also mentioned that what we are trying to do, we are trying to rationalize. We are trying to keep our borrowings (not clear) extent possible, rationalize our inventory level, rationalize our working capital, increase our working capital cycle. And through all these measures, we will try and keep this impact (not clear). But, we cannot do it altogether; inevitable unless the Government decides that rest of that (not clear).

Abhijeet Kundu: So, in terms of the interest cost increase, partially you have seen that during the current quarter. And you could see some further increase in the interest cost going ahead. But, third quarter would be a good indicator of what could be the interest cost going ahead.

Prem Hinduja: Exactly, exactly.

Abhijeet Kundu: And sir, you were saying about the rationalization of inventory per store. Basically rationalization would be efficiently managing of inventory and hence reduction of inventory. So, according to you, how much of, what percentage of inventory could be reduced and that would, how much would it help your inventory building up for new stores? Say, for example if you are able to cut about 10% of your inventory across the existing stores that would feed the inventory of your new stores. So, just wanted to know some color on that.

Prem Hinduja: Basically, rationalize (not clear) inventory can take place in several ways. One of the ways of course what you mentioned is cutting down on the non-essential business. Secondly is, once you have the (not sure) model and all that, you need not necessarily keep the same amount of inventory in the store to (not clear). Thirdly is, of course trying to increase the inventory in the same store, so that is also a method of rationalization of it. So, we used some combination of all these measures, which we are emphasizing and working on very seriously to try and keep the impact of the increasing cost of debt to the bare minimum cost.

Abhijeet Kundu: Okay. And in terms of marketing expenditure, now that anyways we are seeing a slowdown. So, on one side where the scenario is challenging, one requires to do some amount of marketing expense to get that incremental demand or gain from others. And at the same time one has to control cost. So, going ahead directionally what do you feel where your marketing expenditure would be?

Prem Hinduja: That is what we have already been doing. So, if you already see in my results which I have declared, our other expenses which include all the expenses which you have just mentioned, which also includes advertising and all other expenses, which has come down from 30 crores, which was there in the trailing quarter to about 26 crores in the current quarter in our report. So, this is again an ongoing exercise which we are doing and we are very much aware that this is also one avenue whereby, there are two avenues, either you try to push up your sales and all that and if that is not happening to the desired extent, at the same time one takes measures to control cost and reduce cost wherever possible. And we are doing that and which is also reflected in this quarter's results. And going forward you will see more of it, more and more of it being reflected when we come and meet you again.

Abhijeet Kundu: And is there any scope for improving your margins, other than the cost part, on the pricing part, on the making charges part or through the sale of low value jewelry, where the making charges typically are higher. So, any strategy on that front you are doing, which can lead to improvement in making charges, one. Or, can there be a scenario going ahead, where making charges could be increased across the industry, looking at the challenging environment?

Prem Hinduja: As far as margins are concerned, again there are various ways of improving the margins. One of the ways is what you just brought to our notice. We are also aware about that, about rationalizing of the making charges. Secondly is of course the improving the mix, like even if we see, again referring back to our results on the report, in the trailing quarter our blended gross margin was 16% and in the current quarter, reported quarter, it is 18%. So, it has improved by 2%. The gross margin has improved by 2%. Now, this is a factor of two. One of course was that in the trailing quarter, there was a higher amount of gold (not sure), which does impact the overall blended margin. Now, it is more or less restored back to the 75:25 ratio. But, even with that, our gross margin on gold which is about 11% in the trailing quarter, has improved to about 12½% in the quarter under consideration. So, all these measures also, we are also doing simultaneously So, not only to reduce our cost, but how to improve our gross margins through these various measures, which will also help us in getting better operating margin.

Abhijeet Kundu: But, looking at the overall environment, what is your feeler from the market that how difficult or easy it would be to increase making charges? Because, I believe that if making charges have to be increased, then it has to happen on a broad based basis, like across players it has to happen, otherwise in the kind of environment that we are, it will be pretty difficult. So, what is your view on that?

Divyesh Shah: Abhijeet, we cannot talk about others, how others are going to behave, because there is no (not sure) is there. But at the same time we are always endeavoring to increase the overall margins. So, what we are doing is that at product level we are introducing the new products, which can demand a higher premium and help us to improve the margins. So, recently also we have introduced Diwali festival collection with a premium of making charges, because it was unique. So, I believe that by introducing and replacing the product of lower making charges, with the higher making charges with a unique design differentiator, we believe that that is how slowly and gradually you can increase the margin. Overnight, suddenly you cannot increase your making charges in such a competitive scenario, when the entire market is depressed because of the overall economic conditions. And if we are the only ones who will increase the making charges, then probably we will get impacted on the revenue side.

Abhijeet Kundu: Okay, that's it from my side. Thanks a lot.

Moderator: Thank you sir. The next question comes from Mr. Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Hi, good evening. Thank you for taking my questions. I just had two questions. One on the PSU arrangement, the lease model that you have, if you could give me a little bit more color on how exactly the settlement will happen. For example, when you lease and when the lease expires, how does actually settlement works? And secondly, if you could talk about the Gold Deposit Scheme that you have launched and if you have any update on Nova Scotia was planning to do the same thing and they were like still trying to get RBI approval for launching that scheme and things like that. So, if you could give an update on how that scheme is different from yours, is there any particular context that applies to you as well on that? That will be very useful.

Prem Hinduja: So, I will answer both your questions. Coming to your first question, is as far as our arrangement on gold lease model with the PSU bank is concerned. It is going to be on the same terms and conditions which we were doing with Nova Scotia, basically for a period of 180 days. Settlement is termed in India rupees at the end of the tenure. So, as I said that I don't have to offer a separate collateral by way of a bank guarantee, which I was offering to Nova Scotia. In this case the cost is in built in the total 5%, which I will be paying to this particular bank. And lastly, but not the least, I will not be carrying any price risk on the gold which I am taking on lease, like in all lease models, that gets into play only the day I make a purchase or convert my lease into a purchase. The terms are exactly the same what we were doing earlier and absolutely there is no difference.

Amit Sachdeva: Sure. But, there is one difference in the market context, because now there is obviously supply which is respected in the market place. So, supply is not coming in and the bank must be like taking deposit from people, to deposit gold and pay back with some interest later on. So, if they give the inventory to you and you sell it off and settle in cash, eventually they will be giving to some other jewelers as well. So, how does it work? Their stock may exhaust with no other people to deposit and gold is already sold and you settle in cash. So, won't there be some replacement needed for the gold, which has been sold by you? This could be one time, but it may get squeezed when the supply of the gold actually coming to the market, actually squeezes out.

Prem Hinduja: So, I will put it this way. I will answer this question. First of all, this gold which is with this particular PSU bank which we are talking about is basically the gold which has been collected from various temples and the trust. And this (not clear) run for quite some time. And again under the scheme which these banks were allowed by the Reserve Bank, there was a tenure of minimum period of three years, going up to seven years. That was the period of the tenure for which they were accepting the gold deposits. And when it comes from temples and these trusts, it is in huge quantity that the gold comes. Secondly, as far as this bank offering the same facility to other jewelers, again as I mentioned in my earlier conversation that this is being restricted to the existing clients who are already enjoying working capital facility with them, because this is linked with the working capital facility, so obviously each and every jeweler is not enjoying a working capital facility with this bank. And secondly, again the amount of facility they are offering is again restricted to the amount of working capital facility enjoyed by the jewelry client. So, I don't foresee that could really be a challenge.

Amit Sachdeva: Okay, fair enough. And the second question on the…

Prem Hinduja: As far as the scheme we had also heard about, Nova Scotia adding this Gold Deposit Scheme, but the way we understood that they were doing it on behalf of several jewelers. So far it has not yet started. For what reason it has not started, we are also not aware. And I think we will have to post this question to Nova Scotia itself to find out what is the current state of affairs. But, as of now they are not doing this scheme, for whatever reason we are not aware of.

Amit Sachdeva: Okay. But, you don't see any major, any risk of regulation coming to your scheme, where somebody would say…

Prem Hinduja: It is six months, more than six months exercise before we launched this scheme. We are bound to complete due diligence, so we don't foresee any challenge.

Amit Sachdeva: Okay. Thank you so much sir, much appreciated.

Moderator: Thank you. The next question comes from Mr. Rahul Bhangadia from Lucky Investment Manager. Please go ahead.

Rahul Bhangadia: Thank you. All my questions have been answered. Thank you so much.

Prem Hinduja: Thank you.

Moderator: Thank you. The next question comes from Mr. Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Hello. Sir, one, couple of questions with respect to the PSU leasing model, would you be able to share how much overdraft, the facility we have with that bank?

Prem Hinduja: No.

Mithun Soni: No, I am just trying to understand, because there would be limited edge you said.

Prem Hinduja: Kindly pardon me for not revealing that.

Mithun Soni: Okay. And you said that in your opening remarks, in your earlier answer that it will meet the need up to 25% of our inventory requirement of the gold. Now, just trying to clarify, this 25% is the total amount of gold other than our own gold or is it complete inventory requirement?

Prem Hinduja: Complete gold inventory. Complete gold inventory.

Mithun Soni: Complete gold inventory requirement. Coming to the second question with respect to inventory rationalization, now wanted to understand, will that help us in reducing the overall debt what we have today? Is that something what we are looking at?

Prem Hinduja: I would put it the other way around, that it will help me to maintain more or less the same level of debt, even when I am going in for expansion, without trying to tap any additional debt to meet the requirement, at least in the immediate future for few of the stores which are likely to be coming up. And so, to that extent I would call that as a part of our rationalization, that I get added revenue, without increasing my interest cost.

Mithun Soni: So, whatever as per your analysis, how many more stores we can open with the same amount of inventory or with the existing inventory or without increasing debt?

Prem Hinduja: Basically, again pardon me for not being able to answer that question. But, we also did mention in the beginning, about, somebody asked about how many stores are in the horizon, which we have shortlisted and we are working on. So, that can give some sort of indication as to how much is the requirement.

Mithun Soni: Okay. My second was with respect to, would you be able to share the volume growth for both gold and gold jewelry as well as the diamond jewelry, in percentage in any form?

Prem Hinduja: We don't see the volume growth separately, because last year many of our stores were partially working on the second quarter, so (not sure).

Mithun Soni: Okay. Alright, thanks. That is it from my side.

Moderator: Thank you sir. And the last question for the day comes from Mr. Jaisingh Suchak from JM Financial. Please go ahead.

Jaisingh Suchak: Good evening.

Prem Hinduja: Good evening.

Jaisingh Suchak: Basically on the gross margin front, when we compare YoY, there is 1.1%, sort of 110 basis points sort of contraction, even though our gold-diamond mix has improved slightly. So, what could be the reason for that?

Prem Hinduja: Basically on YoY basis, if you are talking about quarterly basis, there has been 1% contraction, although it was 75:25 ratio. But, 1% is very, very marginal. Again, like you look at the environment, the environment with which we are working in this quarter as compared to the corresponding quarter last year and where you have to incentivize the customer to come and buy jewelry from you. So, one has to go tactical to some extent and that could possibly be the reason, because of that resulting in the contraction in the gross margin.

Jaisingh Suchak: Sure, just one more question. You spoke about the expansion in your initial comments. And obviously the target remains same. And there may be some time difference considering the regulatory environment and the overall consumer environment. But, just in terms of FY14, considering we have only four to five months to go now, what sort of store addition can we look at for this year, because that will be obviously something which is already in play in terms of the pre-operating setup and stuff. So, let's say the total target is 57, it may take some more time because of the external part, but what about FY14? Can we have some more color on that?

Prem Hinduja: Basically as I mentioned this, I expect I mentioned earlier also that there are certain stores on which we are working out, which has another about three to four stores, where we have ongoing is going on and those stores may get ready very soon and all that. So, other than that we cannot really share any information as to how many number of stores we are going to add during this year. But, again let me reemphasize my earlier statement that we are committed to that 150000 square feet and 57 stores within a particular time horizon and we will stick to that.

Jaisingh Suchak: Great. Thanks a lot and wish you all the best.

Prem Hinduja: Thank you very much. Thank you.

Moderator: Thank you sir. Now, I hand over the floor to Mr. Nilesh Dalvi for closing comments. Go ahead sir.

Nilesh Dalvi: Thank you Moumita. The Dickenson Seagull IR is managing the investor relations for TBZ. In case of any questions, please feel free to reach me at nilesh.dalvi@dickensonir.com. Thank you.

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