

"Gitanjali Gems Limited"

May 29, 2013



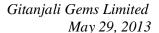




MR. HARIT KAPOOR **ANALYST:**

MANAGEMENT: MR. MEHUL C. CHOKSI

MR. ABHISHEK GUPTA





Moderator:

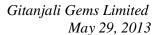
Ladies and gentlemen, good day and welcome to the Gitanjali Group earnings conference call hosted by IDFC Securities. As a reminder for the duration of the conference all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Harit Kapoor. Thank you and over to you Sir.

Harit Kapoor:

Thank you. On behalf of IDFC Securities, I would like to welcome you all to the Q4 and full year Earnings Call of the Gitanjali Group. We have with us the senior management of Gitanjali Group. I would now like to hand over to the senior management, post which we will open the floor for Q & A. Over to you Sir.

Abhishek Gupta:

Thank you Harit. Ladies and Gentlemen! A very good evening and welcome to the annual results of Gitanjali Gems Limited for the financial year 2013. We are happy to announce a sustained momentum in the fourth quarter for the financial year 2013. The company achieved consolidated Net Sales of Rs. 16,418 Crores registering a growth of 31%. The consolidated net profit increased to Rs. 592 Crores, as against Rs. 487 Crores in FY12 achieving a growth of 21%, the net profit margin stood at 3.6%, the EBIT for FY13 was at Rs. 1,082 Crores, a growth of 26% over last year. For the 4th quarter of FY 2013, the Group achieved consolidated sales of Rs. 4,750 Crores a growth of 35% over the corresponding quarter last year. While the EBIT for the quarter was at Rs. 257 Crores up by 24% and the PAT for the quarter was at Rs. 119 Crores, up by 16%. We also achieved significant retail penetration in India through the addition of 72 franchisees, 26 own stores, 66 shop-in-shops and 150 retailers through the distribution channel. We have increased the occasions for jewellery sales and introduced new formats for the retail of jewellery all of which have served to ensure that we witness an increase in footfalls and also the conversion of footfalls to sales. The transforming of our product brands into retail chains has been supported strongly by the addition of new categories in precious stones such as emeralds, rubies, polki, kundan and jadau. To support these categories, Gitanjali also set up a factory in Jaipur dedicated to the production of colour stone jewellery. We have also introduced new collections and further developed the gold category, thereby, extending the appeal of our products to a wider range of customers. These additions to our portfolio lend greater versatility to our offerings and accommodate the enormous regional diversities of the Indian jewellery market. During the year, we grew our brand portfolio organically as well as inorganically. We acquired brands such as Nirvana and Viola. We also launched brands such as Envi -a collection of emerald jewellery, Moira- a combination of freshwater pearls and diamonds, Karina-featuring rubies and diamond jewellery and True Platinum. A wide range of products across brands, categories and channels has allowed us to deliver again in keeping with customer expectations. Gitanjali witnessed a comparatively stronger second half this year. Sales gathered rapid momentum with the onset of the wedding and the festive season in the third quarter and the surge continued through into the fourth quarter on account of the Valentine season and the second wedding season. Internationally, in the USA, Christmas and Thanksgiving were very





encouraging and the mood remained positive thereafter, with strong sales being reported in Q4. Double digit like-to-like sales were achieved in the USA and Japan. The USA and Japan are diamond jewellery markets that offer high margins at the front end as well as manufacturing and supply chain margins in India. Gitanjali, during the year developed distribution and retailing hubs in the Middle-East and Hong Kong. There are four stores operational in Dubai and a store was opened in Singapore. Dubai will be critical to the group's expansion into emerging markets. We have been active on the E-commerce front as well. In addition to developing our own portal, Gitanjali's E-commerce initiatives comprised strategic tie-ups with some of the largest online retailers in India in order to drive online jewellery sales. We are well-prepared to take full advantage of the potential of the E-commerce space. Our initiatives such as e-franchising are gaining in popularity quarter on quarter and we find customers willing to embrace new methods of jewellery purchase. With Gitanjali addressing dual propositions of trust and the fulfillment of aspirations, it is well in line with customer expectations. Gitanjali is well-positioned to maintain its high growth trajectory. Having realigned its structure into three focused verticals, the group's integrated business model, supply chain efficiencies and economies of scale will enable the organisation to retain its sources of competitive advantage and continue to dominate the Indian jewellery market.

Thank you very much! We will be taking questions now.

Moderator: Thank you very much. Our first question is from the line of Akshit Desai from AIM Capital.

Please go ahead.

Akshit Desai: Diamond business EBIT margins have fallen both in Q4 FY'13 on a YoY basis. Could you throw

more light on this? What would be the reason behind this?

Mehul C. Choksi: The exchange rate had dropped for the quarter and it is mostly on the export side for diamond

sales and that is the reason. The exchange rate declined by 3% or 4% during that period in the

March ending.

Akshit Desai: That would be the same reason for EBIT margin fall in jewelry business as well?

Abhishek Gupta: Jewelry business margins are a little bit lesser only because of there is more expansion of gold

jewelry. For the last six or nine months we are witnessing a robust growth as far as gold jewelry is concerned in India and that is the reason. The margins in gold jewelry are normally lesser than

the diamond jewelry as such.

Akshit Desai: So what could be the proportion of gold and diamond mix currently and what was it a year back?

Mehul C. Choksi: A year back Akshit we were roughly about 50% gold, 50% diamond in India. Now we have

reached approximately 57% gold and 43% diamonds.



Akshit Desai: Sir, I think the India business forms around 58% of total business. How these see this going

forward, the share would increase or would it be the same?

Mehul C. Choksi: Basically it is mostly that the growth has been on the gold side. As such the company's real push

is on the diamond jewelry globally this year. Of course those markets are growing at double digit already like 10% or more growth as far as America and Japan are concerned, but to catch up with the figure of gold jewelry it is difficult but we are pushing very hard this year on a value-added product in the stone and diamond jewelry. So we expect this to increase substantially in the coming year. Because of the exchange rate and the rupee devaluation, India is one of the most competitive markets and that is why we are planning to expand our export front in a big way this

year.

Abhishek Gupta: Akshit, also to elaborate on Mr. Choksi's point if you see the trend three years back we were

approximately 50-50 India and overseas. Today India is about 58%, so continuously we will shift

more-and-more business as the jewelry goes along in India.

Akshit Desai: So I believe recent fall in gold prices would have increased the gold volumes domestically. Are

you seeing this demand is now?

Mehul C. Choksi: It was for the full months from April 15 till May 15 that the demand has increased by over 30%

to 35% probably even going up to 50% on gold jewelry during that period.

Akshit Desai: How do you see it now currently? Has it tapered off or is it still the volume demand is strong?

Mehul C. Choksi: That month you cannot compare as such, because that was something abnormal it was a one time,

Akshit. Within that particular month was a robust growth only in gold jewelry but not in diamond

jewelry as such.

Akshit Desai: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Klimemko from Alrosa. Please go ahead.

Dmitru Klimemko: I would like to ask you a question about diamond jewelry in India. What is your focus for 2013

and may be what is going on with demand for diamond jewelry?

Mehul C. Choksi: Well diamond jewelry particularly in the last one month, has not increased as such, because there

was a rush for gold jewelry but it is a very low hanging fruit. Only 15% of the entire sale of jewelry in the country is diamond jewelry. It is very easy for consumer to switch from one item to other item as such. We always see at the end of the year there has been a continuous growth for last 15 years that the market has been growing at 15% to 25%. So we expect the same this year too. Apart from that, even it is directly related to the rupee and dollar value because diamonds are normally in the dollar value so from that point of view also we feel that we will see

the growth. For the last one and a half months however, between gold jewelry and diamond



jewelry there is no comparison. People have really gone for gold jewelry. Diamond jewelry in export markets in particular America and Japan is doing extremely well and as far as figures are concerned, we have not had a growth like this in the last decade. We have nearly had a double digit growth continuously for the five months. In a mature market that is very good news and that is why we are planning to expand in that particular territory.

Dmitru Klimemko: Thank you.

Moderator: Thank you. The next is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Thank you for taking my question Sir. Firstly what was the like-to-like sales growth in jewelry

for fourth quarter and for the full year?

Mehul C. Choksi: For the full year Prashant we have about 22% like-to-like largely in India and for the fourth

quarter I do not have exact numbers but it will be more or less in a similar range.

Prashant Kutty: Sir, you just mentioned that it has been gold rush in the last few months, which is why we have

seen the gold EBIT margins lower. Assuming that the gold remains in this region, or gold prices,

let us probably take that situation would we see sustainable margins for the gold business?

Mehul C. Choksi: We evaluate on a returns on capital basis Prashant, and all the gold is at a lower margin, but it has

very handsome returns and sustainability, yes, overall the mix remains the same, in terms of categories, gold and diamond in the range of 55 to 60, I believe we will not only sustain these margins, but we will improve these margins since our franchise and retails are expanding. We

believe we will improve thee margins overall.

Abhishek Gupta: We are pushing more for store and diamond jewelry that will improve the margins too.

Prashant Kutty: Especially in the last month or so rather in the May month has there been any improvement in the

diamond sales per se or has it been gold as itself?

Mehul C. Choksi: To be very honest for us the diamond basket is divided. More than 50% of our sales of diamond

jewelry occur internationally. This has grown a lot. But as far as Indian diamond jewelry is concerned, for the last one and a half months it has not increased, because the attention was on

gold.

Prashant Kutty: What could be the target as far as or what would be our guidance as far as the international

jewelry business is concerned for the next year? Any targets per se and which should be the

drivers also actually.

Mehul C. Choksi: I can talk about drivers Prashant, targets are tough to give, but drivers will be largely the new

areas that we are expanding in.



Abhishek Gupta: The targets are going to be America, Japan, and Middle East. These are the three markets, which

are expanding at the moment. All the three markets are having more than double-digit growth as

such.

Prashant Kutty: They are having more than double-digit growth.

Mehul C. Choksi: That is correct.

Prashant Kutty: What could be the reasons over here for having double-digit growth because we did not witness

this in the first half of FY'13? Have we have suddenly seen a surge in the demand in all these

regions?

Abhishek Gupta: Retail has bounced back as far as America is concerned. In Japan there is currency devaluation

and because of that the demand in the ultimate currency has increased a lot. As far as Middle East is concerned, many of the countries like Dubai are coming out of woods and we are seeing a good growth there. In a matured market like America if it is more than 10% growth it is very, very good news, because they are completely diamond jewelry consumers. They do not use gold

at all. The gold content is less than 15% to 20% in the product.

Prashant Kutty: Any plans as far as debt repayment is concerned. Anything on that front?

Abhishek Gupta: We are working on that Prashant. We are converting and shuffling the debt portfolio. We are

working on that.

Prashant Kutty: Thank you very much Sir.

Moderator: The next question is from the line of Odilia Brushy from Lombard. Please go ahead.

Oddlia Brushy: Good afternoon. The first question is on the development that you have shown this year. Can you

elaborate on the store opening between domestic and also to followup on the previous question

on your export markets?

Abhishek Gupta: Good afternoon Odilia. On the India front, I have a breakup in terms of number of points of sale

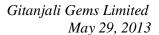
increased during the entire year, so we added approximately 150 retailers, 26 own stores, 72 franchises and 66 shop-in-shops during the entire year and that was one of the largest numbers added, if you see a particular year in any of the last four years that we have. In terms of our international expansion, in terms of number of stores we have not added much except one

addition.

Mehul C. Choksi: In Dubai it has been approximately 20 point of sales with five stores. Other than that in America

and everywhere we have not expanded last year, but we are looking at a few expansions of stores

this year.





Odilia Brushy: Can you quantify a little bit for sort of Indian?

Abhishek Gupta: We are looking to add 20 stores in America during this financial year, 15 to 20 stores.

Odilia Brushy: What about India?

Abhishek Gupta: India will continue in a similar range. Franchises at the target of 62 to 65 for the entire year,

shop-in-shops around 50 and 20 own stores are in the pipeline.

Mehul C. Choksi: So, including the SIS, we will add up approximately 175 or 200 more points of sales.

Odilia Brushy: I may be mistaken here, but did you have any intention of starting to develop apparel in the

stores? Could this be right? I think, I saw somewhere, I may be wrong here, but did you have any intention of starting to develop some accessories and apparels and things like that in your stores?

Abhishek Gupta: The brand extension, you know, the pilot projects are on the way. We have lifestyle products like

watches and apparels and other categories.

Mehul C. Choksi We are just test marketing this one particular brand more aggressively. Among the three brands

in total there are approximately about 60 to 65 outlets already, which are mostly in Shop-in-Shops and 25 shops already established. It is a test market for this year as far as apparel is concerned. We will see the year and expand further in the coming years. It is a normal exercise

for brand extension of famous brands just as it is happening globally.

Odilia Brushy: Can I come back to the question on the diamond margins. If you exclude the foreign exchange

impact, where is the margin of the diamond business trending?

Mehul C. Choksi: So the diamond business gives us a range of 4% to 5% EBITDA every year and we in all our

plans have always taken about that range in terms of EBITDA margins and for the future. In foreign exchange fluctuation, you know we have not calculated much, but we are expecting in

worst case, it will be somewhere around 4% at EBITDA levels.

Odilia Brushy: Thank you.

Moderator: Thank you. The next question is from the line of Vaibhav Gupta from SKS Capital and Research.

Please go ahead.

Vaibhav Gupta: I have a query. I have seen the financials. It shows that on a standalone basis your interest cost

has increase from 150 Crores to 202 Crores but around half your long-term borrowings have been paid off. I mean 50% of the long-term borrowings you have paid off, but interest cost is

higher. What is the reason behind this?

Abhishek Gupta: Interest cost is for both, short-term loan as well as long-term loans.



Vaibhav Gupta: So, why do you have higher interest costs? If you have paid sort of long-term borrowings,

interest should be reduced to some extent?

Abhishek Gupta: But we have not paid. Our borrowings have increased.

Mehul C. Choksi: On a gross basis.

Vaibhav Gupta: On a gross basis. One more thing, are these borrowings mainly from your subsidiary companies

or from outside also meaning secured and unsecured loans?

Abhishek Gupta: These are largely working capital borrowings from a consortium from Indian banks.

Vaibhay Gupta: So, the amount of loan, which you have repaid, belongs to the banks or your subsidiary

companies or your group companies?

Abhishek Gupta: The amount we have repaid is very small, Vaibhav. If you analyze it carefully it is a very small

amount that we have repaid and that was for the long-term loan.

Vaibhav Gupta: Thank you.

Moderator: Thank you. We have a followup question from the line of Akshit Desai from AIM Capital. Please

go ahead.

Akshit Desai: Sir, you had earlier given some outlook on the international business, the US, Japan and Middle

East. Where do you think is the biggest growth coming from and where will you be focusing

most?

Mehul C. Choksi: In the absolute value, it is going to be from United States because our sales are huge there, but

percentage wise we may gain much more share in Japan, because we have just acquired a couple of important entities during this year. So, we expect a growth of nearly 35% to 40% as far as Japan is concerned, but in the United States we may grow at more than 20% to 25% while we are also expanding in the Middle East. We have tied up with many units there as far as shops and SISs are concerned. We recently signed with Paris Gallery and are also talking to many other people. We are on an expanding mood there and will have again a growth of 30% or more in

UAE too.

Akshit Desai: So, around 35% in Japan, 30% in the Middle East and around 25% in the United States?

Mehul C. Choksi: In United States it entirely depends on like-to-like sales. We are targeting 15% while any

expansion will add up to further whatever we are successful with expanding it will add up

further.

Akshit Desai: So, earlier you said that a mature market like the US is growing around 10% which is pretty

huge. Do you think that the momentum will continue next year?



Mehul C. Choksi: It will. We have been very cautious with that market. We did not want to see any particular blip,

but since last October, it is continuously expanding.

Akshit Desai: Is this more pent up demand or the consumption sentiment?

Abhishek Gupta: I think it is more consumption-driven.

Akshit Desai: Sir, regarding the gold business I would actually like to know what the policy is regarding the

inventory. Do you book the prices based on historical acquisition cost and hence the reason

average inventory costs are lower than the current prices? Or is it booked on current basis?

Mehul C. Choksi: Akshit, we always book our inventory on the cost or market price, whichever is lower. So, all our

inventories are booked at historical prices.

Akshit Desai: This gold is basically on lease? As such there is no inventory, inventory gains or losses?

Mehul C. Choksi: That is correct.

Akshit Desai: Depending on price fluctuations.

Abhishek Gupta: That is correct.

Akshit Desai: This policy will be continued in the future as well?

Abhishek Gupta: Absolutely.

Akshit Desai: Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Godhani from Span. Please go ahead.

Hitesh Godhani: Thank you for giving me the opportunity. Sir, my first question is you have mentioned in your

press release that you expect diamond jewelry and precious stones to expand by 30% to 40% in

the coming years. Can you please elaborate on that? What is the strategy for that?

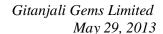
Mehul C. Choksi: It is basically that the international markets are expanding and we are pushing those particular

sales and that is the reason we expect the sales to go up in this particular year. In the last couple of years, India was the major participant for the growth. In the coming years we feel that the international markets are coming into the game, which are using mostly nothing but diamond and

the color stone jewelry. They do not use gold jewelry.

Hitesh Godhani: Sir, second question is on what is the gross debt as of March 31 and average cost?

Abhishek Gupta: Gross debt is around 5000 Crores and average cost is about 8%.





Hitesh Godhani: What are the average receivables on your export side, because your receivables are quite high? It

is coming to 150 days to sales, so maybe receivable days are quite high in exports?

Mehul C. Choksi: It is both. In the upstream diamond business, we have an average about 180 to 190 days, so that

is where maximum receivables are. So it is both India and overseas. In both places we have

receivables.

Hitesh Godhani: What are your plans to reduce your debt levels in the next two to three years? Can we see

substantial reduction in our debt levels?

Abhishek Gupta: On the ratio front it is improving. If you see the sales to debt or if you see EBITDA to debt, these

are improving, but we are working out a platform where we can have a sustained growth with

internal accruals not requiring debt.

Hitesh Godhani: Any repayment schedule for FY'14 and FY'15?

Abhishek Gupta: We have some long-term debt getting repaid to the tune of about 300 to 400 Crores.

Hitesh Godhani: Just one last bookkeeping question what is your operating cash flow for this current year, FY'13,

adjusting the working capital requirement?

Mehul C. Choksi: Plain working capital, we are at 200 Crores positive and this will continue. On the plain working

capital adjusting we are 200 Crores positive.

Hitesh Godhani: 200 Crores operating cash flow after working capital requirements?

Mehul C. Choksi: Yes.

Hitesh Godhani: Thank you for answering all the questions. All the best.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go

ahead.

Harit Kapoor: I just thought I would put in a couple of questions on my own. Just a couple of things, firstly on

diamond prices, just read somewhere there is going to be an increase in rough diamond prices. So, wanted to know what has been the increase like on a YOY basis and what do you expect

going forward?

Abhishek Gupta: So far this year, prices have increased by about 7% to 8%, and we expect to reach 15%. The

simple reason is that there is less mining compared to the demand. Matured markets have come back. In America and Japan, the consumption is over 50% and these markets are plus by 10%, which consumes more than 50%. So, approximately 15% to 20% growth is coming from there. But balancing from the emerging markets, India and China which are not growing at such a fast pace, I personally feel that the demand is higher than the mining because there are no new mines



in the last few months, few years, and normally it takes four to five years for any kimberlite to produce results. So, in this decade we are seeing that there is going to be more demand as compared to supply.

Harit Kapoor: Also, you have shared your expansion plans in terms of stores. Just wanted to know what would

be the total capex for this year as well as the indicative capex for next year?

Abhishek Gupta: Normally the capex requirement is for stores. Every year we normally put anything between 20

to 35 Crores and then this year we may strengthen some of our factories to be ready for the next expansion. So that will be another 30 to 40 Crores of expansion probably on the factory side.

Mehul C. Choksi: Less than 50 Crores overall.

Harit Kapoor: Thank you. Malika.

Moderator: Thank you. The next question is from the line of Siddharth Bhattacharya from Suyash Advisors.

Please go ahead.

Siddharth Bhattacharya: Thanks for allowing me the opportunity. I just wanted to understand how diamond jewelry as

well as precious stones are accounted for on your balance sheet. Is there a sort of mechanism

available similar to gold leasing or does it just come on the balance sheet as inventory?

Mehul C. Choksi: The cost of purchase. So when we purchase diamonds or purchase any precious stone at market

price, we take the cost or we calculate the market price. Whichever is lower is taken on the

balance sheet.

Siddharth Bhattacharya: Is there like a global index that we follow in terms of benchmarking?

Mehul C. Choksi: Sure, there is a Rapaport index which is followed normally. There are a couple of very important

agencies like Rapaport which is more of a retail lead or IDEX which is more market-led. There

are a couple of standard, very, very standard indexes.

Siddharth Bhattacharya: One would be Rapaport. The others would be if you could share with us?

Mehul C. Choksi: IDEX

Siddharth Bhattacharya: That is it from my side. Thanks a lot.

Moderator: Thank you. As there are no further questions I would now like to hand the floor back to Mr. Harit

Kapoor from IDFC Securities for closing comments.

Harit Kapoor: On behalf of IDFC Securities I would like to thank the senior management of Gitanjali as well as

all the participants on the call. Sir, would you have any closing remarks?



Mehul C. Choksi: From Gitanjali's team thank you all and see you on the next conference call. Thank you so much.

Abhishek Gupta: Thank you. On behalf of IDFC Securities that concludes this conference. Thank you for joining

us and you may now disconnect your lines.